

# **THE PEOPLE AND CUSTOMER EFFECTS OF BUS REFORMS IN SOUTH AFRICA**

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## **SYNOPSIS**

Bus reforms in South Africa have had a dramatic impact on people (employees) and customers (passengers), especially during the last five to ten years. These so-called soft issues are sometimes overlooked in favour of the policy and structural issues. The main focus of this paper is on the people and customer effects of the bus reforms and not on the operational effects. These effects also had an impact on travel patterns, service levels, etc and although customers were on the receiving end of such changes, most of these issues fall outside the scope of this paper. An attempt is made to critically evaluate these effects and to propose solutions. The following are some of the more important effects that have become noticeable throughout the commuter bus industry:

- Pre- and post tender pressures resulted in a substantial rationalisation of services and organisations.
- The demarcation of tenders resulted in smaller operating entities, which in turn have a dramatic impact on people and management practices.
- Large numbers of people were retrenched. Managing a downsized operation has become the key challenge.
- Manpower costs have become a source of competitive advantage to secure tenders with negative effects on the continued employment of high calibre staff.
- Organised labour fiercely resists reforms that could lead to further job losses and practices that weaken the position of employees.
- Former training and development functions were severely rationalised or discontinued as a result of cost pressures.
- Accelerated Black Economic Empowerment (BEE) has become a national policy focus. The industry made considerable progress on the BEE agenda.
- The penalty system of tendered contracts redefined customer focus.
- Fewer people employed in the bus industry and more demanding customers have become the key challenges.

Proposed solutions include closer cooperation with organised labour, replacement of a career orientation with an entrepreneurial orientation, accelerated training and development, reassessment of the impact of lower remuneration, full implementation of the tender system, multi skilling, more focused customer care training and further research to substantiate the people and customer effects of bus reforms.

## **1 INTRODUCTION AND PURPOSE**

The purpose of this paper is to outline the people and customer effects of bus reforms in South Africa during the past two decades, with particular emphasis on the period after 1994. People refer to employees in bus companies and customers to commuter passengers. It is a very comprehensive topic with many facets, but the focus will be on the most significant effects of reforms in the commuter bus industry. For various reasons very restricted formal research information is available about the people and customer effects of bus reforms in South Africa. This paper is therefore largely based on observations, conclusions from the few related publications, available industry data, information generated through various interventions such as strategic workshops with bus operators and the views of industry experts. It is believed that this paper will underpin the urgent need for more structured research into the two critical themes.

The end of the previous political dispensation paved the way for a magnitude of reforms that should be evaluated in conjunction with the transport policy changes. The overwhelming focus of the new policy environment is on the restructuring of past inefficiencies, elimination of discrimination and redirection of the various distortions. Where the majority of South Africans were excluded from the mainstream economy and society in the previous dispensation, the key focus of the democratic government is to include, uplift and empower them. The bus industry is viewed as a powerful vehicle for this purpose. Tangible results in these two critical areas have been achieved date. This paper will also discuss further areas of improvement.

## **2 BACKGROUND AND POLICY PERSPECTIVE**

The apartheid policy of the pre-democratic dispensation left South Africa with a myriad of distortions and inefficiencies. The dramatic change process in South Africa since 1994 has paved the way for meaningful reform of the public transport industry, which should at least for the purposes of this paper, be viewed as a people and customer driven industry. Although the new democratic dispensation has been in power for almost a decade, the results of political decisions taken in the pre-democratic era still vehemently curtail proactive solutions on the transport agenda. Customers affected by separate development are still largely on the receiving end of these decisions.

The first scars in development patterns based on racial segregation became visible in the era of colonialism when the arrival of whites in the country brought about distinct settlement patterns between the various population groups. This pattern was further strengthened during a period of segregationism, in which discriminating legislation such as the Black Land Act of 1913, the Black Urban Areas Act of 1923, the Slums Act of 1933 and the Development Trust and Land Act further separated people on racial grounds. The Group Areas Act of 1950 can be viewed as the culmination of all previous efforts to separate the population on racial grounds and left the transport planner of today with inefficiencies that include:

- Low density development, spatially dislocated settlements and urban sprawl. The continued use of more land than necessary to achieve a developmental goal, based on the policy of racial segregation, resulted in spatial and mobility inefficiencies of unparalleled magnitude.
- Political decisions to relocate the majority of people to the urban outskirts or so called hinterland, thereby forcing them to make use of apartheid driven commuter transport services, resulted in long commuting distances and times.
- Solutions to enforce political decisions such as municipal bus services for whites only resulted in low occupancy levels, high transport costs and low cost recovery.
- Low density residential development enforces the old paradigm and will not lead to the densities required to ensure the viability of public transport networks. Black commuters are still spatially separated from employment and social and economic activities. (Swanepoel, 2002)

For commuter bus passengers, these inefficiencies resulted in, inter alia, the following negative consequences:

- Excessive travelling distances between dispersed townships and employment nodes.
- Less time to spend at home and for leisure activities due to long travelling times.
- Uncomfortable transfer between modes.
- Overcrowded public transport vehicles.
- A lack of proper facilities at termini and ranks.
- Long queues and waiting times at termini and stops.
- A general decrease in quality of life.
- Insufficient safety.

