

X234/701

NATIONAL
QUALIFICATIONS
2009

TUESDAY, 19 MAY
1.00 PM – 3.45 PM

BUSINESS
MANAGEMENT
ADVANCED HIGHER

100 marks are allocated to this paper.

Candidates should spend fifteen minutes reading the case study material and the questions.

Answer **all** questions in Section One (50 marks).

Answer **two** questions in Section Two (50 marks).

Note: The questions are printed on a separate sheet inserted inside the front cover of this paper.



FIRSTGROUP plc

Background Information

FirstGroup plc was formed in 1995 and is based in Aberdeen. Its core businesses are bus and rail transport. Its UK operations are split into two divisions, UK Bus and UK Rail. UK Bus is the largest bus operator in the UK and owns a fleet of nearly 9,000 buses. It also operates some bus services in Ireland. UK Rail is the largest rail operator in the UK. It has four rail franchises and runs almost a quarter of the country's passenger network. This makes FirstGroup the biggest public transport provider in the UK. The company also runs buses and provides related services such as maintenance in the United States and Canada.

FirstGroup has its origins in the 1980s when government policy led to the privatisation of bus services previously run by publicly funded organisations. Later, it moved into rail transport when this was also privatised. In 2006, for example, it gained two new rail franchises in the UK.

Exhibit 1 gives further details of the company's main activities.

Vision and Strategy

The vision of FirstGroup is to lead the way in transforming how people travel and how they feel about public transport. FirstGroup calls this "Transforming Travel" and it requires that the company delivers the highest levels of safety and service to give greater customer and employee satisfaction.

In order to realise this vision, FirstGroup has pursued a strategy which it describes as securing growth in its core businesses and exploiting opportunities to develop new markets.

There are, however, a number of factors which FirstGroup has to take into account when implementing its growth strategy. Expansion depends on attracting new customers to its rail and bus services. Despite road congestion and traffic delays, customers will not use rail or bus unless services are punctual, comfortable and secure. Also, the transport industry is vulnerable to accidents which can cause injury to passengers and employees, and which can adversely affect public confidence in the industry. There is also public concern about damage to the environment caused by carbon and other emissions from buses and trains. Furthermore, in recent years, FirstGroup has been affected by rising fuel costs.

To meet these challenges FirstGroup has sought to improve its operational efficiency and customer service through programmes of investment and innovation involving all its resources including employees.

Exhibit 2 gives some measures which illustrate the success of FirstGroup's strategy.

Investment and Innovation

FirstGroup has used investment and innovation to bring about changes. Exhibit 3 gives some more examples to illustrate the range of developments in which FirstGroup has been involved.

Investment in UK Rail

FirstGroup has used investment as a way of making changes to improve customer service and productivity in its rail franchises. Investment is usually larger in the first few years of a franchise period so that changes can be introduced quickly. First Great Western, for example, invested £145 m in its “Refresh” programme of train renovation. New engines have led to lower carbon and other emissions, as well as reducing maintenance costs and improving reliability. Refurbished carriages have increased passenger comfort and provided more seats. As a result, more passengers can be carried more efficiently.

Innovation in UK Bus

FirstGroup has developed a number of innovative schemes for bus travel, often in partnership with local authorities which are responsible for infrastructure such as roads on which buses depend. One such scheme began in York in 2006 as a partnership with the City of York Council. FirstGroup introduced new state-of-the-art buses with improved access and comfort for passengers. The Council has improved bus shelters, bus stops and traffic lights to allow buses to move quickly around the city.

Safety Culture

FirstGroup has made the safety of passengers and staff its number one priority. It has tried to change attitudes to safety by taking steps to embed a safety culture within the company. The culture is based on the Injury Prevention Programme (IPP) launched in 2006, which encourages employees to take responsibility for safety. It is based on the motto, “If you cannot do it safely – don’t do it!” The culture involves adherence to strict operating procedures and a “zero tolerance” approach to lapses in safety. Employees are given training, equipment and support to enable them to take full responsibility for safety. The IPP also involves greater communication between employees and managers about the development and review of safety procedures.

The new approach seems to be working. During 2006–7 injuries to employees fell by 22%, while vehicle collisions per million miles dropped by 12%.

North American Operations

FirstGroup entered the US market in 1999 with a relatively small scale acquisition. It bought Ryder, a company which operated 10,000 school buses, representing about 5% of the private school bus market in the USA. FirstGroup has, however, been able to use this as a platform for further expansion in the US and Canada. It has grown by winning new school bus contracts and by taking over other operators. By the end of 2006 its First Student Division operated about 22,000 school buses. FirstGroup has followed a similar approach of successfully bidding for contracts and making small acquisitions in order to build up its other two US Divisions.

Purchase of Laidlaw International

In early 2007, however, FirstGroup embarked on a major acquisition. It agreed to pay £1.84bn for Laidlaw International, the biggest provider of school buses in the USA. Laidlaw also operates transit services and owns Greyhound, the largest company in the US providing long distance inter-city bus services. This acquisition means that FirstGroup will own 68,000 school buses, and it will also become the biggest single operator in the US bus market.

