THE NEED FOR REGULATORY AND OWNERSHIP CHANGE IN THE ROAD PASSENGER SECTOR – THE CASES OF BARBADOS AND SRI LANKA

DAVID GREENWOOD
International Transport Consultant,
Greystones International Transport Consultancy, Peyia, Cyprus

C C ROBERTS
Senior Lecturer in Transport, Liverpool John Moores University, UK

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ABSTRACT

Changes to the ownership and regulatory regimes in developed countries have been well explored by many authors, but a hitherto less studied aspect is the need for change in the developing world. This paper reviews one co-author’s recent experience in two countries – Barbados and Sri Lanka. The empirical evidence identifies a range of characteristics with a number of key themes emerging. Significant amongst these are the roles of politicians in tacitly accepting unsustainable positions, combined with an inability of bus company managers to bring their influence to bear. The positions in those two countries are compared with the outcomes in the British market, and observations made with regard to the degree that expatriate expertise (and possibly personnel) would be able to make an impact. It is concluded that, although such expertise may help in the short term, the key issue is one of politicians and managers having the will to confront the problems which face them. A transfer to private sector ownership may facilitate this.

1 INTRODUCTION

The ownership and regulatory reforms of the British bus industry in the 1980s have created the industry which exists today, one in which many of the pre-existing problems have been resolved, but one in which, nevertheless, other issues remain. Aspects of the British experience have been transferred overseas through an interchange of management and consultancy personnel. Some similar issues are evident there, but each market has its own particular characteristics which prevent a ‘one solution fits all’ model being applied.
One of this paper’s co-authors, with many years of experience in the British bus industry, had the opportunity to work in two such countries and was able to observe and, to some degree, influence policy. It is observations recorded during these periods which form the basis of the data used within this paper. The aim is to examine the policies followed in Barbados and Sri Lanka, to identify potential solutions to the problems which remain, and to reach conclusions concerning the transferability of policies between countries.

The paper begins with a very brief overview of regulatory and ownership change within the British market. In sequence, the next two sections then provide an overview on operations in Barbados and Sri Lanka. The analysis consists a series of comparisons between these two countries with the British experience to allow conclusions to be reached.

Gwilliam (2003), in a previous paper in the Thredbo series, used Sri Lanka as one of his examples when examining the implementation of franchising systems in developing and transitional economies. This paper, by virtue of its primary data source, places the emphasis at the level of operational management, rather the more strategic approach taken by Gwilliam.

2 BRITAIN

A summary of developments within the British market over the last 20 years is provided in table 1, in order to provide a framework against which the experiences of Barbados and Sri Lanka can later be compared.

<table>
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<tr>
<th>Pre-1986 issues</th>
<th>Regulatory and ownership changes</th>
<th>Outcomes</th>
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| Decline of market for bus services. | Replacement of Road Service Licensing by statutory service registration (outside London).  
Rising costs of service provision, with resultant pressure on fares.  
Stringent regulation of services and fares.  
Lack of incentive on operators to innovate. | With very few exceptions, all bus companies are now in the private sector, with the majority being owned by a small number of major groups. |
| | Subsidy only for services that would otherwise cease in the free market; must have gone through competitive tendering.  
Sequential privatisation of all sectors of the industry in Britain.  
Introduction of route tendering in London. | Outside London:  
Continued decline for bus services, although with some notable exceptions.  
Subsidy reduction, cost reduction and fares increases in real terms. |
| | | London:  
Increase in passenger journey numbers.  
Fares increases (though more recent drop).  
Subsidy reduction and cost reduction, though more recent increases. |

Regulatory and ownership changes in Britain have been examined in a large number of previous papers in the Thredbo series. Preston (1999) provides a synopsis, whilst a co-author of this paper presented the then current position of the British industry at the last Thredbo conference (Roberts 2003a).

Endorsing a comment made in the latter paper, the industry has remained extremely stable in terms of its ownership form. In contrast to the volatile ownership change pattern between 1986 and (approximately) 2000, ownership changes are now rare events. This stability, and a virtual cessation of competition in all but a few locations, has brought about an increased level of investment in new vehicles in comparison with that which had been the norm in the first ten years or so after deregulation.

