

PRIVATISATION OF PORTFOLIO ACTIVITY - SOME STRATEGIC OPTIONS FOR OSRTC

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Introduction

With the advent of the New Economic Policy (NEP) and the liberalisation, the continuance of some of the existing Public Enterprises (PEs) has become a strategic question. The debate has assumed greater importance in the case of the utility sector PEs that are held partly or wholly by the Central or the State Government(s).

The utility sector PEs are characterized by huge investment, resulting in locking massive amount of the public funds. The State Road Transport Corporations (SRTCs) are no exception to this. It is noteworthy, that the SRTCs have not failed to perform their public obligations well. The sole opposition for their existence in the public sector is due to their financial inefficiency. The financial inefficiency is again attributed to high costs and low performance in some of their activities.

A portfolio privatisation may correct the imbalance and put the SRTCs on the right track. This paper attempts to look into the micro privatisation, rather than macro privatisation, keeping the basic assumption that social equity is better served under the government than in the private hand.

The Problem

Almost all SRTCs have poor financial performance and to add to that, they are not sole monopoly like the other utility services. When they become the first target of macro privatisation, it may not serve the purpose of the public at large, at all. The private transport sector in the country is known for its irregular and untimely services, solely determined by profit motive and not the public good. Moreover, an outright privatisation of SRTCs may not be a fruitful exercise because of the disorganized nature of the private transport sector in the country.

To examine these issues in detail Orissa State Road Transport Corporation (OSRTC) has been taken as a case in point, especially the micro privatisation options.

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Genesis and Growth of OSRTC

In the early 1950's public transport in Orissa was controlled by the Orissa State Transport Service, with the Headquarters at Bolangir (one of the north western districts of Orissa). At the initiative of the then Chief Minister of Orissa, Mr Nabakrushna Chaudhari, an effort was made to 'Stream Line' the work of Orissa State Transport Service and to nationalise the passenger road services of the coastal Orissa, in accordance with an Act, passed by the Orissa State Legislative Assembly in 1946.

The Act, in question, envisaged the establishment of a joint stock company in collaboration with the Indian Railways for a rail-road coordination.¹ Thus OSRTC was incorporated on 1st of December, 1950, as a Joint Stock Company with limited liability. The State Government held 78 percent of capital, of the 20% was held by the Central Government through the South Eastern Railways and the remaining 2% was held by the employees and the displaced operators, who represented the Board of Directors. The Board of Directors consisted of 4 nominated directors of the Government of Orissa, 2 nominated by the Central Government through S E Railways and one elected by the shareholders (mostly displaced operators). The break up of the paid up capital stood as follows:-

01	Rs. 35,04,425 by the State Government;
02	Rs. 10,00,000 by the Central Government; and
03	Rs. 12,000 by others.

The Environment in which OSRTC Started working

The operations of OSRTC were limited to the Ganjam, Koraput and Puri districts. The northern and western districts of Denkanal, Sambalpur, Sundergarh, Bolangir and Kalahandi remained within the jurisdiction of the State Transport Service. The remaining districts of Cuttack, Balasore, Keonjhar and Mayurbhanj continued under private ownership. By its memorandum, the OSRTC was to coordinate between the rail-road services. It was only in 1975-76 that the OSRTC spread its operations to the other districts of the state.

The Environment at Present

It is clear that OSRTC had to take the heavy burden of rail-road coordination in the State. This implied two things. Firstly, it had to serve all the routes, where railway service is not possible (to cater to the balanced regional growth) and secondly, it had to adjust its fare in accordance with the railway fare. The latter one was a difficult task as the railway fares are determined by the central government on the floor of the Parliament for the entire country and not state-wise or region-

¹ The state of Orissa did not have any significant transport infrastructure, either in road or rail ways. Since it was highly expensive to increase the rail track and there were many physical problems in doing it, it was thought that a shift of burden on the passenger road transport would solve the purpose, thus giving birth to the concept of rail-road coordination.

wise. On the other hand, the OSRTC had to keep in mind the welfare concept of the State, paying capacity of the passenger traffic and balance the growth of transport infrastructure with the railways. This surely strained the efficiency of OSRTC. Added to these factors there are the super-luxury buses, that ply on some of the prime routes of Orissa. The fare structure of the private buses are arbitrary and are generally aimed to serve certain affluent group of people. But, in reality even people who might not have the capacity to travel in these buses travel in them due to comfort and speed with fewer stoppage in between. OSRTC however, could not have the flexibility to change its fare-structure nor ply high luxury buses for comfort due to huge bureaucratic control and procedures.

OSRTC also faces some other cross-governmental competitions like the one from the Orissa Tourism Development Corporation which also runs luxury coaches in some of the prime routes of the State. OSRTC is simply not in a position in the state to enjoy a monopoly status.