It is clear that the commuter bus system for black people was created as vehicle to enforce the policy of racial segregation. Passengers had no choice and endured severe inconvenience to themselves and their families. Although the tender system has had positive effects, the macro situation did not change much since the new political dispensation came into being. The majority of commuter passengers are still spatially dislocated and still travel excessive distances to earn a living and to realise social objectives. Against this background perspective, the democratic government took proactive steps to redress past inefficiencies. The challenges facing the public transport industry today should be viewed against the following contradicting paradigms of the previous and present dispensations:

<b>OLD PARADIGM</b>	<b>NEW PARADIGM</b>
• Fragmentation	• Integration
• Supply driven	• Demand driven
• No real incentives	• Operator incentives
• Distortions	• Redirection
• Inefficiencies	• Efficiencies
• No real competition	• Regulated competition
• Monopolies	• Smaller players in competition for the market
• No real customer focus	• Customer driven
• Ad hoc planning driven from the top	• Integrated development planning

It is therefore clear that a steep uphill and exceptionally challenging journey lies ahead. The legacy should be approached from a proactive approach and new solutions need to be created to realise the government’s long term vision. The policy changes inherent to the new paradigm should be viewed against the following two of seven reasons listed by Walters (2003) as “often compelling reasons to fundamentally review” transport policy:

- *A Constitutional change could result in different principles regarding ownership, power sharing between different spheres of government, reliance on market forces etc.* South Africa’s constitution indeed paved the way for meaningful changes across board.
- *Labour issues in the industry could cause a policy review or adjustment that is not always foreseen.* Critical labour issues also necessitated specific policy changes such

as measures against international trends to reduce the impact of competitive forces on employment.

The effects of the reforms will be discussed against the background of the above contradicting paradigms.

### **3 BUS REFORM OVERVIEW**

A brief overview of bus reforms is necessary to conceptualise their impact on people and customers. Bus reforms during the last twenty years took place as a result of policy reforms as well as market forces. The following brief summary puts the reform issue into perspective:

- 1982: The bus industry recorded the highest ever market share of public transport. The growth of the bus industry during the nineteen sixties and seventies should be viewed against the positive economic growth rate and the industrial decentralisation policy at the time.
- 1983 -1987: During this period the rapid growth of the taxi industry resulted in a substantial decline in die commuter bus industry. According to Walters (2001) the bus industry has lost approximately 50% of its customer base since the introduction of the 16-seat taxis.
- 1987-1990: The first bus services were put out to tender as demonstration projects to evaluate the effect of tendering in the South African public transport environment.
- 1996: The bus tender for contract system was formally introduced with the acceptance of the White Paper on National Transport Policy.
- 1997: On 1 April 1997 interim contracts were entered into between bus operators and the Department of Transport. These contracts basically implied a continuation of the status quo funding and operating arrangements until the full implementation of the tender system. Operators relinquished their perpetual (lifelong) permits.
- 1997 onwards: Uncertainties pertaining to transport policy curtail the full and effective implementation of regulated competition.

### **4 GENERAL EFFECTS DURING THE PRE-REFORM ERA**

Some significant people and customer effects took place long before the formal introduction of the tender system. The declining bus passenger volumes due to the rapid growth of the taxi industry resulted in, inter alia:

- Declining profitability
- Reduced supply of bus services
- Retrenchment of people
- Organisation restructuring, consolidation and rationalisation
- A much stronger focus on cost reduction

The decline in the bus industry also created a great deal of uncertainty and resulted in an exodus of skills. A large number of management and specialised staff realised the negative effects of the decline of the bus industry on their continued career prospects and accepted employment outside the industry. Survival has become a central point of debate at industry association meetings, strategic planning workshops and operator Board meetings. In the meantime, the realities of the competitive environment and the implementation of the tender

system created further uncertainty. Operators realised that they could lose their businesses if they do not conform to the rules and realities of the competitive environment. The Southern African Bus Operators Association (SABOA) took proactive action by preparing and empowering its members for the new environment through a series of interventions aimed at fundamental reform.

It can therefore be concluded that the bus industry has already been under pressure long before the tender system was formally introduced in 1996. The remainder of this paper will critically focus on the effects of the tender system on people and customers.

## 5 EFFECTS ON THE NUMBER AND SIZE OF OPERATORS

The changes pertaining to the number and size of operators have an effect on both employees and customers. There has been a considerable increase in the number of bus operators in recent times. With the design of tenders, preference is given to smaller tenders in an effort to accelerate the empowerment of small medium and micro (SMME) operators. SABOA, which represents the majority of bus operators, has the largest numbers of members since its inception. The following membership profile indicates the dramatic increase in small bus operators since the introduction of the tender system in 1996:

<b>SABOA MEMBERSHIP</b>		
<b>Category</b>	<b>1996</b>	<b>2003</b>
<b>1 - 30 buses</b>	95 (74.8%)	420 (95.2%)
<b>31 and more buses</b>	32 (25.2%)	21 (4.8%)
<b>Total members</b>	127	441

Source: Mr Eric Cornelius, SABOA

Based on the industry's definition of a small bus operator as owning less than 30 vehicles, 95.2% can be classified as small bus operators. Of the present members, an overwhelming 90% of members have 10 and less buses. The figure can even be higher due to the fact that it was not possible to get reliable data from the smaller bus industry associations.

## 6 SIGNIFICANCE OF PEOPLE AND CUSTOMER ISSUES

Based on detailed scenarios developed for the bus industry, the following assumptions support a much more customer and people focused approach:

### 6.1 PEOPLE ASSUMPTIONS

- Organised labour will continue to exercise major influence on the labour market.
- More highly skilled people, especially in government and the formal sector, will become unemployed. Some will become entrepreneurs and enter the small business sector.
- There will be an increase in empowerment projects, which will create business opportunities for SMME's.
- Due to the increased focus on entrepreneurship, there will be an increased need for SMME support.
- Innovation will become a standard requirement for survival in the new environment. Bus and taxi operators in particular will be required to innovate to stay in business.
- Competitive forces in the market will necessitate an increase in labour productivity.

