Chapter XI

PROBLEMS AND PERSPECTIVES: A SUMMING UP
There were two main reasons which provided the basis for setting up public sector Road Transport Corporations in India. First, the Government could not unify the industry, which was under private ownership in a fragmented state, in spite of fifty years of effort. The individual operator refused to submerge himself in a larger cooperative. There was increasing evidence of the harm done by unfettered competition, resulting in over supply in some pockets and complete desertion in some other pockets. Above all, the need to coordinate all modes of transport into a cohesive network could not be met due to conflicting interests. The private operator was there to make profits, and he was at best indifferent to the efforts to coordinate transport operations, especially between the railways and road transport. If anything, the operator was gaining custom from out of the Railways' market. National interests did not coincide with the individual private operator's interests. And all efforts to evolve a 'joint sector' failed.

The second main reason concerns the developmental priorities of post-Independence India which required dovetailing all allied efforts. Road transport, being the only mode of
transport capable of penetrating the countryside without the
involvement of heavy financial investments, was sought to
be brought under the state control progressively to provide
mobility to the people. Freedom has had no meaning for many
in this country because it has not been possible to move
people from the forgotten, remote villages to places where
they could improve their lot. The larger purposes of na­tionalisation were to make road transport, and passenger road
transport in particular, a viable infrastructure for rural
development.

The Road Transport corporations have had a very aus­picious beginning with policy support from the Planning com­mission and capital participation from the Central and State
Governments. Their objectives were to provide an efficient,
adequate, economical and properly coordinated service. To
these it was added that the Corporations should work on
business principles. There was an apparent conflict be­tween these two sets of objectives. The only known business
principle was to make profits and this was exactly what the
private operator was doing before nationalisation, to the
exclusion of the other objectives. The very purpose of na­tionalisation was to look well beyond the business principles.
An industry which is capable of generating greater social
benefits, if dominated by the business principles objective,
is very likely to develop a philosophy which will come into
conflict with the primary purpose for which it has been nationalised.

"When the screws of the performance control system are turned tight, the division managers, in order to achieve the results expected of them, are driven to ignore the social consequences of their decision. At that point, unresponsive behaviour becomes irresponsible." This is the danger that might befall the road transport corporations if the philosophy behind their creation is not kept in view while judging their performance. It is possible to make these organisations internally efficient and still keep their developmental role in tact. But if profits are the criteria, the larger social interests will have to be ignored. These issues to be dealt with and solved at a high political level in the overall developmental context. The successive committees appointed by the Government have been stressing this, the latest being the National Transport policy committee (1980).

If transport is to be looked upon as a comprehensive network containing all modes of transport, it is essential that the Central Government and the Planning Commission are involved in setting up the organisations. It is in this context that Road Transport Corporations derive their strength.
The Road Transport Corporations Act (1950) is only an enabling legislation and much is left to the State Governments. The latter have the option to form Corporations, and having formed them, they (the State Governments) have the complete freedom to decide on the internal structure by virtue of the power to appoint the policy making body and the chief executive. The result so far has been that there is a stifling bureaucratic atmosphere contributed by the civil servants and increasing interference, often infringing the managerial freedom, by the politicians appointed to the Board. Both these groups have successfully prevented any introduction of professional expertise at the policy level.

Current problems

The current problems of the industry stem from several external constraints. The problems of internal organisation set up of the Corporations and elimination of internal inefficiencies unconnected with external factors have already been dealt with. There is, however, need to consider the external interface and to highlight the assistance the State Transport Undertakings require in order to take their appropriate place in the economic and social development of the country, which, in the last analysis, is the primary objective of nationalising the industry.
Comprehensive transportation planning. It is generally considered that road transport should subserve the overall developmental goals of the country. The first priority for the nationalised industry should have been to draw comprehensive transport plans for the areas serviced by the various undertakings, taking into consideration the developmental priorities and the direction given to economic growth. Although the 1956 amendment to the Motor Vehicles Act incorporated special provisions for the State Transport Undertakings to publish operational schemes, the governing procedures were still the same as for the fragmented, disunited industry the public undertakings inherited.

"With the enactment of the Road Transport Corporations Act in 1950 and the subsequent incorporation in 1956 of 'special provisions relating to State Transport undertakings' in the Motor Vehicles Act, Government has become both the 'controller' and 'operator' of road transport services in the country. It is often forgotten that this change is not one of degree but of kind. The very safeguards, inflexibilities and controls set for ensuring public interest have become shackles binding State Transport Undertakings in their pursuit of the very same public interest."

