AN EVALUATION OF THE IMPACT OF THE SOUTH AFRICAN PUBLIC TRANSPORT POLICY ON THE RESTRUCTURING OF THE COMMUTER BUS INDUSTRY

BY

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AN EVALUATION OF THE IMPACT OF THE SOUTH AFRICAN PUBLIC TRANSPORT POLICY ON THE RESTRUCTURING OF THE COMMUTER BUS INDUSTRY

SUMMARY

The purpose of this thesis was to assess the impact of the new public transport policy direction, with specific reference to competitive tendering, on the transformation and restructuring of the South African commuter bus industry. The main objective of this study was to develop a methodology to guide the transformation and restructuring of the bus industry. This main objective was achieved through the following secondary objectives:

- A comparison between international transformation experiences and the South African bus industry in an effort to develop a methodological basis for the change process;
- An assessment of the strategic gap in an effort to determine the focus of the change process; and
- The development of a detailed change strategy to guide the transformation process.

A comprehensive literature study revealed that certain megatrends in the business environment such as the dynamic nature of the information age, globalisation, urbanisation, decentralisation and privatisation have an important impact on the strategies and goals of companies. The public transport industry is characterised by the following broad trends worldwide that are particularly relevant to the transformation of the South African bus industry:

- Replacement of monopolies with the competitive market;
- Separation of policy from operations;
- Increased efforts to attract passengers to public transport; and
- Increased involvement of the private sector in the rendering of public transport services.
The literature study also revealed the following positive lessons for South Africa from a policy perspective:

- Competitive tendering, if properly implemented, can lead to increased resource efficiency;
- Competitive tendering as such does not necessarily increase passenger volumes;
- Transport and land use planning should be integrated;
- Integrated transport networks have distinct advantages over fragmented service supply;
- The commuter bus can play an immensely important role in the effective rendering of public transport services; and
- Institutional structures play an important role in effective service delivery.

The policy of spatial separation on racial grounds has played a major role in the development of the bus industry. The industry had shown consistent growth until 1982, but since then a considerable portion of the bus market share was lost to the combi taxi industry. A major conclusion of the study was that the new South African public transport policy is based on international best practices as well as the needs of local stakeholders and the country at large. The focus on integration of planning, modes and resources is of particular significance. Within an integrated transport network the commuter bus will have the opportunity to optimise its potential as safe, reliable and effective mass transport mode.

Based on a thorough multiple analysis of the bus industry against various strategic evaluation models, the following major gaps were identified:

- Ineffective application of public transport modes, especially the commuter bus, in accordance with their unique operating characteristics;
- Pertinent skills deficiencies at operator and institutional level to successfully manage change in the new competitive environment;
- Efficiency of the present operations which is well below the required standard to secure tenders;
- Insufficient knowledge of and preparation for the tender system and its requirements;
- Insufficient actions to empower members of the previously disadvantaged communities; and
In support of the strategic gap analysis, various evaluation techniques were used to determine the best possible strategic alternatives. It was found that fundamental change is required to position the bus industry for future challenges. Long term objectives should focus on specific market objectives for the bus in transport networks, gaining of market share, securing alliances, empowerment of small operators and improving effectiveness. The generic strategy to secure tenders should be primarily a low cost leadership strategy. The essence of turnaround strategies should focus on cost reduction, which should largely be achieved through increased efficiency. Other grand strategies include diversification, market development, joint ventures and strategic alliances.

Specific short term objectives are to formalise and structure the SABOA Development Foundation as primary vehicle for the empowerment of small and medium sized entrepreneurs in the transport industry and to facilitate further cooperation in the industry to share expertise and resources. Guidelines to adjust operator strategies and to assess empowerment models are also provided to guide operators in the transition process. It is recommended that change methodology be formalised to assist operators in the transition process.

Finally it can be concluded that the bus industry can play a leading role in the future transport dispensation if appropriate pro-active action is taken. There is a huge strategic gap between the desired and expected outcomes which requires concerted efforts by the industry as well as the three spheres of government. It is essential that the Moving South Africa strategy be implemented as primary driving force behind the change process.
‘N EVALUERING VAN DIE IMPAK VAN DIE SUID-AFRIKAANSE OPENBARE Vervoerbeleid OP DIE HERSTRUKTURERING VAN DIE PENDEL-BUSBEDRYF

OPSOMMING

Hierdie proefskrif het ten doel gehad om die impak van die nuwe vervoerbeleid op die herstrukturering en transformasie van die Suid-Afrikaanse pendelbusbedryf te ondersoek. Die hoofdoel van die studie was om ‘n metodologie daar te stel as riglyn en struktuur vir die transformasie en herstrukturering van die busbedryf. Hierdie hoofdoel is bereik deur die volgende subdoelwitte:

- ’n Vergelyking tussen internasionale transformasies en die Suid-Afrikaanse busbedryf ten einde ‘n metodologiese basis vir die veranderingsproses daar te stel;
- ’n Evaluering van die strategiese gaping ten einde die fokus van die veranderingsproses te bepaal; en
- Die daarstelling van ‘n gedetailleerde veranderingstrategie ten einde rigting aan die transformasieproses te verleen.

’n Omvattende literatuurstudie het aan die lig gebring dat sekere breë tendense in die eksterne omgewing, byvoorbeeld die dinamiese aard van die inligtingsrevolusie, globalisering, verstedeliking, desentralisering en privatisering ‘n belangrike impak op die doelwitte en strategieë van maatskappye het. Die volgende tendense is spesifiek op die openbare vervoerbedryf van toepassing:

- Vervanging van monopolieë met die mededingende mark;
- Skeiding tussen beleid- en bedryfsfunksies;
- Volgehoue pogings ten einde die markaandeel van openbare vervoer te vergroot; en
- Toenemende betrokkenheid van die privaatsektor in die lewering van openbare vervoerdienste.
Die literatuurstudie het ook die volgende leerervarings vir Suid-Afrika aan die lig gebring:

- Die tenderstelsel, indien die stelsel behoorlik geïmplementeer word, het 'n positiewe impak op effektiwiteit van hulpbronne.;
- Die tenderstelsel as sodanig het nie daarin geslaag om passasiersgetalle te vermeerder nie;
- Geïntegreerde vervoer- en grondgebruikbeplanning het bepaalde voordele;
- Geïntegreerde vervoernetwerke het bepaalde voordele bo gefragmenteerde vervoerskragging;
- Die pendelbusdienis kan 'n belangrike rol speel in die verskaffing van 'n effektiewe passasiersvervoerdiens; en
- Institusionele stukkure vervul 'n kardinale rol in die levering van 'n effektiewe vervoerdiens.

Die beleid van afsonderlike ontwikkeling op grond van ras het 'n belangrike rol in the ontwikkeling van die busindustrie vervul. Die busindustrie het constante groei getoon tot in 1982, maar het sedertdien 'n beduidende markaandeel aan die taxi industrie afgestaan. 'n Belangrike gevolgtrekking van die studie was dat die Suid-Afrikaanse openbare vervoerbeleid op internasionale norms en suksesse gebaseer is en ook die behoeftes van plaaslike rolspelears en die land as geheel in ag neem. Die fokus op die integrering van beplanning, modusse and hulpbronne is van besondere belang. Die busindustrie het die geleentheid om 'n kardinale rol as veilige en betroubare massavervoermodus in geïntegreerde netwerke te vervul.

Met 'n meervoudige ontleedingsmodel as basis is die volgende strategiese gapings geïdentifiseer:

- Oneffektiewe aanwending van die onderskeie vervoermodusse, veral die pendelbus, op grond van hul onderskeie operasionele eienskappe;
- Pertinente kennis- en vaardigheidsgapings op operasionele en institusionele vlakke om die nuwe mededingende omgewing suksesvol te bestuur;
- Effektiwiteit is beduidend laer as die vereistes van die nuwe bedeling;
- Onvoldoende kennis van en voorbereiding vir die tenderstelsel;
- Onvoldoende akies ten einde die lede van voorheen benadeelde gemeenskappe te bemagtig;
- Verouderde stelsel en procedures; en
- Verouderde busse en tegnologie vir die vereistes van die tenderstelsel.
Met die strategiese gapings as basis is verskeie ontledings gedoen ten einde die beste strategiese opsies te bepaal. 'n Belangrike bevinding was dat fundamentele verandering nodig is ten einde die busindustrie vir sy toekomstige rol te posisioneer. Langtermynndoelwitte behoort te fokus op spesifieke markdoelwitte ten einde die markaandeel van die bus in geïntegreerde netwerke te verhoog asook op belangrike aspekte soos alliansievorming, bemagtiging van kleinbusoperateurs, verhoging van inkomste en verhoging van effektiwiteit. Die algemene strategie ten einde tenders te verkry moet op 'n lae-koste strategie gefokus word. Omkeerstrategieë moet op kosteverlaging en verhoogde effektiwiteit fokus. Verdere strategieë sluit diversifikasie, markontwikkeling, gesamentlike ondernemings en strategiese allianies in.

Spesifieke korttermynndoelwitte is om die BOVSA Ontwikkelingstigting te formaliseer as werktuig vir die bemagtiging van kleinbusoperateurs en om samewerking in die industrië te faciliteer ten einde kennis en hulpbronne te koördineer. Riglyne is ook voorsien ten einde strategieë op operateursvlak te verfyn en bemagtigingsmodelle te evalueer. Die aanbeveling is gemaak dat veranderingsmetodologie geformaliseer word ten einde operateurs in die veranderingsproses by te staan.

Ten slotte kan die gevolgtrekking gemaak word dat die busindustrie 'n beduidende rol in 'n toekomstige vervoerbedeling vervul kan word indien proaktiewe stappe betyds geneem word. Daar is 'n beduidende gaping tussen die ideale en verwagte eindresultaat, en doelgerigte aksie deur operateurs en die drie regeringsvlakke is absoluut noodsaklik. Dit is noodsaklik dat die "Moving South Africa"-strategie geïmplementeer word as primêre dryfveer van die veranderingsproses.
CHAPTER 1

INTRODUCTION, PURPOSE AND AIMS

"Transport has emerged as one of the major challenges governments have to contend with in their struggle for sustainable development, and policy makers all over the world have acknowledged the urgent need to collectively address the motorisation and mobility crisis our planet is facing."¹

1.1 PROLOGUE

In a constantly changing world, the science of Transport Economics is increasingly challenged to create new solutions to existing and emerging mobility issues, and to create and exploit new opportunities to improve the well being of mankind. The dramatic change process in South Africa has intensified this challenge, paved the way for meaningful reform of the passenger transport industry and also initiated this study.

"When viewed as a whole, the South Africa urban transport system is performing relatively poor against the needs of key groups of customers, as well as against overall national objectives." This conclusion by Moving South Africa (MSA, 1998, p 56) sets the scene for the transformation of the public transport industry and the commuter bus industry in particular. Against this background the purpose of this study should be viewed as an effort to make a contribution to the science of Transport Economics at macro level, as well as the passenger transport industry by developing a methodology and change strategy to guide the transformation of the bus industry.

The political dispensation that came into effect in April 1994 not only changed the face of business significantly, but also resulted in the greatest change process in the history of South Africa. The new dispensation also resulted in new transport legislation which paves the way for meaningful reform of the status quo. One of the greatest challenges to the economy at large and the new generation of decision makers in particular, is to transform what is into what should be with limited resources, which include outdated and redundant infrastructure and facilities. The challenge to Transport Economists and decision makers on passenger transport is

particularly fierce due to the fact that the economic forces that governed passenger transport in the previous dispensation, were grossly distorted. The nerve centre of economic activity, namely an efficient transport system, was designed and managed in accordance with the needs and desires of the minority of the population. The passenger transport industry in Southern Africa is therefore faced with the challenge of dramatic transformation to ensure that the needs of all stakeholders are incorporated and served in the best possible way. This transformation process calls for imaginative solutions which will be addressed in this thesis. In a transparent and open environment transport has a major task: "Transport, which has often been described as the second most important catalyst after education in the development of a nation, presents a golden opportunity for us all to play a significant role in building up our country to take its rightful place in the global village as we enter the 21\textsuperscript{st} century, as well as giving us the means of improving the lot of the \textit{average person in the street}." (Maharaj, 1995, p 2). Considerable preparatory work is still required to position public transport for its rightful role.

The new public transport policy creates the opportunity to transform public transport, and the commuter bus industry in particular, for the above role. Competitive tendering and the principle of \textit{competition for the road} is new to most bus operators. Key success factors in the new environment differ significantly from previous requirements for success, and it is essential that operators prepare themselves for the challenges. The new legislation also implies major transformation at institutional level. The main objective of this thesis is therefore to develop a scientific methodology to guide the transformation process.

1.2 \textit{BACKGROUND PERSPECTIVE AND PROBLEM STATEMENT}

The leading role of transport in development and upliftment is well documented and also well known among operators and decision makers. Throughout the history of mankind transport has played an immensely important role in economic development, social upliftment and the creation of wealth and prosperity. In South Africa, the execution of this role was curtailed by political ideology. Transport policy development in South Africa should therefore be viewed in conjunction with political developments, especially during the previous 50 years. For the period before the early 1990's, the primary focus of Government was to safeguard the interests of the white minority. Various acts were promulgated to achieve the goal of separate development. From a passenger transport perspective the policy of spatial separation on racial grounds has had far reaching consequences. Certain areas were reserved exclusively for whites while other
population groups were forced to stay in areas very far from employment opportunities and other amenities. These policy measures stimulated the growth of the commuter bus industry.

It is interesting to note that urban transport development in Southern African cities prior to 1950 occurred in accordance with the patterns of European and other overseas cities. Buses and tramways provided short and medium services while rail services were provided as a link with areas outside the city. The policy of spatial segregation on racial grounds ended this logical development pattern with the forced relocation of black citizens in remote areas far away from job opportunities. An ineffective subsidised commuter bus service was introduced as a vehicle to enforce the Group Areas Act. The apartheid policy, if evaluated from a passenger transport perspective, can therefore be viewed as a significant deviation from logical and cost effective economic development which is desperately needed in developing countries. Insufficient funding from the central Government and spiralling cost structures resulted in a situation where the system could not be maintained by government, as well as an overburdened travelling community. The poor people of the country had to suffer as a result of a system that was enforced by the government of the time.

To understand the future of the industry, and particularly the proposed solutions contained in this study, it is essential to understand specific historic events underlying the present situation. The status of passenger transport in South Africa before the new political dispensation came into being in 1994 was characterised by a lack of clear transport policy direction, especially during the period after it became clear that the previous political dispensation would not continue indefinitely. Fragmented planning was a pivotal weakness of the previous dispensation. Central transport policy and planning and decentralised land-use planning resulted in urban sprawl and other inefficiencies. Furthermore, the negative impact of the commuter system on family life was taken into account. It is clear that the politicisation of key transport issues in a distorted political system, which was rejected by the entire world, has had a negative influence on the public image of the commuter bus industry.

The inability of the government to sufficiently subsidise the passenger transport system created by them, also resulted in inefficiencies. A major exodus from the industry occurred, even by prominent operators, due to uncertainty and a total lack of investment attractiveness of the bus industry at the time. A large and a growing over-supply of informal passenger transport
aggravated the situation of bus operators. The uncontrolled growth of the taxi industry resulted in a dramatic decline of the bus industry with a major impact on travelling patterns and safety. A high industry inflation rate for the period prior to 1994, resulted in spiralling cost structures and an inability by operators to invest in new vehicles required to render an acceptable quality of service. The lack of technological renewal was a further consequence of insufficient funds. Furthermore, a decline in the economy resulted in resistance by the travelling community to pay for increasing transport costs. Some underprivileged members of the community had to spend more than 40% of their disposable income on transport in an effort to earn a living, while travelling very long distances between home and work.

The public transport system was characterised by a high degree of service and mode duplication due to insufficient policy and distorted land use patterns. The effect was exceptionally high cost structures and other inefficiencies. Duplication was particularly noticeable in the larger metropolitan areas where white and black bus commuter services were rendered separately with no cooperation whatsoever between them, resulting in excessive unproductive kilometres and costly duplication of maintenance and operational infrastructure. A major weakness of the commuter bus system was the fact that service provision was supply driven and not demand driven. This inherent weakness of the bus industry was a major reason for the substantial loss in market share to the taxi industry.

The above situation resulted in major inefficiencies and a complete policy turn around was inevitable. It is clear that the apartheid policy and the commuter bus industry share a symbiotic history. As primary driving force behind the apartheid system, it was necessary to keep this generally ineffective system artificially alive for more than 40 years. In a new democratic environment the bus industry is now faced with the greatest challenge in its history. The revitalisation of the industry in accordance with new requirements is therefore the focal point of this study. It should be stated that the public transport industries in various parts of the world were transformed in recent years, mainly as a result of deregulation and privatisation. It is clear that a new vision and change strategy are required to redirect and transform the bus industry.

1.3 PAST, PRESENT AND FUTURE: CHALLENGES FOR THE BUS INDUSTRY

To evaluate the objectives of this study in perspective, it is essential to briefly review the historic developments within the bus industry over the past 40 years against the requirements of the new
dispensation. According to Walters (1997) the bus industry is faced with the greatest challenge in 40 years. With the introduction of interim contracts, April 1997 can be viewed as a major turning point in the history of the bus industry and an essential step towards the full implementation of the tender for contract system. Although the new transport policy includes major changes to the previous policy, competitive tendering is one of the most important themes of the new policy direction and also an important focus of this study.

Before April 1997, operations were based on a multi-journey ticket subsidy system and subsidy increases were approved by means of an annual parliamentary vote. Operators determined routes and networks which were protected from intra-modal competition. In terms of the new RSA constitution, decision making on passenger transport was devolved to the lowest level of decision making which resulted in new policy proposals contained in the White Paper on National Transport Policy issued in 1996.

The tender for contract system is in process of implementation. According to Walters (1997) the tender for contract system has specific implications on the industry. Operators will have to compete for subsidised and commercial services. Operators will also have to compete with each other, which could lead to increased rivalry within the industry. Operators are not used to this new environment, the new business rules and new management practices. The taxi industry will probably enter the tender system through cooperatives, which will increase competition in a former "captive market." The taxi industry has already made considerable inroads into the market share of the bus industry and a more organised effort on its side should be viewed as a major threat.

International transport operators will most probably also enter the industry. These new entrants to the Southern African market could have a detrimental effect on the interests of current operators. Freight operators may also enter the passenger transport industry and prominent freight operators have already tendered for bus services. Although operators are used to competition on the road from the taxi industry, competition for the road is known only to a few operators who participated in demonstration projects and a few early tenders. The majority of operators will therefore have to adjust to the new system and its challenges.

Cost and efficiency will have to become the main driving forces of the bus industry to survive
the increased competition that will be created by the tender system. New ways of doing business and exploiting opportunities will have to be explored. Particular attention should be paid to subcontracting, franchising and diversification into other modes such as rail services. Emphasis in the new system will be on-time performance, reliability of service provision, superior technical performance, etc. Quality of service will be closely monitored by the Transport Authority.

Proper costing of the tender is of critical importance to ensure long term profitability and business continuity. Existing organisation structures are not lean enough to secure tenders. Management information will have to be pro-active, reliable and in time. Companies should know exactly what their cost structures are to enable them to tender more competitively. New entrants to the market will pool resources and form consortia to enable them to tender, which should be viewed as a major threat to existing operators. New participants may include civics associations, taxi operators, financial institutions, ex-bus employees and other parties.

It is therefore clear that the tender system is much more business orientated and driven by the principle of increased efficiency through increased competition. The new system differs significantly from the present system in terms of operator requirements. A much more pro-active and effective management approach is required to survive and exploit opportunities in the new system. As stated, operators are not yet ready for the challenges. Although certain protection measures were implemented to soften the impact of the tender system, operators will have to prepare themselves for the full impact of the system in the next round of tenders.

A large number of bus operators are owned by provincial governments and municipalities. These operators should be fully corporatised to be able to tender for services. According to proposed policy, such operators should, inter alia be separate legal entities, operate on sound business principles, have no access to funding other than on a commercial basis and be financially ringfenced. Compliance with these requirements imply acceptance of new business rules and practices. Insufficient incentives to perform in accordance with business principles is one of the major weaknesses of the present system and it is foreseen that these operators will have to transform significantly to be in a position to tender and to optimise their positions in the new dispensation. Successful corporatisation will involve a major change process which will also be addressed in this thesis.
The transition to the new dispensation should be clearly understood from a historic development perspective. Chapter six focusses on the role of policy in the development of the commuter bus industry and the key issues that have played a role in creating the commonly known distortions in the industry.

1.4 RESEARCH NEEDS AND STUDY OBJECTIVES

In terms of the above background perspective, it is clear that the South African bus industry needs considerable transformation to position itself for the future. Due to the absence of relevant role models, appropriate solutions (which require comprehensive research) should be created for the unique circumstances in South Africa. The bus industry, for example, requires imaginative solutions to optimise its role and contribution in the competitive environment.

The future of the bus industry will be determined by the pro-active action that operators are prepared to take now. The relatively protective environment in which the bus industry had been operating in for the past 2-3 decades will change substantially and operators will be forced to change their entire business orientation to stay in business over the long term. A scientifically based change strategy is required for this purpose. Current and future developments in the passenger transport industry compel bus operators to review their position and to change direction. Over many years the bus industry has become dependent on large amounts of commuter subsidies. This system does not enhance efficiency and productivity and it was deemed necessary by the Department of Transport to “maximise competition in every aspect of transport which reduces cost and increases choice.” (Gordhan, 1997, p 2). Operators will have to improve present efficiency levels to survive and prosper in the new environment, but to do this effectively they will need considerable guidance.

The tender system, concessioning of rail services, modal integration, a dramatic increase in competition, structuring of the taxi industry and empowerment of small entrepreneurs are some of the major forces of change that will govern the future of the bus industry. Adaptation to the new rules is a complex process and research of this nature is required to provide guidelines to operators and authorities. To successfully exploit tender opportunities bus operators will be required to substantially change their present management approach and efficiency levels. An in-depth evaluation of the industry and comparison with international norms, standards and transformation processes will be of immense value in redirecting the South African bus industry.
The majority of bus operators are concerned about their future in the new dispensation. During various working sessions with bus operators the following issues of concern were raised:

- **Long term survival within the tender system.** A large number of bus operators are the owners of their companies and are therefore concerned about their investments over the long term;

- **Inefficiencies of their operations in terms of the new challenges.** The subsidised system did not have sufficient incentives to improve efficiency;

- **Inefficient and outdated organisation structures and insufficiently trained people** at the various levels of the organisation;

- **Present inadequate policies and procedures.** Most of these policies and procedures were developed for the subsidised system and are therefore totally inadequate for changing circumstances;

- **Uncertainty regarding the incorporation of smaller operators in the tender system.** A considerable amount of development work on subcontracting still has to be done;

- **The possible negative impact of organised labour** due to the fact that the tender system in its present form is not acceptable to organised labour;

- **Empowerment of disadvantaged people through passenger transport.** Empowerment is a stated government goal and the passenger transport industry is ideally suited for this purpose;

- **Inability to ensure the commitment of the entire workforce.** Commitment at all spheres is required to implement the tender system successfully;

- **Inability to balance resources due to increased community expectations.** As a high profile service industry, passenger transport is a prime target for claims on its resources by the community;

- **Difficulty to unite the various stakeholders towards a common goal.** Bus companies form an integral part of the community and its diversified stakeholder base; and

- **Uncertainty on how to share power and to democratise the workplace.** Old management practices focussing on autocratic management styles are still in use in some companies. The transition towards a democratised workplace should therefore receive priority attention.
Perhaps the most important motivation behind this study is vested in the following statement by Moving South Africa: “Perhaps the most compelling reason for a new transport strategy is the fact that the current transport system no longer meets many of the needs of the country or its customers. Moreover, the legacy of the apartheid era can be seen quite clearly in the transport system.” (MSA, 1998, p 30). The transformation of the bus industry is therefore essential.

Against this background, the main objective of this study is to develop a methodology to guide the transformation and restructuring of the South African bus industry. This main objective will be achieved through the following secondary objectives:

- To relate international transformation experiences to the South African bus industry in an effort to develop a methodological basis for the change process;
- To assess the strategic gap in an effort to determine the focus of the change process; and
- To develop a detailed change strategy to guide the transformation process.

1.5 RESEARCH METHODOLOGY

1.5.1 OVERVIEW AND AIMS

To execute the above primary and secondary objectives, the research methodology will be structured around the following basic steps or elements:

- A thorough literature study as theoretical basis for the study;
- Study tours to evaluate international best practices and to obtain the latest information on transformation of bus industries in selected overseas countries;
- An evaluation of the Southern African bus industry against international developments;
- A critical evaluation of the South African transport policy;
- An assessment of the readiness of the bus industry to survive and grow in a new and challenging business environment;
- Working sessions and consultation with bus operators and key stakeholders to assess the status quo, evaluate needs and to obtain solutions to facilitate the transformation process; and
- The design of a comprehensive change methodology and strategy, based on the above research inputs.
1.5.2 INTERNATIONAL COMPARISON

Although no universally acceptable and perfect role model exists to guide the transformation process of the South African bus industry, it was decided to use a *what works best* approach based on relevant international transformation processes. Based on expert opinion, transport developments and policy in respect of Great Britain, South American countries and cities, Australia, New Zealand and selective experiences in other countries. The basic process that will be followed in the assessment can be summarised as follows:

- Overview of the transport system and salient features prior to reform;
- Key issues underlying the renewal and change process;
- The policy measures implemented;
- The effects of the policy changes; and
- Conclusions reflecting the relevance of the experience and possible lessons for South Africa.

This assessment will provide the basis for the construction of a desired model or framework to guide the transformation process of the South African bus industry.

1.5.3 STRATEGIC GAP ANALYSIS

With the international comparison and the new South African policy as basis, a next logical step would be to assess the bus industry against desired norms and performance requirements. The basis of this analysis is a strategic gap analysis. The gap concept in strategic planning refers to the difference between expected and desired future states of a company or industry. For purposes of brief explanation the desired future state can be viewed as the vision while the expected future state implies a situation in the future that will occur if the status quo strategy is maintained. The difference between the two states, namely the desired and expected future state can be defined as the strategic gap. The strategic gap will be expressed in terms of detailed policy, industry, capacity and other requirements that should be addressed in the change strategy.

1.5.4 CHANGE STRATEGY

Based on the strategic gaps, a comprehensive change model and strategy will be developed. The change strategy will focus on the needs and requirements of the industry to successfully adapt
to the new environment. A multiple evaluation method will be used to determine the focus of the change strategy.

1.6 STRUCTURING OF THE STUDY

In accordance with the above research methodology, the research report will be structured as follows:

CHAPTER 1: INTRODUCTION, PURPOSE AND AIMS. This chapter outlines the reasons for and purpose of the study.

CHAPTER 2: PUBLIC TRANSPORT IN A CHANGING ENVIRONMENT. This chapter focusses on the dynamic nature of passenger transport in a changing environment. The latest trends in passenger transport and their relevance to the objectives of this thesis are discussed in detail.

CHAPTER 3: POLICY REFORMS IN THE UNITED KINGDOM: NEW DIRECTION FOR BUS PASSENGER TRANSPORT. The policy renewal process in the United Kingdom is discussed in detail in this chapter.

CHAPTER 4: THE EFFECT OF TRANSPORT REFORMS IN SOUTH AMERICAN COUNTRIES. This chapter will focus on the policy developments in South American countries and cities, with specific reference to Curitiba in Brazil.

CHAPTER 5: THE EFFECT OF TRANSPORT REFORMS IN AUSTRALIA, NEW ZEALAND AND OTHER COUNTRIES. This chapter will focus on transport policy reforms in Australia and New Zealand.

CHAPTER 6: THE ROLE OF GOVERNMENT POLICY IN THE DEVELOPMENT OF THE SOUTH AFRICAN BUS INDUSTRY. This chapter outlines the important role of policy in the development of the bus industry with specific reference to the policy of racial segregation, policy renewal and the present competitive environment.

CHAPTER 7: ASSESSMENT OF PRESENT AND PROPOSED TRANSPORT POLICY AND LEGISLATION. The primary focus of this chapter is a critical evaluation of the White Paper on National Transport Policy, the National Land Transport Transition Bill and the Moving South Africa strategy.

CHAPTER 8: THE STRATEGIC GAP. The strategic gap will be described, quantified as far as possible and discussed in this chapter.
CHAPTER 9: CHANGE STRATEGY FOR THE BUS INDUSTRY. This chapter will form the essence of the thesis and will contain the solutions required to transform the bus industry from its present position to where it should be.

CHAPTER 10: CONCLUSIONS AND RECOMMENDATIONS. Finally conclusions and recommendations aimed at addressing the needs of the major stakeholder groups will be made in the last chapter.

1.7 SUMMARY AND CONCLUSIONS
An era of white domination in all spheres of South African life formally ended in 1994 with the acceptance of the new democratic dispensation in South Africa. The road to equity is long and challenging, especially in the passenger transport industry where totally inefficient policies, structures and facilities have been created over decades. Accelerated reform is the only key to prosperity.

It is clear that the passenger transport industry, and the bus industry in particular, will have to change in according with new requirements to be in a position to exploit the opportunities in the new business environment. Success factors required in the previous political dispensation differ significantly from the requirements to be successful in a competitive environment and operators, authorities and other key stakeholders will have to acquaint themselves with and develop competencies to deal with the new challenges. The industry is not yet positioned to manage the change process and a comprehensive strategy and solutions are required for this purpose.

"Now, more than ever before, we need people in transportation administration and policy making with perception and lateral thinking ability to assist us in setting guidelines for providing the necessary accessibility and mobility for the economic and social development of our country and its people." (Maharaj, 1995, p 2). With the traditional barriers removed, far reaching and supporting policy in place, and under the direction of new leadership in passenger transport, the bus industry can make a meaningful contribution to the economy and well being of the country and its people. The major focus of this study is to guide the transition process.
CHAPTER 2

PUBLIC TRANSPORT IN A CHANGING ENVIRONMENT

2.1 INTRODUCTION AND OVERVIEW

The purpose of this chapter is to provide a structured background to the remainder of the thesis and more specifically to evaluate recent trends in the environment in which the passenger industry operates. The policy changes that are currently implemented in South Africa were influenced by local needs and requirements as well as international policy developments. To understand the evolution of the South African policy and to evaluate the current policy direction in context, it is essential to understand the dynamic macro environment and world trends pertaining to transport. The purpose of such an evaluation is to assess the impacts of the developments on the transformation and restructuring of the Southern African bus industry.

Chapters two to five form a coherent whole, but due to the volume of the work that needs to be covered it was decided to provide a broad overview of the international developments and trends in chapter two and to evaluate the policy reforms of the most relevant countries, namely the United Kingdom, Brazil, Australia, New Zealand and other selected countries in chapters three to five. Policy reforms in these countries are viewed to be the most relevant to the South African situation. Reasons for the choice of reforms in these countries will be explained in more detail in the respective chapters.

An important purpose of this chapter is also to outline the important role of public transport and to address relevant themes that support the main focus of this thesis, namely a transformation model and strategy for the South African bus industry. With transformation and change as primary driving forces it is necessary to review some aspects of the dynamics of change early in this study to clarify the core assumptions that are used as a basis for decision making. Although the change model and strategy will be explained in detail in the last three chapters, the main trends that will have an effect on the environment will be briefly outlined in this chapter.
As an introduction to the changing environment, it is deemed necessary to briefly review the trends pertaining to government involvement in passenger transport. The historic development of government involvement in passenger transport provides an understanding of the present situation in many parts of the world. According to a Department of Transport (DOT) report titled *Corporatisation of Municipal and Provincial Bus Operators*, the following cycle describes the stages that were generally experienced throughout the world:

- "Small private operators, growing into medium-sized firms;
- Mergers and consolidations lead to multi-company groups;
- Regulation of price and quantity of service;
- Declining profitability of private firms;
- Capital withdrawal and service reductions;
- Public authorities take over private firms;
- Subsidies to restore capital and services;
- Increasing operating inefficiencies and unit costs;
- The dilemma - more subsidies, fare increases or service reductions; and
- Return of the private sector."

This cycle has important implications for the South African public transport industry, which will be discussed later in the study. It should also be stated that the previous political dispensation resulted in a major distortion of transport economic principles, a situation which is unique in the world. A change strategy for the bus industry should be all encompassing and take these variables into account. The growing participation of the private sector in rendering services traditionally viewed as the responsibility of government also has far-reaching consequences for public transport in South Africa, which will be explored in this chapter. With the above cyclical long-term trend in public transport as basis, further changes in the external environment will be explored in the remainder of this chapter.

### 2.2 Megatrends that Influence the Future

The evaluation of any economic activity should be done in accordance with the dynamic nature of the changing business environment. Traditional models to predict and understand the future are no longer effective. It has become increasingly difficult to forecast trends and the traditional *cause and effect relationship* is no longer valid. Despite the impossibility to predict future events, certain trends have become noticeable which can be used as basis to understand and structure the
future in a sensible and planned manner. In this section of the chapter those forces in the external environment that have a major impact on business in general and the transport industry in particular, will be discussed in context of the objectives of this research project.

From a strategic management point of view the external environment is extremely important in directing the future activities of an industry or company. The macro environment will be discussed in terms of so called megatrends, or broad trends that have an important impact on the future. The term was first used by Naisbitt (1984) who identified the following 10 trends that have a major impact in shaping the future:

- **The shift from an industrial society to an information society.** Much more power is vested in information than ever before and successful companies today are those companies that successfully manage their information resources;

- **From forced technology to high tech/high touch,** which refers to the immediate reaction to the introduction of technology. In previous dispensations technology could be forced down. In recent times technology could easily be rejected;

- **From a national economy to a world economy.** The traditional economic barriers between countries have been removed resulting in a world economy and open and unrestricted trade between countries;

- **From short term to long term planning** and a renewed appreciation of vision in strategic management;

- **From centralisation to decentralisation,** which implies a major shift in the devolution of authority.

- **From institutional help to self help** with important implications for empowerment of individuals;

- **From representative democracy to participatory democracy** as major shift in power and politics;

- **From hierarchies to networking,** which refers to the increased importance of networking in business and society;

- **From north to south** which refers to a shift in power and the economy of the United States from the northern states to the southern states; and

- **From either/or to multiple option.** Multiple choice instead of fixed options is becoming increasingly popular in all spheres of business.
These trends are applicable to change in general. The most important trends that have an impact on the environment in which the passenger transport industry operates will be discussed in more detail in this chapter. To design a change strategy for the bus industry, it is essential to understand the macro environment in which the industry operates, not only from a macro Southern Africa but also from an international perspective.

Of the above megatrends, the information age has probably the most far reaching and dramatic implications for the modern world. Changes are taking place at an alarming rate and companies find it increasingly difficult to stay abreast with new developments. "The computer and telecommunications revolution has taken the business world by storm, and has been a critical contributor to the forces that are creating a fundamentally new economy on the planet - the Service or Information Economy." (Grulke, 1997a, p 1).

According to Lessing (1998) the following characteristics of information are significant in understanding the rapid changes in the business environment:

- Information is the basis of knowledge which is in turn the basis of power;
- It moves with the speed of light;
- It has no physical substance;
- It can have profound physical implications;
- It knows no physical boundaries;
- It owes no allegiance;
- It has no tradition;
- It is not subject to morality or ethics;
- It leaks: both in and out; and
- It favours no one; has no master; and bypasses efforts to control it.

Organisations should be pro-active in dealing with information in their efforts to exploit opportunities in the environment. Bureaucratic organisations are no longer effective to deal with the new challenges and it is anticipated that the information business will be dominated by smaller but much more effective and client driven organisations. Smaller organisations are highly customer driven and efficient in the marketplace. Bureaucracies were effective in stable environments but are no longer appropriate to deal with rapid changes in the business environment. According to Hutchinson (1997) bureaucracy was invented for the following
reasons:
- To control large organisations. "In the public sector, control meant prevent corruption. It also meant direct the work of people who were fundamentally uneducated."
- To serve as a communication device; and
- To divide work as organisations grow bigger and bigger.

Hutchinson (1997) concludes: "What information technology does, it threatens all three of those purposes. Information technology is based on the radically different assumption that everybody knows, or can know." Smaller organisations will also be more effective in the restructuring of the public transport industry, especially the bus industry. The tender for contract system is ideal to accommodate smaller operators, especially members of the previously disadvantaged population groups. The bus industry has over decades also experienced various inefficiencies which can in some respects be attributed to large bureaucratic operator organisations.