- The virtual organisation will gain further momentum and practices such as outsourcing will increase.

## 6.2 CUSTOMER AND MARKET ASSUMPTIONS

- Throughout the world, customers are much more informed on the market, products and tendencies and will become more demanding. Clients will generally have much more choice, which will increase competition between service providers.
- Empowerment initiatives implemented in the post democratic South Africa resulted in higher aspirations, which have a direct impact on customer demands. It is expected that customers will become even more demanding in terms of quality, safety, on-time delivery and price.
- As a result of empowerment initiatives, more people will be able to buy cars, which will have a further negative impact on the bus industry.
- International experiences pertaining to public transport highlighted the direct relationship between increased customer focus and increased passenger volumes. Failure to customise services according to customer needs will lead to a further decline in the bus industry.
- The overwhelming majority of public transport users in South Africa are historically disadvantaged South Africans (HDSA's). No real empowerment of these people can be achieved if transport as their only means to access the labour market to earn a living is not customer focused.

It has therefore become clear that a people and customer driven approach is the only viable solution to increase the market share of the bus mode. In a fiercely competitive environment where survival has become a core business focus, there could be a tendency to pay less attention to the so-called soft issues. Bus operators realise the importance of people and customers, but sometimes don't have sufficient financial resources to be proactive and to strengthen their focus.

## 6.3 KEY SUCCESS FACTORS

During various interventions with bus operators, the industry identified ten key success factors relevant to the competitive bus transport environment of which at least the following six are directly people and customer driven:

- 1 Shared labour/management vision.** Management and labour should agree on key issues.
- 2 Customer focus.** The needs of customers should receive priority attention.
- 3 Community partnership.** Partnerships with the community are essential to render a service in accordance with the requirements of the community.
- 4 Organisational efficiency.** The organisation at all levels should be efficient.
- 5 Effective communication internally and externally.** Communication with all stakeholders should be focused and effective.
- 6 Skills development.** Skills development is critical for survival in the new competitive environment.

The scenario parameters and key success factors provide a more focused platform to evaluate the most critical people and customer effects of the tender system.

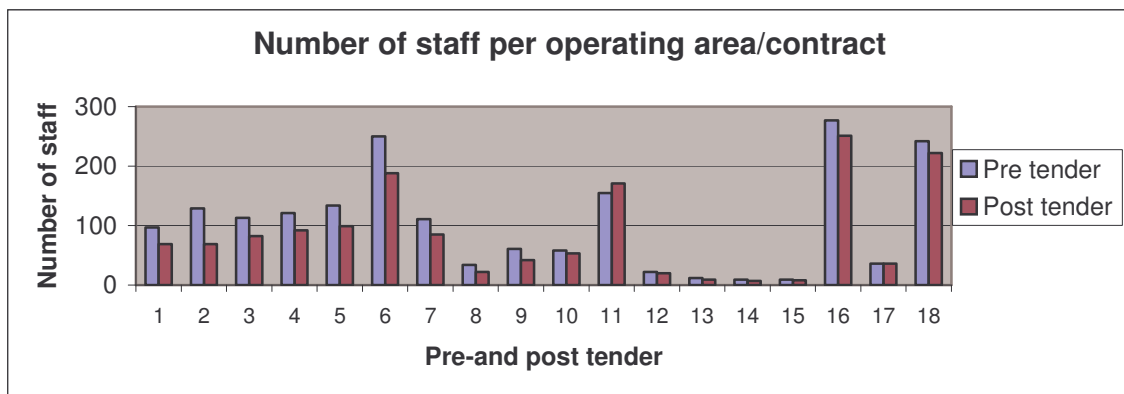


## 7 SPECIFIC PEOPLE RELATED EFFECTS

### 7.1 EFFECTS ON ORGANISATION STRUCTURES AND SIZE

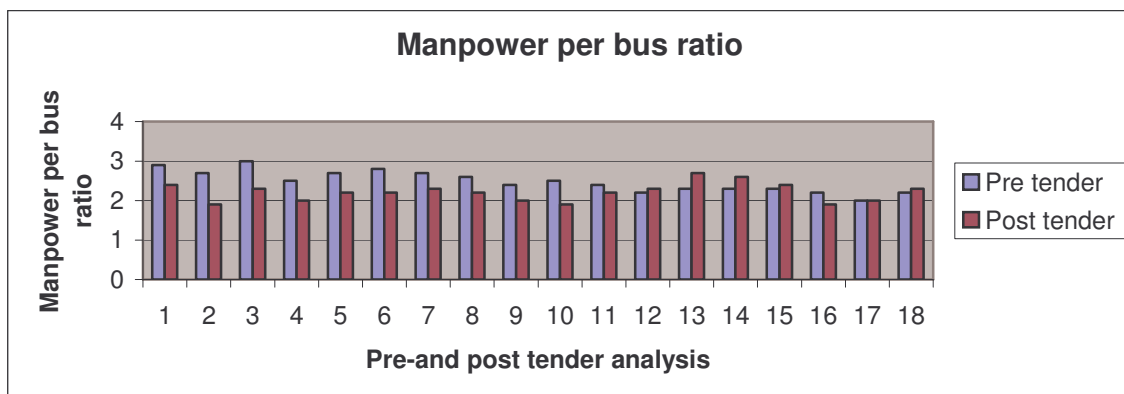
As a general rule, post tender organisation structures are flatter with less reporting lines. Ten to fifteen years ago, people to bus ratios of 3-5:1 were not uncommon. Within such a structure it was possible to accommodate support functions such as human resource management, marketing, customer relations, organisation and methods, business development, etc. The introduction of the tender for contract system, spiralling cost structures and other considerations resulted in major rationalisation and subsequent phasing out of these support functions. Within the current ratio of around 2.2 people per bus, it is hardly possible to accommodate any of the former support functions.

