

Reviving Gujarat State Road Transport Corporation: An Agenda for Action

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Abstract

In this article, we examine in detail the reasons related to the declining operating and financial performance of Gujarat State Road Transport Corporation (GSRTC). The contribution of various environmental and governance issues related to the decline of GSRTC are identified. Based on the diagnosis, a detailed revival plan consisting of a set of actions to be undertaken by the management is proposed. The responsibilities of the government, the management, and the employees in implementing the revival plan are briefly discussed. This article concludes with set of strategic priorities that need to be examined by government in reviving GSRTC and other similar state-owned public utilities.

Introduction

Gujarat State Road Transport Corporation (GSRTC) was formed in 1960 as an off-shoot of Bombay State Road Transport Corporation, with a purpose of providing an efficient transport facility to the travelling public of Gujarat state. Over a period of 45 years of its existence, GSRTC has recorded phenomenal growth on every physical parameter and has emerged as one of the largest state transport undertakings in India. As of 2005, GSRTC employed over 50,000, covered 2.5 million kms, and operated 38,000 trips, 15,000 routes, and 7,300 schedules everyday. GSRTC covered and provided connectivity to approximately 98 per cent of the villages in Gujarat and also connected some important travel destinations in the neighbouring states. GSRTC is organized as a three-tier administrative set up consisting of depots (132), divisions (16), and a central office.

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Since its inception, GSRTC has certainly achieved the basic purpose of providing road connectivity to the far-flung areas in the state. It has enabled accelerated economic growth of Gujarat state. It has played a pioneering role in bringing about a balanced regional development in the backward regions of the state.

Being a state-run organization, GSRTC needed to balance several objectives (both commercial and social). Some of these include

- GSRTC is expected to meet the social expectation of providing connectivity to most of the far-flung remote villages in Gujarat.
- Being a state run organization the pricing of its services cannot be decided solely based on commercial considerations. It must also consider the affordability (of the price) from the consumer perspective.
- As a commercial entity it must ensure operational efficiency and resource productivity to minimize the dependence on government subsidy.
- Being a part of a state, it must meet all its legal obligations related to safety and taxation and social expectations related to employees.
- As a corporate entity, it must ensure its long-term financial and operational viability.
- From customers' perspective, GSRTC should provide modern, world class efficient service at an affordable price.

GSRTC in 2005

Over a period of time, the financial and operational performance of GSRTC is showing a slow and steady decline (Table 1). While GSRTC played a significant role in the economic development of Gujarat, its operational performance had declined substantially compared to similar state-run organizations in Andhra Pradesh, Maharashtra, and Karnataka.

The fleet size of GSRTC had been reducing steadily in the past decade (1995-2005), whereas the other state units had increased their fleet size by more than 56 per cent. In fact, the other state units have been constantly adding to their fleet (net of replacement), GSRTC had not been able to add to its fleet (even for replacement) since 2000. During

this period, GSRTC's fleet utilization was 87 per cent as against 99 per cent in Andhra Pradesh, 94 per cent in Maharashtra and 93.7 per cent in Karnataka. Accidents per bus and break down / km had also risen to unacceptable levels.

Demands of social service coupled with an ageing fleet of vehicles, unionized labour, and lack of continuity at the top level have complicated the managerial challenges for GSRTC and contributed to its declining performance. As of 2005, GSRTC has not been able to maintain the basic criteria of an efficient organization. Improving and reviving the operational performance of GSRTC is indeed a challenging task.

The operating performance of GSRTC is so constrained that it is neither able to increase its revenue opportunity nor improve it by overall resource utilization. Further, the fierce and somewhat unfair competition by private transport operators is damaging the fragile financial position of GSRTC. We expand on these ideas in the next few paragraphs.

GSRTC has not been able to add new buses to its fleet nor replace the fleet due for retirement. Consequently, the number of buses held by 'GSTRC' over a period of time registered a decline. Such a decline in the fleet size severely restricts the ability of GSRTC to introduce new routes or increase the frequency in a route even when there is adequate traffic potential.