3 BARBADOS

3.1 Background

Barbados is a small Caribbean country of only 430km². It was a British colony for 329 years until it gained independence in 1966. It is a democratic country and, since independence, the two main political parties have alternated in government, generally serving two consecutive terms, although the present government is in its third term. All political parties are left of centre. The country’s economy has traditionally relied on sugar, rum, electronic goods, clothing and cement, which have been exported in large quantities. However, over the last two decades, tourism has grown to become the largest earner of foreign currency. It has a population of 266,000, nearly half of whom are domiciled in and around the capital Bridgetown. Oistins and Speightstown are the only other significant centres of population but the island is liberally dotted with villages, with the remainder of the population fairly evenly spread. This paper’s co-author was engaged by the government of Barbados between 1997-1999.

3.2 Bus operations

The Barbados Transport Board is a state-owned corporation that was formed in 1955. It owns in the region of 250 buses, most of which are full-sized single deck vehicles. The company has never returned a profit and is currently running annual losses in the region of USD13m. Private sector companies collectively own 228 23-seat minibuses and 266 10-seat Route Taxis, which are based on Toyota Hiace vans. These operate as buses along predetermined routes. In addition, there are 1220 taxis and 1860 hire cars – extraordinarily high numbers for such a small country.

There is far less transport legislation and regulation than would be found in a developed country, and what does exist is largely or selectively ignored. However, fares are controlled by the government and rarely increase. Nevertheless, the private sector is not financially supported although it is thought that fare levels are insufficient to sustain capital and revenue expenditure and without fares increases it is thought that vehicle replacement and even maintenance will suffer. Route Taxis already have a poor safety record.

The private sector operates when it is commercially prudent and its buses often run immediately in front of Transport Board buses. Where each provides two buses an
hour, this does not produce a fifteen minute frequency but a thirty minute frequency with each operator jostling for patronage.

3.3 Observations

The Barbados Transport Board is, and since its inception always has been, grossly inefficient. It employs far too many staff, pays well in excess of market rates to manual employees, but below market rates to managers. It has a poor standard of vehicle maintenance and is never able to provide a full operational service. Decisions are made on a political basis, rather than from a commercial or managerial perspective. Many managers lack suitable qualifications or experience.

The average lifespan of buses is less than one quarter of what it would be if they were maintained properly. The engineering section is grossly over-staffed, and skill levels are low here as well. At the start of the co-author’s attachment to the company, it was observed that there were more buses out of service than in service. Over one hundred buses had been consigned to a status known as “awaiting parts”. In reality, these were unfit ever to return to service again, indeed some of these buses were in various states of decomposition and had suffered considerable cannibalisation.

Traffic management was non-existent and the relationship between the employees and their managers could best be described as being in a state of anarchy.

The World Bank (1984) and Headway Associates (1984) had, some years earlier, separately produced reports outlining managerial deficiencies. In subsequent years, reports have been produced by Buchanan (1994), Shorey (1996), and the co-author (Greenwood 1998) all of whom have reported similarly on the main deficiencies. There seems to be a tendency at governmental level to commission an investigation as a delaying tactic, but then show reluctance to accept the advice that has been offered.

At various times over the last decade, the government has stated that the deficit funding was to stop and that the company would have to be managed efficiently, in the absence of which it would be privatised. However, on none of these occasions has the government been prepared to take the difficult decisions emanating from such a policy and so has allowed things to carry on as they always have.

3.4 Outcomes

There is a range of outcomes which have resulted:

1 Unemployment is lower than it would be if the government-owned corporation operated efficiently (although of course it could be maintained that an efficient country would attract more foreign investment and so reduce unemployment). The government has a certain amount of pride that its state-owned company looks after its population by providing employment in this way, and is critical of countries elsewhere (eg USA) which it claims do not.

2 Bus passengers receive a poor level of service.

3 Taxpayers contribute more to keeping the company afloat than would be the case if it were operated more efficiently.
4 The trades unions exert a considerable amount of power at all levels of the
organisation, and have influence within the government.

