

Restructuring of The Swedish State Railways

Anders Lundberg

Parliamentary Transport Acts from 1960s to 1980s

The parliamentary Transport Act of 1963 established that every mode of transport had to bear its full costs, thereby requiring SJ to become profitable. This made it necessary to close a number of unprofitable lines, further encouraging use of road transport. In addition, SJ had to pay the full infrastructure costs—tracks, signalling systems, shunting yards, etc.—something that road hauliers were not required to do. The effect was to make profitability impossible and railway subsidies were necessary to keep SJ running.

The drawbacks of the 1963 Transport Act became evident as more-and-more stations closed and the number of trains fell despite popular and political opposition. As a result, a new Transport Act was put before parliament in 1979. It focused on social issues rather than profitability for the operator. However, the problem of infrastructure investment was not addressed, making long-term development

The Swedish State Railways (SJ) is State-owned but operates on fully commercial conditions as if it were a private company. SJ is proof that a State-owned rundown railway does not need to be privatized in order to be transformed into a commercially-successful modern railway company. This is in contrast to many other European railways still facing severe problems despite the fact that they operate in countries with a far larger market than Sweden.

Transforming a traditional national railway authority into a modern business probably has many common features regardless of country. On the other hand, obviously there are a number of differences due to culture, relations with government and unions, population, industrial centres, patterns of production, development, and technological level within the railway company. Therefore, perhaps it is necessary to emphasize that the Swedish method of restructuring cannot be copied uncritically. However, it might serve as an example of how a radical transformation—the most dramatic since the 1930s—can be implemented in principle.

The Swedish Railways after WWII

After WWII, the railway in Sweden was shrinking after having expanded rapidly since its large-scale introduction in the mid-1800s. By the 1920s and 1930s, the railway had become the predominant mode of transport in Sweden, but a number of private railways operating on branch lines faced financial problems in the mid-1930s. It was virtually impossible to retain and develop the network in a system with different technical, managerial and financial conditions. As early as the 1920s, SJ argued that greater uniformity was necessary to develop the railway and many private railways were far too unstable to guarantee development of the required network for providing ser-

vices to the customer and the nation.

Before WWII, it was already obvious that it would not be possible to halt the expansion of road transport. With a rapidly-growing economy, car ownership was number one on the priority list of many Swedes. The expansion was promoted by large investments in the road network, and deregulation of road haulage, as well as by the increasing importance of the emerging truck manufacturers Volvo and Scania in the freight and export industry. These factors made it more difficult for the railways to compete successfully and they started losing market share. The threat from roads was becoming evident, underlining that 'something' had to be done to strengthen the railway system. The 'something' was nationalization starting in 1939 by buying out the owners of private railways on market terms. The nationalization was completed by the 1950s with few remaining private railways still operating. In practical terms, SJ was the sole remaining large-scale railway operator.



Refrigerated Container Train

(SJ)

impossible. This necessitated a further Transport Act in 1988.

The main point of the 1988 Act was to turn the railway into a transport system where efficiency, customer orientation and profitability were key issues. It was also decided to split SJ into two parts: the National Rail Administration or Banverket (BV) responsible for building and maintaining the track system, and the 'new' SJ responsible for operations but with the same freedom in commercial and managerial terms as a private company.

The 'New' SJ

The 'new' SJ was left to operate passenger and freight services on the trunk lines on a commercial basis with no subsidies from the State. Passenger traffic on unprofitable parts of main lines that are important in socio-economic terms can be (and is) procured by the State. Regional and local traffic is procured by regional and local authorities on the same basis. This system means that this market sector is open to competition from potential operators other than SJ, keeping costs for the taxpayer as low as possible.

Freight traffic is run on solely commercial terms. SJ has the sole rights throughout the network except on the 'Ore Line' in N. Sweden where the mining company LKAB has been granted traffic rights. On some branch lines, SJ has encouraged the transfer of rights to small local operators, so-called 'Short Lines'. The idea is that these operators have lower overheads and better knowledge of local market conditions than SJ, making them more able to operate in these markets than SJ and producing a win-win situation for all.

After 1 July this year, the opportunities for other operators to run freight trains on trunk lines will be increased, in line with demands of the EU Directive.

Restructuring Results

The results of restructuring speak for themselves; SJ has turned a loss of US\$122 million in 1988 (US\$1.52 billion turnover) into a profit of US\$72 million in 1995 (US\$1.75 billion).

The key to this success was permission from the State for the SJ management to rationalize and optimize operations without interference.

