The impact of deregulation on the UK bus industry at the level of the firm: a case study analysis of strategic change

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The Impact of Deregulation on the UK Bus Industry at the Level of the Firm: A Case Study Analysis of Strategic Change

Antonio Maria Vieira Paisana

A Doctoral Thesis Submitted in Partial Fulfilment of the Requirements for the Award of PhD of the Loughborough University of Technology

March 1992

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Abstract

This research examines the impact of bus degregulation at the level of the company. It follows a case study approach. The findings are analysed in the context of contestability theory and organisation theories, as well as empirical evidence.

The first part of this research views the bus industry in terms of the effects that the regulatory system has had on the industry's suppliers, and examines the roots of the legal provisions of the 1985 Transport Act.

The second part focuses on the organisational context. It establishes the challenges that bus companies face by reference to the pre-1985 situation, and provides an interpretation of strategic responses in the early post-1985 era. In addition, it introduces the type of strategic options open to companies operating in declining markets, and outlines a theoretical organisational framework within which this case's organisational changes are to be analysed. Finally, the research design and research methods are presented.

The third part consists of a detailed analysis of the selected case study company: Midland Fox Limited. It introduces the local market structure and basic data on the company. The major patterns of corporate strategy are presented and analysed, and key areas of managerial activity studied. The competitive behaviour of the company is then discussed in the context of competitive events that have occurred in the market.

The fourth and concluding part of this case study research discusses the most significant issues arising from this investigation in terms of their implications for future developments in the bus industry.
To my wife Joanne and our sons Ricardo and Francisco for their continuous caring support and understanding.

To my parents for their past lessons and permanent care.

To my parents-in-law for their help and support.
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Preface

There has always been wide interest among academics in the study of strategic decisions made by organisations. The nature of the decisions are invariably related to internal and external factors. Public transport policies are a means of influencing the conduct of suppliers that operate in the industry.

This research examines the impact on the degree and nature of strategic changes at company level as a result of the policy change of 1985 in the UK bus industry. This investigation follows case study methods. The data for this study were collected during 1990 mainly through extensive interviews with key members of one company, Midland Fox Limited - including Directors and Depot General Managers. The Directors were responsible for corporate decisions, for the overall functional areas of the organisation (Commercial, Engineering and Financial) and shared the supervision of the business units - the Depots. The Depot General Managers in turn were in charge of the production and sale of services in areas with marked differences in geographical and demographic characteristics. Prior to the interviews, data were gathered on local environmental factors (the structure of the local market and demographics) and organisation-related records were made available in the course of the fieldwork. Together these two sets of data proved important in the conduct of the interviews as they permitted the adaptation of some of the more general issues addressed in the interview guide to the specific reality of the company studied. Furthermore, the review of the relevant empirical and theoretical literature undertaken prior to the study of the case helped to shape the ambit of the main research instruments and allowed for the information provided in the interviews to be judged as it was being generated. The evidence gathered in the case study is analysed in the context of the most relevant postulates of contestability theory and of organisation theories, as well as of general empirical evidence. These theoretical and empirical contributions establish the basis for the understanding of the patterns of change observed in this study.

The structure of the research reported here is as follows. The first part is concerned with the impact that the regulatory system has had on the industry's suppliers. It also examines the roots of the legal provisions of the 1985 Transport Act by outlining the way in which the political reasoning that dominated British politics during the 1980's is interrelated with the propositions of the theory of contestability.
The second part of this project is divided into two more chapters. In the first, the organisational challenges facing bus companies are established by characterising the organisational settings that prevailed in the period prior to 1985. In addition, it provides an interpretation of the early trends in corporate strategies reported in other studies. In the second chapter, the general strategic options for organisations competing in a declining industry are considered and particularised to the case of the bus industry. Concomitantly, the contributions of the main organisation theories are introduced as a reference for the study of this case's organisational changes.

The third part of this research comprises a detailed case of one ex-publicly owned bus company. The first two chapters establish the overall context of this case study by characterising the local market structure and by presenting the basic data of the company studied in this project. Chapter six provides an analysis of the main trends in corporate strategies by adopting the model of 'patterns in strategy formation'. Chapter seven concentrates on the study of key areas of managerial activity that, because of the new legal framework of the industry and legal status of the company, assume a critical role in furthering the understanding of change.

Chapter eight examines the strategic competitive behaviour of this incumbent in the light of the competition rules contained in the 1985 Act and of the influences of contestability theory. It also analyses the role of leadership and organisational culture in this process.

The fourth and final part of this investigation comprises of the main conclusions of this research in the light of the implications that the observed patterns of response have for future developments in the industry.
Chapter 1: The Changing Role of Regulation in the Bus Industry

1.1 The effects of the regulatory regime

The performance of firms depends on their management, managerial attitudes and ultimately on the quality of decisions which are made. But the level of performance that can be achieved is, to a considerable degree, influenced by external factors. It is external factors which determine working environments and they include the economic climate, the competitive regime, the legal framework and the state of technology in the industry. Public transport policies have been designed to affect market behaviour by means of influencing the conduct of suppliers (Button and Gillingwater, 1986). This section examines the extent to which public policies have affected the bus industry.

Regulatory controls over the bus industry have characterised public transport policies during the period between the early 1930s and late 1970s. The argument most widely used to justify this policy is that of the need to protect the public interest. The management of public transport was felt to be too important to be left to its own devices and a free market was clearly understood to be unable to supply a socially acceptable service. State intervention was thus needed and desirable.

By 1930 there was a clearly identifiable area in which the market had proved to have failed: that of keeping safety standards. The first legislative act concerned with public transport dealt with this area. The 1930 Transport Act established basic legal and administrative rules in this regard. Not only were operators, drivers and vehicles affected by these rules, but concern about safety standards went a step further and road service licenses were introduced.

The idea was that control over safety required a market composed of a relatively small number of units (Button and Gillingwater, 1986). To this end, the country was divided into 13 Traffic Areas, with local government-appointed Traffic Commissioners having the duty of ensuring the system was to work according to plan. The licensing procedure thus generated was geared to the creation of a quasi-monopoly in the public transport system. The powers granted to the local Traffic Commissioners were in fact used to regulate entry by giving the established operator priority over any new applicant, thus protecting stage services from incursions by
other operators. This facilitated the establishment of a monopoly structure, itself coherent with the public interest type of argument.

In fact, for a transport system to work in accordance with the public interest, it requires a public policy whose primary objectives must consist of controlling not only the quality of supply - to ensure that levels of safety and information are high - but also the quantity of supply, to avoid wasteful competition.

Wasteful competition constituted a major reason for regulating the transport market. The increasing returns to scale arising from the necessary development of a monopolistic structure were seen to be in the public interest. Competition was considered to lead to reductions in load factors and hence a rise in unit costs. Therefore, by erecting effective barriers to entry and exit - to the extent that they deny potential entrants access to profitable routes and exit from unprofitable ones - regulation control was in effect creating a protected and stable market. It was, as a matter of fact, in the public interest to maintain and sustain a planned and co-ordinated system of services and fares, and this required minimum levels of risk and uncertainty to be brought into the system. It is thus not surprising that by 1938 the licensing procedures had become a standard and routine occurrence (Button and Gillingwater, 1986). In the post-war period and throughout the 1950s, the problems facing public transport were growing fast and the transport policy which had generated some consensus in the 1930s now began to be questioned.

It seems reasonable to say that the objective - regulation in the name of public interest - was indeed attractive. Who in fact could dispute the benefits gained by the public of having a stable transport system, composed of well co-ordinated services and low integrated fares? The truth of the matter, however, was that the cost of such a plan (which it is argued never became fully realised) was becoming unacceptably high.

Competition from private transport certainly played its role in the decline of the bus industry - if only because its effects were being ignored - but what was now under consideration was the policy itself. In fact, it is when decisions have to be made about the allocation of scarce public resources amongst the sectors of the economy deemed to be under state intervention, that aspects of performance are more likely to be considered. The problem became much more acute for the public transport sector, as it was simultaneously being subjected to increased competition from private
transport and to increased demand for more public resources to be shifted into investments in new roads, on the basis of a national strategy. The more regulation placed transport under state intervention, the more it became exposed to political decisions. This was probably more so, if one accepts the argument that the development of licensing controls was always more associated with political and administrative factors than any economic rationale (Button and Gillingwater, 1986)

The last major legislative attempt before the breakdown of regulatory control, was made in 1968. The 1968 Transport Act emerged as an essential tool in preventing further decline in the bus industry. The solution for the industry's problem was to engage in major structural reorganization: the National Bus Company (hereafter referred to as NBC) was brought into the public sector and Public Transport Authorities (hereafter referred to as PTA) were set in four metropolitan areas, which together with the Public Transport Executive's (hereafter referred to as PTE) were given the power to take over and control all services within their designated areas.

Despite the fact that Traffic Commissioners began to adopt a more flexible approach to rural services, encouraging some new operating experiments, and permitting differentiate fare scales much more rapidly than before, (Gwilliam and Mackie, 1975) the bus industry never seemed to recover. The problem by the late 1970s was how to explain to the taxpayer that the results of the policy being pursued were in accordance not only with the amount of money spent, but also that more public resources were going to be needed in the future. The fact that between the early 1970s and early 1980s less people were using buses (passenger miles accounted for by buses fell from 13% to 8%), and that total receipts were falling (a drop of 12%), the fact that in the same period, fares were increasing fast (a rise of about 30%) and revenue support was increasing (£31m in 1972 compared with £435m in 1982), and finally the fact that unit costs rose in that period well above the general level of inflation (Button and Gillingwater, 1986), was the most likely reason for the need for more public money to be made available to the public transport sector. This came to play a decisive role in the arguments for deregulation in the late 1970s.

It is often cited that the established bus operators were quick to adapt to the norms and rules imposed on the market by regulation (Hovel et al, 1975). The fact is that the public interest type of argument was intended to influence the market behaviour of suppliers and thus their performance. Basically,
public sector operators worked within a system of road service licensing and subsidy arrangements. As a whole the regulatory control system was expected to supply safe, integrated and co-ordinated services at socially desirable prices. At the same time, it was supposed to ensure that the market remained firmly protected. Similarly, bus operators were expected to produce planned networks to meet the requirements of the regulatory institutions. Cross-subsidization between profitable and unprofitable routes was an acceptable practice if only to help sustain a comprehensive range of transport services. Innovative actions by management were thought to have been impeded by tight state control over bus operations. The apparent dilemma facing management, was that even if they were to run their business on rigorous economic lines, this would probably mean higher fares or the suppression of unprofitable routes, which was clearly in conflict with the objectives that the regulatory institutions set out to achieve in the first place.

In fact it is often argued that regulation controls over the provision of services had a distorting effect on business priorities, in that they provided little incentive for supply to meet changes in demand. There appears to be, therefore, some consensus to the idea that the restrictive aspects of the regulatory control influenced management behaviour. Non-professional people dominated the decision making processes and politicians showed in many instances that they were more interested in the political gains from a policy, which would show the electorate their concern for the transport problems facing those households which did not have access to a private car. But at the same time they were too ready to bend to public outcries about the amount of money being spent on public transport, and easily changed their minds and decided to drastically reduce their revenue support.

Furthermore, public transport is not an isolated activity and other external factors may have influenced its performance. Increasing urban dispersal must surely bring important operating difficulties. Periods of economic recession may lower load factors on services supplied for work journeys. Mid-day work trips were also reduced as commuting distances increased and people preferred to stay on near their working places. The number of journeys made for social visits declined as the number of private telephone installations increased. The number of evening journeys decreased as television viewing increased. These are just a few examples of the mounting competitive forces for which management seemed unable to
provide adequate responses. What is not clear is whether management could, under the current operating arrangements, have achieved higher levels of performance. The general feeling is, however, that they were as much dependent on local authorities for deciding on the kind of networks they wished them to supply, as on their general policies, designed to curtail the influence of external competing factors (Hovel et al, 1975).

However, it is recognized that by the mid 1970s some important steps were being taken to improve staff productivity. Since the bus industry is labour intensive, and wage costs account for as much as two-thirds of total costs for the main public sector operators, these actions proved to be highly relevant. One man operations became common practice and this has helped to achieve important reductions in real costs per vehicle kilometre. But if the bus industry showed any signs of recovery, it probably came too late, and by the late 1970s the political commitment to support a regulatory regime was fading rapidly.

In the early 1980s the newly elected Conservative Government was clearly committed to a policy of reducing public spending. The Government was particularly concerned about the amounts of public resources that were being 'consumed' by the large public sector of the economy. The electorate had accepted the Conservative Party message on the need to find a more effective way of allocating the money it collected through taxation. The right to more freedom of choice via public spending cuts and lower taxation was clearly understood by the people, and the Government now had the duty to ensure that this was going to be achieved.

The basic idea was that Governments should behave like any ordinary household - they should not spend more that they earned. The Government also believed that there was only one way by which it could fulfil its promises: by providing for a more competitive economy.

1.2 The lessons of the experimental areas
The 1980 Transport Act was the first attempt to test whether major reductions in public subsidies could be obtained without major losses for the users, in terms of not provoking a socially unacceptable decline in the provision of services. The major changes introduced were the abolition of road service licensing for express services on which passengers were to be carried for more than 30 miles, and of road service licenses for all stage services in pre-established areas. The Government's idea was to gauge the industry's
response in the express market - and this would be done on a nationwide basis, and also to evaluate the developments in the stage service market - and this was to be done on a regional basis.

Three Trial Areas were designated in parts of Norfolk, Hereford & Worcester and Devon. The common feature of these Trial Areas was that they were mainly rural, except for parts of the Hereford Trial area. This proved to be of great importance in analysing the subsequent behaviour of bus operators. In fact the most profitable services run by the established operators were kept under regulation control. In the Norfolk area, for instance, the major inter-urban services, which were an important profitable component of the existing bus network, were protected from competition (Fairhead and Balcombe, 1984). This fact enabled established operators to sustain, for a sufficient period of time, retaliatory actions against private operators who had decided to enter some of their unregulated, profitable routes.

On the other hand, the tendering system adopted by the County Councils in order to maintain some of the services abandoned by the incumbent operators who regarded them as unprofitable, but which was considered by the Councils as socially necessary, provided most of the private operators with a way into the stage service market. Perhaps because of the NBC subsidiary's policy not to tender for Council contracts, in the Hereford Trial Area, most of the contracts were awarded to a small-independent operator - Flashes Coaches - which was new in the area. When those small operators attempted to simultaneously run the awarded Council contracts and compete for unregulated profitable routes, they were manifestly unsuccessful. Midland Red, an NBC subsidiary operating in Hereford, was able to force Flashes Coaches out of the market by forcing it to use its resources to exhaustion and to eventually have its Public Service Vehicle (hereafter referred to as PSV) operators licence revoked (Fairhead and Balcombe, 1984). This showed that this operator - like many other small ones whose previous experience had been linked to stage carriage and private hire - was, under the current arrangements, operationally unable to engage for long in-road competition.

In general though, it can be said that the established operators' responses to attempts made by private operators to enter profitable sections of their networks were based on a number of financial and operational advantages they enjoyed prior to the introduction of the Trial Areas, and which they were subsequently allowed to use. They were also characterised by
reductions/matching fares and increased frequencies. The established operators tried to force new operators out of the markets by attempting to make services unviable. The typical example was provided in the Hereford Trial Area where the first response of Midland Red to Stretton Coaches' (an entirely new operator) cheap local services, was to operate free buses in front of Stretton's services (Fairhead and Balcombe, 1984). It also seems clear that where competition did occur - however timid - it did not lead to any major changes in operating practices or indeed to more efficient use of resources on the part of the established operators. It did not contribute to any major innovative changes either. In fact, the few timetable and route changes that Devon General - the NBC subsidiary in the Devon Trial Area - introduced during this period appeared to be unrelated to deregulation. Also, Autojade, a private operator in the same area, made use of the return dead mileage journey of a particular commercial route, to run a competitive service. The idea was that it enabled him to collect fares and be eligible for fuel duty rebate. However, this experience came to an end when the main reason for the original journey could no longer be justified (Fairhead and Balcombe, 1984).

Competition did not develop in the way the Government had hoped for. In fact, the 1984 White Paper admitted that one of the main causes for the absence of any significant competition having occurred was largely because...large operators have used their financial strength, based on their existing licences or the public purse... (Department of Transport, 1984). However, it has been suggested that private operators were willing to compete with large established operators if they were given equitable conditions (Fairhead and Balcombe) - and this had not been provided in the arrangements leading to the establishment of the Trial Areas. They were also aware that by entering into competition with large operators this would certainly mean the end of subcontract work and to the use of bus station facilities they enjoyed.

Nevertheless, the most encouraging sign from the Government's public spending point of view, was that the level of rural services did not decline significantly, and at the same time important savings were achieved in the form of reductions in subsidies paid out by Councils (in the Hereford & Worcester Area, the Government claimed that the County Council was paying 38% less subsidy to rural services). However, these reductions in subsidy levels were believed to have been the result of independent operators submitting bids that were too low for the tendered services in their
desire to retain their traditional work. However, the performance of the bus industry was, as a whole, still characterized by downward trends in patronage and rising costs and fares - not that the 1980 Transport Act ever aimed at remedying these facts. By 1984 the Government decided that ... we can't go on like this (Palmer, 1987) and that there was an urgent need for change. However, emphasis shifted to expounding the virtues of competition. Competition would not only reduce public spending but it would also provide better services and lower fares as it would force costs down. The Government saw the results of the Trial Areas and of the express market, together with the results of the deregulation of air services in the United States, as significantly encouraging to further push for deregulating the bus industry: ...the deregulation of long distance coaches in 1980 ... led to better quality of service and lower fares; ... the trial areas in England had shown the opportunities for changes in local bus services ... there were grounds to say that competition could sustain and improve services to the satisfaction of customers ... despite the NBC's attempts to stifle competition ... the deregulation of air services in the United States had a very large impact in generating new patterns of service, a wider choice and overall lower costs and lower fares ... and this in a market in which the costs of entry are high (Palmer, 1987). But the low fares policy adopted by many Labour dominated local authorities - following their election success in 1981 - and the consequent continual demand for more public subsidies, was proving to be a real obstacle to the Government's plans. The Government also believed that ... in major cities, decisions on the operation of bus services have more often been informed by political considerations than by ones of efficiency (Department of Transport, 1984).

But after the ensuing period of judicial battles through which the Government tried to obtain supplementary powers destined to reduce local public spending - mainly via amendments or sanctions - proved to be generally unsuccessful, the Government in 1985 decided to take major legislative measures. The Metropolitan County Councils were abolished and their public transport functions were transferred to the PTA's - composed of members nominated from the constituent District Councils - to whom the PTE's became responsible. The Secretary of State for Transport was given the powers to prescribe the maximum expenditure of the PTA's.

But the most important fact was that the Government's political understanding of the benefits of competition in public transport had gained
by this time a strong ally: the economic reasoning behind the theory of contestability. This theory provided the instrument for the much desired political changes. In fact it proved to be consistent with the government's general ideas of more freedom of choice being achieved via the market mechanism, and with the very nature of the bus industry, in so far as it does not rule out the provision of continuing regulatory procedures.

1.3 The 1985 Transport Act and the theory of contestability

1.3.1 The relationships

The 1985 Transport Act constituted the first major legislative initiative towards the attainment of the Government's objectives for the public transport sector. (A summary of the provisions of this Act is contained in Annex 1.). The relationship of the 1985 Transport Act to the theory of contestability will now be examined in more detail.

The theory of contestability aims at proving that the recognized benefits that competition can bring to both producers and consumers can be attained without the restrictive assumptions of the theory of perfect competition. The theory also claims its applicability, without modification, to monopolistic and oligopolistic markets (Baumol et al 1982). The first major requirement for a market to be perfectly contested is that entry into and exit from it should be easy and costless. Simultaneously, firms should be free to set the prices for their products. Regulatory regimes are characterized mainly by the existence of legal barriers.

The 1985 Transport Act's first provision was to remove road service licensing on stage services throughout Great Britain, except London. It simultaneously ruled that prices in the commercial routes should be ... a matter of commercial judgement (Department of Transport, 1984). However, the effect that the actions of the public sector operators had had on potential entry by independent operators in the Trial Areas was widely noticed (Palmer, 1987) and needed to be minimized. The Government therefore decided to introduce major changes in the existing structure of the industry. The NBC was to be reorganised into smaller parts and then transferred to the private sector. The PTE's were required to break down their operations into smaller units which were to become independent companies (Public Transport Companies - PTC's). Municipal bus operations were to be incorporated into companies still owned by their District Councils, but after a transitional period together with the PTE's they were to stand 'on their own feet'. The district councils were prohibited from
providing further funding to subsidize the companies operations. According to the Government, this package of legislation was designed to give a fair start to both existing and potential market interventionists.

But the Government did not intend to leave the market exclusively to its own devices. The 1985 Transport Act established the framework within which the market was to function. The theory of contestability also assigns a specific role to regulation. Regulation is considered important not only to enhance freedom of entry and exit but also to provide rules in areas where public welfare is endangered, or where new entrants are forced to incur heavy unrecoverable costs, or even where there are activities which are socially desirable but fundamentally unremunerative (Baumol, 1983).

The first set of rules relates to safety. The 1985 Transport Act maintained all previous arrangements in this regard: operators, drivers and vehicles were kept under tight quality supervision. There was a genuine concern about the possibility that competitive operators would not adequately commit themselves to maintaining acceptable safety standards. In addition to the safety conditions placed on individual operators, the Government introduced general traffic regulation. The Traffic Commissioners were to this extent able to apply restrictions on the use of particular routes or stops. This was to be monitored by the requirement of all operators to register the services they wished to operate. A service could only start after 42 days of being registered (although some exceptions were made). The registration process consisted mainly of providing detailed information of the conditions under which a service was to be run. But, in fact, registration of services was not only intended to control the behaviour of operators, but it was also intended to help the local authorities in the process of selecting tendering services. Thus, traffic planning, service reliability and network planning appear to have been the main aims for the introduction of this set of rules.

The second set of rules deals with the problem of subsidies. Contestability theory favours the allocation of subsidies but it is very clear in limiting the scope of this kind of policy. The main concern is that subsidisation in general provides the means for firms to operate inefficiently, as they feel protected and so this can become an important barrier to entry. However, there is a general consensus on the need to maintain certain routes which bring benefits to users but whose running costs are greater than the revenue that can be obtained from the price system. Subsidies are therefore needed to provide for larger outputs. The 1985 Transport Act assigned to the local
Authorities the specific role of deciding which services were to get subsidies, but they were required to seek competitive tenders for them. Contestability theory postulates that markets can remain contestable only if subsidies are made available to any firm and to any prospective entrant for a given level of performance of an activity (Baumol, 1983).

The behaviour of established and potential entrant operators was also subject to rules regarding fair trading and restrictive practices. The Offices of Fair Trading and of the Restrictive Practices Court were to deal with any anti-competitive behaviour of bus operators. Anti-competitive conduct may occur, for instance, when operators engage in restrictive agreements on fares or on maintaining complementary but not competitive services or even by recognizing each other's tickets. All these instances are now liable to come under the scrutiny of the Restrictive Practices Court. The Government asserts that the outcome of these issues, if they emerge at all, will reflect what is best for the customer and reaffirm that this is the heart of its policy. The Government sees virtue in making this conduct (which clearly affects the workings of the market), registrable, for the market in itself does not exclude the possibility of arriving at restrictive solutions through its own mechanism.

A further crucial condition of the theory of contestability is that there must be no sunk costs. Sunk costs are defined as unrecoverable costs. They constitute an important barrier to entry as they influence potential entrant's decisions to contest a particular profitable market (Baumol, 1983; Bailey, 1981). It is the risk associated with the possibility of not being able to recover these costs that constitutes a major deterrent to entry into a market. The experience in the Trial Areas has shown how important they may become. In fact, the established public sector operators often denied potential private competitors access to their own bus stations. Bus stations are important not only for users to obtain information on services and therefore for bus operators to market their products, but they also constitute important centers for operating networks. If potential entrants are denied access to these facilities, that represents increased difficulties for them to penetrate the market. The Government therefore ruled that bus stations were to be operated on ... a commercial basis under arrangements which will provide for all operators to have equal opportunity of gaining access to them (Department of Transport, 1984).

The major legislative changes brought about by the 1985 Transport Act have
been outlined so far and the relevant relationships with the requirements of the theory of contestability have been shown. According to Beesely and Glaister (1985) the policy objective of the 1984 White Paper was in fact to provide for conditions for the market to be easily contestable.

In perfectly contestable markets, the absence of entry barriers and in particular of sunk costs means that the market will work under continuing competitive pressure. Firms will be forced to operate at least costs and will produce outputs at which prices will equal marginal costs so that they can only earn zero profits i.e., a normal rate of return on capital (Baumol, 1983). In an industry comprised of two or more firms, if one of them is producing an output at which prices are greater than marginal costs, a potential entrant will enter into the market and sell a sufficiently larger quantity of the product at a lower price and gain more than the above normal profits previously earned by the incumbent. If the established firm decides to reduce its price below that of the entrant, the latter will exit from the market as he can no longer obtain profits. But he will do so without having incurred costs that he will not now be able to recover. Alternatively, a firm might be earning non-negative profits while producing at costs greater than necessary. A potential entrant, by operating more efficiently will then be able to reduce that firm's prices and earn a positive profit. On the other hand, if prices were set below marginal costs, this will probably mean that the firm was engaging in cross-subsidization. Cross-subsidization will not be able to persist in contestable markets for the potential entrant only needs to concentrate on supplying the renumerative services which are priced at higher levels than they need be (Baumol, 1983; Bailey and Baumol, 1984). However, the process of pricing responses and adjustments may not be as peaceful as described. In fact, punitive pricing responses on the part of incumbents can strongly inhibit entry if sunk costs are present to a significant degree. In these cases, the theory favours some sort of policy measures, namely the need to freeze continual price reductions as they may be quickly withdrawn after the competition threat has passed (Baumol, 1983).

But the theory of contestability also claims that the competitive outcome can be attained when the industry is a natural monopoly. The undesirable welfare consequences associated with this configuration are solved by the presence of potential entrants. There may in fact be no need for actual entry to occur in order to force the monopolist to operate efficiently and earn zero economic profits. All that suffices is the presence of potential entrants on the fringe of the market to prevent the exercise of market power. In the US,
the Federal Trade Commission (1985) asserted in one of its decisions that "in the absence of barriers to entry, incumbent firms cannot exercise market power, regardless of the concentration in the nominal 'market' and indeed if the market has been 'monopolised' by a single firm... Therefore, in contestable markets, potential entry competition for the market is seen as being as effective in disciplinary behaviour as actual competition within the market (Baumol, 1983; Bailey, 1984).

1.3.2 The early trends
The theory of contestability has influenced some recent public policies. In the US the domestic airline industry was deregulated and public policies concentrated on providing conditions for the contestability of the market. The assumption was that the aviation markets if freed from regulatory intervention were naturally contestable. The capital costs - the aircraft - although costly, were not seen to constitute sunk costs. Their mobility - which allows the carrier to move from one market to another in response to profitable opportunities - and the possibility of an easy sale on a second hand aircraft market, or indeed the possibility of returning the rented aircraft - thus allowing the carrier a low cost exit altogether - were understood to constitute significant conditions for contestability.

However, the experience of the post-deregulation period suggests that both incumbents and potential entrants were not behaving according to the theory's expectations. The immediate price responses by incumbents were not consistent with the theory's stand that they must be relatively 'sticky'. An econometric study by Graham, Koplan and Silby (1983) on route-by-route prices, revealed that in markets where there was a new entrant, prices were reduced 22% relative to costs and in cases of four carriers flying the same route, the figure was 18%. The main reason for this kind of result is attributable, according to the advocates of contestability, to the emergence of structural supply imperfections (Baumol and Willig, 1986). Congested airports and long aircraft delivery periods were seen to be major constraints on entry and expansion. Also, new entrants were enjoying cost advantages relative to the established carriers as a result of favourable labour contracts.

Although the increase in the number of carriers per route appears to have been moderate, competition, it is claimed, has led to significant improvements in the services offered to customers in the form of reductions in travelling times. Actual and potential entrants have also forced prices to be more in accordance with costs, which in turn have been reduced by reductions in pay scales and in a more efficient fleet configuration.
management, it is argued, has been given freedom to restructure their route networks which in the presence of competition has reflected the real needs of travellers.

In the UK the 1984 White Paper made a number of specific predictions on the results that the Government expected the bus industry to achieve from its deregulation policy. The Government expects that competition on commercial services will provide new and better services as it is in the operators' interests to meet the users' needs and therefore to offer stable and reliable services. There will also be pressure to keep costs down through increased efficiency and changes in the operating structures of bus companies - the Government believes that costs can be reduced by up to 30% - and lower fares will thus emerge. Traffic offences from less recommendable actions on the part of the operators, are expected to be suitably dealt with by the authorities, and congestion may not constitute a major problem as the improved bus services will succeed in attracting people away from using cars. Equally important is that ratepayers and taxpayers can now expect to know exactly how their money is being used, and important savings will be attained for competition for tender services will result in low cost contracts being awarded.

However, the Government's policy for the bus industry has been criticised from those that do not believe in the suitability and adaptability of the industry to a competitive environment (eg. Gwilliam et al, 1985). In fact they predict that competition will not occur, at least not on the scale forecast by the Government. This is because the established operators have considerable cost advantages over potential entrants, fares are likely to increase with the end of cross-subsidization, and the level of services will probably decrease (in particular the early and evening services in the sub-urban areas and week-end services). Instability and the absence of integrated services will be the dominant characteristics of the resulting market. Furthermore, general traffic conditions will worsen and safety standards will be low as there are incentives for covering up vehicle deficiencies and for not providing adequate staff training.

The task of analysing the effects of the 1985 Transport Act is a difficult one as it only came into full effect in January 1987 and current trends may constitute immediate, temporary responses to specific local pre-deregulation patterns of operations or indeed of attitudes. There are, however, some
common indicators in the way the bus industry has responded to what the Government believes is the challenge of a new competitive environment.

In general, it can be said that competition has not in fact occurred on the magnitude the Government had predicted. Although there have been some significant instances where particular markets have been contested, competition has been limited. The structure of the industry has been characterised by the existence of large ex-NBC operators and a few medium and small sized independent operators. One of the first responses to deregulation by the established operators was to abandon some of the unprofitable sections of their networks and concentrate their resources on the potentially contested, profitable routes, which they have registered, with small alterations, as commercial services. On the other hand, for the independent operators whose main activity had been supplying stage contract carriage, the possibility of entering new profitable markets must have been considered as an attractive proposition. But previous experience has shown that major, committed attempts to contest profitable routes had been generally unsuccessful as the established operators were ready to demonstrate their financial and operating supremacy. It also seems clear that these markets could only be adequately contested if potential entrants were able to introduce innovative and sufficiently favourable alternatives to important aspects of their supply, and be prepared for a long fight with the established operators.

Recent studies suggest that the small independent operators have opted for entering into the stage market through secured service contracts. This experience - if it is not proved that it has been achieved by them incurring significant losses - might give potential entrants the possibility to strengthen their resources, the opportunity of an inside view of the workings of the market, and possibly the chance of gathering relevant information on the characteristics of demand.

However, it might also prove that entry into the stage service market requires the sinking of important resources. Contestability theory asserts, in this regard, that the risks associated with sunk costs can be reduced by potential entrants previously securing contracts, and that the longer they hold them, the lower will be the risk. It is known that many independent operators have expressed their concern about the current duration of the tendered contracts. It is also known that established operators were probably aware of this
process as they came to register important parts of the contracted routes as commercial services, thus forcing the authorities to withdraw them from the services they put out for tender.

Although there have been some significant increases in the independent operator's market shares for the commercial services, the large established bus companies still dominate the market. It is difficult to clearly identify the main reasons for this outcome.

Firstly, the concept of deregulation must be considered. If it is to mean absence of control, then the 1985 Transport Act is better defined as a delicensing process, as most of the regulatory institutions still exist and are able to exercise some of their previous powers over controlling the industry's behaviour.

The possibility that there are still major obstacles to entry and exit may reinforce this statement. Legal costs and delays to obtain permission to enter into a market is, according to the theory of contestability, a substantial entry barrier. It asserts that regulators should not interfere with the timing or manner of entry, and that contestability requires that firms have what can be described as standby authority to enter a market - authority that can be used quickly when unsatisfactory incumbent performance offers entrants the prospect of profit ... (Bailey and Baumol, 1984). Existing legislation requires that if a new operator wishes to enter into the industry, they have first to obtain a licence by satisfying the authorities that they are fit persons to operate public services. (Department of Transport, 1984). The drivers have to be of good character and technically competent and the vehicles have to meet statutory requirements concerning construction, dimensions, equipment and general conditions. Furthermore, before any operator can start a service, he is required to submit a detailed proposal to the Traffic Commissioner and give at least 42 days notice. This time limit only starts when the Traffic Commissioner is fully satisfied that the registration form contains the necessary information. The length of time between planning a new service, filling in the required form, correctly submitting it to the Traffic Commissioner, waiting for his decision and allowing 42 days before the service can actually start appears in fact to be far too long. Moreover, after entering a particular market, the operator is only allowed to change the timetable by five minutes either way from the times registered without having to apply to vary registration and be again subject to the 42 days notice. Finally, the same period of time is required if he concludes he can no longer
earn profits and wishes to exit from the market. It is fair to say that this process applies to all operators, but it is also fair to argue that it has affected the potential entrants more than the incumbents.

At the beginning of deregulation, all operators had to register the services they wanted to run on a commercial basis. It is known that the large, established bus companies have registered, with small alterations, most of the routes that were known to them to be profitable. The independent operators, on the other hand have kept to their limited traditional services, for their registered commercial services were largely a continuation of their earlier ones, and were later able to guarantee an important share of the tendered services. It appears therefore, that an independent operator that wishes to enter into a particular market is aware of the opportunity costs associated with the length of time required to commit his resources, not only human and material resources but also those involved in providing sufficient information about their services to the public. There is evidence that the PTEs in their role of promoting public transport, have been providing most of the information, particularly on changes introduced to services, in a clear manifestation of the operators' inability to fulfil this important task in a competitive market. It also seems plausible that established operators may be gaining competitive advantages by running more comprehensive and integrated networks in so far as they are able to offer attractive ticketing systems. They are meant to assure users fidelity which some operators feel unable to match. There is thus the possibility that potential barriers are being erected by the established operators in order to make entry into their profitable routes more difficult.

According to the theory of contestability, regulators ... should keep their eyes open for entry barriers erected by firms and take steps to discourage the maintenance of those barriers (Bailey and Baumol, 1984). The response by incumbents of reducing the level of fares as soon as a new operator entered a profitable route has been a common feature not only in the UK deregulation case but also in the US domestic airline industry process. Contestability asserts that this behaviour should not be allowed to happen as it may indicate that nonprofitable fares are being charged. On the other hand, and probably because they realised that a continuing low fares policy was becoming an important financial restraint - since cross-subsidization was now virtually impossible - the incumbent firms may have found reason to believe that they would be better off if they were to co-exist with new entrants under rather dubious agreements.
Recent evidence suggests that bus companies are running anti-competitive and illegal fare-policy schemes and that they have been agreeing on timetables and fares in secret anti-competitive deals (Commercial Motor, 1988). This kind of behaviour is also not expected to happen in a perfectly contestable market, for although it may only relate to particular routes, the overall effect is to undermine the drive for more competition in the bus industry (Bailey and Baumol, 1984). In addition, in the Tyne-Wear area for example, the Operator's Panel that was set up with the PTE is reported to be effectively deciding the level of fares even though operators are free to opt out if they wish.

However, the deregulation - or rather the delicensing - process has brought some important changes to the supply of public transport. As far as services are concerned, competition has led to duplication rather than the expected spread frequency pattern. This has meant that the denser markets then become more congested and reductions in evening, early morning and week-end services have been registered. Frequent changes to services have also been a common characteristic and have led to considerable instability, worsened by the absence of appropriate information to the public.

There has been, however, some innovative aspects to the services being offered. A new approach to routeing has taken bus services into sub-urban housing estates and the practice of having pre-established bus stops has greatly reduced. It is not certain though that this has led to increased patronage, as it might mean a better service is being offered to actual demand rather than in the capture of new demand. There must also be increased costs associated with frequent stopping and increased efforts being put into making all drivers aware of the route details.

Competition on the most profitable routes has forced fares down but the general trend has been for fares to be levelled in relation to inflation rates. Some forms of special ticketing facilities were introduced by some operators but in some cases this has increased confusion amongst users, as their use has been restricted to certain sections of the network and to the buses belonging to those operators.

Safety standards have remained high, and the fears expressed in this regard by those who opposed deregulation in this case appear to be unfounded.
Congestion, however, has occurred in the main urban areas but the PTE's have been successful in making bus operators aware of the overall disadvantages, not only in terms of general welfare but also in their operating concerns.

Finally, the new legislation appears to have provided management with the opportunity for introducing important changes in the operating structures of their bus companies. If the PTC's were slow in adopting new managerial approaches, probably because their boards are still dominated by non-professional members (Button, 1988b), the ex-NBC and other independent operators have embarked on a number of actions designed to respond to different market conditions.

One of the major concerns for all the operators in general was to reduce the magnitude of their overheads. To this end bus companies decided to close their central workshops, and instead have them separated into engineering companies which were encouraged to take on external work to help cover overhead costs. New operators have, on the other hand, tended to operate with no central workshop and subcontracted everything from maintenance and major repairs to vehicle cleaning (Button, 1988b).

A second major concern was the attainment of reductions in operating costs. An important change in fleet configurations has occurred as an increasing number of minibuses is used. It is known that NBC registered before deregulation 26,230 minibus miles compared with 79,650 for the period after deregulation (Button, 1988b). Minibuses were designed to provide rapid and frequent services and at the same time to constitute a major source for cost savings. It is thought that they tend to be more fuel efficient and are associated with lower maintenance costs. Additionally, important favourable labour agreements on pay and working procedures were obtained. Minibus drivers are paid lower wages and drivers in general have been prepared to perform other jobs around the depot when not employed driving. Part-time staff have also been contracted as a response to the peaks in demand.

It also appears that the new market situation has led to important experiments in departmental structures. The need to respond to consumer requirements more rapidly and more adequately has forced greater autonomy to be given at operating levels.
The separation of engineering and operating divisions may also reflect the emphasis in providing for a more demand-orientated concern. But as pointed out before, current legislation does not leave many opportunities for engaging in trial-by-error experiments and information on demand patterns may become a lengthy, costly and uncertain process.

It seems, therefore, reasonable to argue that current policies have been characterised by the operators' eagerness to capture actual demand by supplying slightly improved services to a well identified market. It also appears that the previous experience of local market conditions which the established operators enjoy has played a significant role. It also seems clear that the potential demand's willingness to use buses depends heavily on the quality of supply reaching levels that operators have found difficult to meet. It could in fact be said that the decision to use private transport, passed on from one generation to another, has induced the increased potential market for buses to remain somewhat insensitive to improved public transport services. On the other hand, it could be argued that current legislation has not created the ideal conditions for markets to become contested, and has on the contrary provided adequate instruments for the economies of scope enjoyed by the large established operators to develop, and eventually enable them to recover the market from the small independent operators (Button, 1988b). In fact it is possible that less of the current kind of legislation is needed, in the sense that it has not helped the development of the required auxiliary conditions. For example, costless exit may still be unattainable - namely where it requires that ... durable capital goods be easily transferable by secondhand sale or alternative deployment that recovers their cost ... and that ... the industry-specific human capital should be transferable from market to market to avoid large personnel costs from hitting and running (Bailey and Friedlaender, 1982b), which makes entry unattractive. However, there is the possibility that the incumbent firms do face competition from potential entrants currently engaged in exploring other profitable segments of the market (e.g. express services) who may be willing to enter into further profitable opportunities, and thereby constitute an important policing element on the behaviour of incumbents. Nonetheless, it is quite plausible for the current levels of public subsidy will rise again - as indeed they already have done in some areas (Button, 1988b) - and force the Government to re-think its policy. If on the other hand, the Government insists on not intervening in the market whilst simultaneously enforcing further cuts in public spending, then more
people will face increasing difficulties in matching their transport needs with the services being supplied. Perhaps after 50 years of regulatory control it is not reasonable to expect instant results from the recent legislation, and one should comply with the general political idea that 'for things to get better, they have first to get worse.'
Annex 1

Summary of the Provisions of the 1985 Transport Act

1 Local Services

1.1 Abolishes road service licensing for bus services except in Greater London.
1.2 Defines a local service as a service which carries passengers at separate fares and on which passengers can be carried for less than 15 miles.

2 Operating Requirements

Rules that operators must/may:

2.1 Hold a public service vehicle 'O' license or a community bus permit.
2.2 Register with Traffic Commissioners the particulars of the services they wish to operate providing they give 42 days notice.
2.3 Operate in accordance with the registered particulars.
2.4 Vary or cancel any registration but give 42 days notice in both cases, although it prescribes cases when these changes can become effective before this period of time has elapsed.
2.5 Appeal to the Secretary of State against decisions of the Traffic Commissioners, namely on traffic regulation conditions imposed upon their operations.

3 Traffic Regulation Conditions

Establishes one Traffic Commissioner for each Traffic Area who must/may:

3.1 Impose conditions on the operation of the services registered, namely on routes stopping places and length of stopping.
3.2 Attach any traffic regulation conditions to the public service 'O' licenses prohibiting the operator from providing any local service or a specific local service.
3.3 If requested by any traffic authority, impose further traffic regulation conditions applicable to local services.
3.4 Hold public inquiries in exercising their duties.
Part II - The Organisational Context

Chapter 2: Bus Operators and the Deregulation Process

2.1 The structure of the industry

For nearly 30 years the basic features that characterized working conditions in the bus industry remained relatively unchanged. The market was kept stable and protected and political control over the industry's activities remained untouched. The changes introduced during the period prior to 1986 were more of an institutional nature, with the main objective of halting the industry's decline: grouping different operators under a sole controlling body, or encouraging co-ordination of services amongst central and local politically controlled companies, cannot be considered as constituting a radical environmental change. They, on the contrary, caused the diversion and subsequent concentration of resources on tasks specifically related to the attainment of those objectives. An example of this situation can be clearly identified in the late 1960s and early 1970s, when the main managerial preoccupation of the PTEs was to implement the basic requirements of the 1968 Transport Act (Hovell et al, 1975).

In spite of the views expressed by (a) the ultra free market economists, who argue that the 1985 Transport Act only meant a shift from a highly politically controlled environment to a less regulated one, and (b) by those who strongly believe in the social role of the industry and argue that the 1985 Act has, in fact, opened the market to fierce, profit-making private enterprise, there is an underlying acceptance that the legislation has, nonetheless, changed the industry's working environment and has forced bus operators to adapt to the new conditions.

This chapter is particularly concerned with understanding the industry's current adaptation mechanisms following the full implementation of the Act in 1986, by focussing on the specific role of organizational restructuring in the decision making processes. The aim of this analysis is not, however, to question the contribution of normative microeconomics, but rather the belief that the conventional theory of the firm is not primarily concerned with factors that may influence its behaviour. There can be little doubt that the concept of rational behaviour is important, and perhaps it is the underlying aspect for many organizational decisions. But one cannot ignore the existence of many factors that affect the assumed rationality of decisions, and they ought to be understood (Simon, 1957).
The process of adapting to a changed environment can be said to be the result of choices made by those involved in the activities of an organisation, choices that involve devising a structure for a system of interrelated parts that compose an organization (McCaskey, 1979). The importance attached to the issue of organizational structures resides in the fact that they not only play a significant role in the orientation of the organization - by assisting in the process of setting the organization's main goals - but they also provide the mechanisms for carrying out the specific tasks that follow (Covin and Slavin, 1988; Caplow, 1983; Child, 1977; Williamson, 1970). In fact, the form that an organisation takes can facilitate or impede an adequate understanding of the organization's major weaknesses and strengths, and therefore facilitate or restrict the correct acknowledgement of the opportunities and threats that it faces (Argenti, 1980). In a similar way, the characteristics or properties of the chosen formal organization have a powerful impact on the behaviour of people within the organization, and decisions are the result of bargaining processes generated by the relationships and rules established by the organization's structure (Huseman and Carrol, 1979). But when major changes in environmental conditions occur, organisations may be forced to introduce alterations in their structures, as these represent an important tool in the mechanisms of adaptation. It can be argued, for example, that it is no longer possible for organizations to ... resist the impact of complex and changing environments by having isolated research and decision making units empowered with the duties of thinking for the rest of the organisation, controlling and integrating the overall organizational activities (Morgan, 1986). Therefore, organizational structures can be seen as providing the means by which organizations manage to bridge their individual capabilities with reference to existing and prospective resources and their environments. It must, however, be realised that there is no best way of designing structures, and attempts to generalise procedures can cause misleading results (McCaskey, 1979; Morgan, 1986). The reality is that the factors which influence the responses of individual organisations vary considerably. Environments differ in many respects - the geographical location of an organisation may determine the kind of service supplied and condition the mechanisms for improvements; economic development can cause important differences in demand patterns and affect the kind of measures needed to meet the needs of users and thus the methods chosen to achieve them; political control affects organisations in varying degrees, which can influence attitudes during the process of adaptation; the level of competition can influence the ways and methods that are envisaged for the development of organisations.
Following the implementation of the 1985 Transport Act, private entrepreneurship has to contend with two major aspects that characterize the bus industry. The first one concerns the unique feature of the industry's product. Up to 1985, bus operators could supply services that were not used but for which they were able to receive payments (Grigg, 1988). Under current arrangements, this can only be attained in the subsidized parts of their networks, which in any case only represents a small proportion of the operator's total receipts. The fact is that public transport is a product that cannot be stored, and instant excess of supply occurs whenever the amount of demand is less than forecasted and can never therefore produce revenue (US Department of Transportation, 1984). On the other hand, to supply less than the amount demanded now means, particularly in routes where several operators compete, to forego revenue. Before 1986, monopoly power granted by the politically controlled authorities would protect the operator from the results of these situations by increasing the amount of subsidies paid and/or enforcing cuts in services or by causing an increase in the total time of travel and/or ultimately driving users out of public into private transport. Private entrepreneurship has therefore to work in an industry which has a highly complex product, and still be subjected to close public scrutiny, for socially unfavourable decisions do not pass unnoticed. Secondly, private entrepreneurship has to contend with an industry which for historical and institutional reasons has been dominated by essentially conservative and risk averse managerial attitudes, which in some cases were directly solidified by those who are seeking to introduce major changes.

The main organizational features encountered in the politically controlled bus companies were not the result of coincidental factors. They were the product of the political approach with regard to the characteristics of the industry's output, and in particular its impact on public opinion, reflected by the environment that was intentionally created for that effect. In fact, it can be argued that the various legislative initiatives passed during the period prior to 1985 concentrated on retaining two basic objectives associated with the public interest type of argument. The first was that the public interest was best protected by ensuring that the democratic system kept a decisive role in the running of the industry. Locally elected representatives and representatives of the elected central government became the central figures in applying the general policies for the sector, dictated by the councils and/or the central government departments. The second was that the industry required protection from outsiders' incursions and at the same
time concentration of resources for exclusively running bus services. Traffic Commissioners were appointed and given the appropriate backing legislation to ensure the maintenance of monopoly status for the established operators, and Acts of Parliament were passed to clearly define the industry's parameters. It seems, therefore, clear that political attitudes were gradually but firmly brought into the industry. The main goals were never clearly defined, as ambiguity constitutes an important characteristic of political behaviour. Maintaining the number of passengers carried and extending or preserving existing networks at reasonable costs constituted, in most cases, the intended targets (Hovell et al, 1975). But these were, however, clearly operational objectives which nonetheless provided the basis for most decisions as far as the allocation of the organisation's resources were concerned. They are, however, in accordance with the kind of ambiguous goals set by the politically controlled running bodies. At the same time, they also reflect the preference for short-term solutions, as political obligations usually require quick results (Meyer, 1983; Hovell et al, 1975). Both these two aspects led, in the majority of cases, and in varying degrees, to bus operators adopting ad hoc opportunist responses to specific problems without having a clear sense of direction.