Walters (2003) outlines the pre- and post tender effects on employment per company for 18 operating areas/contracts analysed in the following graphs:



Source: Walters (2003)

It is clear that in most of the operating areas/contracts there was a substantial reduction in the number of people employed. More substantial evidence of the reduced employment is showed in the next graph that depicts the man to bus ratios in the 18 contracts surveyed:



Source: Walters (2003)

A substantial reduction in the majority of contracts is evident. Walters states that “The improvement in the ratio is the result of better use made of existing employees by rationalizing existing activities, the implementation of improved management techniques, as well as (in some cases) the outsourcing of functions such as vehicle cleaning and aspects of

bus maintenance. In one company, heavy maintenance functions that were previously undertaken at depot level were centralized at one depot, and the other facilities closed down.” The overall reduction in the ratio of 12,5% should be viewed as significant and reflects an increase in productivity. The reduction in the ratios should however, be evaluated in the context of the following considerations:

- **Subcontracting.** Subcontracting of services to small bus operators forms part of tender conditions.
- **Outsourcing.** Outsourcing of the non-core transport functions such as security, maintenance and repair work has increased in recent times. This tendency further reduced man to bus ratios and formal employment in the bus industry.
- **Insourcing.** Operators who cannot afford costly resources insource the required expertise such as human resource management, financial expertise and other specialised services.

## 7.2 EFFECTS ON EMPLOYMENT

In a country where job creation is urgently needed, the substantial number of retrenchments during the past five to ten years is alarming. Employment has reduced substantially during the past two decades. Traditional careers in the bus industry have also changed substantially during the said period. A substantial reduction in formal employment resulted in fewer opportunities for promotion and career advancement. Most senior officials employed in the remaining large operations have been in their present positions for a decade or more, not because of skills deficiencies, but simply because upward career mobility effectively came to a halt. Furthermore, the overwhelming focus on Black Economic Empowerment substantially limited career prospects for a white person in the bus industry.

In an analysis of job losses amongst 18 operating areas/contracts that were investigated by Walters (2003) it was found that 2878 people were employed in these operations prior to the tender system, while only 2392 remained employed after the tenders were awarded. This implies a 17% reduction in formal employment. It should be stated that considerable rationalisation took place during the years prior to tendering, which makes the longer term job reduction (five to ten years) more significant. The jobs that were lost in the pre- and post tender evaluation were mainly due to “the re-scoping of the services by the transport authority, the sub-contracting and outsourcing of activities and the improved utilization of staff.” The traditional concept of lifelong employment before the tender system has been replaced with 5 year contracts at reduced remuneration structures. On the positive side it should be stated that some former employees in the bus industry have become successful entrepreneurs and exploited bus tender opportunities while others became involved in outsourcing.

## 7.3 EFFECTS ON LABOUR COSTS

The tender system has had a dramatic impact on the remuneration of employees. As a result of the competitive market forces, labour costs became the most significant competitive advantage. Manpower costs amount to between 35 and 45% of total operating cost and capitalising on the reduction of these costs is understandable, especially in view of the limited leverage that operators have on the reduction of other cost parameters. In most tenders, fringe benefits were largely reduced and now constitute the minimum prescribed by

law. Previously fringe benefits comprised a substantial portion of basic salaries, but as a result of market pressures these benefits have been reduced to the minimum prescribed by law (around 15%).

In general it was found that large operators entering the tender system were not competitive and had to introduce substantial reductions in manpower costs. “In practice, this means that employees that have been working in the industry for a long time have had to make the largest sacrifice in terms of benefits and salaries. In some instances the wages of current employees have been reduced between 37% and 71% in order to become competitive in the market” (Walters, 2003). With a downward trend in remuneration, it has become increasingly difficult to attract high calibre staff to the industry. With less numbers of people employed, it becomes more challenging to serve the customer.

**7.4 PERSPECTIVES ON THE EFFECTS AND IMPLICATIONS OF ORGANISED LABOUR**

Concerted efforts were made during post democratic reforms to remove all discriminatory practices from labour legislation. Organised labour vehemently resists any form of reform that could lead to further job losses, or weaken the benefits of workers. From a business perspective, their argument is simple: more employees, more members, more income. From a policy perspective, the argument is more relevant. Solid arguments are raised by labour such as the fact that bus reforms contradict national priorities, for example job creation. A comparison between macro labour policy and the present application of the tender system revealed the following labour responses:

<b>MACRO LABOUR POLICY</b>	<b>APPLICATION OF TENDER SYSTEM</b>
Promotes labour peace	Reduced labour peace
Promotes centralised bargaining	Discourages centralised bargaining
Protects union rights	Loss of union rights
Promotes employee participation	Reduced employee participation
Improving quality of working life	Reduced quality of working life
Increasing training and development	Reduced training and development
Improving work prospects	Reduced work prospects
Promotes workplace safety & health	Reduced workplace safety & health

Source: Heyns (2002)

Due to increased pressure from labour, a Tripartite Agreement was entered into between government, the industry and organised labour. The primary purpose of this agreement is to reduce the impact of reforms on labour, which includes certain conditions that reduces the competitive element of tendering such as restrictions on retrenchments, protection of existing employees and the establishment of an industry retrenchment fund. Job retention and remuneration are viewed as the key issues.