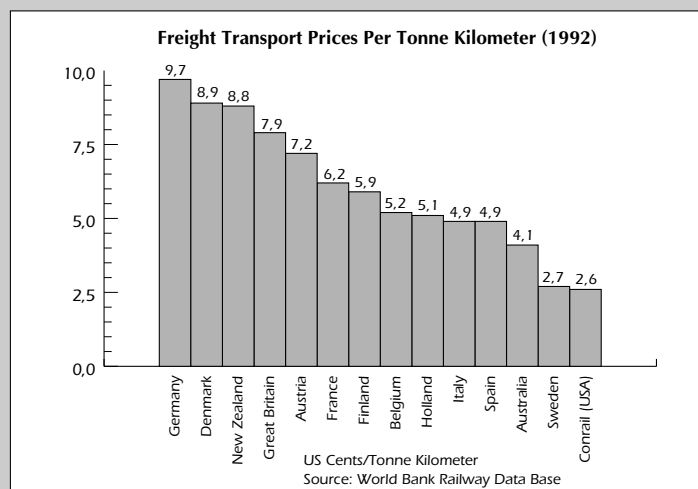
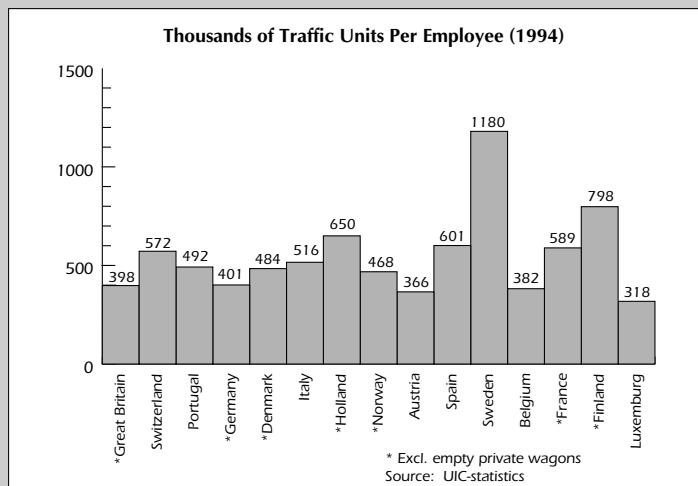
Today, SJ is the most efficient railway in Europe as shown in the Figure.

Intermodal competition in freight transport is severe in Sweden. Swedish trucks

(in domestic service) are the largest in the EU (25.5-m long, 60-tonne gross weight).

A large investment programme has been launched in recent years to upgrade roads to handle heavy trucks. But despite this, SJ Freight Division managed to turn earlier large deficits into a profit in 1995, a remarkable achievement considering that the price charged by SJ per tonne kilometer is the lowest in Europe and among the lowest in the world.

During the 1960s and 1970s, the railway was considered to be an out-of-date transport mode. This attitude changed in the





X2000 High-Speed Tilting Train

(SJ)

1980s as the environmental costs of road transport became clearer. At present, there is a general consensus in Sweden that the railway is an important transport mode and definitely part of the future. Unfortunately, 50 years of previous neglect means that large sections of the infrastructure must be rehabilitated.

Decisions taken in the 19th century for defence and political reasons led to poor siting of some lines and some structural changes are needed to develop the railway. In 1993, the Swedish parliament allocated US\$5.4 billion for improving the railway infrastructure over the 10-year period to 2003. This is the largest amount ever spent on the Swedish rail network and will greatly improve the railway for the 21st century.

On some lines, investments are made with passenger traffic in focus, while on others, they are made with freight in focus. All investment is made on the basis of socio-economic evaluation as is the case with road-infrastructure investments considering, among other things, the impact of external effects and operating profitability. This does not always meet the needs of SJ, but it strikes a balance between commerce, return on State investment and social needs.

