

ANZSOG Case Program

A journey to engagement: the reinvention of Vehicle Testing New Zealand (A)

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When Mike Walsh was appointed as Chief Executive of Vehicle Testing New Zealand (VTNZ) in 2004, his brief was to lead significant change. With extensive experience in consulting and management in the petroleum industry, Walsh knew that the recently privatised VTNZ, which operated New Zealand's largest network of vehicle testing stations, would need to reinvent itself to survive in an increasingly competitive environment.

Originally part of a large government department, the Ministry of Transport, VTNZ had been operating within a compliance-focussed, closed market with a largely captive customer base. Remuneration, prescribed by government, rewarded technical skills and mechanical experience. As New Zealand's smallest State Owned Enterprise (SOE), from 1994 to 1999, relatively little changed.

The services offered by VTNZ include performing commercial and heavy vehicle certificates of fitness (COFs); performing warrants of fitness (WOFs) for light vehicles; investigating damaged vehicles; and carrying out vehicle certification, registration, reregistration, standards compliance, and identification activities.

Most of the services provided by VTNZ, including COFs and WOFs, were performed under contract to the New Zealand Transport Agency (NZTA)¹, which was allowed to delegate certain responsibilities to third parties. This contract restricted VTNZ from providing truck repair services and also required them to maintain a certain level of national geographical coverage; including access to COF testing stations in remote areas. Competing organisations faced some additional restrictions.

This case study has been written by Hamish Crimp, Victoria University of Wellington, for Dr Geoff Plimmer, VUW, from field research and published information. It has been prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation.

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¹ A Crown entity appointed as the market regulator. Prior to 2008 the NZTA was known as the Land Transport Safety Authority (LTSA), however to avoid confusion 'NZTA' will be used in all instances in this case study.

Traditionally vehicle testing has been a highly regulated industry both in New Zealand and internationally, with the testing and certification of vehicles primarily carried out by state agencies. However, in the 1970s the New Zealand WOF market was deregulated, with any person meeting the criteria set out by the NZTA able to issue WOFs. On the other hand, the COF market remained highly regulated with the NZTA authorising only three providers (including VTNZ) to issue COFs; all were restricted from repairing any vehicle to which they had issued a COF.

VTNZ was a growing concern: by 1999 it had expanded to include over 600 staff and 50 vehicle testing stations spread the length and breadth of the country. In that year VTNZ was sold to the New Zealand based Motor Trade Association (MTA)² for \$19.2 million; becoming the last SOE to be privatised in a series of state asset sales stretching back to 1988. The change of ownership brought an additional restriction to the business. VTNZ was no longer permitted to undertake repairs to any type of vehicle, to avoid competing with the garage owner membership of MTA. Nonetheless VTNZ continued to expand: the 2004 purchase of competitor On Road New Zealand added a further 14 stations and 250 staff to the company. However, competition from other providers was likely to increase, and the likelihood of future deregulation of the COF business was already identified as a major risk to the business.

Building new capability

Mike Walsh came into an organisation that was performing well financially. Surveys showed customers gave a 60% approval rating to the service they got from the business, while staff also reported being satisfied with their work. On the other hand, staff were not strongly engaged with the company, and there was a 23% turnover. As he got to know the business, Walsh became more and more convinced of the need for it to change and become more customer-focussed.

Many practices within stations were tailored towards the convenience of staff rather than that of the customers. There was a set roster where staff had seven days on and two days off. This meant that the greatest number of employees were there on a Tuesday when customer numbers were lowest, and the fewest number of workers on Saturdays which were the busiest days. Break times were also followed rigidly with little regard for the customer's needs. Customers often reported long waits for service and felt that many staff were not acknowledging them with basic gestures such as eye contact.

Some VTNZ staff, Walsh soon discovered, were well aware of the need for to become more customer-focussed and open to change, but they had not felt in a position where they could make a difference. By appointment and recruitment, Mike Walsh began to build a leadership team for the new business direction. In 2006, the new strategic position of General Manager, People and Capability was established. Melissa Jordan, appointed to the role, came with extensive human resources and managerial experience, most recently from a company in the IT sector that had been awarded for its people management. Joining the leadership team, she helped to formulate a clear organisational strategy to ensure everyone was moving in the same direction.

In the wider organisation, her role would be completely different from the traditional HR position at VTNZ, which had primarily concerned ensuring compliance around employee contracts, leave requirements and the resolution of disputes.

One of the first tasks for Melissa was to visit each of the geographically dispersed testing stations and learn what employees were thinking. She conducted a series of focus group sessions, covering a range

² Established in 1917, the MTA is an industry association with members from all parts of the motor vehicle industry including repair workshops, vehicle sales and service stations. The MTA has two major roles: to help its members' businesses succeed, and to protect the interests of its members' customers.

of concepts including leadership, role expectations, communication and feedback processes, access to information and resources, and satisfaction with reward and recognition.

From the focus groups, it was clear that there were a range of problems at VTNZ, starting with the working conditions. The uniform was inappropriate for the climate at many stations, with winter thermals and summer shorts not an option. Some stations did not have adequate break rooms for staff or enough space to conduct inspections of large vehicles under shelter or with the correct equipment. As Jordan reflected,

We had this bloke who's about 60, and when a truck comes in, we don't provide wet weather gear, so he goes outside, lies down and jacks this thing up in the rain to fix it and gets wet, then goes in to have his lunch to dry off, and there is no space for him, he is just perched in the back of the office. I'm thinking, 'why would he be happy?'

The workforce at VTNZ was largely composed of older males with mechanical skills, with promotion and status linked to technical abilities and mechanical skills, criteria that worked against women becoming managers. Staff employment contracts were individually based with terms and conditions fairly consistent between testing stations. However, there was no standard remuneration policy, so there were variations in the remuneration of employees in the same roles at different testing stations. An incentive scheme measured team performance quarterly, but it was complex, poorly understood by employees and rewards were low.

Remuneration reviews were carried out by regional and area managers rather than station managers, which meant that station managers could lay blame on someone else when employees complained about reviews. Station managers, usually promoted because they were 'really good mechanics and knew how a truck worked', did not have to manage their budget and were unlikely to be trained in management or leadership, or have the skills to talk to their team members about salary. While this had been typical and appropriate in the days of the SOE, it was becoming a source of frustration for staff, who felt disempowered by distance from decision-makers.

Employees said they felt the organisation prioritised profit before people, and that there were very few opportunities for them to voice concerns or to initiate change; despite many workers being ready and willing to make changes. In the days of shared fax machines, there was concern about keeping communications confidential.

It also became clear during focus group discussions that some stations that appeared to be highly engaged were in fact disengaged with the wider organisation, and did not feel the need to change or follow the rest of the organisation. As Jordan observed:

We've had a couple of teams – we call them islands – where they are really engaged as a team, but they're [thinking] basically 'we're great but the rest of you are not'. If we ask what's really going on here, we will go back and find the manager has been encouraging this position. That's when we have to say to managers, you're on our side, you support the company. Whether you disagree or not you can disagree in a professional way. When you're out with your team you say this is what we are going to do. If you can't agree with the vast majority of what we're deciding as a company, then you need to seriously consider if you want to be a manager here.