Work of considerable magnitude has been done by SABOA to resolve the labour issue. Initiatives include the development of three distinct models or remuneration alternatives to tenders, namely: Model A: An **all lower** approach with no prescribed minimums, Model B: An **all lower** approach with prescribed minimums and Model C: A **non lower** approach. Although a non lower approach is preferred by labour, the pro’s and con’s of the

contradicting alternatives should be taken into account as depicted by Heyns (2003) in the following model:

IT'S ALL ABOUT CHOICES  
EACH WITH PRO'S & CON'S

- **MODEL A - ALL LOWER (No minimums)**
- **Low tender prices = low subsidy = low cut-backs = low job losses = high drop in wages & benefits**



- **MODEL C - NONE LOWER**
- **High tender prices = high subsidy = high cut-backs = high job losses = low drop in wages & benefits**

Walters (2003) concludes: "One of the unintended policy outcomes has been the fact that labour has become the 'ham in the sandwich'. As labour is such a high cost component within the overall cost structure in the commuter bus industry, for the reasons mentioned in the paper, this was not entirely unexpected. Companies are in fact compelled to reduce their labour cost component just to stay in business when faced with low-cost new entrants. These entrants generally pay much lower wages and their employees have not been working for them for so many years, when compared to the established operators." The key success factor **shared management/labour vision** therefore becomes much more relevant.

## 7.5 BLACK ECONOMIC EMPOWERMENT (BEE)

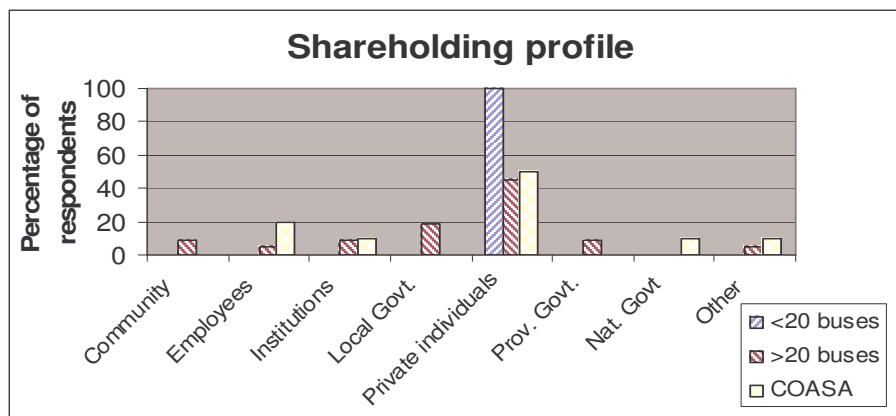
BEE, an overarching national policy, should be viewed as an integral part of bus reforms. It is no overstatement to conclude that BEE has become the single most significant and burning people issue on the South African policy agenda. Due to historic realities of a largely "white owned industry" and perceptions that still prevail of "insufficient transformation within the bus industry", BEE has become much more prominent on the bus reform agenda. The general reform policy of South Africa reached new momentum with the publication of the BEE Commission's report. Provision is made for 7 distinct measures, namely HDSA skills development, HDI ownership, joint ventures, participation in management, employment equity, development of SMME's and emerging contractors, community participation and BEE procurement. The BEE Commission's Report contains the following overarching targets to be achieved within a period of 10 years, in which Black women must account for 35% of all the targets and disabled persons must account for 5% of all the targets, according to Heyns (2003):

- At least 30% of productive land must be in black hands.
- Black equity participation in EACH sector of the economy should be increased to at least 25%
- Black people should hold at least 25% of the shares of companies listed on the JSE.
- At least 40% of non-executive and executive directors of listed companies should be black.
- At least 40% of senior and executive management in private sector companies (with more than 50 employees) should be black.

- At least 30% of private sector procurement should be to black-owned companies.
- The financial sector should divert a minimum of 10% of its total assets towards productive investment in areas of national priority.

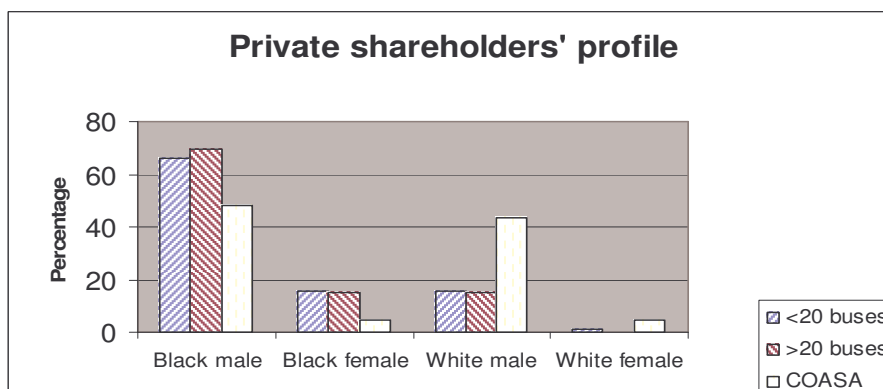
The South African bus industry took proactive action and implemented various initiatives to accelerate BEE. Tangible results have been achieved according to a comprehensive survey by SABOA (2003). Although the survey did not include the entire industry, responses from 69 operators are viewed as significant to assess the progress made to date. As stated, very little formal research information is available. Due to the limited scope of this paper, only a number of the most significant results are reported. The following graphs indicate the shareholding profile in three categories, namely commuter bus operators with less than 20 buses, commuter bus operators with 20 and more buses and coach operators (COASA):

The first graph depicts the general ownership profile. It is clear that private individuals own by far the majority of bus operations in South Africa.