A logical consequence of the information driven environment is easy, direct and relatively unrestricted access to information. The rapid growth in technology, especially information technology, has made the world literally smaller and much more accessible. Today the entire world with its wealth of information and technology is only the click of a mouse button away. Through the internet the wealth of knowledge in all disciplines and in all corners of the world has become readily accessible and affordable to everyone. Exiting new opportunities for improvement have emerged and synergy to stimulate the continuous improvement process can now be realised with a personal computer in the home office.

A South African transport strategy for the future should enable the government and other stakeholders to optimise opportunities in a rapidly changing environment. Strategy should therefore be flexible and in pace with significant trends that influence the future.

2.3 GLOBALISATION

Increased globalisation is a significant megatrend which has a significant impact on business in general. Globalisation simply implies the free and unrestricted flow of products and money between countries. Through improved communication technology and the electronic media, the world has become smaller and the world market within the reach of the majority of service
providers. Competing in a world market has changed important business requirements and increased competition has become increasingly important.

The implications of globalisation on the South African economy is clearly shown by Wackernagel (1997, pp 1-2): “The steady decline in the costs of computing and communication have made world markets easier to tap; at the same time, the benefits of liberalisation have come to outweigh the dangers. The trend to greater integration is clear: from 1980 to 1996, world output has grown at a rate of 3; trade at 6. At the same time, foreign direct investment flows have expanded by about 9, and trading in shares by 25. Few economies can afford to ignore this phenomenon, and South Africa is no exception. Years of isolation and protectionism have left the country out of touch with global standards - of service, productivity and quality. As a result the competition is stealing a march on us.”

National boundaries are becoming less important in a globalised business environment. “It seems clear that the business world of today is no longer limited by national boundaries, and that organisations need to have a global perspective if they are to survive and prosper in this international environment.” (Punnett and Ricks, 1992). According to (Maharaj, 1995, p 4) the Southern African transport industry will also have to adjust to global trends: “We are moving towards a global economy where economic efficiency in transportation is imperative if we are to remain a world player.” This statement has far reaching implications for the transport industry in general and the bus industry in particular.

The effects of globalisation are also clearly reflected in the Moving South Africa strategy. It is stated that falling tariff barriers to international trade, diminishing non-tariff barriers to trade reintegration of South Africa into the global economy and changes in the South African economy “create very new and challenging circumstances for the transport sector.” (MSA, 1998, p 24).

Although the South African commuter bus industry will probably not enter the global market, an understanding of the dynamic nature of globalism and its effect on the economy at large is essential in creating a better future for the industry and its stakeholders. It should also be stated that various overseas bus companies are interested in entering the South African bus industry through the tender system as part of their global positioning.
2.4 SUSTAINABILITY

Sustainability has become the primary focus of development actions throughout the world, and more specifically with regard to third world countries. A major concern in the third world is whether development funding and actions will lead to economic sustainability. According to Ikerd (1997, p 1) the "question of sustainability has become an important economic, political and social issue."

Sustainability is also high on the agenda of the South African government, especially in terms of empowerment and development policies. Sustainability is a major theme in government actions and initiatives to reconstruct and develop the economy. A safe, reliable and effective public transport industry can indeed support sustainable economic development. It is therefore essential to consider future transport options from a long term perspective. The Moving South Africa project has created a 20 year vision and strategy to ensure sustainable transport as an integral part of the South African economy. The creation of a sustainable public transport system for South Africa is a particularly challenging task due to the distorted development patterns created by the previous political dispensation.

In terms of the primary focus of this study, namely the restructuring of the commuter bus industry, sustainability should be achieved in terms of critical of aspects of transformation, such as:

- **The transport system.** The previous commuter system was not sustainable in terms of the new policy focus of the government. A sustainable system is now critical;
- **New structures** supporting the system, such as transport authorities, should be sustainable to ensure the long term viability of public transport;
- **Funding** is a critical area in which sustainability is required; and
- **Empowerment of operators,** especially small, medium and micro operators from the previously disadvantaged population groups should be sustainable.

The megatrend "from institutional help to self help" discussed in paragraph 2.2 above is a positive driving force to ensure sustainability. This principle is clearly reflected in the South African public transport policy and also an important focus of this study.
2.5 URBANISATION

It is estimated that 50% of the world population will be living in urban areas early in the next century. Urbanisation should therefore be viewed as a significant megatrend that dramatically influences the prosperity of mankind in all spheres of life. A further significant urbanisation trend is that: "The world's largest metropolises are increasingly located in the poorest regions of the world. The fraction of population living in the urban areas in the less developed countries is growing closer to that of the more developed regions." (Puga (1997, p 1).

Mandela (1996, p 1) outlines the implications of urbanisation in South African context as follows: "Urban areas are the productive heart of the economy, but the majority of the urban population live in appalling conditions far from their places of work. Urban areas are extremely inequitable and inefficient due to decades of apartheid mismanagement. We need to massively improve the quality of life of our people, through creating jobs and deracialising the cities. By mobilising the resources of urban communities, government and the private sector we can make our cities centres of opportunity for all South Africans, and competitive in the world economy. The success if this will depend on the initiative taken by urban residents to build their local authorities and promote local economic development."

Polése (1994, pp 1-5) provides the following perspectives on urbanisation which have a significant impact on the provision of public transport:

- "Urbanisation is an essential component for development, a necessary transformation which society will and must go through if it is to move from one stage of development to another. However, the transformation from rural to urban, often painful, can take many paths with profound effects for the well being of society. Crucial choices must be made which require a sound knowledge base. The manner in which society copes with urbanisation and the governance of its cities will in no small part determine the nature of its social and economic development."

- "Since 1900 the urban population of the world has increased from approximately 150 million to 2.2 billion. In 1900 less than 10% of the world's population lived in cities. The figure today is well over 50% and still increasing rapidly. In Japan, for example, less than 20% of the population were living in cities before 1920. Today the city population is a staggering 80% of the total population."
“The link between economic growth and urbanisation is the strongest during the early stages of development. For industrialised nations, once they have attained levels of urbanisation in the 80% range, an additional percentage point to their urban proportions will only be marginally related to higher per capita incomes. As with anything else, there are limits to urbanisation.”

“The dilemma of sub-Saharan Africa is in part that of urban growth sparked by (initially) by economic growth, but unaccompanied by other changes, leaving the continent with an explosive mix of rapidly expanding cities and stagnating economies.”

“Understanding the impact of transportation infrastructures (and pricing) and the dynamics of employment location are of particular importance. Cities whose transport systems discriminate against the poor (often subsidising the private automobile) while at the same provoking a dispersal of employment opportunities will find it more difficult to avoid pockets of poverty and unemployment. The manner in which urban employment and transportation are linked will equally have a powerful impact in determining the relative access of women to jobs.”

The urbanisation levels in some third world countries can be summarised as follows:

- Mexico 69%;
- Argentina 84%;
- Malaysia 38%;
- Mauritius 54%;
- Korea 64%;
- Brazil 73%;
- Algeria 43%; and
- Poland 60%.

Urbanisation in South Africa is also high and continuously increasing. According to MSA (1998, p, 84) the urban population of South Africa amounted to 51% of the total population in 1996. It is estimated that the urban percentage will increase to 53% by 2010 and 54% by 2020. The situation is aggravated by the influx of illegal immigrants from neighbouring countries. These

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1 Urbanisation. Enviro Facts Index Page
(http://www.botany.uwc.ac.za/Envfacts/facts/urbanisation.htm)

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illegal immigrants resettle primarily in the cities which further increase the burden on already overcrowded infrastructure and facilities. As far as public transport is concerned, urbanisation has specific implications for South Africa, especially in terms of shorter travelling distances in urban areas and therefore increased traffic congestion. Increased violence on suburban trains is also becoming a major problem area.

It is interesting to note the tremendous movement in the urbanisation trends during the past century. Few of the largest cities in the year 1900 retained their position on the list. According to Sunter (1992, pp 15-17) there is a significant move in population growth from the triad (Western Europe, Japan and Northern America), to areas outside the triad. Some transport systems in countries outside the triad were developed in a more modern world compared to the triad countries and are therefore useful to study for application in South Africa.

Increasing urbanisation places an increased burden on the provision of safe, reliable, affordable and effective public transport systems and imaginative solutions are required throughout the world to optimise the use of expensive and scarce resources. Hensher (1995, p 12) states that a spreading of working hours is used increasingly in an effort to decrease traffic congestion. Decentralisation of jobs is another way that people respond to in an effort to decrease congestion.

It can be concluded that continued urbanisation will intensify the challenge to develop sustainable transport systems, especially in South Africa where the present system is characterised by various inefficiencies due to previous government policies.

2.6 **INCREASING SPRAWL**

Urban sprawl and public transport can not be studied in isolation. The important relationship between sprawl and public transport is best described by the following statement by Pucher & Lefevre (1996, p 1) “As transport technology improved over the centuries, the speed and comfort of travel increased, but the urban transport problem was never solved. Instead, it became more extensive and more complicated. Mobility has greatly increased, but cities have decentralised so much that accessibility has fallen for much of the population. The spreading out of land use has steadily increased the amount of travel required to reach shopping, recreational, educational

2 Unless specific authors are quoted, information used in this paragraph was obtained from a tender proposal by STATOMET, University of Pretoria.
Sprawl is the continual use of more land than is necessary to accomplish a given development goal. Sprawl is the consumption of resources and land in excess of what is needed to create a comfortable, livable and functional city.” (Thompson, 1997, p 1). This definition is further clarified by the following statement: “Sprawl costs cities (and local authorities) tremendous amounts of money in extra paving and road maintenance costs - and extra sewer and storm drain construction and maintenance costs - and extra costs for the many other services local governments provide. Sprawl therefore, costs taxpayers money and depletes the resource base. It costs developers money because developers get less done on any given parcel of land.” In South Africa, the commuter bus system also contributed to urban sprawl with the same negative consequences. Industries were relocated outside developed industrial areas while informal settlements nearer to job opportunities also developed.

Over the past few decades, the following national and international trends have been observed pertaining to sprawl, which are particularly relevant in understanding the role of urban transport within the context of land use planning:

- Employment trends and urban land use patterns are closely linked. Employment has moved dramatically to decentralised regions and suburbs. Traditionally most employment was located in central business districts or city centres. Existing as well as new opportunities are increasingly located in new suburbs, mainly as a result of new property developments in these areas. This tendency places an exceptional burden on infrastructure, especially the road network, additional paving, sewerage and other services;
- Housing development has moved further from the central business districts into former agricultural land and environmentally sensitive areas;
- Private car utilisation in urban areas has increased substantially resulting in longer travelling times, increased traffic congestion, and increase in pollution and decreased productivity;
- Central business districts have become less densely populated due to the outward migration, resulting in redundant infrastructure, a decline in the tax base of local government and other socio-economic problems; and
People have moved from the older neighbourhoods to relocate in the new suburbs. New job opportunities are now less accessible to the lower income groups due to the longer travelling distances at high cost.

The above trends are of significant importance in the design of public transport systems in urban areas. Throughout the world, solutions are constantly being created to address the inherent dangers of sprawl. In practical terms the following indicators of urban sprawl, which have an important impact on public transport, were generally found in the literature:

- A decrease in the density of the urban population;
- Increased use of agricultural land for development;
- When the increase in the average distance travelled by the population is higher than the population growth;
- When the growth in cars is considerably higher than the growth of the population;
- Increased urbanisation; and
- Increased traffic congestion in urban areas.

The above indicators are typical of the South African development pattern. This trend poses a particular challenge to land-use and transport planners. As stated, the commuter system was an important contributor to sprawl in South Africa, and imaginative solutions to reverse traditional patterns are now required. The following message by Carson & Billen (1996, p 1) is very relevant to the South African situation: “Transportation corridors provide access and value to land and this has led to ever-increasing metropolitan sprawl. Yet the more we learn about transportation and land use the worse the traffic jams and the sprawl get. A major reason for this apparent negative learning curve is the way we have separated authority for transportation at the state and regional level from the powers of land use at the most local level. This institutional disconnect ensures an uncoordinated future and leads to continued metropolitan sprawl.”

Hensher (1995, p 12) draws a very significant conclusion pertaining to urban passenger transport and sprawl: “A most noticeable observation around the world is that the same time urban densities are declining, the average commuting time has remained relatively constant. Shorter trip times are spreading across both genders for an increasingly higher proportion of commuters. The growing incidence of part time work, primarily by females compensated the increasing
traffic congestion to keep average work travel times relatively constant over the last 20 years.”

From the above perspective on urban sprawl it is clear that transport planning and land use planning should be integrated.

2.7 INCREASED PRIVATE VEHICLE USE WORLDWIDE

“Congestion is the most obvious example of too much travel demand compared to transport supply.” (Pucher & Lefevre, 1996, p 1). The most logical outcome of this situation is increased private car use in cities. The impact of increased car travel is so intense that it has led to the perception that cars kill cities. “Throughout the industrialised world, car ownership and use have grown rapidly over the past few decades. In contrast, public transport use has fallen or stagnated, so that urban transport has become more car oriented.” (Pucher & Lefevre, 1996, p 2). Despite concerted efforts to reduce private car travel in cities, there is an alarming increase in the use of private vehicles worldwide. In the South American city of Sao Paulo a staggering 1 100 new cars are added to an excessively overcrowded city every day. (Goldschmidt, 1996, p 54).

Most crowded cities in the world have actions in place to reduce private car use. Van Wijk (1994, pp 1-5) describes the concerted efforts to reduce car use in various cities including Copenhagen, London, Athens, La Rochelle, Amsterdam, Bologna and Granada. The following strategies have proved to be successful:

- Green cities as theme, focusing on the environmental effects of increased car use in cities; and
- Economics as city theme, focusing inter alia on the role of nodes, freight transport and other economic considerations.

Marshall & Banister (1997, p 92) provides the following interesting statistics and trends in respect of 15 European Union countries for the period 1985-1994:

- The population increased by 3,4%;
- The length of the road network increased by 10%;
- Car ownership increased by 31%; and
- Car travel measured in terms of passenger kilometres increased by 40%.

According to Pucher & Lefevre (1996, p 21) the “main reason for increased car ownership and
land use throughout the world is income growth, which has made such use more affordable. In addition, various advances in communications and production technologies have encouraged the decentralisation of cities. Lower density urban development has both encouraged and necessitated more automobile use, while making public transport, cycling and walking less and less feasible travel options.” According to Veeneman (1997, p 29) the effects of increased car use can be summarised as follows: “The enormous growth of car transport in the last decades has led to a great burden on the environment due to emissions and space use, and disturbance of accessibility to economic important areas due to congestion on road networks.”

Declining public transport passenger volumes is a logical outcome of increased use of private vehicles in cities. It can be expected that an increase in private car use, relative to the size of the population, will automatically lead to a decrease in the use of public transport. This tendency will be dealt with in more detail in the next three chapters. According to the Moving South Africa draft report, the number of cars in South Africa increased by 72% during the period 1972-1996. The increase up to the year 2020 is estimated at 64%. “Four factors drive this trend: low car operating costs, land use patterns, poor public transport alternatives and infrastructure investment in roads.” (MSA, 1998, p 61).

The empowerment initiatives of the South African government have positive implications in general but may also have a negative impact on the use of public transport due to the fact that a much larger portion of the economically active population are now in the position to buy cars.

2.8 RENEWED FOCUS ON PUBLIC TRANSPORT

The declining market share of public transport is best described by Cox (1993, pp 1-4). The causes of the decline can be summarised as follows:

- **Ineffective marketing.** Service provision has not kept pace with changing markets, resulting in a decline in passenger volumes;

- **Escalating unit costs.** In many parts of the world operating cost has increased more than market rates; and

- **Wasteful investments** as a result of very costly public transport systems requiring substantial infrastructure development.

Despite its declining market share, public transport is still universally recognised as an
exceptionally important catalyst for growth and prosperity. There is a renewed focus on public transport and concerted efforts to regain passengers lost to private vehicles are implemented in most large cities of the world. The rapid increase in the use of private cars necessitate a reconsideration of policies to attract passengers to public transport. In this regard the comments by Newton (1994, p 25) are relevant: “The importance of effective transport systems to a modern economy has become a truth universally acknowledged over the past century, as without them vital access to goods, labour and services is either poor or absent. Indeed the economic cost in wasted time and resources of imperfect transport systems are now estimated to consume a significant proportion of national output, showing how vital a lubricant transport is to the economic engines of commerce and production, without which they will seize up. Increasing urbanisation since the industrial revolution has given transport in towns and cities a particularly important role to play in the prosperity of both region and nation.”

Transport policy is therefore of crucial importance in the development of a country and the consequences of ignorance in this regard is well documented throughout the world. “Transport problems have plagued cities from their very beginnings. Even horse drawn chariots caused congestion in ancient Rome.” (Pucher & Lefevre, 1996, p 1). Transport, as major catalyst for growth, plays an important role in the development of a country and its cities in particular. A myriad examples exist throughout the world where transport was pro-actively positioned as a major catalyst for change and development. Various examples where the contrary occurred can also be quoted. It is therefore essential that transport policy includes measures to attract people to public transport. Results of such policy measures will be discussed in detail in the following two chapters.

Repositioning of public transport should be based on real customer needs and the rendering of public transport services should be based on sound economic principles. It is increasingly realised that a supply driven public transport system is no longer the solution. Operators and authorities should focus their attention on the dynamic nature of passenger demand. Of particular significance in this regard is also the customer focus theme in the Moving South Africa project. Public transport can only be effective if user needs are satisfied. “The guiding premise of the strategy is the satisfaction of the customers of transport in the service of fulfilling the national objectives.” (MSA, 1998, p 8).
2.9 **INCREASED FOCUS ON ENVIRONMENTAL ISSUES**

“The world is very different now. For man holds in his immortal hands the power to abolish all forms of human poverty and all forms of human life.” These powerful words by former President Kennedy of the United States in his inaugural address are symbolic of a new realisation that mankind can destroy life on earth as well as the environment. Preservation and conservation of nature and the environment has since become very important global issues. (Barry, 1994) has a very important message: “Many of the world’s greatest civilisations crumbled largely due to ecological collapse. Throughout history, all forms of social organisation damaged the environment even as they tried to reduce their subservience to it.”

The renewed focus on the environment came as a result of the growing realisation by decision makers that we live in a finite world with limited resources, especially the natural resources and the environment. A modern tendency is to set policy objectives and targets in terms of pollution and other environmental indicators and to stimulate development along corridors to prevent development in ecologically sensitive areas. Unfortunately transport is often in the public eye pertaining to sensitive environmental issues. Despite the undisputed economic and social benefits of public transport, this sector is often viewed as being detrimental to the environment. Transport policy should therefore make provision for the protection of the environment and a country’s natural resources. In this regard Hensher (1995, p 9) states: “The greening of the automobile industry has been progressing quite markedly in the last 10 years, even though these is still a long way to go.”

2.10 **LOWER FUEL CONSUMPTION AND DECREASE IN FOSSIL FUEL USE**

Lower fuel consumption, mainly as a result of improved technology, is a definite trend that have an impact on the transport industry. Sunter (1992, p 69) estimates that the total number of vehicles in the world will increase by 43% during the period 1992-2002, or from 572 million to 820 million units. It is projected that fuel consumption during this period will remain constant at about 22 million barrels per day. The reason for this tendency is the fact that vehicles “are getting lighter on the road.”

According to Hensher (1995, p 9) “The most notable improvements in fuel consumption (litres per 100 km) have occurred in the USA from a dismal base of nearly 17 litres per 100 km in 1970 to 12 litres per 100 km in 1990; approaching the European average of 9 litres per 100 km. Fuel
consumption alone however is not an adequate indicator of the 'greening' process for automobiles - the patterns and intensity of automobile use must be considered. Given fuel prices, an improvement in fuel consumption is expected to increase the demand for vehicle kilometres, ceteris paribus.”

Technological developments and a decrease in fuel consumption are particularly noticeable in diesel engines which power a significant portion of vehicles used in public transport. Innovation and efficiency improvement go hand in hand. Innovation is not restricted to technology but also to policy development which will be discussed in the next two chapters.

2.11 A GROWING CONCERN FOR THE NEEDS OF THE DISABLED AND OTHER MINORITY GROUPS

There is an increased concern and awareness of the needs and aspirations of disabled people and other minority groups. Infrastructure and facilities are increasingly adapted to cater for the peculiar needs of handicapped people. As far as passenger transport is concerned, Australia is a good example of a country that cares about the needs of especially its handicapped people and legislation in this regard is viewed as generous. The growing concern is reflected in the following statement by Radbone (1995, p 436): “Public transport provision throughout the western world is being subject to two quite distinct forces. The first is the need to economise, often pursued through the introduction of competition. The second is to meet the legal obligations to be non-discriminatory in terms of the access provided for all citizens.”

The human side of transport is receiving renewed attention in most countries in the world. Specific legislation is being introduced to protect the rights of minorities, and transport systems, and infrastructure, are specifically adapted to ensure better access for and use by handicapped people. These developments obviously have a significant impact on public transport cost structures. Although South African legislation in general protects minority rights, considerable time and effort will be required before all services and facilities will meet the needs of all minority groups.

2.12 CHANGED PATTERNS OF PUBLIC TRANSPORT USE

According to Hensher (1995, p 10) patterns of public transport use have changed in recent years. International and local evidence shows that individuals most likely to use public transport are:
School children;
- Households with low household incomes (but not necessarily low personal incomes for multi-worker households);
- A declining proportion of the elderly (those without drivers licenses or those who are physically unable to drive); and
- Those who have no automobile in the household, who live in a central city and work in or adjacent to the central business district, and who live in an densely settled are.

Hensher (1995, p 10) further states: "In the context of the commuting trip, workers satisfying these criteria typically exhibit a public transport use in excess of 70% in most cities. Such workers however are a declining percentage of the workforce. For example, in the USA they are 4.7% of all commuters in 1980 and even less today. In Western cities such as Paris we find that the share of commuters living in/near and working in the central city is 17% and declining, with massive growth of commuting from persons living and working in suburbs - 48% of commuters in 1982."

Accurate segmentation of the public transport market should therefore be viewed as a pro-active step towards increasing the market share of public transport. As a result of the supply driven nature of the South African bus commuter services, specific marketing actions should in future receive priority attention. The Moving South Africa project has made specific recommendations in this regard which will be addressed in more detail later in the study.

2.13 DEVOLUTION OF AUTHORITY

The devolution of authority to lower levels of government is a further trend that has specific implications for public transport. It has become increasingly clear that centralisation, whether in government or in the private sector, eventually leads to bureaucratic inefficiency and hence the tendency to decentralise and devolve authority to lower levels of decision making. Traditional bureaucracies simply will not survive in the new business environment.

In accordance with the dynamics of the information age it makes sense to devolve decision making as close to the operation as possible and hence the emergence of smaller organisations with less bureaucratic detail. The tender for contract system, which is growing in popularity in
many parts of the world, also enables more smaller operators to participate in the public transport system. The tendency for smaller organisations is therefore also evident in the public transport industry. The devolution of transport responsibilities to the lowest competent level of decision making is a central theme of the South African policy renewal process.

### 2.14 PRIVATISATION, DEREGULATION AND COMMERCIALISATION

Increased privatisation is a world wide phenomenon and an increase in private sector involvement in public transport is noticeable throughout the world. "The efficiency of the private sector in providing lower cost services is well documented throughout the world." (Walters, 1995b, p 9). "Worldwide there is a trend towards contracting, and movement away from deficit subsidies and other traditional forms of subsidy. Much more emphasis is being placed on performance and value for money, especially when it comes to public funds." This statement by Walters (1995 b, p 14) is particularly relevant in terms of the required transformation process.

Sarbib (1997, p 2) describes privatisation as follows: “It is not an end in itself, but it is a key tool for improving the efficient allocation of resources, for mobilizing investment, and for stimulating private sector development. Privatization does this because it:

- Brings into the open the inefficiency of state run businesses;
- Makes investment opportunities available; and
- Highlights the need and becomes the catalyst for capital market development.”

It is clear that privatisation is occurring at large scale, also on the African continent. Table 2.1 shows the number of privatisation transactions in Africa up to 1996 as well as the methods that have been employed. An interesting fact about privatisation is that it is not bound to political ideology; its primary driving forces are rational, and therefore this model has become so popular all over the world, even under socialist regimes. It should be stated that Africa has traditionally not been viewed as a viable continent for investment, due to various considerations. Large scale privatisation in Africa can change this traditional perception. The United States apparently changed its views on Africa towards a more favourable position, especially after the recent visit to Africa by President Clinton. Transport is also viewed as an ideal sector of the economy to privatise. Pucher & Lefevre (1996, p 35) states that private involvement in transport has increased in most countries during the 1980's and 1990's. This trend will be explained in more detail in the next two chapters. As stated earlier public monopoly is not in pace with the new business environment. Increased involvement of the private sector resulted in increased
efficiency throughout the world in various sectors of the economy.

<table>
<thead>
<tr>
<th>Method</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share sales by competitive tender</td>
<td>854</td>
</tr>
<tr>
<td>Liquidations</td>
<td>458</td>
</tr>
<tr>
<td>Asset sales by competitive tender</td>
<td>421</td>
</tr>
<tr>
<td>Non-competitive sales of shares</td>
<td>291</td>
</tr>
<tr>
<td>Leases/concessions</td>
<td>187</td>
</tr>
<tr>
<td>Pre-emptive rights share sales</td>
<td>76</td>
</tr>
<tr>
<td>Public flotations</td>
<td>69</td>
</tr>
<tr>
<td>Management/employee buyouts</td>
<td>48</td>
</tr>
<tr>
<td>Joint ventures</td>
<td>47</td>
</tr>
<tr>
<td>Management contracts</td>
<td>39</td>
</tr>
<tr>
<td>Restitutions to former owners</td>
<td>36</td>
</tr>
<tr>
<td>Transfers to trustees</td>
<td>27</td>
</tr>
<tr>
<td>Non-competitive sales of assets</td>
<td>25</td>
</tr>
<tr>
<td>Debt/equity swaps</td>
<td>7</td>
</tr>
<tr>
<td>Unspecified methods</td>
<td>100</td>
</tr>
<tr>
<td><strong>TOTAL TRANSACTIONS</strong></td>
<td>2718</td>
</tr>
</tbody>
</table>

Source: (Sarbib, 1997, p 5).

The transformation of public transport from government monopoly to increased private sector involvement may take the following forms:

- Commercialisation, which implies the introduction of commercial management principles and practices to ensure accountability;
- Corporatisation, which implies the establishment of separate legal entities to operate and manage a Government owned business enterprises with the Government as sole owners or shareholders; and
- Privatisation, which implies full or partial sale of a Government business enterprise to private owners.

Governments may decide on a gradual process from government ownership to privatisation through the above sequence, or to privatise directly. These models have specific implications for
the South African public transport industry and specifically the provincial and municipal bus operators. According to the National Land Transport Transition Bill these operations will have to be corporatised to participate in the tender system. Corporatisation will occur in two phases to ensure a smooth transition towards private sector management principles. The transformation of these companies will form part of the transformation and restructuring strategy that will be presented in chapter nine.

2.15 COMPETITIVE TENDERING

Competitive tendering should be viewed as a logical consequence of the major privatisation drive discussed in paragraph 2.14 above. The current environment in public transport in various parts of the world show certain important similarities in terms of the focus of the transformation process towards privatisation. In response to such changes, the following three public passenger transport trends in western countries have been identified by Wendell Cox in various published articles:

- **Replacement of monopolies with the competitive market.** A major trend is the increased use of competitive tendering as replacement for traditional means of subsidisation;
- **Separation of policy from operations.** There is growing belief that the transport system can not be administered and operated by the same organisation; and
- **Reduction of public transport subsidies.** In various countries such as the United Kingdom, Italy, Norway, the Soviet Union, the Netherlands and the United States subsidies are being reduced.

These trends and their implications in various parts of the world will be the primary focus of the following two chapters. The extent of the transformation process required in the South African commuter bus industry should be viewed as a major focus area of this research project, which will culminate in a comprehensive change strategy.

In terms of the objectives of this research project it is deemed necessary to briefly review the current status of competitive tendering in various parts of the world. Competitive tendering is a major theme in the new public transport dispensation in South Africa and learning experiences in other parts of the world can provide structure in the transformation of the South African bus industry. Competitive tendering is gaining increasing support as an efficient way of service
provision. Competitive tendering is a logical outflow of the transformation of public monopoly to private sector involvement witnessed throughout the world. The current status of competitive tendering outside Europe is summarised in table 2.2. The information was obtained in non-tabular form from Cox (1997, p 2).

Cox, (1996 c, p 1) describes the following two imperatives which are particularly relevant to competitive tendering:

- **The moral imperative**: Government has a moral imperative to spend “no more than necessary to produce the required quantity and quality of services.”
- **The fiscal imperative**: Governments also have a fiscal imperative not to spend more than necessary.

Cox further states that monopoly violates the public interest. “A monopoly can charge higher prices, and produce products of a lesser quality because customers have no choice. It is not that monopolies are evil: it is that they, like all of us, tend to serve their own interests. A monopoly can increase its revenues by violating the interests of consumers.” (Cox, 1996 c, p 2). The status of competitive tendering is further reflected in the following statements:

- “The introduction of competition in the public transport sector is the most exciting and profitable challenge ever to appear in modern business life.” (Axen, 1994, p 235); and
- “.the moves towards competition policy had now become the global engine driving the changes (desired or not) to transport policy.” (Henscher & Knight, 1996, p 288).

An increase in competition as policy strategy has proved to be very effective in various countries in the world. Isaac (1995) states that even if contracting out may have been adopted for the wrong reasons, the following benefits were realised:

- Cost saving;
- Gains in productivity due to the fact that politicians are no longer in control of the workforce;
- Identification of the cost of individual transport modes;
- The benefits emanating from a separation of policy and operations; and
- Focus on separate activities of the transport company.
<table>
<thead>
<tr>
<th>Country</th>
<th>Current status on competitive tendering</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Approximately 10% of fixed route and 70% of door to door services are competitively tendered. 30% of school bus services tendered. More than 1 000 buses operate on commercial basis from New Jersey into New York.</td>
</tr>
<tr>
<td>Canada</td>
<td>All suburban bus services as well as 50% of school bus services tendered. Smaller public transport systems are competitively tendered in British Columbia, Alberta, Saskatchewan and Ontario.</td>
</tr>
<tr>
<td>Europe</td>
<td>The European Union is actively encouraging competitive tendering.</td>
</tr>
<tr>
<td>Australia</td>
<td>Conversions are in process or completed in Melbourne, Adelaide and Perth. Virtually all public transport services could be converted to tenders under federal-state agreement.</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Public transport systems have been converted to a regulatory system similar to the UK system outside London. Most services are competitively tendered.</td>
</tr>
<tr>
<td>Japan</td>
<td>Most public transport services in Tokyo-Yokohama and Osaka-Kobe-Kyoto are provided on commercial or non-subsidised basis.</td>
</tr>
<tr>
<td>Caracas, Santiago</td>
<td>Closed publicly operated bus system and converted to commercial operation.</td>
</tr>
<tr>
<td>(Chile) and Bamako</td>
<td></td>
</tr>
<tr>
<td>(Mali)</td>
<td></td>
</tr>
<tr>
<td>Sao Paulo</td>
<td>Intends to convert to private operation.</td>
</tr>
<tr>
<td>Seoul</td>
<td>Closed public bus system. All services now provided by private companies.</td>
</tr>
<tr>
<td>Istanbul and Calcutta</td>
<td>In process of increasing services provided by private operators.</td>
</tr>
<tr>
<td>Formerly communist</td>
<td></td>
</tr>
<tr>
<td>nations:</td>
<td></td>
</tr>
<tr>
<td>* Moscow</td>
<td>Approximately 50 million passengers are transported by means of private, fixed route taxis.</td>
</tr>
<tr>
<td>* Ukraine</td>
<td>Large numbers of private buses operate in this area. Private buses account for 20% of public transport in Odessa.</td>
</tr>
</tbody>
</table>

Source: Cox (1997, p 2).

After an intensive evaluation of competitive tendering systems and practices Isaac (1995, pp 25-26) draws the following conclusions:

- "Contracting out is here to stay;"
It is necessary whenever comparing or looking at contracting out, and using the various terms involved, to be precise and to define exactly what is meant;

Contracting out can be utilised not just for the whole operation but can be used separately in every segment of the transport operation;

It is vital to establish the balance between cost and quality - and that requires mutual understanding between the contractor and the body awarding the contract;

The public/private sector relationship and the objectives that are being sought by both parties need to be clearly defined to avoid confusion and difficulty at a later stage;

Whilst real competition can be of considerable value in ensuring that there is productivity and benefits for the community it must be done in a way which enhances and which does not diminish the quality of the service;

Operators must persuade authorities to award contracts for public transport operators which have objectives linked to the wider needs of the community to be served;

It is necessary to be precise in contracts to ensure commitment and achievement on the contracted objectives;

For the protection of all parties to the contract the results which are to be measured must be established and the measurement methods agreed; and

It is useful to draw on existing experience but very important to examine very carefully all the details - in particular the concepts, the objectives, the results, and the side effects - before deciding to adopt all or part of an existing scheme from another city."

Based on an evaluation of competitive tendering services in various countries, Cox (1996, pp 15-20) suggests that the following considerations be taken into account in the design of competitive tendering systems:

- **Service quality** should be viewed as important criterion in the allocation of tenders and prospective tenderers should be evaluated on their ability to render the required level of service quality and safety;

- The **duration of contract** periods should be **limited** to ensure that operators regularly experience competition;

- Tender size **should also be limited** to ensure that more competitors have the
opportunity to tender and enter the market;

- Tender prices should be "indexed or specified" for the duration of the contract to ensure continuous measurement of efficiency;

- Arrangements with labour should not be specified in the contract to ensure that labour is subjected to the "same competitive incentives that apply to the rest of the economy." This recommendation is also to prevent artificially high labour expenditure;

- Tenders should conform exactly to tender specifications and no deviations should be allowed to ensure economic discipline from the outset;

- Multiple tenders should be structured in a careful manner to minimise potential operator abuse and manipulation;

- Limitation of market share should be considered to ensure that larger operators do not gain too large a share of the contracts to the detriment of smaller operators;

- All potential tenderers should receive full and timely information and tender evaluation results should be transparent and open for public inspection;

- Fairness should prevail throughout the tendering process and the basis of tender evaluation should be known to, and fairly applied to all tenderers;

- Tendering by publicly owned operators should be evaluated carefully so that they do not have any unfair advantage to private operators in terms of access to capital, resources etc;

- Single tender submissions should not be accepted as such but carefully evaluated. A possibility would be negotiate a lower tender price; and

- Tendering authorities should ensure that the cashflow of operators is healthy to successfully execute the tender in accordance with specifications. More frequent payment should therefore be considered.

The above recommendations are particularly relevant within the South African context. The labour issue, however, may be problematic in the sense that specific arrangements have already been concluded with labour. It is agreed, however that competitive forces should as far as possible not be distorted in a competitive system. On the other hand, the transport system should be compatible with the labour legislation and policy of the country. Labour has become a particularly strong force in the South African economy and negotiated settlements should be honoured to secure their continued support.
After an intensive study of international trends, Cox (1996, p 20) has drawn the following conclusions:

- Due to its impact on effectiveness and efficiency, competitive tendering should be considered for incorporation into all public transport services;
- "Major capital facilities should be developed in such a manner that competitive incentives operate."
- Competitive incentives should be designed to "foster expansion and maintenance of the competitive market." No monopoly should be allowed to develop;
- "The choice of competitive incentives should respond to the public policy objectives in the nation or locality in question."
- "Commercial operation of public transport services should be permitted so long as its operation complements public objectives."
- It is essential that policy and operations be separated. The system should be structured in a way that organisations administering the tenders should not be allowed to operate services; and
- Public monopoly should be abandoned.

It can be concluded that competitive tendering is a proven and efficient form of service delivery due to its distinct advantages in terms of cost, service efficiency and other considerations if compared to systems where there is no competition.

2.16 IMPLICATIONS OF ENVIRONMENTAL TRENDS AND CHANGES ON POLICY DEVELOPMENT

From the trends discussed in this chapter it can be concluded that transport policy should be dynamic to adjust to changes in the environment. A flexible approach to policy development is therefore required.

The rapid changes in the business environment should be viewed as a reality that policy makers are faced with which also necessitate a pro-active policy development approach. Such an approach is the scenario approach, which is described according to the research done by Rienstra & Nijkamp (1997) and Stead & Bannister (1997). In their assessment of European transport policy, a scenario approach is followed in which the impact of policy directions is assessed in terms of:
- Expert opinions on policy and the possible outcome of policy under various scenarios;
- Three basic policy directions, namely optimising efficiency, regional development and environmental objectives;
- Two distinct social and institutional frameworks namely cooperation and polarisation; and
- Six scenarios derived from institutional frameworks and the policy directions.

