



Turnaround Management in Andhra Pradesh State Road Transport Corporation – a Case Research Study

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ABSTRACT

Public Enterprises constitute a major segment of industrial activity and there was a phenomenal growth of these organizations during the planning period. Road Transport is a dominant mode of transportation which covers 19 percent of the passenger traffic and 65 percent of freight in India. It is well known fact that operationally and financially inefficient public enterprises need to have turnaround management strategies addressing the challenges of a respective enterprises. Andhra Pradesh State Road Transport Corporation (APSRTC) established under the present name on 11th January, 1958 is facing operational, financial and organizational problems. The APSRTC could not convert its revenue into net profit due to under utilization of assets till 2003. However, it is evident that there was marginal improvement of net profit during the period 2004-10. APSRTC adopted retrenchment, re-positioning, re-organization and financial strategies in its turnaround management process. This paper is an attempt to examine the turnaround management strategies in APSRTC.

Keywords : Public Enterprise Turnaround Management tPragmatic Strategies

I. Introduction:

Throughout the developing world, the Public Enterprise (PE) is a major instrument for industrial and commercial development. Public Enterprises also termed as State Enterprises or Government Enterprises constitute a major segment of the industrial activity in our country and these undertakings born as the outcome of the conscious policy of the government to speed up the industrialization of the country.

In the process of economic development of India a vital role space was assigned to the public sector and was enshrined in the Industrial Policy Resolution of 1948 and was further emphasized in the Industrial Policy Resolution, 1956. Public Sector in India was envisaged to promote balanced and equitable growth of economy. This led to the phenomenal growth of the public Sector Enterprises in India at Centre and State levels during the planning period.

State Level Public Enterprises (SLPEs) are an important segment of public enterprises in India. These are vital instruments of public policy for the states. There has been a spectacular growth in the number of these enterprises and the investments in them have registered a phenomenal increase since the fifties. However, their financial record is poor and managerial performance chaotic. The transformation has assumed significance for the public sector enterprise due to high incidence of sickness. The unique role of the public enterprises in the country's economy has been widely recognized and their operational efficiency deserves to be closely monitored through improved attention being paid to the management system.

It is well known that the loss making and operationally and financially inefficient public enterprises need to have a turnaround through reorientation of their managerial and operational policies with the application of pragmatic strategies of turnaround addressing the realities and challenges of a respective enterprises. Public Sector Enterprises today cover a wide spectrum of activities in basic and strategic industries like steel, coal, minerals and consumer goods, trading and marketing activities, pharmaceuticals and fertilizers on the one hand, and consumer goods, trading and marketing ac-

tivities, transportation services, contract and consultancy service, tourist services, financial services and development of small-scale industries, on the other. While some of these enterprises are operating under monopoly or near monopoly conditions, there are others working under competitive conditions. There are several reasons for the creation and maintenance of public sector enterprises. First, there is persistence of monopoly power in many developing countries. Direct government control may be required to ensure that prices are not set above the marginal costs of producing the output. Other reasons for the creation of PSUs include capital formation engaging in promising economic activities, the desires of some government of developing countries to gain national control over strategic sectors of the economy such as defence, over MNCs whose interests may not coincide with those of the country, or key sectors for planning purpose. Finally, ideological, social and welfare motives may be a factor in the creation of government undertakings.

However, the poor performance of Public Sector Enterprises (PSEs) in the 1980s made reform increasingly urgent in the context of the broader strategy of liberalization of the economy to deal with the perceived weaknesses of India's development strategy in general and PSEs in particular. It has been widely accepted that Public Enterprises in India have remained in poor financial condition owing to political forces that constrain their function.

The objective orientation, rationing and growth of Public Sector are spectacular in India. But, due to the operational and managerial deficiencies and problems the spree of privatization started with a strong policy emphasis and reorientation of the Government philosophy since the initiation of economic reforms in 1991. The Industrial Policy Statement announced by the GOI in July, 1991 envisaged the disinvestment of a part of the govt. holdings in the share capital of select public enterprises in order to provide market discipline and to improve the performance of the public enterprises.

II. Rationale for the study:

Thus, there is an underlying tone that the loss making and operationally and financially inefficient public enterprises need

to have a turnaround through reorientation of their managerial and operational policies with the application of pragmatic strategies of turnaround addressing the realities and challenges of respective enterprises. APSRTC is the traditional and dominant state level public enterprise. Due to competition and lenience attitude of Government towards APSRTC, operational dilemmas and host of other reasons the corporation had been being problems financially and operations. The management of the corporation has been pursuing certain strategies of turnaround and implementing the strategies of corporate turnaround. APSRTC being a public service state-level government enterprise, the survival, success and the sustainability and commercial viability assume a dominant significance. This paper is an attempt to examine the turnaround strategies adopted by APSRTC. The study covers a period of 10 years i.e., 2001-02 to 2011-12.