A perpetual shortage of vehicles has led to poor or delayed operational maintenance resulting in more offline vehicles or increased break-downs, leading to consumer inconvenience, and eroding credibility of GSRTC. Sooner or later, consumers are bound to explore other options of ground transportation (like private operators). This revenue depletion to GSRTC is further reinforced by attractive and dynamic prices offered by private operators, convenient trip schedules, new and luxuriously designed buses, etc. Thus, GSRTC is constantly 'facing' the risk of losing its customers to private operators.

The operational performance (as of 2005) of GSRTC is so weakened that it registered an overall fleet utilization of 87 per cent. Only 8 per cent of the services operated by

GSRTC were profitable. The remaining 92 per cent of the services were not good enough to cover the fixed expenses (high overheads and low utilization factors). Among these, roughly 50 per cent of the routes did not cover operating expenses and about 25 per cent incurred cash losses. Obviously, GSRTC needs complete restructuring to survive.

As a consequence of these factors combined with other environmental factors, GSRTC, as of 2005, accumulated a loss of Rs. 1,300 crore, rendering its long-term functionality or existence at great risk.

The focus of this work is to outline an action plan to revive GSRTC with an appropriate logical reasoning without losing sight of the implementation aspects. The present work is organized in three sections. We first systematically examine the factors responsible to the declining performance of GSRTC. Based on this, we provide a possible action plan by various stakeholders to revive GSRTC. We conclude this work with a conceptual framework on actionable points over a period of time.

Factors Responsible for GSRTC's Declining Performance

Resource Starved Organization

The prime resource of GSRTC is its buses. A proper upkeep of the vehicles, effective deployment and efficiency in operations, increase in revenue, reduced cost of operations (manpower, spare parts, fuel, etc.) are key attributes based on which the profitability and hence the long-term viability of GSRTC can be sustained. Unfortunately, in the context of GSRTC, none of the factors is effectively managed.

As of 2005, more than 85 per cent of the fleet owned by GSRTC have completed the mandatory number of kilometer and are due for replacement. Due to paucity of funds (either due to low internal accruals or lack of subsidy from the government), the replacement of these vehicles has not happened. Such a situation has dealt a severe blow to the earning potential of GSRTC and increased its cost of operations. The combination of these factors has contributed to its financial vulnerability.

Aged fleet needs more resources (man and material) to operate. Also, they slow down operations due to frequent break-downs and hence only less number of trips than planned can be operated. Alternatively, in order to maintain same service level, more resources need to be kept in the reserve. Frequent break-downs and reduced services of GSRTC result in consumers searching for alternatives. Consequently, employee and vehicle utilization goes down and revenue potential is also not realized. In the absence of addition of new buses, the corporation struggles to constantly readjust the mix of routes in favour of short routes at the expense of economically attractive interstate and long-distance routes.

Poor Governance

During 1992-2001, GSRTC obtained lease finance from several finance companies for purchase of vehicles with high interest ranging from 24 percent to 36 per cent. Due to operational inefficiencies these loans could not be serviced inflicting a huge debt burden on GSRTC. Even after renegotiating the settlement, the outstanding amount (repayment of loans) as on 31st March 2006 is Rs. 62 crore. Prior to lease financing, in 1999-2001, GSRTC raised a high cost debt of 13 per cent to fund acquisition of buses. The outstanding liabilities of the corporation as on 2006 amount to Rs. 575.61 crore (Table 2).

Creation of Facilities

In order to respond to the political compulsions, GSRTC has, over a period of time, has established a string of tyre retreading plants across the state without any regard to scale economics and associated benefits. Apart from generating employment, such scattered fragmentation of facilities has not served any useful purpose. Also, the organization has developed a culture of being insensitive to selecting and implementing non-optimal solutions proposed by stakeholders.

Lack of Goal Congruence

Lack of long-term vision and orientation is an internal reason for the continued poor performance of GSRTC. Usually, the top management of GSRTC is on deputation from

the government for a duration of up to three years. The personal styles of these individuals who may not be keen to lead an organization like GSRTC and lack of systems and procedures (which have not evolved over a period of time) have resulted in GSRTC being directionless. Thus, the management practices at GSRTC have a short-term outlook at the cost of permanent focus. In a scenario where diverse stakeholders are pushing the organization in different directions, viz. political representatives influencing the route mix with a bias towards servicing their constituencies, unions and staff demanding frequent wage revisions, strict working hours (due to government set up), etc., achieving goal congruence of various stakeholders is difficult.