The different policy scenarios are summarised in table 2.3. These policy scenarios clearly reflect the complexity of the external environment and illustrate the different policy outcomes under different circumstances and/or assumptions. The underlying principle is the realisation that diversity and complexity should be accommodated in policy development, and alternatives outcomes should be considered.

From the scenario analysis, the following conclusions can be drawn according to Rienstra & Nijkamp (1997, p 38):
- Cooperation in society is necessary in achieving efficiency and environmental targets;
- Polarisation has generally much more negative effects, including lower levels of mobility;
- Societal resistance makes it difficult to introduce policy measures; and
- Finally, it can be concluded that stated policy objectives in terms of efficiency, regional development and the environment will be achieved within a cooperative framework.

One of the main benefits of the scenario approach to transport policy development is the fact that policy can be evaluated against different possible outcomes. This model has very relevant implications on the South African situation. Polarisation between the South African provinces, for example, can have a negative impact on public transport if compared to cooperation objectives. Other key policy considerations such as environmental issues can also be evaluated in terms of possible outcomes.
TABLE 2.3 POLICY SCENARIOS

<table>
<thead>
<tr>
<th>Competitive Nations</th>
<th>Competitive Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic efficiency-Polarisation</td>
<td>Economic Efficiency-Cooperation</td>
</tr>
<tr>
<td>* Privatisation</td>
<td>* Market principles</td>
</tr>
<tr>
<td>* Pricing in all forms</td>
<td>* Privatisation</td>
</tr>
<tr>
<td>* Investment for maximum economic return</td>
<td>* Investment of pricing revenues</td>
</tr>
<tr>
<td>* Growth at the core</td>
<td>* Stimulation of the periphery</td>
</tr>
<tr>
<td>* Public transport subsidy reduced</td>
<td>* City development</td>
</tr>
<tr>
<td>* Public transport profitability poor</td>
<td>* Some closure of public transport</td>
</tr>
<tr>
<td>* More efficient cars</td>
<td>* Some high speed rail development</td>
</tr>
<tr>
<td>* High speed rail network completed</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equitable Nations</th>
<th>Equitable Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Development-Polarisation</td>
<td>Regional Development-Cooperation</td>
</tr>
<tr>
<td>* Protectionism</td>
<td>* Development in South and East Europe</td>
</tr>
<tr>
<td>* Little new road or rail infrastructure</td>
<td>* Use of telecommunications</td>
</tr>
<tr>
<td>* Core ideas in decline</td>
<td>* New infrastructure built</td>
</tr>
<tr>
<td>* Industry footloose</td>
<td>* High speed rail and airports built</td>
</tr>
<tr>
<td>* Public transport decline</td>
<td>* Cities neglected</td>
</tr>
<tr>
<td>* No large increases in fuel prices</td>
<td>* High mobility</td>
</tr>
<tr>
<td>* No road pricing</td>
<td>* Long distance travel</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Environmental Nations</th>
<th>Environmental Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Protection-Polarisation</td>
<td>Environmental Protection-Cooperation</td>
</tr>
<tr>
<td>* Investment in new technology - new fuels</td>
<td>* Environmentally friendly transport</td>
</tr>
<tr>
<td>* Road pricing and other pricing not introduced</td>
<td>* High speed rail</td>
</tr>
<tr>
<td>* High speed rail network completed</td>
<td>* Road pricing</td>
</tr>
<tr>
<td>* Concentration o activities - shorter journeys</td>
<td>* Higher prices and taxation on transport</td>
</tr>
<tr>
<td>* Core dominant and dense development</td>
<td>* Higher mobility costs</td>
</tr>
<tr>
<td>* Public transport expanded</td>
<td>* High accessibility</td>
</tr>
<tr>
<td>* Car use restricted</td>
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</tbody>
</table>


Finally, the value of a scenario approach to policy development can best be evaluated by the following conclusion by Rienstra & Nijkamp (1997, p 33): “Transport policy is a complex and multi-faceted course of action. In shaping transport policies, many stakeholders with conflicting interests play an important role. At the same time, transport policy influences many other policy objectives, eg. economic growth, equity and regional development.” A flexible and dynamic approach to transport policy development can indeed position the public transport industry as
catalyst for economic development and social upliftment.

2.17 SUMMARY AND CONCLUSIONS
The environment in which the public transport industry operates is changing rapidly. The industry should adjust to these changes to optimise its position. It can therefore be concluded that future transport strategies and systems will have to be in pace with, and optimise opportunities within the rapidly changing external business environment. Public transport is faced with new challenges and creative strategies and solutions are required to enable public transport to fulfil its leading role in economic development and social upliftment.

In accordance with the purpose of the chapter it can be concluded that the following objectives have been achieved:

- To evaluate and discuss recent trends in public transport;
- To provide a broad overview of relevant international developments affecting public transport;
- To focus on the changes in the macro environment that have an impact on public transport and policy development;
- To outline the important role of public transport and to address relevant themes that support the main focus of this thesis, namely a transformation model and strategy for the Southern African bus industry; and
- To review some aspects of the dynamics of change early in the report to clarify the core assumptions that are used as basis or decision making.

This chapter has laid a sound basis for the transport reforms in appropriate overseas countries that will be discussed in the following three chapters.
CHAPTER 3

POLICY REFORMS IN GREAT BRITAIN: NEW DIRECTION FOR BUS PASSENGER TRANSPORT

"Privatisation and deregulation of public transport were key features of the last decade. But they failed the passenger because they fragmented public transport networks and ignored the public interest. This is why we promised an integrated policy to fight congestion and pollution." (The Government’s White Paper on the Future of Transport, 1998).

3.1 INTRODUCTION AND OVERVIEW

Great Britain has played a leading role in the transformation of their bus industry from public monopoly and ownership to a competitive market through deregulation and privatisation. The objective of this chapter is to critically evaluate these policy changes in the context of the primary objective of this thesis, namely an evaluation of the impact of transport policy on the restructuring of the South African commuter bus industry. It should be stated at the outset that the policy reforms that occurred in Great Britain differ substantially from the policy direction that is proposed for South Africa. Deregulation, for example, was a major component of the British reforms while it will not be part of the South African reform process. However, the British policy reform process provide valuable learning experiences that are viewed as relevant to South Africa.

Great Britain pioneered transport policy reforms aimed at increased competition in the early 1980’s, although the process started as early as 1968. Of critical importance is the change from public monopoly and ownership to market driven private sector involvement and deregulation. These policy changes should be seen as an integral part of specific privatisation and deregulation initiatives of the Thatcher government. These radical developments paved the way for major reforms of the public transport industry in other parts of the world. The dramatic transport policy developments that originated in the United Kingdom should also be viewed in conjunction with the world wide privatisation trend that Louw (1988, pp 2-3) describes as the first truly world
pp 2-3) describes as the first truly world wide revolution. Governments all over the world realised the benefits of incorporating the capital and resources of private enterprise in rendering services that were previously regarded as sole government responsibilities.

The transition from public monopoly and ownership to private sector involvement should be viewed, inter alia, as an attempt by the Thatcher Government to introduce efficiency measures in state-owned businesses. Improved productivity can generally be expected from the privatisation of government services. The results achieved with privatisation initiatives in public transport should be evaluated in context of the broad results that have been reported in Great Britain as summarised in table 3.1. From the table it can generally be concluded that the privatisation initiatives in other industries resulted in higher productivity and efficiency, which is an ideal of any government.

<table>
<thead>
<tr>
<th>TABLE 3.1 TOTAL FACTOR PRODUCTIVITY IN GREAT BRITAIN PUBLIC SECTOR</th>
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<tbody>
<tr>
<td>(Rate of change p.a.)</td>
</tr>
<tr>
<td>-------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>BAA</td>
</tr>
<tr>
<td>British Coal</td>
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<tr>
<td>British Gas</td>
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<td>British Rail</td>
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<tr>
<td>British Steel</td>
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<tr>
<td>British Telecom</td>
</tr>
<tr>
<td>Electricity supply</td>
</tr>
<tr>
<td>Post Office</td>
</tr>
<tr>
<td>Average</td>
</tr>
</tbody>
</table>

Source: (http://www.london.co.uk/pubs/privat/privtnec.htm).

Of particular significance in the above table is the effect of the learning curve in the transition to privatisation. Improvements during the first years are generally lower, with more substantial improvements after 5 years. This learning curve is typical of transformation processes in general.

Different opinions regarding the success or failure of privatisation and deregulation are evident among researchers and main authors. Pucher & Lefevre (1996, p 1) have the following view:
"The UK presents a dramatic case of how important public policy can be in determining the fate of public transport. Through the decentralisation, privatisation and fiscal austerity policies of Thatcher, public transport systems in England have been decimated. Service changes and fare increases have led to massive ridership losses and accelerated the modal shift to the automobile." This view is largely shared by Dawson (1998, p 1) "The competitive market place left behind by the previous Government has been a disaster, resulting in particular in declining patronage of bus services."

Obviously the other side of the argument should be stated. Thomas (1995, p 562) states the opposite: "Over 15 years, the provincial bus industry in Great Britain has been transformed from being a supply-led, publicly owned, council-oriented monopoly sector with a service culture where prices were a function of cost, into a sector which is generally customer-led and privately owned with minimal barriers to entry and innovation and with a commercial culture where cost is a function of the price the market will bear." Various positive results of in terms of the British public transformation process will also be considered in the remainder of this chapter. It can be excepted that the outcome of a major transformation process such as the transition of the British transport industry will be viewed differently by different people. Different views add new dimensions to the interpretation of facts. The aim of the literature study of this thesis is to provide learning experiences in different parts of the world and all conclusions and views that can add value to the objectives of the study, will be evaluated in the context of the South African environment.

An important focus of this thesis is an assessment of the role of transport policy in the development of certain countries. To achieve this goal effectively, a specific approach will be followed to relate the various international experiences to the South African situation. This chapter will focus on the British policy reforms and their effect on the bus industry. In accordance with the research methodology that will be followed, reporting of literature findings on the various international experiences will be done under the following headings:

- Overview of the transport system and salient features prior to reform;
- Key issues underlying the renewal and change process;
- The policy measures implemented;
- The effects of the policy changes; and
- Conclusions reflecting the relevance of the experience and possible lessons for
South Africa (in anticipation of the change required).

This methodology will enable a systematic evaluation of research findings, especially with the view to evaluate international comparisons in the context of the objectives of this study.

3.2 OVERVIEW OF THE TRANSFORMATION PROCESS

In view of the broad scope of the transformation process that occurred in the public transport industry in Great Britain, it is deemed necessary to provide a very broad holistic overview as basis before the different phases of change is considered in more detail. As stated in the previous chapter, historic public transport development worldwide is characterised by the following pattern:

- Small private operators, growing into medium sized firms;
- Mergers and consolidations lead to multi-company groups;
- Regulation of price and quantity of service;
- Declining profitability of private firms;
- Capital withdrawal and service reductions;
- Public authorities take over private firms;
- Subsidies to restore capital and services;
- Increasing operating inefficiencies and unit costs;
- The dilemma - more subsidies, fare increases or service reductions; and
- Return of the private sector.

This development pattern is particularly relevant in the United Kingdom and is repeated to evaluate the policy changes in perspective. The return of the private sector is significant and has had a major influence in many parts of the world. Recent developments in Great Britain which will be discussed in this chapter will further illustrate and support the above cycle of continuous reform. Before the detailed policy initiatives and changes are discussed, it is essential to provide a broad overview and summary of the broad changes that occurred in the public transport industry in Great Britain. These changes can best be described by Thomas (1995, p 559) as follows:

BEFORE 1980

The period prior to 1980 was characterised by industry consolidation in the 1920s, introduction
of the licencing system to reduce competition in 1930, a nationalisation policy in 1947 and the transfer of ownership to authorities in 1968. Immediately before 1980, most public bus services were provided by national government agencies such as National Bus and Scottish Bus and local government. Licenses to operate had to be obtained and competition was “effectively debarred”. Local authorities had a significant influence over service provision. In essence the service was provided by public monopoly.

1980-1986
During this period ownership did not change much. However, a commercial awareness had taken place due to the fact that fare controls have been removed. The way was in this manner paved for more liberal reforms to follow. Some competition was initiated but did not result in much more new entrants to the market. Minibuses were also introduced during this period.

1987-1990
This was the period of full deregulation. Immediate and substantial competition was introduced and new large privately owned companies were established. There was “growing intervention from the competition regulatory bodies both in investigation of mergers and of alleged unfair competitive practices.” (Thomas (1995, p 559).

1990-1995
During this period there was a gradual growth of the very large transport groups as a result of industry consolidation. Thomas (1995, p 560) states that there was “continued above-average intervention from competition regulators and a reduction in competition between the largest operators. Economic recovery, the availability of cheaper money through flotation and economies of scale lead to improving profit margins for the largest companies and widened the scope for investment.” Rail franchising, which is viewed as the final stage of transformation of the public transport industry, commenced during this period (1993).

CURRENT POLICY
In addition to the above phases described by Thomas (1995) it is also essential to outline the current policy developments, as outlined in The Government’s 1998 White Paper on the Future of Transport. Current policy developments provide new perspectives on the effects of deregulation and privatisation.
3.3 OVERVIEW AND SALIENT PRE-REFORM ISSUES

3.3.1 ORIGINS OF THE BUS INDUSTRY

Although public horse drawn carriages were introduced in Britain early in the nineteenth century, the history of the British bus industry relates back to the period immediately after the first world war when the industry evolved from the following two main sources:

- Conversion of war vehicles into buses by a number of entrepreneurs; and
- Existing entrepreneurs making use of this new technology (conversion) to replace or support tramway operations.

These developments soon resulted in the establishment of public and private bus operators throughout the country. The majority of local authorities of large towns owned their transport operations while private operators focussed on the smaller towns. Consolidation of the bus industry was evident as early as the nineteen twenties when large territorial companies started to develop. Ownership of these territorial companies were taken over by large organisations such as the underground Group in London, British Electric Traction (BET) and Thomas Tilling in England and Wales and SMT in Scotland.

3.3.2 THE 1930 ROAD TRAFFIC ACT

With the 1930 Road Traffic Act, the system of operator and road service licensing was introduced which remained in place until the industry was partially deregulated in 1980. The road service licensing system introduced by the Act, prevented new entrants to the market and a large number of the smaller service providers sold their companies to the big companies “combines.” As a result of the phasing out of some tramway systems during the nineteen thirties and forties, various local authorities decided to change from own operations to service provision by large companies.

According to Savage (1985, p 5) “The Act set up a system of regional Traffic Areas which were each to be headed by an independent Commissioner. He would have full control both over the quality regulations imposed on vehicles, their drivers, conductors and owners, and over route

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1 Unless specific authors are quoted, information contained in this part of the report was obtained from a comprehensive report: The Bus Industry Monitor (1997, pp A 1-3).
licensing. For the purposes of control coaching activity was divided into five categories, namely:

- local (stage) services;
- Long distance (express) services;
- Excursions and tours;
- Contract carriages; and
- Private hire.

In respect of the first three services, licenses had to be issued. The licenses were issued in terms of:

- "the extent, if any, to which the needs of the proposed routes are already served."
- "to stop wasteful competition."
- "the needs of the area as a whole...(including the provision of unremunerative services)."

It is clear that a major intention of the Act was to discourage competition. Savage (1985, p 5) states that "existing operators of a route were given priority over challengers, particularly if they had a satisfactory safety record and provided an extensive level of service." Protection of the operator was therefore a major focus of the Act.

Button (1988, p 40) reports as follows on the regulation of the bus industry through the 1930 Road Traffic Act: "The UK bus industry, at both the inter-urban and urban levels, was a highly regulated industry for the fifty years following the enactment of the 1930 Road Traffic Act. Until 1930 there was an effective free market in bus services with what minimal regulation there was exercised through cumbersome statutes of the 1840s and 1880s designed to cope with the transport problems of a pre-motorised era." Button (1988, p 73) further states that "The 1930 Road Traffic Act instigated a regime of both quality and quantity controls."

It can therefore be concluded that the 1930 Road Traffic Act had, as major policy focus, the neutralisation of competition and the introduction of quality and quantity controls in the bus industry.

3.3.3 LATER PRE-REFORM POLICY DEVELOPMENTS

The 1947 Transport Act formed the basis for a policy on nationalisation of transport in Great
Britain. The British Transport Commission (BTC), which was established in 1948, acquired various large operations by agreement, while municipal operations and British Electric Traction (BET) remained outside BTC control. With the abolition of the British Transport Commission in 1962, its bus interests were transferred to the Transport Holdings Company. BET sold its interests in the UK bus industry to the Transport Holdings Company, resulting in complete public ownership.

The Transport Act of 1968 also had a major influence on the bus industry in Great Britain with the following implications for the bus industry:

- Passenger Transport Authorities (PTA’s) and Passenger Transport Executives (PTE’s) were established in the main metropolitan areas of the United Kingdom. Ownership of municipal operations in these areas were transferred to the PTE’s; and

- The Transport Holding Company was abolished and its transport interests transferred to three state owned corporations namely, the National Bus Company, the National Freight Corporation and the Scottish Transport Group.

According to White (1988, p 15) the “first notable changes occurred under the Transport Act 1968, in which the municipal operators in four major conurbations were amalgamated under the Passenger Transport Executive (PTE) in each area.” After the government reorganisation of 1974, the new metropolitan county councils became the passenger Transport Authorities for their respective areas. A further two Public Transport Executives were also established. It is therefore clear that the period leading to the major transport policy reforms of the eighties, was characterised by consolidation and institutional re-organisation. This process occurred naturally since the nineteen twenties and resulted in nationalisation.

It is interesting to note that in the year before deregulation (1984) a total of 73,6% of local bus mileage was operated by large operators with fleets exceeding 250 buses. A total of 14,2% of the distance was operated by operators with more that 100 but less than 250 buses. Against this background the bus industry was ready for major reforms that changed the entire industry.
3.4 Key Issues Underlying the Need for Policy Renewal and Change

This section of the chapter will focus on the drivers of change in support of the policy renewal process. The essence of the debate underlying change is best described by Savage (1985, p 9): “In May 1979 a Conservative Government returned to power and sought, where possible, to introduce a competitive atmosphere into all spheres of the public sector. They considered that regulation in the bus industry has generated many ill effects.” Savage substantiated the view as follows:

- Regulation discouraged innovation, particularly in the rural areas;
- The system provided for cost control;
- The issue of cross subsidisation was attacked; and
- “Finally, the 1930 Act had come in for criticism - from both sides of the House of Commons - because it was felt that the existing regulation was not effective since the 1978 Transport Act had transferred the powers of transport coordination from the Traffic Commissioners to the county councils.” (Savage, 1985, p 10).

Collins & Pharoah (1974, p 41) describe the gradual decrease in bus passenger volumes during the 1950’s and 1970’s as a driving force underlying the policy renewal process. During this period, funding required to keep buses in operation, also increased substantially, which is reflected in the following statement: “With relatively full employment and a rising standard of living the labour-intensive bus industry suffered badly from increased wages which comprised 75% of its costs. Thus passengers transferred to other modes become more costly and less viable; fares were successively raised and services ‘trimmed’ ”(Collins & Pharoah, 1974, p 41). The increased funding is confirmed by Gwilliam (1985, p 35) “Since 1973, financial support for bus operations has increased by over three times in real terms.....” Gwilliam (1985, p 35) further concludes: “Conventional wisdom has it that over the last decade or so, subsidies for public transport have increased consistently, and latterly, uncontrollably. Government has taken - and in particular its proposals to deregulate the bus industry - it is important to be clear whether conventional wisdom is correct.” These views are confirmed by Cottham (1994, p 255) who identified the following pre-reform issues as main drivers of the policy reform process:

- Bus and coach travel was declining at a rapid rate;
- Subsidies were increasing at an alarming rate; and
- In real terms subsidies increased 13 fold between 1972 and 1982.
The policy renewal process implemented in London, namely competitive tendering, was initiated primarily as a result of relatively poor performance of the system prior to reform. According to Newton (1993, p 1) the initial objectives of competitive tendering were to reduce costs, to maintain service performance and to involve new independent operators. These objectives therefore imply that the London bus services at the time were monopolistic, too costly, but that its performance was acceptable.

In summarising the pre-reform debate, it should be stated that before 1980 the bus industry was subject to economic regulation but early in the nineteen eighties a number of deregulation and privatisation acts were passed to pave the way for the introduction of competition, primarily to reduce costs and to increase the effectiveness of public transport monopolies.

### 3.5 POLICY MEASURES IMPLEMENTED

#### 3.5.1 OVERVIEW

According to Bannister (1994, p 75) the “deregulation of the bus industry has been the most important policy switch since regulation was first introduced in the 1930s to protect a vibrant growth industry against predatory practices.” Deregulation, according to Bannister was introduced in the following two main stages:

- The 1980 Transport Act provided for the deregulation of long-distance bus services (longer than 48 kilometres), but excluding small vehicles with less than 8 seats; and
- The 1985 Transport Act has “effectively created a trial area for the whole country except London.” Operators were only required to register the service where after local authorities had no control over the operation.

According to Moyes (1999, p 1) plans to deregulate transport in London were postponed and finally discarded “in favour of a system of individual route franchises awarded by competitive tender competition for the market.” In the following sections the effects of the above two Acts as well as other Acts and policy documents will be discussed in the context of the policy transformation process in Great Britain.
3.5.2 THE TRANSPORT ACT OF 1980
According to White (1988, p 17) this Act deregulated the quantity control of express coach services, and “also liberalised to some extent the licensing of other bus and coach services. Price control was effectively abolished, leading to significant changes in fare structures, and greater ease in changing fare levels by operators.” White (1988, p 17) states that at the same time “the 1980 Act strengthened quality control by introducing a system of operator licensing, following success of a similar system in road freight. This has remained under subsequent local bus deregulation.”

3.5.3 THE TRANSPORT ACT OF 1983
According to White (1985, p 19) the 1983 Act “was aimed to curb the Public Transport Executives” through setting a ‘Protected Expenditure Level’ (PEL) above which expenditure could not be raised without the risk of legal challenge. The proposed expenditure had to be justified in terms of cost-benefit analysis, both in respect of the total and its allocation between service levels and fare levels.”

3.5.4 THE LONDON REGIONAL TRANSPORT ACT OF 1984
According to White (1988, p 20) London had always been an exception “to the structure and regulation of the bus industry in Great Britain.” White (1988, p 20) states that “the 1984 Act may be seen as part of the general conflict between central and local government, its main effect being to transfer control of London Transport to central government, as a nationalised industry. Although financial assistance is still drawn partly from local rate contributions, there is no local control or accountability.” This Act also resulted in the introduction of competition through tendering.

3.5.5 THE WHITE PAPER OF 1984
According to White (1988, p 21) the “Buses” White Paper appeared in 1984 after the re-election of the Labour Government in 1983 “on a platform of continuing the deregulation of the economy, and expanding privatisation. Many features of the White Paper are explained by this ideological commitment, rather than preceding events in the bus industry. There is, for example, no mention whatsoever in the White Paper of the 1983 Act of only one year earlier, or the evaluation methods it encouraged. The framework for tendering of services within a coordinated network established in London under the 1985 Act, being the only area in which deregulation does not
yet apply, in order for effects of the 1984 change to settle down.” The main policy proposals of
the 1984 White Paper were included in the Transport Act of 1985.

3.5.6 THE TRANSPORT ACT OF 1985

The Transport Act of 1985 paved the way for more fundamental reform of the bus industry in
Great Britain. The objectives of the Act can be summarised as follows, according to Bonnel &
Chausse (1995, p 208):

- Development of competition;
- Increase in demand;
- Reduction of costs;
- Fare cuts; and
- Decrease in subsidies.

The main elements of the Act which are considered to be relevant to the objectives of this
chapter can be summarised as follows, according to White (1988, pp 22-25):

Route licensing: According to this Act, road service licenses were no longer required. Operators
who wanted to render public services were required to register the route to be operated with the
office of the respective Traffic Commissioner.

Financial support: According to the Act “network support to fares and service levels was no
longer permitted, despite benefits shown under studies following the 1983 Act.” Lowest cost
tenders were accepted, which resulted in some service fragmentation.

Concessionary fares: Provision was made in the Act for the continuation of concessionary fares
to the elderly, children and the aged.

Structure of the industry: “The operations under local authority control, whether the
‘municipals’ under district or regional councils, or the Public Transport Executive bus operations
in the metropolitan counties, were placed under separate companies, owned by the local authority
or PTE. No subsidy, other than certain transitional costs, could be provided, except in the same
form as to any other operator.”

Reorganisation of local government: The metropolitan counties and the Government Local
Councils were abolished under the Local Government Act of 1985.

Competition legislation: “Previous exemptions for the bus industry from competition legislation
were removed.”
The 1985 Transport Act was instrumental in the reform of the British bus industry. Bonnel & Chausse (1995, p 208) describes the following five principal measures of the law:

- "The granting of licences for the running of local passenger transport is done away with;
- The role of the Passenger Transport Authority is considerably reduced. It gathers the characteristics of the lines which are run by private companies, provides information for users, calls for tenders for the non-profitable services;
- Cross subsidies are thus done away with. It is possible to subsidize a non-profitable service, but there must be a call for tenders;
- The obligation for cooperation between local and interurban networks imposed by the law of 1968 disappears; and
- the National Bus Company is divided up into as many separate companies as it had subsidiaries which were sold off separately."

As far as competitive tendering is concerned, White (1988, pp,27) states that "the Act stipulated that all potential tenderers should be invited to bid, and did not follow local authority experience in working from lists of approved contractors." Tenders had to be advertised and tender documents had to be sent to all operators interested. It is interesting to note that the volume of paperwork deterred small operators such as taxi firms to tender.

The 1985 Transport Act deregulated local bus routes in the United Kingdom with the exception of London and Northern Ireland and also resulted in the privatisation of some of the operators of these services. (Colson, 1996). This act was a logical consequence of the Fair Trading and Competition Acts which opened the way for free competition. "The industry thus became subject to three regulators as a result of supposed deregulation, as the Office of Fair Trading (OFT) was added to the Traffic Commissioner and in some circumstances the Local Authority as its overseers." (Colson, 1996). The OFT argued that lowering entry barriers to the bus market would stimulate competition to the benefit of the customer. Competition was viewed as an end in itself and also resulted in a large number of investigations into the bus industry. As major catalyst for reform, the 1985 Transport Act resulted in major changes in the public transport industry, which will be discussed in the next section of this chapter.


3.6 **EFFECTS OF THE 1985 POLICY CHANGES**

Despite the controversy pertaining to the effects of the policy renewal process, facts can not be overlooked. Various researchers reported extensively on the results achieved, which will be discussed. Unfortunately the results are not always reported in the same format, which makes it difficult to present the research findings in a logical format. It is therefore inevitable that some of the information will be duplicated in some way, however in a different context.

3.6.1 **INDUSTRY CONSOLIDATION**

Consolidation of the bus industry in Great Britain should be viewed as one of the most obvious effects of the policy renewal process implemented in the 1980's. According to the Bus Industry Monitor (1997, p F 9) “the company structure created by the 1985 Transport Act went against the historical nature of the industry and was fundamentally unstable.” The industry therefore moved into a situation of consolidation. Initially the National Bus Company was privatised into over 70 smaller companies. Soon thereafter, the consolidation process gained momentum.

The ownership profile in August 1997 was as follows, according to the Bus Industry Monitor (1997, p F13):

- Cowie Group: 14,81%;
- First Bus: 21,60%;
- Stagecoach: 16,05%;
- Go-Ahead: 6,42%;
- National Express: 5,89%;
- MTL Trust Holdings: 3,28%;
- Smaller groups: 2,70%;
- Management: 7,51%;
- Municipals: 6,83%;
- Independents: 14,60%; and
- Employee owned: 0,30%.

The overwhelming privatised ownership profile differs significantly from the public ownership of the early eighties. Public monopoly has paved the way for increased involvement of private ownership and initiative with increased levels of efficiency. It should be stated however, that further consolidation has occurred since then. According to Walters (1999, p 11) The following
five large bus companies dominate the public transport sector today:

- First Group;
- Stagecoach;
- National Express;
- Arriva; and
- The Go-Ahead Group.

Some of the most important considerations underlying consolidation include the economies of scale inherent to the larger operators. The managers involved in the transformation process have also realised the career benefits of larger organisations which could have influenced the consolidation drive. The consolidation of over 70 individual operators into the present large industry players gives an indication of strong forces in support of consolidation.

### 3.6.2 OVERVIEW OF DEREGULATION AND PRIVATISATION RESULTS

According to Howes (1997, pp 1-2) the following results were achieved by deregulation and privatisation, based on the entire bus industry in Great Britain, comprising 76 000 buses. Local bus services comprise approximately 65% of the total bus operation. All comparisons are for the period 1985/6 to 1995/6.

- **Average bus operating cost**, measured per mile of operation, was reduced by 44% in real terms over the period 1986-1996;
- **The local bus service kilometres** increased by 26%. **Vehicle kilometres on other services** increased by 19%;
- **Smaller buses**, often at higher frequencies, were introduced resulting in an increase in seat kilometres of only 7%;
- **The total operating cost** for the local bus services decreased by 29%, cost per vehicle kilometre decreased by 44%, and driver’s cost decreased by 27%;
- **Numbers of maintenance staff** were reduced by 52%;
- **Other staff members** were reduced by 54%;
- **Number of buses** fell by 12%;
- **Passenger numbers** decreased by 22%;
- **Fares** increased by 23%; and
- **External support (funding)** for local bus services decreased by 49%.
A first impression of the above results is very positive. However, the increase in fares and decrease in passengers highlight the inherent weaknesses of the policy reforms, which will be discussed in more detail later on in the chapter.

Similar information, as well as information on new parameters summarised in table 3.2. The decrease in operating cost is confirmed. Of particular significance is the decrease in total subsidies, which reflects the intention of the Thatcher government to reduce government expenditure. A further breakdown of cost parameters and change in performance indicators is summarised in table 3.3. The effects of competitive tendering in London and deregulation outside London is clearly shown. Both cost per passenger and subsidy per passenger reduced considerably more as a result of competitive tendering in London.

<table>
<thead>
<tr>
<th>TABLE 3.2 COMPARISON OF PUBLIC TRANSPORT PERFORMANCE</th>
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<tbody>
<tr>
<td>London (competitive tendering) and outside London (deregulation)</td>
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<tr>
<td>Vehicle kilometres (000 000)</td>
<td>273</td>
<td>356</td>
<td>30.4%</td>
<td>1,804</td>
<td>2,320</td>
<td>28.6%</td>
</tr>
<tr>
<td>Cost per vehicle kilometre</td>
<td>2.37</td>
<td>1.39</td>
<td>-41.4%</td>
<td>1.32</td>
<td>0.73</td>
<td>-44.7%</td>
</tr>
<tr>
<td>Passengers (000 000)</td>
<td>1,152</td>
<td>1,167</td>
<td>1.3%</td>
<td>4,489</td>
<td>3,253</td>
<td>-27.5%</td>
</tr>
<tr>
<td>Passengers per vehicle kilometre</td>
<td>4.2</td>
<td>3.3</td>
<td>-22.3%</td>
<td>2.5</td>
<td>1.4</td>
<td>-43.7%</td>
</tr>
<tr>
<td>Cost per passenger</td>
<td>0.57</td>
<td>0.42</td>
<td>-26.3%</td>
<td>.53</td>
<td>.52</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Operating cost (000 000)</td>
<td>647</td>
<td>495</td>
<td>-23.5%</td>
<td>2,381</td>
<td>1,694</td>
<td>-28.9%</td>
</tr>
<tr>
<td>General support</td>
<td>217</td>
<td>55</td>
<td>-74.7%</td>
<td>450</td>
<td>224</td>
<td>-50.2%</td>
</tr>
<tr>
<td>Concessionary reimbursements (000 000)</td>
<td>100</td>
<td>109</td>
<td>9.0%</td>
<td>323</td>
<td>326</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total subsidies (000 000)</td>
<td>317</td>
<td>164</td>
<td>-48.3%</td>
<td>773</td>
<td>550</td>
<td>-28.8%</td>
</tr>
<tr>
<td>Subsidy per passenger</td>
<td>0.28</td>
<td>0.14</td>
<td>-48.9%</td>
<td>0.17</td>
<td>0.17</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Passenger fares</td>
<td>330</td>
<td>331</td>
<td>0.3%</td>
<td>1608</td>
<td>1144</td>
<td>-28.9%</td>
</tr>
<tr>
<td>Fare per passenger</td>
<td>0.29</td>
<td>0.28</td>
<td>-1.0%</td>
<td>0.36</td>
<td>0.35</td>
<td>-1.9%</td>
</tr>
</tbody>
</table>

Source: The Urban Transport Fact Book. (Cox, 1998)

The dramatic decrease in passengers per kilometre outside London of 43.7%, as well as the substantial decrease in passenger journey, support the view in the 1998 White Paper that
deregulation outside London caused considerable upheaval.

<table>
<thead>
<tr>
<th>Performance indicator</th>
<th>London</th>
<th>Outside London</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per vehicle kilometre</td>
<td>-41.4%</td>
<td>-44.7%</td>
</tr>
<tr>
<td>Passengers per vehicle kilometre</td>
<td>-22.3%</td>
<td>-43.7%</td>
</tr>
<tr>
<td>Cost per passenger</td>
<td>-26.3%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Subsidy per passenger</td>
<td>-48.9%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Fare per passenger</td>
<td>-1.0%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Passenger journeys</td>
<td>1.3%</td>
<td>-27.5%</td>
</tr>
</tbody>
</table>


The increased focus of the present transport policy on customer needs should be viewed as a logical consequence of some of the negative effects of the deregulation and privatisation process.

3.6.3 INDUSTRY PERFORMANCE RESULTS

In the executive summary of the Bus Industry Monitor (pp A6-A10) the following industry performance results for 1995/6, which was based on the accounts of 164 companies, have been reported. Unless specifically indicated, comparisons reflect the difference for a six year period:

Viability of the industry as a whole: Across the industry the ratio of pre-tax profit was 8,9% compared to 7,4% in 1994/5 and 6,5% in 1993/4. Returns before interest charges increased from 8,5% in 1994/5 to 10,3% in 1995/6;

Viability outside London: Profit margins increased from 4,4% in 1988/9 to 8,5% in 1995/6;

Returns on capital: A substantial increase in returns on shareholders’ funds have been reported. On a national basis returns increased from 33,6% to 38,1%;

Cash profit: Profits increased by 26,4%;

Costs: Operating costs decreased in real terms with a cash increase of 2.1% against inflation rates of 3,0% and 3,5% during the accounting periods. Labour costs decreased by
Revenue: Across the industry revenue increased by 4,2% in real terms;

Employment: Numbers of employment decreased by an average of 1,8%
It is interesting to note that the number of management and administrative staff decreased by 8,6%, totalling a staggering 50% decrease over the 6 year period.

Industry ownership: Consolidation of ownership continued;

Public spending on buses: Public spending on bus services increased by a mere 0,8% in 1996/7;

Vehicles and investment: Purchase of new vehicles increased by 8,5 % in 1996.
The total increase for the past 4 years (1954-1997) was 96%. The largest increase was for double deck vehicles; and

Fleet age profile: According to 1997 figures, the average age of buses outside London is 9,55 years while the average age of the London fleet is 11, 22 years.

From a business and management point of view, the results achieved can be viewed as positive. However, the effects of the policy renewal process should be viewed holistically by incorporating the views of all role players. The above results should therefore also be evaluated against the effect of the transformation on service deliverables.

3.6.4 PASSENGER VOLUMES
The results of the policy reforms should in the final analysis be evaluated in terms of the extent to which the bus industry succeeded in attracting passengers to the bus mode. In this critical area, results reported by various researchers are not very positive. Table 3.4 reports statistics pertaining to passenger trips and bus kilometres:

The decline in bus patronage is confirmed by various authors. The inability of deregulation and competitive tendering to attract more passengers to public transport is also viewed as one of the major weaknesses of the policy renewal process of the middle nineteen eighties. The increase in private car use resulted in increased perceptions that deregulation fragmented the public
transport industry.