The kind of organization that prevailed, and which was common to many bus companies, can be said to have been consistent with what one would expect in an industry run under tight state control. In fact, the nature of the political process was such that political control over the bus industry demanded both control over its activities, whilst at the same time granting the industry some degree of autonomy. Thus political triumphs could be claimed whenever there was success in the industry, for political control was highlighted. However, the effect of failure in the industry was minimized in the political arena by spotlighting the autonomy enjoyed by the bus industry.

Before the full implementation of the 1985 Transport Act, four distinct sectors could be identified within the bus industry, outside of greater London: PTAs/PTEs and municipal companies, both subject to local authority control; the NBC - a nationalised holding company responsible for the strategic control of a group of individual operators which worked under more discrete but certainly decisive central government control; and a number of small private independent companies. Nearly all local stage bus services were however, provided by the public sector operators. The data in Table 2.1-1 outlines the main characteristics of the major types of operators in the industry, outside of greater London.
Table 2-1:
Main Characteristics of Bus Operators - 1983
(excluding London and Scotland)

<table>
<thead>
<tr>
<th>Type of Operator</th>
<th>No. of Operators</th>
<th>No. of Buses</th>
<th>Average Fleet Size</th>
<th>Staff Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTE</td>
<td>7</td>
<td>9600</td>
<td>1370</td>
<td>5629</td>
</tr>
<tr>
<td>NBC</td>
<td>37</td>
<td>14600</td>
<td>400</td>
<td>1375</td>
</tr>
<tr>
<td>Municipals</td>
<td>49</td>
<td>5300</td>
<td>109</td>
<td>357</td>
</tr>
<tr>
<td>Private</td>
<td>5497</td>
<td>30000 (Estimate)</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

b) Turnover (£m)

<table>
<thead>
<tr>
<th>Type of Operator</th>
<th>Stage</th>
<th>Non- stage</th>
<th>Total</th>
<th>Turnover/Operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTE</td>
<td>546</td>
<td>7</td>
<td>553</td>
<td>79</td>
</tr>
<tr>
<td>NBC</td>
<td>567</td>
<td>87</td>
<td>654</td>
<td>18</td>
</tr>
<tr>
<td>Municipals</td>
<td>213</td>
<td>6</td>
<td>219</td>
<td>5</td>
</tr>
<tr>
<td>Private</td>
<td>65</td>
<td>393</td>
<td>458</td>
<td>0.08</td>
</tr>
</tbody>
</table>

c) Vehicle Kilometres ('000s)

<table>
<thead>
<tr>
<th>Type of Operator</th>
<th>Stage</th>
<th>Express</th>
<th>Exc. Tours</th>
<th>Contract</th>
<th>Hire</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTE</td>
<td>474</td>
<td>-</td>
<td>1</td>
<td>63</td>
<td>24</td>
<td>485</td>
</tr>
<tr>
<td>NBC</td>
<td>821</td>
<td>84</td>
<td>18</td>
<td>25</td>
<td>24</td>
<td>972</td>
</tr>
<tr>
<td>Municipals</td>
<td>222</td>
<td>-</td>
<td>1</td>
<td>45</td>
<td>24</td>
<td>232</td>
</tr>
<tr>
<td>Private</td>
<td>163</td>
<td>32</td>
<td>100</td>
<td>399</td>
<td>383</td>
<td>1077</td>
</tr>
</tbody>
</table>

Source: Department of Transport (1984)

2.2 The major organizational features

The industry was characterized by vertically integrated forms of organizations, whose main areas of activity were divided into administration, traffic operations and engineering. The variations and/or extensions to this kind of division depended mostly on the size of the operator, and on the nature of state control. However, both the strategic and day-to-day management were closely monitored by either a Board of Directors, Transport Committees or the PTAs.

The PTEs, the largest of all operators, with an average fleet size of 3.5 and 12.5 times that of an average NBC subsidiary and of a municipal company respectively, were responsible for the provision of passenger transport services in the metropolitan areas and were set up by the 1968 Transport Act, which also created an entirely new controlling body - the PTAs. Each
PTA was composed of elected Councillors nominated by local Councils in the area and was responsible for the appointment of the PTEs, which had the responsibility of running the public services. Planning and integrating local public transport in their areas appears to have been their main objective, given that the PTAs determined the overall land use and transportation policies. In each of the PTEs, an executive had overall responsibility for operations, but the detailed supervision of service provision largely devolved upon the heads of divisions, whose boundaries were determined by political, geographical and fleet size considerations. The kind of goals that these organisations set out to achieve was the reflection of the clear predominance of the non-professional but elected members in the controlling bodies. The structure of the PTEs reflected the characteristics of an externally imposed approach with regard to bus operations. Transport planners and operational staff gradually acquired dominant status. The organizational structure highlighted the fact that they were in command of all but an insignificant proportion of total labour and capital resources (Hovell et al, 1975) Research techniques on scheduling and traffic control became the dominant priorities and the organizational structures were built around these principles. Tasks involving overall planning consisted mainly in the elaboration of budgets which illustrated the emphasis on the way existing resources were expected to be exploited. Marketing activities were, on the other hand, restricted to advertising and public relations exercises, as they were clearly unable to compete with cost reduction schemes for organizational resources which produced small but relatively immediate benefits to passengers. An example of a typical PTE organizational structure is shown in Figure 2-1.

Political control of the NBC was exerted by central government through its Department of Transport. It was managed by a Board appointed by the Minister of Transport, which then appointed another Board whose members were responsible for the actual running of the different companies. (Hibbs, 1972) These companies were themselves arranged in regional groups, with a regional manager responsible for the companies in each group. The overall policies were designed and decided upon at Headquarters and were meant to reach the local bus operator in any town or village. In turn the bus operations were managed locally by individual companies. On average, an NBC subsidiary employed four times less staff than a PTE concern but four times more than a municipal company. Its organisational structure comprised a Board of Directors appointed by the Board of the NBC, and a Chairman, usually one of the senior staff of the owning company or group. It
Figure 2-1
Organisational Structure of a typical PTE

Department of Environment / Department of Transport

Metropolitan County Council

PTA

Political Control

PTE (1)

Operational Control

Director General

Director of Operations

Divisional Managers

Traffic Manager

Ind Relations Officer

Engineering Manager

Operating Manager

District Inspector

Foreman

Operating Superintendent

Director of Labour Relations

Labour Relations

Personnel & Training

Technical Planning Engineer

Asst Chief Engineer (Production)

Asst Chief Engineer (Works)

Supplies Manager

Buildings & Services Engineer

Internal Audit

Financial Accounts

Pay Control

Financial Planning

(1) Comprised the Director General, Director of Operations, Director of Labour Relations, Director of Planning & Engineering and the Director of Finance.

The Chief Executive of the County Council was a non-executive Director.

(2) The County Treasurer of the County Council held the post of Director of Finance part-time.

(B) Committee Structure - parallel to the above

Management Committee (all Executives and Chief & Senior Officers)

Business Development Committee

Operations Committee

Engineering Committee
also comprised a General Manager who was responsible to the Board for the operations of the concern. The activities of each company were divided in the traditional manner of Traffic, Engineering and Administration, each under the authority of a Traffic Manager, Chief Engineer and Company Secretary respectively. Within each of these divisions, there were separate sections responsible for specific activities and their number depended upon the size and the nature of the business. The formal organisation of the NBC can be illustrated as shown in Figure 2-2.

As far as municipal companies were concerned, they operated about 12% of the total vehicle kilometres for stage services. Their average fleet size was 100 vehicles, which was 20 times more than the average fleet size of a private independent operator. Political control was exercised through the workings of a Council-appointed Transport Committee whose members were elected according to the balance between the political parties represented on the Council. The Chairman of this Committee was not a full-time officer and the Municipal General Manager was responsible to this Committee. He was compelled to specify every item of expenditure and receive not only prior sanction from the Transport Committee, but also from the policy and finance committees. He engaged in a number of meetings either with the Committee Chairman or the full Committee, or with any subcommittees of it. He was also expected to attend Council meetings.

These are just a few examples of a far more reaching set of bureaucratic procedures that were imposed on the operators in order to exert control over their activities (Lambden, 1969). Lower down the structure, there was a Traffic Superintendent who was responsible for the day-to-day traffic operations. The compilation of duty-schedule was one of his main duties. On the Engineering side, the duties included those one can expect in this sort of department: ensuring that vehicles were kept safe for use, were economic on the road, and that the traffic department had always sufficient units of the right kind of vehicles to meet its operating needs. However, much of the accountancy work was dealt with by the Town or City Treasuries. The Town clerk looked after legal matters and arranged the presentation of cases to the Traffic Commissioners. The links between the operation side of a typical municipal company and the political control exercised by the County can be represented as shown in Figure 2-3.
Figure 2-2
Organisational structure of the NBC

Department of Transport

Group Services         NBC Board

Regional Director       Regional Director       Regional Director       Regional Director
(Wales & The North Region) (South Region) (Midlands & West Region) (London County
Northern Region)

Company 1
(Devon General)

Company 2
(Bristol)

Company 3
(Eastern Counties)

Board of Directors

General Manager

Traffic Manager         Chief Engineer         Company Secretary

Assistant Traffic Manager

Assistant Chief Engineer

Assistant Company Secretary

Area Traffic Superintendents

Area Engineer          Works Manager         Internal Audit

Operational Accounting

Financial Accounts

Traffic Accounts

Wages
Figure 2.3
Organisational structure of a typical municipal

District Council

Policy & Resources Committee

Transport Committee (1)

Transport Department

Operational Control

Political Control

General Manager

Traffic Superintendent

Assistant Traffic Superintendent

Deputy Assistant Traffic Superintendent

Planning Implementation Administration

Inspectorate

Technical Engineer

Stores Super'nt

Works Super'nt

Garage Super'nt

Night Super'nt

Chief Engineer

Assistant Engineer

Deputy Assistant Engineer

Chief Administrative Officer

Principal Admin Officer (2)

Senior Admin Officer (3)

Senior Admin Officer (4)

Claims Super'nt

Canteens Manager

(1) Comprised city councillors and one co-opted county councillor, and an elected Chairman and Vice-Chairman

(2) Travel bureau, fare box control, secretarial duties

(3) Finance and general administration

(4) Revenue control, statistics and wages
Finally, the independent operators. They represented only a small share of the total stage service market, but operated about 90% of the total vehicle kilometres on contract work and private hire. The great majority of them - about 97% - owned fewer than 25 vehicles and 62% of their total operated with less than 5 vehicles. The simple organizational structure that could be found in many of the small-scale independent operators, indicated both the existence and at the same time, an expressed willingness to maintain the small family business atmosphere. The relationship between management and employees was thus much closer than in the larger public sector operators and it was not uncommon to find the proprietor acting as general manager with probably one assistant responsible both for traffic operations and secretary/accountancy duties. At the same time, a greater amount of responsibility was delegated to drivers and in some cases a vehicle was allocated to an individual driver who, besides the driving duties, was also expected to service it (usually by following a checklist under the supervision of a foreman). Moreover, many of these operators contracted part-time drivers on a casual basis as a means of coping with peak requirements. However, the major maintenance and repair work was undertaken in most cases by a commercial garage (Button, 1988b) and the year-end accounts were prepared by a firm of professional accountants (Hibbs, 1972). The environmental constraint placed on these operators was not a political one but rather one of restricted access to the market. This is expressed both by their scale of operations and by their more flexible and informal approach to organizational design, which is depicted in the following illustration (Figure 2-4):

![Organisational Structure of a Typical Independent](image)

Three main aspects must be highlighted in relation to the organizational charts. Firstly, the form and the level at which political control was exercised on the different bus operators differed in some respects. The NBC was
clearly subjected to central government policies and politics, whilst the PTEs
and the municipals were clearly under more regional or local political
control. There was a greater distance between central government and the
operational level of the NBC than between local government politics and
the PTE’s or municipal companies. Political control over the former thus
tended to be more diluted than over the latter. The small independent
operators were, on the other hand, always free from direct political authority
although they were a very interested party to the political changes at central
and local level. Secondly, the complexity of the organizational structures of
these operators varied significantly. The NBC, an organisation which
comprised several companies operating in different geographical areas,
required rather complex means to attain the overall integrated unit. The
PTE’s were the largest of all operators, whose vertical form of structure
demanded complex hierarchical relationships. The municipal companies,
on the other hand, were rather smaller units, clearly integrated in the overall
structure of the District Councils and their activities were closely
co-ordinated with the Councils’ other departments. The small independent
companies, however, adopted the simplest structures of all operators, as the
running of the different activities rested in many cases mainly on the
proprietors’ themselves. Finally, there is a clear division of labour and
responsibility in the main public sector operators which is not to be found in
the small independents.

So far the analysis has concentrated on the role of formal structure in the
workings of an organisation. But however important this aspect is, it does
not illustrate the way in which informality - as an expression of the internal
relationships that are built in the structure - can affect the overall behaviour
of an organization. The structure of an organisation can thus be seen as
providing not only the order by which its parts operate, but also the system
by which resources can be exploited. As the public sector managers
worked with structures that were not of their choosing, the system that
articulated its parts was also somehow imposed and clearly identified with
the attitudes of those who controlled and took the ultimate decisions. The
existence of a pattern of defined jobs, organised in a hierarchical manner,
through clearly defined lines of command or communication, illustrates the
kind of rigidity and formality that could be observed in the public owned bus
companies. Discipline and subordination constituted the dominate patterns
of authority. The need to restrict activities in certain directions and
encourage it in others without the occurrence of much debate exemplifies
the advantage of fostering this kind of pattern. The way to achieve it, was
by clarifying work-responsibilities. Managers and other staff alike were often given specific tasks to perform and their actions restricted to those previously allocated to them. This system of accountability led them to adopt defensive attitudes and to circumscribe their role in the organisation to the duties that they were assigned. Gradually, the resistance to any kind of change increased as they come to regard their expertise, however limited, as their personal bargaining power in the structure of the organisation.

The compartmentalization created by divisions between hierarchical levels, functions and people, erected important barriers and facilitated the formation of blocks, which together with the absence of appropriate coordinating mechanisms, prevented the creation of an overall orientation of the organization. In fact, empire building, and the defence of departmental interests and pet projects, subverted the workings of the whole. Although they may be able to survive for relatively short periods of time, they can nevertheless have devastating effects on the future development of an organisation for, as Pettigrew (1973b) points out, they provide the... source of many internal conflicts and are able to pursue subunit goals by successfully making unjustifiable but substantial claims on the organization's limited resources. Furthermore, as Leibenstein (1966) argued, even if inputs or factors of production were to be allocated to the right units in an organization, it did not necessarily mean that they would be used as effectively as possible. He called X-iniciency the... difference between maximal and actual effectiveness of the utilization of inputs, and added that in the absence of a system of monitoring and incentives, the members of an organisation may adopt levels of effort which do not correspond to those required to attain least costs, but which from their point of view yield greater utility. It is reasonable to say that there appears to have been no suitable mechanisms in the public transport system as a whole, and in the individual operator's forms of organization, to encourage members to use their efforts to a maximum, and therefore to shorten the gap between their own interests and those of the organisation (Keasey and Mulley, 1986; Bly, 1987; Perry et al, 1988). Competition creates pressures to reduce X-iniciency by forcing increases in effort. Providing that there are no large inert areas, costs will tend to fall (Liebenstein, 1966).

The main aim of the 1985 Transport Act was to introduce competition into the bus industry by freeing it from direct state control. What remains to be seen is whether it has in fact guaranteed the development of what the Government hoped to achieve - the creation of a contestable market.
Although there are some economists who regard the market as potentially contestable, they at the same time point out that this does not necessarily mean that all the conditions to attain contestability have been met (Button, 1988a) or that it will ever be possible to attain them. However, the present analysis is not concerned with an interpretation of the possible causes of competition not having developed in the way the Government had forecasted. It is sufficient to say, that for the operators currently involved in the industry, the 1985 Transport Act has meant the end of subsidisation for most parts of their networks. Bus operators can now choose the services they wish to supply and are free to set their own prices. They are also relatively free to enter and exit from the market, and there are no longer restrictions on market-product scope, on geographical expansion or on labour, pay and working agreements. But there are a number of important constraints, namely on the quality of certain inputs (drivers, vehicles), on market conduct (agreements which may be regarded as being of an anti-competitive nature), and on the relative timing of responses, either to demand patterns or to competitors' actions (the registration process). Furthermore, the industry continues to depend to a certain extent on political decisions, namely with regard to product substitutes. Policies for restricting the use of private cars and for the continuing subsidisation of rail services, are both still very much under local or central government control.

2.3 The major trends in strategic responses
The implementation of the Act in 1986, saw a series of different responses amongst the main suppliers in the industry. But it must be realised that the changes that have inevitably occurred in the industry have been increasingly difficult to identify, as competitive pressures naturally restrict the availability of information. The analysis at this stage is therefore limited to an interpretation of the concrete actions followed by individual operators. It should also be pointed out that although changes in the industry have developed on different time scales, it can be argued that the method chosen by the Government to introduce and implement them, may have intentionally influenced the kind of responses that took place in the early stages. There were three important points to the privatisation of the main public sector operators: the tight timetable in which it was to be achieved, the emphasis on breaking up the large concerns into smaller, more easily manageable units (whereby, as Button and O'Donnel (1985) suggested, important cost advantages could be achieved), and the preference given to management and/or employees' buy-outs. The period between the
publication of the White Paper and the full implementation of the policy expressed in it, was, it is generally accepted very short. The length of time to the first definite - although relatively short-term - registration of commercial services was also fairly short. From the Government's point of view, this process meant that the industry would, at least in the short-run, still be managed by those who had gained experience in the formerly regulated market. Major disruptions to public services, especially unpopular social ones, were to a great extent avoided. Commercial services were quickly identified, and in the cases where they couldn't be justified as viable, they were still registered as part of a short-term objective to retain customer loyalty. Probably more important was the fact that reductions in operating and overhead costs could be achieved more quickly, for this constituted one of the main cornerstones, in the Government's argument for deregulation.

As a matter of fact, it can be said that the established operators were quick to deploy their economies of experience (Button, 1988a) and engaged in rather short term actions directed at creating barriers to entry into their markets, a situation that was so characteristic of the previous period and all too familiar to the 'new' management teams. Production staff also played their role in combating the competition of their opposite numbers, as they possessed superior knowledge of the services. It can therefore be said that operational and planning staff were able to retain their status, as the focus of the business still involved procedures related to their activities. The provision made in the Act which required 42 days notice to start or end the registration of most commercial services was novel, and meant that in the early stages bus operators did not have much choice but to rely on short term planning to ensure that the commitment imposed by law would be operationally possible, and probably more importantly, that competitive advantage would be guaranteed. At the same time, it became clear that competition - regardless of its intensity - prevented a significant rise in the level of fares. This meant that fare receipts could not meet the costs that were being incurred, and that the gap between the two was widening. It appears however, that the decisions to reduce costs were not, at this stage, part of a clearly defined strategy directed at achieving overall market cost leadership. They were the result of a genuine awareness of the rather complex and heavy cost structure associated with the requirements of the previously externally imposed operational system.

But as the intensity of competition eased and the operators were gradually able to grasp the workings of the new system, namely the 42 day cycles, it
became apparent that management was willing to mobilize the organizational resources in search of steadier long term solutions. In fact, current trends show an underlying concern for the formulation of strategies which respond best to changes, and enable bus operators to best anticipate them. This reflects a significant switch in emphasis away from the characteristic short term operational planning to an overall, long term strategic commitment.

It is difficult to assess in detail the ways in which this process has developed, for most of the information available only refers to actions after they have taken place, or in other cases to a set of intentions expressed by companies' representatives. It is nevertheless possible to identify major trends. These are better illustrated by relating them to the main long standing problems facing the industry and to the specific facets of the environment in which they developed, and also to past experiences.

One of the most important problems which the new, or reformulated, bus companies faced was the decline in revenue. The supply of bus services was not creating or indeed maintaining sufficient quantities of demand. It is in this context that the type of responses aimed at generating more traffic are probably better understood. An improvement in the key areas of quality and quantity of bus supply was felt by many operators to be a suitable means of attracting potential demand and/or increasing market shares.

However, the quality and quantity of supply was stimulated in varying degrees according to existing operational conditions and patterns of demand. In fact, operators who were able to maintain their previously satisfactory record of reliability, concentrated on aspects of accessibility by re-routing some of their services. On the other hand, particular patterns of demand favoured actions by other operators aimed at reducing travelling times via the implementation of express, limited stop services. At the same time, the policy of increasing bus frequency, pursued with some degree of success during the period immediately after the full implementation of the 1985 Transport Act, was maintained if only to guarantee the loyalty of those who were initially attracted by this kind of policy. But the most important fact was that whatever innovative actions were taken to develop the product, they were now receiving some promotional backing.

There can be little doubt that the new environment has forced bus operators to adopt more market-oriented postures. They had a product to sell and
were aware that it was probably no longer sufficient to provide a reasonably reliable service of basic quality in order to generate more demand. The need to monitor the changes in demand more closely has probably highlighted other important characteristics of that demand. Conditions were created to break with the idea that standard prices and services could be offered regardless of the areas exploited, or indeed of the time of day, week and year. As a consequence, many operators felt that within the market there were segments with significantly important prospects for growth. The purposes for bus journeys vary considerably amongst those who do not have access to a car, and who use this means of transport for commuting, education, shopping or leisure trips. Even within these general segments of the market, there are important differences that reflect different tastes, spending power and indeed the ages of potential or actual users. The role of marketing resides, to a great degree, in the identification of these market segments which are growing faster, and in assisting bus operators to satisfy their needs by supplying the most appropriate mix of prices and quality services (Hovell et al, 1975). Market segmentation has in this way become an important strategic option for many operators. Decisions related to the renewal of the fleet have for example included the preference for buses which offered easy access, reflecting a clear concern for the needs of the elderly. At the same time, the greater flexibility achieved by certain types of buses, namely the minibuses, were seen as providing means of satisfying a growing demand for leisure trips.

But the industry's attempts to halt the decline in revenue have not been limited to actions aimed at generating more traffic. As a matter of fact there appears to be a growing interest in alternative ways of creating revenue beyond the strict scope of the supply of local bus services. The Government in its appraisal of the industry's early responses, anticipated that the new legislation had created conditions for market specialization, and that there were encouraging signs that bus operators were in fact using this opportunity as a means for generating extra revenue (Palmer, 1987). They were seen as possessing not only the assets and resources to do so, but also the expertise to compete.

Many bus operators have decided to develop existing activities more intensively, namely those associated with the process of producing bus services. Engineering work was soon identified as one of the most valuable specialised services, and sufficient demand was judged to exist, to justify the allocation of important organization resources to this area, and thus
influence major corporate decisions. The underlying objective of being able to market a highly specialised and competitive package of repair and maintenance work, has in fact brought major implications for the whole of the organisation. It meant in the first instance the need for quality infrastructure, and secondly the availability of workshop space and engineering staff. The existence of recently modernized facilities was not, however, a prerequisite. Neither were old fashioned, unfitted engineering depots a determinant constraint, providing they had a highly rateable value, for this contributed significantly to the decision for re-location and to the subsequent improvements needed to meet the main market requirements (eg. Badgerline Ltd). In both cases though, the fact was, that many operators were working with a fast ageing fleet which meant longer and more frequent use of the engineering facilities. Although the commitment to specialise cannot be seen as being the most significant factor in the decisions for renewing the fleet, it may however have borne an important influence on the direction of those decisions. The choice made to lease or rent vehicles, was probably based on rather more important considerations, namely those associated with the financial constraints faced by many operators as a result of management or management/employee buy-outs, or indeed it was part of a broader strategy with regard to the new competitive environment. But the fact is, that it granted the engineering depots the capability to deal with outside maintenance contracts. On the other hand, if the decision was to buy new buses, either as a result of a more permanent commitment towards the markets, or indeed after the trial period offered by the leasing or renting arrangements, there appears to have been considerable interest in securing maintenance contracts with the suppliers and thus releasing their own engineering facilities to provide contract work for others (eg. Badgerline Ltd).

It becomes clear therefore that, the decision to specialise is part of a broader corporate strategy designed to overcome some of the industry's chronic trends. An alternative, or in some cases concomitant strategy for creating more revenue, and one which has been developed by many bus operators, is that of diversification. The 1985 Transport Legislation granted bus companies the opportunity to widen their product scope. The decline in the demand for public transport might have encouraged many operators to find alternative ways to reduce the impact on their organizations as a whole - the impact not only of dramatic changes in the product's demand, but also in their own competitive positioning (Penrose, 1959). At the same time, the unfavourable movements usually associated with the demand for public transport which cause periodic under-utilization of resources and significant
fluctuations in earnings, might have justified the development of supplementary products whose demand varied inversely with that of the existing product (Johnson and Scholes, 1988).

Therefore, diversification in the bus industry can be said to have been pursued mainly to overcome specific problems of demand. But as Argenti (1980) points out, decisions ... to increase the range of business interests and to specify the types of business the companies should enter constitute a strategic response of the most general sort. They have involved decisions as to whether to keep within the broad confines of the industry (entering into or indeed broadening their presence in a related market), or to develop a product which bears no close relationship with the existing one. It has also involved the decision on whether to acquire companies already operating in the chosen markets or to develop through the company's own efforts.

There have been several cases of related diversification in the bus industry, of which the rental of minibuses and the supply of cash services to the retail trade, are just two examples. But it has been in the coach industry that the main developments have taken place. This reflects the situation whereby two activities complement each other, and which at important stages, require a similar productive service, which is especially valuable in the new activity (Johnson and Scholes, 1988). More specifically, current levels of demand for public transport may lead to some factors of production not being fully utilised but because they were previously procured for the production of one output - that of supplying local bus services - they may now also become available to aid in the production of other outputs. The prevalence of high peak/off peak ratios during significant periods of the week and of the year, has significant implications for the productivity of important resources over their life span (Chapman and Jenkins, 1977). By deciding to supply a new product - e.g. planning excursions during this period by using dual purpose buses - bus operators are thus able to generate extra revenue. Some, though, have taken a rather longer term commitment with regard to coaching revenue, by acquiring companies on the European Continent in the expectation of further opportunities following the inauguration of the Channel Tunnel, and the freer movements of people and services in the European Community by 1992 (eg. Eastern National).

But it is probably in the unrelated product diversification that the more innovative strategic options have taken place. According to Badgerline Ltd, ....... We felt it sensible to reduce dependence on bus operations, because it
was too high should there be a shift in trends, and people generally view it as a declining industry. We therefore wished to have a broader base and considered all sorts of other opportunities: travel shops, newsagencies, hotels, pubs, filling stations, property companies. We aimed to have a company long-term with a 70:30 split on buses against other activities ... (Bus & Coach Management, 1988). This statement provides the basis for understanding some of the current trends in the industry. Firstly, there is the idea that the production of many different, relatively depression-proof products constitute the most 'effective' hedge against all kinds of adverse changes for it broadens the depth of the company. At the same time, it contributes to the improvement of the image of the company. In fact, the acquisition of a well established travel agency may, for example, be used to re-launch the image of an owned enterprise, as does the development of a network of well located newsagencies trading under the same name. Secondly, there appears to be an interest in developing diversification into products which can be promoted and sold through common channels, for it allows ... to keep in-house various costs which would be lost, such as commissions and off bus sales (Badgerline Ltd), of which the travel and hotel products are examples. Finally, it demonstrates the way in which some operators seized the opportunity to further develop some services which were previously provided strictly for their own purposes, to the extent of selling them openly on the market. The formation of property companies constitutes a clear example (eg. Badgerline Ltd).

But diversification cannot be seen as the easy way to solve the industry's problems. According to Provincial Ltd, ... It would be very easy to burn our fingers and get rid of a lot of cash very quickly, to do something which we don't really understand. So our immediate policy will continue to concentrate on one thing we know we can do: buses! (Bus & Coach Management, 1988). This statement expresses the unease felt by some operators with regard to the perspectives of diversification. As a matter of fact, markets which offer satisfactory rates of return can become highly competitive. An operator, by entering into a particular innovative and technologically demanding industry, is required to develop sufficient expertise to maintain or improve its position in the new market. The commitment to enter into a new field thus demands the existence of sufficient resources to sustain a rate of investment which may be required to keep up with competitor's innovations and expansion, not only in the operator's existing main field but also in the new one (Penrose, 1959). This is probably the reason for diversification being associated with well
established concerns with efficient managerial resources, operating in a reasonably well worked-out administrative structure (Penrose, 1959; Rumelt, 1986). But this concept cannot be over-generalised for there are successful companies which lack the incentive to diversify and prefer to re-invest their retained earnings in the primary industry rather than branch out.

Some bus operators have in fact discounted the idea of developing new products and have decided to concentrate on strengthening their position in the industry. There is increasing evidence, for instance, that bus operators are acquiring other companies which run common portions of their networks (e.g. Eastern National).

The merger between operators has enabled the larger unit to re-evaluate the allocation of resources in those areas and also to re-arrange connections within the enlarged network. This fact appears to endorse the idea that there are economies to be achieved by the rationalisation of services, or network re-configuration, which can be expressed as the proportion of the cost of joint production that is saved by joint production (Bailey and Friedlaender, 1982b; Meyer, 1983).

However, all bus operators have shown a common concern - that of dealing with the increasing costs which have been a characteristic of the industry for a long time. The existence of old fleets, very heavy overhead structures, restrictive labour agreements and overstaffing, defective information systems and a highly rigid, vertically integrated organizational structure, have all contributed in one way or another to rising costs in the industry. Not that this constitutes an atypical picture of many transport systems in other parts of the World, but the distinctive feature is the fact that public resources were no longer to become available. The fact is that once the commitment to deregulate the industry was taken, there were no, at least in the nearest future, prospects for returning to the traditional state subsidising industry and this has probably made bus operators realise the need for longer term strategies. The problem though resided in reconciling the short term pressures on the organisations' resources with the more fruitful longer turn commitments.

The growth in the leasing and rental sectors has probably granted some breathing space to many operators. Market opportunities and innovative actions were able to mature before a more permanent commitment was needed. The apparent adaptability of minibuses to patterns of demand
eased the pressure on maintenance costs, as did the decisions to establish maintenance contracts with the main bus suppliers. There are, however, some operators that believe minibuses do not provide better financial results than the traditional full-size vehicles, and stress the major objections expressed by the public, with respect to the former, namely that they are unpleasantly fast in traffic and lack luggage space (e.g. Stevensons of Uttoxeter). These operators have, however, been forced to incur additional costs by contracting conductors to keep up frequency levels (e.g. East Yorkshire). This was considered less costly than allocating extra buses to particular services. In spite of most fleet configurations tending to confirm the rise in the use of minibuses, they still show that significant numbers of full-size vehicles have been maintained. This fact, together with the evidence that the industry is becoming increasingly dominated by smaller numbers of large, well-established companies (Dodgson and Topham, 1988), operating in well-defined areas, probably under some sort of tacit mutual non-aggressive arrangement, may raise the question of whether there is now more incentive to exploit further network economies. If one accepts that there is a difference in the cost per mile in providing a seat between small buses and greater capacity ones, it may be possible to organise service provision in order to attain economies from the scope of operations (Rowley and Mulley, 1983; Panzar, 1983). All that is needed is to 'enforce' a one-stop service. The smaller capacity buses can, for example, be used to bring passengers from diversified less-dense origins, to either a central strategic point, or somewhere along the route, where a larger bus has been allocated to carry the total of users to a common destination (Bailey and Friedlaender, 1982b).

But the industry has not been concerned only with possible ways of achieving economies of networking, for the 'required' market structure may not be attainable. In any case, these economies may have further detrimental effects on the levels of patronage of individual operators. Furthermore, the Government, through its existing monitoring institutions, seems determined to impede the development of quasi-permanent 'operational' arrangements amongst bus operators with unforeseeable consequences for the industry.

The Government was, however, clearly determined to demonstrate that the 1985 transport legislation had created the most favourable conditions for the industry to achieve radical reductions in its operational costs, of which labour was the largest contributor. In fact, the Government pointed out that
... in an industry where the largest single cost is for labour (usually about 70%) ... during the decade 1972-82 unit costs (measured in terms of costs per bus mile) among public sector operators outside London rose by between 15% to 30% more than the general level of inflation, much of this due to the growth in relative wages in the industry ... and claimed that ... in Hereford, the pressure caused by the Trial Area enabled Midland Red (West)'s management to negotiate a local improvement in productivity of 25 to 30% ... (Department of Transport, 1984).

The Government also provided what it believed constituted further evidence of the effect of labour agreements on cost by reference to a joint report by NBC and the Leeds Institute of Transport Studies, in which it was claimed that ... the variation in cost caused by varying the labour agreements (expressed as a % increase in the more expensive arrangements over the cheapest) lay between 23% and 77% ... this indicates that whatever the pattern of services being provided, there is significant scope for savings even within the range of existing labour agreements (Department of Transport, 1984). The fact is that following the implementation of the 1985 Act, many operators were able to reduce, in some cases dramatically, their work forces (e.g. Greater Manchester) and at the same time enforce labour agreements characterized by more flexible working practices. In general terms, the changes that have taken place, included the diversification of the tasks of direct labour, the need to work longer hours to maintain previous earnings (or alternatively accept a reduction in pay), and the ability to contract drivers on a part-time basis in an attempt to reduce peak costs.

Furthermore, the introduction of computers and microprocessing, or the replacement by outside contractors of some of the previously internally produced services, has also meant a significant reduction in the category related staff. This fact has probably contributed to the growing importance of drivers within individual organizations.

But it was the new market that highlighted an important dilemma for the bus operator as far as labour costs and relations are concerned. Competitive pressures demanded an increased commitment on the part of the labour force but at the same time they demanded levels of productivity which meant, if compared to past practices, considerably less favourable working conditions had to be offered.
This apparently contradictory situation can be further reinforced if at some stage the operator decides to spend large amounts of resources by acquiring another concern, or indeed by initiating a major marketing venture. The fact is that low morale and high levels of turnover can have detrimental effects on productivity (Wintrobe and Brenton, 1986), which is exactly the reverse of what bus operators wish to attain in the first place. The need to develop strategic actions directed internally toward reducing the gap between corporate goals and the interests of individual parties becomes an important priority. The fact that bus drivers are the most direct and permanent link with an operator's customers, and that they have a wide range of different interests, aims, motivations and ways of behaving, has encouraged many bus operators to develop important internal marketing strategies. Bus drivers play, in effect, an important role in the success of the individual company's operations. They are not only the most privileged group within the organisation concerned with promoting its image, but also an important vehicle of information on the quality of the service supplied, and on the changes that frequently occur in the market. They are, however, a vulnerable group. They have to work with increasingly complex equipment, and above all have the responsibility for carrying people who, like themselves, often fail to see beyond their own immediate interests.

Common to most management initiatives has been the encouragement of participation as a means of transmitting the main corporate goals (e.g. Go-Ahead Northern). Strategic changes can thus become more easily assimilated and implemented. Participation can also become a guarantor of increased commitment. It is in this context that more autonomy and responsibility have been assigned to the individual, or group, as an expression of the participation process, and more customer-care programmes have been incorporated in training schemes. But the process of increasing participation has caused important changes in the organizational structures of some operators. The main feature has been the re-organisation of large groups - namely bus drivers - into smaller units (mainly according to service areas), whose work is coordinated by a 'leader' who is responsible for service performance. The underlying idea of small groups and their leaders, is that they are better able to deal with the uncertainty in their specific market environment. For Go-Ahead Northern, A significant part of the success the company has achieved in the last 18 months in adjusting to the new environment, can be attributed to the activities of group leaders and the very much improved communications they have facilitated with staff and passengers alike (Bus & Coach Management,
1988). It is not clear, however, according to Button (1988b), whether changed attitudes to work and growing levels of labour force participation will offer countervailing forces, for at this stage, the dominant concern of many operators, appears to be that of creating internal mechanisms which offer sufficient probabilities of success, regardless of the direction they choose to go in. In fact, market segmentation and/or expansion, related and/or unrelated diversification, are all strategic choices which require changes in the way internal resources are organised (Johnson and Scholes, 1988; Rumelt, 1986). The underlying emphasis has been on the superior ability of smaller units to turn local environmental constraints into major opportunities for the organization as a whole. Although more responsibility and autonomy have been devolved to newly formed centres, a large element of central control over strategic decisions appears, however, to have been retained. Nevertheless it constitutes a major innovation to the way in which the bus industry has been managed.

This chapter has shown how the two major transport policies can affect the general workings of the individual bus operator. It has not, however, provided an analysis of the process by which a deregulated market has induced the changes, or the extent to which bus operators have been able to meet the challenge of the new environment, nor has it been possible to assess the influence that the values and ideologies of those who run the new, or re-formulated, bus companies might have had on the major strategic decisions.
Chapter 3: A Case of Change

3.1 The competitive challenges in a declining market

The bus industry has long been viewed as operating in a declining market, a decline which has been characterised by both changes in the nature and profile of demand and in the resources within the organisations themselves. Of the variety of causes that have been put forward to explain the decline of the industry, it is important to single out two, since it is considered that they will contribute to a better understanding of the current market strategies that have been pursued in the industry by individual bus companies.

The first major factor relates to the nature of the product itself. It has seldom been pointed out that one of the main reasons for the long-term decline in patronage is due to the fact that the product has become what is called an increasingly alien product. Services were designed and marketed without an adequate reference to the user's needs. The consequent fall in receipts was also accompanied by excessive wage settlements, inflexible labour practices, deferred maintenance and artificially low fares. A policy aimed at maintaining the largest possible network by encouraging cross-subsidisation among services appears to have been a dominant strategy in the face of this long-term declining demand.

The second factor concerns the role played by other products which provide an alternative to both the industry's existing and potential customers. The activities of the bus industry's substitutes, as in any other industry, are important to the extent that they succeed in influencing the buyer's value chain and enhance the propensity of buyers to switch modes of transport (Porter, 1985). Private transport has probably benefited from increased affluence and from more dispersed employment and residential locations, which to a certain extent have allowed journeys to be made on less congested roads at higher speeds. But public transport in general has never seriously addressed the aggressive marketing campaigns - which usually stress the benefits and attractiveness of their products - employed by most car manufacturers. At the same time, the intense competition among the substitute providers has helped boost the overall demand for private transport. Nevertheless, it must be pointed out that while accounting for only 8% of the total U.K. passenger market - in terms of passenger-miles - the bus industry is still a substantial one with an estimated annual turnover of over £2200m (Fawcett, 1989). It was in this context that the current Conservative Government - inspired by the wave of deregulatory moves initiated across the Atlantic - decided to privatise the publicly owned bus
companies operating outside London, and at the same time introduce a new regulatory framework for the industry.

The relatively wide interest demonstrated in the sale of the main public group - the NBC - was quickly claimed to reflect investor's confidence in the industry and ultimately confirm the Government's prediction with regard to the industry's new prospects for development. In effect, a major contributing factor for the industry's decline was, in the view of the Government, due to the growing involvement of the state in running the business. Private entrepreneurship was thus judged to be the force capable of reversing the declining trends of the industry, and the (relatively) free market the place where the success or failure of the industry's suppliers was to be decided.

This new environment obviously created a whole range of new issues for the industry's 'new' management teams. The most challenging one involved decisions on which corporate strategies to adopt, in order to exploit the opportunities presented by a declining market. The underlying belief behind those decisions must be taken to be that these opportunities offered viable prospects for the individual concerns.

To this extent, it was of little surprise that the immediate concern for most bus companies was finding ways by which the level of costs could be substantially reduced and the characteristics of services significantly improved. The degree to which success was obtained in these two areas proved crucial for subsequent developments in the market.

The move towards lower operating costs and in particular labour costs (for they represent the largest proportion of bus companies operating costs), took place on a wide scale throughout the industry. There were in fact unique opportunities to enforce lower wage rates and improved scheduling flexibility and utilization. The difficult financial conditions faced by most bus companies together with whatever the levels of competition that occurred in local markets after 1986, posed a real threat of job losses - a situation which has probably never been faced before (except when 'one person operations' were introduced). This fact exerted a persuasive pressure for moderating pay demands and for accepting new employment conditions.

At the same time, there was also a general impetus to introduce major changes in the services provided. New routes were created to allow
improved accessibility, adjustments were made to minimise the need for transfers, and frequency levels increased (especially in the more dense areas). These changes were based largely on the need to respond to competition, but they also reflected an awareness of the need to substantially improve the (poor) transport services provided in the past. If the declining levels of demand were to be halted and/or if the product was to stand any chance of "revitalization" this was essential. Recent data reveals that in effect the number of passengers carried during 1986/87 declined over 7% but the drop in 1987/88 was smaller at just over 2%.

Although it has been suggested so far that the broad strategies adopted by bus companies since 1986 have concentrated on very similar areas i.e., followed similar patterns of generic strategies, there are many differences to be found in terms of the extent to which opportunities have been exploited.

Whilst the reductions in operating and other overhead costs and the changes in the characteristics of services are important, the degree of improved scheduling, labour efficiency improvements, product design modifications and the degree of capacity utilization achieved in this process can in effect make the difference between profitability and non-profitability. In other words, a major factor for profitability resides in a combined, efficient utilization of both labour and vehicles which constitutes an important grounding on which to base market strategies. The ways in which the problem of a peaking demand, identified as a major source of the industry's deficits in the past can be overcome, illustrates the scope that exists for achieving different results. This period of operation usually requires a number of vehicles and drivers for only a few hours a day. The services provided during the peak hours have been estimated to cost 33% to 40% more than off-peak services. The introduction of split shifts and the contracting of part-time drivers (although this solution not always solves the excess capacity in the periods immediately before/after the peak) can reduce the costs of operating these services, although these measures can generate less visible, but equally important costs in terms of large staff turnovers, absenteeism or in fact commitment. But, most importantly, it is the capability to practice service integration - to combine commuter services with other operations (e.g. contract services, private hire) - that determines the biggest differences in the level of costs. The economies of scope that can be achieved from the fit between a set of different operations means the costs of operation by two operators can differ widely. It is also clear that different patterns of operations lead to differences in capacity utilization.
Even in the case of two companies attaining the same average utilization, they may be incurring different costs depending on whether one changes its utilization frequently and the other is able to keep it relatively constant.

The process of designing services is of course crucial for generating a product which is utilized to capacity. In this context, the degree of success greatly resides in the ability to create or review the most important elements in bus journeys. A single-service approach has proven unsuccessful in the face of a real heterogeneous market which rewards packages of services that meet the needs and desires of its different segments. It is clear for example that a professional-managerial segment values service improvements to a greater extent than cost savings, whereas for the elderly, accessibility and costs are more important than savings in travel time. However, it must be realised that the attractiveness of a segment is not only a function of its size and growth, but also of the match between the capabilities of the individual operator and the needs of the segments. This obviously requires certain attributes - namely regular monitoring of the changes in the characteristics of demand and assessment of own potentials - which are not present in many bus companies. The market niche which most operators appear to be exploiting recently - that of frequent (minibus) services - has led in some cases to an overstretching of resources, reflected by growing reliability problems. Many bus companies in their pursuit of greatly reducing costs have in the process failed to recognize the longer term advantages of continued investment in important indirect activities, of which maintenance and in particular preventive maintenance is of the utmost importance.

There are many more factors that could be considered in order to enhance the understanding of the current trends in competitive strategies being pursued in the bus industry. Successful specialisation in complementary activities (e.g. engineering work), product diversification, exploitation of valuable assets (land and buildings), relative success in the industry in the past, are all important for determining existing market (re)positioning strategies. They have in fact played a role in the changes that have occurred in the structure of the industry, if only as a backing for certain strategies aimed at gaining market dominance. Nonetheless, the most common strategies adopted by bus companies with regard to the supply of public services - still their dominant product - have consisted of achieving cost reductions and improved services. According to Porter (1985), there are two basic ways of achieving competitive advantage: cost leadership and
differentiation. The degree to which a firm can achieve a lower cumulative cost of performing value activities than its competitor, determines whether it has achieved a cost advantage. Similarly, differentiation can lead to competitive advantage if the firm can be unique at something that is valuable to buyers. For Porter, however, differentiation is a broader concept than quality: ... *it is a strategy that attempts to create value for the buyer throughout the value chain. Differentiation is a costly strategy and demands a premium price that must exceed the added costs of being unique.*

On the other hand, competitive strategy relates to the ability to cope and ideally change competitive forces in the firm's favour. These forces encompass the entry of new competitors, the rivalry among existing ones and the threat of substitutes. These forces play a predominant role in determining profitability for they establish *who keeps what proportion of the value a product creates for buyers* (Porter, 1985).

The threat of entry and the intensity of rivalry amongst existing competitors have implications for the extent to which the value created will be nullified by lower prices, or be dissipated by the costs of competing. The threat of substitutes on the other hand, places a ceiling on the industry's prices to the extent that other products can meet (better) the same buyer needs.

The importance of substitutes differs according to market segments and has therefore different threatening effects depending on the segments that a company serves. The threat of substitutes in the professional/managerial type segment is significantly superior in comparison to the potential threat that exists in the younger segment (e.g. students and first time employees), to a lesser degree in the suburban/housewife segment and practically nonexistent in the elderly part of the market. As a result of this difference in segment vulnerability, measures to improve/alter quality/costs of the product, its image and marketing efforts must vary accordingly. The success of these strategies depends to a great extent on the amount and direction of the resources that bus operators are prepared to invest in order to influence the substitution process.

The fact that private transport has successfully penetrated the market for public transport requires the identification of the causes for such success in particular in the most important segments. In fact, it might be in the interests of bus companies to redirect their strategies toward those segments that are least vulnerable to substitution and focus investments on such segments.
There is some evidence that in effect some bus companies like Provincial have concentrated more intensely on those segments that are less exposed to substitution - for example, ... *our market is the young and the elderly* (Bus and Coach Management, 1988).

In general though, investment initiatives aimed at attracting users out of private transport have been modest. Marketing expenditures still represent a negligible proportion of total operating expenses, and whatever has been achieved in the field must be attributed to learning experiences. Yet, it has been suggested that ... *if 1 in 20 of journeys by car or taxi could have been attracted to buses, the last 25 years of decline would have been reversed, and local bus operations would have experienced a 50% boost in patronage* (Fawcett, 1989).

It can therefore be argued that the other competitive forces - new entrants and existing operators - have played a more predominant role in the competitive strategies pursued by most bus companies since 1986. One of the most important aims of the 1985 Legislation was to create conditions in the industry for competition to occur, and consequently to make every company vulnerable to attacks by competitors. These can come from two main sources - new entrants into the industry and other existing competitors. The actions taken by the former usually involve seeking new opportunities in an industry that represents a logical extension of their existing activities. The competitive challenges by the latter group reflect on the other hand attempts to reposition themselves due to their failure to meet or willingness to enhance certain targets of return from current positions.

Although there have been suggestions that the process of privatisation followed by the Government might have led to the effective granting of market power to some bus operators, the ensuing analysis does not attempt to investigate this point. The important issue is one of identifying the general competitive strategies likely to have contributed to the market dominance by some (a few) bus companies in an industry facing a declining demand.