Inappropriate Taxation Policies

Table 3 summarizes the government subsidy and the tax paid by GSRTC. It is evident that GSRTC has contributed to the government exchequer even though it has been making operational losses.

Unequal competition

The Government of Gujarat levies a passenger tax of 17.5 per cent on passenger income since GSRTC is a stage carrier.[@] However, the private operators (who are supposed to operate as contract operators) pay a one-time yearly payment of Rs. 90,000 per bus. In practice they operate as a stage carrier resulting in an uneven competitive environment and unfair tax obligations to GSRTC.

GSRTC is a government-run organization. Hence, all basic regulations of the government like providing minimum wages, appropriate employee benefits, and adherence to government demand on taxation, etc. are fully complied with. Also, it is constrained not to increase the prices based on market conditions. Several of these constraints, limitations, and compulsions are not applicable to private operators. A detailed profile of GSRTC and private operators is compiled in Table 4.

[@] Passenger tax of 17.5% levied in Gujarat is the highest in the country. In fact, it is approximately twice the rate charged in Andhra Pradesh and Karnataka.

Confused Social Responsibilities

GSRTC believes that its social responsibility is demonstrated by providing transportation connectivity to wider geographical area. Often, this translates to plying buses on routes which are economically not viable. The competitors, more specifically, the private operators have no such compulsions.

Several operational and tactical inefficiencies listed below have also contributed to the declining performance of GSRTC:

- Inappropriate or uniform price structure independent of passenger traffic pattern.
- Deployment of standard seating capacity vehicles on all routes.
- Inability (due to political compulsions) to link the price of the service to the increase in the input cost due to fuel, spares, depreciation, and wages.
- Biased route mix derived by the social obligation imputed on GSRTC.
- Inability to quantify the cost and benefit from GSRTC point of view, the consequences of restricted fare, higher taxes, and sporadic subsidies from the government.
- GSRTC is seen by the government as an organization for employment generation. Consequently, the manpower cost is almost double the private operators.
- Continued adherence (in the context of shrinking margins) to safety norms, fare wage policy and employment benefits, adherence to taxation norms, etc.
- Poor deployment (from economic perspective) of scarce resources of the organization, viz., the vehicles.

Revival Plan

The financial and operational turnaround of GSRTC is a complex managerial challenge since diverse needs of several stakeholders are to be effectively addressed. We outline a procedure by which this can be achieved. The proposed plan is presented in three segments. The first segment lists a sequence of tactical decisions to be taken by GSRTC in the next five years to improve its financial and operational performance. This is followed by a description of set of measures to be taken by the key stakeholders to

sustain the recovery plan. The last and final section presents a set of conceptual issues to be addressed by the government related to the GSRTC revival plan.

Tactical Decisions

The broad action plan to revive GSRTC would need restructuring the routes (drop / exit from the non-viable routes), rationalize (downsize / rightsize) manpower, outsource non-core activities, improve and control cost of operations, replace the buses due for condemnation and augment fleet size, price fixation based on demand and supply, and focus on customer service to achieve revenue stability and increase in contribution. A set of tactical measures to support this is appended.

Action Plan

Phase 1 (2 years)

- Purchase of additional buses to replace the old fleet due for condemnation.
- Introducing luxury coaches in the inter-state routes with modern passenger amenities like reclining seats, facilities for movie screening, etc, to increase the revenue mix.
- Customer focus demonstrated by e-ticketing, return reservation on concession, well-trained and courteous staff, etc.
- Critically review the economic feasibility of routes operated in the rural area.
- Lobby with the government to enact a legislation by which the burden of serving rural routes and providing concessional fare-based service is shared by private operators as well.
- Outsource rural routes to jobless youth with clear monitoring mechanism and an attractive incentive structure (minimum payment, incentive based earning, etc.)
Consequently, GSRTC can focus its operations on long distance and heavy traffic routes.