<table>
<thead>
<tr>
<th>Area</th>
<th>Passenger trips</th>
<th>Bus kilometres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan</td>
<td>- 35.5</td>
<td>20.6</td>
</tr>
<tr>
<td>English Shires</td>
<td>- 20.2</td>
<td>24.5</td>
</tr>
<tr>
<td>Wales</td>
<td>- 20.2</td>
<td>33.7</td>
</tr>
<tr>
<td>Scotland</td>
<td>- 21.6</td>
<td>26.7</td>
</tr>
<tr>
<td>Average for deregulated areas</td>
<td>- 27.4</td>
<td>24.0</td>
</tr>
<tr>
<td>London</td>
<td>- 3.0</td>
<td>24.0</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>- 6.7</td>
<td>22.9</td>
</tr>
</tbody>
</table>


### 3.6.5 COMPETITIVE TENDERING RESULTS

In view of the importance of competitive tendering in the new South African transport dispensation, results achieved in Great Britain will be evaluated separately. Although the results of competitive tendering is to a large extent included in the above paragraphs, it is deemed necessary to evaluate the following specific results achieved in London in perspective:

<table>
<thead>
<tr>
<th>Conversion period</th>
<th>11 Years (1985-1996)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of system contracted</td>
<td>57%</td>
</tr>
<tr>
<td>Change in total operating cost</td>
<td>-57%</td>
</tr>
<tr>
<td>Change in service level</td>
<td>+ 28.7%</td>
</tr>
<tr>
<td>Change in unit cost per mile</td>
<td>- 45.6%</td>
</tr>
<tr>
<td>Annual change in unit cost</td>
<td>- 5.45</td>
</tr>
</tbody>
</table>

Source: The Urban Transport Fact Book (Cox 1998).

According to Cox (1996 b, p 7) competitive tendering was also implemented outside London in respect of non-commercial services because operators were not prepared to render these unprofitable services in the deregulated market.
The results clearly reflect the outcome of the introduction of competition to the market and support the results of competitive tendering in other parts of the world which were discussed in the previous chapter. There is no doubt that the introduction of competition resulted in improved operator efficiency in London. However, pure expenditure and performance standards are perspectives of reality, and not necessarily important to all stakeholders. The new policy direction reflected in the Great Britain White Paper of 1998 reflects a more holistic view based on the assumption that public transport should be primarily based on the needs of the user.

3.6.6 MORE RECENT VIEWS

To put the debate on the effects of the policy reforms in perspective, it is also necessary to focus on the most recent views. According to Moyes (1999, p 1) "even now, twelve years on, opinions about deregulation vary. Some towns have seen periods of intense competition whilst in the rural areas the decline in services has continued. A major plank in the argument in favour of deregulation had been that the cross subsidy inherent in the regulated system resulted in distorted decisions, with fares higher and frequencies lower in urban-areas in order to generate excess profit for subsidy of marginal routes. The urban poor were felt to be subsidising the more affluent suburban and rural dweller." Moyes (1999, p 7) further states: "In practice, government has achieved its primary aim and reduced the cost of subsidy to bus services dramatically. Labour turnover has become a bigger problem in recent years but much of the country has retained its public transport and many urban areas now see much higher levels of service. Competition remains a spur to greater efficiency but the long term trend of declining public transport use has continued, except where traffic management measures to restore reliability have been implemented."

According to Moyes (1999, p 1) "Competition between operators has, over the medium term, generally improved standards. Competition with the private car continues to reduce demand for bus services except where growth in car use is restrained by public policy. Many towns and cities have reached traffic saturation and with measures to segregate traffic, and give priority to the bus and ensure reliability, ridership can be rebuilt." Moyes (1999, p 6) also discuss the following effects of competition: "Competition brought new operators into the market, often employing older vehicles discarded by the established operators. The staff reductions made by established companies in pursuit of improved productivity, and the relatively low entry threshold encouraged new entrants and for a time, competition flourished. Few, however, were able to
sustain a presence where the incumbent was even moderately well organised."

3.6.7 CONCLUSIONS ON THE POLICY RENEWAL OF THE NINETEEN EIGHTIES

Based on a thorough evaluation of the work done by various researchers, Gomez-Ibanez & Meyer (1997) report the following successes in the United Kingdom:

- It was found that competition in general resulted in better cost control if compared to public monopoly;
- All studies evaluated reported a reduction in real cost per bus-kilometre, both inside and outside London;
- Only a small percentage of the savings resulted from manpower expenditure or increased hours worked. Most of the savings were as a direct result of improved productivity;
- Savings in operating cost (cost per bus-kilometre) increased over time as a result of the learning factor or continuous improvement; and
- Results are particularly favourable if compared to the public monopoly which is still in place in the United States.

As far as unregulated competition versus tendering is concerned, Gomez-Ibanez & Meyer (1997) report the following results:

- Despite claims by some researchers, the results of tendering were not significantly superior to unregulated competition;
- Service innovations were found to be more common outside London due to unregulated competition. Replacement of double decker buses with minibuses which resulted in increased access and improved travelling, time is one example of such innovation; and
- Ridership as norm resulted in some difference of opinion as regards the results achieved in the new dispensation. Passenger volumes in London decreased with 3% during the period 1985/6-1993/4 and 35.5% in other metropolitan areas whereas subsidies in London were decreased by 19% compared to 64% in the other areas.

Gomez-Ibanez & Meyer (1997) concludes that the reforms in Britain have illustrated the importance of competition in the rendering of bus services. Experiences outside Great Britain
and specifically Santiago and Sri Lanka have shown that complete deregulated competition may have some negative effects. The following summary by Bonnel & Chause (1995, p 208) is a very relevant conclusion pertaining to deregulation. The outcome of the policy renewal is discussed in terms of the results achieved per objective.

### TABLE 3.6 RESULTS OF DEREGULATION FOR ENGLAND AND WALES

<table>
<thead>
<tr>
<th>OBJECTIVE</th>
<th>RESULTS ACHIEVED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of competition</td>
<td>Achieved. Both number of operators and number of tenders received increased</td>
</tr>
<tr>
<td>Increase in demand</td>
<td>Not achieved in total. Number of bus kms increased by 20% while passenger volumes decreased by 22% for period 1986-1992</td>
</tr>
<tr>
<td>Reduction of costs</td>
<td>Achieved. Costs decreased considerably per seat kilometre. Cost reduction mainly due to use of minibuses and cut back in salaries</td>
</tr>
<tr>
<td>Fare cuts</td>
<td>Fares increased by 32% without incorporating inflation</td>
</tr>
<tr>
<td>Decrease in subsidies</td>
<td>Subsidies decreased from 500 million pounds in 1986 to 320 million in 1992</td>
</tr>
</tbody>
</table>


In conclusion the following statement by Pucher & Lefevre (1996, p 37) summarises the key issues: "The main purpose of deregulation was to promote competition. The British (with the exception of London) chose to deregulate by increasing competition on the road, while most other countries chose to increase competition for the road." This distinction has specific implications in the orderly rendering of public transport. South Africa decided to implement competitive tendering to ensure orderly competition for the road. Competition on the road in the South African situation, it was argued, could lead to further rivalry and increased violence.

It is clear that decreased coordination and integration between modes account for the more negative outcomes of the 1985 reform measures. Operators focussed more on their own profitable services and neglected social services. Passenger volumes also declined, as discussed above, which necessitated a re-appraisal of the public transport policy in the 1998 White Paper. Due to the inability of the tender system to stop or reverse the continuous decline in public transport passenger volumes, a more dramatic and fundamental approach, or paradigm shift, is
required. Latest initiatives this regard, particularly in Brisbane, Vancouver and Orlando will be discussed in later chapters.

3.7 RAIL FRANCHISING

Rail franchising in Great Britain as well as other parts of the world has played an important role in stimulating the South African public transport policy renewal process, and it is therefore deemed necessary to discuss certain elements of this change process in the context of the objectives of this research project. By studying the before and after positions pertaining to policy transformation, valuable insights can be obtained to guide the transformation of the South African bus industry. Of particular significance in rail franchising is the fact that various bus operators in Great Britain successfully entered the rail industry through franchising. Concessioning of rail services in South Africa could also be viewed as an opportunity for bus operators at a later stage of the transforming to the competitive environment.

According to Moyes (1999, p 2) rail franchising in Great Britain “marks the final stage in a long running process of privatising the UK’s transport industries and introducing competition to the market.” The transformation of the bus industry during the period 1980-1995 was discussed in detail in the first part of this chapter. Rail franchising started almost after the transformation of the bus industry. Walters (1999, p 2) states that the “privatisation of Britain’s passenger rail services started in earnest in November 1993 with the passage of the Railways Act and the establishment of the Office of Passenger Rail Franchising (OPRAF).”

The rationale underlying the transformation process is summarised in the following statement by Moyes (1999, p 2): “The basic tenet running through each stage in the process has been that state ownership and subsidy lead to distortions in decision making and to inefficiencies. State ownership, it is argued, leads to political interference whilst subsidy leads to increased cost rather than improved service. However, much in the past, as managers in a state owned business, we protested our inefficiency, the fact is that experience has proved the economists right. The reduction in real operating cost is there for all to see.”

According to Moyes (1999, p 2) the passenger railway operation was divided into 25 franchises of varying size, which were focussed on the intercity, regional or London commuter markets. The new structures, according to Walters (1999, p 2) is based on different monopolies in the
rendering of rail services. Rolling stock leasing companies operate as monopolies and, in the interim, also the territorial franchises. Walters (1999, p 2) states that these franchises were extensively protected from competition from new services until 1999. The length of franchises was limited to 7 years, despite the belief in the industry that a minimum of 10 years is required to recover investment cost.

The value of the franchising concept has been proven in various sectors throughout the world. Franchising should also be viewed as a potentially powerful concept in the empowerment of previously disadvantaged operators in South Africa. A major benefit of the concept is the franchise agreement which specifies the nature and conditions of the agreement. Walters (1999, p 7) explains the following areas covered by franchise agreements:

- **Service levels.** Minimum service levels are set to which the operator should conform;
- **Payments.** The subsidy payable for the franchise period is specified per year;
- **Terms of contracts.** The normal contract term is 7 years;
- **Network benefits.** The franchise agreement also specifies that operators should participate in “schemes to safeguard network benefits.” These benefits include the national telephone enquiry service, through ticketing and multi-modal travel cards;
- **Fares.** A wide range of fares are regulated, including certain discount fares, season tickets and commuter fares;
- **Incentive regime.** The franchise agreements make provision for rewarding improved performance and penalising inferior performance; and
- **Financial and corporate safeguards.** Various safeguards are built into the system.

The contract specifications in terms of service levels and network benefits clearly indicate the strong customer focus in Great Britain. In the final analysis the benefit of rail franchising should be evaluated against measurable results over time. The results of rail franchising can be summarised as follows:

**Cost reduction.** According to Moyes (1999, p 1) “Politicians are fond of suggesting that the franchised railway system costs twice as much as the old nationalised system. In truth, after deducting transitional costs, the first year of the new railway cost around 20% more than the old.
But subsidy reduction over seven years sees the change radically.”

**Labour cost:** According to Moyes (1999, p 1) “Almost without exception, the new franchise owners sought to reduce overheads by slimming down the administrative bureaucracy attached to railways, typically by up to 40%.” Driver terms and conditions were also changed to achieve higher productivity levels. The new dispensation therefore succeeded in realising substantial savings in labour cost.

**Revenue growth:** Revenue has grown much greater than forecast. According to Moyes (1999, p 4) “Whilst revenue growth may have compensated for failure to achieve cost reductions, it has other consequences. Rapid increases in passenger demand have resulted in overcrowding....”

**Input vs output.** According to Moyes (1999, p 4) “Despite the criticism, the franchised railway has much to be proud of and as it matures over the remainder of the franchise length, its successes will become clear. Already passenger numbers are growing faster than external economic factors can explain and investment is at an all time high.”

In comparing the transformation of the bus and rail industries in Great Britain, White (1998, p 129) concludes as follows: “To date, the rail franchising process has produced a smooth transition from British Rail control, with evidence of growth in both revenues and ridership in the first year of operation - in market contrast to the initial impacts of the local bus deregulation in 1986.”

“In summary, rail franchising has not been an easy ride, but is proving much more successful than its critics like to admit, it has provided profit growth for companies in the sector, and if nothing else, has made the railway far more accountable than ever before.” (Moyes, 1999, p 7).

Finally it should be stated that the value of the studying the rail transformation lies in the conclusions that can be made, especially in the context of the study objectives. Walters (1999, p 9) has made the following conclusions pertaining to rail franchising:

- As the process of franchising unfolded, rail franchises were amended. It was easier to operate within the first or earlier franchises and early involvement proved to be much better;
- Due to the fact that rolling stock is leased, rail franchising requires very little capital investment;
- It appears as if train operating companies will further consolidate in future. The present 16 companies operating 25 franchises will further reduce. This trend also
occurred in the bus industry where consolidation has become evident;

- Incentive schemes exist to promote service delivery;
- Protection will only be provided until 1999. Protection will be replaced with ‘open access’ which could imply competition between two companies on the same line; and
- Some role players were of the opinion that rail franchising resulted in fragmentation of the rail sector.

The above learning experiences are relevant to the South African policy renewal process in which rail franchising will play a major role in years to come.

3.8 LATEST POLICY INITIATIVES: THE GOVERNMENT’S WHITE PAPER ON THE FUTURE OF TRANSPORT 1998

Transport policy renewal in Great Britain is a dynamic and continuous process. As stated earlier in this chapter, it has become clear that the competitive forces created by deregulation and competitive tendering also resulted in a decrease in passenger volumes and other negative effects on the public transport industry.

Recent transport policy developments in Great Britain as reflected in the White Paper are also relevant to the South African situation, especially in terms of a re-appraisal of deregulation and privatisation, quality partnerships and customer orientation. The Department of the Environment, Transport and the Regions published The Government’s White Paper on the Future of Transport in July 1998. Prescott (1998) states that the aim of this White Paper is “to increase personal choice by improving the alternatives to secure mobility that is sustainable in the long term.”

The need for change in the transport policy of Great Britain in clearly reflected in the following statement in chapter one of the White Paper: “The mood is for change. Business is concerned about the costs of congestion. People want the existing system to work better. They want more choice and new emphasis on protecting the environment and their health.” The White Paper realises that privatisation and deregulation did not meet initial expectations: “Privatisation and deregulation of public transport were key features of the last decade. But they failed the passenger because they fragmented public transport networks and ignored the public interest.
This is why we promised an integrated policy to fight congestion and pollution.” A major aim of the White Paper is to restructure passenger transport in such a way that integration and modal integration is improved, which will lead to increased passenger volumes.

Integration is a central theme in the White Paper, which is reflected in the following focus of integration:

- **"integration within and between different types of transport"** - so that each contributes its full potential and people can move easily between them;
- **integration with the environment** - so that transport choices support a better environment;
- **integration with land use planning** - at national, regional and local level, so that transport and planning work together to support more sustainable travel choices and reduce the need to travel; and
- **integration with our policies for education, health and wealth creation** - so that transport helps to make a fairer, more inclusive society.”


Integration is a central theme at national as well as local level: “We want to see integrated transport locally as well as nationally, which is why we are introducing local transport plans as a core part of our proposals. Local authorities will set out in these plans their strategies for transport.” (DETR, 1998, p 9).

The White Paper proposes a New Deal for transport which implies the following:

- “new local transport plans:
  - integrated transport strategies for local needs;
  - local targets eg. for improving air quality, road safety, public transport and road traffic reduction;
  - more certainty of funding;
  - greater use of traffic management;
- new powers including road user charging and levies on parking to tackle traffic jams and traffic growth;
- new sources of additional funding for local transport: better for the environment and better for business;
better interchanges;
• tackling the 'pinch-points' in transport networks that lead to congestion;
• new airports policy and stronger role for regional airports; and
• new independent Commission for Integrated Transport (CfIT) to advise on integration at the national level and act as a force for change.” (DETR, 1998, p 10).

Quality partnerships and the Commission for Integrated Transport will play an important role in the integration of transport and efforts to regain passengers lost to private transport.

It is clear that the important role of the bus in the provision of safe and reliable public transport is accepted: “More bus lanes, properly enforced, will make buses quicker and more reliable. Even a small increase in the numbers of bus passengers will transform the economics of the bus industry, allowing higher levels of investment in new buses and new and more frequent services.” (Prescott, 1998) The renewed appreciation of the commuter bus is also a trend in other countries. This role of the bus will also be discussed in more detail in the next chapter. The role of the bus in the New Deal is summarised as follows: “Buses will be cleaner, more comfortable and more reliable, a real and attractive alternative to using cars. We are challenging the industry to produce a bus design fit for the next century. We will build on Quality Partnerships, local partnerships to deliver better bus services. We will ensure that the passenger gets a real say in influencing bus services in their local area. Quality Contracts, where there is local demand, will mark a real change from the present and provide the opportunity for the development of integrated networks.

The New Deal for transport means:
• buses to lead our transport revolution for the 21st Century;
• upgraded Quality Partnerships between local authorities and bus operators:
  • quicker, more reliable services;
  • higher quality vehicles with staff trained in customer care;
  • easy-to-use buses - to help access for disabled and elderly people and parents with young children;
• Quality Contracts - exclusive contracts for bus routes to ensure integrated networks;
• half-price or lower concessionary fares for elderly people; and
• special funding for buses in the countryside.” (DETR, 1998, p 10).
The White Paper also supports a reappraisal of competition and regulation: "The legacy we inherited ranges from the competitive market of the deregulated bus industry to inadequate regulation of monopoly supply in the provision of railway infrastructure. Whilst competition can bring benefits to some customers as suppliers compete for market share, the wider public interest must always be taken into account. We will therefore:

- build a framework which retains competition in the market but provides for intervention where there is evidence that this is needed in the public interest. The ability of competition authorities to deal with anti-competitive agreements and abuses of dominant position will be substantially improved by the provisions of the Competition Bill. Where operators deliver efficient services in the public interest they and their employees can expect to share in the rewards of their success;
- make increasing use of economic instruments such as pricing and taxation to send clear signals about the wider social and environmental impacts of travel decisions; and
- improve the planning framework in a way which recognises the interactions between transport modes, land use and economic development, and provides for a more stable, integrated and strategic background within which transport operators and others may make investment decisions." (DETR, 1998, p 21).

In essence, the policy proposals contained in the White Paper should lead to "a seamless journey": "For public transport to provide an attractive alternative to the convenience of a car, it must operate as a network. With the New Deal for transport there will be:

- more through-ticketing;
- better facilities at stations and other places for interchange;
- better connections between and co-ordination of services;
- wider availability and provision of information on timetables, route planning and fares; and

Finally, the 1998 White Paper should be viewed as a new approach, based on a New Deal for transport in which a more flexible, integrated and customer focussed policy approach is followed.
Quality partnerships should be viewed as powerful instruments in the policy renewal process in Great Britain. In essence, these partnerships involve cooperation between operators and authorities with the aim to ensure a better transport system. "The most significant improvements in bus services recently have been achieved through co-operation between local authorities and operators under 'Quality Partnerships'. In these partnerships, the local authority provides traffic management schemes which assist bus services (bus lanes, priority at junctions, park and ride). The bus operator offers better quality (in terms of comfort, 'greenness,' accessibility and staff training), improved marketing, better integration and more reliable services." (DETR, 1998).

It is clear that operators and authorities have distinct and clear roles in the partnership that lead to synergy. The role of operators is more focussed on operational and service matters, while authorities contribute mainly through the provision of infrastructure. The combined result of these partnerships create synergy which is to the benefit of all stakeholders. The concept should be viewed as a substantial improvement in service delivery if compared to the earlier monopolised service delivery systems. Quality partnerships are aimed at serving the customer in the best possible way. The scope, extent and focus of quality partnerships is clearly reflected in the following example of partnerships in West Yorkshire, which according to Krause (1999, p 3) include:

1. "The identification, development, implementation and monitoring of bus priority measures and other infrastructure measures to reduce bus journey times;
2. Other aspects of highway management, including maintenance programmes and the enforcement of priority measures and waiting restriction;
3. Complementary service quality improvements, such as service levels, reliability, vehicle quality, passenger shelters and other accessibility improvements relating to both vehicles and infrastructure;
4. Driver training, information, publicity and promotion;
5. Innovations such as alternative, environmentally friendly fuels, real time information and electronic ticketing;
6. Consideration of funding options and partner contributions to each jointly agreed initiative; and
7. Commitment from all parties to the delivery of programmed improvements."

Pertaining to bus operations, the "main benefit of quality partnerships with local authorities is
to promote organic growth from within, (eg to develop guided bus ways, better infrastructure, including contributing to the capital cost of these)." (Walters, 1999, p 15). These facilities play an immensely important role in the improvement of overall service delivery which is to the benefit of all stakeholders.

It is clear that policy makers are convinced of the immense value of quality partnerships to the travelling community. According to The Government’s White Paper on the Future of Transport, further statutory measures are required to improve the application of the principle: "Quality Partnerships work but they need to be more widespread and put on a firm footing. We will therefore introduce legislation to put these partnerships on a statutory basis. This will enable local authorities to require operators to meet certain standards of service quality in order to use the facilities provided by the local authority as part of the Quality Partnership. This will give local authorities greater influence over the provision of bus services and their marketing, and will enable them to encourage the provision of easy access buses." (DETR, 1998).

3.9 CONCLUSIONS

At the end of the chapter in which the transformation of the British public transport industry was discussed and debated at length, it is essential to draw conclusions and to relate the learning experiences to the South African situation.

3.9.1 FUNDAMENTAL AND FLEXIBLE TRANSFORMATION

It can be concluded that Great Britain succeeded largely in achieving fundamental transformation since policy renewal started in 1968. Although certain phasing-in measures such as the interim protection in respect of rail franchises have been implemented, the transformation can really be viewed as fundamental, especially in terms of the introduction of competition and the forces of private initiative. The extent of the transformation is also clearly evident in the strong customer focus, diversification, marketing and cooperation between operators and authorities. It can also be concluded that the transformation process is flexible in terms of changes in the macro and micro environments. A reappraisal of the effects of deregulation in the White Paper supports this flexibility.

3.9.2 HOLISTIC VIEW AND ASSESSMENT NORMS

The difference of opinion amongst researchers on the successes of the transformation process
is largely a result of different norms and perceptions. It can therefore be concluded that a holistic view should be adopted in the assessment of the results. Focus on one dimension such as cost reduction can lead to negative long term effects such as declining passenger volumes and disintegration. The White Paper of 1998 reflects a re-assessment of policy outcomes with a strong focus on the customer.

3.9.3 **THE VALUE OF PUBLIC PRIVATE PARTICIPATION**

The importance of participation between the public and private sector is extremely important in the effective rendering of public transport services. Quality partnerships in which authorities and operators have responsibilities resulted in improved service levels and a better public transport system.

3.9.4 **A CUSTOMER DRIVEN PUBLIC TRANSPORT SYSTEM**

Refocussing on customer needs is a powerful strategy to increase the attractiveness of public transport and to increase the market share of public transport over the private car. Quality partnerships play an important role and resulted in significant improvements in the bus services. In the quality partnerships bus operators provide better quality in terms of operational and service matters while local authorities provide bus lanes and other infrastructure. In various cities bus companies started to focus on corridor developments to improve service delivery. New technologically sophisticated vehicles are introduced in these corridors. In these corridors, quality partnerships between operators and Public Transport Authorities play a significant role in improving service quality.

3.9.5 **COMPETITIVE TENDERING**

The benefits of competitive tendering to regulate competition are primarily a decrease in operating cost and other efficiency improvements. This model of service provision plays an important role in realising transport objectives. As stated above, however, the results of competitive tendering should be evaluated from a holistic perspective.

3.9.6 **MARKETING AND DIVERSIFICATION**

It can be concluded that effective marketing is critical in gaining market share, and marketing is an immensely important management tool in Great Britain. Marketing should be a comprehensive approach in collaboration with authorities.
3.9.7 INDUSTRY CONSOLIDATION

Industry consolidation should be viewed as a powerful trend in privatisation and deregulation efforts. Economies of scale and other drivers of change lead to consolidation of smaller operators. The possible effect of this trend on the transformation of the South African bus industry should be considered.

3.9.8 DIVERSIFICATION

Bus operators also successfully exploited the rail franchising market. Rail concessioning should also be viewed as a potential market for South African bus operators.

3.9.9 SUMMARY OF THE POLICY RENEWAL PROCESS

As stated at the outset, the policy reforms that occurred in Great Britain differ substantially from the policy direction that is proposed for South Africa, especially in terms of deregulation. The cause and effect principle of policy reform, however, provides extremely valuable learning experiences. Key aspects of the reform process that started in 1968 are summarised in table 3.7

Finally it can be concluded that the objectives of this chapter have been achieved. The transformation process of the bus industry was discussed in terms of the situation prior to reform, the key drivers of the change process, the policy measures that were implemented and the results of the policy. This chapter forms a sound methodological basis for chapter four which will focus on the transport policy reforms in other countries. By studying the transport systems in other countries before and after reforms, valuable conclusions can be drawn to guide the transformation process of the South African bus industry.
### TABLE 3.7 SUMMARY OF POLICY REFORMS IN GREAT BRITAIN 1986-1998

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<tr>
<td><strong>Main Provisions</strong></td>
<td>* Establishment of PTA’s*&lt;br&gt;* Establishment of 3 state corporations*</td>
<td>* Deregulation of quantity control of coach services*&lt;br&gt;* Strengthening of quality control*&lt;br&gt;* Introduction of competitive atmosphere*</td>
<td>* Expenditure control*&lt;br&gt;* Cost benefit analysis*&lt;br&gt;* Curbing government expenditure*</td>
<td>* London transport became national responsibility*&lt;br&gt;* Implementation of tendering system*</td>
<td>* Deregulation*&lt;br&gt;* Privatisation*</td>
<td>* Development of competition*&lt;br&gt;* Increase in demand*&lt;br&gt;* Reduction of costs*&lt;br&gt;* Fare cuts*&lt;br&gt;* Decrease in subsidies*</td>
<td>* Integration of modes and services*&lt;br&gt;* Customer focus*&lt;br&gt;* Quality partnerships*&lt;br&gt;* Improved facilities*</td>
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<tr>
<td><strong>Main Results</strong></td>
<td>* Industry consolidation*&lt;br&gt;* Institutional reorganisation*</td>
<td>* Improved service quality*&lt;br&gt;* Operating cost started to reduce*&lt;br&gt;* Act initiated further deregulation*</td>
<td>* Decline in costs not immediate*</td>
<td>* Costs started to decline*&lt;br&gt;* Reduced employment*&lt;br&gt;* Improved efficiency*&lt;br&gt;* Reduced passenger volumes*</td>
<td>* Effects only materialised after implementation of 1985 Transport Act*</td>
<td>* Increased competition*&lt;br&gt;* Reduced operating cost*&lt;br&gt;* Reduced subsidies*&lt;br&gt;* Fragmentation*&lt;br&gt;* Declined passenger volumes*&lt;br&gt;* Industry consolidation*</td>
<td>* Tangible results awaited*&lt;br&gt;* Potential in respect of increased passenger volumes and higher quality service*</td>
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CHAPTER 4

THE EFFECT OF PUBLIC TRANSPORT POLICY REFORMS IN SOUTH AMERICAN COUNTRIES

4.1 INTRODUCTION AND PURPOSE

The evolution of South African transport policy was influenced by overseas experiences as well as local needs. It is therefore deemed necessary to study international best practices and appropriate models. The purpose of this chapter is to evaluate the effects of transport policy reforms on the transformation and restructuring of the bus industries of selected South American countries and cities. Reference will also be made about rail restructuring in Argentina. The main objective of this thesis is to develop a methodological basis to guide the restructuring of the South African bus industry. This chapter will focus on a critical evaluation of the transformation process and effects of policy changes in selected South American countries with the aim to provide more structure and guidance to the change process in South Africa.

An evaluation of policy renewal in the following South American countries and cities are viewed as relevant to the objectives of this study and this chapter in particular:

- Brazil, and more specifically the city of Curitiba. Policy reforms in São Paulo and Porto Allegre will be added to illustrate the dynamic nature of the reform process;
- Chile, and more specifically Santiago; and
- Argentina, and more specifically the transformation of the rail industry.

As stated in the previous chapter, major policy reforms were implemented in the United Kingdom in the nineteen eighties. These policy reforms focussed primarily on privatisation and deregulation which resulted in increased efficiency of resources, although conflicting policy outcomes have been reported. The British reforms initiated policy changes in other countries which will be critically discussed in this as well as the next chapter. The reasons for the choice of the above countries will be motivated in a discussion of the reforms per individual country.
In chapter three the following basic methodology was suggested to evaluate the various transport systems that are relevant to the South African situation:

- Overview of the transport system and salient features prior to reform;
- Key issues underlying the renewal and change process;
- The policy measures implemented;
- The effects of the policy changes; and
- The relevance of the experience and lessons for South Africa (in anticipation of the change required).

This approach will be used as far as possible. For example, where more than one city per country are used to illustrate the reform process, the above basic methodology may be changed to ensure a more logical and fluent presentation of the research data. In such cases the reporting headings may be reduced, but the focus will remain on the situation prior to reform, the reform measures that were implemented and the results of the reform process.

4.2 SOUTH AMERICAN REFORMS IN PERSPECTIVE

Policy reforms and their effects in three South American countries, namely Brazil, Argentina and Chile, will be discussed in this chapter. Although no universal and clear cut role model exists to guide the transformation of the South African passenger transport industry, the South American experiences are relevant in a number of ways. The relevance of South America to the South African policy environment is reflected in the following statements:

- "Privatisation of Brazil's transportation infrastructure represents more than refurbishing highways or laying down railroad track, though these are critical. It represents a vision to profoundly transform the landscape, literally linking Brazil to Mercosul and tapping her great potential." Fundamental change is required in South Africa and the depth of reform and fundamental change that occurred in South America is viewed as valuable learning experiences.

- "Latin America, with its sophisticated world cities, teaches us that the mere presence of large cities is not a sufficient condition for ensuring (and equitable) national economic growth. The experience of US cities such as Detroit or St

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Louis equally warns us that cities, if poorly structured or governed, can become clogs in the engine of economic growth and wealth creation.” (Polése, 1994, p 5) The effective use of land is viewed as of particular significance to South Africa. A change in land use patterns, as suggested by the Moving South Africa project, is essential and the effectiveness of South American models such as Curitiba is viewed as particularly useful in this regard.

A further reason why South American policy reforms are studied is the fact that South American countries focussed on low capital cost solutions. Optimisation of the bus mode in South American cities is an excellent example of a low capital cost solution. With its limited funds for capital projects, South Africa can learn a great deal from South American transport policy and systems.

Rojas (1994, p 2) states that urban transport problems in Latin America should be viewed within the general context of developing countries “where resources are scarce and needs are many.” In South Africa, by comparison, the needs are indeed many and depending on the definition, resources definitely scarce. The choice of Latin America for learning experiences is therefore relevant. According to Rojas (1994), many Latin American cities experience serious problems with their urban transport systems such as:

- Growing levels of vehicular congestion;
- Environmental pollution;
- Deteriorating public transport services;
- Increasing transport costs; and
- Poor perception of the system by the users.

Political authorities are therefore under constant pressure to address the situation. The above patterns are also emerging in South Africa, albeit on a less serious scale in some of the areas. One is tempted to think that what works well in adverse conditions can also work, and probably work better, under more favourable conditions. Reforms that were implemented in South American countries should therefore be evaluated in terms of their relevance to the South African situation. The fact that South American countries also focussed on low capital cost solutions is also very relevant to South Africa.
One of the key problem areas that need to be evaluated in context is the fact that most of the transport models used in Latin America were initially developed in either North America or Europe. Furthermore the “administration and development of urban transport systems in Latin America have been undertaken with policies and strategies imported from industrialised countries” (Rojas, 1994, p 3). A common problem is to give preference to automobiles which is in contrast with the long term objective of public transport, namely to reduce the need to travel and to attract people to public transport services. Infrastructure costs, for example roads for automobiles, will therefore benefit only about 20% of the population and also have the following disadvantages:

- High costs are involved, especially road construction;
- Incentives are provided to the users of automobiles at the expense of public transport use; and
- It fails to provide a sustainable solution. “Auto orientated road infrastructure will not only fail to solve the problems of transport, but will also, in the long term, aggravate them.”

The negative effects of preference to the private car will be discussed in more detail in the section that deals with policy reforms in Brazil. Rojas (1994, p 2) concludes that an appropriate transport policy should focus on an integral approach and not on an infrastructural approach. Latin American urban transport policy should therefore have the following objectives:

- Priority for public transport as the primary transport mode; and
- Internalization of the real costs of transport for system users.

In view of the structural inefficiencies in South Africa as a result of previous government polices, a similar approach will be evaluated for application in South Africa, especially in terms of the first objective. According to the recommendations of the Moving South Africa project, an effective and sustainable public transport system should be developed for South Africa. The fact that European concepts, models and strategies have been used in Latin America should not necessarily be viewed as problematic. On the contrary, certain efficiencies and advantages will become clear in a discussion of the reform processes. Such an approach can indeed provide opportunities to create what works best solutions by refining successful models in other parts of the world in accordance with local circumstances.
4.3 BACKGROUND TO THE TRANSPORT POLICY REFORMS IN BRAZIL

A study of public transport in Brazil provides learning experiences from both positive and negative points of view: “Curitiba...has a world reputation for effective urban planning and urban transport. São Paulo provided a stark contrast - unplanned and congested, it has a contrasting reputation for urban degradation and restricted mobility.” (Smith & Hensher, 1998, p 131). Brazil indeed provides a wealth of learning experiences in terms of public transport in its large number of cities, but it is not at all possible to provide a comprehensive overview of transport policy renewal throughout the country. It was therefore decided to limit the policy research process to the most appropriate learning experiences relevant to South Africa.

According to Branco & Kassab (1983, p 120), public transport was introduced in Brazil in the second half of the previous century by public transport companies making use of animal traction. These vehicles were later replaced by electric trolley cars or trams that were introduced in Brazilian cities in the first half of this century. The motorised vehicles were imported by overseas countries, mainly England. “The emergence of the present urban bus sector can be considered a product of the crisis suffered by the tram systems during the fifties.” (Guilherme de Aragao & Marar 1998, p 1011) The trams soon received competition from buses. “In São Paulo, bus companies soon began to compete with the trolley car system, but while this was well organised, the bus system operated in a laissez-faire way, with no appropriate regulation. Thus, São Paulo soon had hundreds of buses competing for trolley car passengers in rush hours, causing losses and spoiling transport. Buying a vehicle was enough for anyone to start a bus company. Nothing more, besides that, was required from the new public transport businessman.” (Branco & Kassab, 1983, p 121).

The small operator has played a major role in the history of the Brazilian bus industry. “The history of the urban bus transport companies in Brazil shows that they begun as a self-employed, in the first two decades of this century. The proprietor of a small and individual business had one or two vehicles drove by himself. He also took care of the maintenance, he was the collector and the business administrator. There was no clear separation between the proprietor and the means of production.” (Cancardo & da Cruz, 1998, p 1018).

Efforts to establish as a viable car industry in Brazil in the nineteen fifties resulted in improved
roads to accommodate increased motor car volumes. The policy focus, as discussed above, was to give preference to increased private car use. This development resulted in insufficient investment in public transport, with increased congestion and pollution in Brazilian cities. “By the late 1960s, large cities already showed the consequences of this mistake. Funds for improving public transport were progressively more scarce and at the same time urban traffic and pollution problems quickly increased.” (Branco & Kassab, 1983, p 122).

In 1974, following the international oil crisis, Brazil realised the absolute necessity to reassess its urban transport policy, especially in view of the following considerations, as described by Branco & Kassab (1983, p 117):

- During the 1970s the gross national product in Brazil increased at a rate of between 4.7 and 15%. This growth has declined considerably during the 1980s;
- Despite the lower growth, the Brazilian population continued to increase at a rate of approximately 2.5% per annum. The population therefore increased from 93 million in 1970 to 119 million in 1980. However, the urban population increased considerably faster than the rest of the country, from 52 million in 1970 to 80 million in 1980; and
- As a further consequence of the rapid urbanisation most cities experienced “an anomalous growth and concentrate in their outskirts significant low-income populations.” The rapid increase in the urban population therefore placed an increasing burden on public transport.

Against the above background perspective, certain pertinent policy changes became inevitable. According to Branco & Kassab (1983, p 118) solutions to transport were mainly left to the Brazilian cities, despite the fact that a low percentage of tax collected remained within the city: “Therefore, the public transport system is practically private, and the private companies must operate counting only on transport fares for their income.” The real challenge was to improve the public transport system and to find solutions to high transport costs, especially in respect of the low income populations residing at the outskirts of the Brazilian cities.

