CHAPTER - 8

FINDINGS AND SUGGESTIONS

Road transport occupies a pivotal position in the transport system of the country. No other mode of transport, therefore, can adequately or effectively meet the demand for transport arising out of the growing economic, social, cultural or religious needs of the people. Road passenger transportation in India was nationalised immediately after independence and transport undertakings were set up under the Road Transport Corporations (RTC) Act 1950, in almost all the States and Union Territories to operate road passenger transport system. Road passenger transport deserves a high priority, as it forms the backbone of the passenger mobility system and is the principal carrier of the developmental process from one part of the country to another.

The State Transport Undertakings (STUs) have been striving hard to improve their operational performance. But, unfortunately, most of the STUs are incurring huge losses. They have failed to earn adequate revenue from their traffic operations to cover the entire operating cost and to earn some profits. The STUs are in no position to expand services to meet the increasing demand. Even the quality of service especially to the rural areas is getting degraded.
The KSRTC is one of the important road transport undertakings in India. It was established in 1961 according to section 3 of the RTC Act 1950, with an objective to provide an efficient, adequate and economical and properly co-ordinated transport services to the people. It plays a pioneering role in the socio-economic development of the Karnataka State. Like other STUs, KSRTC is also functioning under severe financial constraints. Increase in the operational cost, increase in the burden of taxes, increase in the social responsibility, lack of autonomy in fixation of fares, etc., are some of the factors which have been impairing the ability of the KSRTC to provide good services to passengers.

Against this background, a need was felt by the researcher to study on the working of the KSRTC with a focus on analysis of the return on investment in the KSRTC and also on exploration of multi-variables responsible for poor operational and investment profitability during a selected period i.e. from 1990-91 to 1996-97. Hence, the present study.

Main Findings of the Study:

The main findings of the study are as follows:

A) Analysis of Return on Investment (ROI):

1. The ROI is negative during the period under study except in the first two years that too with an increasing trend. The decline in the ROI is due to the decline in EBIT which is negative all along the study period except in 1990-91 and 1991-92.
2. The percentage of earnings after interest and taxes (EAIT) to owners' funds is negative throughout the study period except in 1990-91. It is found negative due to the continuous declining trend in the EBIT and inability of the corporation to devise its borrowing policy.

B) Appraisal of Financial Performance:

3. The debt equit ratio kept itself at a lower level. This indicates that the share of outsiders in the capital employed by the corporation is less and less amount of financial risks of the corporation.

4. The financial leverage ratio has recorded a declining trend during the period under study. The decline in the financial leverage ratio is due to the decline in the EBIT.

5. The interest coverage ratio has shown a declining trend over the years except in the first year. The decline in the EBIT is the cause for the decline in the interest coverage ratio.

6. The investment turnover ratio kept constant throughout the study period. This coupled with poor operational profitability, resulted in unfair return on investment.

7. The fixed assets turnover ratio also witnessed a constant trend indicating ineffective utilisation of the fixed assets.

8. The current assets turnover ratio witnessed a marginal increase over
the period under study, indicating marginal positive impact on overall investment.

C) Analysis of Operating Performance:

9. The cost incurred by the corporation has a direct bearing on its profitability. The total cost to the gross revenue has shown an increasing trend during the study period. The cost incurred by the corporation is more than the revenue earned. This adversely affected the profitability of the corporation.

10. Operating cost occupies a lion's share in the total cost incurred by the corporation. The percentage of operating cost to the total cost established a slight increasing trend over the years except in 1996-97. The proportionate changes in the operating cost is more than the proportionate changes in the total cost. The operating cost which is increasing at a greater pace needs to be managed properly.

11. The percentage of non-operating cost to total cost went on declining during the study period mainly because of increase in the ratio of operating cost rather than decline in the non-operating cost as the ratios viz; operating cost to total cost and ratio of non-operating cost to total cost are complementary in nature.

12. Manpower cost is one of the prominent cost in the total cost incurred by the corporation. The percentage of manpower cost to the
operating cost registered an increasing trend all along the period under study. The rate of changes in the manpower cost is more than the rate of changes in the operating cost. This indicates that the manpower cost is increasing at a faster rate than the operating cost.