Exhibit 4 gives more details of the intended takeover.

Employee Development—Learning Centres

FirstGroup aims to be the employer of choice in the transport industry. To help achieve this objective it has established a number of employee development initiatives. One of these is aimed at improving the recruitment, retention and motivation of bus drivers.

In partnership with the Transport and General Workers Union (TGWU), UK Bus has set up a network of workplace Learning Centres. There are now 40 centres throughout the UK including three mobile ones. They offer flexible learning opportunities aimed at stimulating the interests of participants, as well as improving their competence in key aspects of employment such as safety procedures.

Scores on employee satisfaction surveys among bus drivers have risen, while driver turnover has decreased and is now well below the industry average. Retention rates for newly recruited drivers have also improved and UK Bus has saved almost £3m in recruitment costs since the Centres were introduced.

Corporate Social Responsibility

FirstGroup believes that, as a leading public transport company, it has a great opportunity to improve the environment. Its safety culture and reduced vehicle and train emissions are part of this. By encouraging more people to travel by public transport it can also contribute to reduced traffic congestion and the associated environmental pollution. In late 2006 it announced that it is to build a new “green” global headquarters and bus depot in Aberdeen. The new premises will be among the “greenest” of their type in Britain and will make use of the most up-to-date techniques in sustainable design and renewable energy sources.

[The above information is taken from FirstGroup plc Annual Reports 2005–2006 and from FirstGroup Corporate Responsibility Report 2006. Additional material came from company websites at www.firstgroup.com, www.firstcapitalconnect.co.uk, www.firstscotrail.com, as well as other sites such as www.bitc.org.uk and news websites, particularly <http://business.scotsman.com>.]

NB Unless stated otherwise, the above, and the accompanying exhibits, are current at 1 September 2007 and refer to the situation at that date.

Exhibit 1

Activities of FirstGroup plc

UK Bus

This provides bus services in over 40 towns and cities throughout the UK and the east of Ireland. It carries 2.9 million passengers a day.

North America

- *First Student*—provides student transport across the USA and Canada using yellow school buses.
- *First Transit*—provides a range of bus related services such as airport shuttle buses and the management of public transport systems in cities such as Los Angeles.
- *First Services*—provides vehicle maintenance and support services and is the largest private operator in this sector in the US. It has recently expanded its support services to include call centres for customers travelling by bus.

[All the above services are contracted. This means that FirstGroup has successfully tendered for a contract to provide services for a particular purpose eg school buses on a specified route. Effectively contract systems operate in the same way as franchises but on a smaller scale.]

UK Rail

This consists of:

- *Four passenger rail franchises:*

First Capital Connect (services in south east England)

First Great Western (services in the south west of England and south Wales)

First Scotrail (services in Scotland)

First TransPennine Express (services in northern England)

[Franchises are awarded by the UK government for a stated period such as seven or nine years.]

- *Hull Trains*—a non-franchised operator providing inter-city passenger services between Hull and London
- *GB Railfreight*—a provider of rail freight services throughout the UK
- *Croydon Tramlink network*—a light rail service which carries 24 million passengers a year

Exhibit 2

Measures of Success of FirstGroup plc

Selected financial and other data: 2003–2007

	2007	2006	2005	2004	2003
Group turnover (£m)	3,708.8	3,030.9	2,693.4	2,479.0	2,291.0
Adjusted operating profit (£m)	259.2	229.7	214.8	204.1	216.1
Share price at year end (pence)	665	425	343	268	240

A few examples of performance measures

- Highest ever score of 95% for punctuality and reliability on part of FirstCapital Connect in 2007
- Highest ever customer satisfaction rating of 88% for FirstScotrail in 2007
- Increase in passenger journeys on First TransPennine Express by 7.3% in 2007

Some awards gained by FirstGroup plc

- First ScotRail—Operator of the Year [National Transport Awards 2006]
- First TransPennine Express—Rail Business of the Year [HSBC National Rail Awards 2006]
- National Rail award for Continuing Environmental Excellence 2006
- Innovation Award—Working with Young People to Change Attitudes towards Buses [UK Bus Awards 2005]

Some examples of successful franchise and tender bids

- Expansion of rail services through successful bids for the Scotrail franchise (2004), First Great Western and First Capital Connect franchises (2006)
- 95% of First Student contracts renewed in 2007 and 90% renewed in 2006

Exhibit 3

Examples of Investment by UK Rail

- Refurbishment of waiting rooms and other facilities at stations used by FirstCapital Connect and First TransPennine Express.
- Extension of maintenance facilities in Edinburgh for First Scotrail, which means trains can be maintained more quickly.

An Example of Innovation in UK Rail

- “firstminutefares” at First Great Western—this scheme enables customers who book early to save up to 80% on regular fares. One hundred thousand of these discounted tickets are available each week.

Two Examples of Investment and Innovation Partnerships between UK Bus and Others

- UK Bus was the first transport company to develop Punctuality Improvement Partnerships (PIPs)—these are agreements with local authorities to deliver improved bus services eg through better timetables, improved infrastructure etc.
- In 2006 UK Bus became part of “Streamline”, the first Statutory Quality Partnership in the UK. This aims to improve bus information and signalling systems and traffic management in Glasgow. It is a partnership between UK Bus, Glasgow City Council, Strathclyde Passenger Transport and the Scottish Government.