It has been pointed out that one of the most important generic strategies that can be pursued in an industry with a shrinking demand is to increase investment and seek dominance. The specific strategies associated with this objective include the acquisition of competitors and the adoption of actions that exert pressures on others (e.g. predatory pricing) to "help" them
exit the industry sooner. The underlying expectation behind this kind of strategy is that higher returns are likely to accrue to the last remaining companies in the industry, and as a consequence less emphasis is placed on potential short-term losses. Evans (1988), for example, has argued that only a small number of buses can operate profitably on each urban route, thus reinforcing the idea that larger profits can be obtained by becoming the sole operator on a route rather than sharing it competitively with others. The possibility of charging higher than competitive fares and providing less frequent services than would otherwise be required by the presence of potential/actual competitors, enhances the attainment of larger profits. There is evidence that in the cases where market dominance has been asserted, fares have increased and frequencies decreased relative to their competitive levels.

It is possible to identify some of the more general competitive strategies that have dominated the industry since 1986, although the full assessment of their role in the successes and/or failures that have occurred has still to be researched. The large incumbent operators have relied mostly on broadly targeted market strategies rather than focussing on narrow segments of the market. In doing so, they have become potentially vulnerable to other operators that might enter the market through the adoption of a focussed strategy. This threat can become particularly significant if there are strong interrelationships with other segments. There is evidence that contract services constitute a segment in which interrelationships can be built as for example is the case of commercial networks(1). The response to this strategy has involved intentionally worsening the conditions in the focussed operator's segments, through the registration of part/whole of contract services as commercial operations if actual entry has occurred, or by submitting lower subsidy requirements as a deterrent to potential entrants. The extent to which operators are prepared to follow this strategy depends on whether they have sufficient flexibility to serve the focussed operator's segment as well as others and on whether serving both undermines their ability to serve either. So far, incumbent operators appear to have been ready to meet these requirements even at the cost of compromising other strategies, i.e. foregoing more efficient utilization or alternative uses for the resources allocated to this end.

(1) 75% of some 200 recorded cases of former territorial operators commencing operations outside their territorial area were based on local authority contracts and many operators later diversified into full commercial operations (Huntley 1989).
These actions constitute in effect a major strategic measure aimed at erecting entry barriers and illustrate the importance of considering a specific move - actual or potential - in its entire context. At the same time, it underlines the risks involved in entering an industry or expanding into new areas without a clear competitive advantage (cost or differentiation).

However, it is in the more competitive parts of the market that the major battles for supremacy have taken place, and where the most successful competitive strategies can be identified. The visible signs of competitive behaviour can be said to have encompassed substantial increases in the level of service frequencies and reductions in the prices of fares. The aim of a high frequency and low prices strategy is clearly to raise the competitor's costs and lower its revenues in an attempt to erode its profitability.

Reinforcing service frequencies represents an attempt to fill all the possible gaps that a competitor occupies or might intend occupying, e.g. to reduce the potential amount of casual demand that a competitor is/might be able to capture by deciding/continuing to compete in those periods of the day when operating costs are lower and demand levels, although high, are not at their highest. Forcing a competitor to match lower fare prices, on the other hand, aims at nullifying the potentially higher returns that might accrue by operating at lower costs. The notable point in all the competitive actions pursued in the industry since 1986 is the relatively fast pace at which they have taken place. The opportunities presented by some of the provisions of the 1985 Act (and subsequent alterations) - namely the facility to change the characteristics of service provision without being subjected to registration procedures and implementation timetables - has allowed quicker actions to occur faster.

Nonetheless, the pace of change in the industry does illustrate above all a crucial element for enhancing the probability of success of a competitive strategy: the advantages of acting quickly. Early response to a challenger's move constitutes an effective strategy, for it is the period immediately after a move that companies tend to value most, with the early results obtained often used for longer-term projections. The fact is that if early targets are met, exit barriers are likely to arise as incremental investments are made and the challenger's commitment is increased as a result. There is evidence that the large incumbent operators can deploy relatively large amounts of resources in short periods of time and therefore be able to avoid prolonged battles with new entrants and/or (smaller) established operators.
In the cases where this has not been accomplished, incumbents have also shown their superior capabilities in coping with relatively more costly competitive actions. For example, interrelationships between operating units have been exploited to demonstrate an overall corporate commitment to succeeding in the industry. Furthermore, they have been able to overcome successfully attacks on those parts of their network that have proved vulnerable to competitors, or in fact where existing companies were operating, by limiting the extent of the costs of competing to those specific areas - e.g. reducing prices only in the services adjacent to those where a competitor has decided to operate or in fact where it was already operating.

For the small operator this strategy creates severe mobility barriers. However, the 'cost' of cross-subsidizing services to deter entry and/or expansion may prove too high and provide scope for other operators to enter the subsidised market or parts of the most profitable one - especially those which are priced at levels higher than necessary. Nonetheless, the current trends in the structure of the industry tend to confirm the growing success of an increasingly smaller number of the large incumbent operators.

In June 1989, 25 of the 59 ex-NBC subsidiaries were in seven holding company groups with an average of 1200 vehicles each. Furthermore, the biggest groups had between 2,000 and 3,000 vehicles (Local Transport Today, 1989). This trend has obvious implications for the proclaimed applicability of the theory of contestability to those industries controlled and run by the public sector through strict entry regulations.

The concern that has been most widely expressed refers to the "unexpected" behaviour of firms in the post-deregulation period. In the case of the US aviation industry, the proponents of the theory of contestability have argued that the post-deregulation events - namely the increasing number of collapses of smaller airlines - do not refute the basic tenets of the theory but should, on the contrary, be attributed to the appearance of structural deficiencies on the supply side of the markets (e.g. airport congestion and long delivery periods for aircraft).

In the UK bus industry, there are some who do not consider the increase in the number of large holding companies as playing a dominant role in the industry - at least not yet - and point out that they are sufficiently dispersed in terms of geographic locations and that intense competition is occurring between subsidiaries. In any case, as the Federal Trade Commission (1985) has asserted in one of its rulings ... in the absence of barriers to entry,
incumbent firms cannot exercise market power, regardless of the concentration in the nominal market and indeed if the market has been ‘monopolised’ by a single firm ... for all that suffices is the presence of potential entrants on the fringe of the market to prevent the exercise of market power.

It is difficult to assess the role that the threat of potential entry is having in the U.K. bus industry. But there is evidence for instance that a smaller number of bids has been occurring in the tendering of subsidised contracts - after all the most favourite entry strategy - and that some operators have felt sufficiently confident to de-register less profitable services only to submit bids to have them restored under subsidised contracts. Although the authorities appear adamant not to accept these widespread practices, they may become increasingly powerless to contend with other indications of market dominance - which in itself is an important strategy for firms that operate in a declining industry.

In effect, one of the most powerful arguments that the Government used to introduce the changes in the bus industry was that the pre-1985 regulatory arrangements resulted in the establishment of a structure which led to the kind of market conduct and performance responsible for the decline in the industry. The main question appears now to be how to induce market conducts that are consistent with contestability and still remain within a general non-institutionalised framework.

However, the aim of this chapter was not to investigate the potential relationship between competitive strategies and the structure of an industry. Rather it represents an attempt to begin to understand the strategies being pursued in an industry during the period following its deregulation. It looked specifically at the compatibility of these strategies with those that might be expected from a declining industry in general. It stressed the role of a number of bus industry related factors in achieving some sort of competitive advantage and, most importantly, it showed the rationale behind bus companies' attempts to turn competitive forces to their own advantage. It is however important to stress the potential limitations of this work, for it is based only on the most externally visible expressions of these strategies, and is therefore unable to account for the full implications of these strategies on the individual organizations and ultimately on the future developments in the industry.
3.2 The role of organizational variables
Organizations are instruments of human agency - individual and social - constructed for the pursuit of specific goals. They can be regarded as social units engaged in transforming perceived environmental needs into products and services. The ways in which social arrangements are coordinated and interrelated within these units greatly determines the extent to which outputs are accepted and valued by the different environments.

Organization structures are said to constitute one of the most important organizational variables for they encompass several crucial organizational functions. These functions in turn influence others which are no less important - for example, attitudes and processes. They therefore contain two fundamental aspects of organizational life: (a) the formal structure which is a planned framework created for the accomplishment of an organization's activities; (b) the informal relationships amongst organizational members, which evolve within the formal structure.

Amongst those functions defined by the formal dimensions of an organization's structure are the distribution of functions and authority, coordination and integration, and communication and information flows.

The formal division of work can be categorized in two ways. The first is the traditional way. This can be functional or divisional depending on whether the grouping of activities is built around functions [e.g., sales, manufacturing, administration], or around divisions, in which case the functional units are established for each product, customer or location. Secondly, there is the more contemporary design which includes the holding organization - one in which the allocation of functions is extensive to the point where the corporate office performs limited activities [e.g. capital allocation] - and the matrix organization - where a divisionalized departmentalism is super-imposed on the functional organization.

Delegation of authority is seen as an important characteristic of organizational life. There are two basic ways of structuring authority within an organization: by centralisation or by decentralization. The distinguishing factor lies in the degree to which the devolution of decision-making is distributed amongst organization members and units.

Concomitant to the type of structure and degree of delegation that an organization chooses to adopt, there must be mechanisms to co-ordinate
and integrate its various activities. Organizations are not anarchic units. Production targets and sales expectations must be coordinated. Likewise, the needs of specific customer groups and geographic divisions must be combined into corporate goals. The mechanisms that can be used vary from hierarchical referral - i.e., the authority of the hierarchy - to setting goals on results (e.g. budgeting) to the addition of liaison elements or integrating departments.

As the division of work is delineated, the degree of delegation is allocated, and the integrating mechanisms are set up, there remains the need to establish the way in which information is generated and channelled through the structure. The number of organization members that are involved in this process, their relative positioning in the structure and the degree to which information is encouraged and open to modification, constitute the main distinguishing features of communication systems. Organizational communication can thus flow vertically (up and down the organizational hierarchy) and horizontally (across the hierarchy) and to a certain extent they both have implications for the quantity and quality of information on which decisions are to be based.

But however efficient communication systems may be in assisting corporate decisions, it is understood that these can be further enriched if there is an adequate synchronization between an organization's goals and those of its members. Motivation and participation are structural mechanisms designed to enhance commitment.

Generally, the primary objective of the formal structure of an organization is to ensure that its activities are carried out in the best possible way. The effects of this on the conduct of individuals and groups should not be underestimated. In fact, the norms of behaviour that are created and superimposed on the formal structure greatly influence the actual operation of an organization. Informal structures provide not only valuable additional channels of communication, but they can also serve to highlight deficiencies or weaknesses in the formal organization [e.g. duties and responsibilities not covered in job descriptions or outdated systems and procedures]. Furthermore, they can help overcome unplanned and unforeseen situations more rapidly than would have been possible if formal methods alone were used.
Thus far, some of the main structural variables of an organization have been outlined. It is the interaction of these variables that provides the basic framework for organization life. Organizations, however, are not static, self-contained units. They are an integral part of more general social, economic and cultural environments. Organization theories aim at explaining the ways in which organizational variables interact in this context in order to understand organizational decisions and are important to the extent that they provide rich conceptual frameworks for the study of organizations in general.

The first major contribution that has had a lasting impact on the development of organization theory can be traced to the first half of this century. It became known as the Classical Theory of organization and management. The fundamental characteristic of the early works by Taylor, Fayol and Weber was the mechanization of organizational life.

Taylor in his book 'The Principles of Scientific Management' defined elaborate systems of work design and performance evaluation. Fayol focussed his work on the design of the total organization rather than the individual job, and Weber emphasised the need for the routinization of the administrative process. The basic principle was, however, similar: organizations should function as if they were machines. The fact is that for the classical theorists the main strategic issue relied on production efficiency. To this effect, the structural dimension prescribed entailed a specialised functional division of work and a centralised decision-making process coordinated by standard procedures and codified rules. Communications were to flow vertically downward through precise lines of command, and commitment was to be accomplished by legal compliance and rewards.

The limitations of this approach were soon to be challenged on the grounds of the model's neglect of the human aspects of an organization, and on the fact that the tasks facing organizations are much more complex and uncertain than those that can be performed by machines. It must, however, be said that the mechanistic approach has had a major impact on the ways in which some organizations have chosen to work, for it has been shown to have led to significant increases in productivity, although at recognizable human costs. At the same time it must be pointed out that the prescriptions advocated were probably in keeping with the kind of environment and tasks facing organization managers during the period of study. Dessler (1980) for
example, relates the comparatively slow pace of life of that time and the kind of work tasks - routine effort and not creativity - with the 'rigid' mechanistic approach.

The first major challenge to this model was provided by the Hawthorne Studies (1933). The importance of the human side of the organization was acknowledged for the first time. The main concern was nevertheless limited to finding a balance between technical and human requirements to achieve a higher quality operational mode. However, the emergence of an increasingly complex, diversified and uncertain environment in the post 1945 period marked a shift in emphasis in the development of organization theory. This period was characterized by a wealth of research work which emerged as a reflection of a growing interest in the study of an increasingly important phenomena - organizations. This interest arose as a result of the shortcomings of the classical model - a new set of organizational demands could no longer be met by a closed mechanistic system - and also as an alternative to the normative microeconomics whose main concern resided in the ways in which economic units ought to behave rather than how they really behaved. Simon (1957) asserted that the model which describes the economic man ... choosing among fixed and known alternatives to each of which is attached known consequences no longer proves adequate when perception and cognition intervene between the decision maker and his environment. Furthermore Cyert and March (1963) held the view that firms, rather than trying to maximize/minimize economic variables, tried instead to 'satisfice' certain goals [e.g. holding a certain share of the market].

The study of organizational life came to be regarded as the most appropriate methodological approach to counter both the classical formula of 'accepted assumptions-expected results' and to examine those factors which entailed greater influence on decision-making.

The contingency theory provided one of the first major contributions to this effect. According to this theory there is in fact no best way to organize - as presented by the classicists - but at the same time not all ways of organizing are equally effective. As a contingency represents a possible event, this approach aimed at establishing forms of organizations that were most appropriate under certain circumstances. Burns and Stalker (1961) and Lawrence and Lorsh (1967) are amongst those theorists who argued that organization structures are contingent upon environments.
Burns and Stalker (1961) asserted that firms tended to organize more around products and projects and less around functions as the rate of change in the environment increased. Thus in those industries characterised by high rates of change of markets and technology, firms adopted an organic structure - one that is decentralised, informal and with lateral communication systems based on information and advice rather than instructions and decisions. In industries with stable markets and production lines, firms adopted a mechanistic structure - one that is centralised, highly formalised and with downward communication processes. The type of structure was therefore seen as being contingent upon the rate of change in the environment.

Lawrence and Lorsh (1967) redefined the contingent assumption by arguing that since organizations are composed of different subunits, these may also need to take different forms according to the characteristics of the subenvironments that they face. They concluded that the greater the degree of certainty of the relevant subenvironment, the more formalised the structure of the subsystem. Subsystems would, however, not only differ in terms of their structures but also on their member's orientations toward time and goals - production employees tended to have short-term orientations because the feedback concerning their decisions was short intervalled whereas research members tended to have long-run perspectives because their feedback comprised longer periods. Their study also pointed out the fact that the more an organization diversified its operations to meet environmental conditions, the more relevant integration mechanisms became. The success of an organization was thus as much dependent on effective differentiation as on effective integration.

The ideas expressed by Lawrence and Lorsh (1967) can be associated with the General System Theory which was developed from the 'organic' views of Von Bertalanffy and other biologists. Here organizations are seen as systems composed of sets of flows and processes but where the separate units or departments of a business are subordinated to the decision-making information and communication networks. Katz and Kahn (1966) embraced many of the general system theory concepts in so far as they emphasized the role of information on management's decisions and envisaged decentralisation as a deliberate restructuring of an organization to handle information overload.
Chandler (1962) on the other hand suggested that organization structures are contingent upon their strategies for growth. The awareness of environmental opportunities and needs stimulated strategies that led to expansion of volume and geographic dispersion, vertical integration and product diversification. Each of these strategies created different types of administrative problems which were eventually met - Chandler suggested that there was a time lag between administrative needs and their satisfactions - by the adoption of different forms of organizational structure. Thus the functional structure was adopted to run an organization that had a single or dominant product market strategy and the multiple-divisional structure was created for product diversification, for it was seen to permit quicker responses to individual market demands. Scott's (1971) three stage model is also essentially a sequence of new sources of diversity causing complexity and the concomitant changes in structure. Beckhard and Harris (1977) added that as organizations grow further and each division required the technologies represented in each of the other organization's basic function (e.g. accounting, personnel or engineering), the headquarters will eventually become a holding company for a group of separate entities, each possessing all the functions.

The idea that structures follow strategy can be further exploited to justify the emergence of matrix organizations. The strategy can be associated with growing environmental problems that create the need for increased interdependence across products, areas and functions. Matrix organizations thus result from strategies that introduce new sources of diversity and make product area divisions and markets of equal strategic importance.

The strategy-structure model cannot, however, be considered as a universal one-way sequence. Normann (1985) for instance pointed out cases where structural changes have increased the learning capacities of organizations and generated new strategies. Furthermore, certain structural features [e.g., a decentralisation process whereby general management's 'operational' functions are lessened] may provide the necessary requisites for the formulation of new strategies [e.g., provide management with the objectivity necessary to look for opportunity beyond the current scope of their business]. Similarly, certain fundamental organizational characteristics can be associated with different strategic orientations. Pitts (1977) has pointed out that an organization where the corporate dimension is extensive (functions and staff), the interdivisional transfers are high, resources are
shared on a wide scale and which values subjective performance appraisal, can be associated with a diversification strategy based on internal development. An 'acquisitive diversifier' on the other hand is seen as deliberately foregoing these aspects and relying instead on the ability to attract and retain acquired managers who themselves possess the required expertise in newly extended fields. However, Barnes et al (1970) expressed the view that organization structures should not restrict the definition of strategies to the extent that these do not conform with their current characteristics, for it may mean foregoing greater development opportunities.

Another school of thought - e.g. Galbraith and Nathanson (1978) - associates organization structures with the degree of competitiveness that prevails in specific business environments. According to Galbraith and Nathanson, organizations adopt structures in order to remain competitive in a process that is quite independent of size (Aston Studies), product diversity or technology (Woodward, 1976). They concluded that ... the more the firm is decentralised and formalised in a competitive environment, the stronger the relation with economic performance. They used the example of Boeing to illustrate how a functional organization 'managed' a monopoly situation but became inadequate as a competitive market emerged and performance decreased. The studies by Negandhi and Reimann (1972) and Khandwalla (1973) appear to confirm these findings. They both established that organization structures become of primary importance under more competitive conditions. The degree of market competitiveness is seen as affecting organization structures in two ways: the greater the competition the more likely it is that decentralisation will increase to allow speedier responses to counter competitive action; the greater the competition the more likely that formal management and control will increase to enable closer monitoring of the competitive responses. The ways in which organizations tend to respond to competitive market conditions and the associated structural characteristics were further developed by Galbraith and Nathanson (1978). Organizations start by attempting to control what they regard as their territory. The search for new opportunities - geographical or product - however, requires the adoption of organic structures to assist in the learning process. To achieve this objective, organizations use "feelers" (the systematic investigation of new markets and technologies [Rhenman, 1973]) to collect new knowledge and devise possible solutions to environmental problems. If, however, the outcome of this process leads to market penetration, in an effort to establish a dominant
position, organizations may instead require a more traditional military or mechanistic structure to be successful (Rhenman, 1973).

There are, however, others who have suggested that it is not really important whether structure caused strategy or vice versa, but whether the organization's internal processes and structures are consistent with the strategy adopted. Child (1977) developed this point when he considered the case of two profitable airlines which faced a similar environment and were of equivalent size. Despite the fact that they worked with contrasting structures - centralised versus decentralised, non divisionalised versus divisionalised, personal control versus impersonal control systems, short term versus long term horizons - they both achieved a level of congruence amongst all the organizational variables which enabled them to handle the environment satisfactorily. On the other hand, the low performing airlines were found to have inconsistent structures, e.g., decentralisation but severe restrictions on decision-making capacity and lack of performance monitoring.

This difference between organizations can also be attributed to different management styles which reflect the ideologies that prevail in the organization. According to Miles and Snow (1978) it is the dominant ideology rather than the environment stimuli that determines both strategies and structures. Thus in a declining market demand situation, an organization in which the prevailing ideology is conservative and low risk taking, would concentrate on the market niche in which it specialises and on high control mechanisms. An organization dominated by those who favour innovation would be characterized by higher risk strategies, greater individual initiative and less emphasis on efficiency and controls.

Another important organizational dimension associated with management style of leadership concerns the ways in which an organization's member's commitment is sought. Authoritarian leadership and democratic supervision usually describes management preferences with regard to participation in decision making processes. Research findings suggest that although participation may result in increased employee commitment, self-control and intrinsic motivation, its results on the employee's ultimate performance are less clear. Furthermore, whereas the quantity of work seemed to be slightly higher in autocratic groups, the quality was usually better in the democratic ones. Lawler (1971), however, points out that ... whether (increased commitment) will result in higher productivity or greater
organizational effectiveness is a function of the nature of the decision that is made. Job enrichment, according to Herzberg (1968), constitutes another structural mechanism to enhance motivation. The aim should be to increase an individual's sense of achievement by building into the job more challenge and opportunities. Research findings suggest that job enrichment is more successful in improving the quality of work than its quantity, but they also show its impracticality for dealing with problems associated with the reward systems. Reward systems play, of course, an important role in motivating higher performance. Lawler (1971) and Slater (1973) suggest that they should be designed according to the organization's task and strategy and Lorsh and Allen (1973) found that in diversified companies, rewards were directly related to the accomplishment of end results, whereas in integrated firms that was not the explicit factor.

The organization theories that have been outlined in the preceding analysis have raised a number of important issues which will now be considered in the specific context of the bus industry. Although the analysis will focus on the period which followed the implementation of the 1985 Transport Act, it is important to consider first the main characteristics of the industry prior to that date and of the process of change itself.

The bus industry was, up to 1986, subject to tight regulatory controls and the public sector operators dominated the market. Although there were some differences in the degree to which public control was exercised, it can be said that the underlying organization features consisted of a highly centralised decision-making structure and high formalisation and standardization of procedures. Bus companies were predominantly production-oriented but there were significant differences in operating environments e.g. product substitutes and demand patterns. The general trend of public transport demand was, however, one of decline, and public funding for bus operations on the increase.

The decision to delicense the bus industry was taken in 1985 and fully implemented in late 1986 in a process that involved the liberalisation of the market and simultaneous privatisation of the main publicly-owned bus companies. These changes were both radical (considering the nature of the industry), quickly accomplished (considering that the industry had been regulated for nearly 30 years), and, it appears, permanent in nature (considering the inflexibility of the present Conservative Government and also the Labour Party's intention not to reverse the privatisation process).
Most of the bus companies which formed the largest public bus group - the NBC - and a great proportion of the municipal companies have now been sold - mostly in the form of management and/or management-employee buy-outs. The process of privatisation of those companies that operate in the major conurbations (PTC's) has been slower. Nevertheless, the public institutions that still own those companies have a statutory duty not to subsidize their operations (except in those cases provided for by the 1985 Transport Act which apply to all bus companies).

Two important points must be singled out at this stage: firstly, the industry endured a major environmental change which, although it was legislative in nature, had two underlying components: firstly, (a) the end of direct public financial support, and (b) the introduction of a competitive element; and secondly, the industry is largely 'managed' by those who previously occupied executive posts in the industry and who have now become owners or major shareholders of the new bus companies. Both these aspects have played a role in the organization changes since 1986. The former suggests that bus operators have been forced to rethink their product and market behaviour. The latter suggests that this process has been mainly management led. In fact it is hardly conceivable that the major corporate changes have resulted from wide internal involvement. The traditional functionally specialised structure, with its high degree of centralisation and compartmentalisation cannot be seen to have provided the primary impetus for the change to a more market-orientated type of organization. This fact does not, however, imply that the structural adjustments introduced to accommodate the adoption of new strategies do not (or indeed have not already) become themselves an important force in strategic initiation. Furthermore, the argument that the process of strategic formulation has been predominantly management led must be qualified to the extent that it reflects the ideologies that were predominant in the different organizations at specific points in time. Nevertheless, there was an underlying awareness that, in the new environment, the success of commercial services involved as many changes in the production processes as in the organization's ability to relate to external forces. Although these changes were basically concerned with the dismantling of bureaucratic information and control systems and with introducing radical changes in labour practices, their form and ambit varied significantly: They ranged from a conservative decentralisation of decision making, limited participation and scattered initiatives to change attitudes, to the formation of highly decentralized profit centres, formal structural changes to
accommodate increased involvement and to educational activities to shape values and behaviours. These changes were of critical importance to the success of the market strategies adopted, in the early stages by the bus companies. The primary objective was to gain a sufficient share of the market - by defending those territories regarded as their own and/or complemented by geographical expansion - in order to secure short-term stability and profitability to generate enough internal funds to meet financial commitments and/or financial expansion.

Although it is important to recognise that capital funding availability is a significant factor in determining long term strategy, management expectations regarding socio-economic variables together with their learning process in the industry - namely their attitude towards its trends and product characteristics - and entrepreneurial skills, appear to have played a similar and concomitant role in establishing the corporate orientations of the bus companies. The cyclical nature of the product, increasing difficulties in countering a declining demand or the willingness to earn higher returns on their business, was the basis for some of the decisions towards specialisation and product diversification. Other strategic decisions however [e.g., consolidation, expansion in the same product line] can be seen as the result of successful penetration and dominance of the most profitable market segments and/or successful generation of traffic.

It must, however, be pointed out that if the structural adjustments introduced to cope with the initial environmental impact were to a certain extent familiar to most management teams, the same cannot be said of the changes needed to adapt to strategies that involved expansion into new geographical areas and products. Although there might have been a time lag between the emergence of new organizational needs and their satisfaction, it must be realised that there were a number of basic issues that had to be addressed in advance.

The recent developments in the bus industry show a significant trend towards geographical expansion by the incumbent bus companies. These companies have tended, as a result, to become increasingly divisionalised and decentralised, probably to the extent that communication channels have been improved and corporate aims successfully assimilated. Major strategic issues, namely those concerning investment decisions have, however, remained relatively centralised.
Notwithstanding this, more complex organizational problems arise when the expansion programmes involve the acquisition of other companies in the same or in different product areas. The fact is that in both cases, major redeployment of resources and redirection of human activity is involved. The latter case clearly introduces a different dimension to those problems [e.g. assimilation of different production techniques, marketing concepts and methods, planning and control], and above all to investment decisions. Nevertheless, the ambit of organizational changes requires consideration of (a) the degree of integration - whether the two or more companies should remain separate centres with their own management or whether parts or the whole of the organizations should become physically integrated, (b) the method of integration - whether a project team should be appointed to ensure collaboration for technical and product integration, and (c) the ways for transmitting the goals and objectives of the acquiring companies. It is clear, however, that whatever the solutions adopted, they lead to significant differences in the internal mechanisms of organizations. Williamson (1970) argues that the multidivisional structure is more effective than the holding company, for the latter ... lacks the information and management necessary for strategic planning and internal control and according to Rumelt (1986) ... the multidivisional structure is the high performer in almost all financial areas.

The holding company type of organization is usually associated with a corporate group restricted to specialist personnel in the tax, legal and financial areas because the existence of sufficiently large units that operate in very distinct and dispersed areas require their own (essentially) functional activities. In the traditional multidivisional company, the corporate office entails a larger number of experts who, through corporate policies and participation, coordinate the activities of divisions which in turn play a greater role in major decisions, namely those concerning the allocation of resources. The matrix type of organization has probably not been institutionalised amongst bus operators, although it is conceivable for restricted teams to have been appointed temporarily to deal with specific strategic objectives [e.g product-market projects] either during initiation or implementation phases.

Finally, the effects of organizational changes on internal relationships cannot be underestimated. It can be argued that they have caused inevitable disturbances in the established status quo. Certain activities, for example, marketing, which were latent during the previous regulatory
period, can now be seen as an important dynamic force in the new organization establishment. On the other hand, the comprehensive planning and monitoring of operations could have been replaced by more direct and simpler controls of market and competitor movements. Furthermore, the radical changes introduced in labour practices, which basically reduced benefits and rewards and increased flexibility, were implemented when bus organizations strove to enhance their member's commitment.

These shifts in emphasis bring inevitable changes in the power structure of any organization, and in the case of the bus industry they come at a time when cooperation and stability are of the utmost importance.

Two main conclusions can be drawn from the arguments presented in this chapter. Firstly, organization theories provide an important contribution to the understanding of the ways in which structural variables are related, how they are moulded and how they can assist organizations to attain their major goals. Secondly, although it is possible to draw important conclusions on the changes in organizational practices in the bus industry since 1986, there has been insufficient research work on individual operators to allow a precise understanding of these changes nor to draw conclusions about the extent of the impact of these changes on future organizational capabilities.

3.3 An approach to researching organizations in the bus industry
The aim of this research is to provide an in-depth analysis of strategic change at the level of one bus company after the deregulation of the bus industry. To a certain extent it aims at filling the research gaps by contributing to our knowledge of the bus industry’s organization for, as Hibbs (1990) remarked, few textbooks in the area of strategic decision taking have used case studies from the bus industry.

The focus of this research revolves around two main questions

1 How have corporate strategies altered as a result of the industry’s deregulation?

2 How, why and with what results have strategic policies been developed with respect to organizational, operational and competitive practice?
The research design adopted is the 'embedded case study type' as defined by Yin (1989), for it incorporates more than one unit of analysis. The ideas expounded by Yin for the use of case studies as a research strategy are relevant to the choice of this research design. In fact this study involves researching the impact of a contemporary phenomenon (deregulation of the bus industry), within a real life context (an organization setting) from an inquisitive perspective (of how and why), which according to Yin favours the use of case studies. Furthermore, as Bryman (1989) states, a case study can be used to ... provide an understanding of areas of organizational functioning that are not well documented or can be employed ... to achieve insights into a previously uncharted area. To this extent, the decision to undertake research into one single case can be said to reflect the exploratory nature of this research's aims and questions.

However, as Johnson (1989) acknowledged, ... it is not suggested that this one organization, or the managers in it, are representative of all organizations. According to Yin (1989), one of the traditional prejudices against case study research is that ... it provides very little basis for scientific generalization. But as he also notes, the use of a case study approach is appropriate when ... the intervention being evaluated has no clear or simple set of outcomes. It is clear that the deregulation of the bus industry has introduced an additional variable that makes this proposition particularly relevant: marked differences in local market competitiveness.

The essence of case study research, according to Yin (1989), is thus that it aims to illuminate a set of decisions and not to represent a sample for statistical generalization. He suggests that instead, an analyst should try to generalise findings to the theory. This case study has been orientated on the basis of an Interpretive analysis of strategic change with reference to a number of theoretical propositions. That is, it resorts to existing theories as well as general empirical findings in order to examine and understand the evidence of those affected in the 1985 UK public transport policy. To a great extent, the analytical approach followed in this research accords with Allison's (1971) suggestion that ... what we need is a new kind of case study - done with theoretical alertness on the basis of which to begin refining and testing propositions and models.

The single case of this research (Midland Fox) was selected because the company fulfilled a number of basic research pre-requisites.
Firstly, the basic criteria for selecting a company as the case study of this research was that it should be an ex-publicly owned bus company. It would provide the ideal framework to study strategic change, for according to the proponents of deregulation, privatisation and private entrepreneurship in particular is fundamental for changing the trends in the industry. MF - the company selected - was part of a major public group - the NBC - was privatised in 1987.

Secondly, MF was acquired by its management team. This is the most representative outcome of the privatisation process, after 1985. However, and more importantly, there was evidence to suggest that MF's new owners were strongly committed to the bus industry and were actively involved in the process of change.

Thirdly, MF's areas of operation included Loughborough which was the town where this research was undertaken. This fact enabled an a priori acquaintance with local environmental factors and the possibility of observing 'in loco' crucial events in the market that are the object of analysis in this case study (eg. competitive activity in Loughborough).

Finally, access was relatively easy to gain largely due to the receptiveness shown by management to the aims and topics covered by this research.

The first contact with MF was established through the company's Commercial Director. From the preliminary discussion held with him and the general outline he made of the company's organizational structure and functioning (a subject developed at length in section 5.2) it became clear that only a small number of key figures were engaged in the company's management. They comprised the three Executive Directors and the Depot General Managers. These organizational members were therefore selected for interview. This choice was reinforced by the postulate that ... changes about the definition of goals and priorities, organizational restructuring, modifying organization-environment relationships, all require significant and sustained involvement of top management (Beckhard and Harris 1985). That is, ... if we are to understand why organization strategies are the way they are, we must understand it from a management's perspective (Johnson, 1987). As a matter of fact it was clear from the first interview with MF's Commercial Director that he played a key role in the company's assessment of a) the overall changes in the industry and b) the specific strategic positioning of MF vis-a-vis the changes and the issues raised by...
deregulation. The other two Executive Directors were interviewed with the aim not only of corroborating the Commercial Director's ideas but also as a means of broadening the scope of this research by exploring in greater detail areas which although of corporate concern were the particular responsibility of these Executives (eg. product strategy and fleet replacement). As far as the Depot General Managers are concerned two major criteria were used for the selection of the interviewees. Firstly, there was an underlying interest in selecting Depot General Manager's who were responsible to different Executive Directors. Secondly there was an interest in analysing types of operational and competitive responses to different environmental conditions (urban-minibuses versus large vehicles/small towns). The Depot General Managers selected were representatives of the aforementioned criteria.

It is also clear from the Appendices that the data required covers both corporate and operational topics. This does not mean however that Executive members were not asked about operational matters or that the Senior Managers (Depot General Managers) were not invited to express their ideas on corporate decisions. More importantly though is the fact that interviewing organization members from two levels of the hierarchy and of different expertise enriches one's appraisal of the organization's management of change.

The research method used for data collection is comprised of a detailed semi-structured interview guide, documentation (re: industry related publications on the case selected) and archival records (re: organizational records). A research plan (Appendix 1) was built as a reference for the research topics included in this case study and exhibits the main areas for data collection. The interview guide (Appendix 2) is however the most important source of the case's data. It was designed primarily as a guide for gathering general attitudes although specific stories were encouraged to develop in the course of the interviews to substantiate particular views held in relation to the topics covered in the interview. An identical list of questions was used for the interviews which allowed individual opinions to emerge on the same issues.

The interviews were held in a space of three months and were all tape recorded, permission for which was readily given. The interviews were of different durations - the longest one was held with the Commercial Director (two sessions of two hours each) and the shortest ones were with the Depot
General Managers (one session of an hour each). The sequence of the interviews was as follows:

1 Commercial Director  
2 Depot General Manager 1  
3 Depot General Manager 2  
4 Financial Director  
5 Depot General Manager 3  
6 Managing Director

This sequence provided a framework for studying managerial interrelationships and also for analysing the way in which strategic postulates established at the top of the structure were perceived at the lower levels of the organization. The interviewees showed no signs of having had prior knowledge of the questions asked and so there was spontaneity in their replies both on the issues under consideration and also when they were confronted with conflicting ideas expressed by others.

Finally, it should be pointed out that all the interviews were transcribed by the researcher himself - an exercise that was to play an important role during the analytical stage of this project. It contributed to a prompter identification and a clearer understanding of the relevancy and the implications of the data collected (re: theory and empirical evidence).

The questions that comprise the interview guide have been arranged in a way that reflects the logical sequence of steps in which this research's data was to be collected. The first group of subject areas (questions 1-5) considers the environmental dimension of this case by addressing the political, legal, socioeconomic and local competitive and complementary transport environments. From an organization's standpoint these external factors can function both as constraints and as sources of opportunities. The second group of questions (6-10) aims at identifying the main trends in the company's market strategies that have contributed to its current market positioning. The third set of questions (11-14) considers the attitudes of the company's management in relation to alternative corporate directions. Together, the last two groups of questions contributes to the identification and understanding of the company's strategies that were formed since the deregulation of the industry. The fourth category of questions deals with the changes in the organization's structure and associated variables in the production and selling of services, and the company's strategies with regard
to competition. The approach to organizational issues reflects to a great extent Johnson's (1987) views that *to consider the problems of managing strategy in organizations, and particularly the problems of managing strategic change ... we have to conceive of management not only in terms of the activities of individual managers but essentially as the activities of collectivities of managers and their interaction among themselves*. The changes in the production and selling of services assume, in the context of the 1985 Transport Act, critical importance. The questions that were designed thus concentrate on the effects of deregulation on the use of human and material resources and on the strategies of pricing and design of the products supplied. The latter two issues cannot, in turn, be disassociated from the role played by the presence of competitors in the market where the company operates. The subject of competition is further broadened with questions on the general competitive behaviour of the company.

In brief, the main aim of the data collection techniques used in this case study is to induce the generation of facts as well as of attitudes, in a systematic way, which could then be translated into a framework suitable for subsequent judgment and analysis.

The data pertaining to this case covers two main areas: corporate strategy and competitive behaviour.
PART III - The Case of Midland Fox Limited

Chapter 4: The structure of the market for local bus services

The aim of this part is to undertake an in-depth case study of one bus company - Midland Fox Ltd. The analysis begins by focusing on those aspects of the organization's external environment which are relevant to the company's operations emphasizing the structure of the market (the demographic characteristics of its area of operations - predominantly in the County of Leicestershire - are outlined in Appendix 3).

4.1 Main network characteristics of the bus companies based in Leicestershire

In June 1990, there were 23 bus companies with Headquarters in Leicestershire, actively running local bus services in the County. Of these, 21 were small independent companies. A sample of 8 of these operators indicates an average fleet of approximately 10 vehicles, 85% of which are coaches. By contrast, the combined fleet of the two major operators - Midland Fox Ltd (hereafter referred to as MF) and Leicester City Bus, (hereafter referred to as LCB) - totalled over 600 vehicles.

4.1.1 The small independent operators

Only four of the small independent companies are based in Greater Leicester. In June 1990, the total number of routes run by these companies was 59, giving an average number of routes per operator of just under 3. From the distribution of the 59 routes by days of operation, it is noticeable that nearly 40% of them are run on a weekly basis and that only 7% are operated hourly from Monday to Saturday (daytime). A second major characteristic of the services provided by these operators is the fact that 75% of the routes are run from or near the company's base. Thirdly, it is important to point out that only 31% of the routes are destined for Leicester. The remaining destinations are shared by towns and localities in Leicestershire (40%) and by towns and localities in the outer Counties (29%) which by no coincidence are situated near the centre of their operations.

It is reasonable to assume that some of the 59 routes that are currently operated by the small independents are run on a commercial basis and others as a result of the tendering process. Two major conclusions may be drawn in respect of this assumption. As far as the commercial sector of the market is concerned, it appears that the independent operators have decided to concentrate on local niches - their small size and the low frequency of the services provided suggest that their markets consist of
transporting local people from small localities into nearby towns in Leicestershire and/or into the outer Counties - on those days where major events take place (eg market days).

As for those services that are run on a tender basis, it could be argued that the small independents enjoy a cost advantage for providing services that are near their bases using surplus capacity that arises from other types of operation. This idea is reinforced by the fact that the only major operator running services between localities and major towns is MF and they only run 4 routes. In fact MF’s strategy appears to reside in exploiting services inside major towns on a very intensive basis.

As a final conclusion, it could be said that the small independents do not appear to constitute a major threat to the bigger incumbent companies. Their market position seems relatively safe, at least as long as the returns on their services do not become sufficiently attractive for the more resourceful incumbents.

4.1.2 The two big companies

There are two main bus companies based in Leicester that operate a major network of services - Midland Fox Limited and Leicester City Bus.

Table 4-1 shows the distribution of the routes operated by MF and LCB per areas of operation and the specific characteristics of the routes inside Greater Leicester. From the information provided, it is possible to conclude the following:

a Routes in major towns: the market is completely dominated by MF that operates intensive, mainly minibus services in the major towns of Leicestershire.

b Routes between towns and between towns and localities: although the number of routes in these categories is small, it is apparent that only MF operates these kinds of links. They can be seen as providing a complement, although in a limited scale, to the services that are run inside the towns themselves.

c Routes between towns and Leicester City Centre: MF operates routes between Leicester City Centre and all the major towns in Leicestershire on a regular basis. Additionally, MF operates services classified as
Table 4-1: NUMBER OF ROUTES BY AREA OF OPERATION

<table>
<thead>
<tr>
<th>TOWNS</th>
<th>LOCALITIES</th>
<th>LEICESTER RADIAL</th>
<th>LEICESTER CITY CENTRE ACROSS</th>
<th>OUTER TOWNS COUNTRIES CITIES</th>
<th>OUTER SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>MF LCB</td>
<td>MF LCB</td>
<td>MF LCB</td>
<td>MF LCB</td>
<td>MF LCB</td>
<td>MF LCB</td>
</tr>
<tr>
<td>TOWNS</td>
<td>3</td>
<td>4</td>
<td>11</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>LOCALITIES</td>
<td>1</td>
<td>10</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEICESTER</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>CITY CENTRE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GREATER</td>
<td>2</td>
<td>24</td>
<td>7</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>LEICESTER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4-2: ROUTE FREQUENCIES - LEICESTER CITY CENTRE/GREATER LEICESTER
(MONDAY - SATURDAY daytime service only)

<table>
<thead>
<tr>
<th>Route Frequency</th>
<th>FREQUENT</th>
<th>HOURLY</th>
<th>IRREGULAR</th>
<th>FREQUENT</th>
<th>HOURLY</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIDLAND FOX</td>
<td>14</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>LEICESTER CITY BUS</td>
<td>2</td>
<td>5</td>
<td>8</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Guide to Public Transport in Leicestershire - June 1990 (Leicestershire County Council)
express services to reflect shorter trip duration (they have a limited number of stops) which are by nature, targeted at a specific segment of the market. By contrast, LCB's links are limited to three major towns: Coalville, Hinckley and Uppingham.

d Routes in Greater Leicester: although the difference in the number of routes that both companies operate in this area is not as wide as the total of their operations, two major points clearly arise:

1 More than three-quarters of the routes run by LCB are in Greater Leicester. Of this total 65% of the routes are operated across the city centre.

2 By contrast, the number of routes operated by MF in this area only represent 25% of the company's total number of routes. However, 92% of these routes are radial.

Table 4-2 (see page 76) provides a general picture of the frequency of the routes that MF and LCB run to Greater Leicester from Monday to Saturday (daytime only). Four major points arise from this information

1 Nearly two-thirds of MF radial routes have been classified as frequent services (every 15 minutes or better during the main part of day)

2 Nearly 40% of Leicester City Bus across routes are run on an hourly service (at least)

3 MF's only two routes that run across the city centre are frequent services

4 Only two of the seven radial routes operated by LCB are run on a frequent basis.

Two major conclusions can be drawn in relation to the characteristics of the networks provided by the two major Leicestershire operators

a MF is predominately a County operator whereas LCB is a Greater Leicester operator

b There is a marked difference in the operations of the two bus companies in and around the city of Leicester: MF's operational strategy focuses on providing radial links between the city centre and more varied parts in Greater Leicester, whereas LB's services are mainly across the centre of the city. As a result, MF's network has a higher percentage of routes that are frequent - reflecting the idea that a radial network requires high frequency services to ensure, amongst other things, that the time required for transfer is kept to a minimum. Nevertheless, it appears that above all there is a
strong commitment on the part of MF to provide frequent services in the more densely populated areas of the County, irrespective of their characteristics.

4.2 Main network characteristics of the bus companies based outside Leicestershire

There are 16 bus companies operating in Leicestershire (or parts of Leicestershire) whose bases are situated in surrounding Counties. Of these, 11 operators are small bus companies and the other five are relatively big operators running major networks in their own Counties.

Their distribution by County and by number of routes in Leicestershire is as follows

<table>
<thead>
<tr>
<th>COUNTY</th>
<th>NO. OF SMALL COMPANIES</th>
<th>TOTAL NO. OF ROUTES</th>
<th>NAME OF LARGER COMPANIES</th>
<th>TOTAL NO. OF ROUTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nottinghamshire</td>
<td>5</td>
<td>9</td>
<td>Barton</td>
<td>17</td>
</tr>
<tr>
<td>Lincolnshire</td>
<td>1</td>
<td>1</td>
<td>Lincolnshire Red Car</td>
<td>6</td>
</tr>
<tr>
<td>Warwickshire</td>
<td>2</td>
<td>2</td>
<td>Midland Red North</td>
<td>4</td>
</tr>
<tr>
<td>Staffordshire</td>
<td>1</td>
<td>1</td>
<td>Stevensons of Uttoxeter</td>
<td>13</td>
</tr>
<tr>
<td>Northants</td>
<td>1</td>
<td>4</td>
<td>United Counties</td>
<td>9</td>
</tr>
<tr>
<td>Derbyshire</td>
<td></td>
<td></td>
<td>Trent Bus</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Guide to Public Transport in Leicestershire - June 1991 (Leicestershire County Council)

4.2.1 The small companies

From the characteristics of the routes provided by the small companies, a major conclusion arises: the pattern of the routes is similar to that identified for the Leicestershire based small independents except that the towns and localities that are linked are by enlarge situated across the borders between Leicestershire and the outer Counties and/or the localities served in Leicestershire are just mid-points of routes that link major towns or localities in the outer Counties themselves.

4.2.2 The big companies

Barton, amongst all those whose bases are situated outside Leicestershire, is the bus company that runs more and most frequent services into the County. Five of its 17 routes run from the city of Nottingham, near where the
company is based, into three major towns in Leicestershire - Loughborough in the North West, and Melton Mowbray and Oakham in the Eastern part of the County. In the latter, Barton operates local town services, mainly on an hourly basis. It is from these two towns that Barton operates three more routes into Leicester City. Barton's routes also include a link between the two major cities in both Counties - Leicester and Nottingham. It is apparent that Barton's operations involve longer distance routes complemented by one local town service.

From the remaining five bus companies in this category, Midland Red North runs three of its routes from Leicester into two major towns in Warwickshire (Nuneaton and Rugby) and one in conjunction with MF's route into a town in the South of Leicestershire (Lutterworth). Stevensons of Uttoxeter, on the other hand, concentrates its operations on the corridors between the company's home town and nearby towns, and major towns and localities nearest to the Leicestershire border with Staffordshire.

United Counties' operations follow a similar pattern to Stevensons's on the Eastern part of Leicestershire's border with Northamptonshire with most of its routes serving the town of Market Harborough.

Trent Buses only operates one route between Derby and a town just inside the new border with Leicestershire.

4.3 An overall view of the market
The underlying feature of Leicestershire's bus industry is that the market for public transport is dominated by two major companies - MF and LCB. MF's share of the market is, however, larger than that of LCB.

This chapter has provided a broad characterization of the local markets within which MF operates. It is now important to concentrate on the main features of the company Midland Fox.
CHAPTER 5: Midland Fox Limited - The Company

5.1 Brief history of the company

Midland Fox was part of the former state-owned group of bus companies - the National Bus Company (NBC) - until mid-August 1987.

Following the legislative changes in the bus industry, which required the sale of the individual companies that comprised the NBC to the private sector, MF was privatised by means of a management buyout. On the 19th of August 1987, the company started to trade under the leadership of its 'new' owners.

According to the company's first published accounts (31.12.87), the principal activity of the company is described as the provision of local bus services and coaches operations in Leicestershire. By 31.12.88, these activities were extended to include the recovery and repair of all classes of vehicles in Northamptonshire. By the same date, the three main shareholders who always held executive posts in the company increased their shareholding.

During 1988, the company extended its services to include major towns in Leicestershire (mainly in the North West of the County), and acquired two small independent operators - Fairtax Foxhound and Wreake Valley Travel.