13. The stores cost is one of the major cost elements in the operating cost. The percentage of stores cost to the operating cost has shown an increasing tendency indicating ineffective utilisation of stores.

14. The cost incurred by the corporation per bus held and on road has increased during study period. The increase in cost per bus held and on road is due to the rise in the prices of fuel and autospareparts and increase in the salaries paid to the employees.

15. Cost per kilometre (CPK) grew at a greater pace during the period under study. The rise in the manpower and stores cost are the main reasons for the rise in the CPK. This indicates that the corporation has no control over the cost.

16. Cost per seat kilometre registered an increasing tendency. The higher ratio denotes that the corporation is spending more amount for the operation of a seat kilometre. This shows the operational inefficiency.

17. The cost incurred by the corporation per passenger kilometre has increased during the study period. The inefficiency in the utilisation
of the seat kilometre is the reason for the rise in the cost per passenger kilometre. This affects adversely the earning capacity.

18. The operating ratio has shown an increasing trend. The increase in the operating ratio signifies the operating inefficiency.

19. The revenue earned by the corporation to the capital employed is marginally declining. The decline in the revenue per rupee invested speaks the inefficiency of the corporation to generate more income.

20. The revenue earned by the corporation per bus held and on road per day showed an increasing trend mainly because of hike in transport fare.

21. Earning per effective kilometre (EPK) has risen from 644.50 paise to 883.47 paise during the period under study. The rise in the EPK speaks of the better operational efficiency.

22. Vehicle utilisation grew positively during the study period. The performance of the KSRTC in relation to vehicle utilisation has improved.

23. Fleet utilisation has shown an increasing trend. This indicates that there has been improvement in the operational performance of the corporation.
24. The percentage of vehicle off-the-road showed a decreasing trend over the period under study. This shows that the corporation has utilised the fleet efficiency.

25. A high percentage of dead kilometres to effective kilometre curtails the functioning of the corporation and shows the inertness of the corporation. The percentage of dead kilometre to the effective kilometres has been slightly increased. This affects adversely on the profitability of the corporation.

26. Occupation ratio has shown a slight decreasing trend during the period under study. This affects adversely on the operational efficiency.

27. Percentage of load factor has shown a gradual increasing trend. The operational efficiency is adversely affected due to the rise in the percentage of load factor.

28. Percentage kilometres per fleet held by the corporation has marginally increased. The performance of the KSRTC with regard to passenger kilometres per fleet held is satisfactory.

29. Passengers carried per bus on road revealed declining tendency. This may be due to the entry of maxicabs, jeeps, etc; in operation. The decline in the passengers carried per bus on road results into idle capacity.
30. Accident rate per one lakh kilometres has declined. This indicates that the quality of service rendered by the corporation is improving.

31. The percentage of punctuality in arrivals and punctuality in departure is above 90. This speaks that there is a better performance by the corporation in this regard.

32. Regularity percentage has come down during the period under study. This denotes that the corporation is less reliable in relation to regularity.

33. Public complaints per lakh passengers carried showed a declining tendency. This is an indication of better quality of service rendered by the corporation.

D) Analysis of Cost and Efficiency of Stores:

34. The percentage of stores cost to the total cost has showed a marginal increase. The rise in the stores cost is due to the hike in the prices of fuel and other spare parts. This affects adversely on the profitability.

35. The percentage of fuel cost to the operating cost revealed an overall increasing tendency. The rise in the prices of fuel is the reason for the increased cost of fuel.

36. The percentage of tyres and tubes cost to the operating cost exhibits a slight increasing trend. The rise in the tyres and tubes cost contributes to the overall increase in the cost of operation.
37. The percentage of autospareparts and others to the operating cost increased during the study period. The rate of changes in the autospareparts cost is more than the rate of changes in the operating cost. Price rise is the cause for the increased cost of autospareparts and others.

38. The stores cost per effective kilometre has shown an increasing trend. It has increased from 199.46 paise in 1990-91 to 344.46 paise during the year 1996-97. This denotes the stores resources are not utilised by the corporation efficiently.

39. The kilometres per litre of HSD oil established a constant trend during the study period. The KMPL is just below the norm recommended by the Technical Expert Committee.