4.4 THE POLICY REFORMS IN CURITIBA

4.4.1 INTRODUCTION AND OVERVIEW

The integrated bus transport system of Curitiba is probably the most quoted (and admired)
integrated transport system in the world. Most policy makers of stature visited this city for inspiration. The bus transport network has specific implications for South Africa as well as other parts of the world and it is deemed necessary to explore the key concepts of this system in more detail. Due to the vast number of publications on the Curitiba model that are essentially reporting the same facts, it is difficult to show all literature references exactly how and when they are used. Most of the information was obtained from Cannell (1995), Birk & Zegras, (1993), Fouracre (1975) and Smith & Hensher (1998).

Probably the best example of effective city and transport planning is found in Curitiba. During 1965 a master development plan was introduced which restricted high density growth to specific corridors or structural axes leading to the centre of the city. The diagram on page 83 illustrates the outlay and basic aspects of the system. In essence this development pattern increases urban density along corridors and therefore reduces the need for unnecessary travelling. City and transport planning are therefore based on sound economic principles. It is fair to say that Curitiba does not only have an effective public transport system but that the city in its entirety is very effective. The various parts or rather building blocks of economic development have been successfully integrated.

4.4.2 SITUATION PRIOR TO REFORM AND KEY ISSUES UNDERLYING THE CHANGE PROCESS

The public transport policy reforms in the city of Curitiba should be viewed in conjunction with the pre-reform environment in South America in general and Brazil in particular, as discussed above. Rapid growth of the population necessitated a review of the public transport system. Cannell (1995, p 19) states that despite the high population growth the nineteen seventies and eighties, the city succeeded in maintaining a high standard of living for its citizens if compared to the rest of Brazil. The integrated bus transport network has played an important role in this regard.

The extent of the population growth and its effects on the change process can best be described as follows: “Population growth in Curitiba has taken a small capital city of an agricultural state with a population of 140 000 in 1940 through to a medium-sized city of 500 000 in 1965 to today’s urban population of 1.29 million and a metropolitan population of 1.98 million. (Herbst, 1992, as quoted by Smith & Hensher, 1998, p 139). “The key decisions in the management of
Curitiba: Integrated transport and land use system.

Corridor densification.
this growth were made in 1965, when a traditional urban master plan was jettisoned in favour of a scheme that would concentrate high-density growth along five slender corridors relating from the city centre.” (Smith & Hensher, 1998, p 139). The decisions made in 1965 resulted in the development of a highly effective city.

According to Fouracre (1975, p 3) two fundamental problems were observed by the municipality which initiated the change process. “Firstly there was a concentration of the growing population along a northeast-southwest axis across the city. A lot of this development was indiscriminate and unplanned and resulted in a substantially increased burden on urban services. Secondly, there was the inability of a city with such little industrialisation to support the rapid growth in demand for jobs.” The fact that the densification along the specific axis occurred unplanned can be viewed as a strong driving force in the development of the city.

The planners’ aim was to “transform Curitiba into a fully-equipped city - one that would have industrialisation on which to base growth, matching transport and supply facilities, education and recreation activities and in fact everything that would be required for Curitiba to enable it to function as a regional centre and state capital.” (Fouracre, 1975, p 3).

The influence of the busway system as driver of change in its own right should not be underestimated. According to Smith & Hensher (1998, p 141) the development of the bus systems or exclusive bus roadways in Curitiba, São Paulo and Porto Allegre has been driven by the following forces:

- The continuous population growth, particularly at the outskirts ("extremities") of these cities, requiring effective transport to job opportunities;
- The need for operational efficiency due to the fact that rapid expansion was required during a period of political and financial instability;
- The influence of the World Bank, “which during the 1980s turned against ‘showcase’ urban rail projects, on the basis of the benefit-cost ratios of such schemes.”;
- The strong local bus manufacturing industry; and
- Successes achieved with the Curitiba integrated bus system.
4.4.3. OVERVIEW OF THE INTEGRATED SYSTEM

4.4.3.1 POLICY MEASURES IMPLEMENTED

To understand the dynamic nature and effects of the policy measures that were implemented, it is essential to provide an overview of the system. The renewal process should be viewed as incremental and continuous change that occurred as a result of basic decisions that were taken by city planners on the structure of the city in the 1965 master plan. The incremental changes that occurred will become evident in the discussion of the integrated system.

4.3.2 ZONING AND LAND USE

The master development plan of 1965 clearly established the principle that transport and land use planning cannot be done in isolation. It was therefore necessary to create zoning and land use policies that make provision for high density mixed-use development along the structural axes. In the process sufficient numbers of the population are attracted to make use of the public transport corridors that serve as main arteries of the structural axes. Residential developments are therefore concentrated along the corridors and appropriate essential services such as bus services, water, telecommunication, sewerage and electricity are provided. Further residential development is restricted to specific designated zones close to bus lanes which will further reduce the need to travel. As part of the city development plan, an industrial park, called the Industrial City was built in 1973 in the western part of the city and “plays an important part in the local economy.” (Birk & Zegras, 1993, p 1).

4.4.3.3 LAYOUT OF THE ROAD INFRASTRUCTURE

The initial plan designed in 1965 made provision for the direction of development along two main structural axes. These north-south transport arteries were later extended and by 1982 five corridors were in place. Three corridors operating in an eastern-western direction were added. The new corridors were built along existing roads and also move through the city centre. The final corridor was not initially foreseen by the city developers and can be viewed as the result of normal demographic development and growth trends in that particular area of the city. To prevent all traffic from moving through the busy central business district, a ring road was built as a later stage of the Curitiba development plan.

4.4.3.4 DESIGN OF THE CORRIDORS

To ensure continuous improvement of mobility, it was decided to improve and modify the
corridors in terms of increased passenger volumes and other user requirements. In terms of the basic purpose of the Curitiba city development plan, increased mobility was given the highest priority. The five corridors contain two-way lanes for the exclusive use of express buses. These express bus lanes form the inner lane of the transport corridor which are supported by a local access line for motor vehicles and a one way route designed for high capacity use of buses and motor vehicles.

Safe, reliable, modern and effective bus transport, characterised by high density mixed use development along main corridors are therefore the backbone of the Curitiba urban transport system.

4.4.3.5 THE BUS SYSTEM
A total of approximately 2000 buses provide the daily transport services. According to Birk and Zegras (1993) Curitiba’s buses carry 50 times more passengers than they did 20 years ago and that people spend only about 10% of their income on transport. The bus system is so effective that per capita fuel consumption in Curitiba is 30% lower than in 8 comparable Brazilian cities. This measure of success is clearly an achievement and reflects the overall success of integrated transport and land use planning. The basic principle of reducing the need to travel has proved the superiority of the Curitiba system if compared to other transport and land use planning systems.

The development of the integrated bus system is best explained by Cannell (1995, p 19): “In 1974 the planning policy which established the preference of public transport over the private car was also transformed into concrete action, initiating the Curitiba Bus Revolution, which has been ongoing ever since. Initially, 8 conventional bus routes were converted into 2 express bus routes. These operated on 20 km of the exclusive busways, together with 45 km of feeder routes, transporting 50 000 passengers per day. The system was increased over the years with the inclusion of new trunk and feeder routes and, in 1979, the first interdistrict route was created, linking various districts of the city without the need to pass through the city centre.”

Cannell (1995, pp 19-20) further describes the development of the system and indicates that by 1980 the system had been consolidated with the introduction of three more trunk routes as well as new interdistrict routes. A flat fare of 45 US cents was introduced which allows passengers
to travel on any part of the network. The system today is characterised by the following facts and features:

- Transfer terminals are used which makes provision for and permit integration between the various routes at the same fare;
- This flat fare is actually a "social fare" which implies a cross subsidisation of the longer trips with revenue generated from the shorter routes;
- The basic policy behind the flat social fare is to make the city accessible to all its citizens and transport users;
- The integrated system covers approximately 75% of the municipal area which comprises 5 major transport axes with 60 km of exclusive busway, 280 km of feeder routes, 190 km of interdistrict routes and 300 km of "speedy" buses;
- In 1994 a total of 1.6 million passengers per day were transported; and
- The bus fleet is totally operated by the private sector with no direct subsidy.

According to Smith & Hensher (1998, p 134) the Rede Integrada de Transporte (RIT) or integrated transport network was established in 1980 which consists of "a hierarchy of seven bus systems linked through 'integration terminals.' The operation of this system is dependent upon total integration of all the bus operations in the city."

According to Alley (1997, p 1) the Curitiba system works because it is "a hierarchical network in which different buses play different roles." Silver buses, with doors on their left, stop at every third stop. Their main purpose is to transport regular traffic on normal routes. Express buses are red and have their doors on the right hand side of the vehicle. Many of these vehicles are bi-articulated with seating capacities of up to 270 passengers. These express buses operate exclusive express bus lanes. Feeder buses are green, orange and yellow and provide feeder services between neighbourhoods and the express services.

In 1991 the highly effective "tube stations", which provide not only easy access and shelter but also clear direction to passengers, were introduced which further improved the integrated public transport network and contributed to passenger convenience.
4.4.4 BUS TRANSFORMATION ISSUES

4.4.4.1 LEGISLATIVE FRAMEWORK

In addition to the overview of the integrated system discussed above, it is also necessary to review the issues that are important from a bus transport policy and transformation perspective. As far as the legislative framework is concerned, "Private bus companies in Curitiba operate under parameters established by municipal decree in 1987. In place of the previous systems of territorial concessions, the decree established a system of permissions, which reimburse bus companies subject to the number of scheduled kilometres that they actually travel. A simple two-page document sets out the basic legal framework and standard form for all permissions, with fares calculated based on URBS experience and private firms' operating costs, including both those that vary with kilometres travelled (maintenance costs, personnel and administrative costs) and capital costs." (Flora, 1995, p 5).

4.4.4.2 OWNERSHIP AND FUNDING

The buses are owned by 10 private companies contracted by a parastatal transit corporation (URBS). This corporation acts as the transport authority and is responsible for:

- Establishment of routes;
- Setting of fares;
- Terminal maintenance; and
- Performance monitoring.

The bus system operates without any form of subsidy, despite the fact that buses are new in terms of South African standards. This favourable situation is achieved mainly as a result of the high utilisation of vehicles on the corridor routes. The bus companies are paid the equivalent of 1% of the value of each bus per month by the city and after 10 years the buses are converted into mobile schools or used for free transport to city parks.

"Although the Curitiba system has no direct subsidy, the growing complexity of the system, however, has led to the creation of a permanent structure charged with the planning and administration of the system" (Cannell, 1995, p 24).

4.4.4.3 INSTITUTIONAL ARRANGEMENTS

According to Walters (1995, p 146) the following two agencies play a major role in the transport
system of Curitiba:

- The Research and Urban Planning Institute of Curitiba (IPPUC) which is responsible for urban planning and zoning;
- Urbanizacao de Curitiba or the Curitiba Urbanisation Company (URBS) which is a planning and regulating institution for the public transport network in Curitiba. This company contracts private operators to operate services and also controls the transport infrastructure.

According to Smith & Hensher (1998, p 134), URBS is a municipal body which is not only in control of buses but also controls taxis, bus terminals, public shopping areas, parking lots and markets. "URBS acts as a planning body, a regulator and controller of the bus system, collecting all fares but contracting out the operation of the buses to private operators." The effectiveness of the system is largely dependent on the effective functioning of the above institutional structures. It should be stated, however, that the success of Curitiba system can largely be attributed to superb design, and substantial synergy between all its elements which include ownership, regulation, involvement of the private sector, integrated planning, etc.

The role and contribution of URBS is further reflected in the following statement: "While recent performance improvements have in part been due to a combination of well-chosen transportation and land-use planning decisions, one of the most important changes has been the elimination of municipal involvement in the provision of passenger services. Instead, over the last two decades, Urbanizacao de Curitiba (URBS) has evolved itself from the role of service provider into a regulatory body responsible for system administration and planning, as well as property management for publicly owned transportation infrastructure." (Flora, 1995, p 6).

In conclusion, the key role that institutional structures play in the development of Curitiba can be summarised as follows: "It is crucial to note that there is close liaison between IPPUC and URBS in the planning and development of the city, resulting in land use and transportation complementing each other in an unprecedented manner. Planning and implementation efforts are also integrated with those of other agencies responsible for development of, inter alia industries, housing and culture in the city. Due to the judicious choice of technologies for transport, the city has sufficient funds for social services, health care and education. For instance, the entire public transport system in Curitiba costs less than what 500 metres of underground
metro would have cost.” (Gordhan and others, 1995, p 10).

4.4.5 RESULTS OF THE TRANSFORM PROCESS AND POSSIBLE IMPLICATIONS FOR SOUTH AFRICA

The above discussion of the system clearly outlined the overall success of the integrated bus system. One of the outstanding features of the Curitiba transport system, however, is the ability of the integrated system to attract passengers to public transport. “The expansion in ridership and capacity after privatisation has been dramatic. In 1974 the first of the city express buses operating along two arterial routes and carried 54,000 passengers per day. By 1982, the existing system of five structural roads carried approximately 400,000 passengers per day. Today, after improvements in fare collection and distribution, vehicles, and route extensions, the system transports more than 1,000,000 passengers per day at cost and service levels which have outstripped other large- and moderate-sized Brazilian cities.” (Flora, 1995, p 6).

Application of this model for South African conditions should be considered in accordance with work and research already undertaken. The relevance of this model for the Northern Province was thoroughly evaluated in 1996. In a report “The most effective transportation system for the Northern Province” by Janse Van Rensburg (1996) the following principles will direct the development of the most effective system for the province:

- The system cannot develop in isolation from settling patterns but an effective system integrates all activities that contribute to urban change;
- The development of transport and effective land use planning are critical tools to direct growth along predetermined corridors.
- Quality transport focusses on the system without giving preference to a particular mode of transport;
- Recycling or better use of existing resources is a much better alternative to replacement of existing infrastructure by capital intensive projects. The Curitiba system will enable the optimum use of existing road and other transport infrastructure. Further growth should be directed according to already available road and corridor infrastructure;
- The system should allow for smaller incremental steps in accordance with the long term vision for the province; and
- The ideal system should be a partnership between the various stakeholders

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concerned, namely government, the private sector, citizens of the province and others.

This initiative to channel public transport out of city centres also has important implications for South Africa. By following these principles, the transport system and associated growth should be directed along carefully identified and prescribed axes. Through gradual further development, these axes will become vibrant development corridors. It is essential that road, rail and communication infrastructure be the spine or primary driving force of these corridors. Furthermore the Curitiba model will ensure effective transport and more balanced densities in urban areas. This model will further:

- stimulate economic development and growth by reducing cost;
- reduce the cost of improvement in infrastructure; and
- contribute to the preservation of historic buildings and other cultural assets.

The essence of the Curitiba system is best described as follows: "Perhaps the most obvious sign that Curitiba differs from other cities is the absence of a gridlocked centre fed by overcrowded highways. Most cities grow in concentric fashion, annexing new districts around the outside while progressively increasing the density of the commercial and business districts at their core. Congestion is inevitable, especially if most commuters travel from the periphery to the centre in private automobiles. During the 1970's Curitiba authorities instead emphasized growth along prescribed axes, allowing the city to spread out while developing mass transit keeps shops, workplaces and homes readily accessible to one another. Curitiba's road network and public transport system are probably the most influential elements accounting for the shape of the city." (Janse Van Rensburg, 1996, p 9).

It is clear that the efficiencies of the Curitiba integrated system have been incorporated in the South African transport as well as land development policy. The channelling (or redirection) of development along specific corridors forms an integral part of the Development Facilitation Act as well as policy direction in the White Paper on National Transport Policy and the Moving South Africa report. Pure economic reasoning and sound spatial development principles can form the backbone of the restructuring of the distorted land use patterns and public transport systems. Despite the conceptual advantages of the system for South Africa, it should be stated that to reverse traditional development patterns should be conservatively viewed as a long term
project. The model is therefore much more effective to structure new developments. According to Harrison (1996, p 1), the following lessons can be learned from the Curitiba experience, which are also particularly relevant to South Africa:

- Transportation and urban land use planning should be done jointly. If not, development can generate excessive traffic flows that “far exceed the design capacity of the transportation infrastructure.”
- Early integration of transit design into transportation planning is essential to prevent additional cost at a later stage;
- People definitely respond to increased service levels; and
- Sufficient density will result in a situation where operations could be funded through fare collection.

South Africa has a unique problem as a result of traditional settlement patterns which practically rules out an early integration. However, urbanisation will continue which will provide transport and land use planners the opportunity to focus on the future and to ensure that the mistakes of the past are not repeated.

Sturgeon (1995, p 7) outlines various important lessons for South Africa. By using the Curitiba model and learning experiences as guideline, attention in South Africa should be focussed on:

- Restructuring of the management system;
- Intensification of development;
- Optimisation of existing infrastructure;
- Integration of land use and transport planning; and
- Involvement of the private sector in the development process.

The increased efficiencies realised in terms of the bus system can also lead to decreased government cost in the provision of public transport. The Curitiba bus system has clearly shown that efficiency can be increased considerably without major capital expenditure for large projects such as rail systems.

In terms of cost considerations, the Curitiba model has important lessons for South Africa. According to a report *Metropolitan Spatial Development Framework, A Guide for Spatial Development in the Cape Metropolitan Functional Region* (p 23) "the reasoning behind the
choice of transportation technology was not only efficiency but also simple economics: to build a subway system would have cost roughly $60-$70 million per kilometre; the express highways came in at $200,000 per kilometre, including the boarding tubes.” According to the report, the successes of the Curitiba system also include:

- “An efficient public transport system throughout the city with an extensive network of feeder routes linking the transport axes or development corridors. (70% of daily commuters make use of public transport);
- A well-used public transport system in spite of relatively high car ownership rates of about 330 vehicles per 1,000 population. By comparison Cape Metropolitan Region has 140 cars per 1,000 population;
- Many small, appropriate and effective projects for the disadvantaged, including an innovative refuse recycling system;
- A strong and effective education programme, which uses the city’s facilities to the full, to develop human resources;
- An effective strategy for ecological and environmental sustainability;
- A sound plan for the creation and recreational use of public open spaces; and
- An innovative and creative approach to problem solving.”

In a study involving six Brazilian cities, namely Sao Paulo, Rio de Janeiro, Curitiba, Brasilia, Salvador and Campinas, Berni & Bajay (1998, p 768) made the following conclusion: “Concerning urban planning and its relationship with public mass transport, no doubt the example of the city of Curitiba should be followed, not only by the other cities studied, but also by all medium and large sized Brazilian cities which are facing high and continuous population growth.”

It can be concluded that the integrated transport system of Curitiba is an exceptionally good example of the effective use of the bus in the provision of metropolitan transport. In the process of redressing past inefficiencies, development in South Africa ought to be redirected into corridors in which the commuter bus can play a significant role. The exceptionally high cost to create rail infrastructure will further gain support for the commuter bus.

Gordhan and others (1995) made the following significant conclusions, which are particularly relevant for transformation in South Africa, after their comprehensive evaluation of the Curitiba
Integrated system:

- "A long term vision for public transport is required, which should be actively and continually pursued by all relevant planning, financing and implementation agencies."
- "The priority given to public transport by means of dedicated busways, bus lanes and the prohibition of the use of private cars in certain areas, as well as densification along public transport corridors, resulted in a very successful public transport system."
- "Creativity and innovation characterise Curitiba, together with the political will and commitment to pursue the implementation of the plans. This should serve as strong inspiration in the current South African situation."
- "A step by step approach, reviewed from time to time, rather than a completed grand master plan, is often more successful."

Finally, "Curitiba's integration of land use and transit planning has produced a number of policies, methods and institutional factors that could be applied elsewhere", according to Birkenhoff (1996, pp 173 & 174). These policies, although some were discussed in detail in the text, are summarised below to give possible direction and structure to the implementation of some of the policies in South Africa:

**Regional planning policies and actions:**

- "Curitiba began with a vision of their city....a clear vision of a linear city that preserved downtown and concentrated new development in corridors;
- The city uses coordinated transport investments and land use regulations, such as higher density mixed use in transit corridors to direct growth to transit corridors.
- Curitiba's planners think of mobility as moving people, not moving cars;
- Curitiba's leaders have been pragmatic, taking small affordable steps to achieve their vision rather than making commitments to complex or large systems and projects; and
- Curitiba's leaders are willing to experiment and take risks."

**Transit Operations**

- The city's planners designed and implemented multi-modal transportation
Corridors, known as the trinary road system, that are integrated with land uses.

- 'Express' (frequent stop) bus service was developed on exclusive right of way in the center of trinary road system;
- 'Speedy' (direct) bus service developed later on the high-capacity roads that flank the primary road system when additional transit service was needed;
- An integrated system of exclusive right-of-way, feeder and cross-town, and direct bus service has been developed to serve all parts of the city and support a linear pattern of development; and
- Service improvements and innovations have been made with land use considerations in mind."

**Corridor policies**

- "Transit corridors are zoned for mixed use residential and office development to guarantee that buildings both produce and attract trips;
- Density bonuses encourage retail shops and restaurants on the first two floors of all buildings fronting on the transitways;
- Areas outside the transit corridors are zoned for residential neighbourhoods.
- Large-scale shopping centers are only allowed in transit corridors;
- Public housing for low income families has been built along the transitways; and
- In downtown the parking supply is restricted and a pedestrian environment is emphasized."

### 4.5 RESULTS OF THE BRAZILIAN TRANSPORT REFORMS IN CONTEXT

Before policy reforms in other South American countries are discussed, it is deemed necessary to evaluate the Brazilian public transport reforms in context. Smith & Hensher (1998, p 150) states that the experience of operators in Curitiba, Porto Allegre and São Paulo "supports the contention that, under appropriate regulation, organisation and capital investment, bus-based transit systems are capable of transporting large volumes of passengers at reasonable speeds for minimal capital and operational costs." According to Smith & Hensher (1998, p 151) the "Brazilian experience also supports the key interrelationships that exist between successful busway operation and long-term planning, land use, appropriate regulation and political stability."
The strong role that the commuter bus can play in an integrated public transport system is also evident in South American cities. "The busway systems in Curitiba, Porte Allegre and São Paulo provide an illustration of the strengths and weaknesses of this transport mode. Although these systems have operating weaknesses, and although many aspects of their operation are not transferable to other national contexts, they nevertheless provide working examples of the capacity of the bus to provide cheap and efficient solutions to major urban transport problems." (Smith & Hensher, 1998, p 152).

In view of previous successes, further investment in the bus industry is continuously considered. According to Smith & Hensher (1998, p 148) the cities of Curitiba, São Paulo and Porto Allegré anticipate the need to upgrade their bus systems, despite present declining population growth: "Plans in both Curitiba and São Paulo aim to build extensive new busways, incorporating integration terminals; stopping platforms; high capacity vehicles; and improved ticketing technology. Plans in both cities rely on private sector financing to meet capital costs; and both assume that the resulting systems will not only deliver an improved public transport product, but also earn a financial surplus." It is therefore clear that the value of the bus systems is beyond doubt appreciated.

With its limited financial resources, increasing urban population and large numbers of economically active people living in peripheral urban areas, South African urban public transport can be improved substantially by applying the principles of the Brazilian integrated bus system.

4.6 POLICY REFORMS IN SANTIAGO, CHILE

4.6.1 INTRODUCTION AND PRE-REFORM ISSUES

Policy reforms in Chile and more specifically the City of Santiago are also considered relevant to the South African situation. Reforms in this city started relatively early if compared to other cities in the world. According to Thomson (1992, p 319) the transformation of the urban bus transport in Chile occurred as early as the late nineteen seventies. The industry "was deregulated in stages, from the final months of the 1970s, with occasional relapses into partial regulation. The deregulation also involved the liquidation of a State-owned bus company and liberalised the operation of shared taxis."

Thompson states that at the end of 1977, before the deregulation process started, the fleet
operating in Santiago comprised 5,435 public transport buses of which 3,167 were privately owned. These buses were normal sized with a capacity of 78 passengers and were locally known as micros. A total of 1,558 of the vehicles were privately owned taxi buses with a capacity of 40 passengers, while the remaining 710 were buses with a capacity of 90 passengers belonging to Empresa de Transportes Colectivos del Estado (ETC), a public sector company. The micros and the taxi buses were privately owned. Individual owners were required to form associations to operate individual routes. The role of these associations is best described by Gwilliam (1993, p 1) "Urban bus transport throughout Spanish speaking Latin America is dominated by associations both in cities where regulation is lax (La Paz) or non-existent (Santiago), and where it remains quite rigorous (Buenos Aires). In La Paz, Lima, and Quito, the main competition for the bus associations comes from various forms of shared taxi, whilst in Buenos Aires the bus associations both compete with metro and suburban rail service and among themselves on competing routes."

Thomson (1992, p 319) states that state control over the sector was "thorough, and embraced the fixing of fares, the authorisation of routes, the setting of frequencies, the authorisation of the importing of buses and the assignment to specific routes." Establishment of new routes could be initiated by either the authorities (Ministry) or the bus owners. In both cases it was required that the need for the additional services be justified.

Fares were increased from time to time, normally after an increase in the price of fuel.

4.6.2 KEY ISSUES UNDERLYING THE TRANSFORMATION PROCESS

According to Thomson (1992, p 319) urban transport in Chile was "deregulated on the grounds that it was believed that deregulation of the economy generally leads to an improvement in the allocation of resources and in greater efficiency in the use of such resources." This argument is the underlying principle in respect of all policy transformation processes that have been evaluated so far in this study.

Efficiency of resources should be viewed against the following characteristics of the city:

- "Only approximately 250,000 inhabitants live in the Municipality of Santiago itself, which comprises a relatively small area of the CBD, but approximately 2 million people work in the municipal area. This leads to substantial commuter
movement.

- "The city has no arterials or freeways traversing the central business district, which has a major impact on traffic flow, especially during peak hours, often leading to traffic situations approaching gridlock." (Gordhan and others, 1995, p 23).

### 4.6.3 POLICY MEASURES IMPLEMENTED

Thomson (1992, p 320) states that entry "to the sector was effectively deregulated in November 1979, by Decree No. 320 of the Transport and Telecommunications Ministry. At this time fares were still wholly government controlled. Ministerial permission to operate a bus became virtually automatic if the applicant wished to cover an existing route and as long as the request did not imply a reduction of more than 20% in the fleet assigned to another existing route." Requests to operate routes not already operated were seldom turned down. Access to the industry was therefore effectively deregulated.

In an effort to control congestion in the city centre, no increase in the size of the bus fleet was permitted between 1984 and 1988. In November 1987, significant quality restrictions were imposed in terms of vehicle age. Quantity restrictions prohibiting the number of buses in certain busy streets were also imposed. "However, this was effectively overridden by a Law, dated 31 March 1988, emanating from the Finance Ministry, which effectively liberated the use of all streets to public transport vehicles."

Policy measures to reduce pollution levels received high priority: "The control of air pollution was the prime objective of restrictions on vehicle use and these were later reinforced with congestion as secondary goal." (Thomson (1992, p 320). Shaw (1996, p 1): "In Santiago, for example, a franchising scheme was adopted to reduce congestion and pollution, hence the contract specifies acceptable bus ages and levels of emissions." The aim of these measures was to reduce the number of vehicles, both buses and private cars, on the road. Fewer vehicles would ensure less congestion and therefore also less pollution.

Fares remained under government control until 1980. Measures were implemented to abandon

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2 Unless specific authors are quoted, information on the Santiago policy reforms were obtained from Thomson (1992) and Thomson (1992b)
fares control in respect of newer vehicles and in respect of Santiago, fares were completely deregulated on 21 June 1983.

According to Gomez-Ibanez & Meyer (1997, p 27) deregulation was replaced by tendering: “After failed efforts to crack down on operator associations, in 1991 Santiago officials shifted to a system of tendering exclusive or limited franchises for bus routes. The competition was based on the fare offered, the size of the buses, and their average age.” Since 1991, “the democratically-elected governments have instituted a route tendering system aimed at increasing operator efficiency, improving user satisfaction and restoring order to the public transport system.” (Rivasplata, 1998, p 466). Dourthe and others (1998) state that the results of deregulation were rather disappointed, especially “in terms of quality of service, excess of supply, high fares and pollution” and hence “a process of tendering and concession of services within the central area of the city was implemented.”

4.6.4 RESULTS OF THE REFORM MEASURES

4.6.4.1 FARES
Bus fares increased throughout as well as after the deregulation process. (Thomson, 1992, p 321) clarifies the position as follows: “The increase in the real Santiago bus fare of more than 11.5% per annum between 1980 and 1987 promoted the Chilean capital rise to joint first place, along with Montevideo, Uruguay, in the ranking of capital city bus fares in Latin America. Service quality increased too so that, for the higher fare paid, users receive a superior product than they did previously, but the ratio of cost to value of service received has undoubtedly risen for most users.” Thomson (1992, p 322) states that: “Fares are set in such a way that the least efficient operator covers his perceived costs, which implies that the more efficient operators make good profits. This tends to fuel fleet expansion and reduce ridership per bus, which raises costs per passenger and, in turn, adds to the pressures to increase fares still more.”

4.6.4.2 BUS SERVICE SUPPLY
Thomson (1992, p 321) reports the following results in terms of bus service supply under deregulation:

- Improved service quality;
- A “remarkable increase in supply” of bus services;
- A steady growth of the taxibus fleet; and
• "The reduction in the demand/supply ratio meant that operators were more attracted to the taxibus operation, since there was little point in paying more to buy a microbus with higher operating costs and lower service speeds and which would carry fewer passengers."

According to Thomson (1992b, p 128) buses older that 22 years were taken out of service in 1988. The introduction of newer buses also made a contribution towards improving the quality of the service mentioned above. The dynamic interaction between price, profitability, supply and demand is describes as follows by Thomson (1992 b, 129): "Higher fares and relatively inelastic demand increased profitability and encouraged fleet expansion, higher frequencies and the establishment of new routes, which tended to soften the impact on the user of fare rises by reducing the need for changing from one route to another to complete a particular journey. Occupancy factors fell, which created further demands for fares increases."

According to White (1997, p 50) "the total number of buses operating through the centre of the city has been reduced by government action from a level of about 10 200 in 1989 to about 5 200 today (1997)."

4.6.4.3 ORGANISATIONAL CHANGES
Thomson (1992, p 324) states that the profitability of bus operations in general increased as a result of the policy reforms and more specifically as a result of the traffic control measures aimed at reducing the numbers of vehicles and congestion on the road. These reform measures resulted in a 15% reduction in the cost per passenger. The role of associations also became more prominent. The various route associations form trade associations which form part of the General Overland Transport Council. These associations play an important role in structuring a fairly fragmented industry where each owner on average owns less than two vehicles.

4.6.4.4 INTEGRATION OF THE TRANSPORT NETWORKS
Fragmentation of integrated networks is in some instances a negative side effect of deregulation. In Santiago the deregulation did not affect the integration due to the fact that the industry was not actually integrated at the time of deregulation. Some integration followed after deregulation, but merely as a result of market mechanisms and taxis and buses using the same stations. A through ticketing system was introduced in 1987 which further enhanced integration of the transport
4.6.4.5 **RESULTS OF TENDERING**

As stated, tendering was introduced in 1991. The results of tendering is described as follows by Gomez-Ibanez & Meyer (1997, p 27): By 1992, bus and taxibus fares had fallen by 29%, the average age of the buses in the central area had fallen to 3.2 years, and the number of buses on the main downtown street was cut from 1200 to 550 per hour during peak periods. Dourthe and others (1998, p 815) report the following results: “After six years of this new practice (tendering), the public transport system of the city has shown notorious progress through reduction of excessive fleet and pollution, stabilization of fares and rising quality of services.”

4.6.5 **FURTHER REFORM MEASURES AND IMPLICATIONS FOR SOUTH AFRICA**

Gordhan and others (1995, p 26) state that from 1990, the public transport policy was subjected to transformation. The most important reforms include mechanisms to modernise management, improvement of control and supervision, modernising the fleet and creation of “disincentives for the use of private vehicles.” Of particular significance to South Africa is also the introduction of dedicated busways in an effort to promote the use of public transport. Other reform measures include:

- Improvement of traffic management systems;
- Road pricing to manage the entrance of private motor vehicles into the CBD;
- Improved bus route regulation through the bidding system;
- Conversion of collective taxi’s to ten seater vehicles;

According to Gordhan and others (1995, pp 28-29) the following aspects of the Santiago policy reforms are of particular significance to the South African situation:

- “Regulation of public transport under conditions of oversupply. The developments in the industry during the period of deregulation, the consequences and the attempts to resolve the problems that were created, are very pertinent to the South African situation;
- Private ownership and operation of public transport services, and outsourcing of as much as possible in the case of the publicly-owned Metro;
- Regulated competition in the public transport market and the specific bidding process;
• Formation of companies ("paper companies") by groups of individual bus operators in order to be able to bid for the routes;
• Conversion of collective taxis to larger vehicles;
• Developing a long term public transport policy to guide investment in infrastructure, rolling stock and vehicles; and
• Maintaining high ridership in especially buses, despite low densities due to earthquake conditions, allows bus operators to provide services without subsidies."

4.7 RAIL TRANSFORMATION IN ARGENTINA

4.7.1 INTRODUCTION AND OVERVIEW
As stated in the previous chapter, policy renewal in the rail industry also had a major influence on the South African policy renewal process. Positive results in terms of transformation of the rail industry in Great Britain were reported in the previous chapter. After a discussion of the results of the policy reforms of the bus industry in South America, it is also deemed necessary to briefly review the results obtained in the rail industry.

The importance of the transformation of the rail sector is reflected in the following statement by (Dodgson, 1996, p 286):

• "In the rail industry worldwide, there has been a search for new solutions, including restructuring, corporatisation, and outright privatisation, but the complexity of the rail industry offers special problems."
• "There was unanimous agreement (at the Fourth international Conference on Competition and Ownership in Land Passenger Transport in 1995) that railways need to act commercially and have clear objectives from government. In other words, commercialisation is more important than privatisation per se. This means that managers and owners need to be prepared to bear normal commercial risks - and not expect government always to bail them out."

The significance of transformation of the rail industry is further reflected in the following statement by Nash, (1995, p 43): "Railways have long been seen as a major problem worldwide,

Unless specific authors are quoted, information on the transformation of the Argentinian rail industry was obtained from Carbajo & Estache (1996)
combining declining market share with increasing financial difficulties. In the past few years, interest in privatisation as a solution to these problems has grown rapidly. Privatisation has been seen as promoting efficiency and innovation, by freeing the railway from government control and by removing the prop of subsidies. At the same time, governments have been keen to relieve their budgets by transferring the financing from rail investment to the private sector.”

According to Nash (1995, p 43) New Zealand had taken the lead in the rail transformation process which is generally viewed as a remarkable success. The reform process in Argentina is also viewed as very successful and discussed in this chapter to add value to the South American learning experience.

4.7.2 PRE-REFORM ISSUES AND DRIVERS OF THE CHANGE PROCESS

Many of the Argentinian railway services were privatised through concessioning during the early 1990s. The process was initiated by the then Menem administration in 1990. At the time the largest operator, Ferrocarriles Argentinos, operated a national network of approximately 35,000 kilometres. A total of 92,000 people was employed by Ferrocarriles at the time and the total loss of the operation amounted to 1.4 billion US dollars. This enormous loss was a substantial drain on the Treasury and one of the major drivers of the policy reform process. In addition to the poor financial position, the fixed assets were in very poor condition. In 1990, a total of 54% of the rail (track) network was either in a “fair or bad condition, and only half the locomotives were available for service.” (Carbajo & Estache (1996, p 1). Due to these circumstances, the operator has lost considerable market share.

The situation prior to reform in Buenos Aires is described as follows by Gordhan and others (1995, p 20): “The system in 1989 was characterised by deteriorating rolling stock, poor track and fare evasion. Daily losses topped US$2 million, combined with increasing unreliability and unsafe conditions. These factors gave rise to private operation - after the successful experience with private commuter bus operations.”

Turco & Arcusin (1998, p 804) describes the pre-reform situation in Buenos Aires as follows: “Between 1984-1993 suburban rail usage dropped more than 30%. The number of subway passengers decreased by more than 20% during the same period. Until 1993, unreliable schedules and security concerns contributed to the decline in riderships. Compounded by inefficient
management, the results were unsustainable operating deficits.”

Salvucci (1997, p 16) states that in “the early 1990s the Argentine rail system was declining dramatically. This rail crisis occurred within a context of dramatic restructuring of the entire Argentine economy to deal with the prior hyper inflation, by an overall government strategy to reduce the role of the government in the production of most goods and services, and increasing the role of local and global competition in the economy. Reflecting this overarching policy, the Argentine railway system was split into three components: freight services, which were to be concessioned to the private sector without subsidy, to survive or fail in the goods movement market, an intercity rail passenger set of services, to be offered to the states to adopt if they wanted, and a metropolitan rail system, which was to become dramatically more efficient.”