SJ Management since 1988

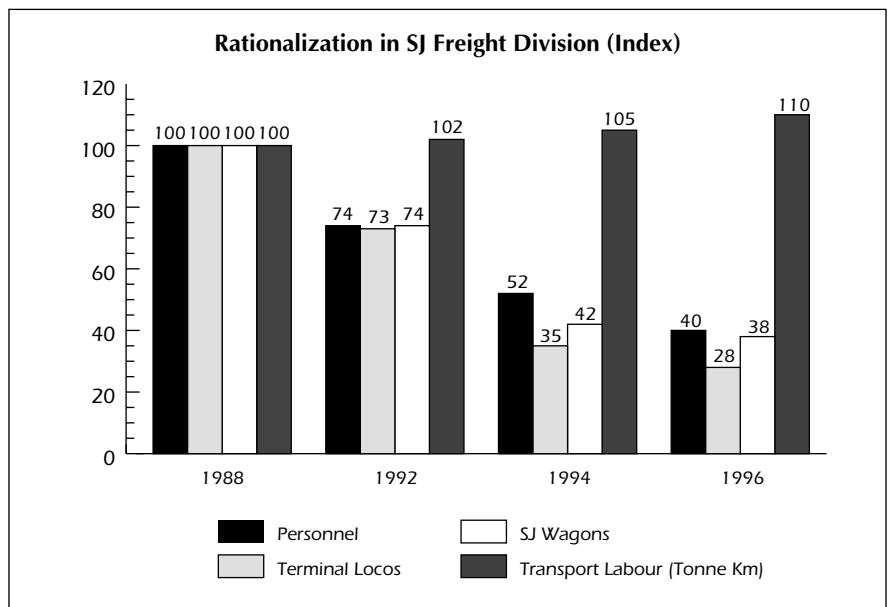
The decision to split SJ into two parts was only one of several starting points for revitalizing railways in Sweden. However, it was not the only solution to the poor performance of the railways. A new management board, most of whom were recruited from the private sector, was installed. Politicians did not intervene in

the restructuring, making otherwise impossible decisions possible. The owner of SJ (the State) formulated a clear goal: turn the deficit into profit in 4 years and operate profitably from then on.

The first rationalization phase from 1988 to 1992 cut the number of employees from 29,000 (inc. BV) to 14,000 by the end of 1995. This was carried through in close cooperation with the unions.

The rationalization was followed by a second restructuring phase in which a more business-oriented organization was formed consisting of profit centres—divisions—which in turn have been subdivided into business units. This has been backed by introduction of an up-to-date accounting system making cash flow transparent and manageable. Since the divisions and units are completely responsible for their own profits and losses, they rely on market factors when making decisions.

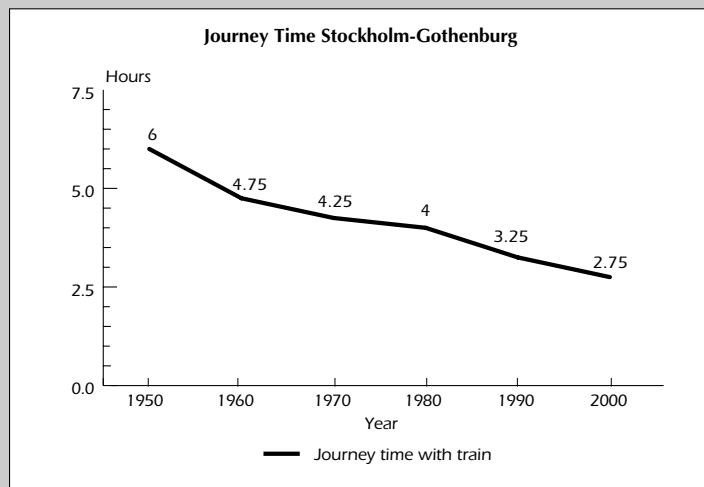
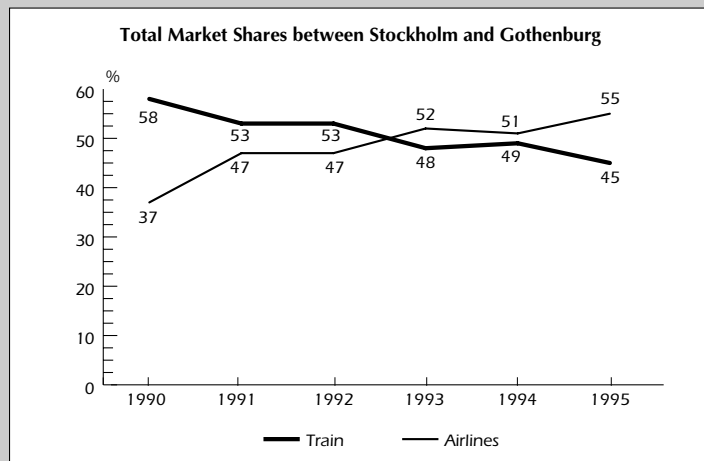
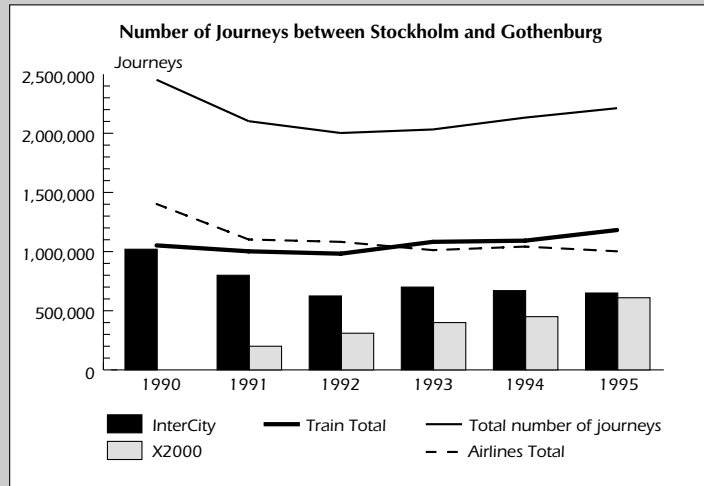
The third change phase from 1993 was marked by a quality-enhancement programme to measure, guarantee and raise the standard of train punctuality, rolling stock availability, and customer services at reasonable cost. Quality means