40. The average life of the tyres both new and retreaded showed an increasing trend. The performance in this regard is satisfactory.

41. The average engine life both new and reconditioned showed a better performance whereas the reconditioned engine life showed a mixed result.

42. The inventory holding per bus increased considerably. This denotes that more amount is blocked in the inventory.

43. The average purchase of stores per vehicle has shown an increasing tendency. This denotes that the corporation requires more working capital.
44. The average consumption of stores per vehicle also increased considerably. This indicates the inefficiency of the corporation in handling the stores.

E) Analysis of Manpower Productivity:

45. The percentage of manpower cost to the total revenue has shown an increasing trend. The increase in manpower cost is due to the rise in the salaries and wages of the employees.

46. The percentage of manpower cost to the total cost recorded a slight increase over the study period. This adversely affects the profitability of the corporation.

47. Traffic manpower cost is one of the major components of manpower cost. It constitutes more than two-third of the total manpower cost. The percentage of traffic manpower cost to the total manpower cost exhibits a slight increasing trend up to 1994-95. It showed a declining trend during the latter years.

48. The percentage of non-traffic manpower cost to the total manpower cost showed an overall declining trend.

49. Manpower productivity per day kilometre increased during the study period. This shows that the corporation has utilised the manpower resources efficiently.
50. The performance of the corporation in relation to crew productivity is satisfactory. The crew productivity has shown an increasing trend during the study period.

51. The average salary per employee per day has increased from 88.52 paise in 1990-91 to 164.13 paise in 1996-97. The rise in the salary and wages of the employees makes greater impact on the cost.

SUGGESTIONS:

In the light of the findings emerged from the study, the following suggestions have been made for the better working of the KSRTC:

1. Streamlining Investment Policy:

   The overall return on investment (ROI) during the period under study has been negative mainly because of poor investment turnover on the one hand and poor operating margin on the other. Therefore, it is imperative on part of the KSRTC to screen the whole structure of both fixed assets and current assets with a focus on value-adding assets and non-value-adding assets.

2. Need-based Investment Policy:

   It is found in the study that the investment turnover in the KSRTC has not been improving over the period. This is going to have a negative effect on return on investment despite fair and satisfactory level of
operating profitability. Therefore, to improve the overall return on investment, the investment policy of the KSRTC must be governed by the prudent principles of sound financial management like risk-return trade-off, etc. This approach ensures need-based investment and avoids the situations of either over-investment or under-investment in fixed assets. Such a rational investment policy is going to have profound influence in minimising the operating risk also.


The study also has revealed that the investment in stores, dues from staff, etc., has been more. This increases the size of total investment in assets and comes in the way of achieving a satisfactory return on investment. Therefore, it is suggested that even the working capital management policy (both working capital investment policy and working capital financial policy) must be based on sound financial management cannons like optimisation of investment risk, optimisation of financial risk, etc. This rational approach for working capital management affects the return on investment in a positive way.

4. **Value Based Management (VBM)**:

It is found in the study that some resources are productively utilised and some others are not. This speaks of lack of value creation environment in the total set up of the KSRTC and lack of sense of belongingness of the
people involved. Such a low morale of the manpower in the organisation will be having negative impact on productivity and return on investment. Therefore it is suggested that there must be a total mental revolution among the employees working in the KSRTC right from top to bottom.

5. **Effective Cost Planning**

The study reveals that the heavy operating cost is eating away major portion of the traffic revenue resulting a drain on earnings before interest and taxes (EBIT). Therefore, for the purpose of improving the earning before interest and taxes (EBIT), the modern tools and techniques, like; Always Better Control (ABC) Analysis, Vital Essential Desirable (VED) analysis etc; may be applied for the purpose of effective stores management. Purchase and storage policies of stores and components must be governed by needs of the organisation.

6. **Adoption of Activity-Based Costing (ABC) Technique**

In view of high operating cost, there is a need for an indepth diagnosis of the whole network of activities for the purpose of exploring value adding activities and non-value-adding activities. As the cost of the activities which have not contributed positively towards earning traffic revenue is included at present in the total operating cost, it becomes very difficult to throw light on real operating profitability. Adoption of ABC technique helps the management in establishing activity cost pools
in respect of only value adding activities and thereby establishing suitable cost drivers. Such a approach makes cost planning and control more effective.