The performance on the financial side is also not cheerful as in the case of the other SRTCs. With the result OSRTC is considered fit for a macro privatisation move. A reversal at the macro level of ownership (which may not be effective at all) may upset the rail-road coordination (due to haphazard decision-making of the unorganized private sector, it may fall into) and hamper the balanced regional growth of the state (which it is supposed to bring in). Against this background a micro privatisation, the reasons and modality of the portfolio of activity restructuring and privatisation of OSRTC follows.

Portfolio of activity of OSRTC

The activity of OSRTC embrace, maintenance and running of the fleet, appointment and maintenance of staff to carry out the functions of the organisation smoothly, supply of fuel, tyres and tubes (which comprise the bulk of the operational cost) and providing other miscellaneous activities including depot maintenance, repairs etc. The present paper looks into some of their important portfolio of activity and analyse them.

A. Staff

The recruitment and maintenance of the staff is one of the major activities that any organisation has to undertake and OSRTC is no exception. The Staff cost went up from Rs.5.36 cr. in 1985-86 to Rs.8.39 cr in the year 1989-90. The Staff cost (per worker per day) showed a rise from Rs.29.42 cr. in 1985-86 to Rs.46.34 cr. in the year 1989-90. The increase registered was 57 pc. The Staff cost per revenue kilometer run also went up from Rs.1.13 to Rs.1.15 over the period of 1985-86 to 1989-90. On the other hand the staff productivity (revenue earning Kms per worker/day) increased from Rs.26 per Km to Rs.31 per Km during the years mentioned earlier. This registered a marginal increase of 19.23 p.c. The increase in cost and low productivity (in comparison to the cost) can be easily attributed to unplanned recruitment, to fulfill the social obligation of employment by the State, especially at the bottom level of the organisation. It can be easily seen

that the marginal growth of staff productivity and the high cost bearing staff portfolio, is a major burden on OSRTC. The performance efficiency of this portfolio is medium and so is the financial contribution. The general model-employer role of OSRTC in a "welfare-Government set-up gives it a high performance in the public purpose cause, indeed.

B. Fleet

The fleet strength decreased from 759 numbers in 1985-86 to 702 numbers in 1989-90. The total number of new buses acquired went down by 66 p.c. i.e., from 70 in 1985-86 to 50 in 1989-90. The buses scrapped and replaced declined by 58 p.c. i.e., from 86 in 1985-86 to 50 in 1989-90. This was disturbing trend but simultaneously a decrease of the over-aged buses by about 4 times over, during this period of study is creditable. The fleet utilisation showed a fair increase of 11.20 p.c. i.e from 78 in 1985-86 to 86 in 1989-90. The capacity utilisation was measured in terms of percentage of buses on the road. The vehicle productivity in terms of revenue earning per Km per day showed a rising trend. From Rs. 180 per Km in 1985-86 it increased to Rs. 218 per Km in 1989-90. The overall performance, showing cost efficiency and increase in fleet utilisation, productivity and decrease in unwanted fleet was good. It can be well drawn, that the fleet has performed high on all the three fronts of efficiency, financial performance (in terms of contribution through cost reduction) and serving public purpose (through fleet utilisations).

C. Fuel

The cost of the fuel went up from Rs.4.58 cr in 1985-86 to Rs.5.70 cr in 1989-90. The fuel cost per revenue earning kilometer went up from Re 0.97 in 1985-86 to Rs.1.02 in 1989-90, indicating a hike of 5.18 p.c. The fuel efficiency increased from 3.91 km per Lt. in 1985-86 to 4.20 Km per Lt. in 1989-90, indicating an increase of 7.14 p.c. The high cost of the fuel easily give it a low grade in the financial front. A high cost in other way also mean, a low fuel efficiency. The argument of the OSRTC holding fuel portfolio for the public purpose stand weak, because, it is not the main but a subsidiary activity. Thus we conclude in respect of fuel that, it hold low in all the fronts of the financial, operational efficiency and public purpose.

D. Tyres/Tubes

There has been a hike in the expenditure of the Tyres/Tubes. The expenditure has increased from Rs 1.75 cr in 1985-86 to Rs.2.30 cr. in 1989-90. The hike in the expenditure shows, more inclusion of Tyres/Tubes component and hence low efficiency in usage. The portfolio of Tyres/Tube do not serve a very high public purpose also.