Phase II (3-4 years)

- Review the cost of services periodically and link the pricing to cost. This would lead to an upward increase of prices wherever feasible or restructuring

routes to prevent operational losses. This optimal mix of route should provide long-term stability on the margins (of GSRTC service) even under adverse conditions of escalating cost of inputs like fuel, tyres, spares, manpower etc.

- Design a sound organizational process by which fleet replacement, renewal, and augmentation are routinized. Creating a sustainable financial position so that the critical resource like fleet augmentation does not wait for government subsidy.

Phase III (4 years plus)

- All non-core activities like maintenance, recruitment, performance appraisal, information technology services to be outsourced based on economic consideration and on the quality assessment of outsourced activity.
- Identify unconventional sources of revenue generation (like tourism package) to enhance the revenue stream to GSRTC.
- Reduce bureaucracy, induct professionals to the governing board, constant review and process reengineering within GSRTC to retain its competitive position in relation to private operators.

GSRTC Revival – Stakeholders’ Contribution

In this section, we briefly discuss the critical role to be played by various stakeholders like the government, the employees, and the management in the revival process of GSRTC.

Government

- One-time grant to wipe out outstanding debts and a significant financial outlay to improve the average age and quality of fleet operated by GSRTC. (In the past, the Gujarat Government has written off an outstanding deficit to the tune of Rs. 800 crore. It has also provided ad-hoc grants (Rs. 10 crore) to implement computer applications and create appropriate infrastructure.)

- Creation of a legal and regulatory environment and monitoring mechanism by which the GSRTC operations can be made financially viable and operationally sustainable.

Policy initiatives that would help in creating a level playing field between GSRTC and the private operators include,

- Comprehensive enforcement measures to ensure that private operators pay the same registration fee like GSRTC.
- The government may consider an overall reduction in passenger tax from 17.5 percent to 8 percent.
- The government may also consider imposing a specific requirement in terms of route mix to private operators. In the long term, this would ensure that the social obligation of connecting the rural areas would be shared by all transport operators (public and private).
- The government should consider reimbursement of expenses incurred by the transport operators including private operators in subsidizing the travel of students and other special categories. In turn, this expense should be shared by concerned government departments.
- In order to help GSRTC to realize its potential and move towards long term financial viability, it should be allowed to decide its price based on market conditions. The unnecessary and ineffective process of deciding the price of product and services based on social and political considerations should be discontinued as early as possible.
- At a strategic level government should decide whether it should own and manage transport services or redefine itself as a regulator. In case it has decided to own and manage GSRTC (the current situation), it may be optimal for both GSRTC and the government to manage it based on agreed norms like ROI, social obligations, route mix, pricing, etc. Under the new dispensation, all subsidized activities of GSRTC would be adequately and fairly compensated by respective government departments.

- As a policy, the government should encourage professional approach to manage the day-to-day affairs of GSRTC and establish scientific norms by which the performance of GSRTC can be appraised. It should induct well-known professionals in the Board of GSRTC and also look for professionals to lead the organization (GSRTC) with an extended tenure.

Management

Under the assumption that the government would create a conducive socio-political and regulatory environment for the functioning of GSRTC and empower its operational freedom, several initiatives need to be planned and executed by the GSRTC management. These initiatives are broadly categorized under (a) resource productivity, (b) market orientation, (c) improving service quality and (d) developing robust monitoring mechanisms.

The management of GSRTC should strive to improve its cost of operation by optimizing manpower cost, fuel, tyres, and spares. At the tactical level, resource utilization of buses by optimal scheduling would be a prime area of consideration. Route rationalization, dynamic pricing, and strong control on revenue leakages would increase realized revenue. Market-friendly measures would contribute to additional revenue.

The most critical resource of GSRTC is its buses. They need to be optimally used by several related decisions like timely replacement of vehicles, reduced break-down by proper maintenance, appropriate route scheduling, punctuality, and safety in operations.

To survive in a competitive environment, the management needs to emphasize on quality of service (punctuality and safety), appropriate pricing, and an enhanced service orientation. This is possible only when customer orientation and improved quality of service are considered as essential dimensions of business. Also, the orientation that GSRTC is a business organization (government-owned) and not a charity organization need to be realized at the management level. Accordingly, employee recruitment training, orientation, and accountability should be redefined.