4 SRI LANKA

4.1 Background

Sri Lanka is a 65,000km² island off the south eastern tip of India. The country does
not have any motorways and many of its roads are primitive. The main roads are
adequate but are only suitable for slow traffic. Accordingly, many journeys take four
or five times as long as similar length journeys would take in Europe.

Ceylon, as Sri Lanka was known until 1972, was a British colony from 1802 until
1948 when it became a self-governing dominion within the British Commonwealth.
It adopted a presidential constitution in 1978. Most political parties are left of centre
but political stability has been difficult to achieve. A civil war existed from 1983
until 2002, although there remains an uneasy peace.

The country has a rich diversity of industry and its exports include tea, rubber,
gemstones, textiles and clothes. There has been an average of 4% growth over the
last decade but the country consistently runs massive budget deficits and is reliant
upon foreign aid. Per capita income is less than USD2000. The capital, Colombo,
has a population of four million and there are significant populations in Kandy, Galle,
Negombo and Jaffna.

4.2 Bus operations

The state-owned bus companies own in the region of 10,000 buses, employ about
60,000 people and have nearly 100 bus garages. They sustain large losses and
without constant state funding would close down immediately. The vehicles that
have long been purchased are Indian-built vehicles based on truck chassis, of very
basic design and poor quality. They need a high standard of maintenance but, such is
the standard of premises and facilities, they rarely get this. The number of buses
available for service never exceeds 50% of the fleet, and is usually much less than
this.

In 1958, the bus industry was nationalised as the Ceylon Transport Board (CTB).
Over the succeeding years, both operational and financial performance deteriorated
every year for a variety of reasons. In 1977, CTB was broken up and ten regional
companies were formed under the Central Transport Board, a bureaucratic and labour
intensive organisation that seemed to serve little purpose. In 1978, the bus industry
was partially deregulated – fares remaining firmly controlled by the government.
Deregulation produced an immediate injection of minibuses, most of which were
owned by single vehicle companies. These operated only on the most profitable
routes and at the best times of the day, with the result that the performance of the
state-owned companies deteriorated further.

In 1979, the state-owned companies were privatised through “Peopleisation”. There
were 93 depots and each was made into a limited company. 50% of the shares in
these companies were retained by the state, whilst the other 50% were allocated to
employees free of charge on the basis of length of service. Though privatised, these
companies were not allowed to increase fares, they were not permitted to discharge any employees and they were required to operate bus services that were not thought to be of interest to the private sector.

The peopleised companies lasted five years, during which time they sustained huge losses. Although they were supposed to have been arms length companies, they were insolvent throughout their existence and were kept in business by state funding. Throughout these five years, the private sector consolidated. Their minibuses were gradually replaced by standard Indian-built single-decker buses. The consolidation was on the better routes, leaving the peopleised companies with the less lucrative routes.

Further legislation in 1984 took the 93 peopleised companies and formed them into 11 new companies known as Cluster Bus Companies. Shares in the old companies were taken away from employees without compensation. In the new Cluster Bus Companies, employees were allocated just 10% of the shares with the state-owned the other 90%. Little else changed. The private sector companies continued to operate commercially and the state-owned sector continued to operate inefficiently and continued to decline.

In 2002, a decision was made to introduce private capital into state owning companies. This was largely part of the process of the country emerging from the civil war and its need to secure the assistance of agencies such as the Asian Development Bank and the World Bank, both of which organisations purport to insist upon privatisation as a condition of their funding. As a result, it was decided that organisations, companies or consortia would be invited to enter into Public Private Partnerships (PPPs) and to acquire 39% of the shares in one or more of the Cluster Bus Companies. There was only one bidder – a consortium of British and Sri Lankan companies, and that consortium was awarded five of the eleven companies, the government not being prepared to give all eleven to one bidder. These five companies brought with them 49 bus depots, 2500 buses and 23,500 employees. The PPP policy was very unpopular with the government’s political opponents, who took the view that it was intrinsically wrong to sell state assets to foreign investors. Despite low fare levels, control of fares was retained by the government. Fares increases were politically sensitive and were to be avoided.