1989 was a milestone in the history of MF. In the spring of 1989, MF became involved in a competitive battle with a local operator - G.K. Kinch - in the town of Loughborough. In May it acquired the Loughborough Coach and Bus Company. But in early summer 1989, the company became the subject of a takeover bid by a major holding group - Drawlane Transport Group - which controlled several other ex-NBC companies. By September, MF became, once again, a subsidiary of a major group of bus companies (this time a private group). Three of the original executive members of MF retained the balance of the shares in the company. The remainder of the shares, which were held by the two major shareholders of Stevensons of Uttoxeter were acquired by Drawlane Transport Group.

By December 1989, G.K. Kinch was absorbed into Drawlane, and it is relevant to note the remarks made on the occasion by Mr Kinch: ... Drawlane could call on backing that I was unable to match. Also important are the comments made by one of the main shareholders of MF about the takeover by Drawlane of MF: ... although the company had been pleased with its progress since privatisation, larger groupings seemed to be beneficial in the longer term.
The important aspect is nonetheless that MF belongs to a holding company that claims to be the largest group in the bus industry with 1600 vehicles and a staff of 4000 and a turnover in excess of £70m.

5.2 The organisation structure
Prior to the analysis of MF's organisation structure, it is important to illustrate the changes that have occurred at the executive level of the company since its privatisation. Figure 5-1 has been prepared to this end and shows that two executives have remained in the organisation since privatisation, and that the executive posts have been occupied by the same directors since the end of 1988. Apart from the resignations and new appointments in late 1989 - which were the result of the acquisition by Drawlane of the shares held by Stevensons of Uttoxeter's main shareholders - there is an underlying stability and continuity concerning the main Directorships of the company. In June 1990 there were three Executive Directors at MF and the Board of the company included three additional members who are main shareholders of Drawlane Transport Group.

The structure of MF's Headquarters organisation (Figure 5-2) can be characterised as follows: At the executive level there is the usual division: Operational-Commercial; Engineering; and Administrative. However, there is a very noticeable departure from the typical organisation structures that have characterised most bus companies in the past. In fact, it is apparent that:

1. Each executive retains control over his own main specialised area with the support of additional experts - Managing Director with Fleet Engineer; Commercial Director with Commercial Manager; Company Secretary with Financial and Computer Managers.

2. Each executive is now responsible for the supervision of a number of depots which involves them in tasks that lie beyond their specialised expertise.
Figure 5-2
Family Tree - Headquarters

EXECUTIVE DIRECTOR

COMMERCIAL DIRECTOR

MANAGING DIRECTOR
  - SECRETARY
  - RECEPTION

COMPANY SECRETARY

DEPOT (a) GENERAL MANAGERS
  - COMMERCIAL MANAGER
  - SOUTHGATES
    - PUBLICITY DEPT (4)
    - PLANNING OFFICER
  - WIGSTON
  - COALVILLE — LOUGHBOROUGH

DEPOT (b) GENERAL MANAGERS
  - MARKET HARBOROUGH
    - FLEET ENGINEER
    - SHELTON OSBORN
    - DEPOT ENGINEER (9)
    - FAIRTAX
    - TELLINGS
    - GRS
  - FLEET ENGINEER
  - ADMINISTERING MANAGER

DEPOT (c) GENERAL MANAGERS
  - PAYROLL SUPERVISOR
  - WREAKE VALLEY
  - PAYROLL CLERKS (3)
  - COMPUTER STAFF (4)

ACCOUNTS ASSISTANT
  - PURCHASE LEDGER CONTROLLER
  - CREDIT CONTROLLER
  - INSURANCE ADMIN
It is in fact this latter aspect in the organisation structure of MF that marks a significant shift in the way in which the work at the depots is regarded. Most of all it constitutes a recognition of the importance of the depots where, after all, the company's products are produced and sold. It should also be pointed out that although the Managing Director and the Company Secretary are new to the industry, this kind of organisational structure provides a direct link between these two executives and the management of all the depot activities.

It appears also that each executive has been allocated to depots with very specific characteristics (Table 5-1 has been drawn to illustrate this point). The Commercial Executive Director together with his Planning/Commercial Headquarters staff supervises the biggest depots where only 13% of the 212 vehicles are mini or maxi buses. However, the number of vehicles that comprise these depots account for 50% of the total fleet. The Managing Director, together with his senior Engineering staff supervises the smallest depots - total vehicles represent 17% of the fleet - but whose vehicles have the highest average age in relation to those allocated to the other two Executive Directors. The operational supervision by MF's Managing Director is extended to comprise the overall engineering work on all the depots and he is further responsible for the company's second major activity - repair and recovery of all types of vehicles in Northamptonshire. It is also important to note that the depots under the supervision of the Managing Director comprise almost two-thirds of all the coaches in the fleet if the National Express coaches are excluded from the total. This indicates that the activities of the depots under the Managing Director are mainly tours and excursions.

Finally, the General Manager of the depots which consist exclusively of mini or maxi buses, reports to the Company Secretary.

Two major conclusions can be drawn from this distribution of depots and functions amongst the Executives of the company

a The Managing Director's specific task in the organisation is concentrated on an area of the business which is becoming immensely sensitive to all bus companies at present: the reliability of an ageing fleet.
### Table 5-1: DEPOT/VEHICLE DISTRIBUTION (No./ Average Age) PER EXECUTIVE MEMBER OF MF - AT 12.07.90

<table>
<thead>
<tr>
<th>Commercial Director (CD)</th>
<th>No.</th>
<th>DD no.</th>
<th>Average no.</th>
<th>SD + DP no.</th>
<th>Average no.</th>
<th>C + DP no.</th>
<th>Average no.</th>
<th>Mini no.</th>
<th>Average no.</th>
<th>Maxi no.</th>
<th>Average no.</th>
<th>Total no.</th>
<th>Average Age</th>
<th>% Total no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOUTHGATES</td>
<td>73</td>
<td>921</td>
<td>12yr7m</td>
<td>1</td>
<td>7</td>
<td>12</td>
<td>82</td>
<td>6yr10m</td>
<td>12</td>
<td>5</td>
<td>8</td>
<td>212</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>WIGSTON</td>
<td>57</td>
<td>682</td>
<td>11yr11m</td>
<td>4</td>
<td>44</td>
<td>4</td>
<td>30</td>
<td>7yr6m</td>
<td>1</td>
<td>8</td>
<td>7</td>
<td>120</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>COALVILLE</td>
<td>5</td>
<td>39</td>
<td>7yr10m</td>
<td>8</td>
<td>102</td>
<td>3</td>
<td>29</td>
<td>9yr8m</td>
<td>13</td>
<td>6</td>
<td>5</td>
<td>11</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>LOUGHBOROUGH</td>
<td>17</td>
<td>214</td>
<td>12yr7m</td>
<td>8</td>
<td>40</td>
<td>2</td>
<td>4</td>
<td>2yrs</td>
<td>7</td>
<td>5</td>
<td>1</td>
<td>12</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL (CD)</strong></td>
<td>135</td>
<td>1642</td>
<td>12yr2m</td>
<td>30</td>
<td>367</td>
<td>19</td>
<td>141</td>
<td>7yr5m</td>
<td>21</td>
<td>105</td>
<td>5</td>
<td>12</td>
<td>1yr9m</td>
<td>212</td>
</tr>
<tr>
<td>Managing Director (MD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MARKET HARBOROUGH</td>
<td>2</td>
<td>28</td>
<td>14yrs</td>
<td>6</td>
<td>57</td>
<td>10</td>
<td>82</td>
<td>8yr2m</td>
<td>7</td>
<td>35</td>
<td>5yr</td>
<td>11</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>SHELTON OSBORN</td>
<td>1</td>
<td>13</td>
<td>13yrs</td>
<td>7</td>
<td>96</td>
<td>10</td>
<td>171</td>
<td>6yr2m</td>
<td>7</td>
<td>35</td>
<td>5yr</td>
<td>11</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>FAIRTAX</td>
<td>1</td>
<td>13</td>
<td>13yrs</td>
<td>11</td>
<td>135</td>
<td>9</td>
<td>52</td>
<td>5yr9m</td>
<td>6</td>
<td>30</td>
<td>5yr</td>
<td>11</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL (MD)</strong></td>
<td>4</td>
<td>54</td>
<td>13yr6m</td>
<td>24</td>
<td>288</td>
<td>29</td>
<td>305</td>
<td>10yr6m</td>
<td>13</td>
<td>65</td>
<td>5yr</td>
<td>11</td>
<td>6yr4m</td>
<td>73</td>
</tr>
<tr>
<td>Finance Director (FD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SANDACRE</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>61</td>
</tr>
<tr>
<td>HINCKLEY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18</td>
</tr>
<tr>
<td><strong>TOTAL (FD)</strong></td>
<td>3</td>
<td>48</td>
<td>16yrs</td>
<td>9</td>
<td>109</td>
<td>4</td>
<td>44</td>
<td>11yrs</td>
<td>79</td>
<td>395</td>
<td>5yr</td>
<td>38</td>
<td>1yr10m</td>
<td>133</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>142</td>
<td>12yrs3m</td>
<td>63</td>
<td>12yrs2m</td>
<td>52</td>
<td>9yrs5m</td>
<td>113</td>
<td>5yr</td>
<td>48</td>
<td>2yrs1m</td>
<td>418</td>
<td>8yrs9m</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Abbreviations:  
DD - double decker buses, SD - single decker buses, DP - dual purpose buses  
Yrs - years, m - month
The fact that the running of the depots has been split between the executives inevitably leaves room for different (and competing?) managerial approaches to their operations - if only because of their different fleet compositions. Moreover, this difference in the characteristics of the depots raises the issue of comparability of performances between the business units, which will ultimately have repercussions in the allocation of the company's overall resources.

The main organisational feature of the structure of the individual depots (Figure 5-3) is the allocation of the overall responsibility of their activities - planning/operational/engineering - to a single member of the company, the Depot General Manager. This fact can be interpreted as an indication of both decentralisation and accountability of the business units to the organisation's main centre of decision making.

5.3 The network
The main characteristics of MF's network (previously identified in this case study), can be summarised as follows

a MF operates major radial networks in Greater Leicester and in the most important towns in the County, which are run at high frequencies.

b MF operates longer distance routes, on a less frequent basis, linking a) some of the major towns in the County b) some of these towns with the centre of Leicester and c) some of these towns with others in outer Counties.

The remaining part of this section provides a more detailed analysis of the local bus services provided by MF. This analysis comprises the following major areas:

5.3.1 The commercial and the tendered services of MF's network
Table 5-2 is a summary of the number of journeys (one way only) operated by the company during Monday to Friday (M-F), Saturday (Sat) and Sunday (Sun). They have been split between the journeys that are operated in Greater Leicester and those operated on the rest of the network, as well as grouped into two major categories - those that are run on a commercial basis and those that are run under contract to Leicestershire County Council (tendered services).
Figure 5-3
Family Tree - Depot

GENERAL MANAGER

GARAGE MANAGER (operational)

PLANNING (a) OFFICER

ENGINEER

INSPECTOR

CLERKS
FITTERS

CLERKS
CLEANERS

(a) Only in larger depots
### Table 5-2: NUMBER OF JOURNEYS - MF'S NETWORK

<table>
<thead>
<tr>
<th></th>
<th>MONDAYS - FRIDAYS</th>
<th>SATURDAYS</th>
<th>SUNDAYS</th>
<th>TOTAL</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NO.</td>
<td>%</td>
<td>NO.</td>
<td>%</td>
<td>NO.</td>
</tr>
<tr>
<td>COMMERCIAL</td>
<td>1620</td>
<td>91.4%</td>
<td>1435</td>
<td>91.8%</td>
<td>85</td>
</tr>
<tr>
<td>ALL AREAS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TENDERED</td>
<td>152</td>
<td>8.6%</td>
<td>129</td>
<td>8.2%</td>
<td>140</td>
</tr>
<tr>
<td>COMMERCIAL</td>
<td>1329</td>
<td>98.2%</td>
<td>1188</td>
<td>99.2%</td>
<td>289</td>
</tr>
<tr>
<td>LEICESTER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TENDERED</td>
<td>25</td>
<td>1.8%</td>
<td>9</td>
<td>0.8%</td>
<td>117</td>
</tr>
<tr>
<td>COMMERCIAL</td>
<td>2949</td>
<td>94.3%</td>
<td>2623</td>
<td>95.0%</td>
<td>374</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TENDERED</td>
<td>177</td>
<td>5.7%</td>
<td>138</td>
<td>5.0%</td>
<td>257</td>
</tr>
</tbody>
</table>

### Table 5-3: VARIATIONS IN THE NUMBER OF COMMERCIAL JOURNEYS

<table>
<thead>
<tr>
<th></th>
<th>MON - FRI</th>
<th>SAT</th>
<th>SUN</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL AREAS except</td>
<td>1620</td>
<td>1435</td>
<td>85</td>
</tr>
<tr>
<td>Greater Leicester</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% change from Mon-Fri</td>
<td>-11.4%</td>
<td>-94.7%</td>
<td></td>
</tr>
<tr>
<td>GREATER LEICESTER</td>
<td>1329</td>
<td>1188</td>
<td>289</td>
</tr>
<tr>
<td>% change from Mon-Fri</td>
<td>-10.6%</td>
<td>-78.3%</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>2949</td>
<td>2623</td>
<td>374</td>
</tr>
<tr>
<td>% change from Mon-Fri</td>
<td>-11.0%</td>
<td>-87.3%</td>
<td></td>
</tr>
</tbody>
</table>
Two major facts emerge from this information

a The number of journeys operated under tender represent about 9% of the total number of journeys that comprise the company's network.

b The percentage of tendered journeys is much higher in the areas of the network outside Greater Leicester (on Sundays the number of tendered services actually outweighs the commercial ones).

These findings can be interpreted as follows

1 The commercial part of the company's network - over 90% of all journeys - is larger than could be expected. There have been suggestions that the national average could be between 70% to 80%.

2 From the analysis of the main network characteristics operated by other bus companies in Leicestershire, it is clear that MF faces the fiercest competition in Greater Leicester. It is in this area that MF runs the lowest number of tendered journeys. This fact accords with the empirical evidence from other areas in England in that the percentage of commercial services tends to be higher when the level of competition is higher.

5.3.2 The period of operation of MF's network
A sample of routes with 20 or more journeys operated between Monday to Friday was considered for the Greater Leicester area and for the rest of the network. In Greater Leicester, the sample numbered 20 routes and in the rest of the network 30. These routes accounted for 84% and 76% of the total number of journeys run in these two areas respectively. The information that was gathered from this sample related to the times of the first and of the last journeys.

The data collected reveals that

a In both areas more than 90% of the first journeys started between 5am and 8am.

b In Greater Leicester, 45% of the routes run their last journeys between 17.00hrs and 18.30hrs, whereas in the remaining areas more than three-quarters terminate their last services between 17.00hrs and 18.45hrs.
In the total of the sample considered, only a third of all of the routes run services after 18.45hrs.

If the number of tendered journeys that are run in the evening is taken into account - they represent only 20% of the total - this sample suggests that the amount of the services provided by the company in the evenings is very limited. This characteristic has also been identified in the networks of other major operators since the deregulation of the bus industry.

5.3.3 Changes in weekly service provision
Table 5-3 (see page 88) shows the variation in the number of commercial journeys between Mondays and Fridays and Saturdays, and between Monday to Friday and Sundays.

The main trends are

a There is a relatively low reduction, throughout the network, in the number of commercial journeys between Monday-Friday and Saturday.
b There is a significant reduction in the level of Sunday services (78% in Greater Leicester and 95% in the rest of the network)

These findings appear to confirm the general trends that have been identified in the industry as a whole, since deregulation: Saturday services remain commercially attractive whereas Sunday services are mostly loss-making services.

5.3.4 Characteristics of tendered services operated by MF
Table 5-4 provides a detailed analysis of MF’s tendered services. Two major trends emerge from the information contained in this table

a The number of tendered journeys run on Sunday account for 45% of the total (Table 5-4a).
b The highest percentage of the tendered journeys occur during the pm period ie. between 12.00 and 20.00 hours (Table 5-4b).
Table 5-4: VARIATIONS IN THE NUMBER OF TENDERED JOURNEYS

a) BY DAY OF WEEK:

<table>
<thead>
<tr>
<th></th>
<th>MON-FRI</th>
<th>TOTAL</th>
<th>SATURDAY</th>
<th>TOTAL</th>
<th>SUNDAY</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A.M.</td>
<td>P.M.</td>
<td>EVEN.</td>
<td>A.M.</td>
<td>P.M.</td>
<td>EVEN.</td>
</tr>
<tr>
<td>No. of Journeys</td>
<td>64</td>
<td>77</td>
<td>36</td>
<td>177</td>
<td>52</td>
<td>57</td>
</tr>
<tr>
<td>% Total</td>
<td>36.2%</td>
<td>43.5%</td>
<td>20.3%</td>
<td>30.9%</td>
<td>37.7%</td>
<td>41.3%</td>
</tr>
</tbody>
</table>

b) BY TIME OF DAY:

<table>
<thead>
<tr>
<th>PERIOD OF DAY</th>
<th>TOTAL NO. OF JOURNEYS</th>
<th>% TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.M.</td>
<td>154</td>
<td>26.9%</td>
</tr>
<tr>
<td>P.M.</td>
<td>293</td>
<td>51.2%</td>
</tr>
<tr>
<td>EVEN.</td>
<td>125</td>
<td>21.9%</td>
</tr>
</tbody>
</table>

572
The important aspect of these findings is the predominance of tendered services during the pm. periods on all days of the week. This can be attributed to the fact that this period of the day coincides with the existence of high levels of unused capacity which encourages bus companies to submit tenders at prices that both reflect and cover the lower operating costs associated with this period of their operations.

5.4 The Fleet
The study of MF's fleet is made up of the following major areas

5.4.1 Fleet Composition by type of vehicles

Table 5-5 shows the distribution of MF's fleet by type of vehicles, at the date of privatisation and at the beginning of 1980. The existence of a large number of mini and maxi buses is a feature which dates back to the period prior to privatisation. The fact that a great majority of this type of bus was first registered in 1985 - a date that marks the beginning of the deregulation of the bus industry - confirms the fact that some companies were resorting to this type of vehicle in preparation for privatisation and for facing a deregulated market.

Table 5-5 also reveals that in the 2½ years since privatisation, the company acquired 50 new vehicles, 90% of which were mini-maxi buses. At the same time, the bigger capacity vehicles that have been acquired, either for replacing others that have been disposed of, or for increasing the size of the fleet, are by and large 2nd-hand buses.

Finally, it should be noted that the type of vehicle that has increased most since privatisation is the double decker bus. There are two reasons for this. Firstly, there was the more pressing need to start replacing very old vehicles - which until recently meant mostly double decker buses. Secondly, there are favourable opportunities in the 2nd-hand market for double decker buses - for example, they are more readily available, and above all under financially attractive conditions. What remains to be seen is the way in which the company intends to replace its already ageing mini-maxi fleet of buses, given that it will possibly be too late to wait until the 2nd-hand market for these vehicles develops.
Table 5.5: FLEET COMPOSITION BY TYPE OF VEHICLE - June 1990

<table>
<thead>
<tr>
<th>BUS TYPE</th>
<th>AT PRIVATISATION (1987)</th>
<th>NEW VEHICLES (BOUGHT)</th>
<th>NET RESULT OF 2nd HAND BUSES ACQUIRED &amp; DISPOSALS</th>
<th>AT JUNE 1990 (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minl + Maxis</td>
<td>121</td>
<td>45</td>
<td>n.a.</td>
<td>161</td>
</tr>
<tr>
<td>SD + Coaches</td>
<td>86</td>
<td>0</td>
<td>n.a.</td>
<td>108</td>
</tr>
<tr>
<td>DD</td>
<td>90</td>
<td>5</td>
<td>n.a.</td>
<td>142</td>
</tr>
<tr>
<td>National Express</td>
<td>7</td>
<td></td>
<td></td>
<td>7</td>
</tr>
</tbody>
</table>

TOTAL: 311 50 57 418

(a) A further 8 2nd-hand DD were acquired in June 1990 but had not been allocated to the depots

Table 5.6: FLEET MAKE BY TYPE OF VEHICLE - June 1990

<table>
<thead>
<tr>
<th>LEYLAND</th>
<th>FORD</th>
<th>DAIMLER</th>
<th>IVECO</th>
<th>FLEETLINE</th>
<th>BRISTOL</th>
<th>DAF</th>
<th>BEDFORD</th>
<th>MCW</th>
<th>MERCEDES</th>
<th>OLYMPIA</th>
<th>VOLVO</th>
<th>VOLKSWAGEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>DD</td>
<td>32</td>
<td>71</td>
<td>17</td>
<td>14</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SD + DP</td>
<td>60</td>
<td>2</td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coach + DP</td>
<td>33</td>
<td>1</td>
<td></td>
<td>11</td>
<td>5</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mini</td>
<td>113</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maxi</td>
<td>1</td>
<td>44</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TOTAL: 125 115 71 44 17 16 11 6 4 3 3 2 1

% 30% 28% 17% 10% 4% 4% 3% 1% 1% 1% 1%

Abbreviations: DD - double decker buses, SD - single decker buses, DP - dual purpose buses
5.4.2 Fleet composition - vehicle make

Any bus company's degree of standardisation in vehicle make has important implications in at least three major areas of the business:

1. the variety in the stock of parts and accessories that the company is required to hold
2. the standardisation of maintenance practices and the need to employ engineering staff with different skills
3. the resources that are needed for training drivers to handle the specific characteristics of the different makes of vehicle.

Tables 5-6 (page 95) and 5-7 (overleaf) have been prepared to analyse the case of MF's fleet. Table 5-6 shows the distribution by make of vehicle at September 1990. Although the fleet comprised of 13 makes, it is clear that

a. Almost three-quarters of the double decker buses are Leyland (50%) or Daimler (23%).

b. 95% of all single decker/dual purpose are Leyland.

c. Almost two-thirds of the fleet of coaches are also Leyland.

d. 92% of the mini and maxi buses are Ford and Iveco respectively.

Table 5-7 depicts the distribution of the vehicles that comprise each of MF's depots according to their make. Although 50% of the depots have more than four different makes of vehicle involved in their operations, there is an underlying feature in the overwhelming majority of the depots: in 9 of the 10 depots, two different makes account for three-quarters or more of their individual fleet.

Tables 5-6 and 5-7 thus suggest that there exists a considerable standardisation in both the makes of the vehicles that comprise MF's fleet and in their distribution amongst the depots.

5.4.3 Distribution of the fleet per depot

Figure 5-4 shows the distribution of the fleet according to its seating capacity by the 10 operating units. There is a clear indication that the bigger sized buses (with a capacity greater than 45 seats) are concentrated in two major depots - Southgates and Wigston; together they account for three-quarters of the total number of these kinds of buses. A further two depots - Hinckley and Sandacre - have exclusively mini and maxi buses.
Table 5.7: FLEET MAKE BY DEPOT - AT June 1990

<table>
<thead>
<tr>
<th>Make</th>
<th>Coalville</th>
<th>Fairtax</th>
<th>Loughborough</th>
<th>Market</th>
<th>Shelton</th>
<th>Osborne</th>
<th>Southgate</th>
<th>Wigston</th>
<th>Wreke</th>
<th>Valley</th>
<th>Hinckley</th>
<th>Sandacre</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no</td>
<td>%</td>
<td>no</td>
<td>%</td>
<td>no</td>
<td>%</td>
<td>no</td>
<td>%</td>
<td>no</td>
<td>%</td>
<td>no</td>
<td>%</td>
</tr>
<tr>
<td>BRISTOL</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>16</td>
<td>10</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEYLAND</td>
<td>14</td>
<td>41</td>
<td>16</td>
<td>54</td>
<td>17</td>
<td>63</td>
<td>10</td>
<td>56</td>
<td>27</td>
<td>31</td>
<td>22</td>
<td>34</td>
</tr>
<tr>
<td>VOLVO</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td>1</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DAIMLER</td>
<td>43</td>
<td>50</td>
<td>25</td>
<td>39</td>
<td>3</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MCW</td>
<td>4</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>BEDFORD</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td>3</td>
<td>12</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>FORD</td>
<td>13</td>
<td>38</td>
<td>7</td>
<td>25</td>
<td>8</td>
<td>30</td>
<td>8</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IVECO</td>
<td>3</td>
<td>9</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>MERCEDES</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DAF</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td>3</td>
<td>12</td>
<td>7</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>OLYMPIA</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>VOLKSWAGEN</td>
<td>1</td>
<td>3</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FLEETLINE</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

No. of different makes

<table>
<thead>
<tr>
<th></th>
<th>Coalville</th>
<th>Fairtax</th>
<th>Loughborough</th>
<th>Market</th>
<th>Shelton</th>
<th>Osborne</th>
<th>Southgate</th>
<th>Wigston</th>
<th>Wreke</th>
<th>Valley</th>
<th>Hinckley</th>
<th>Sandacre</th>
</tr>
</thead>
<tbody>
<tr>
<td>no</td>
<td>6</td>
<td>9</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td></td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Weight of the two dominant makes

<table>
<thead>
<tr>
<th></th>
<th>Coalville</th>
<th>Fairtax</th>
<th>Loughborough</th>
<th>Market</th>
<th>Shelton</th>
<th>Osborne</th>
<th>Southgate</th>
<th>Wigston</th>
<th>Wreke</th>
<th>Valley</th>
<th>Hinckley</th>
<th>Sandacre</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>79%</td>
<td>79%</td>
<td>93%</td>
<td>60%</td>
<td>94%</td>
<td></td>
<td>81%</td>
<td>73%</td>
<td>94%</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>
Figure 5-4
Types of Vehicles Per Depot - At 12.07.90

Abbreviations:

1. SD (single decker buses); C (coaches); DD (double decker buses)
   M + M (mini and maxi buses)

2. WV (Wreake Valley); SH (Shelton Osborne); HK (Hinckley);
   MH (Market Harborough); LB (Loughborough); FX (Fairtax);
   CV (Coalville); WS (Wigston); SS (Southgates); SA (Sandacre)
The reasoning behind this kind of distribution appears to be mainly market determined, but it is a feature that reflects a significant degree of specialisation in operational terms.

5.4.4 The age of the fleet
In July 1990, the average age of MF's fleet was 8 years and 9 months. However, when the lives of different types of vehicles are considered separately, the following reality emerges

Table 5-8:
The useful life of the fleet by type of bus

<table>
<thead>
<tr>
<th>TYPE OF BUS</th>
<th>% of the useful life that has elapsed (at June 1990)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Double Deck</td>
<td>77%</td>
</tr>
<tr>
<td>Single Deck &amp; Dual Purpose</td>
<td>76%</td>
</tr>
<tr>
<td>Coaches &amp; Dual Purpose</td>
<td>94%</td>
</tr>
<tr>
<td>Mini Buses</td>
<td>83%</td>
</tr>
<tr>
<td>Maxi Buses</td>
<td>28%</td>
</tr>
</tbody>
</table>

The scale of the replacement programme that is required as a result of these findings is illustrated in Table 5-9. This table shows the dates at which the useful lives of the vehicles held at June 1990 (except the 8 double decker buses not yet allocated to depots), by seating capacity, are expected to terminate according to the company's depreciation policy. It can be seen for example that in five years time (1995), 83% of all the vehicles will have attained the limit of their useful lives. By the year 2000 (10 years time) this figure will reach 98%. It is also clear that the timing on which vehicles were acquired in the past can bring increased difficulties for the company. For example, in the space of three years (1991-93) more than half of the fleet will theoretically need to be replaced.
Table 5-9: EXPIRY DATES OF VEHICLES’ USEFUL LIFE

<table>
<thead>
<tr>
<th>SEATING CAPACITY</th>
<th>1985</th>
<th>86</th>
<th>87</th>
<th>88</th>
<th>89</th>
<th>90</th>
<th>91</th>
<th>92</th>
<th>93</th>
<th>94</th>
<th>95</th>
<th>96</th>
<th>97</th>
<th>98</th>
<th>99</th>
<th>2000</th>
<th>01</th>
<th>02</th>
<th>03</th>
<th>04</th>
<th>05</th>
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</thead>
<tbody>
<tr>
<td>&lt; 29 Seats&lt;sup&gt;(a)&lt;/sup&gt;</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>112</td>
<td>2</td>
<td>1</td>
<td>36</td>
<td>8</td>
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<tr>
<td>&lt; 57 Seats&lt;sup&gt;(b)&lt;/sup&gt;</td>
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<td>11</td>
<td>21</td>
<td>21</td>
<td>6</td>
<td>10</td>
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<tr>
<td>&gt; 70 Seats&lt;sup&gt;(c)&lt;/sup&gt;</td>
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<td></td>
<td>8</td>
<td>17</td>
<td>32</td>
<td>17</td>
<td>8</td>
<td>21</td>
<td>5</td>
<td>6</td>
<td>17</td>
<td>4</td>
<td>2</td>
<td>5</td>
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<tr>
<td>NATIONAL EXPRESS&lt;sup&gt;(d)&lt;/sup&gt;</td>
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</tbody>
</table>

Notes:
(a) The difference between those with up to 16 seats (life 6 yrs) and those with a capacity of up to 29 seats (life 7 years) has been made in the calculations.
(b) The difference between coaches (life 10 yrs) and all the other vehicles with a capacity of up to 57 seats (life 16 years) has been made in the calculations.
(c) Length of useful life 16 yrs
(d) Length of useful life 10 yrs (same as coaches)
The major conclusion is, therefore, that MF's fleet is rapidly ageing. This fact has important implications for both revenue generating activities (e.g. reliability of service) and for a major cost absorbing activity - engineering related work (e.g. capital tied up in stocks of parts and materials). The effects of operating with an ageing fleet are already evident in some depots, where high levels of spare capacity can be found - for example, in the second biggest depot, the percentage of spare vehicles in relation to the depots Peak Vehicle Requirement is 23%.

5.5 Human resources

5.5.1 MF's work force

Table 5-10 shows the distribution of the total staff employed by MF per depot and at Headquarters by job category. The different job categories have in turn been grouped into two main areas: Production (Traffic and Engineering) and Administration. This Table also shows the number of staff that is employed by the company's other complementary activity - recovering and repair of all types of vehicles, and by two additional centres which are exclusively engaged in coaching operations. Although this analysis will focus on the data relating to the 10 operating units and to Headquarters, the following conclusions can be drawn from the overall totals

- The company employed a total of 986 people, of which 4.5% were based at Headquarters.

- Almost 70% of all employees are drivers, 13% are engineering staff and 15% are administrative staff. Two depots account for 45% of all drivers and one single depot comprises nearly 40% of all the engineering staff.

- The number of supervisory staff and inspectors is considerably low, about 1.5% of the work force for each.

Table 5-11 illustrates the relationship between the staff employed in the 10 depots and the number of vehicles allocated to each of the operating centres. Table 5-11a shows that on average the number of minibus drivers per minibus is higher than the corresponding ratio for bigger buses (1.71:1 drivers compared with 1.27:1). One reason for this finding is the fact that a minibus service usually requires more continuous periods of operation. Table 5-11b shows the number of vehicles per engineering staff. The results
Table 5-10: MF'S STAFF - AS AT AUGUST 1990

| Canton | Sup | Inspire | SIG | Drivemini | Coach | Traffic | Total | Engs | Firms | Filter | Elect | Body | Shop | Apres | SIG | BILD | TOTAL | CANTON | ADMIN | CLERICAL | Clerical | Staff | Travel | Cash | Office | Coach | Unit | ASTA | PUBL | DIR | SCHOOL | Canticle | ADMIN | TOTAL | STAFF |
|--------|-----|--------|-----|----------|--------|---------|-------|------|-------|--------|-------|------|------|-------|------|-----|-------|-------|-------|-------|-------|-------|------|-------|-------|-------|-------|-------|-------|-------|
| CV     | 2   | 19     | 40  | 59       | 1      | 4       | 2     | 1    | 1     | 1      | 4     | 12   | 1    | 3    | 1     | 2    | 7   | 80    |
| FX     | 1   | 11     | 10  | 13       | 34     | 2       | 1     | 1    | 4     | 1      | 3    | 2    | 3    |      |       | 9    | 48    |
| HK     | 1   | 31     |     | 32       |        | 1       |       |      | 1     |        |       |      |      |      |       | 1    | 33    |
| LB     | 2   | 11     | 21  | 32       | 29     | 2       | 1     |      | 4     | 1      |      |      |      |       | 1    | 39    |
| MH     | 1   | 12     | 6   | 11       |        | 2       | 1     |      | 3     | 3      | 1     |      |      |      |       | 4    | 37    |
| SA     | 7   | 167    |     | 174      | 1      | 3       | 1     | 9    | 14    | 2      | 8    | 5    | 15   | 203   |      | 103   |
| SH     | 7   | 14     |     | 21       | 1      | 1       | 1     | 4    | 2     | 6      | 1     | 1    | 10   | 35    |      | 174   |
| SS     | 5   | 110    | 20  | 135      | 3      | 2       | 3     | 1    | 2     | 2      | 3    | 1    | 6    | 199   |      | 199   |
| WS     | 2   | 86     |     | 87       | 6      | 1       | 4     | 5    | 10    | 2      | 5    | 1    | 1    | 3     |      | 13    |
| WV     | 1   | 12     |     | 12       |        | 1       | 1     |      | 2     |        |      |      |      |      |       | 1    | 16    |
| HQ     | 1   |        |     |          |        |         |       |      | 29    | 2      | 5    | 3    | 4    | 44    |      | 44    |
| TOTAL  | 11  | 13     | 268 | 275      | 59     | 10      | 3     | 18   | 27    | 5      | 4    | 1    | 39   | 12    |      | 120   |
| BLANDS | 1   |        | 17  | 18       | 1      | 1       |       |      |       |       | 2    | 4    |      |       | 6    | 25    |
| COACH  |     |        |     |          | -      | -       |       |      |       |       | -    | -    |      |       | 3    | 3     |
| UNITS  |     |        |     |          | -      | -       |       |      |       |       | -    | -    |      |       | 3    | 3     |
| GEORGE | 1   | 4      | 3   | 7        | 1      | 2       | 1     |      | 1     | 5      | 1    | 1    | 5    | 19    |      | 6     |
| RECOV  |     |        |     |          | -      | -       |       |      |       |       | 1    | 10   |      |       | 11   | 11    |
| TRAVEL |     |        |     |          | -      | -       |       |      |       |       | -    | -    |      |       |      | 3     |
| OFFICE |     |        |     |          | -      | -       |       |      |       |       | -    | -    |      |       |      | 3     |
| NWP    | 1   | 2      | 2   | 53       | 53     | 1       | 2     | 3    | 1     | 1      | 2    |      |      | 4     |      | 82    |
| TELLINGS | 2   |        |     |          | 53     | 53      | 1     | 2    | 3     | 1      | 1    | 2    |      | 4     |      | 82    |

Abbreviations: CV (Coalville); FX (Fairfax); HK (Hinckley); LB (Loughborough); MH (Market Harborough); SA (Sandacre); SH (Shelton Osborne); SS (Southgate); WS (Wigston); WV (Wreake Valley); HQ (Headquarters)
**Table 5-11: RATIOS STAFF/VEHICLES - THE CASE OF THE 10 DEPOTS**

**Table 5-11 (a): TRAFFIC**

<table>
<thead>
<tr>
<th>DEPOT</th>
<th>BIG BUSES (no.)</th>
<th>DRIVERS (no.)</th>
<th>DRIVERS per BUS (1)</th>
<th>MINI/MAXI BUS (no.)</th>
<th>DRIVERS (no.)</th>
<th>DRIVERS per BUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coalville</td>
<td>16</td>
<td>19</td>
<td>1.19</td>
<td>18</td>
<td>40</td>
<td>2.22</td>
</tr>
<tr>
<td>Fairfax</td>
<td>21</td>
<td>24</td>
<td>1.14</td>
<td>9</td>
<td>10</td>
<td>1.11</td>
</tr>
<tr>
<td>Hinckley</td>
<td></td>
<td>19</td>
<td>1.63</td>
<td>31</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loughboro</td>
<td>17</td>
<td>11</td>
<td>0.65</td>
<td>10</td>
<td>21</td>
<td>2.1</td>
</tr>
<tr>
<td>Market Harboro</td>
<td>18</td>
<td>23</td>
<td>1.28</td>
<td>7</td>
<td>6</td>
<td>0.86</td>
</tr>
<tr>
<td>Sandacre</td>
<td></td>
<td>98</td>
<td>1.70</td>
<td>167</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shelton</td>
<td>18</td>
<td>21</td>
<td>1.17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Southgates</td>
<td>86</td>
<td>130</td>
<td>1.51</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wigston</td>
<td>65</td>
<td>87</td>
<td>1.34</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wreake Valley</td>
<td>16</td>
<td>12</td>
<td>0.75</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL**   | 257             | 327            | 1.27                | 161                 | 275            | 1.71            |

**Table 5-11 (b): ENGINEERING**

<table>
<thead>
<tr>
<th></th>
<th>ENGINEERING STAFF (no.)</th>
<th>VEHICLES per STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coalville</td>
<td>12</td>
<td>2.8</td>
</tr>
<tr>
<td>Fairfax</td>
<td>4</td>
<td>7.5</td>
</tr>
<tr>
<td>Hinckley (n.a.)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Loughboro</td>
<td>4</td>
<td>6.8</td>
</tr>
<tr>
<td>Market Harboro</td>
<td>3</td>
<td>8.3</td>
</tr>
<tr>
<td>Sandacre</td>
<td>14</td>
<td>7.8 (2)</td>
</tr>
<tr>
<td>Shelton</td>
<td>4</td>
<td>4.5</td>
</tr>
<tr>
<td>Southgates</td>
<td>49</td>
<td>1.8</td>
</tr>
<tr>
<td>Wigston</td>
<td>27</td>
<td>2.4</td>
</tr>
<tr>
<td>Wreake Valley</td>
<td>2</td>
<td>8.0</td>
</tr>
</tbody>
</table>

**TOTAL**   | 120                      | 3.5                 |

(1) Allowances should be made with regard to some of these figures because a number of drivers who are based at some depots work for others

(2) Includes Hinckley depot
show that there are wide variations among the 10 depots. In Southgates depot for example, there are 1.8 engineering staff per vehicle whereas in Sandacre and Hinckley together(1) there are 7.8 per vehicle. This difference can be further illustrated when the total number of engineering staff employed in these two depots is considered in the following separate categories:

<table>
<thead>
<tr>
<th>CLEANING WORK</th>
<th>ENGINEERING WORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOUTHGATES</td>
<td>4 Vehicles per Cleaner</td>
</tr>
<tr>
<td>SANDACRE &amp; HINCKLEY</td>
<td>12 Vehicles per cleaner</td>
</tr>
</tbody>
</table>

These results can be attributed to the different type of vehicles that comprise the fleets at these depots - Sandacre has mini or maxi buses only and Southgates fleet is exclusively composed of bigger buses. These differences relate not only to the size and age of the vehicles but also to variations in the mechanical and electrical complexity that exists between mini/maxi buses and the more conventional type of buses.

This chapter has reviewed the salient aspects of the company MF. The company's organization structure, its network, its fleet and its human resources have been presented and the most outstanding characteristics analysed. This chapter was designed to provide a framework through which the major trends in MF's corporate behaviour on the one hand, and MF's management of change of critical strategic issues on the other could be understood.

(1) Sandacre supports Hinckley depot as far as engineering work is concerned.
Chapter 6: Corporate Strategy and Strategy Formation

6.1 Corporate strategy

This chapter examines the relationship between corporate strategy and strategy formation in MF by reviewing the relevant literature associated with these important topics. The study of corporate strategy and of management of change covers a vast field of theoretical and empirical work. It is therefore important to establish the main area of analysis for this study, to clarify the meaning of a number of concepts and to outline the framework in which the study will evolve. In this context, the present analysis is more concerned with the outcome of strategic decisions than with the process by which these decisions are taken. As a result, this study is predominantly an analysis of strategic change. However, it becomes apparent from the literature on organisation theory, that there are many, and sometimes contradictory ideas regarding the concept of strategy (eg. definition and scope) and a number of issues associated with it (ie. strategy formation). The definition of these topics has, in turn, an inevitable influence on the research framework adopted.

It is not the purpose of this project to undertake a review of these theories and models. It is nonetheless important to draw on the riches of some of these contributions. They provide valuable instruments to enhance the understanding of the findings in this case study in particular, and to further the understanding of strategic issues in organisational settings in general.

Two major areas in the organisational strategy debate are considered important to merit further consideration: the definition and scope of strategy and strategy formation.

The term strategy is defined in military theory as ... the art of preparing, moving and using armed forces in a war so as to secure the initiative and ultimately to win the war (Oxford English Dictionary, 1989). In management theory, strategy revolves around two major concepts: it concerns ... the determination of long term goals and objectives of an enterprise (Chandler, 1962) and it involves a response of an organisation to its environment. These definitions raise a number of contentious issues. Firstly, it is not clear whether strategy should be viewed as a preconceived plan leading to ... the adoption of courses of actions and the allocation of resources necessary for carrying out goals (Chandler, 1962). Secondly, there is the question of attempting to establish a universally accepted definition of what constitutes a strategy. Finally, it is questionable whether the environment is the sole determinant of strategy.
Strategies as preconceived plans
It has been claimed that if strategies are to be envisaged as major plans that are made explicitly in advance, there is a limit to the scope for understanding major changes that occur in the strategic positioning of organisations. Mintzberg (1978) defined these a priori guidelines as intended strategies and a strategy as a ... pattern in a stream of decisions. In Mintzberg's model, strategies are formed when a ... sequence of decisions in some area exhibits a consistency over time. In this way, strategies are not solely the result of deliberate plans conceived in one particular point in time, to be executed in the future. Even those that are, may not be realised in their original form. For Mintzberg, the crucial aspect is to observe sets of behaviour that crystallise to the extent that they position the organisation in its environment.

Strategies: a definition
Von de Ven and Hudson (1985) have taken the view that strategies are choices that represent major departures from existing practices for an organisation, thus underlying the view that there is no exact and accepted definition for what is and is not strategic. In the 150 Bradford case studies (Hickson et al, 1985), the following were considered as typical strategic decisions

a technology topics (investment in equipment or premises) 15%
b output categories (new, expanded or reduced services) 19%
c reorganisation topics (internal restructuring, takeovers, mergers) 22%

As Hickson et al concluded, ... strategic decisions are most often about the form of an organisation itself or the goals inherent in its outputs and investment in technology, topics that among them make up more than half the 150 Bradford cases. It is reasonable to say that organisation strategy is concerned with the scope of an organisation's overall activities, and with its resource capabilities within an internal and external environmental context.

Strategies - determinants
It has been said that the widespread interest in corporate strategy is a product of the debate between the classical management theorists and those who support the open-system approach. The former are preoccupied with mechanical principles of internal design, whilst the latter are more concerned with the ideal of an organic organisation whose survival depends on the development of appropriate strategic responses to a changing environment. However, other organisational theorists (eg. Johnson and
Scholes, 1988) have qualified this by arguing that it is *too simplistic to think of strategy as a response to the environment* for *... it is evident that faced with similar environments, organisations will respond differently.* Furthermore, an organisation that faces an identical environmental change at different times in its history may not develop the same type of consistent behaviour patterns. It is in this context that a significant amount of research has been undertaken with the aim of identifying concomitant forces susceptible of intervening as stimuli for strategy formation and change. The common theme to most studies is that an organisation per se does not decide goals, and that these are determined in the first place by its members. This proposition adds an inevitable variable to the debate: strategies form and change depending on the values, expectations and interests held by individuals in the organisation vis-a-vis the internal and external environments. Together, they build sets of behaviour that position the organisation in the environment. For Drucker (1988a), the future of an organisation is determined by the vision of a powerful leader. For Miles and Snow (1978), the overall strategic posture reflects the dominant ideologies in an organisation, and for Pettigrew (1979) it is politics and culture that can hinder or encourage change. Mintzberg (1978), on the other hand, suggests that strategy formation and change depend on three forces: the environment, the bureaucracy and leadership. Whilst the latter accelerates or dampens the organisation's response to the environment, strategic change is constrained by the momentum of the bureaucracy. A major element in this momentum is the availability of resources. For Rumelt (1986), existing resources can both limit and influence directions. In the latter, Rumelt states that ... the general direction of a firm is closely related to the nature of existing resources and to the type and range of productive services they can render ... and that the general type of productive services already existing within the firm provided a basis for the development and expansion of the production of existing products. Bennett (1988) points out that ... capital funding availability to meet on-going capital replacement and new investment needs is a significant factor in long term strategy and that ... as discretionary funds decrease, strategies begin to focus on survival. There are however limits to which the availability of resources can restrict or shape organisation strategies, for as Norman (1985) points out, decision makers can both influence and be influenced by circumstances. Nonetheless, resource gaps invariably arise when organisations envisage moving from one position to another, and this accounts for the modification or abandonment of intended strategies and the emergence of others. At the same time, the presence of excess capacity at particular points in time, can
lead to intended strategies being altered or act as a stimulus for the formation of different behaviours.

From the ensuing analysis it is apparent that the outcome of organisational strategy and change is predominantly determined by the interplay of three major forces: people, resources and the environment.

This research is concerned with changes in strategic behaviour of a company operating in a specific industry - the bus industry. Some theoretical issues associated with the choice of unit of analysis have been introduced thus far. The more practical issues related to this choice are twofold. Firstly, the industry concerned was the subject of a major environmental change - it experienced deregulation and simultaneous (partial) privatisation. At company level in general, this change marked the end of restrictions with regard to product - market scope. For the privatised companies in particular, it meant, in addition, corporate freedom. Secondly, strategic change is a concept that is universally associated with changes in the environment, and as Caplow (1983) states ... even the most passive organisation is compelled to modify itself from time to time in response to irresistible changes in the environment.

The findings of this case study will be analysed and interpreted as follows

1 it considers the three major periods of strategy formation and change that were identified between 1984 and 1990

2 an appreciation of the company's management of critical strategic issues during the same period

6.2 Patterns of strategy formation and change - the case of MF

Figure 6-1 shows the major pattern of strategies adopted by the company between 1984 and 1990 and the legislative context in which they occurred.
There are three features in this configuration of change that are noteworthy.

Firstly, the relationship between the type of strategies and the changes in the political dimension (i.e., legislation) is not as clear cut as the diagram implies: that is, it cannot be assumed that once the restrictions on product and market choices are eliminated, legislation and politics in general cease to influence the development in the industry and company decisions.

Secondly, the pace and radicality of change in the strategic behaviour of the company is outstanding especially as the industry concerned had been under regulatory control for over 30 years. However, according to the 150 Bradford studies (Hickson et al, 1985), the mean value between the time in which a stimulus for an action was perceived and the commitment to the action was made (Mintzberg and Téovêt, 1976) was just over 12 months.

Thirdly, it should be stressed that there are distinct origins for the changes. Some are the realisation of judgments (and thus of intentions made about the environment by members of the organisation who had a detailed knowledge of the industry and were able to anticipate and fulfil the needs of the new environment (e.g., the utilisation of minibuses). Other strategies emerged as consistent patterns which were not intended (e.g., acquisition of other companies) or that were intended but not realised (e.g., major internal reorganisation in mid 1988).
The three major periods shown in Figure 6-1 will now be considered in more detail.

Period 1. Expansion by internal development: A period intended strategies

This period starts in 1984 with the publication of the Transport Bill and ends in October 1986 - the date that marks the start of the industry's full deregulation process (so-called 'D-day').