striking a balance between customer needs and SJ's ability to meet such needs. By now, a large part of the infrastructure upgrade has been completed and SJ is entering the fourth expansion phase. The X2000 tilt high-speed services have been increased considerably since 8 January 1996. The X2000 is now the principal train for long-distance services on the trunk lines. New lines have been added to the X2000 network: one on the West coast line between the cities of Gothenburg and Malmö, one being the first to the north of Sweden to Sundsvall/Härnösand, and one additional line using the South main line for the major part of the distance between Stockholm and Växjö. Through the 1990s, SJ plans to expand the network even more, connecting 40 cities throughout Sweden.

A new regional service—InterRegio—has also been launched connecting many important regional hubs. These services are run in cooperation with regional authorities and operate with either a regional version of the X2000, loco-hauled refurbished IC trainsets originally put into service 15 years ago, or Danish-built DMU trainsets. For X2000 services, SJ plans to expand the InterRegio network substantially through the 1990s connecting 200 regional centres throughout Sweden in cooperation with regional authorities.

The Swedish rail freight market share is the highest in Europe; 25% of the total freight tonne kilometers on distances over 100 kilometers are on rail. Fifty terminals link wagonload and unit train systems. Seventeen combined transport terminals act as multimodal centers for connecting rail and road, and in some cases, sea.





Stockholm Central Station and SJ Headquarters

(T. Suga)

Human Resource Management

Throughout all the changes, development of human resources has been regarded as a cornerstone. Changing an organization as large as SJ is not possible if the employees are not convinced of the necessity for change. Management can initiate change, but the hard day-to-day work has to be done by employees. Training and education programmes were essential in motivating change. This involved all the workforce from top management down. Another emphasized measure was multiskilling, or tearing down rigid barriers between different categories of personnel. A person trained and employed to perform one task should be able and allowed to perform other tasks. This is very much encouraged in SJ and throughout Swedish society where the cost of labour is very high. Employees also wanted to take more responsibility. It is also important for a decentralized organization to take decisions as close to the action as possible.

Communicating Change

Communicating and marketing change was also very important both internally

to motivate employees to carry through changes that in many cases meant big changes to individual job circumstances, and externally to improve the public image of SJ, which was very low before restructuring. It was necessary to implement an advertising campaign. The chosen message was: 'SJ will improve on 100 points within 3 years. Join us and tick off the points as we carry on.' The 100 points were chosen from the 1000 development projects initiated by the SJ management in 1988. Advertising campaigns were run at regular intervals to indicate which points had been ticked off. The campaign combined information on the reforms with marketing of new products. Some other important measures to build the public and internal image were introduction of a new corporate design programme with a new logo, new uniforms, and a new colour scheme for rolling stock, etc.

Conclusion

The railway is definitely a transport mode of the future. To make way for development, some preconditions must be fulfilled. If the railway is owned by the State, the politicians have different tasks. As legislators, they must provide a framework that optimizes the various modes of transport. As owners, they must give the railway the autonomy to make its own decisions and not intervene in day-to-day operations. As providers of infrastructure, they must provide for all modes of traffic on a fair basis without bias. Finally, the State as well as regional authorities must act in the general interest of the public in procuring unprofitable but socio-economically viable passenger traffic. If the preconditions are met, it is up to the individual railway to make the most of the situation. In Sweden, SJ has shown that it is possible to transform a large antiquated railway organization into a modern market-driven transport business.



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Mr. Anders Lundberg, holds a Master's degree in political and geographical science. He has been working in the Statens Järnvägar-Group (Swedish State Railways) since 1980, and has held several leading managerial positions in the company since 1985. Mr. Lundberg is currently Senior Vice President of the Statens Järnvägar. He is also the Director of SJ's Corporate Planning Department and acts as the working director of the UIC (Coordination Group). In 1988 he became a member of the board of the SJ-Group.