7. Creation of Cost Conscious Among Operators:

As the operating cost and operating risk are playing negative role, there is a need for inculcating the habits of cost conscious among the operators like conductors, drivers, management staff, etc. For this purpose, some training programme may be adopted for explaining the ways of cost planning, cost control, cost reduction, cost management, etc. In order to improve their ethical code of conduct, some suitable incentives, awards and rewards may be instituted for those who would be found really honest, ethical, cost conscious and productive. This is going to make a change in total organisation of the environment and which would be in turn a panacea for all evils which may be associated with any organisational setup.

8. Cost Control and Cost Reduction Measures:

The operating cost, which occupies a major portion in the total cost, revealed an increasing trend all along the study period. The rate of increase in the operating cost is more pronounced. The reasons for the rise in the cost are; hike in the prices of various inputs such as diesel, tyres and tubes and auto spareparts, increase in the personnel cost, high
tax burden and high interest burden. The following suggestions are offered to bring down the cost.

a) Increasing the staff/manpower productivity.

b) Productivity of fuel, tyres and tubes, autospareparts are the key result areas for cost control.

c) Employees of the corporation should be frankly told about the financial position and convince them regarding their demand for rise in the salaries which may result in high personnel cost.

d) Conversion of the capital employed by the participative governments into equity in order to reduce the interest burden.

e) The Government has to formulate the uniform tax policy for both private and public sector undertakings.

9. **Freedom for the Fixation of Fares:**

The State Government regulates the fare structure for passenger transport operations with a view to give due consideration to public interest. The corporation is continuously incurring losses. The government has many political compulsions to postpone revision of fares and as such, fare level becomes a political decision instead of an economic issue. The government has to give more autonomy to the corporation to act on its own for the fixation of the fares.
10. Control on Manpower Cost:

The analysis of the data revealed that the manpower cost has increased considerably during the period under study. Increase in the salary and D.A. granted to the employees is the factor responsible for the rise in the manpower cost. In the three categories of staff, viz., operations, maintenance and administrative staff, the first two categories directly contribute to output, however, the third one is responsible as a support and contributes to overheads. Computerisation of the administrative systems not only brings in efficiency, but also controls the staff strength. So far as repairs and maintenance staff is concerned, it is the preventive maintenance system which dictates the requirement of skilled and well trained artisans. Technological improvement in automobile system brings down the staff as the operational staff is concerned, higher crew utilisation reduces the cost on traffic staff.

11. Effective Management of Stores:

Stores cost occupies a major share in the total cost incurred by the corporation. The stores cost has shown an increasing trend during the study period. The reasons for the rise in the stores cost are: increase in the prices of diesel, tyres and tubes, auto-spareparts and low KMPL. The performance of the KMPL depends on the factors like, road condition, driving habits and the condition of the vehicle etc. Proper maintenance of the vehicles will reduce the wastages. KMPL can also be increased by
proper training to the drivers. By increasing the performance of tyres and tubes and proper utilisation of the spareparts, the stores cost can be controlled.

12. Rational Motor-Vehicle Tax Policy:

The government is levying motor-vehicle tax not merely as a source of revenue to the State but also to wipe out financial surplus. The present level of taxation does not have relationship either with the profitability or the cost of producing the assets of the business i.e. Bus. The financial loss of the corporation is going up on the one hand while the government is also increasing the taxes. Therefore, there is a need to reduce the tax burden. The planning commission also observed that the financial viability of the STUs will get eroded with the present taxation system and recommended for reduction of the tax burden.