The main aim of the company was clearly identified - to assert an early (and strong) market presence before D-day. To achieve this goal, the company introduced major changes in areas of the business which historically had been blamed for the industry's lack of success: the quality of the product and the costs of producing it. The company was quick to identify the market niche where the greatest impact could be made - minibuses - and was able to force through changes in employment conditions and improve productivity. These changes made an enormous impact on the performance of the company during this period, as is testified in the following statements:

- Our presence in the market was established between the publication of the 1984 Transport Bill and the 1985 Transport Act's implementation, so it was through the later half of 1984, through 1985 and up to deregulation. Most of the generation of new business came with minibus services [which are said to have resulted in an 85% increase in patronage (Jones 1988)] which we really introduced during 1985, early 1986, before deregulation (Commercial Director, hereafter referred to as CD).

- We really approached the whole package of wages and conditions and renegotiated them in 1986 - which was in effect prior to deregulation ... approaching deregulation, we quickly broke away from the central negotiating machinery and had the ability of negotiating significant changes to the traditional national conditions (CD).

However, these strategies have to be understood bearing in mind three factors. Firstly, the period of transition to a deregulated environment can be characterised more as a period of confusion rather than one of instability.
The Company's direction was clearly focussing beyond D-day and at the same time was capitalising on an undefined environment.

- ... it was the 1985 Transport Act that in many ways was part of the spur. It took off the controls but we still achieved under the old regulations. These were not applied as rigorously as they had been, because everybody was looking towards the 1986 Deregulation (CD).

Secondly, MF's leadership was not acting as simple caretakers of an organisation that was soon to face the twin challenges of deregulation and privatisation. The content of the strategies adopted during this period are clearly associated with a proactive type of leadership and not with the type of behaviour that could be expected from a leadership approaching the end of its management intervention in the company's activities.

Thirdly, and most importantly, the leadership was quick to draw upon its repertoire of experiences. Economies of experience are said to reflect the link between costs (and also often price) and the length of time a producer has been active in the market (Button, 1988a). Economies of experience can be expressed in many ways. Superior information about the needs of users can avoid for example, the costs of extensive experimentation; the experience in the workings of the network and knowledge of the costs of production can, in addition, lead to a more accurate assessment of the profitable market segments. Although the company recognised that the supply of bus services involves a bit of trial and error (CD), it is clear that the emphasis is on experience expressed as good feeling (CD). This idea is evident in the following statements:

- Experience has shown elsewhere (that people appreciate a better quality of service that goes round the estate). There is not a lot of science at all. It is more a question of good feeling (CD).

- A lot of decisions ... are taken as a result of good feeling and probably no more than that. I dare say that we are lucky that in the past the good feeling has been correct (Loughborough and Coalville Depot General Manager, hereafter referred to as DGM2).

This period can thus be characterised as the realisation of an intended strategy - an early and strong market presence - whose content was closely associated with the leadership's past experience and future interests in the industry. It was undoubtedly a period of intense management activity and leadership. It is also important to note that the type of behaviours observed
did not lead to the frame breaking type of change in Newman's model (1985). The introduction of minibuses and the changes in employment conditions, the main contributing means in the company's growth, were not traumatic experiences and were absorbed without a major internal upset (Norman, 1985). The fact is that even if there were mismatches between the strategy and internal arrangements, the absence of market competitiveness during this period did not bring them to the fore.

In conclusion, this was a period in which management was able to capitalise on the company's weakness and on an undefined environment, but it would certainly take longer for it to know its strengths for these are ultimately determined in an open market.

Period 2. Expansion by acquisition: A period of emerge strategies
The second period started in late 1986 with the full deregulation of the industry and lasted until the end of 1989.

Evidence that the company had embarked on a different type of strategic emphasis is clear in the following statement:

- *On the 26th of October 1986, we really had achieved our optimum ... really the optimal was over the 12 months (of 1985)* (CD).

Rationalisation of services and consolidation of the existing core business was the underlying objective during a great part of 1987:

- *It was a period of modification and fine-tuning, not of expansion ... in terms of the core business, ie. the long standing MFs depots within (the main urban centre) or within (the smaller town networks)* (CD).

Concomitant to this fundamental norm, another emerged as a (natural) product of deregulation and of the privatisation of the company - that of profitability:

- *All we seek is to make a profit* (CD)
- *Obviously, my major responsibility is to ensure the continuing profitable operations of the two garages* (DGM2)

Together, rationalisation and profitability have determined behaviours throughout, and were particularly active at times of market dominance.
But, although these fundamental directions remained unaltered, resources were being diverted into a new and unrelated product area - that of recovery of all classes of vehicles in a specified area (Report of Annual Accounts, 1988).

This trend would be repeated during the early part of 1990, although this time it involved the (further) development of a related product (coaching). It is also important to point out that unrelated diversification was not developed further for

-(Recovery of Vehicles) has demonstrated to us the fact that many people have quoted in the past, ie. stick to something you know, because ... when you move into a new field you become the newcomer who is likely to make serious errors (CD).

Related diversification prevailed as a significant strategy. It had its first impetus during 1988, progressed cautiously during 1989 and was reactivated in 1990. The more cautious approach in terms of resource commitment during 1987 can be seen to be related to the management buyout of the company in mid 1987, to the extent that the owners' stake in the company represented an important portion of their wealth.

However, the years of 1988 and 1989 witnessed the most radical events in the company's history. A series of acquisitions in the product related area (coaching) in the beginning of 1988 was followed by a major internal reorganisation of the company in the latter part of that year. 1989, on the other hand, saw the combination of minor and major competitive battles with small operators resulting in further acquisitions. In late 1989 the company was itself integrated into a major Transport Group.

The changes can be classified into two main groups according to their origins:

1. the major internal reorganisation. This was an intentionally designed strategy that was put on hold and reemerged within a different specific context

2. the wave of acquisitions and the integration of the company into a holding, were not intended strategies but emerged also, as a result of specific events.

The change from a functionalised type of structure to a divisionalised used one was a typical example of an intended strategy
- For a number of years we have been trying to get General Managership within the depots ... it was not something that happened overnight ... it was something that was on the table (CD) that was not realised in previous periods,

- We tried on a number of occasions ... but failed by and large (CD),

but that eventually (re)emerged,

- ... it was really a change in personnel that triggered the whole thing off to its ultimate (CD).

The expansion strategy of MF beyond its main core, involved the acquisition of a number of concerns in the company's main product area (stage carriage) and to a lesser extent in a related product area (coaching). According to the company's executive, this strategy emerged as a result of:

- Failures within the industry by others and not because of a success (of the company) in the industry ... many of them were struggling financially ... and would have ultimately gone to the wall without any interference from the company (CD).

But in other cases, acquisitions were not the result of what could be described as this proactive behaviour aimed at exploiting business opportunities. They became the outcome of a fundamental competitive strategy that emerged as the core business was being extended - the intransigent defence of the acquired territories.

However, the cumulative effect of the success enjoyed by MF in the more peripheral markets was causing concern to a major incumbent who began to signal an increasing unease about these developments in surrounding areas of its own core business. This concern was naturally augmented by the integration of MF into a major Transport Group. This strategy was seen by the company's competitors as providing the means for MF to assert market dominance:

- It (MF) could call on backing that I (a competitor) was unable to match. (Kinch)

For the management of the company, the decision rested on the fact that

- ... larger groupings seemed to be beneficial in the long term (Managing Director, hereafter referred to as MD)
However, it is likely that these two ideas have a strong connection. The financial demands of the buy-out, together with the strain imposed on resources from fairly prolonged competitive battles with relatively small operators must have played a key role in this (long term) decision. Furthermore, it became clear that, in the opinion of the Commercial Director, the value of the market was low and that it could not stand too many operators sharing a declining demand. There can be little doubt as to the formation of this strategy - it was not intended - after all the company kept its independent status for only a period of 2½ years - and emerged as a result of facing the reality of a deregulated market. A reality that has nonetheless enabled the company to express a market superiority in marginal areas, but not within the boundaries of its main urban core.

**Period 3. Consolidation: A period of strategy conceptualisation and growth by acquisition**

This period marks the resurgence of the rationalising and consolidating type of strategy, although in a distinct form from the one pursued before. By mid 1990, the company had successfully gained market dominance in those areas where smaller operators had been active earlier. In the view of the Commercial Director, *the small operators by and large have gone now*.

The first half of 1990 was characterised by *trimming* resources, i.e. deactivating over-provision in those areas where competition had been more intense on the one hand, and integrating the resources of the companies that were acquired on the other. The message given by the leadership to the increasing autonomous divisions continued to be that of *streamline operations and defend individual market shares*. However, by the end of 1990, the company faced a major attack by the main incumbent. The fact that the competitor is still a public company and is regarded as being non-commercial in its approach to the market, has led to a rethinking of competitive strategies. Some divisions began to form behaviours that were outside the umbrella of strategies (Mintzberg, 1989) defined by the leadership. They have not yet, however, developed as a consistent pattern and are better understood as being part of the company's learning process.

It has also become apparent that the company, although dominant in some market areas, was not generating sufficient returns to finance the replacement of its fleet, and in particular the smaller vehicles. Whilst the main core business was still considered to be local bus services, some members of the organisation were conceptualising strategies for alternative and complementary uses of the company's resources. At the corporate
level, coaching was seen as a business able to return higher earnings, and thus merited an increasing share of the company's resources. At the divisional level, the aim was to exploit additional sources of income within existing resources (eg. maintenance related work).

The role of the leadership in influencing the company's direction was once again in evidence:

- Our MD has a particular soft spot for coaching and his opinion is that it can be made to work ... he has a theory that if we considerably increase the quality of the coaching product, we will achieve a good level of profit ... now in the past his opinions have come true, so I am more than willing to wait and see if this one does (DGM2).

The impetus given to the development of the related product must also be seen in the context of the major internal reorganisation that took place in 1988. In fact, the MD who knew nothing about coaches (CD) was the executive who assumed the managerial role in the integration of the coaching companies acquired, in close liaison with their ex-leaders who were all coachmen rather than busmen who knew all about coaches (CD). It is this relationship between specialised know how - the access to which was gained at a relatively low cost - and the management skills of the leadership, that can be seen as having contributed to the evaluation of investment opportunities in this related product.

The year of 1990 marks the start of a period of uncertainty both in the internal and external environments. The main core of the business demands great investment effort and the value of the market remains low. The political scene has not significantly changed. The competitive environment is entering a turbulent phase to a degree not experienced before - competing with new (commercial) entrants is significantly different from competing with (non-commercial) incumbents. Related diversification and in particular the growing acquisition strategy may create conflicting claims on the company's resources for ... what we want at the moment is for cash to be available to take advantage of the opportunities which will come up (MD). The holding group has not established itself as an influential force although at present its role of deterring ... anyone from having too much of a go at us (MD) is clearly acknowledged. These are factors that will affect future business.
6.3 Studying strategy in organizations - a final note

The findings of this chapter have raised important issues as far as methodologies for studying strategy in organizations are concerned.

The methodology chosen - the one suggested by Mintzberg (1978) - was thought to provide the framework for examining "what patterns of strategy could be seen to exist historically and to assess what could be learned from the changes occurred" (Johnson 1987). From the data collected there was strong evidence of clearly identifiable patterns of change.

This approach to studying changes in organizations behaviour differs from the one developed by Miles and Snow (1978). Miles and Snow classified organizations into Defenders, Prospectors, Analysers and Reactors depending on the characteristics of the patterns of adaptation shown in relation to three broad problems (entrepreneurial, engineering and administrative) of an adaptive cycle. This categorization of organizations has since been amended by others to accommodate other types. Nicholson (1988) introduced the Hybrid type to combine features of the Defender and of the Prospector kind of organizations and Bryman (1982) saw the need to add the Transformer to represent a transitional state from one type to another. The research undertaken on MF has shown that this company shared some features of an Analyser as defined by Miles and Snow (eg. seeking out new ventures tried elsewhere but valuing its core business highly). However, there were instances where its behaviour deviated from Miles and Snow's ideal model of an Analyser (eg. adjustments in product characteristics were developed only when it was forced to do so, or, as in the period before full deregulation, it was able to anticipate future trends by having changed its fleet configuration in advance). It could therefore be argued that these findings appear to confirm Bryman's view that "companies incorporate inconsistent elements because they are in a state of change from one strategic orientation to another". It is in this context that the methodology chosen in this research and presented in this chapter has placed less emphasis on categorizing strategic responses and has concentrated instead on identifying major trends in MF's corporate behaviour since its privatization and the deregulation of the bus industry. It has covered areas of corporate concern, namely the form of its organization and of its output, and it has identified the forces (leadership, resources and the environment) that have influenced the set of (consistent) decisions in relation to these topics.
The next chapter will consider in more detail the role that these forces have played in the configuration of the patterns of strategic change presented herein. That is, it will establish the major links between corporate behaviour and the various functional area policies and operating plans that MF used in order to manage change.
Chapter 7: The Management of Change

After identifying the major strategic patterns of behaviour of MF, it is now crucial to concentrate on key issues in the management of strategic change within the framework outlined in the preceding section.

7.1 Organisational Issues

For an enterprise to function it needs an organisational framework. The formal and informal types of relationship that evolve within this framework characterise the form of the organisation. The ultimate aim of an organisation is to adopt a structure that combines its human resources in a way that is compatible with its mission. It is nonetheless debatable whether gaps between structure and goals can be held solely accountable for an organisation's lack of success. It is also questionable whether the structure of an organisation determines its goals and strategies or vice versa. The undisputable fact however, is that as Mintzberg (1989) points out, organisations do favour one type of structure over the others at certain stages of their lives.

There are a number of factors that can induce change as much as they can contribute to the maintenance of the status quo. The environment plays a key role, namely at times of major discontinuities. The power system influences the type and pace of organisational change. The size of an organisation is a factor that can stimulate and reinforce the need for change. These and other factors have been extensively researched. Most of this research aims at providing a contextual understanding for the developments observed in specific cases.

MFs organisation structure was, until mid 1987, basically of a functional type. This is a characteristic still common to most companies in the bus industry. Production was divided into two main areas: Traffic and Engineering, and the non-productive function was comprised of the Operational and Financial accounting.

There are some striking features about this type of structure that are noteworthy. Communications throughout the organisation were usually very formal and the administrative structure was extensive. The power for decision making was largely centralised and the size of the operating unit tended to be great. Finally, there was a disproportionate importance attached to the operations function.
In the case of MF, this type of framework was soon identified as being incompatible with the longer term needs of the company. However, despite the fact that the basic structure and its main parameters remained unaltered during the transition period (1984/86), the company is said to have achieved considerable success. This suggests that certain strategies can be pursued successfully at times of dissonance with company structures. Other circumstantial factors - namely a) the experience, expertise and the pro-active behaviour of the company’s leadership b) environmental indefinition and c) the lack of market competitiveness together with the impact on demand of a new type of product (minibus services), have, in this case reduced the potential disadvantages of such disequilibrium. Nonetheless, it is clear that in spite of the success attained, the intention to change the form of the organisation persisted.

The changes in the company’s structure were substantiated by the training given to the future divisional managers. Furthermore, the ultimate shape of the company’s divisional structure was preceded by a configuration based on leadership expertise rather than on apportioning overall responsibility for the divisional managers to each individual director. This temporary arrangement caused mixed feelings among divisional managers

- The situation before - when we consulted different Directors - was probably not right ... I could not really identify who was my overall superior (Wigston Depot General Manager, hereafter referred to as DGM1)
- ... it didn’t cause me any difficulty or problem to talk to four separate people (the then four directors) (DGM2)

The differences in these two positions can be accounted for by the fact that DGM 1 had been recently recruited from outside the bus industry, whereas DGM 2 had worked in the industry for 11 years - 5 with the company. It is evident that the experience gained in the bus industry by the latter meant that he did not require the same degree of contact with the expertise of top management, than in the case of DGM 2. This appears to confirm Bentley’s (1980) suggestion that the more experience a manager has in a particular job the more he relies on his accumulated knowledge.

The implementation of the definitive form of organisational structure in mid-1988 occurred amidst the acquisitions made by the company. It is clear, however, that the basic principle of Depot Managership associated with that structure was formalised before the acquisitions took place, and was not a
consequence of this strategy. There is no indication that the type of structure adopted was intended to meet the needs of the company growth which was a result of its strategy of expansion by acquisition. This does not, however, belittle the role played by the growth which occurred during the transition period (though mostly in the company's historical core) if only in strengthening the dominant feeling towards change. The following statement summarises the prevailing motives:

... the major changes were made so that each depot was managed by someone who had the authority to make the day-to-day decisions and had the financial responsibility to ensure that the depot operated profitably ... unless you can trust your local manager you are not sufficiently attuned to local circumstances to make the right decisions at the right time (CD).

The changes were thus to be achieved by reformulating and reinforcing the role of the company's operating units: the Depots.

This depot based approach can be seen as part of a wider market driven approach to the extent that it positioned the company nearer to its customers. As Moyes (1990) has pointed out, market research has demonstrated a clear customer preference for small providers with whom they can identify. The creation of self-contained depots around smaller towns or in specific urban areas, has enhanced closer community ties and market competitiveness. The philosophy of profit accountability must also be understood in this context. Profitability is a goal that is ultimately defined by local market forces and it is greatly dependent on the understanding of the characteristics of local demand of the real and potential impact of competition and of the costs of operating in particular territories.

The preceding quotation embraces a number of universal issues associated with various aspects of organisational life. The following sections provide a discussion of the most important issues in the context of this case study.

7.1.1 The depot approach
The bus depot is the essence of an urban bus operation. It is where all productive resources are located and where the operative decisions have to be made. The traditional depot structure was essentially fragmented into two major areas - Traffic and Engineering, each working under different hierarchal lines. The reporting procedures between the depots and
Headquarters were both extensive and limiting, and lateral communications were restricted. Despite the fact that the bulk of production takes place at the depots, responsibilities and authority were characteristically centralised at Headquarters.

These facts suggest that any internal strategy aimed at vitalising the role of these operating units is necessarily an organisation-wide exercise. In fact, the depot based type of organisation adopted by MF caused an inevitable reformulation of important organisational parameters. The following merit further analysis for they have had a significant disruptive effect on established patterns.

7.1.2 Delegation of authority - decentralisation and autonomy
Centralisation/decentralisation is a concept intimately associated with delegation of authority and responsibility, and thus of power. In the bus industry, a clearly definable nucleus of power was discernible in most companies. The distance between this nucleus and the operating units was considerable, and yet the latter were very dependent on the former.

The decision to dilute power over a wider structural base involved, in the first instance, the creation of a new post - that of depot General Manager. This meant that the functionalised type of dependence between the depots and Headquarters was greatly reduced. It also contributed to the formation of a sense of unit autonomy and identity that was not present in the traditional structure. This is a feature that would have been impossible to accomplish without a concomitant devolution of authority and responsibility to the management of the company's operating units.

The degree of structural decentralisation is highlighted in Table 7-1. The weakening of the company's authority (decentralisation) is expressed in this table by the depot's management accountability for meeting agreed targets (responsibility), as a result of being empowered to command crucial aspects of the depot's business (authority) and of being able to influence matters that remain under the authority of Headquarters (inputs).
Table 7-1:

The Degree of Decentralisation

<table>
<thead>
<tr>
<th>Depot General Manager</th>
<th>Headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responsibility</strong></td>
<td>Authority</td>
</tr>
<tr>
<td>submit and meet annual budget targets</td>
<td>corporate business direction</td>
</tr>
<tr>
<td>submit regular reports on performance variables</td>
<td>set final budget targets for depots</td>
</tr>
<tr>
<td><strong>Authority</strong></td>
<td></td>
</tr>
<tr>
<td>discipline &amp; organise production</td>
<td>control performance</td>
</tr>
<tr>
<td>produce services</td>
<td>negotiate wage levels</td>
</tr>
<tr>
<td>set level of fares (except within urban area)</td>
<td>decide on vehicle replacement</td>
</tr>
<tr>
<td><strong>Input</strong></td>
<td></td>
</tr>
<tr>
<td>wage negotiations</td>
<td>direct major competitive strategies</td>
</tr>
<tr>
<td>vehicle replacement</td>
<td></td>
</tr>
<tr>
<td>competitive strategies</td>
<td>liaise with outside institutions</td>
</tr>
<tr>
<td>registration and tendering of services</td>
<td>eg. (Traffic Commissioners, County Council)</td>
</tr>
</tbody>
</table>

One major issue emerges from this decentralised configuration - the degree and the implications of depot autonomy.

Table 7-1 suggests that whilst the involvement of corporate management in the daily operations of the depots is limited, its influential role is considerable. In fact, despite the contributions of the depots, it is the company's corporate management that sets wage levels - *The only cost that is dictated to the General Manager centrally is Wage Rates* (CD) - and decides on the vehicle replacement programme - *the decision on vehicle replacement ... is primarily the Director's* (CD).

Furthermore, despite the fact that the depot General Managers prepare their own budgets, there are minimum targets that ought to be achieved and these are closely monitored:

- *It is up to the DGM in the first place to say what his depot can achieve. But if he is making a loss he has to do something about it. If he is only making 1% profit, that is not enough. We always have to be aiming at getting towards 10% profit.* (CD)
However important these constraints may appear after all wages account for nearly 70% of operating costs they represent only a fraction of what is involved in the concept of autonomy. The Oxford English Dictionary defines autonomy as the right of making its own laws and administering its own affairs.

It is clear from Table 7-1 that the depot managers decide independently:

1. the internal structure and administrative arrangements of their depots
2. the methods of labour and vehicle utilisation
3. the level of fares to a great extent

Together, these factors complete an important part of the profit equation and represent the control of a vast field of the depot's managerial affairs.

However, there is evidence to confirm that the company's divisions enjoy different degrees of autonomy. This is particularly the case in Depot 3 where the presence of a major incumbent competitor with an important impact on corporate interests, has led to a reduction in the depot's autonomy to the extent that corporate management dictates the level of prices to be charged for the unit's products.

- I have no direct control over fares. It is a Director's decision (Sandacre Depot General Manager, hereafter referred to as DGM 3)

This is an organisational characteristic identified in Galbraith's and Nathanson's (1978) work when they suggested that under competitive pressures, organisations would favour more formal management and control over decentralised structures.

Nonetheless, depot autonomy has had important implications for corporate management. It has reduced the time consumed with regard to operational matters and provided a closer, and yet wider perspective of the overall business. Centralisation is now mostly consigned to areas of financing (major capital expenditures, overall budgeting and control) and general product direction. It is also important to point out that in some depots a similar situation, although of a different nature, has arisen:
As a result of the changes that have been introduced, I can say that much of the time I am redundant. ... the present set up gives me more time for forward thinking as opposed to reactionary management or to management by crisis (DGM 1).

The scale and importance of the structural changes observed in this case study are clearly exposed by the comments made by a MD about the prevailing situation in a bus company when it was part of the same nationalised bus group:

Being a General Manager (the then title for a MD) was to be responsible for the running of the company on a day-to-day basis, working with laid down guidelines ... standardisation was costly and unnecessary and acted as a disincentive to maintaining morale in the company ... board meetings were also principally reporting occasions: they were not decision making occasions. (Birks, 1990)

7.1.3 Coordination and control
Coordination and control are two organisational variables that play a particularly important role in a decentralised structure based on geographically dispersed units. The delegation of authority requires mechanisms to agglutinate organisations towards common purposes (coordination) and to assure that targets are continuously achieved (control).

According to Lessen (1989) the principle of coordination serves to counterbalance the factors of differentiation which tend to pull people and things apart. The fact is that managers see the business in which they work differently, hold divergent views about their role and have different expectations. To coordinate is to unite organisational efforts based on a set of core beliefs. This function was particularly active in MFs management of change.

The new managerial posts - the Depot General Managers - were filled both through promotions within the organisation and by recruiting experienced managers from outside the bus industry. The coordination mechanism used for both groups relied on training. The emphasis was, nonetheless, different. The training given to in-service promotions focussed essentially on technical areas (eg. financial and managerial). The training of outside recruits
involved transmitting basic company beliefs and assumptions with regard to

1 the general functioning of the industry

there was a need for people to accept the change in approach. But we were conscious that it should not be too dramatic, too quickly. We therefore counseled the new managers to ensure that they were not going to rock the boat too heavily (CD)

2 decision-making: Depot General Manager 1 did not value dialogue highly

We convinced him that that was not how MF traditionally had worked (CD)

whereas Depot Manager 4 was

very much a people's person ... one of his problems is getting the decisions implemented because he wants to consult too much (CD)

The method used to match individual and organisational agendas thus described can be identified with Kelman's (1958) notion of identification and internalisation and to Pettigrew's (1973b) regularisation process through the control of recruitment and training. They both aim at ensuring that organisation members adopt an organisation perspective.

However, the delegation of authority to divisions invariably causes internal losses of control. To attenuate this effect, organisations introduce more formal mechanisms that establish the contributions of individual units towards corporate goals (budgets) and ensure that these are consistently met (reporting procedures). In this particular case the target was defined as: 10% profit on turnover. That is what we will have in our mind as being the ideal (CD)

Although this is a specific and immediate objective it must be seen as part of longer term interests. It reflects the amount required for safety and survival as well as for meeting capital needs. However, according to Drucker (1988b) there are organisations that have shunned profits as goals and instead see them as a requirement of the business; that is, as a need.

Nonetheless, the definition and monitoring of objective functions raises a number of organisational issues. As Porter (1985) pointed out, there are
limits to which all business units should be asked to meet the same goals, even though this may seem to be the fairest solution. In fact, depots face different operational circumstances - both environmental and in terms of the characteristics of their production factors, and have different scales of operations. Furthermore, depots are not totally independent units as far as their markets are concerned. These are mainly defined according to broad geographical areas but there are cases of inter-territorial routes where each depot must abide by existing rules (eg. fares etc) over which they have little control. Finally, depots have been drawn into competitive battles on routes that they do not operate directly and have had to face unexpected strain on their resources. Although some of these factors are acknowledged:

- In the process of examining budgets, the Directors will take account of the individual circumstances (CD) they are very difficult to quantify; especially when comparisons are warranted for the purposes of evaluation of divisional performance and allocation of corporate resources. Whereas performance is rewarded by a system of bonuses, the allocation of resources is to a certain extent related to the financial appraisals that are submitted by the depots for approval by the Company's Board. It is clear, nonetheless, that every organisation must operate within its financial capability and that choices must be made that reflect, among other factors, the projected profitability and market share of the individual depots.

The essence of the monitoring function mostly concerns financial matters:

- Where there is control over General Managers it is of a financial nature ... we believe very strongly in strict financial controls (Financial Director, hereafter referred to as FD) and is almost nonexistent so far as operational controls are concerned:

- They are obviously expected to achieve the budget. How they do it is up to them. If there are adverse variables within the budget they are expected to know ... what they are, and how they have arisen (FD)

This fact indicates that individual General Managers are not compelled to follow sets of operational guidelines:

- I have a free hand within this Depot (DGM 3)
- I am the General Manager of this Depot and I take responsibility for all aspects of the operation ... basically I run the business more or less how I want to (DGM 1)
The degree of freedom and autonomy described thus far, has important implications for the attainment of corporate uniformity and for organisational communication purposes.

It is obvious that it is difficult, if not undesirable, to have all company procedures clearly specified and enforced throughout the organisation.

However, the absence of universal company policies with regard to certain areas of the business can have opposing effects. On the one hand it frees depots from enforcing policies that do not necessarily constitute priorities - or can in fact become obstacles to the competitive strategy (that of low cost provider) that those depots have decided to pursue (eg. great emphasis on staff appearance can increase staff turnover). On the other hand, it can undermine the promotion of policies and adversely affect the internal equilibrium in some depots [eg. deteriorating staff morale] that are attempting to qualitatively differentiate themselves (Porter, 1985).

This is an issue particularly in evidence in the case where the geographical markets of the divisions are close, and thus likely to serve common portions of demand. Depot General Manager 1, whose market overlaps with that of minibus services, clearly expresses some of these ideas:

- Depots are allowed to implement their own approaches as far as staff is concerned ... these differences cause dissatisfaction ... we at (this depot) value image highly ... we are very firm on staff appearance. However, other depots may not see this issue in the same way. You can often see minibus drivers smoking and wearing Tee Shirts. (DGM1)

The changes introduced in the organisation structure of this company and in particular the increased autonomy invested in the depots have inevitably created a different framework of communications and interrelationships between its most senior members. However, the function of communication cannot be disassociated from other organisational trends eg. size, complexity and environmental pressures - both internal and external.

7.1.4 Communications and interrelationships
As Johnson and Scholes (1988) suggested, the study of the problems of managing strategic change involves also the interaction of individual managers amongst themselves and with other stake holders in the organisation.
The concept of communication entails the exchange of ideas, knowledge and information between members of an organisation. Interrelationships consist of mutual relationships that are established in the conveying of such facts. This section is concerned with the degree and nature of interpersonal behaviours in both the vertical and horizontal directions of the company's hierarchy.

Figure 7-1 is a graphical representation of the type of interrelationships considered in this study. Table 7-2 is a summary of the views expressed by two Directors (CD, FD) and three Depot General Managers (DGM1,2,3) and cover the areas of the communication function described by Weishall (1981): What people are communicating about, which tools they are using and when they are communicating. The following sections provide an analysis of the underlying patterns that have emerged and other organisational issues associated with them.

1 Vertical Interrelationships

Directors and Depot General Managers

Two main characteristics emerge

a. Directors and Depot General Managers interrelate infrequently

Two major factors have contributed to the consolidation of this type of interrelationship. Firstly, the size of the depots have justified the creation of a management environment whereby the presence of expertise on all major aspects of the unit's business has greatly reduced the need for consultation, and advice on decisions to be sought in the higher levels of the hierarchy. This has been expressly encouraged by the Directorship

- As for decisions within the depots, we expect the General Managers to take these with their own teams (CD)

Secondly, the major formal communication requisites which the depots are compelled to follow have been clearly specified. They comprise mainly financial data and are seen by the General Managers to fulfil the main corporate information needs:

- There is enough financial information given to the Directors for them to know how we are performing (DGM1)

However, it is clear that communications between these two levels of the hierarchy go beyond formal quantitative reporting procedures.
### Table 7-2: Topics of Communication

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>Director —— Depot General Manager</th>
<th>DGM —— DGM</th>
<th>DGM —— Depot Depts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Org Post</strong></td>
<td><strong>Past Experience</strong></td>
<td><strong>When</strong></td>
<td><strong>What</strong></td>
<td><strong>How</strong></td>
</tr>
<tr>
<td>CD</td>
<td>Commercial Bus Industry</td>
<td>Frequently triggered by the Depot General Manager</td>
<td>We don't interfere. We have systems laid down and they follow them</td>
<td>They don't compete between themselves. They compete to get a reward</td>
</tr>
<tr>
<td>DGM 1</td>
<td>Senior Management Milk Industry</td>
<td>I will pass on that one. I can't remember the last time</td>
<td>Network changes</td>
<td>We don't communicate very openly. I don't involve myself with other DGMs other than at the main senior meetings (every 6-8 weeks)</td>
</tr>
<tr>
<td>DGM 2</td>
<td>Planning Bus Industry</td>
<td>They are intermittent</td>
<td>Anything that will have a great effect upon the company, Network changes - we don't get into great detail</td>
<td>We don't see each other a great deal. We cooperate with each other as much as we need to</td>
</tr>
<tr>
<td>FD</td>
<td>Financial Non Bus Industry</td>
<td>As often as it is possible</td>
<td>I never interfere at all. All we do is to try to work our DGM as autonomously as possible</td>
<td>It is not all sweetness ... by &amp; large they help each other although not always as quickly or as much as we would like. If need be, we will interfere</td>
</tr>
<tr>
<td>DGM 3</td>
<td>Traffic Superintendent</td>
<td>I don't see him a lot. Probably once a fortnight</td>
<td>Obviously about the budget. It is on the financial side</td>
<td>All the DGMs are very competitive ... we don't tread on each other's toes. We, at this depot cooperate more than anybody also because we are in a central position</td>
</tr>
</tbody>
</table>
b Directors and Depot General Managers interrelate on different issues

From Table 7-2 (column 4) it is clear that divisional managers interrelate with different (eg. FD and DGM3) as well as with the same Director (eg CD and DGM1 and 2) on different issues. These differences are mostly related to the fact that Directors and Depot Managers alike have distinct professional expertise. As a result, depot managers are encouraged to consult on areas that constitute important complements to their individual expertise vis-a-vis the attainment of unit goals. General Manager 1, who has a managerial background, consults with the Commercial Director on industry-related issues; General Manager 2, who was involved with bus demand forecasting exercises, is clearly identified by the Commercial Director as being capable of dealing with environmental uncertainty; General Manager 3, who has a clear operational background, interrelates with the Financial Director on cost control since the major revenue generator - fares - is decided, in his case by the Directorship.

The roots for this complementarity of professional skills must originate in the period of counselling given to the Depot Managers in the stage that preceded the implementation of the new structure and to the proclaimed special rapport that evolved. This is clearly expressed in the following statements:

Taking my own people, I have two General Managers who didn't know anything about the bus industry... I needed to give them a grasp of the nuts and bolts about the bus industry. The Finance Director had two people who had a wealth of experience in the bus industry... so he supported them with the Financial and Managerial skills. Many of the people that the MD supports benefited from his pure managerial skills. They were all coachmen (CD)

In brief, it is apparent that management contacts between depot and corporate leadership are conducted on the basis of the exception principle (Barber, 1968) even though its substance varies from one unit to another.

Depot General Managers and Depot Structures

In spite of slight variations in titles and job descriptions, depot structures are all functional systems. Production creates a chain of interdependencies that does not permit granting autonomy to its main task groups (engineering and traffic). All functional groups contribute to the final market product. However, it is invariably difficult for people in such structures to relate to and
comprehend the value that they add to that product. The role of communications and interrelationships must therefore be regarded as an important means for disseminating the significance of that work, and at the same time for creating unity towards common goals. This role has assumed different forms (Table 7-2, column 6). To a certain extent they reflect different management styles and have helped create distinctive depot identities.

Depot 1 was probably the depot where the most comprehensive changes took place. General Manager 1's first priority was to overcome unprofessionalism and excessive departmental demarcation by making:

- the departments work closely together and to consider the implications of any decision upon profitability (DGM 1)

The means were based on personnel training and development and the results were defined as follows:

We have already reduced the staff by 25% and I still retain full maximum efficiency and in effect improved it in general terms ... I have managed to improve their professionalism over the past 20 months. Not that we are totally there, but we have confidence in our ability (DGM1)

The process involved transmitting basic business ideals (re: previous professional activity - trouble shooter) rather than providing for wide-scale involvement in decision making. It has served, however, for identifying the sources of industry-related expertise and information: The management team has been changed in total (DGM1), upon which this newcomer to the industry could rely for decision-making purposes. This is also the depot whose General Manager has expressed more inward-looking and self-centred feelings:

- I am responsible for this Depot and I don't really get involved in what is going on outside this Depot's service area. I am purely judged on the performance of this garage. Fortunately, there is little that we require from the (Headquarters) support departments. This is what we work towards (DGM1)

and who has also indicated strong reservations with regard to corporate strategic decisions (eg. coaching)

- Coach work is too competitive. I personally would like to see them stop acquiring too many coach companies and go more into stage carriage. (DGM1)
By contrast, Depot General Managers 2 and 3 show a more open - driving staff come up and see me and I discuss various problems with them (DGM2) - team based - we have team meetings every week (DGM3), and humanistic - we are very forthcoming, the door is never closed. We are a caring company (DGM3), perspective about the role of interrelationships.

There is also evidence to suggest that although the performance of the depots constitute a major priority, company goals and views are closely related to that priority:
- I go and look at the two garages ... but take on board the broader company view as well which is not necessarily something that the other General Managers fulfilled (DGM2)
- As far as I am concerned, I work for MF and I will do whatever I can for the whole company (DGM3)

Furthermore, these positions reflect the way in which corporate decisions are envisaged: Depot General Manager 2 is ... more than willing to wait and see if this one (coaching) works, although it is a decision not fully accepted - I am not convinced that the level of profit is there presently. Depot Manager 3 is more openly supportive: I agree with the way that (current corporate product direction) is going at the present moment ... it is a lucrative market. There is a terrific potential out there for coaching.

Whilst vertical interrelationships can be seen by organisation members as being purposeful, the interchange of knowledge and information across the hierarchy constitutes a more complex issue.

2 Horizontal Interrelationships

The interrelationships among divisional managers are distant

This is a characteristic mostly associated with geographically divisionalised structures where there is little product overlapping and where units are loosely coupled (Aldrich, 1979). Under these circumstances, well integrated divisions operating within fairly fixed market boundaries, rarely interrelate. In spite of the few opportunities for unit confrontation that may arise as a result of this, the fact remains that they must all compete for scarce corporate resources. Furthermore, voluntary cooperation, even when it is expected in its simplest form of closer and more fluid exchange of ideas between units, may become harder to achieve when performance rewards are perceived as
the principal means for individual self-assertion and for career assessment purposes. It is visible from Table 7-2 (column 5) that corporate management is only prepared to intervene when the need for pooling resources arises. However, this raises the question of quantifying the future benefits that ought to accrue to the depot that has committed its own resources for the success of others, but whose market position and performance has not substantially improved as a result.

It is clear however, that there are significant differences in the way in which divisional managers interpret their corporate role. Depot General Manager 1 takes a rather self-centred orientation towards the other parts of the company's business; DGM 2 expresses the views of those who wish to be associated with a successful and growing company, and, DGM 3's position is one of devotion and loyalty towards prevailing corporate interests. These differing beliefs are related to the way in which these three organisational characters have been allocated areas of control. DGM1 and DGM2 occupy peripheral markets whereas DGM3's central positioning demands greater personal disposition to interrelate

- Whatever happens out there ... we will assist. It has got to be done to keep the company going (DGM3)

even if this represents an additional burden to the functioning of the depot

- where we lose out is where it takes my fitters away from their own jobs. (DGM3)

In conclusion, it could be said that the issues raised herein with regard to the pattern of communications and interrelationships are in consonance with the type of coordination and control mechanisms used to group together (rather than altogether) autonomous units.

7.2 Operating Issues
The origin of the bus transport industry's delicate situation can be traced back to many of its operating methodologies. Orski (1982) has enumerated a number of contributing factors:

... generous wage settlements, inflexible labour practices, deferred maintenance and unreliable equipment ... cities went on running buses on fixed routes seemingly oblivious to the fact that demand for such services was dwindling ... little effort was made to design and market bus services with the customers in mind ... artificially low fares ...

The 1985 Transport Act aimed at reversing the trends cited above, through
the deregulation and privatisation of the industry. Competition amongst bus operators and between the industry's product and its main substitutes on the one hand, and the profit motive that would result from private ownership on the other, were seen as the means to revitalise the bus industry. The state monopoly - assured by the control of route licensing - was considered to be a major impediment to experimentation and innovation. At the same time, it was claimed that the effect of competition ... on costs and prices is so widely seen that few would question its validity or its importance (Morlock and Krouk, 1983).

The new legislation was thus regarded as a framework that would induce changes in practically all areas of the industry's business, i.e. production, design and sale of bus services. This chapter considers the major strategies pursued by Midland Fox within this context.

7.2.1 Production
The major production factors utilised in the supply of bus services are labour and vehicles and constitute the major items of operating expenses.

Labour
As in any other industry a bus operator may own its buses but it can only hire its labour force. However, bus companies face a dual problem of being labour intensive but unable to use both its production factors evenly throughout a normal production period (i.e. during one day or throughout the year). In fact, because of peaks in demand and other adverse time-related environmental factors (e.g. congestion, population dispersion), bus operators invariably carry additional drivers and vehicles to supply a product consumed only during a fraction of the total time that they are employed (drivers) or that could be utilised (buses) as productive factors.

The issue of labour costs played an outstanding role in the argument in favour of the deregulation of the bus industry. Operating costs were regarded as having soared during the 1970s and early 1980s, not only as a result of high wage rates and fringe benefits that were awarded, but also because productivity levels led to more drivers being recruited in order to produce decreasing amounts of services. It was claimed that as a result of deregulation, operating costs could fall by as much as 30%. This would not only ensure the financial viability of bus companies but it would also reduce the need for public subsidies. Bus users would benefit from lower cost provision of services via lower fares and public authorities would enjoy low
cost bids being submitted for tender services.

There is wide recognition that in fact operating costs have fallen substantially since the full implementation of the Transport legislation in 1986, although it is less certain whether they have been translated into a welfare gain (Savage 1986).

Nonetheless, it is apparent that three major factors provided opportunities for the prosecution of significant savings in labour costs:

1. the removal of the restrictive labour practices imposed on state-owned companies by a national negotiation machinery
2. the pressures associated with a more open market
3. the privatisation of the major nationalised bus group.

The important role of these factors is intrinsically acknowledged in the case of the MF bus company:

- Many aspects of payment that had been formerly agreed nationally were totally disbanded (CD)

- The staff now realise the importance of the profitability of the garage. They are fully aware that MF stands or falls according to their performance. There is no longer (the major nationalised) group to bail us out (DGM 2)

- When we became private, our Directors originally took a gamble by putting a lot of money into the company. The company was not very successful and obviously a lot of new negotiations had to be agreed upon with the unions (DGM 3)

Main savings were expected to be achieved in two major labour related areas

1. employment conditions
2. productivity

Table 7-3 contains extracts of the Wages and Conditions agreement in effect at MF during 1990.

The main conclusion that can be drawn from the type of labour contract adopted by MF is that it confirms the views expressed by many (eg. Savage
Table 7-3

Extracts of MFs Labour Agreement - 1990(1)

Wages & Conditions

1 One basic hourly rate applies irrespective of
   a the amount of hours worked in excess of the minimum hours guaranteed/day
   b of the period of the day (early or evening)
   c of the day of the week (Saturday or Sunday)

2 Guaranteed hours/day: 7.00

3 Rates of pay

<table>
<thead>
<tr>
<th>Time of Service</th>
<th>Vehicle Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16 seater</td>
</tr>
<tr>
<td>up to 6 months</td>
<td>£3.00</td>
</tr>
<tr>
<td>6 - 12 months</td>
<td>£3.10</td>
</tr>
<tr>
<td>plus 12 months</td>
<td>£3.40</td>
</tr>
</tbody>
</table>

4 The company does not pay meal breaks but there is a 10 minute/day allowance at the start or at the end of a duty

5 Split shifts are accepted practice: in a 12 hour spread, 2 hours will be unpaid

6 Spare drivers can be detailed to do garage maintenance or other labouring types of job, if not driving

7 There are no specific scheduling guidelines to be applied uniformly by all depots

8 Holiday entitlements: Accrue according to the length of service with the company

<table>
<thead>
<tr>
<th>Time of Service</th>
<th>Entitlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 2 years</td>
<td>20 days</td>
</tr>
<tr>
<td>2 to 4 years</td>
<td>22 days</td>
</tr>
<tr>
<td>4 to 6 years</td>
<td>23 days</td>
</tr>
<tr>
<td>over 6 years</td>
<td>25 days</td>
</tr>
</tbody>
</table>

9 Sick pay entitlement: depends on the length of service as in the following table

<table>
<thead>
<tr>
<th>Time of Service</th>
<th>Entitlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 2 years</td>
<td>Nil</td>
</tr>
<tr>
<td>2 to 3 years</td>
<td>4 weeks</td>
</tr>
<tr>
<td>3 to 4 years</td>
<td>6 weeks</td>
</tr>
<tr>
<td>4 to 5 years</td>
<td>8 weeks</td>
</tr>
<tr>
<td>5 to 10 years</td>
<td>13 weeks</td>
</tr>
<tr>
<td>over 10 years</td>
<td>26 weeks</td>
</tr>
</tbody>
</table>

The company does not make any payments for the first 3 days of sickness. Payments are awarded at the basic hourly rate, multiplied by average weekly hours, less statutory sick pay.

(1) Part of a three year package agreed in March 1986
op. cit, Dodgson and Katsoulacos 1991), that the deregulation of the bus industry has led to a tightening of the conditions of employment in relation to their pre-deregulation standards.

A major factor in this process of change is the relationship that evolved between management and labour. The basic challenge facing management in the post-1986 era was implementing changes to labour practices without alienating the company's employees in general, particularly those whose proximity to market forces (to both users and other competitors) made them more likely to affect the company's performance and image. Fielding (1987) pointed out that bus operators have relied more on employee involvement and less on confrontational tactics in their efforts to revise work rules and reduce upward wage demands. Besides, this methodology conforms with Trade Union's claims prior to deregulation:

- ... so let no-one say that we are opposed to changes. What we are opposed to are any sort of unilateral decisions which bring these changes without us having any say or input before the final decisions are made (Morris, National Secretary of the Transport and Workers Union, 1982)

MFs approach to labour relations does not differ essentially from the above:
- we have got to consult the Trade Union ... it is far better to advise them in the first instance of what you intend to do and let them have an input to the extent of slightly moulding it (CD)

Whilst at the same time explicitly stating that
- Ultimately, the decision is the company's. (CD)

Nonetheless, this type of relationship is acknowledged by management to have contributed to the desired changes in attitudes:
- We have a very committed Trade Union to the company: they don't say that the men get better opportunities if they 'rip off' the company. The company has got to be successful in order for the men to benefit from that success (CD)
- In brief, I think that one of the most important changes has been the good working relationship that we have with the Trade Unions (DGM 2)
- ... everybody's aim now is to work in one direction - for the good of the company to safeguard everybody's jobs (DGM 3)
More importantly, it is an approach that has proved valuable to those who are sceptical about the role of Trade Unions:

- They (Trade Unions) only agree when it suits them. If it doesn't, they put all sorts of obstacles in the way. I found that to be very much so, even in this organisation, although we have a fairly unique system here, where there is a reasonable cooperation between the two parties and it proves, in the main, to be effective (DGM1)

The changes indicated in Table 7-3 have therefore to be envisaged within this framework of relationships between labour and management, a type of relationship whose ultimate goal goes beyond the single implementation of new wages and conditions. It generated a sense of trust between the parties and a redefinition of patterns of behaviour and beliefs.

However, as was noted by Turner and White (1987), regional factors have also had an important impact on these labour changes. In MF's case, two factors have played a significant role.

Firstly, the competitiveness of the local labour market - the geographical area where MF is situated, ... being a heavy (mainly engineering) industry type of area, was characterised by high competition for labour (CD). This meant that traditionally the previously nationalised company had been a good wage payer in order to compete in the labour market; and

- We have been unable to break that situation in terms of long serving drivers ... in terms of rates, we did, I fear pay rather heavily. (CD)

Secondly, local private employers do not award as generous fringe benefits as the bus industry was known to practice (eg. Heseltine and Silcock 1990, reports that prior to deregulation, 8% more staff was required to cover for holiday entitlements alone).

- There are not many employers around this area who give more than 20 days holiday leave (CD)

which provided an important incentive to

- ... bring the holiday entitlement more into line with other employers because 28 days plus bank holidays (the then existing practice) was out of all proportion (CD)
Finally, it is important to note the role that a new input factor - mini/midi buses has played in the configuration of the labour agreements (re. wage rates).

- Where there was a significant break was with minibus drivers (CD)

As Mohrin (1983) suggested, the survival of minibus operations depends on a wage differential between conventional and mini/midi bus drivers. This view was echoed by DGM3, whose depot comprises exclusively mini/midi buses:

- You have to take it into perspective. The big bus will go out and carry 85 people. The most we can carry is 31 (with midibuses) and 21 (with minibuses). So basically, we couldn't afford to pay the minibus driver the same as the big bus driver ... it would just cripple us altogether (DGM 3)

In spite of wide regional variations, and of the differences in rates of pay according to length of service, Banister and Mackett (1990) concluded that overall labour costs are some 15 to 25%, less in the minibus sector. Table 7-3 indicates that this differential in MFs case is 32% and 28% after 12 months of service in relation to mini and midi bus drivers respectively.