Investment on people, and better and effective use of state-of-art information technology would enable GSRTC to improve its performance. Process simplification and employee empowered would energize GSRTC.

Robust systems and procedures related to the areas of recruitment, training, goal setting, performance appraisal and an optimal incentive plan would enable GSRTC to emerge as a competitive organization. The combination of the initiatives mentioned above when implemented completely would make the organization as a most preferred place of work.

Employee Responses

The changes at the government and the management level in GSRTC should be supported by appropriate responses by GSRTC employees. While fleet is a critical hardware resource of GSRTC, responses and initiatives from its employees would ensure a smooth and speedy implementation of proposed changes. Keeping this in the background, a set of initiatives at the employee level that would contribute to the revival of GSRTC is presented here.

- The employees need to prepare themselves to be outstanding professionals. Their attitude, approach, and action would be driven and influenced by professional considerations rather than inherited bias within or outside the organization.
- Preparing for change would be an important mindset the GSRTC employees would need in the near future. This change may be in adopting technology, developing new skills, adopting a set of new performance measures, professional orientation to work, and innovating way of conducting business, etc.
- GSRTC employees should learn to keep pace with the environment (market, social, and competition), in terms of their day-to-day working like schedule, pricing and customer focus, quality of services, flexible working hours, and variable compensation, etc.

- In the process of reviving GSRTC, some employees of GSRTC may be laid off. Therefore, they need to develop an understanding that for the benefit and the sustained existence of the organization, some trade-off at the individual level may be necessary.
- Employees may have to reposition their role as change agents for achieving the social objective of providing safe, convenient, and affordable transport to the general public of Gujarat.
- Separation from GSRTC should there be a need, would be easy and implementable only when the GSRTC employee develop a contemporary mindset.
- As a part of preparation to revive GSRTC, employees should develop a reorientation to their occupation, viz., an occupation based on Government grants and subsidy to an employment by contributing to an organization with social objectives.

Several of the suggestions made in this section are feasible only when there is extensive communication among all sections of the employees, the management, and the government. Also, the revival of GSRTC would require strong will, commitment to GSRTC objectives, an action orientation and entrepreneurial initiatives at the management level.

As of 2006, GSRTC has introduced several measures to improve its image among public and its operational performance. They include:

- Introduction of 1100 new buses including 200 CNG operated buses.
- Monthly passes cheaper by 50 percent on a regular price for the traveling public.
- Passengers to travel up to 30 kms by express bus by paying fare applicable for ordinary service.
- Reducing the overall price of up to Rs. 3.
- Introducing luxury buses with audio and video facilities.
- Expanding the scope to courier and parallel service.

- Negotiating with bank and other creditors to arrive at one-time debt settlement.
- Introduction of Electronic Ticketing Machines and tracking buses by using GPS and GIS.
- Introducing online advanced booking and reservation system.

Most of the measures are aimed at increasing revenue, controlling cost, and improving service quality. While these initiatives are likely to have a positive impact on the performance of GSRTC, they are at best ad hoc initiatives. Consequently, they do not provide a comprehensive and cohesive strategy to revive GSRTC. However, GSRTC may use these initiatives to build a service-oriented, customer-focused culture.

Redefined Priorities

We conclude the revival plan of GSRTC with a set of philosophical changes needed as a prerequisite for the revival plan at the government level.

The government needs to decide whether it wants to own and manage a transport company or confine its span of control to an organization which can be a regulator of transportation (passenger) services. If it decides to own and operate this facility, it should reorient itself from using GSRTC as a vehicle to meet its social and political objectives to managing a commercially viable service organization.

In either situation, the government needs to create an enabling environment in terms of reduced taxes, uniform requirements to serve rural areas, empowering GSRTC to decide the price of its services based on commercial considerations, transparent management systems, empowered employees, professional Board, friendly and pragmatic employee relations, and market-driven incentive systems.

The revival of GSRTC would require a fundamental change in the mindset of the government regarding the purpose, motivation, and the need for an organization like GSRTC. Such a mindset should be supported by a strong will to initiate a range of

management initiatives across the board. Some of them would be met with stiff resistance. It is expected that the government would have the determination to complete the process of implementation.