In early 2003, this paper’s co-author was appointed Group Chief Executive to manage the five companies secured by the consortium. As mentioned later, the tenure was short lived as an election in early 2004 brought the opposition into power and the cancellation of the agreement with the consortium.

(An examination of the regulatory change in the Sri Lankan bus market is provided by Gwilliam (2003), although this paper was compiled before the governmental changes referred to here had made their impact.)

4.3 Observations

The following points were apparent within the first two months of the consortium assuming control.
All 49 depots taken over by the consortium were in a state of disrepair. For about 20 of them, it would have been cheaper to demolish them and start again.

In all but one depot, maintenance facilities were grossly inadequate.

Vehicle maintenance was virtually non-existent; alarmingly, few could see the inevitable consequences.

There were probably about 10,000 employees who were not needed.

Between the rank of Managing Director and Depot Manager/Engineering Manager, there were over 500 employees, about 300 more than was necessary. None had any qualifications, none had any training and many were probably political appointees.

Following general elections, about half of all managers were routinely ejected from their posts and replaced by members of the successful party. Those ejected were “sent to Japan”, a company expression meaning to be paid, without actually having a job.

There were poor disciplinary standards. Middle managers took the view that indiscipline was something with which they had to live.

Less than 50% of scheduled mileage was being operated and everyone at the company seemed to find this acceptable.

Companies were required by the government to operate the socially desirable routes that the private sector did not want. As the percentage of mileage operated reduced, so these routes became a larger percentage of the total operated mileage.

There was a significant, although non-quantifiable, problem with revenue abstraction and other employee fraud.

An indication of the state of the finances of the companies was that every month the government had to produce cash to pay the wages.

Only six of the 23,000 employees were computer literate.

4.4 Outcomes

As with Barbados, there is a range of outcomes which have resulted, to the extent that point 1-3 in section 3.4 could almost be repeated word for word here.

The years of neglect have reduced the companies to the position where they no longer represent a challenge to a commercial operator as they are probably beyond economic salvation. The invitation made in 2002 had only one positive enquiry but a similar invitation today would likely result in no enquiries being made. Today the sensible commercial decision would be to close the companies down and allow the private sector to provide all bus services. However such a policy would instantly put ten or
more thousand people out of work and would be politically difficult. It should be noted however that, in one co-author’s view, the situation will continue to deteriorate until the companies are unable to provide bus services whilst employing tens of thousands of people to do nothing. Eventually the government will have to take action – an action that becomes more unpalatable with every passing day.

The level of political control exerted over the Sri Lankan bus industry was evident from shortly after the consortium assumed control. A series of injunctions brought by employees, purportedly acting on behalf of opposition parties, concerning the legality of the privatisation process, effectively prevented the consortium from tackling any of the problems which had been identified. In early 2004, an election was called which brought one of the opposition parties to power and the contract with the consortium terminated. Although the decision was of dubious legality, to have challenged it through the courts would have been prohibitively expensive, and the consortium withdrew. (It should be noted that Gwilliam’s (2003) paper was drafted before these events took place.)

5 COMPARISONS BETWEEN BARBADOS AND SRI LANKA

5.1 Common issues

Based on the observations made in sections 3 and 4, there are a number of common issues which apply to both Barbados and Sri Lanka. These are as follows:

1 Both countries profess to be socialist, and exhibit a desire to protect their citizens from the impact of capitalism.

2 Governments retain control of prices and artificially lower unemployment by employing large numbers of people in jobs that would not exist in a free market. This makes it difficult for bus company managers to introduce efficiencies. [In the case of Barbados, the co-author was told that “... efficiency is an English concept”.]

3 Many of the decisions made have been for political, rather than strict business, reasons.

4 Management skills are lacking in many instances.

5 There is little concern for the impact that policy and management decisions are having on the taxpayer or the passenger. Money is frequently wasted rather than difficult decisions being made.

5.2 Differences

In contrast, there are two fundamental differences between the two markets.