Nationalisation should have brought a unified, interlinked and coordinated transport network of operations. But due to an archaic legislation, which broke transport
operations into bits and pieces of routes and permits, albeit to suit an outdated need, the state transport undertakings only succeeded in becoming large operators bringing together a larger number of vehicles under their control. They could not, even today, become an effective instrument of state to translate the transportation needs and demands into a cohesive, comprehensive transportation network. The main thrust of public sector operations is efficient management of existing resources. While this is essential, the organisations should draw inspiration from something more than this. The ability to bridge the transportation gaps and constantly measuring their own role from the supportive efforts they put in for overall economic development is an essential ingredient of the working of state transport undertakings.

Reform of the legislative framework. The Motor Vehicles Act of 1939 is an outdated and archaic legislation. It has served the industry well in its time, but has outlived its purpose. "The solution lies in a drastic parliamentary intervention. For the purpose of passenger transport organisations, a new legislation should be brought, entrusting both the administration and operation of transport services to state transport undertakings. Wherever the STUs cannot operate bus services, permits should be given by the STUs themselves to private operators on conditions stipulated to safeguard the interests of the passenger and the government."

The National Transport Policy Committee observed that, "The main purpose of the original 1939 Act was to regulate motor transport primarily to avoid competition with the railways. With the phenomenal growth of the road and road transport system since 1951, the restrictive character of this legislation has lost its relevance. The Act as such cannot possibly meet positive requirements of facilitating road transport, particularly inter-state movement of goods and passengers. Secondly, piece-meal amendments made in the Act from time to time have rendered it cumbersome and complicated... We feel that there is urgent need to overhaul the Act and replace it by a positive and coherent piece of legislation, which should help promote an efficient, economic and safe road transport system capable of meeting the growing demand on it."  

The reform of the motor vehicle legislation is one of the pressing current problems of State Transport undertakings. The present Act is an omnibus legislation, covering two-wheelers, three-wheelers, goods and passenger carriers. There is need for a separate legislation governing the passenger road transport in order to develop comprehensive networks of transportation alongside growth in other sectors of economy.
Social benefits to be compensated. Unremunerative operations always fall to the lot of state transport undertakings, be they in urban areas or in rural areas. This is only to be expected because no private operator can undertake the burden of unprofitable operations and he is apt to stick to profitable operations alone. The private operator works on business principles, to the complete exclusion of any social responsibilities that may reduce his profitability. Inherent in the nature of nationalisation of the industry is the assumption that the public undertakings should be able to subsidise their losses on unremunerative operations from the surpluses gained on profit-making operations.

The unremunerative operations are not loss-making in the absolute sense of the term. They create several social benefits by providing travel facilities and in giving a fillip to the educational, commercial, cultural and a host of other activities. However, the predominance of loss-making operations will nullify the business principles objective, with little left to cross-subsidise.

In a democratic set-up it is necessary for the state and local authorities to know the implications of services rendered to the community, especially the uneconomical operations which generate considerable social and economic
benefits to the community. The system of local authorities subsidising the uneconomical operations, as in the cases of the United Kingdom, Switzerland and several other European countries, would augment the surpluses of the nationalised industry and facilitate reinvestment to meet the growing needs of maintaining quality and adequacy of operations. In the words of the National Transport Policy Committee, "when they are asked to operate on losing routes, they must, in our view, be compensated by a direct exchequer subsidy." 5

Fare and pricing policies. In the present system, all decisions regarding fares and pricing of the transport product in the passenger sector are taken by the Government. This is understandable. Road transport being the primary mode of transport in the rural areas (the poor man's transport, as it is often called), increase in fares may affect the quality of life led by people who solely depend on this mode of transport. In view, however, of the increasing costs of inputs, the operating costs are going up at a rapid and regular pace, leaving the fare structure stagnant and uneconomical. The procedures for sanctioning fare increases are cumbersome and time-consuming. Besides, increases in fares is a very sensitive political decision which the Governments are wont to delay.

even those Corporations which achieved a reasonable
operational efficiency were obliged to end up in losses in the absence of timely fare revisions. The percentage rise in total cost, with reference to 1972-73, in the year 1979-80 is estimated to be 73 per cent. To quote Professor Locklin, "Although most Government-owned railroads incur deficit in operation, this is not necessarily an indication of poor management or efficiency. It may be the result of a conscious policy of keeping rates and fares low; or it may result from operating lines or services for developmental or other purposes which are not profitable in themselves. The success of a Government-owned enterprise is not to be measured solely by profits." 6