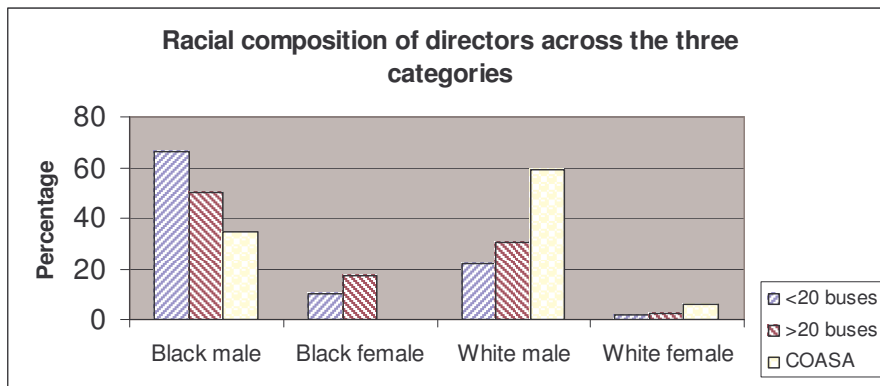
Source: SABOA 2003

From a BEE perspective the private shareholder's profile in the next graph is significant. There is also a strong argument to conclude that provincially and local government owned operations are also BEE transformed, as the government is no longer white controlled. The traditionally "white owned" bus industry of 20 years ago has therefore been successfully transformed in terms of ownership.



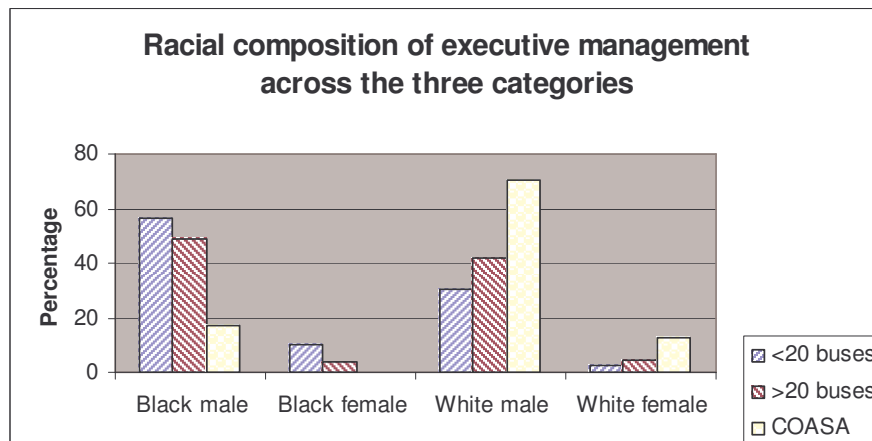
Source: SABOA (2003)

The next graph indicates the racial composition of directors the three categories:



Source: SABOA (2003)

The racial composition of executive management, which reflects the BEE category “BEE participation in management”, can be illustrated as follows:



Source: SABOA (2003)

It is therefore clear that considerable progress has been made compared to a few years ago. Although there is still much room for improvement, decision-making in the bus industry is no longer white dominated.

Employment equity, as depicted in the next graph, indicates that 94% of all employees currently employed in the bus industry are historically disadvantaged South Africans.

Employment equity in the bus industry								
	Black male		Black female		White male		White female	
<b>Current status</b>	13923	87.6%	1014	6.4%	800	5.0%	155	1.0%
<b>Intended target</b>	11727	75.7%	2152	13.9%	940	6.1%	671	4.3%

Source: SABOA (2003)

Despite the BEE progress made to date, small operators are still faced with barriers to entry such as insufficient empowerment, limited trade records, difficulty to secure funding and other factors. SMME empowerment does, however, receive priority attention. To further the

BEE process in accordance with policy requirements, the industry took proactive action by developing a scorecard approach to objectively assess BEE.

<b>SCORECARD MEASURE</b>	<b>WEIGHT OF MEASURE</b>
Ownership	10
Control at Board level	5
Control at Executive management level	5
Control at shareholder level	10
Employment equity: Supervisory management	6
Employment equity: Female and disabled employees	4
Skills development	15
Preferential procurement	15
Enterprise development	20
Social development	10
<b>TOTAL SCORE</b>	<b>100</b>

Source: SABOA (2003b)

Once approved by government, such a scorecard will be an objective measure to determine the progress made by operators with BEE. It can be concluded that considerable progress has been made by the bus industry to actively promote Black Economic Empowerment as a burning people issue.

## **7.6 EFFECTS ON TRAINING AND DEVELOPMENT**

Despite concerted efforts to accelerate training and development in the bus industry, skills development has actually declined in recent years. Most of the training was done by the 5-10 larger operators. The bus industry and especially the (former) larger operators actually have a proud record of training and development. Some of the larger operators implemented development programmes during the nineteen eighties that resulted in the increased career mobility of especially Historically Disadvantaged South Africans. Large numbers of people progressed from entry level to supervisory and management positions. However, due to the competitive forces, most of these proactive practices have been scaled down or discontinued.