4.7.3 THE REFORM MEASURES IMPLEMENTED

The reform measures implemented by the government comprised the breaking up of the network into different monopoly franchises “that combine track and service operations- identifying the profitable and unprofitable segments in the freight and passenger markets, awarding concessions to the private sector through competitive bidding, and transferring a sizable network to the provinces.” (Carbajo & Estache, 1996, p 1). The reasoning behind the monopoly franchises should be viewed as a powerful influence in designing the South African tender for contract system: “This single-operator strategy means that competition will arise not from several operators using the same track but from several potential operators bidding for the exclusive right to provide service during the life of the concession.” (Carbajo & Estache, 1996, pp 1-2). Competition for the road (track) and not on the road was argued to be more effective.

The freight network was divided into six thirty year concessions, while seven commuter railway services were identified for privatisation. Concession terms were set for a period of ten years, except in respect of the metro services in Buenos Aires where the period was set at 20 years. The concession models and basic principles for freight and commuter services were similar, except in the following two respects:

- Freight operations were expected to run profitably, while it “was accepted that suburban rail might need public services for operation, rehabilitation and investment.” (Carbajo & Estache, 1996, p 2). Maximum fares were set by the regulator. Automatic increases in fares were allowed for an increase in the
quality of the service as incentive to operators. Operators were also required to pay a nominal rental fee to the authorities for using the rail infrastructure. It should be stated that operations and infrastructure were clearly separated for reasons which are clear in the following statement by Nash, (1995, p 45): "Separation of infrastructure and operations is generally intended to ensure that no operator is able to be in control over the monopoly infrastructure to their own competitive advantage."

"Second, concessions were awarded on the basis of a single criterion: the lowest subsidy required to operate the line and undertake the specific investment and rehabilitation program." In respect of the freight concessions, operators were evaluated by means of complex weighted criteria. The basis of allocation of the commuter franchises was more transparent. (Carbajo & Estache (1996, p 2).

Pertaining to Buenos Aires, Gordhan and others (1995, p 20) provide the following additional information on the concessions: "In defining the concession terms there was a trade-off between the risks placed on the private operators and the government's need to create competition and to create a climate for attracting as many bidders as possible. This was achieved through balancing the government controls - fares, service quality and infrastructural investments - with conditions that would attract private consortia. These included the freedom to negotiate work rules, strict application of laws, reliability of Treasury funding and a sufficiently long concession term."

4.7.4 RESULTS OF THE REFORM PROCESS

Positive results have been reported to date. With the exception of the Buenos Aires metro services, passenger volumes increased by 75% while the increase in kilometres travelled by car in the same areas increased only by 25%. Passenger volumes pertaining to the Buenos Aires metro services increased by 28% - "perhaps in part because of worsening road congestion, but also in response to improved customer service, security, and safety, particularly at stations. Growth in revenue-passengers carried has also been impressive, in large part because of the measures against fare evasion that all private operators adopted." (Carbajo & Estache (1996, p 2). The increase in passenger volumes should be viewed as very positive, especially in view of the decline in patronage pertaining to bus passenger volumes in other countries where reform measures were implemented.
Of particular significance is also the considerable reduction in employment levels. The combined employment levels decreased from a staggering 92,500 in 1989 to approximately 17,000 in 1996. It should also be stated that the government “went to considerable effort to ensure that severance pay would ease the lay-offs.” (Carbajo & Estache, 1996, p 3) These results were confirmed by Gordhan and others (1995).

Salvucci (1997, p 4) also confirms the successes achieved with the Buenos Aires services: “After a few years of the transfer of the lines to the private concessions, a clear pattern of success has emerged. True ridership has increased on each system by at least 30% because of increased reliability. Fare evasion has been essentially eliminated, leading to revenue increases on some lines of several hundred percent. The concessions are basically covering operating cost out of the farebox, and the subsidy payments are financing capital renewal and profit. The government has been making payments on time, relieving anxiety by the concessionaries. In short, the plan has been implemented and is working better than had been hoped for.”

Turco & Arcusin (1998, p 804) report the following results of the reform measures in Buenos Aires: “Private investments in transport have contributed to increasing the quality of rail services, to the extent of attracting passengers from competing bus services.”

In conclusion, Carbajo & Estache (1996, p 4) outlines the following important area of concern in dealing with future issues: “The single-operator strategy shifts the burden of preserving effective competition to the contract and the regulator. Once the concessionaire is selected, a specialised regulatory agency becomes responsible for any final contract negotiations, for contract enforcement, and in some cases for other regulatory functions.” The system works well, provided that care be taken in the following areas:

- Possible monopoly abuse within the system;
- How to “cope with the need to periodically renegotiate or modify the concession contracts. Renegotiation or modification may seem unethical to the whole idea of concession contracting.”; and
- The possible proliferation of regulatory commissions. Arbitration commissions, for example, should be independent from enforcement commissions.

The Argentinian rail transformation process can be regarded as successful. The significant
reduction staff and costs without a loss in passenger volumes should be viewed as the most significant positive outcomes of the transformation process.

Pertaining to the South African policy reforms, the following conclusions by Gordhan and others (1995, p 22) on public transport policy reforms in Argentina are particularly relevant:

- "The bold steps taken in Argentina to reduce the role of the State in the economy, whilst maintaining the necessary infrastructure and services are impressive. It is seen as a good example of private sector/public sector partnership - to the benefit of the Argentinian economy and its people."
- "The bus companies have also diversified into rail concessions which will inevitable lead to voluntary integration of bus and rail systems. It will make commercial sense to do so due to the ever increasing traffic congestion in Buenos Aires."

4.8 SUMMARY AND CONCLUSIONS

The main objective of the chapter, namely to evaluate South American policy renewal measures that are relevant to the South African policy reforms, has been achieved. The chapter clearly outlined the value of specific overseas learning experiences such as appropriate institutional structures, integration of transport and land use planning, and increased private sector involvement in public transport and the improved efficiency of scarce resources that occurred as a result thereof.

In terms of the objectives of this study on the transformation of the bus industry, the positive outcome of competition and competitive tendering as well as the efficiency of the Curitiba model are particularly relevant to the South African public transport industry. The important role that the bus can play in the provision of mass transport in urban areas without the immense capital cost of rail infrastructure was clearly illustrated with the integrated bus network of Curitiba.

The information wave has made the world smaller and has made it much easier to conduct international comparisons. There is also an increased need to follow world best practices. Against this background this chapter has made a contribution towards evaluating the Southern African policy framework against best practices in South American countries.
In summary, the following general conclusions can be drawn from the South American experiences:

- A thorough evaluation of the situation prior to reform, the policy measures that were implemented and the effects of the reform process provides a useful basis for transport policy research;
- There are specific advantages if transport planning and land use planning are integrated. The densification of corridors and effective public transport in these corridors are the cornerstones of successful integrated development;
- Integrated transport and land-use planning can indeed direct or shape the way of growth in a particular area;
- A long term vision, which is shared by the various stakeholders, plays an important role in the provision of public transport;
- Dedicated busways, bus lanes and the prohibition of the use of private cars in certain areas can play a significant role in optimising the role of the commuter bus as low capital cost solution. Various actions to give priority to the bus improve the overall effectiveness of the public transport system;
- Creativity, innovation and political support to implement plans are significant in creating a viable transport system over the long term;
- A step-by-step incremental approach to transport planning, which is regularly reviewed, is often more successful than a fixed long term master plan;
- Private sector involvement in the provision of public transport plays a significant role in the effectiveness of public transport. Competition has specific advantages in terms of cost reduction and productivity improvement;
- The commuter bus has specific advantages over other modes such as rail and the bus can play a significant role in an integrated transport network without the high cost of rail infrastructure. The bus is an ideal solution to improve public transport in densely populated areas if limited capital is available for rail systems;
- The commuter bus is a low capital cost solution if compared to other costly mass transport modes;
- Privatisation of rail services can lead to increased efficiency and an increase in passenger volumes. Rail franchising should also be viewed as a viable opportunity for bus operators;
- First solutions are not always the best: “A willingness to experiment and take
risks, tempered by a desire to get things done quickly and cheaply, lead to many successes.” (Birkenhoff, 1996, p 193);

- Substantial savings of staff can be realised through concessioning, which could lead to increased unemployment and other possible negative effects;
- Public transport should be effectively regulated and appropriate institutional structures are required for this purpose;
- Effective institutional structures are vital in the rendering of an effective public transport system;
- Through associations, the viability of small operators can be improved; and
- There are specific advantages of a regulatory system where operations and policy are separated.

Finally it can be concluded that South America provided a sound methodological basis to consider in the design of a change strategy for the South African commuter bus industry. The effective use of the bus in an integrated public transport and land-use system emerged as a viable solution to address the current weaknesses of the South African public transport system.
CHAPTER 5

THE EFFECT OF TRANSPORT POLICY REFORMS IN AUSTRALIA, NEW ZEALAND AND OTHER COUNTRIES

5.1 INTRODUCTION AND PURPOSE

The purpose of this chapter is to evaluate the effects of transport policy reforms on the transformation and restructuring of the bus industries of Australia and New Zealand and to review other international best practices. As stated in the previous two chapters, a study of policy renewal in other countries can be used as basis to guide the transformation of the South African bus industry. Policy renewal in Australia and New Zealand will therefore be evaluated in terms of the situation prior to reform, the drivers of the change process, the policy measures that were implemented and the effect of the policy changes. Towards the end of the literature study it was also deemed necessary to review certain international best practices in other countries that are relevant to the objectives to this study. Specific themes such as the latest international initiatives to attract passengers to public transport and the need for a paradigm shift in public transport policy will be addressed in an effort to add value to the contribution of this study to the industry.

Policy reforms in Australia and New Zealand are considered to be relevant to the South African situation and are studied for the following reasons:

- The reforms in both countries started relatively late;
- The geographical outlay and structure of both countries are in some ways comparable to South Africa;
- Population density in these countries are much less than Europe for example, and therefore more comparable with South Africa;
- Wallis (1995, p 5) describes the following similarities in the transformation environments between Australia and New Zealand, which are also relevant to South Africa:
  * The high cost of public operators if compared to private companies;
Changes in labour legislation; and

The reforms in the transport industry of Australia and New Zealand form part of government reform. Corporatisation and privatisation are therefore a major focus of government. South Africa is faced with the same transformation process and learning experiences in this regard may be valuable.

Wallis & Lupton (1997, p 1) provide the following brief overview statement of the reforms in Australia and New Zealand: “Australia and New Zealand have been undertaking regulatory and institutional reforms in their urban bus sectors since the beginning of the decade and most intensively (particularly Australia) over the last few years. They potentially provide a fruitful source of evidence on the impact of urban bus reform: Australia has as many reform approaches as it has states, namely eight, while New Zealand has 14 regional councils which each implement the national legislation in somewhat different ways.”

5.2 AUSTRALIA

5.2.1 INTRODUCTION AND OVERVIEW

The following statements by Brewer & Hensher (1997, p 1) set the scene for an evaluation of the policy reforms in Australia:

- “In Australia there is a continuing trend in the transport sector towards corporatisation, privatisation, competitive regulation (ie. tendering) and deregulation.”;

- “In recent years, Australia has joined the growing number of nations subscribing to the ideals of competitive markets as the catalyst for more efficient and effective delivery of transport services. The transition, however, from an essentially spatial monopoly environment in public urban transport has thrown up many challenges, including determination of the path to a fully competitive market.;” and

- “The nature of the reform is interpreted in terms of performance-based contracts, with industry compliance defined by minimum levels of service, quality of vehicles and acceptance of maximum fares. Although often misconstrued as competitive tendering, and contestability, the urban bus market remains one of incumbent protection subject to compliance.”

The Australian public transport system is the responsibility of the various states or territories with
limited federal influence. This policy structure, which is based on devolution of power to lower levels, is also in line with other countries, including South Africa. For the purposes of this study and this chapter in particular, it is therefore more appropriate to evaluate best practices in the various territories or cities.

The discussion of the policy renewal process in Australia will focus on certain federal policy issues as well as policy issues pertaining to a particular state only. In the discussion of the policy reforms, the focus will remain on the situation before reform, the policy measures implemented and the effects of the policy renewal.

5.2.2 PRE-REFORM ISSUES IN AUSTRALIA AND DRIVERS OF THE CHANGE PROCESS

As in most other countries in which policy reforms were implemented after Great Britain pioneered privatisation and deregulation in the nineteen eighties, Australian public transport was dominated by government monopoly and ownership was largely vested in government. The high operating cost and inefficiency of these government owned operations should be viewed as one of the most important reasons behind policy reform. Hensher & Daniels (1995) found the operating cost of public operators on average 50% higher than the operating cost of private operators in Australia.

Gargett & Wallis (1995, p 195) provide a good understanding of the pre-reform issues with their desired outcome approach to transport policy. In evaluating bus service contracts in Adelaide in Southern Australia, the policy outcome analysis described in table 5.1 was used. The policy renewal measures suggested by this approach should be viewed against the fact that urban public transport in Adelaide had been provided by a state-owned and subsidised monopoly. The model was used as basis to evaluate the implementation of the tender for contract system. It can be stated that a desire is not part of the present but is rather an expression of a desired future state. The status quo prior to reform is therefore in a sense the opposite of the desired outcome and reflects the most urgent pre-reform issues.

Wallis (1995, p 83) states that the productive efficiency levels of public operators did not change much in real terms during the nineteen eighties. Various studies have found that the unit cost levels of private operators were between 30 and 40% lower than those of public operators, which
can also be viewed as a major reason for reform.

<table>
<thead>
<tr>
<th>Desired outcomes</th>
<th>Weight</th>
<th>Reasoning</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service outcomes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Better customer service</td>
<td>11</td>
<td>Primary government commitment</td>
</tr>
<tr>
<td>Commercial market responsiveness</td>
<td>24</td>
<td>Key objective with direct and indirect influence on achieving other outcomes</td>
</tr>
<tr>
<td>Ease of service integration</td>
<td>5</td>
<td>Desirable to maintain existing levels of integration and promote use through a ‘seamless’ system</td>
</tr>
<tr>
<td>Maintenance of integrated ticketing and public information</td>
<td>5</td>
<td>Government commitment to maintain the convenience and the benefits of the existing integrated ticketing/information systems</td>
</tr>
<tr>
<td><strong>Total: Service outcomes</strong></td>
<td>45</td>
<td></td>
</tr>
<tr>
<td><strong>Financial outcomes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum service cost</td>
<td>24</td>
<td>Primary government objective to achieve maximum efficiency and the key to providing resources to improve the system</td>
</tr>
<tr>
<td>Revenue protection</td>
<td>5</td>
<td>Minimisation of fraud is important but it does not yield as much benefit as cost reduction</td>
</tr>
<tr>
<td>Minimum government financial uncertainties</td>
<td>8</td>
<td>Needs certainty over financial outcomes balanced against the benefits of providing improved service</td>
</tr>
<tr>
<td>Minimum government regulatory costs</td>
<td>8</td>
<td>Overheads of contracting to be minimised, subject to achieving the other outcomes</td>
</tr>
<tr>
<td><strong>Total: Financial outcomes</strong></td>
<td>45</td>
<td></td>
</tr>
<tr>
<td><strong>Other policy outcomes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Encouragement of local operators</td>
<td>5</td>
<td>Government committed to local industry balanced against the benefits of obtaining better services</td>
</tr>
<tr>
<td>Responsiveness to Government policy</td>
<td>5</td>
<td>Government desire to easily influence the services balanced against the advantages of allowing operators to respond to market signals</td>
</tr>
<tr>
<td><strong>Total: Other policy outcomes</strong></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>


In chapter three the influence of the Thatcher government on the policy renewal process in Great
Britain was discussed in detail. A similar influence from government in Australia resulted in the introduction of competition in the rendering of public transport. According to Cox et al (1995, pp 1-2) the following political influences resulted in the implementation of competitive tendering:

- **Adelaide**: Competitive tendering was initiated by the Liberal Party state government;
- **Brisbane**: The Queensland government at the time (the socialist Labour Party) requested productivity improvements through competitive tendering;
- **Melbourne**: Competitive tendering was required by the then newly elected Liberal Party-National coalition;
- **Sydney and Newcastle**: Tendering was introduced by the Liberal Party-National coalition; and
- **Perth**: The Liberal Party state government initiated the implementation of competitive tendering.

The most significant arguments in favour of the introduction of competition at the time were to reduce costs and to improve productivity.

Brewer & Hensher (1997, p 2) state that “in New South Wales, The Transport Administration Act, 1988 signalled the first wave of change, which led to a fundamental restructuring of the bus industry. The government achieved this by replacing the outmoded Transport Licensing Act 1931, which effectively protected the existing tram and rail services by regulating private bus routes making it difficult for potential operators to enter the market. Changes in bus services required government approval which placed immense pressure on the commercial viability of operators. This approach led to a lack of competition between private and public bus services.

The second wave of change was signalled by the Passenger Transport Act 1990 designed to enhance the standard of buses, ferries, taxis and car hire services. The outcome of this change is that the bus sector has moved from a rigid system of bus licensing, whereby operators had an exclusive monopoly, to a set of performance-based contracts. Non-compliance would led to competitive tendering. In the interlude, the focus of change has been upon the technicalities of implementing the Passenger Transport Act, the level and extent of services and the advent of the mini-bus.” (Brewer & Hensher, 1997, p 2).
According to Wallis & Lupton (1997, p 3) the reforms in all Australian states "have been heavily influenced by a number of wider political and policy developments in Australia. These include in summary:

- Widespread changes in views as to the roles of government and how best to achieve these - towards corporatisation and/or privatisation of government business enterprises, and towards improving efficiency through the introduction of competitive disciplines and the contracting out of services. The changes in approach are of course shared by many other developed countries;

- Widespread changes in Australian industrial relations legislation, which have facilitated local enterprise agreements in place of uniform state or national awards.

- The report on Urban Transport by the Australian Federal Government (Industry Commission, 1994), which highlighted the importance of introducing competitive pressure to improve the performance of the Australian urban bus industry, and also recommended accompanying institutional reforms; and

- The development of National Competition Policy, which (inter alia) requires state governments to review all existing legislation that restricts competition, and only allows such restrictions to be retained if they can be shown to be in the public interest."

5.2.3 INSTITUTIONAL STRUCTURES

Institutional structures play an important role in the rendering of public transport in Australia and reference to the role of these structures will be made in various sections of this part of the chapter. It is not feasible to confine the discussion of the role of institutional structures to a single heading. Some of the various institutional structures in place in Australia are summarised in table 5.2 which illustrate the basic structure and funding models used. Walters (1995, p 126) describes the following shortcomings of the institutional arrangements at the time (1995):

- Objectives that were given to agencies by government have often been unclear or broad, which resulted in ineffective measurement of success;

- Intervention in day to day decision making. Intervention in decision making is most of the time detrimental to quality decision making;

- Lines of responsibility and accountability have often been confused; and
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- Lines of responsibility and accountability have often been confused; and
Management of transport agencies is constrained in making operational decisions.

<table>
<thead>
<tr>
<th>AUTHORITY</th>
<th>CORPORATE STRUCTURE</th>
<th>FUNDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Transit Authority of New South Wales</td>
<td>Statutory Authority</td>
<td>Operating deficit. Some funding by State Government</td>
</tr>
<tr>
<td>State Rail Authority</td>
<td>City Rail is a division of the State Rail Authority, which is a Statutory Authority</td>
<td>Operating deficit. Some funding by State Government</td>
</tr>
<tr>
<td>Public Transport Corporation for Victoria</td>
<td>Corporation</td>
<td>Operating deficit</td>
</tr>
<tr>
<td>Brisbane Transport Queensland</td>
<td>Department of the Brisbane City Council</td>
<td>Subsidy payments by Brisbane City Council and State Government</td>
</tr>
<tr>
<td>Metropolitan Transport Trust Western Australia</td>
<td>Statutory Authority</td>
<td>Operating deficit. Some social welfare payment by State Government</td>
</tr>
</tbody>
</table>

Source: Adapted from Walters (1995, p 127)

Some of these shortcomings have since been addressed which will become clear in the presentation of the research findings, such as the discussions of 'the Performance Assessment Regime in New South Wales, Metropolitan Passenger Transport Trust in Perth and corporatisation of government owned bus operations.

5.2.4 OVERVIEW OF POLICY MEASURES IMPLEMENTED

Before specific policy measures that were implemented in the various states are discussed, it is essential to review the federal influence in the policy renewal process. According to Walters (1995, pp 125-126) a federal commission of inquiry initiated the following reforms:

- **Contestability**, which implies competition or the threat of competition, is viewed as a basic or fundamental requirement for the improvement of the bus transport system in Australia;
- **Competition** should be introduced through competitive tendering; and
- **Institutional reforms** should also be introduced resulting in the separation of regulation from operations.

The above recommendations are similar to reforms in other parts of the world where the value
of competition in the rendering of public transport services have been realised.

According to Wallis (1995, p 68) the federal commission has made a significant contribution in the transformation process, especially in terms of the following considerations:

- **Importance of competition:** Competition or merely the threat of competition is viewed as fundamental ingredient to improve efficiency;

- **Management of competition:** It was realised that an ‘free for all’ approach would be intolerable and that a structured approach would be more effective;

- **Competitive models considered:** The following three basic models have been considered:
  
  * **Open access,** which implies deregulation. Minimum service levels should be specified and guaranteed by the operator;
  * **Exclusive area franchises** for the provision of **minimum levels of service** and requiring minimum amount of subsidy, awarded through competitive tendering;
  * **Exclusive area franchises** to operate within given subsidy level at **maximum level of service** and awarded through competitive tendering;

- **Recommended model:** The commission recommended the introduction of area franchises to be awarded through competitive tendering procedures for up to 7 years. A number of demonstration projects, making provision for open access or total deregulation, were recommended;

- **Institutional reforms:**
  * GTE’s (Government Trading Enterprises) should be exposed to same rules as private enterprise;
  * GTE’s should be separated from government structure and constituted as statutory corporations;
  * Regulating and operating responsibilities should be separated; and
  * Government-owned bus operators should be “separated into commercially autonomous units.”

The new dispensation contained five pertinent elements of reform. Wallis (1995, p 69) describes these elements, as contained in the Competitions Principles Agreement, as follows:

- **Review of the legislation:** Revision of regulations restricting competition;

- **Structural reform:** Restructuring of public monopolies;
**Third party access to infrastructure:** Development of guidelines to allow access by external parties to public monopoly infrastructure;

**Prices oversight:** Measures for oversight of prices rendered by public monopolies; and

**Competitive neutrality principles and measures:** Measures to enhance a level playing field.

Corporatisation has played a key role in the reform of the bus industry. According to Walters (1995, p 126) a process of corporatisation of GTE's (Government Trading Enterprises) had been taking place involving the following steps:

- Setting clear commercial objectives for agencies;
- Vest accountability for their performance in parliament; and
- Allowing agencies autonomy in their day-to-day operations and management.

In view of the relevance of the corporatisation process for South African provincial and municipal bus operators, the Australian corporatisation steps are discussed in more detail, according to Walters (1995, pp 130-131):

**Clear commercial objectives**

- Clear objectives that can be implemented should be given by government;
- The commercial and social objectives of GTE's should be separated;
- Certain social obligations should be met by transport agencies and their cost should be clearly measured;
- Appointment of Board members should be purely on experience and competency;
- Commercial and regulatory functions should be clearly separated due to a possible conflict of interest; and
- Directions by government should be in writing and tabled in parliament.

**Accountability**

- Accountability to parliament should be authorised by the relevant minister(s);
- GTE's should be subject to external audit;
- Annual corporate plans should be prepared for approval by the minister concerned;
Performance in accordance with the corporate plan should be measured.

**Autonomy**

- Clear objectives and accountability measures improves efficiency;
- An arms length distance should remain between government and agencies;
- Agencies are free to contract services out if this measure proves to be cost effective; and
- GTE’s are fully liable for taxes and related charges.

Against this background, specific policy reforms and their effects in various states and cities in Australia will be evaluated and discussed. As a broad introduction, the implementation of the above policy measures within the context of the following cities and/or territories needs further discussion:

**New South Wales and Sydney:**

"The New South Wales Passenger Transport Act was introduced in 1990 and put in place a system where bus operators are awarded five year service contracts for the provision of regular bus services on a commercial basis. Under this model, bus operators are given exclusive rights to operate services within a designated area or on a designated route and in exchange they must meet minimum levels of service specified in their contracts. If operators meet the minimum service levels and all other contract requirements, they are granted an automatic renewal of contract for a further five years. It has become increasingly apparent that the Act is too oriented towards meeting minimum service standards and does not encourage increased performance in bus services. The regulatory framework for bus services in New South Wales was also reviewed to assess its compliance with the national competition policy. The review indicated that the renewal of commercial bus contracts should be based on the degree to which operators are achieving best practice rather than minimum service levels." (Transit Australia, Dec 1998, p 274).

The Passenger Transport Act was therefore amended by the Passenger Transport Amendment Act 1997, thereby "linking the renewal of commercial bus contracts to the achievement of best practice." (Transit Australia, Dec 1998, p 274). The concept of a Performance Assessment Regime (PAR) was introduced whereby standards and benchmarks are described to which
operators should adhere to during the contract period. To those operators who meet the PAR requirements, five year contract renewals will be awarded without having to go through the tender process.

Melbourne:
As far as the privatisation of bus operations are concerned, Melbourne has made the best progress: “Melbourne has become the first capital in Australia to privatise the operation of its entire State Government city-bus operation as the current international trend towards corporatisation and privatisation of transport resources gains momentum in this country.” (Transit Australia, July 1998, p 156).

Perth:
Institutional structures play an extremely important role in public transport, which will be discussed within the context of Perth. “Recognising the need for a viable, well funded public transport system, the State Government of the day formed the Metropolitan (Perth) Passenger Transport Trust. (MTT) This organisation combined private enterprise expertise with Government funding, to take over the running of all bus services in the Perth metropolitan area. This was carried out between 1958 and 1962. This MTT organisation set the stage for the development of bus services in the Perth region for the next 40 years, albeit under a number of trading names. MTT lasted until 1986, when the name was changed to Transperth. In November 1993, it adopted MTT again, when the name Transperth was transferred to the Department of Transport (DoT). This Transperth organisation then assumed responsibility for transport planning, policy and regulation for the whole Perth transport network. This had formerly been with the MTT. The process of bus service tendering was then started by the DOT.” In February 1995, the ‘second’ MTT became Metrobus until its demise in July 1998.” (Mortimer, 1998, p 267).

Against this background the government bus service in Perth was privatised by July 1998.

5.2.5 PERFORMANCE BASED CONTRACTS
The New South Wales performance based contracts discussed above should be viewed as an attempt to increase the efficiency of the privatised bus services. Performance based contracts that were implemented throughout Australia are particularly relevant from a policy perspective,
especially to illustrate the effect of the policy renewal process. Performance based contracts are playing an important role in the transformation from government monopoly to market principles. Within this environment, the following statement is particularly relevant: “The efficient and effective delivery of public transport services has become an increasingly important issue in Australia. Governments are facing up to the pressures of changing demographic and population growth patterns, increasing social justice, accessibility and environmental requirements, increasing private vehicle usage and an increasing demand for road infrastructure, and growing public transport costs. Attention has focussed on increasing public transport share of the total transport task and doing so efficiently and effectively” (Goebel, 1995, p 224). Against this background Goebel further states that public transport must provide a realistic alternative to private travel. To do this effectively “the structure of ownership and the degree of competition in the industry heavily influences the outcomes possible from public transport systems.”

Goebel (1995, p 224) states that various forms of regulation have been used by governments ranging from exclusive geographic based licensing systems to open competition. He proposes that performance based contracts as an ideal alternative in-between. “Performance based contracts are increasingly being used by transport authorities as an alternative to deregulated competition because this approach has demonstrated that higher levels of service can be provided to the community in vehicles that are safe and comfortable and in a way that minimises the cost to the operator, users and the government.”

Performance based contracts have been implemented in almost every Australian jurisdiction. “In considering reform possibilities, three broad options are generally available:

- Monopoly licensing granting operators an exclusive right to operate within a specified area;
- Deregulation of entry requirements allowing unfettered competition between operators in the market; and
- Performance contracts which have elements of both monopoly provision of services and periodic competition.” (Goebel, 1995, p 229).

Against the above background the advantages and results of performance contracts can be summarised as follows:

- A sound balance is achieved between open competition and monopoly licensing;
Performance contracts ensure the accountability and efficiency of competition and also the service coverage "investment and information certainty advantages of monopoly operations."

Performance contracts are viewed as the second best alternative to open competition because they "offer a practical alternative to merge the adverse effects of competition while still capitalise on the efficiency benefit of competition pressure."

The system resulted in significant cost savings and service innovation. Subsidies generally decreased; and

"Performance contracts allow governments to retain control over broad aspects of operators' performance while permitting the introduction of periodic competition and competitive tendering for the right to deliver services in an area. The performance contract seeks to balance the need to take into account the public interest against the benefits that flow from competition." (Goebel, 1995, pp 232-233).

Following the Passenger Transport Amendment Act, 1997, the following benchmarks are considered for implementation to assess operator performance in New South Wales as part of the Performance Assessment Regime (PAR) initiative:

- Vehicle accessibility;
- Passenger comfort;
- Timetable and route information at bus stops;
- Community and customer satisfaction; and

As stated earlier, operators complying with the standards set will be allocated a further contract without having to tender again.

Finally it can be stated that performance based contracts improved service levels and it is anticipated that this model of service delivery will further improve public transport in future. (Goebel, 1995, p 239).
5.2.6 INTEGRATED PLANNING IN AUSTRALIA

"In Australian cities there is now general appreciation at government level of the need to integrate strategies to pursue a range of economic, environmental and social goals. Encouraging public transport to take a bigger share of the urban transport task appears in all the major metropolitan areas as a key strategy." (Kilsby, 1997, p 1). Policy reforms that were implemented in Australia after the federal initiatives discussed in paragraph 5.2.3 above also included integrated transport policies and strategies. In view of the objectives of this study it is deemed necessary to review some integrated transport policies, principles and systems that can be used in the assessment of the South African transport policy.

The need for integration of resources in public transport is clear throughout Australia. "In Australian cities, there is now a general appreciation at government level of the need to integrate strategies to pursue a range of economic, environmental and social goals. Encouraging public transport to take a bigger share of the urban transport task appears in all the major metropolitan areas as a key strategy. (Kilsby, 1997, p 1).

The Brisbane Busway strategy, which forms part of an IRTP (Integrated Regional Transport Plan) gives an indication of the various policy themes that are addressed. Initiatives by the Queensland government pertaining to an integrated transport strategy include provision for the following:

- station location criteria;
- busway access locations;
- access mode to stations;
- interchanges;
- integrated ticketing and information systems;
- ownership, operation and maintenance of busways;
- planning and design standards;
- service network design concepts;
- parking policies;
- land use at stations; and
- disabled access.

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1 Information obtained from the Internet website (http://qdot.qld.gov.au)
In the integrated transport planning system, all modes of transport are treated equally and transport decisions are considered as part of broader urban development process. Such a process includes aspects such as consultation with the community on their future requirements in terms of a transport system, development of future land use and transport scenarios and verification of these scenarios to ensure optimum benefits for the community and formulation of standards for transport use.

The time horizon for the Integrated Regional Transport Plan for South East Queensland, which is viewed as a well integrated strategic plan is similar to the scope of the Moving South Africa project. The primary aim of this 25 year plan is to develop a transport system that meets the requirements of the region in terms of population and employment growth. Future planning forms an integral part of the plan and the following trends for the 20 year period (1992-2011) are significant from a South African perspective:

- the population will increase by 60% during the said period;
- the number of person trips per day will increase by 70%; and
- car travel in the area will increase by nearly 100% due to the sprawl.

Similar trends can be expected in South Africa which further illustrates the urgent need for integrated long term transport plans in the region. The empowerment actions in South Africa will further increase private vehicle use to, from, and within cities. The urgent need to redress past inefficiencies of the public transport system is also an important consideration to develop and implement integrated transport networks. The value of the integrated transport network should be viewed against the following objectives:

- A more sustainable transport system;
- Restraining of the growth of peak travel demand;
- Provision of sufficient road capacity;
- Coordination of transport and land use planning;
- Ensuring that social justice is maintained; and
- Maintenance of environmental quality.

One of the key elements of the Integrated Regional Transport Plan for South East Queensland is “an integrated public transport system that is so good people will no longer have to rely on a car for essential travel like the journey to work. This will reduce the need for households to buy and
The integrated long term transport strategy for New South Wales, as described in the report *Action for Transport 2010. An integrated Transport Plan for New South Wales* contains the following 12 point action plan:

- "Meeting the needs of our growing and changing population;
- Safeguarding our environment;
- Improving air quality;
- Reducing car dependency;
- Getting more people on public transport;
- Improving access for our rural communities;
- Making freight more competitive;
- Keeping the network in good order;
- Getting the best out of our system;
- Giving the community value for money;
- Making space for cyclists and walkers; and
- Preventing accidents and saving lives."

The above action plans are basically the same for the integrated plan for Sydney which is discussed in the report *Action for Transport 2010. An Integrated Transport Plan for Sydney*. The following key themes that were discussed in chapter two are contained in the above integrated plans as discussed in the respective reports:

- Actions to increase the market share of public transport;
- A global environmental awareness;
- A growing customer awareness; and
- A growing concern for the need of disabled people and other minority groups.

### 5.2.7 BUS PRIORITY MEASURES

Policy makers in Australia realised the importance of the bus in the provision of an effective public transport system and implemented various measures to optimise its role and contribution. The implementation of busways and bus lanes is high on the Australian agenda as part of the policy renewal process: "Public transport vehicles are about 10-20 times more efficient in their use of road space, as well as consuming less fuel and emitting less pollutants. In urban areas
where congestion is experienced, the progress of public transport vehicles will be assisted through measures such as:

- Exclusive rights-of way or separate roadways (busways);
- Separate lanes for exclusive public transport use (bus lanes);
- Bus priority through traffic signals and queue jump lanes; and
- Using transit lanes which are shared by buses and multi-occupant private vehicles.” (Transit Australia, Jan 1998, p 2)

The city of Brisbane has implemented highly successful bus corridors based on learning experiences in cities such as Curitiba, Ottawa and Pittsburgh. Similar bus priority measures were also successfully implemented in the capital city Canberra and Hobart. (Transit Australia, Jan 1998, p 6). The remaining big cities of Australia, namely Melbourne, Sydney and Perth also implemented busways and bus lanes to improve the effectiveness of the bus in the urban transport system. (Transit Australia, Feb 1998, pp 26-32). The Action for Transport strategy of Sydney “envisages an investment of $770 in an expansive network of rapid bus-only transitways across Sydney’s western, north-western and south-western regions.” (Transit Australia, Feb 1999, p 33)

The value of the bus as effective workhorse in the provision of safe, reliable and affordable mass transport is therefore clearly recognised.

Successes with the implementation of these systems outside Curitiba where the concept first proved to be highly successful should be viewed as a viable opportunity for South Africa.

5.2.8 EFFECTS OF POLICY CHANGES ON PASSENGER VOLUMES

The ability of public transport to attract passengers is beyond doubt a very important criterion in the assessment of the policy effects. The per capita ridership in respect of all rail and bus public transport modes in the largest metropolitan areas in Australia is summarised in table 5.3. The results are generally not very positive. However, similar patterns occurred in Great Britain, as discussed in the previous chapter.

Pertaining to Adelaide, Radbone (1997, p 9) states that “Patronage of public transport as a whole continued to decline since the new regime was introduced, though at a slower rate than previously. The total decline in patronage from 1993/94 to 1995/96 was 6.6%; 4.9% in 1995/95 and 1.6% in 1995/96. With the ever increasing availability of private motor cars and continued
expansion of parking facilities, even continued improvements in service have not been enough to increase overall patronage.”

Pertaining to Sydney and Melbourne, the following results are reported: “Both Sydney and Melbourne have seen a flattening and indeed a recent reversal of their long term patronage decline, without resorting to contracting. On the other hand, their problems with congestion, parking and air pollution are much more serious than those of Adelaide. The cities have also been growing faster. Certainly we can say that contracting has not harmed patronage.” (Radbone, 1997, p 9).