The National Transport Policy Committee was also of the "definite view that, ultimately, the only effective way to improve their (the STUs) financial position is to allow them to raise fares to economic levels." In its recommendations the Committee suggested that, "There is need for a centralised pricing authority to recommend common criteria for fixing fares and freight rates for different transport modes. The constitution of a National Transport Commission with persons having wide and varied experience is proposed. The three main functions of coordination, (pricing, investment and regulation) could be entrusted to this commission." 7

An impoverished State Transport undertaking, however
efficient it may be in its internal working, will not be able to expand, augment and replace its rolling stock unless its fares are economical. If the Government is not willing to raise the fares to economic levels lest the poor-man-in-the-street should suffer, then there should be ways to subsidise the the losses arising out of rising costs and meeting social obligations. The recommendation of the National Transport policy Committee to have a professional body such as the National Transport Commission needs to be studied seriously in this context.

Financial requirements. The main source of finance for state Transport Undertakings is Government development finance provided through State Plan outlays. Plan outlays cover the entire requirements of the undertakings if they are run departmentally. The undertakings set up under Road Transport Corporations Act (1950) are, however, financed from out of the loan capital contribution made by the State and Central Governments in 2:1 proportion respectively. In addition, internal resources are also generated. A few undertakings resort to market borrowings as well. The extent of such borrowings depends upon the overall ceiling for the state Governments' Plan outlays and is subject to sectoral priorities. Thus, credit from public financial institutions and commercial banks fill the in the event of constraint of Plan outlays and insufficiency of internal resources. In addition,
State Transport Undertakings avail of facilities under the bills rediscounting scheme of the Industrial Development Bank of India. Recently the Life Insurance Corporation of India too has taken a decision to grant long-term loans to these undertakings. Inspite of all these provisions, most undertakings have problems of inadequacy of capital resources for replacement of overaged fleet, expansion of services and development of workshop facilities.

"Certain suggestions have been made for improving the financial position of public sector Road Transport Undertakings, such as earmarking of a certain percentage of the total State Plan outlay for the undertakings and allowing them to raise bonds in capital market. Plan allocations, generation of internal resources and market borrowings are inter-related. There is no doubt that inadequate Plan allocations (compared to growing needs of traffic) coupled with inflexible fares policy in the wake of rising costs is a major constraint on replacement of overaged fleet and expansion of services by these undertakings. By and large, fares charged by the undertakings do not cover short-term marginal costs, as these are pegged low as a deliberate policy of the Government. A major bottleneck in the generation of adequate internal resources is, therefore, the inability of public undertakings to charge economic fares. The result is that market borrowings at higher interest rates are sometimes
resorted to, which further add to costs. We are of the definite view that, ultimately, the only effective way of improving their financial position is to allow them to raise fares to economic levels, thereby, facilitating generation of internal resources, which, as a policy, should be a potent means of meeting their financial requirements and should, therefore, receive priority. The Seventh Finance Commission has stressed this point. The Commission observed that these undertakings should realise a minimum return of 6.5 per cent on capital investment. 8

In order to realise the full potential of the state Transport Undertakings, it is necessary to sort out their financial problems in such a way that they are bailed out of the abysmal financial crisis they find themselves in, and to set them on a stable course of growth. It may also be necessary for both the State and Central Governments to convert at least a major portion of the loan capital into equity capital in order to reduce the interest burden. Apparently, in the present context, there is no stake for the Governments in the financial viability of the State Road Transport Undertakings because they are assured of their interest on the loan capital contributed by them. They will, hopefully, take greater interest in the fortunes of the Corporations as share holders expecting dividends on equity capital. Unless
ways are found to build up the financial health of the State Transport Undertakings, the very purpose of their existence is likely to be defeated.

**Professionalisation of managerial cadres.** The phenomenal growth of the nationalised sector should by now have persuaded the management cadres of the industry. While the need for professionalisation has not only been realised but implemented in various other public sector industries controlled and owned by the Government of India, the state Governments have yet to do so. The general practice of sharing out the top managerial positions, including membership of the boards of management, between politicians and administrators is not conducive to develop healthy standards of efficiency.

"It is now conclusively proved both here and abroad that mere administrative skills, without adequate knowledge of the technology involved, do not make for effective and successful management. The short tenure further obstructs the acquisition of a deeper knowledge of the technology involved which cannot be compressed into neat instant packages for a stranger, however talented, to draw upon. The results of political-and administrative-oriented leadership are there for everyone to see. There can be no greater indictment of the present practice of borrowed, tenure-oriented leadership than the enormous accumulated losses, the total lack of business-
orientation and the encompassing bureaucratic quagmire.

