How to be a good owning group parent: Strategies for UK Rail

The work to establish Great British Railways (GBR) continues as leaders from across the rail industry strive to shape an organisation that will oversee the UK's complex, multi-faceted rail network.

The implications for TOCs as they transition into public ownership are unclear. However, what is apparent is that decisions about the future operating model and organisational structures made in the near term will have a profound and long-lasting impact on the sector.

Our Partner, Alex Graham, recently hosted a webinar alongside **Jonathan Booth from Journey4** to explore different strategies for managing the future UK Rail network and the challenges of transitioning to new operating models. Complemented by insights from panellists **Craig Peters, Transformation Director at Arriva Trains**, and **Jonathan Riley, Transformation and Environmental Strategist**.

We've collected the most insightful takeaways from the session to create this synopsis, helping you to stimulate discussions with peers and shape your organisation's journey as we move forward.

How GBR, as a newly empowered parent group, leads its business units will significantly impact their collective success. Those involved in the design of the new organisation will need to decide on which type of 'corporate parenting' strategy they wish to create. As the infographic shows, a corporate parent's influence on its subsidiaries can be both positive and negative.

How corporate parents create and kill value for the group business units they own

	Financing advantages	Strategy development	Corporate functions & resources	Operational engagement	Business synergies
How parents create value	• External funding • Internal funding • Tax optimization	• Strategic direction • Active unit merger & divestment • Protection from capital market pressure	• Corporate assets, such as brands • Central functions, such as IT and accounting • People advantages, such as employer branding	• Budgeting and monitoring • Corporate initiatives • Fostering cooperation	• Sales synergies • Managerial synergies • Operational synergies

	Insufficient expertise & skills	Inefficient processes	Costs of complexity	Resource shortages	Conflicting goals
How parents kill value	• Poor understanding of business requirements	• Complicated and costly corporate processes	• Wasted resources on internal coordination	• Businesses are deprived of capital and management attention	• Different agendas, opinions, or incentives

Choosing the optimal appropriate archetype for UK rail is critical to long-term success, and the transition from the current model will require careful planning to minimise short-term 'pain' and disruption.

For any leader in a parenting company, the critical question to ask is: how can I enhance a business unit so that it creates more value than it could on its own or with a different owner?

Six corporate parenting strategies to consider

Deciding which parenting strategy to adopt is an essential first step. Research by Prof. Dr Ulrich Pidum categorises six parenting strategy archetypes, as shown in the table below.

Differences in corporate operating model designs based on the choice of parenting strategy

	Hands-off owner Berkshire Hathaway Inc.	Financial sponsor Wesfarmers	Family builder Johnson&Johnson	Strategic guide Airbus	Functional leader P&G	Hands-on manager
Organisation & People	Very lean, no dedicated corporate functions Single advisors of the Board with sufficient seniority	Strong finance function, otherwise lean Few high-calibre people with strong financial expertise	Strong finance function (including M&A), otherwise lean Few high calibre people with strategic industry & portfolio vision	Strong strategy & performance control functions, otherwise lean Few high calibre people with strong strategic & industry expertise	Strong support functions; shared services in separate units Functional experts driven to achieve excellence in support	Broad scope of central functions, Including operational functions Operational managers with extensive business experience & industry vision
Processes	Standard Board interactions	Lean processes for financial control	Lean processes for financial control and enabling collaboration with BUs	Lean processes for strategy development and review	Standards for functional steering, service providing, and best-practice sharing	Sophisticated process for planning, budgeting, and decision making
Locations	Small corporate space remote from BUs	Small corporate office, location agnostic to BUs	Single corporate office, close to BUs	Single corporate office, close to BUs	Multiple corporate offices, close/within BUs	Large campus-style corporate offices encompassing BUS
Information Systems & tools	Not formalized	Tools for financial reporting	Tools for financial reporting	Tools for strategy development & financial reporting	Tools for financial & functional reporting; central platforms for support services	Tools for detailed operational steering; central platforms
Suppliers & Partners	None managed by corporate centre	Some leverage of external experts	Some leverage of external experts	Some leverage of external experts	Outsourcing of transactional services when cost-efficient	Outsourcing of corporate and transactional services when cost-efficient
Management System	The Board exerts control through BU MDs/CEO	Sets top-down financial targets and challenges plans	Sets financial targets & synergy objectives, challenges plans	Controls strategy and takes strategic/financial decision for BUs	Controls strategy, finance & functions - sets policies, drives functional initiatives	Controls operations and sets detailed plans & budgets for BUs

In short, the closer a strategy is to hands-on management on the right, the greater the centralisation and pooling of resources necessary to achieve value creation. But there is a paradox: the potential to destroy value increases from left to right as effective coordination and diseconomies of scale become ever more challenging.