13. Prevention of Revenue Leakage:

The main source of revenue of a passenger transport organisation is the passenger collection. Any leakage of these collections consequent on any loopholes present in the machinery for the collection of revenue will adversely affect the financial stability of the organisation. KSRTC is loosing lakhs of rupees by way of leakage every year. In order to improve the revenue, the corporation has to consider the following measures for prevention of leakages:
a) Surprise or detective checking along with the routine preventive checking at different points.

b) In order to guard against circulation of spurious tickets, it has been suggested that, the corporation should use for printing of tickets, only paper of special quality with water mark on each leaf.

c) With a view to reducing the collection of cash by conductors on the line, to the extent possible, the system of ground booking especially on routes generating sufficient direct traffic should be popularised.

d) Rotation of conductors in duty charts.

e) Proper induction of conductors into service.

f) Proper disciplinary actions.

g) Incentives for conductors.

h) Counselling of conductors.

i) Passenger Education.

j) Avoiding Operational Delinquencies.

14. Measures for Improvement in Vehicle Productivity:

The ultimate profitability of any transport undertaking depends upon the efficient use of the vehicle. The optimum use of the vehicle can
be achieved by getting maximum utilisation per day. The performance of the corporation in relation to the vehicle utilisation is satisfactory. But, still there is a scope for further improvement. The following steps would enable the corporation to increase further the productivity of vehicles:

a) Reduction of un-necessary halting time and rationalisation of the halts.

b) Provide non-stop/super express services.

c) Linking long distance routes with short distance routes.

d) Utilisation of night services vehicles during the day.

e) Relinking of routes and trips.

15. Subsidisation of Social Cost:

The Government of Karnataka from time to time declares subsidies to various sections of the commuters such as; students, senior citizens, handicapped persons and journalists, etc., and the major portion of cost of subsidies are borne by the corporation. This policy has serious financial implications to the corporation. The subsidies are presently given to the commuters and not to the operators. Thus, the demand of traffic increases necessitating additional capital investment. As the corporation is unable to get adequate finance to expand their operations, the demand-supply
gap increases, thereby reducing the quality of services. Therefore, the Government has to subsidise fully the social cost. The corporation, being a limb of the State Government, cannot avoid bearing the burden of social obligations.

16. Economy Drive in Fuel Consumption:

Diesel prices are fixed by the Government and hence the corporation has no control over this. Alternative is to consume less diesel by better maintenance practices and technological innovations. It is by sheer training of drivers and by incentives, improvement in fuel consumption has been achieved. Mechanical stappers, speed control devices, etc., are being tried out.

17. Greater Autonomy to the Corporation:

Lack of autonomy is one of the important factors responsible for the poor performance of the corporation. Though the corporation in the eyes of law, is an autonomous body, it is not so in reality. For each and every thing, it has to take prior permission from the Governments who are the owners of the corporation. Further, they have to implement certain policy decisions taken, in majority of the cases, unilaterally by the Governments causing a big drain on the resources and, therefore, affecting commercial viability of the corporation. So, more autonomy is necessary to the corporation to act on its own.
18. Improvement in Road Conditions:

The condition of roads in Karnataka is generally most deplorable. The road conditions and the improvement to the road network have a significant effect on the performance of the corporation. The cost of operation mainly depends upon the quality of roads and the accessibility of the bus service depends upon the improvements to the network.

19. Divisional Performance Evaluation on Periodical Basis:

At present, the KSRTC has 19 divisions. For the purpose of understanding individual efficiency, profitability and productivity of divisions, it is suggested that periodical performance review may be undertaken. This approach pinpoints the presence of loss-leaders and profit-makers in the network of transport system.

20. Adaption of Strategic Management Philosophy:

The KSRTC is facing stiff competition from private road transport agencies. Therefore, there is a problem of survival of the KSRTC. In this context, it is advisable that it should formulate some strategic plans to make a more environment sensitive. It is imperative on the part of the KSRTC to provide the services as desired by the passengers rather than providing the type of services it can provide. Therefore, in order to have perfect matching between what is provided by the KSRTC and what is needed by the public, it is necessary to adhere to the strategic management
philosophy in the areas like marketing of services, investment of financial resources and manpower management.

In brief, efficient and effective utilisation of existing physical resources, manpower resources, financial resources and material resources coupled with the focus on formulation of financial policy, pricing policy, investment policy, manpower policy, marketing policy, etc., based on simultaneous consideration of strengths, weaknesses, threats and opportunities available in the environment would go a long way in streamlining operational and financial health of the KSRTC in particular and other State-owned Transport Corporations in general.