"The managers who have taken to transport as their career should be encouraged to hold top management positions. The present culture seems to be that almost anyone is qualified to head the State Transport Undertakings - except the one who has the knowledge and experience of transport! There is an urgent need to professionalise the top management cadres... As a first step, the Government should appoint executive members on the boards of management from among the senior officials of the State Transport Undertakings."

The management of public transport is becoming more and more complicated. It is difficult for 'intelligent laymen' to properly understand the complexities of decision-making in these undertakings. Encouragement and gradual building up of internal leadership to occupy top management positions is the need of the hour. At a time when these undertakings are expected to be called upon to take on greater social responsibilities, it is the existence of trained and experienced professional cadres which will be the industry in fulfilling the expectations.

**Structuring organisations for better performance**

The current problems have been highlighted above, because they have great impact on the performance of the public sector transport industry. However good an organisation
may be, if the external factors dilute the objectives and dampen the enthusiasm of personnel, there is very little that could be done to improve operational effectiveness. Due to lack of professionalisation at the board level, the vital issues affecting the industry have been side-tracked. The arguments for introducing expertise at the top management levels draw inspiration from the complex problems which have been plaguing the public sector transport industry for over thirty years.

While structuring the internal organisational set-up, it should be realised that it is not possible to manage corporations which have a vast geographical spread on the basis of functional controls from centralised headquarters. Functional decentralisation has had its relevance when the organisations were small. Now that they have grown, or are growing, into huge proportions, there is need to decentralise on a 'federal' basis. To quote Peter Drucker, "To improve organisation structure - through the maximum of federal decentralisation, and through application of the principle of decentralisation to functionally organised activities - will therefore always improve performance. It will make it possible for good men, hitherto stifled, to do a good job effectively. It will make better performance out of many mediocre men by raising their sights and the demands on them. It will identify the poor performers and make possible
their replacement by better men.

Side by side with decentralisation on a geographical basis, it is necessary to reduce the span of control of the chief executive at the central office by grouping functions into broad areas in order to protect him from the routine bureaucratic chores. By a shrewd organisation of the middle management structure, a sense of purpose can be instilled. "Organisations, like individuals, can avoid identity crisis by deciding what it is they wish to be and then pursuing it with a healthy obsession." For the pursuit of a 'healthy obsession' of better performance, it is the middle level executives who have to translate policies into plans of action, effectively steering the organisation on the right path for the achievement of corporate objectives and to lead, motivate and communicate with the junior level executives for improved operational control.

The pivotal significance of depot management

Depot is the most important and crucial operating level in Road Transport Corporations. It is here that 80 per cent of the total manpower and financial resources are invested. In any depot of about 60 buses, which is the fleet strength held on an average, the assets under the control of the depot manager total well above Rs. 1 crore. The passenger, after all, meets the bus in the jurisdiction of the depot. Profits
and losses are determined at this level, on the basis of operating results. However, it has become characteristic of all Road Transport Corporations to assign the most junior manager in the organisation, with negligible powers often, to manage a depot. To effectively manage a property of more than one crore of rupees and to lead the workers in an essentially labour-intensive organisation, there should be a fairly senior manager at the depot level, whose voice is heard in the organisation and who has the capacity to translate corporate objectives into reality. The tentative, mediocre performance of most Road Transport Corporations is mainly due to the weakening of the basic operating unit.

To equate the post of depot manager with his other bureaucratic colleagues in Government is to undermine the colossal capital investments put under his charge.

The managerial input at the depot is woefully inadequate. Corporations have tried to make for this deficiency by the strengthening of higher levels. But this has not produced the desired results, as the more one is removed from the operational scene, the less will be his appreciation of the imperatives of efficient performance.

It is quite possible that the present cadre of depot managers may not be equal to the tasks that need to be performed at the depot. In which case, it is time the quality
of managers at this level is improved, even if it means recruiting more qualified men with better pay and perquisites. By raising the status of the depot manager in the organisational hierarchy, it will be possible to give functional assistance within the depot at junior management levels. This would strengthen the depot and provide more effective integrated management at the operating level. Commensurate devolution of power and authority could then be made for greater operational flexibility and decision-making.

It should be stated, in fairness to the public sector transport undertakings, that they have been striving for better performance, and they have indeed achieved steady progress. But they have imprisoned themselves in archaic organisational structures, with unbalanced authority and responsibility frameworks. In order to fully realise the potential of these organisations, and to make them face future challenges boldly, major reforms need to be incorporated in their organisational structures.
References


4. Report of the National Transport Policy Committee, Government of India, New Delhi, 1980, p. 188.

5. Ibid., p. 196.


8. Ibid., pp. 195-196.