1 Barbados, whilst categorised as a third world country, has a thriving economy with constant growth over the last decade. In comparison, Sri Lanka is emerging from a painful and extremely costly civil war and its economy is fragile.
Both have requested assistance from international funding bodies – such as the World Bank and the Asian Development Bank – to help with their development, and these bodies have insisted on private sector involvement as a condition. Neither country has in fact followed a privatisation policy – Barbados because its economy has improved to the extent that it no longer needs World Bank assistance, Sri Lanka because its current government is so strongly opposed to the privatisation process.

6 INTERNATIONAL COMPARISONS

The purpose of this section is to draw out themes from sections 3, 4 and 5 and bring in some experiences from the British bus industry.

6.1 Ownership form

Roberts (2003b: 221-228) carried out a qualitative comparison of the different bus company ownership forms which have existed in the British bus market since the initiation of privatisation in 1986. In summary form:

Companies owned by their managers and/or employees, and new-start market entrants of the kind described in 6.2, find it commercially difficult to develop from their ‘shoestring’ origins and provide a consistently enhanced level of quality and service to the market. Publicly-owned companies, albeit managed at arms-length from their owning authorities, can be effective, but require the combination of supportive politicians, competent managers and a relatively competition-free environment for maximum benefit.

Larger enterprises which rely on a Stock Market listing to support their size are increasingly driven by the need to deliver particular profit margins rather than being able to concentrate on their key public service obligations. The two aspects are not necessarily mutually exclusive – in fact it can easily be argued that a successful company, which provides a good service to its customers, is likely to generate good profits – but in a declining market often seem to be. [This may well be an issue in Barbados – increasing personal wealth is likely to increase car ownership levels, with a negative impact on the bus market.]

On balance, the best outcome in the British market appears to be the company which has achieved a certain amount of critical mass in size, but not to the extent that it demands a Stock Market listing. In many British examples of this, another factor has been the personality of the managers involved – those with a high commitment to public service and professionalism (see also 6.4).

The nature of the bus undertakings in Barbados and Sri Lanka are more akin to the large public sector conglomerates which existed in Britain prior to the privatisation process. There is significant evidence to show inefficient working practices in such organisations:

“… 100% unionised, hidebound by all sorts of restrictive practices … coming out of the state sector, with a legacy going back to nationalisation, inefficiencies going back to nationalisation in 1948 … phalanxes of pen pushers and bureaucrats and people who didn’t really actually contribute
Such practices were largely eliminated as a result of the privatisation and deregulation process, although it has never been possible to apportion the effect between these two linked, but distinct, policies.

6.2 Competition in the market

The market liberalisation experiences of Barbados and Sri Lanka mirror those of the British market in the early post-deregulation period. Smaller operators appear, motivated by short-term profiteering on lucrative routes, described by one British manager as “‘Destructive competition’ – creaming off, devaluing quality by using clapped out vehicles on a route” (Bus company manager, quoted by Roberts 2003b: 190). The argument is that service quality becomes less important than the quest for market share. The British experience is that such conditions do little to encourage ridership as overall passenger numbers have fallen in the key markets where this type of behaviour is evident.

By contrast, there is some evidence from Britain to show that well resourced, well-managed companies can instigate ridership gains. Many of these situations, however, occur in conditions where competition is nil. There is a paradox whereby the UK competition authorities, constrained by the statutory obligation to have regard for competition issues at the expense of any wider consideration of transport policy issues, have on occasion imposed limits on the degree to the extent that this form of market can develop.

6.3 Political involvement

The theory that politically elected representatives know best what their constituents wish in terms of bus services is a laudable one. In practice, evidence from Britain, and from Barbados and Sri Lanka, has demonstrated that far from ensuring service provision in accordance with passengers’ wishes, often political considerations take precedence over passengers’ requirements.

Conceptually, the theory that politicians determine the policies whilst professionals are charged with implementing those policies would be fine if each party played their respective role. However, what tends to happen is that politicians are not content with their policy-making role but invariably stray into making executive decisions which they are not always qualified to make. Evidence in Britain shows that when this concept is enshrined statutorily it does work. In contrast in Sri Lanka, arms length bus companies existed in theory only, as political involvement continued as before.