The government should also clearly recognize that the environment in which GSRTC operates today has completely changed. The resources (for instance, manpower, etc.) at the disposal of GSRTC are also inadequate to manage the new challenges. It should realize that better technology is available and affordable to conduct the GSRTC business. Inappropriate action and lack of follow-up will only render GSRTC more financially and operationally unviable.

Reviving GSRTC by taking bold initiatives would on the other hand would open up a whole set of new opportunities and credibility to efficiently manage state public sector units in the context of increased competition. These initiatives, if successful, would also demonstrate that social objectives can be effectively met without compromising the stakeholder's interest of an agency which is implementing the service.

Acknowledgement

This document is prepared based on discussion with GSRTC officials and in consultation with internal documents of GSRTC. The views expressed are purely the opinion and conclusion of the authors and do not represent the views of the organization they represent.

Table 1: GSRTC Performance at a Glance

Performance Measure	Units	Year					
		99-00	00-01	01-02	02-03	03-04	04-05
Effective km	Crs	104.57	115.17	109.35	101.99	101.26	92.51
Gross EPKM	Ps	1025	1084	1113	1283	1395	1487
Gross CPKM	Ps	1370	1360	1463	1466	1486	1618
Margin/Deficit	Ps	345	276	350	183	91	131
Crew utilization in kms		196	197	194	192	196	194
Vehicle utilization in kms		364	371	364	361	361	359
% of fleet utilization		86.3	86.6	85.9	83.5	86.24	83.9
% load factor		63.83	55.02	58.79	59.53	56.75	57.6
Diesel KMPL		5.11	5.3	5.3	5.3	5.24	5.19
Oil KMPL top up		1714	2977	3223	2391	1420	1047
Rate of breakdowns		0.75	0.45	0.71	1.03	1.17	1.33
CPKM on spare parts	Ps	21.07	15.15	14.4	15.37	16.59	22.74

Table 2: Liabilities (Outstanding) of GSRTC

No.	Expenditure Items	Rs. in Crore
1	Statutory Liabilities	
	P.F. trust	143.14
	Pension contribution	47.05
	Gratuity payments	39.09
	MACT claims	17.31
	Total [1]	246.59
2	Pressing Liabilities	
	Diesel	51.26
	Tyres	3.70
	Stores and spares	4.00
	Division payments	6.48
	Lease rent	36.45
	Total [2]	101.89
3	Other Liabilities	
	Salaries [D.A. arrears / Leave encashment]	37.98
	Gratuity fund	75.00
	Settlement arrears	106.55
	At Divisional level [Overheads]	7.60
	Total [3]	227.13
	Total Liabilities [1 + 2 + 3]	575.61