Applying this analysis made above in 3 x 3 matrix (developed by the Institute of Public Enterprise) where by we see the degree of effectiveness from high to low

in term of three fronts of (1) public purpose, (2) efficiency and (3) financial contribution, we draw the following exhibit given below:

Exhibit No. 1

Portfolio Activity	Public Purpose	Efficiency	Financial Contribution	Measure of to restruct
A. Staff	H	M	M	Redefine work and decrease non-technical work force.
B. Fleet	H	H	H	Continue and increase efficiency
C. Fuel	L	L	L	Lease out the activity to Pvt. party
D. Tyres/Tubes	L	L	L	-do-
Index: L - Low; M - Medium; H - High				

Conclusion

- 01 A shift from "Model Employer" to "Model Performer" may generate fear about economic Darwinism. Hence, the staff gain a high public purpose (in terms with the socialism embodied in the Constitution). A medium performance in the other two i.e., efficiency and Financial contribution, give support of retention by OSRTC, but leave enough space for streamlining the present work force not only through better work feature enhancement but also restructuring its work force like redeployment and increase technical training.
- 02 The fleet service of the OSRTC has gained high on all fronts and hence is fit to stay back with the company. However, efficiency should be maintained by management by plugging all loopholes.
- 03 The fuel and Tyres/Tubes show low on all fronts and hence should be outright contracted to private party which can charge a fee agreed upon by both the parties. This will reduce the burden of OSRTC.

Thus it can be concluded that a portfolio of activity restructuring and privatisation will lead to a more efficient discharge of duty by OSRTC and hence can be exercised as a strategic option. This is not only true for OSRTC but many of the utility sector PEs, which cannot be outright privatised and exist in competitive environment, to increase efficiency.

Table - 1
Break up of Expenditure by OSRTC over the period 1985-86 to 1989-90
 (Rs. in Crores)

Particulars	1985-86	1986-87	1987-88	1988-89	1989-90
Staff	5.36	6.61	7.66	7.56	8.39
Fuel	4.58	4.60	4.87	5.04	5.70
Tyres/Tubes	1.75	1.77	2.13	2.05	2.30
Other Misc.	1.01	1.19	1.32	1.49	1.61

Source : Adopted from "A study on the Performance of the State Road Transport Undertakings", Government of India, Planning Commission, New Delhi, Nov. 1989.

Table - 2
Staff cost of OSRTC

Particulars	1985-86	1989-90	% change
Staff cost per worker/day (in Rs.)	29.42	46.34	+ 57.57
Staff cost per revenue earning Km (in Rs.)	1.13	1.50	+ 32.74
Bus staff Ratio (staff per bus operated)	8.43	8.19	- 2.85
Staff Productivity (Revenue Earning Kms per worker/day (in Kms)	26	31	+ 19.23

Note : (+) indicates increase and (-) indicates decrease.

Source : Adopted from "A study on the Performance of the State Road Transport Undertakings", Government of India, Planning Commission, New Delhi, Nov. 1989.

Table - 3
Fuel cost and efficiency of OSRTC

Particulars	1985-86	1989-90	% change
Fuel Cost Per Revenue Earning Km (in paise)	97	102	+ 5.15
Fuel Efficiency (Kms per Lt)	3.91	4.20	+ 4.20

Note : (+) indicates increase

Source : Adopted from "A study on the Performance of the State Road Transport Undertakings", Government of India, Planning Commission, New Delhi, Nov. 1989.

Table - 4
Fleet and Vehicle Utilisation and Productivity of OSRTC

Particulars	1985-86	1989-90	% change
Fleet Utilisation (% of Buses on road)	78	86	+ 12.82
Vehicle Productivity (Revenue earning Kms per Bus held Per day) (Rs./Kms)	180	218	+ 21.11

Note : (+) indicates increase

Source : Adopted from "A study on the Performance of the State Road Transport Undertakings", Government of India, Planning Commission, New Delhi, Nov. 1989.

Table - 5
Cost per revenue earning Bus Km on Different Portfolio components of OSRTC

(in Paise over the revised estimate of 1989-90)

Staff	Fuel	Tyres	Material	Other Misc Exp.
151	101	41	35	30

Source : Adopted from "A study on the Performance of the State Road Transport Undertakings", Government of India, Planning Commission, New Delhi, Nov. 1989.

Table - 6
Gross Profit of OSRTC

(Rs in Crores)

Particulars	1985-86	1986-87	1987-88	1988-89	1989-90
01. Operating Revenue	15.28	17.42	18.36	19.04	22.30
02. Operating Expenditure	13.31	15.16	16.07	16.40	18.35
03. Operating Surplus (1-2)	1.92	2.32	2.29	2.64	3.95
04. Misc. Receipt Over Expenditure	(2.02)	1.32	0.65	0.67	0.31
05. Gross Profit	(0.10)	3.64	2.94	3.31	4.66

Source : Adopted from "A study on the Performance of the State Road Transport Undertakings", Government of India, Planning Commission, New Delhi, Nov. 1989.

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