III. Scope and Limitations of the study:

The study pertains to turnaround strategies of A.P. State Road Transport Corporation. The perceptions and expectations of the management, the internal customers (employees), and the consuming public (commuters / passengers) are extracted and analyzed for presenting turnaround scenario of the APSRTC.

The study is not free from certain limitations i.e., (a) as the study is based upon primary as well as secondary data, the secondary data sources vary widely in reporting. (b) In collecting the primary data, respondents bias do exist.

IV. Objectives of the Study:

- To review the credibility building actions implemented by A.P. State Road Transport Corporation for its turning around;
- To examine the strategies adopted by A.P. State Road Transport Corporation at different levels of operation.
- To suggest policy measures for effective and efficient functioning of A.P. State Road Transport Corporation.

V. Database and Methodology:

This study is based on both primary and secondary data. The sources of secondary include the annual reports, performance and review reports of the corporation. In addition, the published data of the Department of public Enterprises, Government of India form the basis of secondary data. The published articles from the journals and the literature from reputed books also form the secondary data.

VI. Hypothesis of the study:

H₁: Retrenchment strategies have a significant positive relationship on the organizational turnaround.

H₂: Repositioning strategies have a significant positive relationship on the organizational turnaround.

H₃: Reorganization strategies have a significant positive relationship on the organizational turnaround.

H₄: Financial Strategies have a significant positive relationship on the organizational turnaround.

VII. Sample Design:

The entire network of APSRTC is under the administrative control of 23 Regional Managers in 7 Zones. Zonal Head Quarters are at Hyderabad. APSRTC under the present name was established on 11th January 1958 in pursuance of the Road Transport Corporations Act 1950. The A.P. State Road Transport Corporation operates its buses under the administrative control of 7 Zones viz., Greater Hyderabad (24 Depots), Hyderabad (28 Depots), Karimnagar (37 Depots), Vijayawada (32 Depots), Vizianagaram (27 Depots), Kadapa (31 Depots) and Nellore (31 Depots). The stratified proportionate random sampling method is adopted for this study.

The depots selected for the sample has connected to urban, semi-urban and mofussil services. This study is confined

to the 36 services (12 depots) operated by APSRTC in all regions. Therefore, the questionnaire is canvassed among the 510 commuters. The operational staff is a blended mix of front-line operational force consisting bus drivers and conductors, Traffic Inspectors (TIs) etc., Due diligence is taken in selecting a sample of operational staff considering their experience and educational qualification. The structured questionnaire is canvassed among 450 operational staff.

VIII. Results and Discussion:

The analysis of information and data on APSRTC using statistical tools lead to the following findings.

Public enterprises today cover a wide spectrum of activities in basic and strategic industries like steel, coal, minerals, pharmaceuticals and fertilizers, transportation services, contract and consultancy service, tourist services, financial services and development of small-scale industries, on the other.

Road transportation is a dominant mode of transportation in India today and it carries almost 90 per cent of the country's passenger traffic and 65 per cent of its freight. The density of India's highway network at 0.66 km. of highway per square kilometer of land which is similar to that of the United States (0.65) and much greater than China's (0.16) or Brazil's (0.20).

APSRTC is one of the 37 State Road Transport Undertakings (STUs) in India which is incorporated by Andhra Pradesh State Government under section 3 of the Road Transport Corporations Act, 1950 as wholly owned Corporation or as Government Company under Companies Act, 1956.

With the increasing competition, rapid advances in technology and rising complexity of the business conditions accompanied by blend of customers and employees, the challenges for any corporate have been rising. Only a timely response to this situation can save organizations. However, due to management inefficiency, most of the corporate fail to identify the problems and therefore delay in taking precautionary measures affecting the owners, employees, customers, suppliers and the economy.

Apparently bus-based public transport system continues to be dominated by STUs today in terms of coverage and patronage. The number of passengers carried by SRTUs in crore kilometers was 6.72 (2000-01) and consistently decreased to 5.61 (2003-04) and thereafter a mixed trend was observed upto 2008-09. The number of passengers carried in crore kms. stands at 6.91. This infers that there is an imperative need to SRTUs to allure road transport passengers by providing quality service in continuum.