Table 7-3 shows in addition that premium rates were abolished and that the number of hours/day for which there is guaranteed remuneration was reduced from 7hours 48minutes to 7hours. These facts, together with the acceptance of split shifts - something that ... the Trade Unions were resisting very heavily 5 or 6 years ago (CD) - form an important basis for improving productivity. Under the current terms, a driver who effectively works 10 hours will earn £50 gross per day. If the 7hr 48min clause and overtime rates (first hour at time and half, remaining hours at double time) based on £5 basic rate applied, it is estimated that that driver would have needed to work for 9hours 09minutes to earn the same £50 per day. From a depot total of 85 duties, nearly 15% involved more than 9hr 30min work and just over 9% less than 7hours. The average length of duties was 8hr 15min. This confirms that:

- Drivers are putting more of their own time in, to get the same sort of wage at the end ... but this has been more readily acceptable than actually saying, right we are taking x% off the wages ... one thing that really demoralises people is if they were to feel that they are working one hour and are getting paid less for it than before. (CD)
The relatively low number of duties under 7 hours, together with the reduced time allowed to sign on and off, and unpaid meal breaks, signals substantial improvements in the ratio of paid hours to worked hours. According to Heseltine and Silcock (1990) the latter two factors accounted for much of the almost 30% paid time that was not spent behind the wheel driving prior to deregulation. It was also reported by MFs Commercial Director that in a 750 hours rota ... there are 10 non-working times on these schedules, for ... the only time we pay anybody for not working is if we can't give him 7 hours work. This raises the question of determining the optimal number of guaranteed daily hours. It is recognised that it must be long enough to attract quality staff, but it must not be too long to avoid underutilisation. It must be stressed nonetheless that this issue does not by itself overcome the need to carry excessive resources during the peak periods. Scheduling techniques must be incorporated to take full advantage of the rules imposed by labour contracts, together with product initiatives aimed at utilising capacity as fully and as continuously as possible. The former must aim at providing a certain quality of service utilising the least amount of resources whilst the latter ensures that buses and drivers are used to produce what they were primarily employed for - as factors of revenue generators.

Depot 1 relies on the fit between network requisites and contract work, together with a three-way rota system, so that drivers are staggered over the day in three shifts. This shows a ratio of peak/off peak vehicle requirement of 1.46. Depot 2 stresses the scheduling flexibility afforded by the labour agreement and more importantly enjoys a peak/off peak ratio of 1.4 for conventional buses and 1.0 for the minibus operations. Depot 3's minibus network also has a unity ratio between peak and off peak requirement (from early morning until 19.00hrs) and places increasing importance on Private Hire as a revenue complement to its stage carriage operations, and on very tight schedules. It is in this context that the major concern expressed by the Depot General Managers with regard to efficiency was associated with the potentially non-productive role of spare drivers, ie. drivers who are scheduled every day to cover for absenteeism. As Fielding (1987) pointed out, ... unscheduled absenteeism is not only costly (re: additional staff have to be employed and/or existing ones paid extra), but it also degrades the quality of service (re: missed journeys). On average, the number of spare drivers represent 5% to 6% of the scheduling requirements (Heseltine and Silcock [1990] suggested that prior to deregulation this figure could have been as high as 18%).
MFs labour agreement permits the utilisation of these drivers on other duties (eg. vehicle cleaning, traffic related jobs in the garage, eg. cash collection) when they are not requested to drive. In general though, spare drivers are required to perform driving duties, a trend which is particularly strong in the minibus depot -

- *I am in a happy situation - if you can say happy - where I can say that they are always used* (DGM3)

Unlike the suggestions made by some (cf. Hall, 1986; Glaister, 1986), both absenteeism and staff turnover are acknowledged to be greater amongst the mini/midi bus drivers than the drivers of conventional buses. Mini/midi bus drivers were said to

- *have all the domestic problems of a young person and couldn't get used to shift work* (DGM3)

In the depot that employs solely conventional bus drivers, a different situation arises:

- *we have only had one person leaving in 20 months and that was 19 months ago* (DGM1)

There are evident savings associated with low staff turnover rates

- *this saves us considerably over the years in uniforms, recruiting, training, lost mileage* (DGM1)

As Stanley (1988) pointed out, drivers with Public Service Vehicle (PSV) qualifications are in short supply, and more importantly there are areas in England where the waiting time for tests is 8 weeks plus two more before the licence arrives. Stanley concludes that a company has to forego 10 weeks pay before a new recruit can be used in production.

Finally, it must be pointed out that the consolidation of wage rates has had an important impact for the general managership of the depots in so far as:

- *it is easy to identify the specific costs of a particular journey and the cost of operation of MF is similar throughout the day, throughout the year* (DGM2)

This change must be seen as an important factor for the *cost awareness* type of behaviour that the Company's Directors have sought to transmit since its privatisation.

Labour issues constitute a major item in the study of the management of change in the context of the privatisation and deregulation of an industry, but
those associated with the capital that is used in the production process (ie. buses) assume, in the case of the bus industry, a particularly important strategic role.

**Capital**

This section concentrates on maintenance and replacement strategies associated with the industry's biggest capital item of production (buses). They account not only for a considerable % of total costs - eg. maintenance costs are said to represent up to 30% but also for the quality of the product supplied (eg. reliability).

**Maintenance practices**

Driver productivity is difficult to measure (eg. Transportation Research Board, 1987) and control, but maintenance practices are visibly more accountable because they impact directly on performance.

The changes in MF were reported to reflect the overall organisational culture that has emerged since deregulation/privatisation. The depot approach and its underlying characteristics are high exponents of this new culture. The effects on the maintenance function in particular, were said to

- ... have made people much more cost-aware, preparing their own budgets and expenditures ... gave us greater efficiency on direct labour and greater control and commitment from that direct labour to do the right job on the vehicle (MD)

and in general

- ... before it was a 'them and us' syndrome. The traffic people played with buses over there. We played with our engineering bits here and the two didn't really relate. Now they do ... what they spend on engineering has a massive impact on what buses are actually running on the road (MD)

There are two areas related to this capital input which are capable of exerting significant pressure on a company's resources:

a investment in parts and accessories

b the cost of labour repairs
In the past, it was acknowledged that:
- employees were used to a situation where there was a massive store filled with new parts and if they wanted something they could go and get one and excessive over engineering... and the supervision left something to be desired (MD)

By transmitting responsibility and accountability to individuals: this is what we expect of you, this is what you job is,.. this is how you will be monitored, this is how you will be rewarded a different conceptual thought evolved in terms of the realisation of the cost of what they were actually doing (re: whether that part needed to be exchanged, whether that job needed to be done (MD)

It is in this context that the major economies have been: not necessarily in terms of labour but in terms of parts usage... we ourselves replaced parts that broke down rather than saying that engine is no good, we will exchange it for another (CD).

Another source of cost savings is the policy of standardisation in types of vehicles, which enhances the interchangeability of spare parts. However, it must not be inferred that the cultural difference induced by the organisational mechanisms previously described results in a totally effective maintenance system:

- I am not saying that we are super efficient now, far from it. There is scope to do things engineering wise (MD).

Nonetheless, the urge to achieve or maintain certain overall levels of performance is further reinforced by the fact that the monitoring function of maintenance activities is not limited to internal controls to the extent that:
- ... every year we religiously go out and get quotas (for sub-contracting maintenance work) just to make sure that we are not becoming too complacent ourselves (MD)

However tight the control of maintenance spending and efficiency, maintenance costs are invariably related to the age of the vehicle fleet. Furthermore, old fleets are usually associated with higher ratios of base/peak vehicle requirements. MF has an old capital base and ratio of base/peak vehicles that varies between 13: to 18% in the 3 depots considered in this study. This is nevertheless an industry-wide characteristic. The scale of deferred investment is illustrated by Heseltine
and Silcock (1990). For each year between 1985/86 and 1988/89, about 3,880 new conventional vehicles should have displaced 4,730 old ones. Instead only an average of 1,990 new buses a year were registered.

It is therefore crucial to analyse the strategic posture of individual operators in relation to the issue of the replacement of their fleets. The case of MF is considered in the next section.

**Fleet replacement**

In order to understand MF's current strategies with regard to fleet replacement, it is important to identify beforehand the major factors that have led to the present fleet composition and requirements.

It could be said that the format of MF's current fleet, which started to take shape back in 1985, was the result of the interplay of two main factors

a. the scarcity of funds
b. the workings of market forces

Scarcity of funds demanded investment in vehicles with low life-cycle costs, i.e. vehicles with low initial purchase prices and reduced operating and maintenance costs. It is generally accepted that minibuses fit this type of investment (e.g., Gomez-Ibanez, 1987; Turner and White, 1987). The workings of market forces must be considered within the framework of the two main agents that are active in any market: other suppliers and users. MF's early strategy was one that sought a strong market presence. A little before deregulation there was a universal conviction that this strategy could only be turned to advantage - in terms of capturing patronage - if an operator could run more frequent services and thus more buses, than its competitors. Minibus operations clearly fitted these competitive requirements. It is in this context that MF acquired large numbers of 16 and 25 seater type of minibuses. Furthermore, they have proven their suitability to the type of network that was designed then and which has been developed ever since. In urban areas a conjunction of radial routes and suburban links boosted patronage to unexpected levels. In smaller towns an evenly distributed demand has led to ratios of one in peak/off peak vehicle requirements.

However, the higher patronage demand flows, and more importantly the deterioration in traffic congestion has had a progressively adverse effect on a crucial item of bus operations - time. As a result, bus operators face wider discrepancies between wage costs, and the amount of fares collected - the former are time based whereas the latter are mileage based - and more
buses and drivers are needed to supply a given amount of bus miles. As Webster (1986) pointed out, bus operators that attain and are able to sustain market successes may be forced for reasons of profit, to change the composition of their fleets in favour of fewer larger buses. This is a view shared by MFs Managing Director:

- *The 16 seater is dead long ago. The replacement situation is going to be in the larger minibus - eg. 30/35 seater type of vehicle. They are more economic. They have better fuel consumption.* (MD)

However, the role of the more conventional buses is not disregarded:

- *Having said that, there is still scope for double deckers and single deckers. We want double deckers during the peaks and/or higher quality, aesthetic single decker vehicles, which can carry volumes of people at peaks and also be very comfortable for the off peak passenger (these are the views of the CD)* (MD)

In brief, it becomes apparent that whilst there exists a need to review (and probably to add) double deckers and single decker type buses - especially in high density population areas (eg. Depot 1), there is an underlying corporate shift towards increasing the capacity of the mini/midi bus fleet:

- *The 16 seater does come in for a lot of criticism now ... but ... we still want to be able to take the bus where the passenger is.* (DGM3)

However, there remains a considerable shortfall between the income and the costs of bus operations on the one hand, and the considerable amount of capital investment requirements on the other. Furthermore, in the case of MF a large proportion of vehicles is reaching the end of their useful lives within a reduced time scale interval, and many have already had their lives extended. These facts are clearly acknowledged:

- *Given the age of the fleet that we have got, no way can we go out overnight and buy 100 new vehicles* (MD)

as is the aim of the replacement strategy

- *We have to smooth this pattern out* (MD)

In fact, MF has focussed its capital investment strategy on replacing older buses with slightly younger ones, and on acquiring a limited number of brand new vehicles. In doing this,
- ... we moved the problem away a little bit, to spread it over a number of years (MD)

This is a strategy that has to be understood within the context of the prevailing conditions in the second-hand bus markets, as well as of the returns generated in relation to the investment made on the capital employed.

The excess supply of second hand (conventional) buses has been created mainly by bus companies that are still under the public sector control - PTEs and municipals. Many of these vehicles are 12 years old. Given that:

1. their average price is £4,000 - £5,000
2. they have a further 5 - 8 years productive life left
3. the returns in the industry are generally low (MD),

such investment seems very good especially when compared to one of £100,000 (the price of a brand new double decker) with a 20 year life (MD). Furthermore, the maintenance costs of buses that are 3 or 4 years newer than those that we have got are expected to be exactly the same (MD). The difference that may exist is between makes, for example, we can maintain new Metro buses for 60% of the cost of the Fleetlines (MD).

However, the replacement strategy just described is not envisaged to be a long term one:

- There needs to be a balance. We can't go on doing that. It represents above all a response to market opportunities (re: 2nd hand vehicles) (MD).

There is a final issue that ought to be addressed in the context of fleet renewal and/or additions: the methods used to finance such investments.

Deregulation, it was claimed, would provide for the development of rental and leasing operations. As a result, bus companies would be able to 'try the market' before more permanent commitments had to be endorsed - thus augmenting the contestability of the markets - and opportunities for the industry's old capital stock to be gradually replaced, enhanced.
Until MF joined a major holding company, the position was one of buying everything for cash (MD) and leasing was said to represent a greater commitment to the market to the extent that:

- only after 10 years can you get rid of the vehicles, and some companies can't continue in existence for that long. The value of the asset is very quickly less than the outstanding payments on the lease (CD).

However, being part of the holding group has meant that

- The decision is not made by me now. Whether to buy for cash or lease ... we put forward capital expenditure programmes to the group and they say either to buy out of cash or to lease. At the moment (the holding group) is following a policy of leasing its assets (FD).

Much of this shift in policy has been attributed to the financial structure of the holding which makes the picture slightly different (MD). The endorsement of such policy buying vehicles now is to tie up cash (MD) must be seen within the present MFs business philosophy in so far as:

- What we want at the moment is for cash to be available to take advantage of opportunities that will come up in other areas (MD).

It can be argued that the 1985 Transport Legislation aimed at creating a business oriented industry to the extent that product management could be determined predominantly by commercial considerations, even in the cases of unfulfilled social demand (re: the tendering process). Having outlined the strategic orientation of MF with regard to the main production factors, it is important to analyse, within the context of the new legislation, the Company's strategy in relation to the design and pricing of its products.

7.2.2 Supply

The main policy elements of the 1985 Transport Act were defined by Beesley (1991) as encompassing deregulation, privatisation and subsidisation. Basically they were designed to foster a change in the predominantly social type of environment that characterised the industry in the proceeding 30 years. Deregulation aimed at relaxing entry requirements which together with privatisation and the new subsidy arrangements were meant to create an entrepreneurial approach in the industry capable of ending ... the inertia that currently exists (Department of Transport, 1984).
This section comprises an analysis of the changes that were claimed would occur at bus company level, for ... the managers of bus operations will have more freedom to manage (Department of Transport, 1984), and concentrates on the issues related to MFs supply of its dominant products.

Product strategies
The industry's product can be defined in terms of miles/seat miles. Either of these constitute what a bus company has for sale in the market. Vehicle miles/seat miles are organised into local bus services whose combination forms the network of operations exploited by bus companies.

The subsidisation model currently in force in the industry has created the need to distinguish between the groups of services that are provided commercially, ie. those not eligible for direct public subsidy, and those that are supplied on tender, on behalf of the local authority - the tendered services.

However, bus operators do invariably supply other types of products which may or may not be related to the provision of local bus services. Table 7-4 is a summary of the products supplied by the three depots under consideration. There is one outstanding feature in this information. As a result of depot autonomy the company's operating units, faced with different environmental constraints and opportunities clearly show distinct patterns of network services as well as business priorities (re: supply of other products eg. tender work, private hire, excursions). Most of the differences in the network characteristics are determined by broad demographic features. Depot 1 is located in the periphery of a major urban centre and is mainly concerned with transporting people to and from the city centre (DGM1); Depot 2 operates in two free standing towns whose individual network configurations were designed to fit different movement patterns of demand mainly associated with historical conditions. Finally, Depot 3's minibus network caters for movements inside the urban perimeter and complements the big bus network run by Depot 4.
### Table 7-4: Types of Product

| Depot 1 | Nearly 95% of our business is stage carriage  
We run direct express services to nearby towns  
Tender work represents only 5% of our business  
We also do private hire work and excursions (DGM 1) |
|---------|--------------------------------------------------------------------------------------------------|
| Depot 2 | We do very little rural work  
We do a little of private hire  
During Summer we are involved in an express service |
| **Town 1** | Radial pattern  
Local bus service is probably 75%  
Interurban services account for the rest  
Tender work is probably no more than 10% |
| **Town 2** | Local bus services are mainly across town  
Tender work is probably 25% (DGM 2) |
| Depot 3 | Most of our routes are radial  
We do very little tender work : it represents about 2%  
We do private hire with our 16 and 25 seat buses (DGM 3) |

### Table 7-5: Defining Demand Characteristics

You are buying movement from A to B which you want to get away as quickly as you can. So you walk to the bus stop, you get on the first vehicle that comes in and it doesn't matter whose it is.

(CD)

Our theory is that in an urban area, you should be trying to provide at least a 15m frequency, although a 10m frequency is better, you don't necessarily need to provide better than a 10m service.

(CD)

It is normally best policy to run a 10m frequency rather than a 30m frequency which may operate nearer to where people live. However, the 30m frequency doesn't give them sufficient confidence to use the network.

(DGM 2)

The public want reliability ... I certainly found that if you give passengers reliability, they will stay with you ... If a person comes out for a bus at 6.00am and he/she knows that the bus is going to be there, he/she will come out every morning.

(DGM 1)
However, the overall characteristics of a product are often related to the dominant corporate understanding of the product's ultimate aim. Bus services are generally regarded as a volume business supplied to provide a movement between two points, that is as a means to an end (Prowda and Draeger, 1982). This is the view held by MFs Commercial Director:

- Providing a bus service is to provide a service for groups - large numbers of people ... you are not buying a bus journey, you are buying a movement from A to B.

and this is a concept that has been adapted to the new commercial environment:

- Buses are a tool to actually earn money. They are just to pick up people (DG M1)

It is in this context that, in an urban area, a radial type of network is seen as the most adequate configuration for it does reflect the bulk of transport needs (CD).

The supply of a predominantly radial network that aims at providing regular services from A to B meeting capacity movements rather than individual needs (CD) requires highly frequent reliable services together with an adequate access to the network. These product features are in fact in accordance with the way in which demand is perceived to behave in the new market environment (Table 7-5, page 147). They are also essential for a strategy of service design whose priority is to agglutinate market segments that are difficult and recognizably costly to identify and quantify, for the value of the market is low anyway (CD).

MFs product strategy can thus be said to rely on the supply of services with broad characteristics based on general travel patterns. For example, ...There are insufficient people who want to travel at the same time to make (a peripheral) service commercial. But there are lots of people who will gather together to travel to the city centre and even to travel out again (CD).

However, there were examples to suggest that the regular monitoring activities that take place are susceptible to induce adjustments by reinforcing certain service characteristics that meet the needs of specific market segments (eg. limited stop services, improved accessibility to the network). Nonetheless the lack of a comprehensive market research programme was evident throughout this case study. The role that such programmes can play
in monitoring the dynamics of a market has been widely exemplified and its value recognised (Lovelock et al., 1987).

Table 7-6 provides a summary of

1. the main criteria used in MF for considering changes in existing services.
2. a brief description of the kind of market and costing analysis that is undertaken when the creation of new services is envisaged.
3. the company's position with regard to product substitutes.

The information gathered in this table unveils a number of aspects related to product strategies in the post-deregulation commercial environment at company level.

Four major issues merit further discussion.

1. Statement 1 clearly indicates the practice of cross-subsidisation between services.

Cross-subsidisation between services involves transferring above normal returns from one route in order to maintain the operations of another whose supply costs do not cover the receipts accrued. As a result, users of the first route pay higher prices or face a poorer quality of service, had the quantity supplied expanded to eliminate the abnormal profits needed to preserve the second route. This was a practice supported by the authorities prior to deregulation as a means of keeping levels of supply (re: the size of networks) increasingly in excess of the quantity demanded. The subsidy arrangements up to 1986 consisted mainly of blank payments and were seen to encourage cross-subsidisation. The 1985 Transport Act sought to change this situation by introducing a system that would finance directly the operations of unremunerative, but socially desirable, services by awarding them as contracts on competitive tenders. Under these circumstances it was claimed, there would be no need for internal cross-subsidisation. Competition and/or the threat of entry into excessively profitable routes would deter bus operators from cross-subsidising their services.

Although cross-subsidy between routes must be seen in this case study to be part of a strategy to defend and prevent entry into a core of services, it also has some connection with the effects of the new method of subsidisation.
A. Changes in Services

1. Existing Services - Criteria for Changes

1 CD If the revenue does not cover the costs relating specifically to one service, we start with the premise that the service is not worth running ... there may be situations where we may decide not to abandon a service even though it is losing money ... the County Council could put it up for tender and introduce competition into the profitable route.

2 DGM 1 ... the only time that we make significant changes is when our network is directly affected by competition.

3 DGM 2 The first thing you look at is profitability. If a service is performing inadequately you need to look at that particular service and decide what alterations to make to improve it, if any.

4 DGM 3 Basically we only change routes if the number of passengers is falling.

2. New Services

2.1 Market Analysis

5 CD The market analysis that is undertaken is limited to looking at the existing market, and at small opportunities which with house building as it is currently stands are very few. It is often looking at where there are new opportunities, eg. where there is the new estate ... is there a new opportunity for persuading people that the bus is the right idea?

6 DGM 1 Prior (to developing new services) there is a lot of research to be done, eg. finding how many persons are actually working, the size of the housing establishment (it would have to have more than 500 people to get any sort of reasonable return), the type of road network, the various times to and from various points. Then you look at the financial implications. We look at what kind of people are living there - whether there are young families with working mothers who have two cars.

7 DGM 2 MF do very, very little market research. In a new service situation you look at the estate, at the format of the housing, at the density of the housing and then compare that with a similar estate elsewhere in which you have had experience. From that you will determine the level of frequencies that you will put into the estate, if at all.

8 DGM 3 We look at areas that have been built upon. We look to see if there is a need to put any extra buses or extend the routes.
2.2 Costing Analysis

9 DGM 1 If you have a situation where we do not need to put additional resources then we would say - Right, we could do a bit of rerouting, rethinking of our services to actually just incur into marginal cost. If we would need to put total resources, then it would make us more or less hang about.

10 DGM 2 The major factor is whether or not you increase the number of vehicles in the garage ... if I am going to start a service that operates once a day at 12 o'clock lunch time, we already have the majority of resources in the garage for that. So it will only cost me perhaps the additional driver's wages and a little bit of mileage.

11 DGM 3 We sit down and work out how much it will cost to run these services and what we need to get out from that to make it cost effective.

B. Product Substitutes

12 CD It is impossible to capture the car market. The bus has no advantage over the car in the eyes of the motorist whatsoever. The car is very flexible in terms of time within the constraints of congestion ... it is far better to take the car to the works car park than it is to walk from the bus station which may be 1/2 mile away ... the bus will come at a particular time rather than standing waiting at the drive of the individuals house.

A greater frequency of services was possible with a minibus and this has encouraged more people to travel by public transport ... but the scope for that has ended. The things that would make a bus journey more attractive than a car journey are beyond the control of the bus companies (eg. travel faster to the city centre, get nearer to the city centre or to the work place or wherever people want to go).

13 DGM 3 I would say that we have taken more cars off the road than have been put on since the time that we have been operating our minibuses ... I put my minibuses where the cars were the only ones that were able to go at one point.
As Beesley (1991) acknowledged, the 1985 Transport Act aimed at not only changing subsidy payment methods but also at reducing the amount of these payments. As a result, Public Transport support fell in a two year period from £312m to £184m in real terms. Although the industry still remains heavily subsidised - costs per vehicle Km have also fallen sharply - the fact is that local authorities are looking at the very lowest possible bids in any work that they offer (CD) for Central Government is merely putting financial constraints on the County Council to limit the amount of money that is available (CD). As a result the cheapest possible provision (of tender services) depends upon cheap, second hand vehicles, low paid drivers and back street operations. (CD)

Abandoning a loss-making service which is nonetheless important to the core of services in the sense that it makes a contribution to a profitable trunk route, may not constitute the most advantageous solution for a major incumbent given the lowest possible price policy of the County Council to tender services. The fact is that there is no guarantee that the County Council, following the abandonment of a service, will not impose operating conditions that may force the previous incumbent to incur even higher costs than previously if it wishes to regain that route by direct subsidy. A potential entrant that is prepared to accept returns from tender work which will not sustain the industry in the future (CD) but that ultimately may introduce competition in the profitable routes, is in this way forcing the incumbent to defend its core through some form of cross-subsidisation.

However, according to Beesley et al (1984), a service is only genuinely loss-making if, by withdrawing it, the avoidable costs exceed the revenue lost in the context of the overall network. That is, there may be a reduction in through ticketing and season ticket receipts as a result of the linking (loss-making) service being abandoned. Otherwise, they conclude that none of this involves cross-subsidy in a strict economic sense.

2 As far as changes to the existing network are concerned, it is apparent that the evaluation criteria greatly relies on the attainment of set standards of performance. Changes are triggered either by events (eg. new competition) likely to adversely affect targets that are currently attained, or after a conjunction of undetected factors have led to performance below existing levels. Fielding (1987) has suggested that bus operators ought instead to adopt an approach that emphasises the best alternative investment, that is, service returns should be compared and resources allocated on an opportunity cost basis. This criterion would force bus
companies not to focus exclusively on problem routes and ignore satisfactory ones. At the same time, as he pointed out, the frequent user cannot be regarded as a captive patron and changes in existing services should also contemplate upgrading quality factors of supply on those routes that presently meet performance thresholds.

3 Statements 5 to 8 confirm Fielding's (1987) findings that bus operator's methodology for launching new products is grounded on simple methods. The early stages in this process involve scanning basic environmental factors (e.g. housing size and configuration, population characteristics). The next phase is one of comparing this data with analogous situations. As in the judgmental method described by Fielding, it is assumed that, over a certain period of time, similar demographic characteristics are expected to have similar travel patterns, require identical operational elements (e.g. frequencies) and have similar consumption rates. The internal assessment of the most cost-effective way of supplying the new product - of which the peak factor is the most decisive element (statements 9 to 11) - complement the financial analysis required for the creation of new services.

In brief, it is apparent that the overall potential success of a new product is more important than a precise definition of demand estimates, even if only because of a lack of available resources to undertake further market research.

4 According to Onkivist (1989) the ultimate goal of a company's product strategy is to get people to have more frequent and more varied usage of the services provided. However, as in any other industry there are products in the market that perform identical functions from a buyer's point of view.

The main product substitute for bus services is the private car, although in some areas other modes of public transport (e.g. rail and metro) also compete strongly for a share of the overall market.

Statements 12 and 13 reveal

1 MFs standing with respect to private transport.
2 the achievements made since 1986.
3 the future prospectives for capturing or retaining part of this transport market.
There has been considerable research into the reasons why private transport has prevailed as a superior product to public transport\(^1\). Statement 12 emphasises the wider functions that the use of a car offers and its identical - or at least not inferior - performance in situations where competition for road space is at its highest. The underlying idea expressed in this statement is that users of private transport can only be persuaded to utilise public transport if the latter offers a number of quality attributes that enhances the user's propensity to switch. However, the propensity to switch modes of transport differs amongst market segments. To attract commuters into using bus services requires providing one important service quality - ensuring quicker travel time - which is beyond the control of bus companies (CD).

Congestion is mainly a peak problem but it coincides with the period of operations when bus companies transport the highest quantities of demand. To increase demand in the peaks without further increasing peak vehicle requirements thus calls for measures that reduce traffic congestion. The fact is, however that the way things are going we may have to increase measures just to match our current usage (DGM 1)

The issue of congestion has been widely debated and many solutions tried. They all appear to follow a distinct trend: reducing congestion by penalising the car user\(^2\). Furthermore, in other European cities, these initiatives have had the strong backing of public resources not only in their conceptualisation phase, but also in their subsequent administration and control. It is doubtful whether under the current British public transport policy there is sufficient incentive for local authorities to lead similar initiatives for:

- ... one serious effect of the 1985 Transport Act was that it took away from local authorities the belief that they had no powers in terms of regulating, controlling or providing infrastructure for public transport (CD)

It is in the context that a new marketing approach has emerged in the sense that it is not the user that you have got to attack, it is the politician (CD).

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1 See for example Beirer (1971) and Stephenson (1973).

2 eg. in Zurich, parking spaces have been designed with the aim of slowing down private transport traffic flows and underground car parking has been replaced by pedestrian areas (Tomorrow's World, BBC, 7 March 1991).
In this way, bus companies are spending their own resources in the preliminary phase, that is, in traffic studies oriented towards bus prioritisation, which are then submitted to the Council for consideration.

The success of these initiatives from an operators point of view is clear: to increase the average speed of the operations means high quality services at lower costs\(^1\).

The introduction of minibus operations has generated a significant amount of demand that value frequency, accessibility and reliability which are characteristics that can only be fully exploited and sustained in situations of relatively low traffic congestion. They are features that appeal to most off-peak segments of demand (housewife, elderly) for they override the values attached to previously preferred modes of transport (eg. car, taxi, cycle or walk). As a result most of the generated minibus traffic has occurred during the off-peak period - up to 70% or 80% of the peak traffic (Fawcett, 1989)

However successful minibus operations have proved to be in modifying the image of the industry’s product (especially in relation to its substitutes), there are now signs that in certain areas the minibus has lost its attractiveness to the general public (DGM2). It is difficult to single out the reasons for this trend. The fact that the expectations raised in relation to quality factors have now increased in terms of comfort and travelling environment (DGM2) may have played a significant role as does the income factor in any product substitution process - we have gone through a phase where more wealth has been available to more people and as soon as people get more money, they want to spend it. One of the first areas where they want to spend it is in a car. But as Banister and Mackett (1990) remarked, the image issue is likely to change in the long term if the new label diminishes and quality factors such as perceived reliability and time keeping deteriorates thus suggesting that continuing success may depend on operators maintaining a high profile and continued marketing innovation.

\(^1\) The relationship between average speed and costs per mile and per vehicle/hour is illustrated by the following data

<table>
<thead>
<tr>
<th>Operator</th>
<th>Average Speed (mph)</th>
<th>Cost per mile (£)</th>
<th>Cost per vehicle/hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10.31</td>
<td>1.384</td>
<td>14.27</td>
</tr>
<tr>
<td>2</td>
<td>10.71</td>
<td>1.276</td>
<td>13.65</td>
</tr>
<tr>
<td>3</td>
<td>13.70</td>
<td>1.033</td>
<td>14.15</td>
</tr>
<tr>
<td>4</td>
<td>16.80</td>
<td>0.874</td>
<td>14.68</td>
</tr>
</tbody>
</table>

Source: Hayward, 1991
Furthermore as Balcombe et al (1988) have acknowledged, the nature of
the increases in patronage has not been clearly identified, which can
constitute an obstacle to conceiving a marketing mix capable of making
sure that today's niche does not become tomorrow's grave (Fawcett,
1986). A crucial element of any marketing mix is pricing. The
Government's expectations were that fare structures would become a
potential area of innovation following the industry's full deregulation and
that a deceleration of the upward trend in real fares could be achieved.

Pricing strategies
Pricing strategies are generally seen as part of the goals pursued by
organisations. As Stubbs (1980) asserted, pricing is a means to an end.

Classical economic theory assumes that firms maximise profits and pricing
evolves from a marginal analysis of revenue and costs. In a situation of
competitive equilibrium, the theory asserts that from the stand point of
optimum allocation of resources prices should equal marginal costs. Some
economists, however, have claimed that it is not realistic to make this
assumption, for firms pursue different objectives.

It is not so much that firms do not wish to maximise profits but that the lack of
knowledge, the uncertainty of the business environment or indeed the
internal complexity of organisations lead businessmen to seek different
goals. In this way, specific theories have been developed based on
evidence of alternative behaviours. Some, like Simon (1971) and Cyert and
March (1963) dismiss the maximising behaviour and instead claim that a
firm aspires to attain satisfactory levels of profits and/or market shares.
According to Simon (1971), a firm that achieves these levels does not wish
to pursue maximisation. Others though claim that the objective is to
maximise sales subject to a maximum profit constraint (Baumol, 1962).
Baumol lists a number of reasons why businesses may adopt this strategy.
The reputation in the money market may be affected if a firm shows declining
sales volume and/or its market power becomes vulnerable as a result. At
the same time, an expansion in sales in one point in time can be seen as a
good means to earn more money tomorrow (Baumol, 1962).

In Baumol's model, price and output are set where total revenue is at its
maximum but not at its highest profit point. The minimum profit constraint -
which ensures investors the going rate of return - may in turn force a
combination that does not correspond to the maximum value of sales. A
reduction in output and an increase in price that emerges as a result may
ultimately lead to the profit maximising combination level.

Baumol's model has been associated with full cost pricing where prices are set at average cost plus the profit constraint that satisfies shareholders. Full cost pricing has been criticised on the grounds that it does not take account of demand and only by chance will the normal sales volume coincide with the demand at the calculated price (Bridge and Dodds, 1975). This method was nonetheless found to be used by 27 out of 38 UK firms in Hall and Hitch's study (1939) and in 6 of 13 others in a later study undertaken by Hague (1971). Furthermore, Skinner's (1970) work revealed that 70% of his questionnaire respondents claimed to use a cost-plus system but that demand, competition, costs and the desired profit margin all influenced prices.

MFs stated objective is revenue maximisation: the optimal fare is the one that maximises your revenue (FD). Fare levels are set according to what the market will stand (FD), mainly in terms of the price responsiveness of demand and of competition. If the costs of production plus the rate of return imposed on the operating units do not fit with that sort of revenue level (FD) then, it is not worth you operating it or you will have to do something about your costs (FD).

The bus industry experiences significant variations in demand over its production cycle which are associated with different degrees of sensitivity to price levels, and which cause wider differences in the costs of supply. These are amongst the issues discussed in the following sections which analyse the company's fare structure and the criteria for evaluating the effects of changes in fares on patronage and revenue. The role of competition in pricing strategies will, in turn, be analysed in the next chapter.

The fare structure
Table 7-7 is a brief summary of the type of fare structure used by MF. Three major issues merit further discussion

1 MFs fare structure reflects the traditional 'tapered fare scale' used in the UK, whereby the proportion between the distance travelled and the fare charged is tapered so that a passenger who travels short distances pays more per mile than the longer distance traveller. According to Cervero (1981), those who live in the inner-city whose trip length is less than two miles pay 10 to 12 times as much per mile as does the average user, who in turn pays twice as much as the suburban commuter. However, DGM 1's statement:
Table 7-7

Fare Structure

A Summary

<table>
<thead>
<tr>
<th>On-the-bus ticketing</th>
<th>There is a standardised fare throughout (DGM1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All the fares are within a similar band, that is, it is not £1 for 3 miles in one direction and £4 for 3 miles in another direction. As for differences in fares between peak and off-peak services, the only one that we have is the availability of return tickets. The same fares apply in both minibuses and big bus services. (CD)</td>
</tr>
<tr>
<td></td>
<td>City tickets: issued on board the bus allowing unlimited travel within the City area (Ticket Issuing procedures)</td>
</tr>
</tbody>
</table>

Special Fares (County Council)

<table>
<thead>
<tr>
<th>Travel Aid Passes</th>
<th>available to all unemployed people: half the adult single ticket.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concessionary fares for pensioners</td>
<td>half fare providing at least one end of the journey starts or finishes within the county borders.</td>
</tr>
<tr>
<td>For the Disabled</td>
<td>entitles the holder to a (fixed reduced) fare per single journey or to half fare depending on whether both ends of the journey are within the city boundary.</td>
</tr>
<tr>
<td>For the blind</td>
<td>Unlimited fare travel (Ticket Issuing Office)</td>
</tr>
</tbody>
</table>

Off-Bus Ticket Passes. For example:

<table>
<thead>
<tr>
<th>Type 1</th>
<th>the holder can make an unlimited number of journeys between the stages shown and intermediate points on the line of route.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type 2</td>
<td>allows the holder unlimited travel within specified areas of the network.</td>
</tr>
<tr>
<td>Scholars Contract Tickets</td>
<td>passes are valid for one journey in each direction at the appropriate school (Ticket Issuing Office)</td>
</tr>
</tbody>
</table>
- It could be said that most people who live in the suburbs pay less and they are better off, but we wouldn't be able to attract them to the buses otherwise. (DGM1)

confirms the assertion by Nash (1988) that tapering price with distance is the result of most operator's convictions that longer trips have higher elasticities.

It should be added that the company also operates a number of pass schemes that vary from allowing unlimited travel within different bounded areas to those that restrict the number of unlimited journeys within two predetermined points in one route. MF also operates day return tickets whose validity (all day, every day or only after 09.00am) varies according to areas of the network. It is difficult to judge whether these types of passes and tickets reflect any marketing concept aimed at targeting specific market segments or whether they are part of a competitive strategy to enhance customer loyalty. After all their availability means that there are different prices for the same product and as Oran (1983) pointed out, operators tend to loose revenue from unlimited-use passes. (Customer loyalty will be considered in the next chapter.)

2 There is nevertheless an underlying uniformity in the company's fare structure. For those who supported deregulation, it was hoped that a selective fare differential that reflects the costs of production could encourage more utilisation of services (Department of Transport, 1984).

It is generally accepted that the production of a unit of supply during the peak periods costs more than during the off-peaks. It has also been noted that price sensitivity of peak demand is lower than the off peak one. In this way, Lago and Mayworm (1981) argued that a peak/off-peak price differential would result in a net increase in ridership and revenue. However, marginal cost pricing in the face of decreasing costs can lead to operating deficits. It is in this context that Baumol and Bradford (1970) developed an alternative method in which demand elasticities and marginal cost information could be used to determine how the fare in each market should differ from the marginal cost. Nonetheless, a fare differential between time of day operations - which in MFs case is mainly expressed by the availability of return tickets - can produce an important function: it can encourage trips of a discretionary nature to take place during the off-peak period and thus reduce peak vehicle requirements.
It is important however to note that the concessionary fares policy operated by the County Council was said to have created off peak demand in quantities sufficiently near to peak levels (the case of Depot 2) thus making time-of-day pricing of little value.

Nonetheless, there is scepticism about whether management possesses the analytical means capable of:

1 providing strategic guidance on different pricing packages to sub-markets that have different price elasticities, identifying those that are changing in relative or absolute magnitude, and

2 of implementing and marketing a more complex fare structure.

However, the level of fares does vary from one depot's network to another. Other external forces (eg. competition) have contributed to these differences and they will be considered in the next chapter.

3 Notwithstanding the differences in the depot's level of fares, there are no significant variations between fares charged in services operated by minibuses and those run by the more conventional type of buses (eg. double decker /single decker).

For a given level of passenger seats it is clear that the operating costs of a minibus are higher than those of a larger vehicle, for the former can only carry a fraction of the latter's passengers but still uses the same amount of labour.

In spite of the claims that as a result of this difference fares would have to be higher (Farrington, 1986; Walker, 1982; Turner and White, 1985), there is little empirical evidence to corroborate these claims (Turner and White, 1987). As a matter of fact, as observed in section 7.2.1, minibus drivers' costs are substantially lower so that, as Banister and Mackett (1990) point out, staff costs may not increase proportionally to the higher number of vehicles - and thus of drivers - necessary to produce the same number of passenger seats. Furthermore, the additional quality characteristics of supply, mainly accessibility and frequencies, associated with minibus services have generated levels of demand not experienced before. These two features have in fact been the outstanding factors in the success of minibus operations.
Nonetheless, MF did at one stage introduce a fare differential on services run by the two types of vehicles. The effects on patronage and thus on revenue were sufficiently discouraging, however, to maintain such a strategy for:

... *there was no financial benefit whatsoever. Fewer people travelled to off-set the increase in revenue that we expected. When we dropped the fares (relative to the bigger bus services) the passengers returned to the previous levels and the revenue went up* (CD).

It should be noted however, that the minibus services were run partly in competition with the larger bus network and with another incumbent's operations.

There is, however, evidence that once a localised monopoly position has been asserted, and there is some product differentiation between bus modes, minibus services can sustain higher fares. The premium fares charged on common portions of service run by two different types of vehicle reflects a superior quality of service, - quicker travel time. At the same time they are susceptible of maintaining the value of those services (eg. avoid overcrowding) in areas that intermittently overlap with the larger bus routes mainly because of the strong passenger resistance (CD), to the fare differential and to the similarity of service frequencies of the two bus modes.

The task of designing a price structure that addresses simultaneously the internal needs and goals of an organisation and the uncertainty of environmental factors is a complex one but it only represents part of the issues that encompass pricing strategies. The next section analyses the criteria for evaluating the effects of changes in the level of fares.

**Changing fares**

Table 7-8 provides information on the way in which various aspects associated with a price change in fares are perceived in MF.

Firstly, it must be pointed out that the decentralisation of decision making with respect to setting and changing fare levels, outside the main urban area, constitutes an important break with the traditional practice of assigning fare policy to the financial department based at Headquarters. To a great degree the responsibility is now shared with those who can better judge the response of consumers. In addition, the different adjustments to the level of price between operating units reduces the overall impact on the revenues of the company from adverse and/or unexpected effects that may result from
these changes. It is also important to note that this risk is further minimised by pursuing a policy of frequent but very small increases on the levels of fares.

Secondly, it is clear from Table 7-8 that most of the analytical exercises on the probable effects of a price change are mostly based on past price-quantity relationships. However, the volume of sales in one particular point in time is invariably affected by other factors (eg. changes in income, in service characteristics) which can occur simultaneously and lead to an imperfect assessment of the effect of a price change alone. Fare elasticities have usually been considered according to the time of day travel demand, off peak elasticity has been assumed at -0.4 and peak elasticity at -0.2, (Glaister op. cit) with overall level of -0.3 (McKenzie and Goodwin, 1986; Bly, 1976; Mullen, 1973).

However, as reported from a study in Portland (Prowda and Draeger, 1982), 30% of users were new to the system from one year to another. This means that the relative quantities of demand that lie behind the two types of price elasticity may change and thus lead to variations between expected effects and actual results of a price rise.

Finally, it has been explicitly recognised by MFs executives that competition has an effect on fares. The role played by an existing competitor and/or by a potential entrant on the way in which fares change, will be analysed in the next chapter.

7.3 An overview
It is apparent throughout this chapter that organisational issues have played a significant and innovative role in the company's strategic management of change. The new organisational framework has fostered a management system that is conducive to a rapid adaptation to local market forces, thus contributing to the consolidation of the company's strategic positioning with regard to its dominant product. Concomitantly, the depots are increasingly involved in deciding corporate directions. In effect, those depots that face significant limitations on expansion are successfully attracting corporate commitment for products that are production-related, eg. MoTs. However, it is also clear that corporate decisions in favour of vaguely related products, for example, coaching, that have not entailed organisation wide involvement, and which are regarded as consuming discretionary funds that could otherwise be invested in production factors in the main product (buses), cannot be expected to receive universal adhesion.
Table 7-8

Changing Fares

CD

The analysis on the effects of changes is largely based on past results. But you can never be sure that today's circumstances are going to mean that yesterday's evidence will hold... I am not an expert and I don't think there is anybody who can say what return you will get from changing fares... I know of companies that put fares up this year and the effect on the returns have been negligible... the question is have passengers declined because the fares went up or have passengers declined for some other reason? There is always a difficulty in isolating the cause and effect.

DGM1

When costs increase, we can go up 1% or 2% here and there, which we tend to do.
Although the contribution made by the new organisational framework has been acknowledged - *we are now a much stronger and better managed company* (FD), it is only one part of a number of management areas that need to be addressed at times of major environmental changes.

It is in this context that this chapter has analysed key operating issues and has covered a number of related areas, namely production (re: labour and capital), design (re: product strategies) and sale of bus services (re: pricing strategies). This analysis has shown the role played by each of these areas in the management of change of one bus operator in the post-deregulation era. It has reviewed the existence of new managerial approaches with regard to important issues of the industry's business (e.g. labour, fleet configuration) but it has, at the same time, exposed areas where 'old' concepts and practices still prevail (e.g. marketing, X-subsidization).
Chapter 8: Competition, Contestability and Leadership

The main aim of this chapter is to assess the evolution of the strategic competitive behaviour of one major incumbent over a period of time in the context of the 1985 transport legislation and of the theoretical propositions of contestability on which it was based. In addition it seeks to demonstrate the critical role of organizational leadership and cultures in this process.

There are three main areas under consideration:

1. conditions of access to and exit from the industry
2. competitive activity inside the industry
3. importance of organizational leadership and culture within the bus industry.

8.1 Access to the industry

The extent of competition in any industry is determined by legal restrictions imposed on entry and exit and on rules that constrain the behaviour of firms aimed at purposefully erecting artificial barriers of entry into the industry. The key requirement for a market to be perfectly contestable is the non-existence of any entry and exit barriers. For incumbents to be subject to a permanent threat of incursion in their markets, potential entrants must not be forced to incur costs other than those incurred by the incumbents themselves. The absence of a 'costly reversible entry' invariably implies the presence of conditions in the industry for a potential entrant to be able to recover its costs - either by disposing of the assets acquired for entry or by reallocating them in alternative markets - when profitable conditions have ceased to exist. That is, the absence of sunk costs is essential in determining the contestability of a market.

The bus industry was judged to constitute an example of where contestable markets could develop providing that

1. the major barrier to entry was dismantled (ie route licensing) and that equal entry and exit rules were introduced (ie registration and safety requirements)
2. that unfulfilled needs could be protected on an equitable basis (ie direct subsidisation; tender services and concessionary fares) and
3. that other conditions could reasonably be assumed to develop and prevent potential entrants from incurring sunk costs.
This section comprises two major areas: the first considers the evidence gathered in this case study in terms of the effects of existing institutional arrangements concerned with 'the free entry and exit' in the industry; the second concerns the role played by the prevailing conditions in the industry soon before deregulation and the ways in which they have evolved afterwards in terms of their effects on entry conditions.

8.1.1 Access rules: Commercial sector and subsidisation

Commercial Sector

The system of route licensing was abolished and replaced in the 1985 Transport Act by one of compulsory registration. For entry to occur, for service changes to be effected, and for exit to be sanctioned, the new legislation required that fixed periods of time had first to elapse. This ruling has subsequently been changed in some respects and the local Traffic Commissioners have been given more discretionary powers with regard to its application. Nonetheless there remains a system of legal restrictions to mobility. The extent to which they are likely to constitute artificial barriers to entry must be considered

a under three separate circumstances and
b in the way in which they may be perceived as barriers by incumbents and potential entrants.

Firstly, entry is subject to a period of 42 days' notice. From an incumbent's point of view this requirement has not meant major re-adjustments - *a similar system existed before...for major changes in the past you had to wait until publication and then 21 days for objection before you got approval* (CD). For a company operating in a related industry eg coaching, a similar registration procedure was in force. For a completely new entrant these entry requirements are obviously novel and may lead to administration costs that may not be recovered in case of exit. But in so far as incumbents have incurred similar costs, they cannot be seen as an entry barrier as defined by Baumol (1983).

It is nonetheless important to note that the statutory obligation to effectively enter a market once a registration for a service has been accepted and a starting date set, has forced incumbents to greater internal discipline - *In the past there may have been a tendency ... to miss that deadline... the Traffic Commissioners under the old system would accept that there was no interference with anybody else and therefore nobody would be objecting* (CD).
Secondly, changes in existing services are subject to different timetable requirements. Frequent services, that is, those with at least one journey every 10 minutes can be changed without notice provided that frequency is maintained. The same applies to changes in services within 5 minutes of the registered timetable. For an adjustment between 5-10 minutes, Traffic Commissioners may only require seven days notice. These rulings are particularly important in a situation where retaliation can be expected. According to the theory of contestability the gap between entry and punitive strategic retaliation is such that an entrant should not fear entering for it will 'hit' at the incumbent's excessive profits before having to 'run' as a result of a lack of continued profitable operations in that particular market. It has been widely reported that competition has occurred mostly in dense areas and has led to highly frequent services. If the entrant does not have resources that match those of an incumbent, the registration procedures appear in these cases to enhance the investment vulnerability of entrants to sustained retaliatory resources by an incumbent. The consequences for users, whilst competition lasts, may not be as detrimental - after all frequencies are very high - as in those routes that are intensely congested, but whose frequencies require 7 days notice before changes can be made: \textit{in week one we were running on the hour, week two our competitor moved, week three we moved, week four he moved, and the whole thing was moving around the clock}. \textit{The public unfortunately suffered as a result} (CD).