<table>
<thead>
<tr>
<th>CITY</th>
<th>1994</th>
<th>1984</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adelaide</td>
<td>56.2</td>
<td>74.8</td>
<td>- 24.8%</td>
</tr>
<tr>
<td>Brisbane</td>
<td>64</td>
<td>72.8</td>
<td>- 12.1%</td>
</tr>
<tr>
<td>Melbourne</td>
<td>93.1</td>
<td>99.4</td>
<td>- 6.4%</td>
</tr>
<tr>
<td>Perth</td>
<td>54.4</td>
<td>65.4</td>
<td>- 16.8%</td>
</tr>
<tr>
<td>Sydney</td>
<td>155.4</td>
<td>178.3</td>
<td>- 12.8%</td>
</tr>
<tr>
<td>Total</td>
<td>103.3</td>
<td>119</td>
<td>- 13.2%</td>
</tr>
</tbody>
</table>

Source: Urban Transport Fact Book (Cox, 1998)

Wallis & Lupton (1997, p 13) report the following results on the reforms of passenger volumes:

- In Southern Australia and Western Australia the results are indications of “modest patronage increases to date, in large as a result of the improved customer focus by drivers.” —

- “In Victoria, National Bus patronage increased by in the order of 105 over the first two years, principally in the off-peak: this resulted from increased frequencies, new vehicles and improvements in quality aspects.”

Favourable results are also reported for Perth, which include “half a million additional boardings” since the privatisation of the state owned bus service. (Mortimer, 1998, p 271).
5.2.9 OPERATOR RESULTS AND OTHER EFFECTS OF THE POLICY RENEWAL PROCESS

As a broad introduction to the results of the reform measures, the following broad effects and consequences reported by Wallis (1995, p 69), are significant.

- The legislation creates the idea that competition is open;
- A level playing field is ensured; and
- The policy reforms initiated price reforms.

Pertaining to the results of the early reforms at operator level, Wallis (1995, p 83) reports the following effects of the policy changes in terms of changes in productive efficiency in New South Wales:

- Employee/bus km, change from 1989/90-1993/94:
  - Sydney Bus - 34%
  - Newcastle Bus - 31%

- Expenditure/bus km (real terms), change from 1989/90-1993/94:
  - Sydney Bus - 15%
  - Newcastle Bus + 3%

In a study aimed at the development of productivity measures in the Australian urban bus sector, Hensher & Daniels (1995, p 185) found a difference between the cost structures of public and private operators. "A most noticeable difference between public and private operators is on total costs per vehicle kilometre. Except for one Melbourne private operator who has a specialised service for the disabled, the public operators are significantly more costly per vehicle kilometre, averaging 50% higher unit cost per vehicle kilometre." This significant difference in operating cost should be viewed as a primary driving force behind the policy renewal process.

The reduction in staff levels is a primary contributor to the reduction in operating cost, and support similar results reported in the previous two chapters. More recent performance results were obtained from Cox (1997, p 12):

- **Adelaide:** In preparation for the tendering process, cost per kilometre was reduced by 11%;
- **Perth:** Reduction of subsidy per kilometre by 18% by a large bus operator; and
- **Sydney:** Total bus operating costs of the central Sydney public transport system
were reduced by 22.4% between 1986 and 1996. During the same period the service expanded by 10.4%.

Although the effects of the Performance Assessment Regime have not yet been scientifically evaluated due to its fairly recent implementation, the outlook is positive. Pertaining to New South Wales, improvements are foreseen in the following areas:

- More frequent bus services to meet demands;
- Introduction of services in areas not served before;
- Improved safety after the introduction of video surveillance;
- Improved service levels;
- Lower cost to government; and
- Improved passenger convenience as a result of service innovations such as integrating ticketing systems. (Transit Australia, Dec 1998, pp 274-275).

According to Wadsworth (1995, p 626) the changes that occurred in the city of Perth "represent the most significant reforms since the government took over the private bus operators in 1958. For Metro Bus, which has (as Transperth) been long recognised as one of the most efficient government-owned operators in Australia, the changes required have been substantial, with far reaching impacts upon the way the organisation operates, its’ customer focus and the working environment for its’ staff. Wadsworth further concludes that:

- Implementing reforms is difficult and complicated for operators as well as policy makers;
- Organisational change necessitates the continuous development and refinement of policies; and
- Sufficient goodwill exists between operator and policy maker to ensure that key issues are addressed in the interest of good public transport.

Mortimer (1998, p 267) adds the following perspectives on the effects of the transforms in Perth: "Generally the new system of contracting the private sector will work well once the introductory problems of the new contracts have been addressed. The cost to the taxpayer has been reduced and the Transperth network covering bus, ferry and train services, with common ticketing and fare structure has been kept intact. This is the all important issue for the passenger who really does not mind who operate the buses as long as they are frequent and reliable." Mortimer (1998,
p 269) is more specific with the following results achieved by Metrobus in Perth:

- A saving in operating cost saving of $17 million during the first year of operation;
- A reduction of the bus fleet by 55;
- A staff reduction of 455 people, which include mostly administrative staff;
- Closure of the central workshop and the decentralisation of the maintenance function; and
- Closure of a 150 bus depot and reallocation of fleet to other depots.

It should be stated that the above results were reported in December 1998 and therefore represent a very recent view. Finally, Mortimer (1998, p 271) reports the following results pertaining to the reforms in Perth:

- "Introduction of five new services at no cost to the taxpayer; and
- New enterprise work agreements with all staff based on specific work areas, reducing staff costs and achieving work efficiency."

Pertaining to Adelaide, Radbone (1997) reports safety improvements, decrease in violence and crime in the operating environment and staff reductions of 25% of head office staff.

Finally, the introduction of competitive tendering in Australia, "has undoubtedly produced savings of around 20%." (Moore, 1998, p 9).

5.2.10 THE AUSTRALIAN REFORMS IN PERSPECTIVE: LESSONS FOR SOUTH AFRICA

Walters (1995, p 153) identified three major areas in which the Australian policy reforms are relevant to South Africa, namely corporatisation, separation of policy from operations and competitive tendering. The relevance of the learning experiences in these areas can be summarised as follows:

- **Corporatisation of State Transit Authorities.** Successful corporatisation will enable the present municipal and provincially owned bus operators to participate in the tender system. The Australian model has proved to be successful;

- **Separation of planning /financing and operations.** This separation was also found to be very effective in the previous two chapters and the principle is also firmly embedded in the new South African transport legislation; and
Introduction of competitive tendering. As indicated in this chapter, as well as the previous two chapters, competitive tendering has specific advantages.

Other reforms and learning experiences that are of significance to South Africa include:

- Integrated planning principles and the effective way in which they are applied in the rendering of public transport;
- The value of long term planning in the provision of public transport services;
- Staff reductions after the implementation of competition to the market;
- The successful implementation of measures to give priority to buses in the urban transport system;
- The value of performance based contracts to improve the level of service to the community;
- The value of innovation in the rendering of public transport services, and more specifically innovations to improve passenger volumes; and
- The value of benchmarks in the assessment of operator efficiency.

Finally the following observation by Underwood (1990) as quoted by Mees (1995, p 2) has a relevant message for South Africa: “Although every effort should be made to encourage the efficient use of public transport ..... Current land use trends in Australian cities are towards continued low-density development that cannot be effectively or economically served by public transport.” The Moving South Africa strategy explicitly states that new development should be redirected to form high density corridors in which public transport can be more viable, such as in Brazilian cities.

Referring to policy reforms in Victoria, Mees (1995, p 1) states that policy reforms are not sufficient to effectively promote public transport and that policy should “go further”. The underlying rationale, which can be summarised as follows, contain very relevant messages for South Africa:

- Public transport in urban areas is dependent on large subsidies with relatively little benefit because so few people make use of it;
- It is not possible to substantially increase support for public transport due to the fact that rail and tram routes, as well as some bus routes are “irrelevant to most people’s travel needs”, mainly as a result of social change and post war
developments;

- "The only logical response is to cut costs ruthlessly and bring the subsidy to an acceptable level, and to privatisate and deregulate as much of the system as possible"; and
- Roads should rather be improved since most of the travel is already on roads, and most future travel will also be on roads.

It can therefore be concluded that transport reforms should be radical and fundamental if the primary aim of government is to improve public transport and to attract more passengers.

5.3 NEW ZEALAND
5.3.1 OVERVIEW OF PRE-REFORM ISSUES AND DRIVERS OF THE CHANGE PROCESS

Transport reform in New Zealand is generally viewed as a successful process. According to Cox (1996, p 1) New Zealand can be viewed as a leader in policy reform, “discarding policy driven approaches, incorporating competition and reorganising public transport service delivery to ensure that those in charge of public transport design have no proprietary interest in operating the service.” According to Turley (1994) the public transport industry has been re-regulated and corporatised in an effort to reduce high cost. In the policy research process, the South African policy makers at national level also viewed New Zealand as a suitable example. According to Turley (1994, p 270) the country was dominated by pastoral farming until it was “opened up” by rail. Since the beginning of this century, urban public transport developed from trams, “through electrical trolley buses to the emphasis on diesel buses today.”

Before 1989 the transport system was characterised by large operators owned by the respective local authorities. Turley (1994, p 271): “Most of these operations had been purchased and expanded from small, often privately owned marginal businesses by local authorities with a long term vision of providing high quality integrated service networks.” Further characteristics of the operations at the time were as follows, according to Turley (1994, pp 272-273):

- Control was exercised through the issuing of licenses to operate scheduled services;
- All services were regulated and protected from competition;
- Route and service planning was the responsibility of the operator;
There tended to be "little integration of public transport and minimal cooperation between public and private operators";

- Fare structures were established by each operator;
- Private operators found it extremely difficult to replace even their oldest vehicles while "public operator fleet management invariably bought the best and generally over maintained it."; and
- "The best of the committed private operators provided superior customer service but were not particularly customer responsive. Their need for maximum revenue for minimum cost had no room for the social implications of service levels."

The pre-reform issues are further clarified by the following statement by Turley (1994, p 273):

"In short there was a reasonable level of security and stability for operators and users, but with high wastage, inefficiencies, high operating cost and high levels of subsidy from public funds. Services were generally regarded by users as being safe, somewhat highly priced and of good quality. Patronage however, continually declined at an average rate of about 7% per annum over the last 10 years. The constant complaint was that services did not go where the public needed them and were so infrequent that they did not meet reasonable customer needs - criticism familiar to the industry the world over."

The above situation closely resembles the pre-reform phase of public transport in South Africa. The New Zealand transport reforms can therefore be used as valuable learning experience. Despite peculiar circumstances and background profiles, transport tendencies and developments in certain countries are remarkably similar. In a policy renewal process the most obvious point of departure is similarities and not differences. The above similarities are therefore much more significant.

Toleman (1995, p 574) views 1977 as an important milestone in the New Zealand Transport reforms: "1977 was far more significant because it represented a conscious decision by the then Government, that has been supported, at least in principle, by all successive Governments, that it was an appropriate use of public money to maintain a particular level of passenger transport services, in areas where commercial realities might suggest that few services would otherwise be offered."
A further perspective on the situation and events prior to reform is described as follows by Wallis (1995, p 65):

- Passenger volumes declined considerably for some years. Although declined patronage was partly as a result of the economic decline, fares increases and reduced service levels also contributed to the situation;
- Subsidy increases have shown an upward trend;
- Cost structures of public sector operators were considerably higher than the cost structures of private operators, due to, inter alia low productivity and inefficient management;
- The industry had been characterised by a lack of innovation and little incentive to adopt a consumer focus; and
- National remuneration policy was replaced by local agreements which “further extended the flexibility of the local enterprise bargaining system.”

Mein (1995, p 231) states that by the end of the 1980’s Auckland was faced with increasing costs and declining passenger volumes. At the time, the public transport situation could be described as follows:

- Barriers to entry through a quantitative licensing system;
- A substantial percentage of the transport was publicly owned;
- The Auckland Regional Authority was both large operator and funding agency;
- Declining patronage. Passenger volumes decreased by 40% between 1988 and 1991;
- Increasing cost of operation;
- Increasing public funding for transport;
- Continuous cost reductions resulted in fragmentation of routing and timetable structure;
- Increased concern about the ability of the system to respond to changing passenger needs; and
- Too much focus to stop declining patronage with too little pro-active action to exploit new markets.

The urgent need to transform the transport industry is reflected in the following statement: “During the 1980s New Zealand’s rapidly changing political climate and economic environment,
and advances in global transport technology, made government ownership and control of transport philosophically unacceptable and operationally impractical. Centralised micro-management became inappropriate and impossible in an increasingly complex business environment. The new national and international business environment required transport management with accountability, responsiveness and strategic direction - the commercialisation of transport was the means to this end.” (Stack, 1995, p 8).

“Transport reform has centred on removing restrictions to improving transport, reducing transport costs while maintaining safety standards, and ensuring that safe, improved transport services are available at the lowest cost to the economy as a whole.” (Stack, 1995, p 6) The Ministry of transport has become more effective, despite a smaller staff structure. “This is a far cry from the function of the Ministry of Transport until 1984 when it operated as a multi-headed hydra with tentacles firmly gripped on nearly every aspect of public and private transport in New Zealand.” (Stack, 1995, p 6).

5.3.2 POLICY MEASURES IMPLEMENTED

“New Zealand has undergone a period of radical reform in the past quarter century with most of the reforms occurring before 1984. In essence, the central government has moved from ownership and prescription, to much more permissive reforms of regulation. The central government has clearly indicated its intent to focus on long-term strategic issues, leaving the short and medium term transport planning to local and regional governments, and operations largely to the private sector.” (Mc Dermott and others, 1997, p 10). The depth of the reform measures in New Zealand is reflected in the following statement: “The government of New Zealand has adopted privatisation and deregulation policy in its economy to an even greater extent than in Britain. This has included privatisation of the rail system, and most of its bus operations.” (White, 1997, p 48)

According to Mein (1995, p 323) the objectives of the law reforms of 1989 can be summarised as follows:

- To provide integrated land transport planning;
- To provide a clearer picture of transport system costs;
- To reduce bureaucracy;
- To encourage innovation in land transport;
- To devolve appropriate responsibility to local government;
- To provide for fair competition between commercial operators;
- To improve consumer service and safety; and
- Greater efficiency in public expenditure.

According to Wallis (1995, p 66) the reforms entailed, inter alia, the following:

- All modes of transport were addressed in the comprehensive policy reform, whereas the legislation in the UK for example, included only buses. Rail reforms in United Kingdom was only introduced in 1995;
- A total of 14 Regional Councils were made responsible for public transport. Responsibility at this level include transport policy, procurement of services as well as funding;
- The policy made provision for the explicit separation of policy from operations. According to policy Regional Councils are not allowed to own passenger transport operations;
- Local authorities are not allowed to engage in passenger transport operations, except indirectly through trading enterprises. Municipal operators were therefore compelled to either corporatise or fully privatise;
- Any licensed operator were given the power to operate any commercial or non subsidised service. This powerful competitive measure could only be rejected by the regional council subject to certain and very specific grounds; and
- Regional councils have the authority to procure services through competitive tendering procedures.

According to Turley & Tally (1996) the transport reforms in New Zealand in effect deregulated land passenger transport. Although the law reforms took place in 1989, implementation thereof only took place in 1991. The former licensing system was replaced with the Transport Services Licensing Act of 1989 which made provision for very few restrictions on entry. The Transit New Zealand Act of 1989 made provision for the establishment of regional councils as the “planning and funding agencies” for passenger transport. This renewal process can be viewed as “part of a much wider programme to transfer from tax revenue funding to a commercially based ‘user pays’ service delivery system.” (Turley, 1994, p 1). A further aim of the reforms was to separate political and commercial input to enable transport operators to focus their attention
on their primary business, namely operations. According to Turley (1994) passenger transport services are generally divided into the following categories:

**Commercial service**

- The operator decides where and when the service is to be rendered subject to approval and registration of the service;
- Registration may not be approved if a commercial service would be detrimental to the operation of a subsidised service;
- The operator must also meet safety and other standards;
- The service is rendered purely on a commercial basis with no direct or indirect subsidies.

**Subsidised service**

- Operators obtain the right to render a service through competitive tendering;
- The tendering authority determines the service and service specifications;
- Additional quality standards may be set by the tendering authority;
- The operator receives limited protection from competition during the contract period;
- The tenderer receives only the amount tendered for and no other financial support is given;
- The tender subsidy is funded by both the central and local government.

According to Mc Dermot and others (1997, p 11) reform in the land transport sector is an ongoing process in New Zealand. “Although there are now no publicly owned road freight operations in New Zealand, and most bus companies have been privatised, management of highway operations remains in the hand of non-commercial agencies. Transit New Zealand, created in 1989 to remove management of the state highway network from political influence, has made substantial management gains and fiscal savings. Policy development is now focussed on ways of maximising the benefits accruing from an asset with a NZ$ 26 billion replacement value.” To achieve this goal, the following institutional structures will play an important role:

- “Transit New Zealand, with responsibility for the state highway network;
- Regional Councils, with responsibility for funding public transport;
Local authorities, with responsibility for the local road network.” (Mc Dermot and others, 1997, p 11).

Of particular significance is the fact that “under the new arrangement, funding will be dispersed modes on the basis of efficiency.” (Mc Dermot and others, 1997, p 11).

5.3.3 EFFECTS OF POLICY CHANGES

“Commercialisation of the New Zealand transport sector is an administrative and financial success.” (Stack, 1995, p 14). It is now recognised that commercial organisations are better suited to managing day-to-day transport operations than Government agencies.” “With minimum Government intervention, the New Zealand transport sector now serves the public better. A key reason is that each of the commercial enterprises and the regulatory authorities that evolved from Government owned and operated structures developed from a common model driven by sound strategy and based on clear commercial principles.” (Stack, 1995, p 15).

As far as ridership is concerned, Wallis & Lupton (1997, p 13) state that “there were initially some losses in patronage, principally because of public confusion and bad publicity. Over the last few years patronage increased steadily in most centres, and is conjectured to be now higher if the previous system had remained.”

According to Turley (1994, p 274) “Perceptions as to outcomes are as varied as the number of people involved in the industry. It is clear the results have been influenced by the size of urban areas, the approaches taken by the different regional authority planners and by the actions of larger operators. In the smaller urban areas where local authorities did not form LATE’s (Local Authority Trading Enterprises) but quit service delivery, the costs to both Government and Authorities fell substantially; disruption to services was generally not great, and reasonably good standards were maintained apart from some problems as changes were put in place.”

Turley (1994, pp 274- 277) further clarifies the effects of the policy changes. These effects are particularly relevant to the South African situation in a number of ways:

**Government perspective**

Positive outcomes from a governmental perspective:
• Increased focus on the purpose and reasons for public transport;
• More opportunities for participation in the public transport industry;
• Reduced cost of public transport which is beneficial to tax and rate payers;
• Greater emphasis on commercial services;
• A more customer focussed approach by operators; and
• Better coordination of time tables and improved provision of information.

Unfortunately government also had the following negative perceptions about the outcome of the reforms:
• The focus on tender price resulted in lower service quality in some cases, especially the use of older buses to reduce costs;
• Uncertainty in terms of central government funding resulted in insufficient long term planning; and
• Reinvestment in the industry declined.

Regional planners’ perspective
Positive outcomes:
• Increased efficiency and cost reduction of corporatised operators;
• Reduced cost of subsidy;
• A small increase of new operators entering the industry, increased use of smaller vehicles and increased levels of innovation pertaining to service delivery;
• Better planning due to the fact that planning responsibility shifted from individual operators to planning at regional level; and
• Opportunities for regional planners to control and improve the marketing of services.

The most significant negative perceptions can be summarised as follows:
• Uncertainty by the public and a significant decrease in patronage in a specific area;
• Unwillingness by operators to invest in the replacement of vehicles;
• Reduced vehicle and service standards as a result of acceptance of the lowest tender;
• Confusion pertaining to keeping information and service changes up to date;
Operators’ perspective

Operators were generally uncertain whether funding levels could be maintained, resulting in a fairly negative perception. Their most significant areas of concern included:

- The tender process, which is largely price driven, substantially reduces the profitability of the industry. Investment in replacement and especially new replacement vehicles is therefore not justifiable;
- No incentives are available in the system for research, experimentation and the development of services due to the focus on price;
- The general perception is that there are really no incentives for operators to invest in the industry or to build patronage;
- Bus operators are subject to measurable accountability but not regional planners, despite the fact that they make critical service decisions; and
- Smaller operators regard themselves as disadvantaged if compared to the larger corporatised operators who are well established with assets below replacement cost.

Workers’ perspective

The critical importance of securing the commitment of labour in the tender system necessitates a thorough evaluation of their needs and perspectives. The New Zealand experience is particularly relevant to the South African situation, especially in terms of the following considerations, as outlined by Turley (1994, p 276), and evaluated in South African context:

- Increased unemployment is a major concern of labour. Due to the effect of corporatisation and the competitive environment approximately 25% of people employed in regional and local transport operations became unemployed. The retrenchments occurred during the period of the highest unemployment in the history of New Zealand. The situation in South Africa is much the same and may be even worse;
- Employees who remained in employment had to accept much lower (15-30%) remuneration packages. The same will unfortunately have to be applied in South Africa, especially in view of the fact that remuneration of employees in municipal and provincial bus operations is much higher than in private bus companies; and
- Employees remaining in the employment of the industry feel threatened. Job
security is no longer there and subject to securing tenders. The situation in South Africa is much the same.

Wallis (1995, p 67) reports the following effects of the policy initiatives:

- Only approximately 30% of the services are provided on a commercial basis. The remainder of the public transport services are subsidised through the tendering process;
- Contracts are normally between 3 and 5 years with 5 years as maximum;
- The maximum size of tenders have been limited to 12 buses to further ensure competitiveness. This policy has since then been changed;
- Most contracts entered into was net subsidy type contracts where the operator retains revenue, with accompanying risks involved; and
- Evaluation of tenders often resulted in trade-offs between price and service quality.

The effects of the policy changes implemented should be evaluated against the following objectives of the reform measures (Turley & Tally, 1996, p 290):

- ensuring integrated land transport planning;
- accurately providing system costs;
- reducing bureaucracy;
- encouraging innovation;
- devolution of authority and responsibility to local government;
- foster competition between commercial transport operators;
- improve service and safety levels; and
- ensure greater efficiency of public funds.

Turley & Tally (1996) reports the following results of the reforms pertaining to Auckland, which represents the largest urban area in New Zealand with 28% of the total population:

- A decline in the average unit cost of the bus service, mainly as a result of competition and labour market reform;
- An increase in frequency in some areas as well as the introduction of additional services;
- Competition often resulted in a decrease in service quality. Some operators
entered the market with lower quality vehicles;

- Encouragement of smaller operators to enter the market resulted in a fragmentation of the services; and
- Fragmentation resulted in difficulties in transferring between some routes.

Wallis (1995, pp 81-82) reports the following results:

- Major impacts on the practices, efficiency and cost levels of municipal and ex municipal operators. These effects on private operators were only marginal;
- Ex municipal operators reduced staff substantially;
- Reduction of over 40% in staff/bus kilometre ratio;
- Unit cost: Reduction of 35% in working expenses/bus kilometre;
- As far as service levels are concerned, very little change occurred since 1991;
- The decline in patronage continued but this trend has stabilised;
- Substantial reductions in funding occurred between 1990/91 and 1991/92 but not much change occurred thereafter. It is therefore clear that the reforms directly resulted in lower government funding;
- Funding reductions amounted to between 10% and 40%, with an average of approximately 20%; and
- In addition to the above reductions in funding, further reductions of approximately 10% per annum over the next 5 years (after 1995) are anticipated.

Pertaining to the Auckland experience, Mein (1995, p 325) states the following outcome:

- The average price of contracts have reduced;
- The level of competition was limited. Various tenders did not attract more than a single bid;
- Unfortunately the competition resulted in decreased service levels such as the introduction of poorer vehicles;
- More than one operator in an area resulted in confusion among passengers; and
- Smaller tenders fragmented the service.

More recent results by Cox (1997, p 12) include an increase in service levels of 16.5% in Auckland since 1990, with a 21.2% cost reduction during the same period, and a 40% reduction in subsidies in Christchurch from 1990 to 1996.
According to McLeod (1999) the "reform processes have resulted in a gradual increase in total numbers (passengers) on buses, and a reduction in public expenditure. The expenditure reduction has arisen principally from increased competition during the tendering process." The results for the bus operations in the Auckland Regional Council area are summarised in table 5.4 below:

| TABLE: 5.4 AUCKLAND REGIONAL COUNCIL BUS TRANSPORT STATISTICS |
|----------------|---------|---------|---------|
| Annual expenditure $NS (millions) | 30.8 | 31.2 | 32.0 | 32.6 |

Source: McLeod (1999)

McLeod (1999) further states that the proportion of trips running on commercial basis increased from 20% in 1995 to 55% in 1998. The Auckland Regional Council will shortly issue tenders "for targeted funding contracts through a unit payment basis on outputs achieved. This process will be trialed on two transport corridors and the impacts assessed before the scheme is introduced on a wider scale." McLeod (1999) further states that the Council is "supporting bus priority measures, including bus lanes, signal pre-emption and signal advance, and is heavily involved in planning for a busway running parallel to the Northern Motorway."

Finally the effect of the transport policy renewal in New Zealand can be summarised as follows: "Deregulation of the transport sector is already an administrative and commercial success. Government exposure to risk through ownership is being eliminated. Use benefits are apparent in better service wider choice, and falling or stable chargers. The role of central rules and intervention has been minimised, allowing government to focus on strategic policy issues. The task of the Ministry of Transport today is to ensure that the management systems and structures exist to deliver on the long term strategic target of a ‘safe, sustainable transport at reasonable cost. The ministry no longer has any vested interests in particular solutions and approaches, and has no direct service delivery or management functions.” The size of the Ministry was reduced from approximately 5 000 in 1987 to 60. (Mc Dermott and others, 1997, p 14).

As far as future planning is concerned, the focus beyond the year 2000 will be on a number of
areas that will require "serious policy monitoring" such as:

- "Protection of the environment;
- Maintenance of safety standards;
- Policy and enforcement structures;
- Compliance costs;
- Conditions of entry;
- Licensing and other consent procedures; and
- Facilitation of transport, including quarantine, customs, security and related inspections and documentation." (Mc Dermott and others, 1997, p 16).

5.3.4 LESSONS FOR SOUTH AFRICA

The New Zealand transport reforms are viewed as very relevant to the South African situation. Former Director General of the Department of Transport, K Ghordan (1997, p 1) explicitly states that New Zealand has played a great role in inspiring the thinking of his Department. "It might be a small economy, but it is much more competitive than we are."

A specific lesson for South Africa is to pay particular attention to ensure that the transport system is not fragmented as a result of small tenders. In the South African policy smaller tenders are encouraged to give small operators the opportunity to enter the bus industry. In this regard the remark by Turley & Tally (1996) is very relevant: "The fragmentation of transport services suggests that there may be a fundamental incompatibility between developing an integrated passenger transport system and a regime which encourages competition for the transport market."

The challenge is therefore to develop a system that stimulates both competition and efficiency while the benefits of integration are not sacrificed in any way.

The relevant experiences for South Africa according to Walters (1995, p 154) are as follows:

- "the establishment of Transit New Zealand - a state authority to manage land transport;
- The extensive consultative process from territorial council level through the regional land transport committee to the regional council and ultimately to the Ministry;
- Corporatisation of municipal transport; and
- Extensive tendering of services."
Of particular significance to South Africa is the successful corporatisation of municipal bus operators. These operations in South Africa were subject to deficit subsidy over many years which resulted in large scale inefficiencies.

Based on a comprehensive evaluation of reforms in both New Zealand and Australia, Wallis (1995, p 94) concludes as follows: “In terms of improving productive efficiency, perhaps the key point to be emphasised is the importance of contestability - whether through competition in the market (deregulation) or for the market (through competitive tendering).” Wallis (1995, p 94) further states that the following key factors will contribute towards achieving a contestable market and productive efficiency:

- Full separation of policy from service provision;
- Ensuring a level playing field for public and private operators;
- Minimisation of dominance of one operator in an area;
- Making public sector assets available to all contractors in an effort to reduce barriers to entry;
- A range of contract sizes; and
- Suitable contract arrangements of between 4 and 6 years.

From an operator's point of view (Stagecoach) the reforms in New Zealand were also very successful. "... the combination of willing and progressive government authorities and bus operators, can produce results in a deregulated environment that provide better value for the community at large than any centrally planned system." (B Cox, 1995, p 147) Operators are extremely important stakeholders in the public transport industry and their approval is essential. In South Africa, system credibility from an operators perspective still need to develop, despite the successes achieved to date.

Finally, the effective role that the Ministry of Transport fulfils as policy maker and facilitator of change with a very lean staff structure is also a noteworthy development in New Zealand.

5.4 **COMPETITION: OTHER INTERNATIONAL BEST PRACTICES**

In view of the importance of competition in the South African policy renewal process, it is deemed necessary to assess relevant additional information, based on other international
experiences. After a comprehensive evaluation of competitive tendering services in various parts of the world, Cox (1997, p 3) concluded that competitive tendering directly and indirectly reduces costs. The results of the research can be summarised as follows:

- **Direct savings**: Direct savings account for the "difference between the non-competitive cost of operating a service and the market based cost established through competitive tendering." Savings realised vary between 20% and 60%;

- **Indirect savings**: "Indirect savings occur in remaining non-competitive services in response to competition or the genuinely perceived threat of competition.” These savings occur in 'run-up' and 'ripple effect savings';

- **Run-up savings**: The mere anticipation of competition resulted in substantial savings; and

- **Ripple effect savings**: “The ‘ripple effect’ produces more moderate savings in more gradual conversions as public transport agencies reduce the cost of their non-competitive services in response to competition.” The ‘ripple effect’ therefore reduces cost down to achieve market rates to enable the public agency to be competitive at the end of the conversion period.

In an assessment the role of competition in public transport, Gwilliam (1997, p 10) has the following lessons for developing and transitional economies:

**Lesson 1**: "You only get what you pay for. While increasing competition can reduce operating costs it does not automatically break the link between the level and quality of service that can be viably provided with the amount of funds available either through the fare box or a subsidy mechanism. The system must permit financially viable operation.”

**Lesson 2**: “Fares control is compatible with competitive private sector supply only if an adequate revenue flow is assured. Political decisions, such as fares control, should be clearly accounted for.”

**Lesson 3**: “The market form adopted must reflect both the objectives and the fiscal capability of the country. ...even the adoption of competitively tendered franchising is unlikely to yield any significant benefits if the franchise design is inconsistent or faulty.”

**Lesson 4**: “Only introduce a regime that can be managed. Where corruption is rife in public service it may be inviting trouble to create a regime which depends on the fair award of tenders.”

**Lesson 5**: “There must be a strong public sector commitment for liberalisation to work best.” This commitment is essential to give effect to meaningful and fundamental change.
Based on an intensive study on European public transport policy, the following conclusions were made:

- "Competitive tendering may be most appropriate for operational functions, may be possible for tactical functions but is not appropriate for strategic functions.");
- "Private firms tend to be more effective than public firms in maximising profits because they are better incentivised through shareholder monitoring and bankruptcy and take-over constraints, whilst they are less prone to political interference.");
- Competitive tendering based on minimum subsidy and quality incentives should be more efficient than minimum cost methods, but this assumes either perfect knowledge or risk neutrality.");
- "The overall conclusion is that the private competitive organisation may have advantages in terms of efficiency in production but the public regulated organisation may have advantages in terms of consumption."); and
- "Competitive tendering may provide an appropriate middle ground, particularly for urban services, where user economies of scale are most important. User economies of scale are less important for interurban services free markets may be more appropriate." (ISOTOPE, 1998, p 165).

The above additional information should be taken into account in the further implementation and development of the tender system in South Africa. It is clear that various models of competition are successful in various countries and under various circumstances. Cognisance should be taken of the above learning experiences, especially at this relatively early stage of policy implementation in South Africa. Continuous learning and experimentation should be accepted as an essential element of the transport policy renewal process. According to Van de Velde & Sleuwagen (1997, p 53) "Hensher (1988) already mentioned the need for fundamental rethinking and field experience before we can say that competitive tendering will work. In the meantime practice has shown the ability of competitive tendering to reduce production costs by often more than 15% while maintaining the quality of service. Experience of competitive tendering leading to innovation in terms of service is more limited. The international comparative study shows that field experience is likely to abound in the near future but that fundamental thinking tends to take the form of reinventing the wheel in each country that decides on the implementation of competitive tendering. The need for international exchange of experience in this field is still
present. Beyond theoretical discussions, there is a need for empirical studies on the interaction between market structure and tendering procedures.

5.5 A PARADIGM SHIFT IN PUBLIC TRANSPORT POLICY

As stated in the introductory paragraph of this chapter, it was deemed necessary to incorporate selected additional information based on international best practices in countries other than those studied. One theme that emerges from the latest research on public transport is the ability of public transport to address the needs of users in rapidly changing and complex environment, especially over the long term. Increased focus on environmental protection, the rapid growth of private car use and other megatrends discussed in chapter two, aggravate the situation. A fundamental rethinking of policy and policy implementation has become necessary.

"Cities will increasingly face a seemingly paradoxical situation. The city serves as a magnet for employment opportunities, shops, services and leisure activities. Over the years, it has become the epicentre of economic and social life and has been called upon to accommodate increasingly varied activities and house a growing proportion of the population. It is likely that, in the year 2010, around 50 cities worldwide will boast populations of over 10 million. It is this success which may lead to the downfall of the city if growth is not managed properly. As conurbations grow, so too will the length of journeys made within their boundaries, for professional reasons first of all. However, equally important is the keen wish of citizens to get the most out of the extensive opportunities presented by the city. Today, mobility has become a strong aspiration, an expression of individual freedom. At the same time, people have grown more demanding vis a vis the quality of the city they live in and they have also become more concerned about the environment. The question is, can the city cope with these emerging needs and aspirations?" (Baily, 1999, p 11) This statement paves the way for a complete rethinking of public transport to meet the challenges.

The ability of public transport to attract passengers is a key issue that will determine the future of public transport. Policy makers in various parts of the world are actively busy seeking solutions to improve the market share of public transport. It is clear that traditional solutions are no longer effective in solving the complexities of today and tomorrow. It has become evident that a fundamental rethinking of solutions is the only way to attract passengers to public transport.

"I think some new approaches are emerging, and this is what I call a paradigm shift in transport
planning. This is acknowledging the environmental limitations. We’d like to accommodate increasing demand and increasing mobility through moderating the mobility demand side. This means the activities are somehow moderated such that even though total mobility may increase, the harmful effect of the automobile mobility should be restrained. So we need some kind of transportation demand management in our operations. Then we may need a certain enlargement of transportation systems as well. And we need a new balancing point as well. The existing institutional framework may be inadequate to deal with this kind of situation. Maybe we should invent some measures to internalise the so-called external environment costs caused by overmotorisation.” (Otha, 1996, p 269).

The need to shift the paradigm in public transport is also reflected in the following statements:

- “There is general agreement that transport has to be more sustainable, and that there needs to be a reduced or stabilised use of the car and increased use of public transport, especially in congested urban areas.” (Bentley, 1998, p 199);

- “Openbaar vervoer is ‘in’. Na jarenlang een relatief bescheiden plaats te hebben gehad in politieke en maatschappelijke discussies staan de schijnwerpers de laaste tijd op het openbaar vervoer gericht.” (Groenendijk, 1998, p 1);

- “Over the past 20 years, intensive research into factors affecting public transport patronage consistently shows that subjective factors (perception of supply available) are as important as objective (actual supply) factors. However good or bad a given public transport system might be, potential users usually perceive it worse than it actually is. Therefore successful marketing should include personalised encouragement or motivation as well as information.” (UITP, 1998, p 6);

- “The challenge to government and the bus industry is to find a regulatory and financial support framework that will achieve the shift from private cars to public transport required to achieve wider environmental and social goals whilst retaining the innovation brought about in both private and public sectors in the 1980s.” (Carr, 1997, p 5); and

- In an international study in 16 countries, Laconte (1996, p 302) has drawn the following conclusion: “...84% of the population would like to see a better priority on public transport, even if they themselves own an automobile.”
The above statements support the need for a fundamental rethinking of public transport policy. The focus of this study is on the restructuring of the bus industry, and within this context, a paradigm shift in transport policy is only supporting theme. The discussion will therefore be limited to a few examples reflecting new innovations to address existing and emerging key issues in public transport:

**Institutional reforms in Canada**

"...the most interesting aspect of the current situation has been the dramatic change to the institutional environment affecting public transportation. Similar to what has been occurring in the public sector in general, there has been a major rethinking and definition of responsibilities with respect to transit, and the creation of several new entities in major cities across Canada." (Hemily, 1999, p 11).