The total revenue of the STRUs was Rs.16325.27 crores during 2001-02 increased to Rs. 24956.73 crores during 2008-09 and stood at Rs.32836.02 crores during 2010-11. The break-up of the total revenue clearly shows that the traffic revenue is the dominant component whereas the non-traffic revenue assumes a minor share. It is as evident from the fact that, over the years under review the proportion of traffic revenue in the total revenue of the SRTUs ranged between 86.32 per cent. The cost composition of SRTUs consists of cost of personnel, material, taxes, interest, payment to hire buses, depreciation, miscellaneous and other charges.

During the year 2001-02 the APSRTC with 129353 employees, operated 19383 buses in 6586 routes covering a route length of 887,536 kms. The Corporation offered 12310.18 seat kilometers by carrying 413.17 crore passengers through its 209 operating depots controlled by 23 regions and 6 zones along with Central Office. During the year the gross earnings of the APSRTC raised to Rs.2783.14 crores.

The Earnings Per Kilometer which was 1037 paise during 2000-2001 raised to 1736 paise during 2009-10 and stood at 1763 paise during 2010-11. But the Cost Per Kilometers which was 1130 paise during 2000-2001 experienced as in-

cessant increase to 1796 paise during 2009-10 and stood at 1734 paise during 2010-11. Moreover, the Corporation incurred the loss per kilometer of operation during 1999-2000 to 2006-07 and could earn profit per kilometer of operation only during the last three years ending with 2009-10. Further, it can be observed that the profit per kilometer of operation which was 135.67 paise (2007-08) dropped down to 110.79 paise (2008-09) and further to 9.84 paise (2009-10). Over the period under review the Corporation recorded a net loss ranging from Rs.42.02 crores (2003-04) to Rs.514.55 crores (2009-10). Thus, the sustained amount of loss incurred by the Corporation reflects the situation of crisis and drain on the resources.

APSRTC could not convert revenue into net operating profit. This may be due to under utilization of current as well as fixed assets. The Net Operating Profit ratio ranged in between -15.59 and +11.73 during the years 2001-02 and 2007-08. But, the negative trend was observed during 2000 to 2003 of the study which indicates inefficiency of operations of the Corporation. However, it is evident that there is a marginal improvement in the ratio from the year 2004 to 2010 as the revenue of the Corporation was increasing. Prompt and timely service, the provision of services at lower fare with compare to private operators, safety, reliability and patronage, there is no other go except to accept the services of APSRTC are the major reasons preferring to travel in APSRTC bus.

Competition from private operators, incompetent human resource, subsidies and concessions, inefficient managerial competencies of administrative staff, involvement and influence of Government in almost all operations of the Corporation are major reasons for inefficient functioning of APSRTC. The Government intervention in fixation of fare and wage revision, modernization of fleet in relate to reduction of traffic congestion, pollution levels and energy consumption, competition from private passenger transporters and illicit operations of commuters dent the corporation into financial problems.

Retrenchment as the crucial pushing turnaround factor, followed by re-organization, re-positioning, re-construction strategies and improvements in quality of bus services. Retrench-

ment Strategies from the strategic point of view consisting five attributes viz., close down / scale down loss making segments (depots) of organization, decrease financial support other organizations, liquidate obsolete assets of the organization, reduce capital expenditure and implement stronger financial control techniques.

The strategies of retrenchment from the operational point of view consisting of four items viz., reduction in services expenditure, substantial scope for privatization of some of the routes of APSRTC, regulation of bus services in low occupancy routes or eliminate particular service if commuters progressively relying on private vehicles, and partially / temporarily exited specific services made the corporation financially viable.

Repositioning as one of the strategic turnaround drivers aimed at reconstruct relationships with external stakeholders. An increase in services expenditure, updated technologies, updation of present fleet, extension of scope of services of the Corporation and acquiring modernized fleet bring back the Corporation on to the rails of profit.

Reposition at operational point of view includes several sub-strategies such as focus on growth, extension of marketing efforts (reaching out) to new segment of customers i.e., product innovation, extension of services in the form of product differentiation and re-branding, raising revenue through dynamic pricing which ultimately leading to capture the market share. The focus of this strategy is on revenue generation as opposed to cost control.

Raising of equity through Initial Public Offer or private equity or issue of debentures or debt financing, creation of more productive assets, sale of obsolete, infrequently used assets and unprofitable divisions of the Corporation, asset reduction and debt-reduction, implementation aggressive cost and asset reduction techniques such as slashing labour, production, selling and administrative and R&D expenditure, financial restructuring and asset reduction strategies which would help in meeting the immediate cash obligations as well as for improving cash inflows immediately.

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