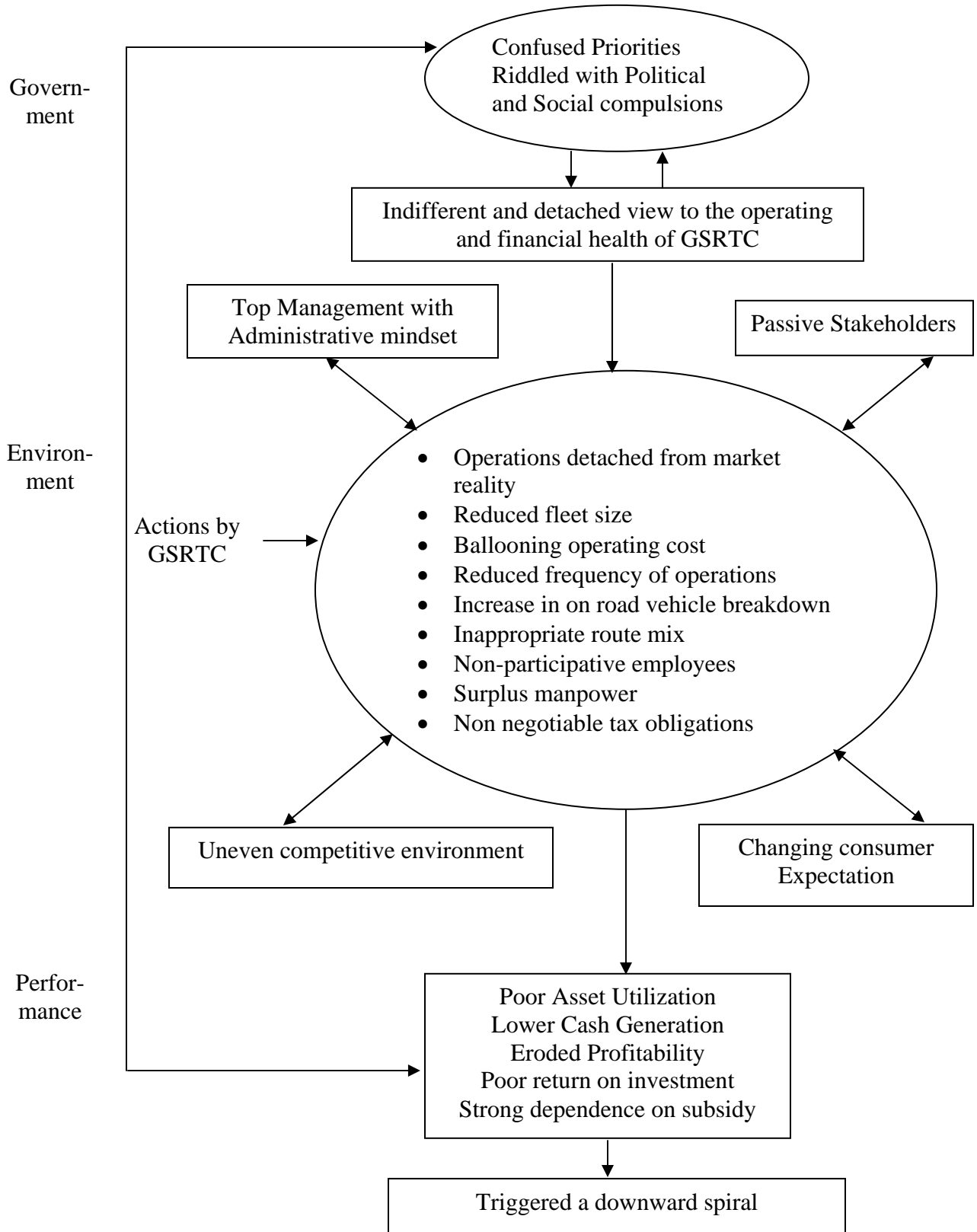
Table 3: State Government and GSRTC

No	Item	Years	(Rs. in Crore)
Paid to State Government			
1	Passenger tax	1960-61 to 2003-04	2479.67
2	Motor vehicle tax	1960-61 to 2003-04	116.74
3	Sales tax (Estimated)	1965-66 to 2002-03	857.78
Total			3454.19
Received from State Government			
1	Non-plan	1960-61 to 2003-04	1586.18
2	Plan	1960-61 to 2003-04	482.26
Total			2086.44

Table 4: Profile of GSRTC and Private Operators

Attributes	GSRTC	Private Operators
Expansion of fleet size	Non-existent	Need-based
Mix of vehicles	Standard, uniform	Based on market demand
Route rationalization	Stagnant/Static Driven by social consideration	Dynamic/ Driven by market dynamics
Pricing	Static pricing Government-driven Independent of cost of service	Dynamic pricing Owner-driven Related to input cost
Control and management of input costs like spares, fuel, employee wages	No control Usually higher cost of operation	Strong emphasis on cost, often cost reduction is resorted to
Connectivity to rural areas	Mandated by the government	Decided by economic consideration
Fair business practices	Complete adherence to the regulations	Context dependent, opportunity-based
Tax incidence	As per law, 100% adherence	As per convenience
Safety orientation, regularity, and punctuality	High, accountable to public authorities	Low, accountable to none
Employee compensation	As per law	As per economic considerations
Purpose of existence	Confusion between social and economic objectives	Opportunity based, only economic consideration
Concessional services and subsidized prices	Widely prevalent decided by political consideration	Non-existent

GSRTC: The Vicious Cycle of Decline



GSRTC: The Virtuous Cycle of Revival