However, the degree of mobility between markets inferred herein, enhances the industry's contestability in the sense that an entrant can easily and quickly recover its entry costs by operating in successive (and more profitable) markets.

Thirdly, exit from a market requires that an operator gives 42 days notice before it can withdraw. The extent to which this ruling is likely to be seen by a potential entrant as a statutory pressure to stay in a market when it can no longer earn profits, will influence its decision to enter. In this context, the absence of widespread entry in the industry has provided an opportunity for considering the total disbanding of the existing registration procedures as a better solution, for it would enhance the contestability of markets (Preston, 1991). At the same time, as Porter (1985) points out, one of the effects of forcibly extending unwarranted pressure of firms in an industry due to exit barriers, is to prolong periods of excess capacity. However, more flexible guidelines have subsequently been given to the local Traffic Commissioners with regard to the applicability of the statutory rules on exit. As a result, bus operators have been able to deregister services and replace them at shorter
notice - providing that they are 'substantially similar' - or indeed to withdraw completely from the market. In the latter case Huntley (1989) reported an example where an operator exited with 7 days notice due to another firm having competed successfully for its passengers.

More importantly, however, from an entrant's point of view is whether the costs that it has incurred to enter can be recovered when it may be forced to exit. That is, a low barrier to exit also means that an entrant finds either a profitable alternative use or an adequate resale value for the resources acquired to enter. As previously observed, existing legislation does not appear to greatly affect mobility within the industry - at least in the most contested markets. At the same time, a buoyant 2nd hand market for buses has been noted, thus suggesting a relatively easy way of disposing the main capital requirement for entry. It should also be pointed out that if entry is effected by using low cost 2nd hand buses - their average price is £4,000-£5,000 (MD) - and assuming that moving those assets around different markets, does not constitute a major obstacle, the entrant may only require limited profits until its presence can no longer be justified.

Finally, it is important to note that the role of the Traffic Commissioners has been judged by MF's Managing Director as fair despite the fact that - whereas prior to 1986, the Traffic Commissioners took account of the public interest, in terms of how they interpret the legislation today, if it does not actually fit the guidelines or the rule of law, whether it is in the public interest or not, it does not happen (CD).

The interests of those users that, for commercial and strategic reasons, were not fulfilled by the market, were nonetheless to be safeguarded by County Council resources via payments for services tendered and through concessionary fares.

Forms of subsidisation
There are two main areas for operators to obtain public subsidy

1 Winning tenders
Regardless of the system adopted by County Councils - cost or revenue based - they both require the gathering of a certain amount of information. For some operators, this information might already have been part of the previous management information structure - under the old system [network support based] they [the local authority] required very detailed financial information of the company - operational costing
which was a route revenue and cost allocation (CD). For others though, the tendering process may represent an additional cost burden had they not decided to enter the subsidised part of the market - in terms of [a municipal company] they were not supported in that way and they have probably noted a different effect of the tendered process (CD). Furthermore, for the former operators, the new system has meant that today they only require information with regard to the services of which we have a contract to operate on their behalf...so really they get less information now than they did before (CD). These apparent disadvantages do not appear, nonetheless, to influence the number of bidders, and as has been observed by many, this is a market that remains contestable or, at least mildly conducive to competition (Beesley, 1991).

2 Concessionary Fares
The only requisite for any operator to take part in any concessionary fares scheme is to run a service which is eligible for fuel duty rebate. These schemes are operated by County Councils and basically provide for certain categories of users eg. unemployed, elderly, handicapped - to travel at reduced fares. Bus operators are reimbursed for the incurred net loss of income.

This type of subsidy has actually increased since deregulation (Beesley, 1991) and can thus be assumed to represent an important part of the total revenue earned from commercial operations. The decision to enter a market is intrinsically associated with the potential amount of revenue that can be attained from the sale of the product. According to Beesley, two main obstacles are likely to arise as a result of the existing arrangements with regard to this type of subsidy. The potential entrant will find it difficult to assess the exact amount of subsidy that will accrue - most County Councils run schemes whereby the amounts reimbursed varies according to the time of day, day of the week - travel, and validating its claims can be costly - most County Councils require some form of spot checking. If the volume of traffic that is generated as a result of a concessionary fare scheme is significant, Beesley argues, then a trial entry - the most simple way of judging demand - can be severely discouraged. Beesley thus concludes that subsidy in the form of concessionary fares is highly favourable to incumbents. It should also be noted that in a situation of local market dominance, further benefits appear to accrue to the incumbent operator. In fact, the degree of sensitivity to price 'discounts' of the targeted segments has led to
increases in volume that have reduced the peak/off-peak vehicle requirements ratio - I would quite easily justify the 16 mini/midi buses working throughout the day... the off-peak demand is normally composed of women and senior citizens and certainly the existence of the County Council's senior citizen half fare schemes allows these people to travel enough peak-periods that they would not do otherwise (DGM2, referring to the situation in a small town).

Contestability though assigns a particular role for the regulator: to ensure low entry and exit barriers. Thus far this section has raised issues related to the legal restrictions introduced to attain that goal.

For contestability theory, entry is perceived profitable only if the expected profits of success are higher than the sunk costs incurred to enter in the event of failure. However, the risks involved in this decision can be increased by factors other than those aimed at creating freedom of market entry and exit. Some of these factors relate to the specific conditions that prevailed a little before the new legislation was introduced, and that crystallised in possibly affecting an entrant's expectations of a successful entry. Others have evolved in the new market situation via deliberate acts of incumbent operators. The following section will consider some aspects associated with the former whereas the latter will be discussed in the next section.

8.1.2 Access: the role of pre-deregulation conditions
Developments in the industry since deregulation and particularly the absence of significant new entry propelled the supporters of deregulation (eg. Beesley, 1991) to ponder on factors, other than those originally anticipated (eg. the access to bus stations), that were likely to have played an adverse part in such an outcome.

The effects of two of these can be said to have affected two potential sources of competitive advantage - costs and product characteristics.

One of the most outstanding effects of deregulation was the significant reductions in labour costs relative to their pre-deregulation levels. These results refer to public sector operations. Given that ... operating costs of public operators are 30% to 40% higher than those of private operators (Department of Transport, 1984), it could be argued that part of the latter's potential source of competitive advantage was greatly reduced. This is to a great extent acknowledged by Beesley (1991) when he concluded that [the
incumbent's] position was strengthened relative to potential competitors, whose initial labour rents were probably lower. Furthermore, as observed earlier in this case study, it was the 'undefined' period that preceded deregulation that provided the opportunity for some incumbents to introduce labour contracts that greatly contributed to their subsequently lower operating costs.

As far as product characteristics are concerned, it has been widely noted that the service features associated with minibus operations generated substantial volumes of traffic and that they provided an effective way of competing in the more open markets. Those operators that were able to anticipate and to effectively use this new product could thus gain a competitive advantage over others. The fact is that many incumbents started building this potential advantage even before their market position could have been contested - many incumbents anticipated innovating moves by investing heavily in minibuses before deregulation and then running them during the change-over (Beesley, 1991). This case study provides further evidence - most of the generation of new business came with minibus services which we really introduced during 1985/86, before deregulation (CD).

Incumbent operators can however enjoy other potential, although less visible, advantages whose roots can be traced to the length of time that they have been active in the industry. The bus industry was exclusive to only a few for nearly 30 years and a great part of the management expertise still remains in key positions. There are several areas where economies of experience can be expressed. One is associated with costs of production. A given level of output can be produced more efficiently depending on the production scheduling expertise acquired

- the low number of non-driving hours is purely attributable to scheduling ... there is very little waste (DGM2)
- the type of rotas that we have is the main reason for the low number of non-driving hours. This is purely a separate skill which the Garage Manager does. It is not something that I do (DGM1)(1).

Scheduling efficiency may also require modifications to existing products, the consequences of which can be better assessed by reference to previous

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1 DGM 1 is new to the industry
experiments or to the knowledge acquired on demand characteristics. In other cases an efficient set of schedules is the result of choices with regard to diversified production that can best interrelate with the excess capacity of resources caused by the supply requirements of the dominant product: we have various school contracts that make up services, which is attributable to the fact that we have a very good planner (DGM1). Another area where experience can favour an incumbent is in assessing the most profitable areas of its operations in the sense that the extensive route cost and revenue allocation exercises imposed on them in the past, can provide valuable indicators on commercial opportunities in the new environment.

Finally, there are two other factors that can be singled out as possibly having provided an advantage to incumbents, and thus constituting an obstacle to entry.

Firstly, there are the effects of the reputation built by incumbents in the market prior to deregulation and subsequently enhanced by marketing or public relation activities. This is a feature particularly in evidence in this case study. When asked about his company's most outstanding features in the market at present, MF's CD pointed out that - Reputation is possibly one of the largest items. The means used were - the high profile which we have continued to maintain since 1984 when the red/yellow livery was launched (CD), and by trying to maximise our presence by image, by attention to detail and by explaining and apologising for any shortcomings, but more often than not, by trying to get it right (CD).

It could be argued that, by definition, reputation should not constitute an additional obstacle for entry in the sense that an entrant does not have to incur costs that an incumbent has not incurred itself. It should be noted however that if an incumbent is able to sustain a good reputation, a greater amount of resources may be needed by a potential entrant to reverse that situation. The latter may also understand that, a longer market presence may be required because the incumbent has established such a high degree of salience in the community.

However, it cannot be assumed that reputation will inevitably lead to customer loyalty. In fact, after deregulation many incumbents maintained, and in some cases developed more intensely, the sale of off-bus ticketing with this aim. As Gwilliam (1989) pointed out, these devices may give the incumbent some protection against piecemeal competition. The extent to which these schemes affect a potential entrant's decision to penetrate a
market may however depend on a number of circumstances. For example, an incumbent's size of operations (eg. being a County supplier) can be relevant if the market entered serves a large number of users that require interchange and the entrant is unable to assure the necessary links - either because of timetable incompatibility or simply because it does not run the linking route. If on the contrary, the route entered is independent (or a through service), the benefits that accrue to pass holders (eg. cheaper price/journey) and to the company that runs those schemes (eg. retain patronage) may be dissipated by the higher passenger sensitivity to service characteristics - when a competitor comes on the road, the first thing that disappears is sales of season tickets, because passengers do not want to stand on the roadside and let the first bus go. If they have a season ticket for the second bus and not for the first one, they will abandon purchasing their season ticket (CD).

So far this chapter has concentrated on the role played by a number of factors related to pre-deregulation conditions and practices which were judged to have had an impact on the market developments in one particular area of the UK after that policy was implemented.

The purpose of the next section is to analyse the main facts of the strategic competitive behaviour of an ex-publicly owned incumbent in the new industry context.

8.2 Competitive activity
As observed in previous chapters, the role of potential entrants is fundamental for a market to be contestable. The structure of a market should not therefore affect the outcome normally associated with the model of perfect competition which requires an effective presence of many firms in the market. But as Beesley (1991) acknowledged, when in 1985 the new package of legislation came into effect it was unclear how the initial market position of incumbents would be used. This case study has produced some valuable information for an insight into and an analysis of the competitive behaviour of a major incumbent with regard to actual and potential entry, as well as to rival incumbents.

The current market position of MF is one of total dominance in the towns of the County and surrounding areas, and it shares the market of the only city in the County with a municipal incumbent.
The crucial issue of the analysis is to identify the key strategic competitive elements that have contributed to MF having achieved the aforementioned position.

8.2.1 Incumbent versus actual entry

Fig 8-1 is a chronological summary of events that led to MF becoming the sole operator in one of the major towns in the County. It is also the only major example of MF's competitive behaviour with regard to actual entry thus far. The most outstanding aspects of the competitive activity described in this figure are

1. The last two companies to have survived in this town's market entered by having won tender contracts. If for potential entrants this strategy has been seen to represent a tactical move, in the sense that it could lead to expansion to commercial work, it has been less noted for incumbents to have used similar means to expand their operations into new markets.

2. The most visible reason for LCB's subsidiary to have failed in sustaining its initial market success was poor reliability. This shows that success in the bus industry cannot be sustained if it is disproportionately based on one sector of the productive process (ie. traffic versus maintainance), or indeed if the objective pursued (further expansion) leads to such disequilibrium.

3. MF has gained total market dominance of this market via one common means - acquisitions. Both these acquisitions - LCB's subsidiary (the Loughborough Coach and Bus Company) and the stage service part of Kinch's operations - cannot be disassociated from the predominant business philosophy of MF's management team to the extent that - it was a question of exploiting opportunities that came along (CD). However, these opportunities arose as a result of different circumstances. The former was in many ways not because of a success within the industry but because of failure within the industry by others and would have ultimately gone to the wall without any interference from MF (CD). The latter was, on the contrary, the result of a fairly prolonged competitive battle. Also, the acquisition of LB's subsidiary provided the opportunity to get ourselves well established within the town (CD), whereas Kinch's led to a dominant position in the town (CD).
It is important at this stage to outline the main characteristics of the competitive engagement between MF and the independent operator (Kinch). The method used to illustrate the way in which competition evolved in this particular market is to consider the competitive strategies adopted by both companies.

**The Independent operator**

It is apparent from Fig 8-1 that the independent operator could not compete based on high frequency services. It just did not have the type of resources required - its fleet was composed exclusively of double deck buses. Therefore its competitive strategy was based on the lower costs it enjoyed - *Kinch was quite an efficient operator* (CD) that afforded lower fares (re: March 1988) and/or on other service characteristics (eg direct services) that could attract patronage (re March 89) - *Kinch was quite an effective operator* (CD). MF's acquisition of LCB's subsidiary had an important impact on MF's competitive attitude in this market - it did substantially raise its exit barriers. Following this acquisition, MF swiftly reorganised the operations in the town that it inherited and this involved not only changes in service characteristics but also the replacement of unreliable equipment (minibuses), together with major changes in existing labour practices.

This market was now perceived to be part of MF's core business which meant that - *the battle with Kinch would have lasted longer if it was necessary. We were committed to protecting the core business of MF* (CD). Although Kinch attributed its exit from the market to reasons other than those related to the direct competition with MF - ie, it was rather because MF became part of a major Transport Group (Drawlane) - it must be noted that there were increasing signs that it could no longer earn profits, in the short run, to justify its continued presence in the market. In fact, Kinch's last attempts to survive were to desperately appeal to users to support its local stage services. Nonetheless, the longer term consequences of MF's integration in Drawlane in terms of their effects on future competitive developments in this market, cannot be underestimated. These consequences must in turn be considered in the context of the interplay between the strategies adopted by both companies at the time of Kinch's decision to exit.
A story of Market dominance - overcoming an incumbent's subsidiary and a small entrant's stage operations in the largest town in the north of the County.

At deregulation

Trent was the provider of the town services for many years.

November 1986

Trent withdrew completely after 18.00 and abandoned Sunday operations completely. Kinch won the local authority contract, which gave the town half-hourly evening services, double the pre-deregulation frequency.

March 1987

Trent recommenced evening operations.

Late Spring 1987

MF took over the Sunday operations on contract. This brought the first minibus operation to the town.

July 1987

LB formed a subsidiary company - Lcb - and launched an 11 strong fleet of Optare minicoaches entitled 'Trippits', on an intensive pattern around the Town. The new fleet was a success at first. They offered an evening service at an increased fare which meant the formerly subsidised evening services could be withdrawn. The Trippit network made a huge dent in the established but now relatively infrequent Trent service.

November 1987

Trent closed its depot in the town.

December 1987

Trippits had won sole possession of the Town services.

MF, Kinch, County Bus - locked in competition on a trunk route between the Town and the big city.

March 1988

Kinch announced cheaper services during the day with 30 min frequencies against the roughly 15 min pattern of the Trippit day time service.

Trippit network - expanded, both inside the town and outside with routes stretching out a long way. This was probably the zenith of the Trippit era, it began to suffer reliability problems and its hitherto good reputation began to wane.

Mid - 1988

MF acquired Fairtax.

February 1989

It became known that LB, the parent company of the Trippit operation, was running at mounting losses...it was widely rumoured that Lcb and its assets were on the market to ease LB financial worries.

March 1989

Kinch launched direct Shepshed-Loughborough journeys. This hit MF's routes which diverted through a major housing estate on its way to Loughborough.

Fairtax, as a response, launched free routes on Loughborough Town services.

Spring 1989

MF (Fairtax) and Kinch were locked in battle against the background of a beleaguered Trippit mini coach operation which was experiencing still more reliability problems.

End of May 1989

MF acquired Lcb. The new owner immediately revised the Trippit operation. The coach seated Optare were removed and replaced by Fox Cubs.

MF and Kinch were still competing strongly.

November 1989

MF was acquired by a Transport Group.

December 1989

MF took over Kinch services.

Source: Gibson (1990)
The Incumbent

Fig 8-1 indicates that the first major competitive action taken by MF was to offer free travel on the network it operated prior to the successive acquisitions that led to its market dominance. This strategic move must be seen in terms of MF's longer term objectives, namely to increase its share of the market by inducing existing operators to exit from it in the shortest period of time - no company could engage in this inevitable loss-making exercise for a prolonged period of time. This type of predatory behaviour must also be considered in the context of the well publicised financial problems of LB's subsidiary parent company, and of the performance short-falls that the subsidiary itself was experiencing in the market. It could thus be said that this extreme case of predatory pricing has quickened the end of a rival incumbent's presence outside the major city in the County, enhanced the chances of an acquisition on more favourable terms and provided MF with the greatest - although not total - share of the market. From the independent operator's point of view it certainly discouraged any potential intentions it might have had, for extending its network into other areas in this Town.

However, this kind of predatory behaviour was not adopted in any other subsequent situation. Nonetheless, it was not an isolated instance in the industry since 1986 (Public Transport Information Unit briefing, 1991). But it is clear that if the primary objectives of such practices are not attained quickly, it can have extremely costly effects on the predator. Furthermore, the intervention of the Office of Fair Trading (OFT) in similar cases has scared operators off this tactic (Dodgson and Katsoulacos, 1991).

Predatory behaviour can be expressed in other ways. In fact actions taken by an operator that punish others either by forcing them to exit or by purposefully affecting the attractiveness of a market are predatory if in the process that operator incurs losses to accomplish these objectives. The incentive to prey arises from the expectation that these loses will be recovered once the market has been monopolised. In this context, matching fares and/or output levels have also to be considered as predatory strategic behaviour. In fact, the strategy adopted by MF comprises both these elements - we will as a rule match what the competition is doing (DGM1) by matching the particular timetable the competition is doing and by matching his fares (DGM1). However, this case has shown that in some instances, predation of this kind can be more effectively achieved ie, in the shortest period of time - if output and prices are used simultaneously - we tried for a long time not to reduce the fares and match Kinch's. As a consequence he gained more impact, more penetration in the market. Therefore it took
longer for him to be pushed out (CD). Two major factors appeared to have played a crucial role in the timing of Kinch's exit. Firstly, the entrant was quite professional about the ways in which he turned out his buses (CD). Secondly, the routes where competition was more intense served relatively low income areas. Thus as Preston (1991) suggested, if there is not much product differentiation (re: reliability and frequencies) between two operations but there are differences in fares, high fare elasticities may reduce the tendency to board the first bus that arrives, when a cheaper alternative is available.

After MF matched the independent operator's fares, the outcome of this competitive battle must be considered in the light of the 'long purse hypothesis'. According to this hypothesis an operator that has more resources of funding or better access to lending than another, can successfully sustain a price or service war for it will outlast the latter for at least one period longer (Benoit, 1984). MF enjoyed most of those requirements by this time. It was a larger operator able to generate profits from other relatively secured sources and it was being challenged on too few routes. It had also just became part of a major Transport Group which could have meant better access to lending.

The main concern about predatory behaviour is that an operator, freed from the discipline imposed by those it forced to exit is likely subsequently to produce lower levels of output and to enforce higher prices on users. There is considerable debate on the nature of legal restrictions, if any, that should be introduced to restrict the practice of predatory behaviour. The main issue of contention can be seen in the context of market contestability. If a market is perfectly contestable and one operator, using predatory practices, has gained a monopoly position, it will not be able to impose monopolistic features of operation if it continues to be threatened by free and costless entry. If on the other hand, conditions arise in the market that makes it difficult to be easily contested, successful predatory behaviour can lead to post-predation advantages being exploited by the predator that are not in the interests of users. It is in this context that some observers have called for regulation aimed at forceably committing predators to the strategies used to purposefully empty the market (Gwilliam, 1989). Others, as Preston (1991) has suggested, believe that policy makers should instead concentrate on enforcing low barriers to entry and exit. 

There are two major aspects related to MF's market behaviour after it gained a monopoly position (in the area considered), that are noteworthy
The first one concerns the effect on fares. As DGM 2 pointed out - *when competition disappears, it leaves you with a difficulty - do you automatically put your fares back where they were?* There may be cases where *there is a 12 month gap where you still may be earning less than you were earning before the competition arrived, despite the fact that he has disappeared* (DGM2). Two factors were said to exert considerable influence in delaying the readjustment of fare levels. Firstly was the difference between the fares that the two operators charged whilst they were still both active in the market and those that the incumbent practised in similar services after the monopolisation of the market. Secondly was the concern that the adverse reputation that an immediate rise in fares would have on the public in general - *here is the big bad MF having removed the competition putting the fare level back where it was. Didn't we all say that is what would happen?* (DGM2), that is, restoring fares to the higher levels practised elsewhere in the network is an exercise that must not be perceived by the public to be the end result of predatory behaviour. Thus, fares will increase in the ex-competitive routes in the same way as when, for other reasons, fare increases are warranted, that is, *little and often rather than suddenly* (DGM2). Therefore, it could be said that, as in Hereford and South Wales, fares varied by route. But in those cases, it seems that the fares varied according to whether the route was competitive rather than with demand (Evans, 1991).

The second major aspect is related to the effects of MF’s dominant position on service characteristics. Evans pointed out that real competition often leads to haphazard headings, and thus to some scheduling inefficiency and wasted bus mileage. When ‘head-on-competition’ between MF and Kinch was more intense it was reported that *situations were created when a MF single deck bus appeared a minute or so before a Kinch bus, followed very closely by a MF minibus* (Gibson, 1990). When an operator is committed to compete in this way, that is, *by looking at [the competition’s] times and by matching everything* (DGM1), it is likely that at best it will have to reschedule resources in an exercise that may lead to greater costs being incurred (eg excessive layovers, additional mileage and drivers time being paid as a result of the need to design new duties to meet current requirements) or in extreme cases having to acquire additional resources to prosecute this type of strategy.
After MF acquired both competitors we have been able to reorganise service and re-establish the operations on a sound-footing (CD). MF's claim that the dominant position gained in this market has been to the benefit of the public (CD) is probably better understood in the context that

1 competition was not predominantly fought on high frequencies but rather on matching timings and that
2 by enlarge these have been maintained or subjected to limited reductions and have led to services being more stable, basically reliable and at fair prices (CD).

Finally, it is important to note that this case of competition has constituted a major experience for MF in terms of the effects that specific competitive strategies can have on other competitors and eventually on the outcome of competition. Together with other minor competitive incidents, it has contributed to the formation of a number of general postulates with regard to the ways in which the Company is likely to compete with (smaller) entrants.

The basic premise is that there is a need to take a balanced view to the long term effect (DGM1) of competing with different kinds of operators for it all depends very much on the manner in which the competitor acts and on his business philosophy (DGM2). In brief, the type of response depends on the sort of competition (FD). That is, if it was a small one-man operator the answer will be not to let him get a foothold in the market right from the outset. So you would compete aggressively and take the necessary measures right from the first move (FD). Furthermore, the scale of the response is usually restricted to the area of entry for a new entrant coming in to compete has got nothing which we can attack in terms of getting your own back (CD).

However, there are other cases where you can live with a certain level of competition (DGM2) for it can be an advantage to you (DGM2). This accords with Porter's (1985) suggestion that there are strategic benefits that can accrue from the presence of the right competitors. A good competitor is one that does not overestimate industry growth potential and therefore overbuild capacity, or more specifically one that has six buses but whose aspirations (are not) 24 (CD). Two major advantages indicated by Porter that can arise from the existence of a competitor with such characteristics were implicitly acknowledged in this study. The first concerns the effects on demand, that is, of boosting demand (Porter, 1985). For DGM2, if the existence of a competitor on a particular route generates traffic from which you can gain, that could be an advantage. The second relates to the
advantages of having that competitor occupying unattractive segments in the sense that they could be too small for the major incumbent or which it would have otherwise to occupy for defensive purposes (e.g. impede the entry of a bad competitor) or in order to continue to operate in other segments that benefited from those run by the competitor. *There are a number of operators in the County who are quite happy to stay with the volume of business that they are doing and in a stable market. We are more than happy that stays that way* (CD). In these cases, the dividing line is between not retaliating and the competitor thinking *I am doing all right here, I shall expand* - or retaliating at a considerable cost to yourself for a very little gain (DGM2). It is apparent therefore, that only under these circumstances the incumbent might be prepared to accommodate a competitor, a situation which has been generalised by those who consider predation as an irrational type of behaviour (McGee, 1958 and 1980).

However, actual entry in contestability theory does not play the same influential role as in the perfect competition model. It is rather the threat of entry that determines whether the same results are achieved.

### 8.2.2 The Incumbent and the threat of entry

MF's competitive behaviour has so far been envisaged in terms of its response to effective entry. However, incumbents are also known to use strategic actions aimed at deterring others to enter their markets. One strategy consists of holding excess capacity. In this case, a potential entrant will anticipate an intensification of post-entry competition to the extent that it will make its entry unprofitable. This type of argument was developed by several authors (e.g. Wenders, 1971; Salop, 1979; Lyons, 1986) but Simley's (1986) survey showed that this was the least used method amongst other alternative deterrent strategies. However, MF did originally consider *carrying excess capacity* (CD). In fact *we thought about retaining reserve fleet and we almost got to the situation of how we would manage to retain reserve drivers* (CD). The development of a second-hand market for buses where *there are hundreds of cheap 2nd hand buses that are still able to provide a service* (CD) has contributed to the abandonment of such strategic thinking. The crucial factor for not having pursued this strategy further - even if recruiting drivers *is a more difficult task* (CD) - must thus be seen to have resulted from the belief that all that is needed is to have a 'shorter production lead time than the entrant,' i.e. to be able to expand quicker than the entrant - *In reality what you have to do is being in a position to react quickly at the time and find those resources* (CD). As Lieberman (1987) pointed out, this is equivalent to, but less costly than, excessive
capacity held in advance of a specific entry threat.

Although MF's intentions of erecting this kind of barrier did not materialize - which for all purposes accords with Evan's (1988) finding in Hereford, where the main incumbent did not initially appear to pursue an entry-deterring strategy - it does nonetheless signal a strong commitment to retaliate against any entry that it perceives as constituting a threat. That is, as Evan's found - after the entrants had arrived, the main incumbent's strategy was aimed at getting rid of them. This kind of determination was clearly in evidence in MF's competitive battle with Kinch. It signalled the extent of retaliatory actions other potential entrants could expect to face if they attempted entry.

Potential entrants can be further deterred if the incumbent effectively closes segments of the market that would otherwise prove attractive to them. This fact was explicitly acknowledged - you have to be careful not to leave a gap in the market that can be easily filled, profitability by another operator (DGM2). This barrier can be particularly effective in the case of those services that for reasons of profit, would not normally be run by bus operators without receiving direct public subsidy. It has been widely noted that the tendered sector of the market can be easily contested by small entrants. The potential threat that this type of entry poses to an incumbent is that -if an operator is successful, he will get a foot-hold in an evening [tendered service] and it will be relatively easy for him to look at the market for the middle of the day and to expand to provide a service throughout the day (DGM2). There are, however, circumstances where the risks to the incumbent from an entrant adopting this kind of strategy are worth taking to the extent that services can be deregistered with the aim of winning them back as a tender (DGM2).

Nonetheless, the threat of entry is not underestimated by MF's management - of course we are concerned with the possibility that other companies might enter the market. We are always keeping an eye open to see if anybody else is likely to start operations (CD).

The threat of entry comprises a number of small companies whose range of products include services in the fringe of MF's markets and/or services operated under contract to the County Council. They constitute a threat to the extent that their current activities can be further developed into producing other types of products whose markets are occupied by the incumbent.
At the present time they are considered to be small and none of them have any resources - financial and depots - to see major expansion (CD). However, the presence of potential entrants appears to have some effect on the incumbent's behaviour. As DGM1 pointed out, if we put the fares too high, we may encourage a small competitor to come in at reduced fares or, as MF's Commercial Director remarked, the Depot General Manager has to realise that if he charges too much...he is going to invite competition. Furthermore, according to the same source, one reason operators can't generate sufficient profits from their commercial activities is because they try to second guess competition and they don't limit the scale of their timetable ie, they overprovide in the relationship to the amount of custom that they get (CD). In other words, the fear that competition will see that there is something lucrative and will go for it (CD) has led incumbents to offer excess supply, thus raising costs of production and reducing returns to levels that cannot sustain the replacement needs of their already old capital base. The fact is that despite the kind of barriers to entry considered in previous sections, it is possible that the availability of cheap capital and/or spare capacity in terms of both labour and capital from other operations, can offer an entrant a 'hit and run' type of incursion. It is in order to avoid entry of this kind that incumbents seek to preempt any entry opportunity. In some circumstances this may impede incumbents from benefiting from economies associated with the scope of their operations. That is, and entrant may be able to enter one route at prices that cover its costs but that are lower than the incumbent's if that particular service is taken separately. However, if that separability of output were not possible, the incumbent through the economies that it would achieve from simultaneously running a number of interlinking services, would have been able to charge lower overall prices. There is in fact evidence to support the idea that MF does enjoy some degree of economies of scope in the sense that - most of our services are at present all bedded in. They are all settled services (DGM3) - or - we are reasonably good here because the type of network that we have and the kind of contracts that we have fit in fairly well. They all interlink (DGM1). But as Shepherd (1982) pointed out, if public policy succeeds in maximising the separability of core services, then the viability of competition in quasi-monopoly settings will be enhanced.

However, and because there is competition that doesn't have to look to sustaining the industry for the future, the industry is at present time wasted, and wasting away (CD). In the commercial sector the main question is who is going to invest in providing a service by spending £95,000 or £100,000 on a new double deck bus which in 12 months time is not going to look very
different to a bus that is 6 years old, which in turn will not look very different to another that is 10 years old? Who is going to invest that sort of money when a competitor comes along with a bus that he gets for £5,000 from a second-hand dealer and will take half of your revenue? (CD). For Burke et al (1988) one source of instability in an industry is the difference between time horizons amongst firms, that is, one looking for a 'cash cow' generating instant profits, another for long term growth investment. In the tendered part of the market a similar situation was said to arise - the only way that anyone can quote for tenders is to assume virtually fully depreciated vehicles or vehicles that the can pick up for pennies - say a 2nd hand double decker for £3,000 - £4,000 (CD). However, when local authorities attach requisites regarding the type of capital that ought to be used to run the services on tender it might indicate that they are looking towards getting investment in the industry through that clause (CD). Nonetheless, this clause is not welcomed by the majority of operators because they are simply looking for winning tenders in the short term (CD). For an incumbent operating a major network this clause can offer a potential advantage. Tender contracts comprise in general off peak services. If local authorities require newer vehicles as a basis for submitting tender prices, the incumbent will be able to renew its fleet and use the new buses in the commercial services thus reducing the costs of peak operations.

The type of argument just described can be seen to accord in many ways, with the claims made by the opponents of deregulation in that both they and investment analysts were right in predicting that unregulated competition would tend chronically to be destructive because of the industry's perverse tendency to continue to add capacity in the face of poor financial results (Kahn 1988). But it could also be seen to represent a way of advocating governmental intervention to protect the long-term major players in the industry that [at present time] can't generate sufficient profit to reinvest (CD) from cowboy operators who are not professional and are affecting those who are trying to be professional (CD).

Overall, it could be concluded that, as Evans (1991) pointed out, monopoly operators are perhaps being controlled better than the analysis implies for despite the fact that there are little restrictions on fare increases, profits since deregulation have been low. For MF's management, the main reason for the repeatedly low profits in the industry since deregulation is the alleged existence of an excessive threat of 'hit and run' competition. But for MF, the threat of entry represents only one source of potential instability in the industry. Rivalry between incumbents is another.
8.2.3 Competing Incumbents: a case of rivalry

MF's main competitor is the municipal company, Leicester City Bus (LCB), whose stage operations are entirely within the urban perimeter of the only city in the County. The relationship between the two incumbents is best described as one of historical rivalry.

LCB's market share was greatly eroded by MF when it introduced a comprehensive minibus network, an exercise that started before the full deregulation of the industry. Also LCB have had their fingers burnt when they ventured out to the county. [One of its subsidiary] lost £1.2 m. in just over a year [and was later acquired by MF]. They went out with services in town Z, lost a fortune and pulled back (CD). LCB was said to have lost £2.5m. in the last four financial years...at a time when we have had to make profits (CD). Furthermore another difficulty with which we are working presently is their current Chairman, who still has a very strong anti-MF feeling from the days when he was the General Manager of all City Transport as it was then (DGM2) to the extent that his heart is ruling his head and that is difficult to compete with (CD). These events play a particularly important role in MF's competitive behaviour with regard to its main competitor.

MF's position, after it gained a big share of this market was not to strive to attain dominance. It could be characterised more in terms of waiting until some uncertainties regarding the competitor were resolved, that is, privatised. However, when an incumbent fails to meet certain targets for prolonged periods of time and if it faces exit barriers, there may be an incentive for it to seek new positions in the market (Porter, 1985). If these actions lead to increases in capacity in the form of duplication - as they have done in this case - at times when the rival incumbent is itself facing a decrease in demand - I think that the total market in [the city] has peaked and it is beginning to decline slightly again (CD) - , the consequences are that higher costs to both operations will result in no major advantages being passed on to users in general. That is, this sort of competition is of benefit to nobody (CD) for it destroys the ability of both operators to invest in the future of the industry and is very much against the interests of the travelling public (CD).

As noted before, MF's main competitive strategy evolves around defending its core business by adopting courses of action according to the nature of the competitors. The response to LCB's repositioning strategy can be seen to have been influenced by the way in which MF perceived LCB's relative
strengths and weaknesses. These were mostly associated with LCB's legal status as it is illustrated in the following statements: I would call them a very poor second. MF operate at a higher degree of standards...I would say that their levels of commitment are not as high - they are still run by the council (DGM1); - if making a loss is not a particular concern to him...where do you go then? It is costing you a lot of money to compete with him and you still don't get rid of him (DGM2). It is in this context that for some members of MF the twin competing principles of resource balancing and the long term view must be addressed as - the balance has got to be what sort of resources you plough into offsetting the effects of the competition and is the competition on the same levels ie. privatised or nationalised. If it is a nationalised Company they have got an endless pot...whereas a privatised company would tend, to purely lose its profitability the more it ploughed in to offset the competition (DGM1).

This view, together with the weakness identified in the competitor, has led to the decision of retaining our own status quo - own fares and services - and rely that the reliability factor, in the long run, will win the battle (DGM1).

It becomes clear that LCB's strategy has had some effects on MF's underlying beliefs with regard to its competitive behaviour. As Porter (1985) pointed out, a leader that must undermine its past strategy to respond to the challenge faces mixed motives. As DGM 1 remarked - If someone attacks me then I will expect to take appropriate action, but, the competition has been affecting us now for some 18 months, and here we are just doing nothing...It goes against the grain...but here you have to take a longer term view (DGM1).

It is not clear however whether this kind of restrained response by MF has influenced the recent decision of the rival incumbents to de-resource (FD) or indeed, it is not certain that LCB will not take similar actions in the future for they have not a clear pattern of reactions (CD).

MF has however indicated that one way of achieving a degree of compatibility between the total capacity of both operators and the size of the market would be some kind of compromise to be allowed to take place. But the OFT would say that it would be illegal to talk to your competitors (CD). However as Burke et al (1988) suggested, gentlemanly kinds of agreements intended to prevent grosser forms of competition can all too easily turn into a cosy conspiracy against the consumer, or as Khan (1988) pointed out, impede other firms' opportunities to compete with them.
On the other hand, the privatisation of the municipal company can also be seen as a means of creating a more rational commercial environment. It could provide MF with an opportunity to achieve a monopoly position in this market via its acquisition. But it could also create, in the case of unsuccess, an opening for MF to define, assertively, its dominance in the market for — assuming somebody else buys it with a view of actually making a profit...they will have to do what we have had to do three years ago which was to take a number of vehicles out of the system, take a number of jobs out and get the company again to a slimmer, more efficient unit running only those routes that you can actually afford to (MD).

There appears to be one common feature in the competitive attitude of this kind of incumbent with regard to the various dimensions of competition: the long term financial needs of the professional operators involves restricting competition from both the outside (via entry) and inside the industry. But as Kahn (1988) pointed out, a single firm monopolist, even if highly effective and energetic innovator is unlikely to be able to perceive or vigorously to exploit all the possible unsatisfied kinds of demand or fruitful lines of innovation.

8.3 Competition and Contestability: a final note
A major aspect of the impact of a policy that placed paramount importance on the values of competition is the analysis of competitive events and of the behaviours that they have provoked. One way in which the major findings of both these areas of research can be analysed is by reference to the most significant attributes of the 1985 Transport Act, which can be summarized as 'to make things equal so that they can become unequal'.

The reason for 'making things equal' in the bus industry is basically associated with the fact that the industry is not a natural monopoly in the sense that there are few economies of scale relative to company size (Lee and Steedman, 1970), which means that there is no justification for impeding competition. In this context, legislation was introduced in 1985 aimed at providing equitable means of access to the industry. This would lead to the much desired, direct link between suppliers and users. However, as Preston (1991) pointed out - it is the business of government to legislate for competition. It is the business of businesses to ensure that this does not happen - or if it does happen, to ensure it doesn't work. There are many ways in which things can become unequal.
Firstly, the multiproduct nature of bus services can lead to one bus operator supplying a group of services more cheaply than if they were produced by two or more companies separately. Economies of scope constitute a potentially genuine source of cost differences between bus companies in the sense that they result in lower costs being achieved through the production fit between the requirements of a range of bus services. This inequality can however be limited in a contestable market by the possibility that other companies may be able to accommodate, in their different patterns of production scheduling, those services run by an incumbent that are enjoying these economies but that in the process are earning excessive profits. The role of economies of scope in sustaining one single company in a contestable market requires that company to price these services in a way that only permits it to recover its (lower) costs. However, this case study has indicated the practice of cross-subsidisation between services as a strategic instrument sometimes we don't worry too much. If there are sound strategic reasons to offset the commercial criteria (MD) and can arise as a result of a non-differentiated fare structure.

Secondly, this research has shown how an incumbent was able to use residual regulation during the transition period to seek additional advantages. However, it must be pointed out that there may be differences in the way in which incumbents were able to take advantage of this situation. As Meredith (1988) noted, the operating efficiency of NBC subsidiaries was higher than for the generality of other bus operators. They were more tightly run and potential interference was further away than PTEs and municipal's. Nonetheless, this case study has confirmed that incumbents invariably focussed on those operating areas that recognizably offer greater returns, namely labour costs and the impact that a new product can have to revitalise pockets of potential demand. In the former there are indications that they were negotiated long before the central machinery broke up (Hargreaves, 1988) and in the latter the increases in patronage generally associated with minibus networks were achieved before deregulation - most of the generation of new business came with minibus services which we really introduced during 1985 early 1986 (CD).

It is unquestionable that these factors have played an important role in enhancing the position of this company in the market. The potential advantages that 'late movers' might have had (eg. labour costs) were greatly reduced.
However, the extent to which things can become irremediably unequal depends on whether conditions are created in the industry for incumbents to be effectively challenged or feel that they could be by others operating on the fringes of their markets. This research has shown that actual competition has been met with predatory behaviour by the incumbent but also that the threat of entry plays a greater policing role than it has been assumed by other observers. However, it could be argued that competition is not rewarding reasonably competent competitors even if more some than others. The current system appears to be supporting the continued existence of potentially inefficient operators - namely those still owned by local authorities - and permitting competent operators to be wiped out of markets as a result of the progressive reconcentration in the industry. In fact, the incentive for predation appears to increase with the threat posed by the most effective competition when it seeks to challenge profitable parts of an incumbent’s core business.

However, throughout this study one major and apparently contradictory issue has arisen. The findings of this case study have confirmed the evidence from other sources about the lack of widespread effective competition. Yet this incumbent shares the concern felt by others about their inability to attain returns capable of ensuring much needed capital investment in the industry. The most important factor has been identified as the need to over-provide (CD). This in effect means that incumbents carry excess capacity and/or that surplus capacity is not being kept idle.

It is apparent from this case, that new entry is likely to draw retaliation by the incumbent in the form of predatory behaviour. The major concern about predatory practices is their effects on users. Although present users may benefit whilst such practices last (lower prices and/or higher output) future users may be harmed if they succeed. Furthermore, MF’s success must be seen to constitute a signal to other potential entrants, for they are now aware that their main competitive entry features will, at least, be matched by the incumbent. As a result, the entrant will effectively know that if he attempts entry both operators would simply lose revenue (Evans, 1991). For the proponents of contestability, however, all that suffices for market contestability is that there should be potential entrants with the authority to enter the market readily (Preston, 1991). Additionally, for entry to constitute a threat it must be profitable for a certain period of time - no matter how short (Bailey, 1982).
According to Schweitzerman and Schofer (1985), because of imperfect information, an operator may not choose the true-maximum profit characteristics of output, but instead operate within a profitable service-price region. If this profitable combination of price and service is large, it is relatively easy for a carrier to enter the industry and to make a profit. In this context, and despite retaliation, the opportunities for 'hit and run' type of incursions are enhanced. Also, the fact that an excess supply of fully depreciated buses in the second hand market exists, means that an entrant faces low entry costs. But as observed earlier, incumbents are resorting to the same market as a means of deterring entry, by reducing the scope of the profitable region to levels which in turn they claim do not sustain future investment needs.

Kahn (1988) has defined a sick industry as one where, because demand has declined or ceased to grow, excess capacity arises because of an inelastic supply, and all or the preponderant proportion of firms in it are failing to cover their total costs, including a normal return on investment. He concludes that, interestingly, aggregate capacity in a sick industry is typically not idle, and it is the failure to keep it idle that makes it sick.

In the context of the bus industry, it could be said that excess capacity is not being shed through effective competition - to a certain degree it does not exist - and it is likely that it will persist as long as incumbents pursue strategic entry deterrents of the type observed in this case study, or as long as the stock of used buses sustains the threat of entry.

Nonetheless, the formation of large holding groups - a trend that has been associated with a reduction in competition - is not regarded by the proponents of contestability as an eliminator of efficiency and effectiveness as long as the threat of entry remains, which in the case of the bus industry must be seen as a question of it being able to survive.

At the moment this threat is being sustained and to a great extent is dependent on the existence of low entry capital costs, that is, of cheap second hand buses, as it is acknowledged by MFs Managing Director - competition, I think, will always be there. There is always scope for the local guy to pick up a small garage somewhere and go out and buy cheap second hand buses. There is always an opportunity for him to do his little bit at a very much cheaper cost base. But he will never be in a situation to afford to buy brand new buses. (MD).
Notwithstanding the above, the scope for further reconcentration remains strong. MF's Managing Director identified three main areas where opportunities for acquisitions can arise:

Firstly, a lot of the 70 odd companies that went to management buy-outs have not done the right things and haven't got the sort of profit levels to reinvest or to maintain a secure future. These companies are going to run into difficulties or their main shareholders are in their mid-50s, in 2 to 4 years they will start to think - I actually want to sell the shares now (MD); secondly, there are a lot of small operators that developed post-deregulation.... that in the current economic climate are running into severe difficulties and at the moment I have people phoning me literally every day, wanting to sell-up (MD); finally, "there is still a large proportion of the bus industry in the UK that is still regulated (eg. and PTE's). If the next Government is actually Conservative and moves privatisation further, this will create phenomenal opportunities. This suggests that the shift away from on-the-road competition to board room competition (Oxford University Transport Studies Unit, 1990) noted during 1989 is likely to continue and lead to an increase in the power of a few large groups.

The benefits of size are the usual economies of scale situation (MD) expressed by "the prospects of better financial dealings.... being able to exert more weight in fuel prices... the ability within a large group to invest in other aspects such as management development and training to provide the managers of the future (MD). Equally important is the realisation that...people will perceive MF as something different because it is now part of a major holding group which might deter anyone from having too much of a go at us" (MD).

The major concern about the current trend towards reconcentration in the bus industry is that it can lead, in a non-contestable market, to a gradual erosion of the most beneficial changes achieved thus far. As Hay and Vickers (1987) suggested, creating alertness in dominant firms may not be the ability of entrants to replicate the activities of existing firms but their threats to introduce new and better ways of doing business that matters. But the advantages of lower operating costs attained in the industry can also be dissipated in low vehicle passenger loads as a result of competition or the threat of entry that does not lead to shedding excess capacity.(1)

(1) According to Windle (1988) capital would have to be reduced by 50% to minimise the total cost of providing the industry's current service levels
Furthermore, as Windle (1988) remarked, a contraction in passenger miles within a fixed network will result in sharp increases in unit costs. This explains why MFs management considers that the replacement situation is going to be into larger vehicles (MD). That is, a sufficiently strong dominant position in a market provides an incentive to reap the benefits of economies of network. As Windle suggested, unit costs decline as passenger miles increase by increasing capacity through larger buses, holding load factors, average speed, average trip length and route miles constant. Finally, it should also be noted that greater pressures in operating costs will arise if the levels of road congestion continue to increase. This situation is further aggravated in the face of declining or constant levels of patronage - currently, the way things (congestion) are going, we may have to increase resources just to match current usage (DGM 1).

The operating rationale of the bus industry was for nearly 30 years determined by political considerations. The change of policy in 1985 has not eliminated this link. Four years of experience have on the contrary highlighted the unease in the relationship between competition and regulation. Furthermore, they have exposed the vulnerability of the industry's product to its substitutes and its inability to attenuate this situation without political interference. Competition between operators may in effect be over due to acquisitions, but competition from product substitutes remains strong.

The future of the bus industry remains politically dependent but not in the sense that there is further control of the provision of bus services (CD). The kind of intervention that is envisaged is rather one that ought to be directed towards seeking to ensure profits within the industry (CD). From an incumbent's point of view this requires raising statutory barriers to entry - some sort of parameter that is required (for entry to be permitted) eg. a target for profit that an operation is required to achieve (CD).

There is, however, one progressive way of envisaging the role of Government in the future of the bus industry: to stimulate interest in public transport for long term purposes (DGM1), for the more people we drive away from using public transport in all forms, the less people are getting educated from using public transport in the future (DGM1).

This view is shared by others: for example, Hayward (1991) contends that the task of changing the downgrade perception of public transport must start in schools, for children are the future potential users. In his view, 17 and 18
year olds must be made aware of the effects that the current trends in traffic congestion can cause on the quality of life.

8.4 Organisational Leadership and Culture
The concept of corporate culture has attracted considerable interest in recent literature to the extent that it has been seen to play an important role in the performance of companies. Culture has been associated with the values, beliefs and principles that form the framework in which management practices and behaviours evolve. At the same time, the leadership of organisations is seen to constitute the key instrument for the creation and/or support for a family of concepts (Pettigrew, 1979) which, in successful companies, are said to be in harmony with the visions of their leaders.