Choosing the right approach for GBR

Before 2021, when the privatised franchising rail system was in place, a mix of these parenting archetypes was in play across the UK rail system. Each train-owning group (TOG) choosing a suitable model for them and their wider organisations.

For example, the Department for Transport OLR Holdings Limited (DOHL), which operated franchises on behalf of the government, was a hands-off owner by definition. In contrast, many TOGs lay between Financial Sponsors and Functional Leaders.

As we look ahead to GBR, the choice of parenting strategy will significantly influence the corporate operating model design. In an organisation with many layers of parents, it will be crucial to be clear on the role and strategy of each level to ensure that operating models are aligned and effective.

During the webinar, the panel considered the most effective approach for GBR. They suggested a hands-on manager approach is likely required as the organisation finds its feet due to current performance challenges and the need to establish a unified direction for the industry. The discussion explored how that approach might evolve:

1. **Challenges of transition:** Moving from the Department for Transport's (DfT) existing hands-off owner approach to a more interventionist role for GBR will affect staffing, resource allocation, and IT system development. It represents a complex and resource-intensive undertaking involving 14 well-established TOCs and their TOGs, each with different models from which something new must be created.

2. **Risk and reward:** Clear mechanisms will be needed for sharing risk and reward between GBR and TOCs, particularly when experimenting with new service offerings, pricing strategies, or ticketing. A framework for incentivising innovation is crucial for breaking from the status quo and stimulating growth.

3. **Shifting towards autonomy:** A shift towards a strategic guide role for GBR in the long term would allow TOCs greater operational freedom, encouraging innovation and customer-focused improvement initiatives.

4. **Potential for divestment:** Some aspects of the rail system that do not fit neatly into a centralised operating model could be divested in the long term and transacted back to GBR as a service provision.

Balancing centralisation and local control

Whichever corporate parent strategy GBR adopts, the nature of the organisation means there will be a balance to be struck between central and local control. A recurring theme was the need for a nuanced approach to centralisation, which acknowledges that different corporate functions (HR, finance, legal, procurement, training, industrial relations, and so on) will require different levels of control as the transformation progresses. How the management of functions could be split:

Centralised: Fleet strategy, net-zero transition planning, and some elements of the ticketing strategy would benefit from centralisation by GBR, allowing for a unified approach to long-term asset management and system-wide initiatives

Decentralised: Customer service, revenue generation, and timetabling are likely best handled by individual TOCs, allowing them to respond effectively to local customer needs and evolving market conditions.

The right balance between centralised strategy and decentralised operations is crucial for GBR's success. Over-centralisation could lead to a cumbersome bureaucracy and stifle local innovation. At the same time, excessive decentralisation could hold back system-wide improvement and undermine potential efficiencies from reaping economies of scale and scope.

Starting GBR on the right track

Before long-term benefits can be realised, it is vital the transition to GBR is managed effectively so that it starts from a position of strength. Maintaining operational stability will be critical to avoid disruption to rail services during the transition. The panel recommended a phased approach that allows for the gradual integration of TOCs rather than a sudden overhaul.

In particular, the complexity of disentangling IT systems, back-office functions, and other services currently provided by TOGs is a significant challenge. Careful planning, precise contractual arrangements, and recognising the danger of potential service gaps during the transition will be critical success factors.

Specific operational shifts will also be needed to achieve GBR's goals of increased customer demand, economic growth, social mobility, and the transition to Net Zero:

1. **Revenue and fares:** Accountability for revenue should be driven as close to the customer as possible, potentially shifting from the DfT to TOCs.

2. **Customer needs and social mobility:** TOCs are best placed tounderstand and respond to local customer needs, highlighting the importance of collaboration with Network Rail on timetable design and service.

3. **Fleet strategy and net zero:** Given fleet assets' 30 to 40-year lifespan, GBR should centrally manage fleet strategy and electrification plans to support the transition to Net Zero with Network Rail.

Achieving short-term wins and long-term success

There is political pressure on GBR to achieve quick results that demonstrate tangible efficiency improvements.

This creates a tension between the need to deliver immediate wins and the longer timeframe required to achieve the full transformative benefits of the nationalised system.

The Ultimate Goal

The corporate parenting strategy should be a sustainable and effective railway system. Rushing into changes for immediate efficiency improvements could undermine the long-term stability and effectiveness of the reform. However, there are potential areas for early efficiency gains, including combining contact centres and centralising certain back-office functions, such as performance reporting.

A successful transition to GBR will require a carefully planned strategy that addresses immediate challenges and long-term goals.

By balancing central control with local autonomy, learning from international best practices, and prioritising a people-centric approach, GBR can deliver a more efficient and customer-focused rail system for the UK.

If you'd like to discuss how we can help your rail organisation with the transition to public ownership, get in touch with Alex Graham (alex.graham@reson8.group).

Get in touch