As a result of the competitive forces in the market, training was significantly reduced in an effort to secure tenders based on reduced costs. With reduced labour cost as a major competitive advantage, most tender proposals do not contain any meaningful provision for skills development. Large operations are broken up into smaller entities and training is sacrificed in the process. Large numbers of trainers were retrenched and operators who still do training focus on the bare essentials such as driver training. Some training departments of former larger operators were closed down, or rationalised to such an extent that meaningful training over the broader spectrum is no longer possible. It has become common practice to recruit (poach) trained staff rather than training internally. Such practices are short term survival solutions and are not sustainable over the longer term. Only limited numbers of skilled staff in specialised categories such as operational and technical management are still employed and recruitment of trained staff from other operators is no longer feasible. With the overwhelming focus on cost reduction it is also no longer possible to attract the right calibre of staff to bus operations.

As a result in the decline in training activities at operator level the industry took proactive action through the development of various empowerment models and focused training initiatives in the areas of driver, technical and operations and small bus operator training. Two major initiatives were introduced, namely the SABOA Development Foundation and the MAN Business Academy. These non-profitable organisations (Section 21 Companies) are proactively addressing the skills shortage and furthering the broader BEE agenda in the road transport industry. The Transport Education and Training Authority (TETA) recently introduced learnerships in road passenger transport management and also provide substantial operator incentives for increased skills development activities. Through initiatives such as discretionary grants and a grant/levy system whereby a substantial amount of training expenditure is funded by TETA, skills development is actively promoted.

## **8 SPECIFIC CUSTOMER EFFECTS**

### **8.1 CUSTOMER POLICY PERSPECTIVE**

South African public transport policy is very clear on the important issue of customer care. The following customer-based policy statements are contained in the White Paper on National Transport Policy:

- To ensure that passenger transport services address user needs, including those of commuters, pensioners, the aged, scholars, the disabled, tourists, and long distance passengers.
- To improve accessibility and mobility, limiting walking distances to less than about one kilometre in urban areas.
- To provide an appropriate and affordable standard of accessibility to work, commercial and social services in rural areas.
- To ensure that public transport is affordable, with commuters spending less than about 10 percent of disposable income on transport.
- To promote safe and secure, reliable and sustainable passenger transport.
- To provide readily accessible information for the assistance of passenger transport users.

The Moving South Africa Action Agenda is also very pertinent about the customer. The action agenda proposes the following customer related solutions:

- **Create customer-facing systems** - Orient actions around customer rather than modal groupings.
- **Enhance customer power** - Improve the ability of customers to demand high levels of service and to capture the benefits that flow from the *Action Agenda*.

The competitive environment created by the new policy resulted in the introduction of various measures of increased customer value. Although a key focus is cost reduction, and eventually more competitive passenger fares, the penalty system reflects a large number of characteristics that create more value for the customer. A few of the most significant measures are listed below:

- Failing to provide specified trips.



- Providing trips that depart late or early
- Vehicle breakdowns
- Failing to display correct destinations.
- Failing to pick up or set down passengers at authorised stops.
- Vehicles in an unsatisfactory condition, such as dirty on the out- or inside, not in good state of repair and missing, broken or wet seats and broken or missing doors.
- Deviating from routes.
- Failing to provide the right type, quality and age of vehicle as specified in the tender forms.

## **8.2 DIRECT EFFECTS OF THE PENALTY SYSTEM**

It can be concluded that customers making use of contract bus services have benefited in the following ways:

- Less breakdowns and improved reliability
- A more punctual service. Services are generally more on time.
- Improved vehicles. In the stated evaluation of the South African tender system Walters (2003) shows that the fleet age profile has improved from 13 prior to the tenders to 6 years after the tenders were awarded. The large numbers of new and refurbished vehicles made the service more attractive and resulted in increased passenger volumes, which indicate increased levels of customer satisfaction.
- Improved safety as a result of newer and better maintained vehicles.
- Improved quality of the service.
- Increased performance on most other measures contained in the penalty system.

## **8.3 EFFECTS ON THE SUPPLY OF BUS SERVICES**

Walters (2003) concludes that the numbers of passengers per bus were in most cases higher if compared to the situation prior to the tender, which is the result of two factors. Firstly, as a result of rationalisation, fewer buses were available on a route or network resulting in increased utilization. "Secondly, due to improved services in the form of newer buses, more reliable services and improved monitoring through the monitoring companies, passengers have been attracted to the services; hence the higher load factors per bus. The number of passengers per bus has increased substantially (12,2%) compared to before the tenders were introduced. This fact, linked to the increased usage of the buses indicates that overall system efficiency increased." The overall increase of 4,2% in passenger numbers further substantiates some degree of customer satisfaction.

However, due to a lack of funding, it has become very difficult to render services to people in remote settlements with low densities. Trips with less than 45% capacity are withdrawn. Although such a decision makes business sense, it has a significant impact on people in these areas. It can be assumed that bus routes with low densities could be taken over by taxis, but taxi operators are reluctant to operate routes on gravel roads. Within the kilometre based contract it becomes increasingly difficult to secure additional funding to finance growth. Some operators accommodate such growth within their own budgets. Various cases have been reported where additional trips were introduced to meet customer demands. Due to non payment by the transport authority for such additional services, operators only

received the cash fare, which constitutes on average between 30 and 50% of the total fare. Such operations are highly unprofitable for the operator.

It is therefore clear that customers making use of tendered services benefited. However, due to limited supply in some cases, some passengers were compelled to revert to other and less reliable and safe modes of transport.

#### **8.4 EFFECTS ON OPERATIONAL SYNERGY**

The demarcation of traditional large operating areas into smaller operating areas through the tender design (to make provision for smaller operators) could also have possible negative effects on overall network synergy, although more substantial evidence is required to verify this assumption. Breaking a large operator up into 4 or more smaller units could lead to reduced control over network integration within the larger area. Total efficiency of the reformed bus operations with smaller operating entities has become a point of debate, which indicates concerns in the industry. In a fiercely competitive environment, operators are hesitant to accept responsibilities outside their smaller operating areas.