There is much evidence to suggest that political involvement works best when it is confined to the determination of policy through statutes. In Britain, whilst most bus operation is private sector owned and controlled, there remains a political element in that there is the ever-present implication that if the private sector fails to meet political aspirations then more draconian legislation will be introduced. It could be argued that this keeps commercially orientated bus companies politically attuned whilst giving politicians a role.
6.4 Managerial competence and cross-cultural issues

A recurring theme when looking at quality in bus companies is the skill and competency of bus company managers. A Thredbo paper (Roberts 2003a) took the UK government’s then aspirations for the bus industry, one of which was an improvement in service quality, and appraised how the market was able to deliver against the targets. Although many of the quantitative measures of service quality were already reportedly quite high, there was a qualitative indication that local management was lacking in some instances, either due to lack of inherent skill, or the destabilising effect of regular management change. It was concluded there that this characteristic was evident across all ownership forms, but that there was a need for “... ability, motivation and commitment of local managers to ensure high levels of service”.

The observations from both Barbados and Sri Lanka suggest that this is one of the major problems in both markets. As developing economies, this is not perhaps surprising but aspirations to develop must be matched with a commitment to higher levels of management competence. There are perhaps two possible strategies to overcome the problem.

The first is the instigation of a rigorous programme of enhancing the skills of the entire workforce, particularly at managerial levels. There may be reluctance to commit limited resources in this area in a changing market. This was the British experience – reformed businesses under newly competitive markets withdrew their historic commitment to training until such a time as some form of market stability returned.

The second is the use of overseas managerial experience. There does appear to be a marked reluctance in many markets to the use of non-indigenous labour at managerial level. This is perhaps a particularly sensitive issue in countries which have, until relatively recently, been subjected to some form of colonial control. The experience of this paper’s co-author highlighted the problems in this regard, with governments eventually turning away from the support which had been offered.

The poor standards of management found in Sri Lanka and Barbados were a product of the system. Excellent managers will not remain in an environment where, because of political constraints, their skills are not used. In companies where politicians make all the decisions, eventually the management team is likely to be of the calibre that will be at home in such an environment. Therefore, recruiting the right people and ensuring that they have adequate training and updating of their skills will be wasted if those people, realising that their skills are not appreciated, leave the industry.

There are many historical precedents for successful use of expatriate managers and these may suggest a possibility for further research in the area. One example is Hong Kong, where the bus industry has developed into one of the most successful systems in the world, but one which had been reliant on expatriate managers during its formative years. The African continent is another example, where the BET Group had a number of interests, before selling out to local ownership. Expatriate managers can have a role to play in initiating and overseeing the training and skills enhancement processes.
A further possibility for research is the cross-cultural nature of transport ownership, and it could be that the case studies described here lend themselves well to such analysis. It is noteworthy that none of the multi-national transport groups have expressed interest in such potentially lucrative markets. The markets may be perceived to suffer from politically motivated change (recent events in Sri Lanka serve as a cautionary experience in this regard) and the groups, or more specifically their funders, are unwilling to take this risk.

In addition, the markets may, perhaps, be perceived as being too culturally and geographically remote to be managed, but examples of diversification failure exist within the developed world as well. Why have a number of the very success British-based transport groups experienced difficulties in overseas markets (USA, Australia, Sweden), whereas otherwise successful organisations such as Connex have performed badly in the UK?

7 CONCLUSIONS

Overall, it is concluded that the experiences of the British market since the mid-1980s provide a partial model which can be applied equally well to developing countries such as Barbados and Sri Lanka.

Bus companies have the ability to be efficient, but only if they are managed properly. Current state ownership does not appear to be producing the necessary level of efficiency. The British experience was that benefits accrued to many companies through their privatisation, although a public sector company where managerial and commercial freedom are permitted can produce good results.

Endorsing many other findings over the years, an effective regulatory regime needs to have quality built into it to avoid the archetypal ‘hit and run’ operator being able to exploit lucrative opportunities at the expense of the wider system provider.

The lack of managerial expertise in developing countries is a major problem. Expatriate managers can have a role to play in providing management in the short- to mid-term and, through the initiation and implementation of appropriate training, be able to have an impact in the longer term as well.

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