[Turn over

Exhibit 4

The Acquisition of Laidlaw International

Expected benefits

As well as becoming the largest single operator in the US bus market, FirstGroup expects to gain several benefits, including the following.

- Two of Laidlaw's activities directly complement FirstGroup's US operations. FirstGroup will be able to extend its existing transit services and will now be the largest school bus provider with over 68,000 buses and about 40% of the private school bus market.
- Laidlaw's North American operations will contribute more than half of FirstGroup's profits.
- FirstGroup estimates that there is potential for cost savings of £35 to £60m in Laidlaw's operations.
- It will have a platform for further growth in the US market.

Possible difficulties

FirstGroup raised the finance for the deal by borrowing and by a share issue. However, the deal may have some problems.

- The acquisition has implications for competition in the school bus market and requires the approval of the US regulatory authorities before it can go ahead.
- There may be opposition from the 'Teamsters' trade union which represents bus drivers in the USA.
- Greyhound is a different type of business from the ones that FirstGroup currently operates in the US. It provides bus services directly to users and not through a contractual agreement.

Each of these difficulties may be less significant than it might appear.

- Experts expect regulatory approval to be granted, but this has taken longer than anticipated. During the waiting period, however, the exchange rate of the US dollar has fallen, reducing the sterling price of the takeover to FirstGroup by about £100m.
- The Teamsters Union expects FirstGroup to continue its current US policy of neutrality towards trade unions, in which case its opposition will decrease.
- Greyhound's operations are similar to the long distance services operated by First Bus in the UK. FirstGroup intends to conduct a "strategic review" of Greyhound before deciding whether to pursue the opportunity it offers or to sell off the business.

[END OF CASE STUDY]

QUESTIONS

You should spend fifteen minutes reading through the case study material and the questions.

You should note that, although the following questions are based on the case study material, it does not contain all the information needed to provide suitable answers to all the questions. You will need to make use of knowledge you have acquired whilst studying the course.

SECTION ONE

Answer ALL questions.

- | | | | |
|----|-----|---|-------------|
| 1. | (a) | Using examples from the case study, explain how actions taken by FirstGroup may help it to achieve its vision of “Transforming Travel”. | 8 |
| | (b) | Explain the extent to which FirstGroup has been successful in achieving its vision. | 6 |
| 2. | (a) | FirstGroup entered the US market in 1999 with a small scale acquisition. Assess the benefits that FirstGroup gained from this method of overseas expansion. | 6 |
| | (b) | With the aid of a force field diagram, explain why FirstGroup decided to buy Laidlaw International in 2007. | 10 |
| 3. | | Analyse the importance of corporate social responsibility to FirstGroup’s growth strategy. | 8 |
| 4. | | Examine how Learning Centres may influence the motivation of employees at FirstGroup. | 6 |
| 5. | | Explore the reasons why FirstGroup has developed partnerships with others involved in transport, such as local authorities and Trade Unions. | 6 |
| | | | (50) |

[Turn over for SECTION TWO

SECTION TWO

Answer any TWO of the following questions.

You may illustrate your answers to questions in this section with examples from FirstGroup or from other firms with which you are familiar.

6. (a) Modern organisations face an ever-increasing pace of change. Explore the benefits and drawbacks of 3 of the following methods of introducing change.
- Top down
 - Action-centred
 - Piecemeal initiatives
 - Participative
 - Use of change agents
- 14**
- (b) Explain the different interpersonal, informational and decision-making roles a Chief Executive might need to carry out when introducing a major change to an organisation.
- 11**
- (25)**
7. (a) The UK may in future decide to join the European Monetary Union (EMU). Analyse the effects a decision to join the EMU might have on UK firms.
- 13**
- (b) Discuss the effectiveness of job enlargement, job rotation and job enrichment in increasing motivation in an organisation.
- 12**
- (25)**
8. (a) Explain the main ideas of the Classical School of Management and discuss its relevance to modern management practice.
- 11**
- (b) Concerns over environmental issues have increased in recent years. Analyse ways in which these concerns might affect the activities of an organisation.
- 14**
- (25)**
9. (a) The annual income of some multinational companies exceeds that of some countries. Discuss whether the positive effects of multinational companies on their host countries outweigh the negative ones.
- 12**
- (b) Budgetary Control, Critical Path Analysis and Gantt Charts are methods of monitoring progress when implementing a strategy.
- Suggest ways in which a firm might use methods such as these to ensure that a strategy is carried out effectively.
- 13**
- (25)**

[END OF QUESTIONS]

ACKNOWLEDGEMENTS

Case Study—Information is taken from *FirstGroup plc Annual reports 2005–2006* and from *FirstGroup Corporate Responsibility Report 2006*. Additional material came from company websites at **www.firstgroup.com**, **www.firstcapitalconnect.co.uk**, and **www.firstscotrail.com**. Reproduced by kind permission of FirstGroup plc.

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