One can further argue that the different components of integration, namely service, network, ticket and timetable integration could have negative customer effects, for example in cases where new networks include additional transfers between modes and operators. Attempts are, however, made in the design of tenders to improve operational efficiency. Practices such as subcontracting play a key role in assisting smaller operators to maintain operating standards. In the subcontracting relationship the large (lead) operator accepts the overall responsibility for the service while structured guidance and support are provided to the smaller operator (subcontractor).

#### **8.5 EFFECTS OF DOWNSIZING**

In a downsized organisation, empowered employees become a prerequisite for business success. The substantial shortening of the supply chain implies less people to do the work, for example:

- Less numbers of operational staff to focus on the customer, for example points controllers at termini and ranks.
- Less corporate staff to focus on marketing, customer relations and other support services.
- Less funds to train people and to attract competent staff to the bus industry.

The situation is aggravated by a much more demanding customer who demands more value for money. The former fairly stable bus industry of the early nineteen eighties has developed into a battlefield focused on survival.

## **9 CONCLUSIONS**

Finally the following conclusions can be drawn from this brief assessment of people and customer effects of bus reforms in South Africa:

### **9.1 PEOPLE EFFECTS**

#### **9.1.1 POSITIVE EFFECTS**

- More tangible delivery on the BEE agenda
- Increased entrepreneurship
- Some employees successfully exploited tender and outsourcing opportunities
- A realisation of the competitive forces in the market and proactive action taken by SABOA
- A shift in focus towards competitive business principles at operator level
- Increased productivity of labour resources
- A general increase in resource productivity and smarter work methods

#### **9.1.2 NEGATIVE EFFECTS**

- Reduced formal employment. Bus reforms resulted in huge job losses at a time where job creation is urgently needed.
- Reduced remuneration levels
- Loss of job security and limited career advancement
- Doubtful practices of some SMME operators
- Fierce labour resistance
- A demoralised workforce
- Reduced training and development activities
- Reforms further resulted in an exodus of skills
- The small bus operator is still not sufficiently empowered

### **9.2 CUSTOMER EFFECTS**

#### **9.2.1 POSITIVE EFFECTS**

- Newer buses and enforcement of the penalty system resulted in improved service reliability
- A more punctual service
- New technology has a positive impact on customer friendly aspects such as noise levels
- Improved comfort and safety
- Passengers making use of tendered services received higher quality of services
- Increased passenger volumes within tendered services
- Customers have become more empowered and demand quality services

#### **9.2.2 NEGATIVE EFFECTS**

- The delayed implementation of the tender system effectively delays the customer benefits outlined in this paper
- Insufficient funding curtails further implementation of the tender system
- Unprofitable but socially important routes were withdrawn
- Insufficient supply of tendered services could force passengers to make use of other modes that are less reliable and safe

- Smaller operating entities have some negative effects on service integration, although more empirical evidence is required to substantiate the extent of this conclusion.

## **10 PROPOSED SOLUTIONS**

Based on the contents and major conclusions of this paper, the following solutions are submitted for consideration:

- It is clear that any solution should be implemented with the full support of labour. However, labour should be made aware of the fact that market forces result in a decline in traditional formal employment in the bus industry. The career orientation should be replaced with an entrepreneurial orientation.
- The negative effects of using labour as competitive cost advantage should be offset against the difficulty to attract high calibre staff to the bus industry. High calibre trained staff is mandatory in realising long-term objectives.
- Training and development should be expedited. Institutional frameworks for learnerships are in place and should be optimised. It is clear that multi skilling is one of the most viable solutions to resolve most of the key issues addressed in this paper. With the extent of rationalisation that took place, specialisation in most functions is no longer possible and people should be empowered to carry out a variety of related tasks.
- Customer care training at operator level in particular should receive more attention. Staff in general is closer to the customer interface and a much more customer focused approach is deemed necessary.
- Further development work is required to refine empowerment models such as subcontracting and franchising schemes. Some of the existing models, for example driver ownership schemes, have been discredited as being “exploitive.” More credible and effective empowerment models and solutions are required for South Africa’s peculiar circumstances.
- The funding restraints should be addressed at government level to ensure full implementation of the tender system. Without full implementation, long-term objectives in terms of public transport market share will not be achieved. It is therefore recommended that the tender system be fully implemented.

Finally it is evident that much more focused research into the people and customer effects is required to draw valid conclusions on these two key issues. Evaluating these effects more substantially against the long term vision of government will provide more ample evidence to fully and effectively implement the tender system in accordance with the needs of key stakeholders and within the ambit of overarching national policy such as BEE.

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**Information provided by industry experts:**

The author is also greatly indebted to the following industry experts who provided information:

- Prof J Walters, Transport Economist and Chairman: Department of Transport and Logistics Management, RAU.
- Mr E Cornelius, Executive Manager: Southern African Bus Operators' Association.
- Messrs D van der Merwe and W van Breda, South African bus operators.

**12 GLOSSARY OF TERMS**

BEE: Black Economic Empowerment

COASA: Coach Operators' Association of Southern Africa

HDI: Historically disadvantaged individuals

HDSA's: Historically disadvantaged South Africans

MSA: Moving South Africa, the government's transport strategy for 2020

SABOA: Southern African Bus Operators' Association

SMME: Small, Medium and Micro enterprise

TETA: Transport Education and Training Authority

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