Although Bennis and Nanus' study (1985) of 90 leaders in the US implied that success was related to the fact that all these leaders had a clear sense of the direction that the organisation should take, Pettigrew (1979) observed that visions also represent the system of beliefs that uses a distinctive language to define roles, activities, challenges and purposes and in so doing help to create the patterns of meanings and consciousness defined as organisational culture.

This research has identified various dimensions of the belief system that characterised the organisational settings prior to the deregulation and partial privatisation of the bus industry. It did not attempt to quantify it in relation to organisational efficiency and effectiveness, although the general tendency is to associate the negative trends in the industry in that era with some of the characteristics of the belief system. It is nonetheless apparent that regulatory control has created a framework in which company leaders lacked the space with which to lead (Bryman 1989a), but also one in which they showed the inability to peer over the onrush of administrative demands emanating from various quarters, and therefore the lack of opportunity to ask fundamental questions about direction, mission, goals and routes (Bennis, 1976). This situation was clearly acknowledged by MFs Managing Director: ... without being disrespectful to bus company people, they have been in the industry all their lives and to be honest they haven't really got a profit ethic.

It could be argued that a change to a more commercial environment would inevitably expose a system of beliefs designed to legitimise the prosecution of fundamentally different and often contradictory goals. However, the realisation of the extent of the cultural discrepancies must be seen in this case in the context that two of the senior organisation Directors were new to
the industry and that the Managing Director was described as the entrepreneurial force in the Company, which, conventionally is associated with risk-taking. This was clearly in evidence in MFs Managing Director's statement about the effects that incoming members from acquired companies have had on the values of the industry's grown management - ... the guys that we have learnt a lot from these guys who knew what it is like on the other side of the fence without a big brother behind and a large bank account giving them buses whenever they want (MD).

Although successful companies are those where a relationship is said to exist between culture and leadership visions, this discussion is concerned with the way in which such a relationship was seen to have been achieved for the philosophy and the culture of the company works (MD). Visions are not detailed plans and can be envisaged as long term assertions of a company's direction. However, as Tichy and Devanna's study (1986) of 12 chief executives showed, leaders must also be prepared to force through the practical ramifications of their visions, or as Handy (1989) suggested, they must make sense to others: relate to people's work and be responsive to the needs and views of others. The profitability of MFs existing core business, essential to its current survival, is also crucial as revenue generator for the prosecution of its leadership's strategy based on growth by acquisition.

The crucial element for the formation of a new culture in MF was the introduction of the depot approach - ... the culture of the company is now that there is a profit centre management who is running the garage (MD). The restructuring of organisational variables that followed was not intended as a question of putting new rules and regulations to restrict people. It (was) just getting culturally the people to think in terms of working as a team, within a team, within a garage. At the end of the day it is the profitability of the whole garage that counts (MD) and ... we attempt to involve people, listen to views, agreeing strategy (MD).

The role of the Depot General Managers was thus crucial for the adoption, acceptance and spreading of a distinctively different set of values that the leadership of MF sought to establish. In this context, this research has shown that Depot General Managers were encouraged to suppress management styles (autocratic and participative) whose characteristics were not entirely in accordance with the new ways of doing things. It is thus not surprising to note that the new culture comes from the top down (MD) in the sense that - the guy thinks - I actually know now what the criteria is that I will
be measured against. What my job really is. Now I have got to make sure the fitter knows precisely the same (MD). It could be concluded that the most important cultural feature in MFs reform of management practices comprised of instilling a profit ethic based on financial discipline which for all purposes represents an important vehicle used by the leadership to inspire others to greater achievement (Bryman, 1984). It is in effect a sufficiently broad and flexible concept capable of accommodating the more entrepreneurial beliefs of newcomers but also of inspiring bus industry members of the organisation to commit their expertise to the achievement of higher goals.

It is also important to note that the leadership was determined to expand the new cultural base within the company. This commitment was expressed in

i the recruitment of newcomers, eg. DGM1 described his past professional experience as - a trouble shooter ... I used to go round into problematic areas, introduce new systems and try to make unprofitable areas into profitable ones (DGM1) and

ii in the criteria for acquisitions - the companies that we get involved in are small operations, usually a guy who has an entrepreneurial spirit ... has got his own culture which is running your own business ... is very much profit motivated ... the guy who has a profit ethic who knows what he is doing. When we get involved with other companies we are not really interested unless the managers are there because their culture is right (MD).

Finally this research has indicated that the categorization of leadership into two main mutually exclusive group - 'transactional' and 'transformational' - may not necessarily be appropriate in all circumstances. Transactional leaders are described as those that "reward subordinates for successfully attaining goals set by the leader" whereas Transformational leaders "provide organization members with the environment in which they become fully committed" (Bryman, 1989). MF's leaders showed both these characteristics, although the emphasis during the most uncertain and volatile period (soon after 1985) was on creating environmental compatibility, whereas presently the attainment of objectives plays a greater role. That is, Transactional and Transformational kinds of leadership appear to interact even though certain characteristics are more visible than others at different stages of organizational life.
This chapter has analysed the most important elements of competition - conditions of entry (exiting rules and pre-deregulation effects) and competitive activity (actual entry, the threat of entry and a case of rivalry between two incumbents) - in the context of the case studied. Furthermore, it established major links between the findings and the aims and expectations of the 1985 Transport legislation. Finally, it addressed the role that organizational leadership and culture has played in the forum of change observed in this case study.
Part IV

Chapter 9: Conclusions and Suggestions for Further Research

The case study research of MF consisted of a detailed study of change at the level of one bus operator in response to a new operating and regulatory environment.

In the first part of this research the main opposing ideas of the debate surrounding the most radical public policy of bus transport in the UK in the last 30 years were presented and discussed. Concomitantly, the most relevant areas of organization theory were reviewed. Together, contestability and organization theories formed the general framework in which the impact of deregulation on the strategic adaptation mechanisms of this bus operator were investigated. It is in this context that this research has covered several dimensions of change.

The first main area of analysis comprised corporate strategy formation and considered MF's business philosophy concerning its output and organizational matters. The second area focussed on various aspects of the management of change, that is, on the way in which MF decided to compete in the public transport business. The main functional areas were considered as well as the main trends in the company's competitive behaviour.

The description of behaviours and evidence, their interpretation in the light of theoretical propositions and of other empirical evidence, and an emphasis on the innovative aspects as seen from the data collected, were the main methodological elements used to enhance the general knowledge and understanding of a deregulated bus industry, from the point of view of one bus operator.

Many conclusions have been drawn in the course of this research. However, the four most important contributions to knowledge can be summarized as follows:

1 Corporate issues

The main conclusion of this part of the research is the recognition of the strong commitment shown by MF in relation to a successful industry. Despite the fact that bus operators are searching for corporate interests outside the industry (MF is no exception), the evidence is that there is a genuine concern about the issues associated with deregulation. More importantly, this concern focuses on the ways in which the deregulation
policy can evolve and be improved in order to achieve many of its proclaimed goals. That is, from an operator perspective, deregulation appears to be an accepted principle even though it is generally recognised to be in need of some form of evolution.

2 Organizational Issues
The main reason for studying organizational issues was to understand the link between what MF set out to achieve and how it was guided to achieving it. The roles of leadership and of a new organizational culture were in evidence throughout this case study and the most visible change in the post deregulated company - the depot approach - was analysed extensively.

The depot approach appears to be the most common organizational change that has occurred in the industry since deregulation. The general aim of this change is to contribute to reducing environmental uncertainty. However, this research has shown that it also has organization-wide implications and that it brings to the fore many issues that are, in effect, common to divisionalised structures in any industry. The contribution of this project has been to provide an understanding of the way in which these issues have been dealt with (or left unanswered by) within the specific context of the bus industry.

The structural characteristic that emerged to accommodate the new role of the depots is akin to the loosely coupled type of system described by Aldrich (1979). Furthermore, there is implicit support for Mintzberg's (1989) view that it is the centralisation of power within divisions that is most compatible with a divisionalised form of structure, to the extent that MF's depots are clearly loosely coupled but also each is tightly coupled internally. Two main issues associated with this type of organisational setting have emerged throughout this research:

1 Coordination amongst depots may be difficult to attain thus limiting the scope for the gains that can accrue from interrelationships. As Porter (1985) asserted, nothing compels coordination among business units, whilst the functions within a business unit must coordinate in order to do business and business unit managers may jealously guard their turf. A number of factors can contribute to the emergence of this type of situation. Porter suggests that business units separated geographically can have difficulty achieving the ongoing coordination to make interrelationships a success and points out that if there are differences of skills and types of management between units, contacts may be uncomfortable or strained. Furthermore, the disparity of operating
procedures and environmental characteristics between business units can reduce generic similarities and thus the scope for the exchange of know-how.

This research has shown that depot general managers exercise considerable control over their operations and are aware that their personal aspirations within the company depend on the performance achieved by the depot that they manage. However, it has also become clear that the way in which interrelations have evolved, are perceived differently by the depot general managers. DGM1, a newcomer to the industry stated that there is no systematic feeding of ideas between General Managers - one may implement one thing that may be appropriate to another depot which may eventually reach the same solution whereas DGM2's opinion is that there is as much cooperation as there needs to be. DGM3 in turn, points out that I am really the odd one out, because I don't operate double decker vehicles. I am a bit of a loner in many ways. The others liaise more between themselves than with me. Furthermore, this case study has also shown that the relationships between newcomers to the industry and 'busmen' is not an easy one - the relationships between depot general managers is very much between busmen general managers and non-busmen general managers. Once I suggested that the depot general managers could meet more regularly on their own to feed each other with ideas and discuss problems. This was agreed by the two non-busmen but fell on 'deaf ears' (DGM1). It should also be noted that the scope for interrelationships between depot general managers may be further diminished as a result of the hierarchy that was established namely that there is no single Director responsible for all the depot general managers. However, the issues raised herein must be put into perspective. In fact, there needs to be a balance between the costs of improving and sustaining inter-relationships and the benefits that may accrue as a result.

Aldrich (1979) pointed out that loose coupling may permit greater self determination by persons in organisational subunits thus raising levels of involvement and generating a greater sense of efficiency among them. Furthermore in environments changing in unpredictable ways, the only route to survival may be through granting a great deal of self-determination to members in positions having an immediate grasp of external events. These views are clearly relevant to the case studied. Depot General Managers showed keen concern about the most efficient
and effective way of using their resources given the specific environmental demands that they face. Also, the reformulation of the organisational framework must be seen to have enhanced innovation as a means to attain higher levels of achievement. A critical factor in this process is the positioning of key members of the organisation (re: Depot General Managers) empowered to make decisions with regard to both market events and production responses. That is, as Stalk (1988) pointed out, organisation structures should enable fast responses for today's new generation of companies compete with flexible production and rapid response systems, expanding variety and increasing innovation. The reduction in time consumption between an event occurring in the market - be it the creation of new demand or a move by a competitor - and the response in terms of product development must therefore be seen as one important contribution of the organisational changes, based on the depot approach, observed in this case study.

3 Operating Issues

This research has not, however, concentrated solely on the role of organisational factors in order to study strategic change in the bus industry. It has also analysed in detail areas of managerial involvement that have not been documented before in the context of the new environment in the industry. As Patton (1987) pointed out in the examination of the impact of policy, case studies are increasingly recognised as having an important role since they are able illuminate the effects of implementation on everyday activities. It is in this context that a set of operational subjects was included in this research (ie. production, design and pricing of bus services). The 1985 transport legislation generated many expectations with regard to changes in the operating methodologies of bus operators. The research undertaken in MF has revealed and to a certain degree confirmed the evidence of other studies concerning innovative aspects of operations. However, it has also exposed the continued existence of practices usually associated with the past and which were part of the argument in favour of deregulation.

The emphasis 1) on the need to achieve cumulative cost savings compatible with the quality of services (including the elimination of the 'us' (Traffic) and 'them' (Maintenance) syndrome, 2) on the requisites of product integration (drivers scheduling and the supply of other products) and 3) on the decentralization of operational matters, must be seen to constitute important departures from old practices.
However, 1) the limited market analysis observed in this case study, 2) the continued cross-subsidization between services - if only practised for different reasons, 3) the inability to compete with private transport, and 4) the non-adoption of a more differentiated fare structure, constitute operational characteristics that have prevailed despite the changes brought about by the 1985 policy framework.

4 Competition
This research has analysed in some detail the competitive behaviour of a typical incumbent. The analysis was undertaken within the framework of a number of postulates concerning the conditions of access to the industry (institutional and pre-deregulation) and covered three major areas which are crucial (and controversial) aspects associated with the policy of deregulation - a) actual competition, b) the threat of entry, and c) competition between incumbents.

Actual competition
The conclusions that can be drawn from the competitive events analysed in Chapter 8 can be summarized according to:

- sources of success / failure
- the scope of competitiveness in the market
- the effects of subsequent dominance of the market.

The study of actual competition has shown that failure is strongly related to disequilibrium in the two main sectors of the productive process - Traffic and Maintenance (the case of LCB). On the other hand, failure in the case of an operator that is recognizably efficient and effective (the case of Kinch) but small in size, is the result of the conjunction of a number of factors, namely:

1 Predatory behaviour on the part of the bigger operator by simultaneously matching fares and frequencies.
2 The fact that the bigger operator possesses or has access to wider resources (eg. by belonging to a major transport group).
3 The existence of high barriers to exit encourages an intransigent defence of what the competitor regards as its own business.
4 The fact that competition is limited to only a few routes that are part of a wider network run by the competitor.
However, this research has indicated that there are a number of factors capable of increasing the competitiveness of a market, namely if the following two conditions occur simultaneously:

1. Competition occurs on an independent route in a low-income area so that users do not have to benefit and/or pay for connecting services, and
2. There is little product differentiation (reliability and frequencies) but there are differences in fares, for high fare elasticities reduce the tendency of passengers to board the first bus that arrives when a cheaper alternative is available within a short space of time.

Notwithstanding this scope for market competitiveness, the fact is that the outcome of the events observed in this case study was the monopolisation of the local market. However, the level of fares did not rise soon after competition ended. The major deterrent being the detrimental effects on the reputation of the new monopolist. Furthermore, the quality of services did not deteriorate substantially as competition was, in this case, fought on matching timings rather than on high frequencies.

The threat of entry
This research has portrayed an incumbent strongly committed to deterring new entrants. Soon after deregulation the incumbent envisaged carrying excess capacity but afterwards the concern about potential entry was expressed by the need to close gaps in the market - even if this led to over-provision - and to avoid overpricing its services - even if this meant cross-subsidisation.

The consequences that the threat of entry had on the incumbent were that:
1) overprovision reduced the benefits of economies of scope that MF claimed to be enjoying - services may have all been nicely bedded in (DGM1) but this may have been based on higher than necessary frequencies; and 2) charging lower fares than those that reflected the higher costs of overprovision meant that in the well-protected areas of the network, passengers were paying more than the costs of services that they used. The combination of these two effects means that MF was unable to meet its capital replacement needs and was forced to resort to purchasing second-hand buses in an attempt to lower its costs.

The threat of entry was also felt in the tender market. The calls by MF for longer-term contracts and for clauses that required certain types of vehicles as well as new ones must be seen as an attempt to deter 'hit and run'
incursions. It is noticeable that MF had an easier and potentially more favourable access to finance than a smaller, less resourceful operator. At the same time the benefit that can accrue to an incumbent from the requirement of having to use new buses on tender services is that it can earn a guaranteed return and still enable it to renew its fleet.

Competing Incumbents
The case studied was one of rivalry between two incumbents - MF and LCB. It was a case of permanent market tension due, in great part, to the fact that both had high exit barriers. This case of rivalry was also associated with a background of declining market demand. That is, demand had recognizably peaked, and had brought an additional source of conflict, for demand was increasingly unable to sustain the profitability of two comprehensive networks. As in other instances, the strategy of the private incumbent was to wait until the Municipal rival was privatized. The expectation was that whatever the outcome of privatization, it would lead to a clearer and expectedly more advantageous situation (re: the need for a major rationalization of the rival's operations).

Overall conclusion
This research has shown that, despite all the proclaimed advantages to incumbents (namely those of pre-deregulation) and the market dominance attained by incumbent operators, overprovision is significant and is sustained by cross-subsidization. There is also an underlying concern about avoiding direct competition. Actual entry is not occurring on the scale that could effectively shed excess capacity and ensure that the industry's product is produced at minimum cost. Potential entry, on the other hand, appears to be playing an important disciplinary role and the main issue is how to maintain, reinforce and make it more effective in the face of the barriers that incumbents build to avoid its materialization. One of the most important effects of the present situation is that the industry is not renewing its capital base at the required rate. It is true that the lack of investment has been a chronic problem in the industry, but it must also be pointed out that in the current deregulated environment, the scope for government intervention in this field has not diminished. The renewal of fleets and the concomitant generation of more intense, effective competition may require institutional arrangements which encourage new entry (on a bigger scale) via longer-term contracts that demand the use of new buses. This would strengthen the resources of new operators, provide them with experience of the market and enable them to challenge more effectively, in the longer term, the position of slow-innovative incumbents.
Finally, it must be stressed that part of the waste of resources that occurs in the industry at present is attributable to traffic congestion. The role of public authorities in this area is crucial and the benefits that accrue to all bus operators from a reduction in the levels of congestion are undisputable.

This research has shown that there have been significant changes in one company of the bus industry which would not have been possible without a break with the entrenched regulatory regime. However, it has also shown the need for regulators to remain attentive to developments in the industry, for as Kahn (1988) noted, regulatory agencies do not establish rules of conduct that last forever; they are supposed, within the limit of the law and of fair and prudent administration, to adapt their rules and practices to the nation's needs.

**Future research needs**

In terms of the examination of the impact of the 1985 transport policy, it is clear that one case study does not allow a generalisation of its results. However, this type of research has proved to be an important means of identifying patterns of response and theoretical linkages that have valuable implications for future institutional areas of intervention. In this context, this research has established a methodological framework for the study of other cases aimed at understanding supply side behaviour in a deregulated environment. Further research in other parts of the UK would inevitably lead to different and varied trends. It would nonetheless constitute a valuable input to the debate concerning the extend of further regulation in the bus industry.

From an organisational point of view, the analysis of the impact of the depot approach could be extended to include an investigation of the process of strategic decision-making and of the criteria and the ways in which they are arrived at. This area of research could lead to a clearer understanding of the corporate role and the role of the new corporate culture. It could also establish the gains resulting from abandoning the traditional feature of one single corporate member in control of all business units. Furthermore, the wave of bus company acquisitions raises a number of organisational issues that are new to the industry's management. Research could help document some of these issues, particularly the identification of the objectives of these acquisitions and the effectiveness of the integration processes that followed.

From a bus operator's standpoint, there is a need to mould many of the operational topics of previous research to the new kind of environmental
requirements and opportunities facing bus companies. Research could focus on identifying the most effective cost saving practices in areas of labour productivity and of peak costs. In the latter, research could concentrate on assessing the ways in which the present method of subsidisation available to bus operators may be used to ease current problems without having to adopt a comprehensive franchise system (eg. forcing tenders for the least rewarding peak services). Equally important is the instrumental role of future research in investigating product strategies (eg. the design of bus services) aimed at halting the persistent decline in passenger traffic.
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2.2 Interview Guide

Q.1 When was your company privatised?

Q.2 As you know, general economic policies bear a great influence on the major strategic decisions that are made at company level. The cost of borrowing is certainly a major factor in such decisions. What major opportunities have been foregone as a result of the potential burden of interest payments?

*e.g. establishing a sounder market position/permitting further expansion in related and/or unrelated business areas.*

To what extent do current financial demands on your company's assets further inhibit borrowing the additional funds required for adopting some of these strategies? *e.g.*

*Would you say - that there are significant financial pressures *e.g.*, a *"heavy scheduled debt repayments "*, which place important limits on your company's borrowing capability?*

*Would you say - that current performance and expectations *e.g.*, current and/or projected profit levels - do not facilitate further financial commitments?*

Q.3 The 1985 Transport Act sets out a number of rules aimed at regulating the functioning of the market.

I would like to focus on some specific areas of the legislation.

Registration.

The period of time required before any changes in services can be implemented can cause some degree of uncertainty to the exact timing of when resources can be deployed.

To what extent has this ruling interfered with your planning process?

1. *NOT OFTEN*

- *intensive efforts have been taken to avoid technical errors* - To what extent has this led to higher administrative costs?

- *Traffic Commissioner has shown a flexible approach in the application of the legislation.* - Do you consider that this is the result of the wider discretionary powers given to the T.C. in the recent amendments to the Act?

Why? - *it has meant speedier decisions and these have been essentially unbiased.*
2. OFTEN
- problems in the internal administrative arrangements
- Traffic Commissioner's attitudes and performance. - The amendments made to the 1985 Act gave the T.C. considerable discretionary powers for applying the legislation. Why do you think that these measures have not achieved the results that were expected (to bring more flexibility into the system)? - introduced excessive subjectivity to the decision process.

Tendering Process
To what extent has the new method for subsidising services affected your company?
1. NO
- information required is simple and easy to gather.
2. YES
- excessive information required by the authorities
- considerable overlapping of commercial and tendered services (which has led to a significant increase in administrative intensity).

Q.4 To what extent has the local authority taken the initiative (or supported your initiatives) to deter the use of private transport in your area?
2. Unsatisfactory record. Is there any specific reason for such behaviour?
- historic reasons - lack of resources to monitor trends.

Q.5 In 1985, the percentage of households with regular use of one car in the East Midlands was approximately 50% - the highest in the U.K. What have been the major strategies that you have adopted to try and capture this market?

- use of minibuses. - What are the main characteristics of your minibus operations that make you believe will succeed in attracting car users into your services? high frequency/improved accessibility - aspects that are most valued by those who use cars. To which part of this segment do you attach more importance? peak or off peak travel. Why? (cost of provision) Have you ever considered promoting your services with the main employers who provide extensive parking facilities for their employees?

Q.6 What have been the other major strategies that your company has developed to increase patronage?
- quantity and quality improvements (re-routing services - to penetrate housing estates, hail and ride operations).

It is clear that the market is composed of different people who have different
transport needs. Has your company
- focussed on developing separate strategies to meet these different needs? -
providing services which have distinct characteristics (e.g. limited stop services)
to cater for the different customer segments (e.g. the elderly/the commuter/the
young/the suburban housewife) - which of these segments does your company
regard as having the most prospects of growth?
or
- has your company developed as a territorial provider? - provide an extensive,
high frequency network.

Q.7 What is the range of services that your company provides?
bus services: % commercial and tendered, express services, private hire,
excursions, engineering related, others.

Q.8 What do you believe constitute the most outstanding features of your company's
standing in these markets? i.e.,
Does your company strive to transmit distinctive signals to the market that
differentiates it from other operators?
- by being the lower cost provider
- by continually trying to create something that is perceived as being unique
- by trying to perfect a system introduced by some other operator.

Q.9 It is important for operators to have an idea about how the public perceive their
services.
Which particular aspect(s) do you believe your company is better known for?
- Reputation (being responsive to changes in demand, possess a good
  community relation, open to criticism)
- Product Quality (providing a reliable service, having friendly drivers,
  maintaining vehicles clean, providing frequent services)
- Price (practice prices which provide good value for money).

Q.10 What were in your opinion the most important factors that have contributed to the
current market position of your company? i.e.,
To what extent does the current market situation of your company reflect the
extent of recent changes - own efforts and/or events in the market since 1986 -
and how much can it be attributed to your company's record at the time of
privatisation?
e.g.
- already providing good quality services or - patronage declining fast
- financially stable or - facing increasing financial difficulties
- valuable assets or - assets deteriorating fast
- staff attitudes and behaviour were in accordance with new demands
  or major obstacles to achieve improvements (low staff morale, unionised staff)
- intensive competition which significantly strained resources - or lack of
  significant competition which permitted a smooth establishment in the market.
Would you say that, as a whole, the expectations that you held at the time of
privatisation fairly reflect your current market situation?

Q.11 A recent study of 113 operators - around \( \frac{1}{2} \) of which were former NBC - showed
pre-tax profit margins at about 3\% for the period 1986/87, and some of the
managing directors expressed the view that a return of less than 10\% would be
unsatisfactory for funding future needs.
Do you consider that the recent trends and characteristics of the bus industry
constitute a sufficient assurance to meet your targets of growth?
Do you think that the industry is in general decline? - meaning a shrinkage
and/or a shift in consumer demand
or
Do you see the industry as being turbulent? - where changes follow a pattern of
cyclical variations around a stable income
or
Do you believe that above all, there are good opportunities in the market that
have not yet been fulfilled? - existing areas of operation or in other geographical
markets?

Q.12 Has your company expanded geographically?
  1. YES
By own development or by acquisition?
  1.1 By acquisition
Why has the decision to expand resulted in an acquisition rather than by internal
development?
  - exploit better utilization of the other company's resources
  - acquire additional capacity to use immediately (there were physical and
    organizational limitations which constrained the efficiency and speed at which
    the firm could acquire those resources separately and put them together).
What were the main aims of the acquisition(s)?
  - increase market shares and at the same time prevent a competitor from
    increasing its share of the market
  - obtain business in a new territory, new markets and utilize resources more
    fully.
  - take advantage of potential economies of network utilization and configuration
    from joint productions.
  - acquire valuable freehold land and properties (sell and take back on lease,
gain capital profit and acquire substantial holding of cash to be reinvested in other assets).

What do you think are the most important factors to overcome in the integration process?
- establish consistent general policies
- revise administrative structure: coordinate procedures
- integrate personnel
- establish scope of responsibilities and authority.

An expansion involves widening the range of services which some people argue can cause increased difficulties in maintaining high quality standards. A more homogenous environment on the other hand permits greater concentration of efforts on specific needs and thus assures a superior quality product.

Would you like to comment on this statement?

1.2 By own development

Why has your company decided to expand by own development?
- the spread of cost is more favourable and realistic
- cash or sufficient standing for borrowing were not available
- minimize disruption to other activities and avoid behavioural problems
- no real attractive company in the market to acquire.

2. NO

Has your company decided to serve only the most important markets and embarked on a disinvestment programme?

What have been the major causes and consequences of such a policy?
- to lessen capital needs
- to make the environment more homogeneous - thus simpler and more standardized.
- reduce the level of services - operating a limited service (at the times that demand is high - but not necessarily at the highest - and the cost of provision is low?)
- upgraded the quality of services

An expansion usually results in a company being able to widen the scope of its business of reaching new markets and thus exploring new opportunities.

Would you like to comment on this statement?

Q.13 The process of supplying bus services often creates idle resources and at the same time involves the production of valuable specialised services which need not be increased proportionately for larger outputs.

Maintenance work constitutes a specialised service with real potential for development and a source of extra revenue.

Has your company considered the opportunity to further develop this or other
apparently advantageous factors associated with your business activity?

1. YES

To what extent has this policy contributed to enhance your company's market position?
- significant source of revenues
- enhanced reputation
- created more than expected problems - synchronization and priority problems.

2. NO
- "the smaller the output, the less resources can be used in a specialised manner"
- there are no satisfactory market conditions in the local environment.

Q.14. As you are aware, many bus companies have decided to diversify their output, whether this be related to the supply of bus services or not. Has your company ever considered this course of action? Why?

1. NO

Wouldn't you agree that
- producing a single product makes a company more exposed to extreme occurrences? - major shift in consumer demand
- producing different products increases the flexibility in which resources can be used? - being able to cross-subsidise and if needed use some form of predatory pricing to enhance its market share in a particular product area?
- the fluctuations in earnings that occur in the bus industry can be lessened by finding other products which can be produced in the periods when demand for the major product is low and which do not conflict with the ability to take full advantage of opportunities when demand is high
- e.g. products that can be produced in the "off season" using some of the existing resources and that can be abandoned in the peak season in favour of the major product?
- your profits could increase at a more rapid rate than the existing products permit? - and thus allocate investments to alternative uses.

2. YES

Wouldn't you agree that
- product diversification absorbs significant amounts of cash reserves and that those may be needed on a continuous basis? - sustain a rate of investment to keep up with competition in the various fields.
- entering into a new field, scarcely known, constitutes a risk? e.g. profit margins can drop drastically as total capacity exceeds demand.
- the length of time to move into profits once a new product is launched involves severe losses in the first years and that this can be terminal?
Q.15 I would like to concentrate now on the issue of organizational change. I would like to start by focussing on the major reasons or impetus that led to the changes I assume have taken place in your company since privatisation.

1. Significant changes

Let us firstly consider the influence of internal issues or pressures that might have somehow contributed to the changes.

Could you identify the most important ones?

*Would you say that the changes were needed to:*

- accommodate redefined priorities - *from a technical organization to a more market-oriented one.*
- accommodate the size of the organization - *to meet the growth (to deal with a merger/contraction in the company’s activities).*
- improve communication channels and facilitate the processing of information or other inputs for decision-making purposes? *change administrative system and procedures to enhance problem-solving ability.*
- redefine management levels at which problems were handled - *decisions could be taken at lower levels without detrimental effects to their quality/change span of control.*

Let us turn now to the external forces. Could you identify the most important ones? *e.g.*

*Would you say that the changes were needed to:*

- deal more promptly with the variations in the external environment
- accommodate new/different work patterns that emerged as a result of a more complex environment - *i.e. the more complex environment exposed the inadequancy of important aspects in the existing organizational form (e.g. planning and control systems needed radical changes).*

2. Limited changes

Why? *e.g.*

*Would you say that:*

- the pace of change in the industry has not allowed the introduction of major changes
- there is a satisfactory interlocking between the environmental demands and the form of your organization.

Q.16 How is the current structure of your organization differentiated?
*functional/departmentalized/divisionalised/other.*

Which specific feature has been introduced in your company's organizational process which in your opinion reflect the commitment to reduce environmental uncertainty?

- *the establishment of separate centres which has permitted a superior/closer scrutiny of the environment (led to quicker responses to individual market*
demands).
- the introduction of "institutionalised" links between market "agents" and decision making centres.

Q.17 What kind of targets are set for the subunits?
Is the emphasis on results or on procedures?
Are they basically expressed in financial terms or are they based on "conceptual" principles?
Who is involved in the definition of the targets?
- set by the board and translated into specific objectives for the subunits
- wider involvement.
To what extent are the targets set for the different subunits differentiated according to their different market conditions?
What kind of resources are put under the control of the subunits?
- produce and/or sell the services
To what extent are the subunits dependent on decisions over issues that affect them but over which they have no control?
- pricing strategies, investment requirements i.e. factors that may constrain the attainment of their targets.

Q.18 One of the most broadly accepted ideas in organizational practice is that there should be participation.
In general, how much influence does the work force have on the decisions made in your company? i.e.
Is it limited to giving employees the opportunity to present suggestions or opinions when the locus of final authority rests elsewhere? or to membership in the group which exercises final authority over an issue?
1. Limited
Why do you believe participation should be limited to the extent that you have described?
- distrust amongst the parts (different conceptions of authority, personality barriers)
- the process becomes excessively long.

2. Some
What were the main objectives for encouraging participation?
- to create greater job satisfaction and sense of achievement
- to enhance individual integration into the organization (a better understanding of the problems facing the company) to increase the member's motivation to achieve organizational objectives
- a devise to gain acceptance for changes.

Do you believe that as a result of increased participation, your members work harder? At making the decisions? at implementing the decisions? or at accepting and implementing other decisions with which they were not involved?

Q.19 I would like now to ask you some questions with regard to your personal methods of making decisions.
On average, do you make decisions solely on the basis of the information you receive from your departments?

1. NO
What do you actually do?
- Do you simply ask for the additional information which you have evaluated as necessary?
- Do you ask other members to contribute towards the decision by presenting their opinions although you make the final decision?
- Do you put all the cards on the table and negotiate a solution which is acceptable to all parties?

Q.20 As you know, in any organization there are groups of people who are more ready for changes than others.
What kind of method do you adopt to implement changes?
* e.g. major organizational restructuring - changes in procedures, spans of control
- Preceded by meetings
- setting up pilot experiments - evaluate changes in a small segment of the organization before implementing them on a wider scale
- Top-down unilateral decree approach - force the changes through.
Q.21 Although many operators acknowledge the role marketing should play, few have yet adopted a marketing approach for managing their services. For example, in a recent study it was found that on average marketing expenditures represented only about 2.2% of total operating expenses.

Why do you think that bus companies have been so modest in the allocation of resources to marketing activities?

e.g.
- other more pressing commitments
- difficult to relate marketing expenditures to changes in demand.

What is the importance attached to marketing in your organization structure?
How does it compare for example with operations and finance functions?
Can you give me an idea of the allocation of your marketing budget to its various activities? e.g.
customer services (production of timetables or maps)/ promotion (newspaper and press releases) / market research (consumer behaviour, service demand surveys).

Q.22 The Government argued that the changes introduced in the industry by the 1985 Act, would lead to significant reductions and changes in pay conditions, improvements in productivity and that big reductions in capital and maintenance costs would be achieved. I would like to start with the labour costs.

What have been the major changes in the conditions of pay?
reductions in basic pay/reductions in overtime, evening and weekend rates and/or restrictions on the eligibility for these payments/reductions in the employer's benefits (e.g. reduce number of sick days allowed)

What have been the major initiatives taken to improve flexibility and utilization of your work force, namely drivers? e.g.
more flexible scheduling/longer working hours/less time allowed for signing on and signing off/utilizing drivers for routine maintenance, fuelling, cleaning and other duties during off-peak periods thus minimising the extra staff required to cover peak periods/contract part-time drivers - do they really solve the capacity surplus that exists in the hours before and after the "rush-hour"?/other initiatives aimed at paying only for the actual driving time.

How difficult has it been to attract competent skills in the local labour market? (e.g. higher wages being paid in other industries/other operators)
I would like now to turn to maintenance costs.

In what ways has your company tried to reduce these costs? e.g.
by having less elaborate and costly depot facilities e.g. some maintenance facility in open air rather than under cover
- by more intensive use of resources and facilities - offering maintenance services to outsiders.
- by subcontracting out - maintenance, repairs, cleaning

Many of these changes have probably caused either some degree of dissatisfaction or indifference amongst your labour force.

What major initiatives has your company taken to minimise and at the same time turn to your own advantage the effects of your strategies aimed at reducing costs?

- by increasingly recognizing their work and importance of their position on an informal basis.
- by stressing the effects of competition and the potential threat of job losses if pay demands and some work rules are not moderated or revised?
- by developing a formal "internal marketing programme" to "determine employee attitudes, convince employees of their importance and that of their work, obtain ideas and suggestions for improvements and to make them feel involved in the delivery of the services"

Q.23 It has been said that "the process of constructing route structures and defining service levels is as much of an art as it is a science". In any case, it should aim at producing services which are competitive and utilized to capacity.

What do you consider to be the fundamental conceptual elements in the practical design of competitive services?

* e.g. consumer preference v.s cost efficiency (e.g. transfers, frequency timings, service integration).

Q.24 What do you consider to be the most important objectives in establishing fares?

* e.g.
  - achieve revenue generation targets/encourage new ridership/induce riders to change travel behaviours).

Who is involved in the internal process of setting fares?

As you know, not only different people are willing to pay different amounts for different services, but people differ on the amount that they are prepared to pay for the same service. It has been suggested that off peak demand is nearly twice as sensitive to fare changes as that in the peak period e.g. shoppers and the elderly are for instance more price sensitive than commuters.

On what data/analysis do you base your forecasts of the effects of changes in fares on revenue and ridership? * e.g.

- rule of thumb/past results/passenger surveys.

What is the fare structure used by your company? * e.g.

- proportional to the distance travelled with longer distance passenger effectively paying less per mile travelled than short distance passengers.

Would you have favoured a more differentiated fare structure? * to reflect additional costs of providing particular services - What do you think constitutes
the major barriers for adopting such a structure e.g. marketability problems, adapt existing fare collection system.

Q.25 It has been noted that for most bus companies, the assets acquired relate to the period of state support. If you were advised that in the next 3-5 years an important part of your fleet needed replacing, who would be involved in such a decision? e.g.
- financial, marketing, operating, engineering, divisional, depot managers.

As you know organization members perceive the environment in different ways and this is to a certain extent influenced by their positions in the organizational structure.

Given the general situation of your company in terms of resources, market positioning and facilities, which factors would be predominant in this decision? e.g.
- acquire the smallest number of vehicles and those which are financially less demanding?
- acquire greater number and mix of vehicles
- acquire the same kind of vehicles - permit greater standardization

Who would make the final decision? i.e., to which decision-making centre would the final decision be referred to?

Let us assume that the commitment to replace part of your fleet has been endorsed. Which course of action would you like to see your company take for financing this decision and why? e.g.

Would you take the view that there are opportunities that justify a permanent commitment to be taken and thus advocate the need to raise the required funds - own and/or borrowing - to purchase the vehicles? Preferably new or second-hand? or

Would you favour a leasing/renting option because you believe there is a need to experiment and at the same time ease the short term financial burden?

The decision to replace vehicles is generally seen as being intrinsically associated with the long term strategy of the bus company.

What type of vehicles would you advise your company to acquire and why e.g.

Minibuses e.g.
because market potentials require high frequency and accessible services in more comfortable vehicles.
because the competitive environment demands a greater mix of vehicle.
because of capital savings - at 88/89 prices, a 25 seater costs £18000 compared with £55000 and £61500 for a single deck and double deck bus respectively - and other operating expenses - lower wages to the drivers of these vehicles.

Full-size vehicles e.g.
because of lower costs per mile of providing a seat
because demand surveys indicate a preference for this kind of buses - *more attractive, bigger luggage space.*
because they are more suited to the characteristics of the network - *heavy commuter flows, frequent traffic congestions which do not permit sustaining high frequency levels, school services to and from large comprehensive schools.*

Q.26 One of the most important strategies that an organization can develop for dealing with the environment is to anticipate the action of its competitors. To what extent does your company attempt to analyse the main characteristics of its competitors?

*It does not.* Why? *e.g.*
- because it feels unthreatened - it has established a strong position in the market.
- because coping with a superior product or a lower-cost substitute constitutes the main strategic priority.
- because there are many realised opportunities in the market.

*It does.* How? *e.g.*

*systematically (permanent market sensors)/based on informal conjectures and intuition.*

*In both cases.* How would you describe your main competitor *e.g.*

in terms of
- having outstanding organizational values and beliefs which strongly affect its goals *e.g.* does it *feel strongly about service design, quality, cost effectiveness, does it strive to be a leader or a follower, does it have any locational preferences, has it allocated a particular important role to a specific functional area in its organizational structure.*
- having a clear pattern of reactions to particular strategic moves *e.g. rationally, emotionally, quickly)*

If your company's services were to face a sudden increase in competition by another company, which would be the most important aspect in your company's strategic response? *i.e.*, Would your company retaliate immediately on a wide scale? or Would your company carefully consider the best battle ground for fighting the competitor? *e.g. choose a specific market segment in which the competition is judged to be ill prepared or least enthusiastic about competing?* Let me confront you with two particular areas from which the threat of competition might arise:

a. It has been established that out of 200 cases in which bus companies commenced operations outside their traditional territories, \( \frac{3}{4} \) were based on local authority contracts. Furthermore, once these operators managed to establish an income base in the new areas, it is likely that they will diversify into full commercial operations. Under these circumstances, what would be your
company’s response? e.g. register services that would not otherwise be commercial, submit tenders that require low subsidy requirements.
b. Let us assume now, that another operator decides to compete in a significant part of your commercial network.
What tactics would you adopt to respond to this challenge e.g.
- reinforce service frequencies e.g. to a level at which there is little potential for the competitor to pick up usual customers at intermediate bus stops - To what extent would you be prepared to accept decreasing returns on these services?
- reduce the prices of fares - If competition is restricted to parts of your network, would you consider a price discount in the whole of the network?
- introduce/enhance off-bus ticketing to maintain loyalty?
- embark on a "cat-mouse" service adjustments? wouldn't it create uncertainty amongst your users and thus have a detrimental effect on future ridership?
- encourage new marketing techniques which addresses the superior characteristics of your services?
Assuming that your company is forced to react to a sudden increase in competition, what particular aspects in your internal organization do you think might change as a result? e.g.
- increase in formalization and in the specification of decision procedures
- greater decentralisation of decision-making.

Q.27 There are probably as many reasons to justify the success of a particular company as there are causes that determine its failure. If your company were to be confronted with a near-insolvency situation, what strategy(ies) would you advise? e.g.
- selling and/or sale-leaseback of property
- rescheduling of borrowed funds
- reinforcing company manoeuvres - develop a new strategy, remove the management team who caused the poor performance, impose further reductions in the wage bill.

Q.28 The reasons for a company attempting gain control over another are diverse. What strategies would you advise your company to adopt if it faced a take-over bid? e.g.
- disclose plans for future development - present plans for a more intensive use of resources and show "impressive" forecasts of the future growth expected in profits and the value of other investments.
- make the company unattractive by placing restrictions on the use of or disposal of its properties.

Thank you for co-operating with our research study.
Appendix 3

Demographic Characteristics

1 The County's geography
Leicestershire is the third largest county in the East Midlands with an area of 2553 sq km which is just below the average size of the English Counties (2855 sq km).

Leicestershire is a County that comprises a major city - Leicester, the towns of Loughborough, Coalville and Hinckley in the Western part of the County and Melton Mowbray, Oakham and Market Harborough in the Eastern part. The rural areas are situated mainly in the North and South East of the County. Leicestershire is composed of nine districts (see Fig A3-1).

2 The County's population
Leicestershire's population was 885,000 in 1989/90 and has increased at a rate of 1.9% during the period between 1984/85 - 1989/90 which is well above the UK rate (0.7%). This increase has not been evenly spread out in terms of age and location.

2.1 Population distribution
a By age groups
The most recent data shows two significant trends in the changes in the distribution of the population according to age groups. In the period 1987/88 and 89/90, there has been a reduction of 2.7% in the 5-17 year old age group. Secondly, the numbers of those over 65 years of age increased by 9.0% over the same period, with the 75 year old age group increasing by 7.0%. Furthermore, in 1989/90 the % of the Leicestershire population who were 65 years and older represented 14.6% of the total of the County's population.

b By district
As far as the distribution of the population of Leicestershire by Districts is concerned, the 1989/90 data indicates that 48.2% of the total population was concentrated in the Leicester (31.5%) and
Figure A3-1
Leicestershire County and its constituent District Councils

North West Leicestershire
28,032 hectares

Charnwood
27,931 hectares

Leicester
7,337 hectares

Melton
48,163 hectares

Rutland
39,367 hectares

Harborough
59,306 hectares

Oadby and Wigston
2,372 hectares

Hinckley and Bosworth
29,742 hectares

Source: Leicestershire County Council Annual Report 1987/88
Charnwood (16.7%) Districts. However, whilst in the latter the population has increased by an average of 1033 between 1986/87 and 89/90, in the former there has been an average decrease of over 800 during the same period. At the same time, Harborough District shows the highest average increase - 1133 - between the same dates. Hinckley & Bosworth and Blaby were the third and fourth Districts with the highest average increases (800 and 700 respectively).

The % distribution of Leicestershire population in 1989/90 by age and by District is shown in Table A3-1.

Table A3-1
Population Distribution - Leicestershire 1989/90

<table>
<thead>
<tr>
<th>By Age</th>
<th>(%)</th>
<th>By District</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 5 years of age</td>
<td>6.8</td>
<td>Rutland</td>
<td>4.1</td>
</tr>
<tr>
<td>5-17 years of age</td>
<td>16.9</td>
<td>Melton</td>
<td>4.9</td>
</tr>
<tr>
<td>18-64 years of age</td>
<td>61.7</td>
<td>Oadby &amp; Wigston</td>
<td>5.8</td>
</tr>
<tr>
<td>65-74 years of age</td>
<td>8.2</td>
<td>Harborough</td>
<td>7.6</td>
</tr>
<tr>
<td>75 years and over</td>
<td>6.4</td>
<td>North West Leicestershire</td>
<td>9.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Blaby</td>
<td>9.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hinckley &amp; Bosworth</td>
<td>10.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Charnwood</td>
<td>16.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leicester</td>
<td>31.5</td>
</tr>
</tbody>
</table>

Source: Regional Trends, CSO, 1990

2.2 Population density and the use of the private car
Two additional indicators related to population data are particularly important to the bus industry.

a The first concerns the County's population sparseness as measured by the number of persons per sq km. The 1988 data shows that Leicestershire was the third sparsest County in the East Midlands - 346.8 people per sq km - which was well below the UK average of 235.4. The smallest district in Leicestershire (Oadby & Wigston) - 24 sq km - had the second highest population density (2172 persons per sq km) only behind Leicester District (3796). The sparsest districts were Melton (which is the second biggest district) and Rutland (which is the third biggest) with 90 and 52 persons per sq km respectively. Blaby was the third most densely populated District (646 persons per sq km in just 130 sq km).
b The second indicator relates to the number of households that make regular use of a car. The data available refers only to the biggest areas of Great Britain and not to individual counties. Nonetheless, it is worth noting that in 1985 the East Midlands had the highest % of households with a regular use of one car in GB - 50% - compared with the national percentage of 45%. Furthermore 65% of households in the East Midlands had the regular use of one or more cars (or light vans) which constituted the third highest percentage in GB, behind the South East (except Greater London) and the South West (75%). By 1987 however, the number of one car regular users in the East Midlands was down by 2% which was nonetheless compensated by a corresponding increase in the number of these households with a regular use of two or more cars.

The incidence of private transport use in individual counties can also be illustrated by resorting to a more general indication - the number of cars per 1000 population. In 1984, there were 300 cars per 1000 population in Leicestershire which was marginally higher than the UK figure of 298. By 1986 the situation was reversed with the Leicestershire figure of 317 and the UK one at 319.

3 Economic and employment characteristics
According to the latest data on the distribution of employees into the main economic activities (1987), Leicestershire was the East Midlands county whose economy was more dependent upon the manufacturing industry - 38% of all employees in employment - which represents a percentage well above the UK taken as a whole (24%). At the same time, the services sector in Leicestershire represented 32% of employees, a figure which was the lowest in the East Midlands and much lower than the UK figure (41.5%).

According to 1987 data, Harborough had the highest percentage of employees working in the Agricultural and Forestry sectors of the economy. The biggest employees in North West Leicestershire - where two major county towns are situated - were the coal, construction, distribution transport and commerce industries. Charnwood, on the other hand was more dependent on manufacturing and related industries for employment than any other in the county. Blaby by contrast employed more people in the service industry and had the least employees engaged in manufacturing.

Furthermore, approximately half of those employed in manufacturing worked in textiles, footwear and clothing, and engineering (the county's more traditional industries). At the same time, there is no single industry or group
of companies that dominates the local economy. However, over $\frac{2}{3}$ of the county's total employment is centred in Leicester (45%) and in the county's towns (25%).

Finally, it should be pointed out that the average gross weekly earnings in Leicestershire for both male and female full-time workers were in April 1989 (£239.8 and £157.1) amongst the lowest of all the counties in the UK, and well below the UK averages (£268.7 and £181.9).

4 Unemployment trends
Unemployment rates in Leicestershire have been 2-3 points below the UK rate since 1985. From a peak of 10.5% in October 1985, the unemployment rate in January 1990 was 3.9% compared with the UK figure of 5.9%. However, the number of people unemployed (17,731 in January 1990) was not evenly spread out over the different areas of the county. On the contrary, there were certain areas which have endured higher than the counties average unemployment rates. Greater Leicester has been the most outstanding case, with an average rate 5 points above the counties rate. The North west of the county is an area that has not recovered from the decline in the mining industry. In January 1990, the number of these unemployed in the former area represented 56.3% of the country's total unemployment and Charnwood and the North West Leicestershire districts together, accounted for one fifth of the unemployed at that date.