"Transit in Canada has achieved remarkable success in a challenging environment, by proceeding slowly using incremental cost effective steps. Like the public sector in general, it is now experiencing an important transition period, involving major changes to its institutions across the country. It is hoped that these new structures will allow transit to tackle the important challenges it faces entering into the 21st century." (Hemily, 1999, p 13).

**Integrated planning, visioning and environmental accounting, Vancouver BC**

Latest transport policy in Vancouver is viewed to be fundamentally new. "Vancouver BC has used transit as the primary tool to implement its vision of a multi-centred region." (Brinckenhoff, 1996, p 99) "...the Greater Vancouver Region has been successful in attracting transit supportive private investment in response to its commitment to high-capacity transit service and a network of local and regional bus routes. As demonstrated by the Greater Vancouver Region, transit investment alone cannot generate private investments. The Vancouver success is based on a tradition of regional land use planning which has led to a regional vision, widely supported at all levels of government and within the electorate at large. Thus, the argument as to the source of Vancouver's success in obtaining private investment and transit-oriented design at the station-area level is that it requires a concerted effort at the regional and local level to develop an urban fabric which first allows such development to survive, and then provides the high capacity transit infrastructure to support it." (Brinckenhoff, 1996, p 134).
The environmental accounting system of Vancouver provides a scientific tool for the management of environmental influences on transport aimed at achieving the following objectives:

- "Financial viability and responsibility;
- Transportation system customer satisfaction;
- Environmental sustainability;
- Urban development and quality; and
- Transportation system operation adequacy." (Bein & Kawczynski, 1997).

**Urban traffic hubs, France**

Urban traffic hubs also reflect new policy in addressing the complexities in urban transport. "Large urban traffic hubs are singular objects which, unlike airports, are integrated into a dense urban fabric. They structure urban development and act as reference points and attractors. They give value to a urban district, yet sometimes disturb its balance." (Laferrière, 1999, p 43).

**Switching to public transport, UITP**

*Switching to Public Transport* is a comprehensive demonstration project in which over 40 companies and 13 European countries participated. "After finishing 34 projects, this report now presents the variety of possibilities to implement this marketing approach called 'Individualised marketing.'" (UITP, 1998, p 6) "Switching to public transport has been an innovative action in many respects: It has conformed in practice the new 'Customer consciousness' that has been developing in the public transport industry over the last few years." (Introduction by Laconte in UITP, 1998, p 2).

"Over the past 20 years, intensive research into factors affecting public transport patronage consistently shows that subjective factors (perception of supply available) are as important as objective (actual supply) factors. However good or bad a given public transport system might be, potential users usually perceive it worse than it actually is. Therefore, successful marketing should include personalised encouragement or motivation as well as information. This marketing approach provides a very powerful tool to increase patronage quickly, cost effectively and area-wide (and in particular for off peak travel). However, this observation is rarely put into action." (UITP, 1998, p 6).
Major conclusions and recommendations of the Switching to Public Transport project can be summarised as follows:

- **Car users are the most difficult group** to change and it is therefore better to target existing customers first;
- **The customer should be allowed to “dictate.”** As far as possible individual needs should be catered for;
- **Efficient application of funds.** As scarce commodity, funds should be applied efficiently and effectively;
- **“Little input means little output.”** It was found that lower revenues are generated from lower investment;
- **Supporting measures.** “Individualised Marketing is more successful if the action is embedded in supporting measures like Public Awareness campaigns.”;
- **Keep it simple.** For example, if the product or service is simple, the communication with the travelling public should be simple;
- **The best time for action.** The best opportunity to reach new customers is to correctly time changes in their personal lives, for example moving to a new neighbourhood;
- **Test before application.** Marketing is costly and experiments are useful in testing alternative actions before implementation;
- **Use a control group.** Using a control group adds value to the scientific nature of the research; and
- **Don’t expect it to last forever.** In a changing world, new initiatives should be considered continuously.

**Quattro: Quality approach in tendering urban public transport operations**

This comprehensive research project contains fundamentally new perspectives on the role of quality in the provision of public transport in Europe. A rethinking of availability, accessibility, information, time, customer care, comfort, security and the environment in matrix form, as well as various other initiatives are suggested to attract passengers to public transport. (Quattro, 1998).

It is clear that public transport is faced with increasing challenges to retain and grow market share; and a fundamental change in traditional thinking and policy formulation is required to position public transport for its challenging future role.
5.6 SUMMARY AND CONCLUSIONS

The main objective of the chapter, namely to critically evaluate the policy renewal process in Australia and New Zealand, as well as other international best practices in terms of relevance to the South African policy reforms, has been achieved. In summary, a number of general conclusions can be drawn from a study of policy reforms in these two countries. At the end of the literature study on policy reforms it is also possible to integrate some of the conclusions by incorporating the British and South American learning experiences:

- The positive results of competitive tendering discussed in the previous two chapters, especially in terms of reduced operating cost, were confirmed;
- Some of the negative effects of competitive tendering, such as reduced passenger volumes, were also confirmed. However, some increases were also experienced as a result of policy initiatives;
- The positive outcome of a policy where policy and operations are separated were confirmed;
- Measures to optimise the role of the bus in the rendering of integrated public transport systems such as busways can be successfully implemented;
- Deregulation can also be very effective, if certain conditions are met, as New Zealand has proved beyond doubt;
- A combination of the international policy reforms should be viewed as a more appropriate model of reform for South Africa, and more specifically in terms of competitive tendering, integration of transport and land-use planning and corporatisation of state-owned transport companies;
- Service quality and a committed customer driven approach is required to ensure the growth of the public transport market share;
- Corporatisation of government owned bus transport monopolies can be successfully transformed through corporatisation to ensure a level playing field in participating in the tender process; and
- Public transport reforms should be fundamental if governments are sincere in their efforts to ensure a viable public transport industry.

Based on the international learning experiences, as well as an understanding of the peculiar South African situation, a checklist, has been compiled to guide the transformation process. The checklist is based on the international best practices identified during the present and preceding
three chapters. This checklist, as well as the strategic gaps that will be discussed in chapter eight, will be essential inputs for the change strategy:

**Policy**

- It is essential that clear and well founded policy be in place to direct the change process;
- Provision should be made for incremental changes to the policy, based on learning experiences and results achieved after implementation;
- It is therefore essential that provision be made for controlled experimentation of key policy aspects and concepts. Demonstration projects are ideal for this purpose;
- Measures should be taken to improve the effectiveness of the tender system. Initiatives such as performance based contracts should be further investigated and refined;
- Policy renewal should be fundamental if the objective is to retain and grow the market share of public transport;
- Policy at the different spheres of government should include bus priority measures to position the bus for its optimum role in public transport;
- Policy is not effective if not properly implemented at all spheres of government;
- Competitive tendering as such will not necessarily attract more passengers. Proper implementation, law enforcement and stakeholder commitment are also necessary;
- International best practices should be evaluated for local implementation; and
- Technological improvement and fleet renewal should be promoted through pro-active policy.

**Operations**

- Operators should play a leading role in the positioning of the bus as essential mass transport mode in an integrated public transport system;
- Operators should establish themselves with authorities and other stakeholders, and actively influence the policy formulation and implementation process;
- Operators of the different modes should work closely together to ensure optimum utilisation of public transport resources;
• Operators should actively market their services;
• Operators should exploit diversification opportunities;
• Operators should create imaginative solutions to be successful in the new environment;
• Operators should take a leading role in the implementation of technology that will support integration of modes and services such as through ticketing; and
• The value of the bus as low capital cost solution should be actively promoted.

Institutional

• Institutional structures play a key important role in public transport and it is therefore essential that they be fully empowered for their role;
• Relationships between authorities and other stakeholders should be established and developed;
• Policy and operations, as prescribed by the new South African policy, should be separated;
• An effective working relationship between operators and authorities should be established and developed;
• Policy implementation and effective law enforcement should be actively driven from institutional level; and
• Public-private partnerships should be facilitated as an ongoing priority.

Customer focus

• Customer focus should be the primary driving force of the change process;
• Real customer needs should be used as basis and not what operators perceive them to be;
• Authorities and operators should work closely together to meet customer needs;
• All stakeholders should work together to create and support a customer care culture;
• Networks and supporting structures and facilities such as through ticketing should be structured around customer needs; and
• Quality should become an important supporting theme of the change process; and
Planning

- Visioning is a powerful driving force of the change process and it is essential that visions be shared by all stakeholders;
- Planning should have a long term focus and all medium and long term planning should be directed towards achieving the vision and long term objectives;
- The vision should be expressed in a number of measurable long term objectives;
- Strategic, tactical and operational planning should be fully integrated. To achieve this integration, clear roles between stakeholders and a healthy working relationship is essential;
- Transport, land-use and other forms of development planning should be integrated. Integration of the planning functions further underline the need for cooperation between the stakeholders;
- Corridors should be used as primary tool to direct development; and
- Provision should be made at all levels for incremental learning as important part of the planning process.

With the international literature study completed it can be concluded that South Africa can indeed learn extensively from international best practices. In a situation of transformation it is not cost effective and practical to use a trial and error method.

This chapter, together with the preceding three chapters, has laid a methodological foundation for the assessment of the South African bus industry which will commence in the next chapter. A similar assessment of the South African bus industry in terms of the situation prior to reform, the policy measures implemented to date and the consequences of the reforms will be assessed in the next chapter.
CHAPTER 6

THE ROLE OF GOVERNMENT POLICY IN THE DEVELOPMENT OF THE SOUTH AFRICAN BUS INDUSTRY

6.1 INTRODUCTION AND OVERVIEW

The history of the South African passenger transport industry, and the commuter bus industry in particular, is in certain respects quite unique in the world. In the evaluation of the role of transport policy in the development of the South African bus industry, one central theme automatically dominates, namely the historic development of the bus industry as a result of the historic policy of separate development and the role that the bus industry has played as an instrument of the state to give effect to its policy. It is essential to understand this historic development in an effort to create solutions pertaining to the future of South African bus industry.

Against this brief background the objectives of the chapter are to support the transformation process as main theme and more specifically to:

- Discuss and evaluate the distortions of economic development such as forced resettlement of blacks in remote residential areas, which were briefly mentioned in chapter one, in more detail;
- Relate the historic development of the bus industry to its future role and challenges;
- Focus on the historic relationship between land-use and transport development in an effort to create solutions to this traditionally burning issue;
- Focus on specific legislative reforms and their effect on the development of the bus industry. As stated, the impact of the racial segregation policies on the development of transport infrastructure and services should, in terms of the magnitude of its influence, receive comprehensive coverage in a study of this
policies on land use and transport development; and

- Finally this chapter should also provide structure to the strategic gap which will be used as basis for the restructuring proposals pertaining to the Southern African bus industry. By analysing historic imbalances and their effects on the public transport industry, valuable information will be obtained to assess the extent of the strategic gap.

Transport development is closely linked to government policy and the role government is playing in the balancing of resources between the citizens and communities of a country. The American concept of public purpose is viewed as relevant in evaluating the role government has played in the development of the Southern African transport industry. Cox, (1996 b, p 1)) describes the public purpose as follows:

- **The public purpose:** It is essential that government serves all citizens of a country and not only a privileged few;
- **The public purpose is based on equality.** No discrimination should apply to ensure that what is done for one, should be done for all;
- **The public purpose of transit** is to serve the passengers and the community;
- **Public purpose: The transit dependent market.** Public transport provides affordable mobility to those in financial need and those with physical disabilities;
- **Public purpose: The discretionary market.** This purpose deals with the provision of alternative transport and is an option to those who would normally travel by private car;
- **The public purpose requires market rates.** Any system that increases public transport costs to higher levels than market rates is not in the public interest; and
- **Market rate government.** Competitive tendering is a powerful way of ensuring that transport services are provided at market rates.

Pertinent deviations from the above desired policy goals occurred during the development of the South African bus industry. In this regard, the following statement by Polése (1994, p 4) further clarifies the key issue: “Urbanisation means a change in the relationship between the individual and the state. Rural, largely self-sufficient societies, albeit poorer, demanded few public services. The shift to urban lifestyles creates new needs which in turn, require new forms of governance. The enstranglement from the land, accompanied by a growing division of labour, plus the
inevitable decline of the extended family, means that the individual becomes more dependent on public (or social) services for his or her well being. In an urban setting, populations cannot work unless adequate means of transport (between residence and place of work) exist, in the form of roads or public transit.

It is clear that the policy of separate development based on race, distorted the public purpose as well as the desired urbanisation process and need for transport discussed above. The extent of this distortion and its implications on the restructuring of the commuter bus industry will be critically discussed in the remainder of this chapter.

6.2 SOCIO-POLITICAL INFLUENCES ON THE DEVELOPMENT OF THE BUS INDUSTRY

6.2.1 TERMS OF REFERENCE

The present state of readiness of the Southern African bus industry to conform with new policy initiatives should be evaluated from a historical land use and socio-political perspective. The distortion of land use patterns by racial segregation stimulated the commuter bus industry, and it is deemed necessary to critically assess the role and influence of this historic contributor to the status quo position of the bus industry. Although the past is no indication of the future, a thorough understanding of certain historic developments will enable the reader to identify with the present dilemma the bus industry is facing and also to understand key issues that will have an impact on the transformation process. Land use is beyond doubt one of the more contentious issues that deserve attention.

At the Earth Summit in Rio de Janeiro in June 1992, Onsrud (1994, p 3) made the following concluding remarks pertaining to the summit deliberations, with a clear message on the sensible use of land: "... a significant global partnership was established. It called for acceptance of the need for decision makers to take a balanced and integrated approach to the environment within the context of sustainable development. Environment and sustainable development are closely linked, and directly related to the place and land where we live. Sustainable development may be achieved if the use of our land and its natural resources are conscientiously integrated to link social and economic development with environmental protection and enhancement and minimise competition among the varied interests."
The Group Areas Act of 1950, which was amended in 1966, is often wrongly regarded as the main contributor to the mass resettlement of populations and resulting land use distortions. Land use patterns actually developed in favour of the white minority as early as the seventeenth century. According to Hodson (1997) the separate development of the South African population can be classified into the following broad periods which will be briefly discussed by using facts presented in the comprehensive article:

- Colonialism (1652-1910);
- Segregationism (1910-1948);
- Apartheid (1948-1990);
- The transition period and restitution (1990-1994); and
- Restitution, the New South Africa and land reform (April 1994-present).

These periods will be discussed in the context of the development of the South African commuter bus industry.

6.2.2 COLONIALISM
The first settlement of whites in the country brought about distinct settlement patterns between the various population groups. These settlement patterns laid a broad foundation for later developments to follow. Early land reforms were viewed as being applicable to whites only, resulting in a pattern characterised by increased spatial separation on racial grounds. The Great Trek of the early nineteenth century can be viewed as a major step by whites to obtain their own land in their own territory. After the Anglo Boer War, the Boer Republics were established and white domination of land use and settlement patterns gained considerable momentum.

6.2.3 SEGREGATIONISM
After unionisation in 1910 the new government accepted a broad policy of segregation. The Black Land Act of 1913 made provision for more land for white farmers. Eventually a settlement pattern of total segregation was offset by this Act. Enforcing legislation followed, which is evident in the promulgation of the following Acts:

- The Black Urban Areas Act of 1923 made provision for the creation of settlement areas or townships for blacks at the outskirts of cities and towns. This Act played a major role in the creation of the commuter bus industry as we know it today;
• The Slums Act of 1933 resulted in the abolition of multi racial practices, thereby enforcing a policy of total segregation; and
• The Development Trust and Land Act of 1936 further enforced the policy of racial segregation, despite its aim to ensure more land for black people.

The above laws can be viewed as early attempts to formalise the policy of spatial separation on racial grounds. The principles contained in these laws later became more explicit.

6.2.4 APARtheid

When the National Party took office in 1948 the policy of segregation was transformed into apartheid, which later became one of the most controversial and internationally condemned political policies of all times. The Group Areas Act of 1950 made provision for the forced relocation of blacks out of white areas through a policy of expropriation of land. This process of resettlement has had a major impact on most towns and cities in South Africa. It should also be stated that very few whites were removed in the process of creating new settlement areas for blacks. It is during this period that the commuter bus industry gained momentum. The Group Areas Act stimulated the commuter bus industry quite substantially, although historic settlement patterns were already fairly established at the time. During the late nineteen fifties and early nineteen sixties it was realised that an increasing supply of commuter travel would be required to transport black workers to job opportunities in the large metropolitan areas. This realisation resulted in the rapid growth of the bus industry.

The growth of the bus industry during this period should be viewed against the positive economic growth rate of the Verwoerd era and the industrial decentralisation policy at the time. Growth of the commuter bus industry actually continued until 1982, when the sudden and unforeseen growth of the combi taxi industry reversed the pattern. A central theme of the apartheid era was the fact that spatial separation based on race dominated the economic and social development patterns of South Africa over many years. This policy did not only have a significant impact on the development of the commuter transport industry, but also resulted in distortions of considerable magnitude in other sectors of the economy.

One of the most significant outcomes of the apartheid policy was the establishment of independent and self governing states. The following independent states, or TBVC countries,
were established:

- 1963: Transkei;
- 1977: Bophuthatswana;
- 1979: Venda; and

Self-governing states such as Lebowa, Gazankulu and KwaZulu were also established in the process of enforcing the apartheid policy. The establishment of these states has had a direct and profound effect on the development of the commuter bus industry in South Africa. The Bantu Investment Corporation, which later became the Corporation for Economic Development in 1977, and finally transformed into the South African Development Trust Corporation, took the responsibility for bus transport in the above states and the following bus companies were established:

- The Transkei Road Transport Corporation;
- Bophuthatswana Transport Holdings (BTH);
- Ciskei Transport Corporation;
- Lebowa Transport;
- Gazankulu Transport;
- KwaZulu Transport Holdings; and
- Maluti Bus Service (formerly Phuthaditjaba Bus Service, and later the QwaQwa Transport Corporation.)

The purpose of these companies was to consolidate public transport in the various independent and self-governing states. The establishment of the above companies also included the take-over of many established small black bus operators. The apartheid system therefore also had a negative and restraining effect on black entrepreneurship, which is now a key policy objective in all sectors of the South African economy.

The so-called homeland transport system resulted in the creation of transfer stations where passengers transferred from one operator to another. Certain homeland operators were not allowed to operate in the Republic and their services were restricted to the confines of the particular state. Passengers were transported from bus stops closest to their homes to transfer stations, where they were transferred to private buses and rail services for the remainder of the journey.
were established:

- 1963: Transkei;
- 1977: Bophuthatswana;
- 1979: Venda; and

Self governing states such as Lebowa, Gazankulu and KwaZulu were also established in the process of enforcing the apartheid policy. The establishment of these states has had a direct and profound effect on the development of the commuter bus industry in South Africa. The Bantu Investment Corporation, which later the Corporation for Economic Development in 1977, and finally transformed into the South African Development Trust Corporation, took the responsibility for bus transport in the above states and the following bus companies were established:

- The Transkei Road Transport Corporation;
- Bophuthatswana Transport Holdings;
- Ciskei Transport Corporation;
- Lebowa Transport;
- Gazankulu Transport;
- KwaZulu Transport Holdings; and
- Maluti Bus Service (formerly Phuthaditjaba Bus Service, and later the QwaQwa Transport Corporation.)

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journey. This system resulted in long travelling times due to transfers, which were aggravated by excessive travelling distances as a result of the resettlement of blacks in areas far from employment opportunities. Travelling distances of up to two hours one way covering distances of over 100 kilometres were not uncommon.

In an effort to rectify some of the negative effects of the apartheid settlement policy, various decentralised industrial areas such as Rosslyn, Hammanskraal and Babelegi were developed nearer to the supply of labour. Although these developments resulted in shorter travelling times, the system could not function without sufficient bus transport services. The negative effects of the political system could not be appropriately rectified by industrial decentralisation and the process further resulted in urban sprawl and other economic distortions.

The apartheid system resulted in the development of different bus systems in the metropolitan areas for whites and non-whites. In the process, some of the most serious distortions resulting from the apartheid system occurred at metropolitan level. The different systems required different infrastructures, companies, management structures, funding and subsidy arrangements and other costly duplications. Low passenger volumes of white municipal bus services resulted in high levels of subsidisation at the expense of the rate payer. The effects of this system will be discussed in more detail in paragraph 6.4 of this chapter. Generally, vehicle utilisation is low due to duplication which reduces the viability of the bus services in their present form.

The social and environmental effects of the apartheid and commuter system is best described by Skweyiya in (Hodson, 1997, p 13): “Apartheid’s impact on the environment has been extreme. Legislation during the segregationist and apartheid eras was used as a coercive mechanism to control the movement of the labour force, mainly young black men, out of their traditional villages. The statutes responsible for this were the 1952 Pass Laws, the Urban Consolidations Act of 1945, and the Black Labour Act of 1964. These gave families little opportunity to earn money other than through migrant labour, forcing the younger men to leave the women, children and elderly to live on the farms. The result was the deterioration of living standards as traditional irrigation and cultivation practices fell into disuse, and the soil became increasingly eroded.”

6.2.5 THE TRANSITION PERIOD AND RESTITUTION (1990-1994)
A first major step towards rectifying the distorted land use patterns of the past was the passing
of the Abolition of Racially Based Land Measures Act of 1991. A major further step was the passing of the Restitution of Land Rights Act of 1994. These Acts repealed all previous Acts aimed at enforcing spatial separation on racial grounds and actually set the wheels rolling for dramatic land use reform in accordance with economic principles, growth directed government policy and the forces of the free market. However, government is now facing the mammoth task of redressing a system that resulted in a situation where 87% of the land is owned by a mere 20% of the population. Legislative reform is just a significant first step in redressing the inequalities of the past. A mammoth task lies ahead to rectify the historic imbalances in a systematic, fair and planned manner.

6.2.6 RESTITUTION, THE NEW SOUTH AFRICA AND LAND REFORM (APRIL 1994 - PRESENT)

The Reconstruction and Development Programme was established to redress the inequalities of the past, including land use inequalities. A major significant step in the development of transport policy in accordance with the needs of all people, is also reflected in the policy guide. The apartheid system and its detrimental effect is clearly stated. Of particular significance is the Development Facilitation Act of 1995, which makes provision for much greater responsibility by the private sector in the zoning of residential land.

The following quotation by Hodson (1997, p 14) best summarises the task that lies ahead in redressing the policies of the previous dispensation: “The past seven years in South Africa have seen drastic changes in politics and society, welcoming in the dawn of a new era. Apartheid was implemented at every level of society: education, transportation, business, entertainment, employment and religion. At its most fundamental level it was about the control of land. Through the eras of colonialism, segregation, and apartheid, the white minority felt threatened by the African people, while simultaneously treating them as a ‘resource’ for labour in their mines, and on their farms. The National Party Government used their legislative power to maintain control of the land, and migration of the ‘labour resource’ through the implementation of what was euphemistically referred to as separate development.”

Against this historic background, the commuter bus industry has gained momentum. Despite its unfortunate history, the bus industry is an extremely important link in the Southern African economy, which will become evident in later chapters of this thesis.
6.3 TRANSPORT POLICY AND THE DEVELOPMENT OF THE BUS INDUSTRY

As stated, a study on the future of the bus industry would not be complete without reference to and a critical evaluation of its past. It is therefore essential to review the most important policy documents and laws that had an effect on the bus industry since earliest times until the beginning of the new dispensation. This chapter will focus on all significant policies and acts prior to the White Paper on National Transport Policy of 1996. A critical evaluation of this White Paper, the Land Transport Transition Bill and the Moving South Africa recommendations will be presented in the next chapter.

According to Beale (1991) a magnitude of transport related legislation came into being prior to unification in 1910. As early as 1809 regulations were implemented to regulate horse carriages and wagons between the Cape and the inland after complaints of increased accidents as a result of reckless driving. Since then the following specific laws and policies had an effect of the development of the commuter bus industry:

The Motor Transport Act, 1930 (Act 39 of 1930)
The Motor Transport Act, 1930, first introduced the concept of protection from competition. Provision was made for the establishment of Road Transportation Boards to issue permits for the operation of freight and passenger transport services.

Schutte (1993, pp 4-5) describes the following developments that influenced the development of the bus industry after the promulgation of the Motor Transport Act, 1930:

- 1939-1945: During the war bus passenger transport subsidies were introduced in South Africa whereby employers paid a levy to partially cover the transport cost of their commuting labourers; and
- 1945: PUTCO, the Public Utility Transport Corporation, commenced operations in 1945. Due to its low fares and resulting low income base large employers decided to subsidise the bus service. This function was later taken over by government.

Transport Co-ordination Act, 1948 (Act 44 of 1948)
The objective of this Act, which provided for the National Transport Commission, was
formulated as follows: “To promote and encourage the development of transport in the Union and, where necessary, to co-ordinate various phases (modes) of transport services in order to achieve the maximum benefit and economy of transport services to the public.” It should be stated that this act has been repealed by Transport Deregulation Act of 1988.

**The Black Services Levy Act, 1952 (Act 64 of 1952)**

According to Maeder (1995) the Black Services Levy Act, 1952, was promulgated in 1952 whereby employers had to contribute 25 cents per month in respect of each employee. Five cents of this amount were used as transport subsidy.

**The Black Transport Services Act, 1957 (Act 53 of 1957)**

According to the Black Transport Services Act (Act 53 of 1957) the National Transport Commission was made responsible for transport subsidies. Although the first subsidies in respect of commuter passengers were paid as early as the early 1950’s, it was the Black Transport Services Act that formalised the system whereby employers were required to contribute to the cost of commuter transport.


Subsidisation of members of other population groups was implemented with the promulgation of the Transport Services for Coloured Persons and Indians Act (Act 27 of 1972.)

**The Road Transportation Act, 1977 (Act 74 of 1977)**

The Road Transportation Act, 1977, was intended to regulate the transport industry economically and to protect the existing public transport services, of which the South African Transport Services (SATS) provided the bulk. At this stage, passenger transport is still regulated in terms of the Road Transportation Act. This Act will be replaced with the National Land Transport Transition Bill, once it has been approved by parliament. The Road Transportation Act regulates both inter- and intramodal competition. Regulation is executed by the following statutory institutions:

- Local Road Transport Boards (LRTB’s);
- The National Transport Commission;
- Supreme Courts; and
- Appeal Courts if necessary.
LRTB’s have specific powers in terms of the Act. They are responsible for the issuing of permits to operate as well as investigating specific matters prescribed by the National Transport Commission. Permits are issued to operators which allow them to render services on specific routes. Permits can be issued for areas as well which enable an operator to operate within a 15 kilometre radius from a specific point. Permits are also issued for an indefinite period, which makes it extremely difficult for a new operator to enter the market. Once these permits have been obtained, it is exceptionally difficult for new operators to enter the market, especially if the existing operator renders an acceptable level of service. The LRTB also has the powers to change the conditions of the permit applied for. “Prescribed parameters for considering an application include the necessity of public transport, the existing facilities and the co-ordination of all forms of transport. Provision is also made for appeal should an application be rejected.” (Lexetran, 1994)

A major weakness of this Act is the fact that healthy competition is virtually impossible. Smaller operators also do not have sufficient opportunity to enter the market due to the protection of larger operators. As far as non-subsidised services are concerned, competition in accordance with free market forces is allowed.

Africon (1998, p 2) described the effect of this Act on the bus industry as follows: “The bus industry worked within the system fairly smoothly as compared to the taxis. With the growth of taxi operators in the country the government decided to issue permits to taxis in 1986. The permits were issued at random due to the lack of coherent and integrated transport planning. The result was that the market was saturated leading to intense competition and disputes over routes. The declining income coupled with high maintenance cost led to bloody conflicts in the taxi industry.”

The inability of the Road Transportation Act to promote coherent and integrated planning should be viewed as one of its major weaknesses. Cross border transport planning, for example, was not improved. The Act also resulted in duplication of bus networks and routes at metropolitan level. These distortions are discussed in more detail in paragraph 6.4 of this chapter.
Urban Transport Act (Act 78 of 1977)
The main purpose of this Act is the promotion, planning and provision of urban transport facilities. Funding and planning for metropolitan transport are also addressed appropriately in this Act.

According to Jomet (1992, p 1) this act was promulgated “with the aim of providing mechanisms for orderly planning and implementation of transportation systems in metropolitan areas.”

“According to the Act, a major function of a core city is to prepare and urban transport plan for its metropolitan area (MTA). The purpose of such a plan is to define a long term strategy to guide transportation development in the MTA, to prepare detailed public and private transport plans and to facilitate the implementation of transport system improvements.”

It is clear that metropolitan transport is complex due to the large number of authorities and institutions involved. This Act was assigned to the provinces, excluding the sections dealing with the establishment of the board, the fund and the utilisation of the fund. Provincial urban transport funds are also established in terms of this Act, which further complicates metropolitan transport.

Regional Services Councils Act (Act 109 of 1985)
According to Walters (1995, p 23) this act “empowered provincial Administrators to delimit a region by determining, describing and altering boundaries of the area with the concurrence of various Ministers, after the consideration of a report of the Demarcation Board for Local government areas and after consultation with certain specified bodies.” This Act also empowered regional services councils to regulate passenger transport as well as land-use planning within its jurisdiction. Not all regional services councils made use of this opportunity, but the Eastern Gauteng Services Council is an excellent example of a Council optimising opportunities in this regard.

White Paper on National Transport Policy (1986)
This policy document has paved the way for dramatic renewal of the passenger transport industry in South Africa. Due to various reasons the policy principles in the 1986 White Paper were not implemented for a considerable period of time. The major policy principles can be summarised as follows:
Devolution of decision making on transport to the "lowest level of government possible";

Independent judicial monitoring by a Transport Tribunal;

Regulation on aspects such as vehicles, drivers, operators be done at national level;

Although authority should be devolved to lower levels of government, guidelines to do so should be developed at national level;

Operating authorities should be issued by the lowest level of government;

Responsibility for the payment of subsidies should also be devolved to the lowest level of government; and

Phasing out of subsidies over the long term is stated firmly, whereby the principle that the user pays was adopted.

The White Paper also made provision for the implementation of the tender for contract system and various demonstration projects were launched by the national Department of Transport. Walters (1995 b, p 1) states that the present policy of contracts originated in the 1986 White Paper, which was influenced by the following principles embodied in the 1983 Constitution:

- Small business development;
- Free enterprise;
- Free market principles;
- Reducing the role of central government in the economy; and
- The devolution of functions to the lowest level of Government.

Walters (1995, p 26) clearly describes the role of this White Paper in the development of the taxi industry: "On taxi regulation the Government accepted the recommendation that vehicles designed to carry up to 15 passengers be allowed to operate as taxis and told the Department of Transport to request the LRTB's to issue appropriate permits "on merit". This led to the de facto deregulation of the taxi industry."

The fact that taxi permits were granted on a radius or area based principle without compliance to a specific route, time table and fare structure, resulted in discrimination against the bus industry. The area based principle allows more freedom of operation and sometimes illegal operation if compared to the permit authority pertaining to the bus industry. The effect of the
deregulation of the taxi resulted in a considerable decline of the bus market.

This Act contains, inter alia, the powers and functions of the South African Roads Board. Certain powers, duties and functions of the National Transport Commission have been transferred to the South African Roads Board.

The Transport Deregulation Act, 1988 (Act 80 of 1988)
The Transport Deregulation Act, 1988 was intended, in accordance with the White Paper, 1986, to serve as the legal vehicle to deregulate the transport environment. The freight industry was deregulated in terms of this Act during 1992. The passenger transport industry, however, could not be deregulated at the same time as was intended. A passenger transport Bill was drafted by the Department of Transport, but could not be implemented because the principles contained in the Bill were, for various reasons, not debated with the taxi industry and the principles were therefore also not accepted by the taxi industry. The deregulation of the bus industry was at that time also not acceptable to the taxi industry and as the Department of Transport was careful not to incite further violence in the taxi industry, it was decided not to go ahead with the deregulation of the bus industry. With the acceptance of a new transport policy by the current government, most sections of the Transport Deregulations Act, 1988 were repealed, leaving the Act to regulate mostly international transportation.

The Passenger Transport Bill, 1988
This Bill was not submitted to parliament due to concerns that the proposed transport system would be too costly to government at the time. It should be stated that the exceptionally long delay in the implementation of the principles contained in this Bill has had a negative effect on the bus industry.

This Act was in effect a consolidation of most important transport legislation. The significance of this Act to the bus industry is mainly in terms of safety and design standards for vehicles. As a result of poor levels of law enforcement the objectives of this law are not fully realised. According to Africon (1998, p 2) the Act has the following divisions:

- A code of conduct that is relevant to all road users;
Prescribed requirements relating to the fitness of vehicles;

Prescribed requirements pertaining to the authorities, officers and institutions charged with road traffic functions; and

Powers of the Minister of Transport and local authorities to make regulations and by-laws.

The code of conduct referred to above refers to legally enforceable rules of the road with which road users must comply. It should be stated that since 1993, in accordance with the Road Traffic Second Amendment Act, 1993 (Act 66 of 1993) the vehicle requirements were reduced, which makes it easier for minibuses and even adapted light delivery vans to undertake public transport for reward. This measure may have influenced competition in passenger transport, because it only legalised illegal vehicles already participating in rendering passenger transport for reward.

Since the last amendment of the Road Traffic Act in 1993 and the publication of the White Paper in 1996, which will be discussed in the next chapter, a large number of Acts affecting transport were published, but their impact on the objectives of this study is not significant and are therefore not discussed. Only one Act needs to be mentioned, namely the Local Government Transition Second Amendment Act, 1996 (Act 97 of 1996), in which the powers of local government, which include public transport, are specified.

Policy renewal after 1993 was influenced by the Interim Constitution of 1993. According to Nothnagel (1998, p 5) “the National Department of Transport embarked upon a process called the Constitutional Transformation Project (CTP) to identify the impact of the future administration of transport function at national and provincial spheres of Government. During this project it was emphasised that a greater degree of integrated policy formulation and execution would be required to ensure effective policy formulation and implementation.” Two structures emanated from the CTP, namely the Ministerial Conference of Ministers of Transport (MINCOM) at political level and the Committee of Land Transport Officials (COLTO) at technical level.

6.4 DISTORTIONS AT METROPOLITAN LEVEL

The bulk of commuter transport takes place in metropolitan areas and it is therefore necessary to focus on the effects of past government policy on metropolitan transport. The effects of the
apartheid policy were indeed more noticeable at metropolitan level. Separate institutions and infrastructure were created to maintain passenger transport in the old dispensation for two distinct groups, namely “black” and “white” transport. In this regard Walters (1995, p 54) outlines the following problems specific problem areas pertaining to metropolitan transport in South Africa:

- ‘Fare level differentials’ between operators in the same area which make it difficult to co-ordinate, rationalise and integrate services;
- Major differences in fares between the different modes of transport, especially bus and rail;
- A difference in fare systems, e.g. monthly, daily etc;
- Different and incompatible administrative systems of the various operators;
- Route and network overlapping as a result of the apartheid system which separated ‘white’ and ‘black’ services;
- Different subsidy systems are in use;
- Limited opportunity for small operators to enter due to the domination of large operators;
- Concessions differ, for example scholars, pensioners and other groups;
- There is no central timetable information for buses available;
- No intramodal competition;
- Vehicles and equipment differ largely in the same metropolitan area which makes it difficult to allocate resources on an equitable basis; and
- Separate infrastructure and facilities were created for specific needs under the previous dispensation. Fragmented planning in the past will curtail effective rationalisation and integration of these facilities.

The problem is aggravated by the lack of technological renewal in the public industry. The average age of rolling stock involved in public transport is approaching critical proportions. Reasons for the high age of vehicles can be summarised as follows:

- The rapid growth of the taxi industry in the early and middle eighties resulted in a dramatic decline in bus passenger volumes;
- Political instability, economic uncertainty and insufficient government funds to keep subsidies at former levels resulted in uncertainty among bus operators; and
- Due to the uncertainty in the industry at the time, operators were hesitant to invest in the industry.
As stated in chapter one, one of the greatest challenges to the economy at large is to transform what is into what should be with limited resources, which include outdated and redundant infrastructure and facilities. This challenge is particularly relevant at metropolitan level and imaginative solutions will be required to position the public transport industry as catalyst for growth and prosperity.

6.5 THE SUBSIDISED SYSTEM IN PERSPECTIVE

As stated, the subsidised commuter bus system was a logical consequence of the previous government policy. In view of the primary objective of this study, namely to develop a scientific methodology to guide the transformation of the commuter bus industry, it is necessary to evaluate the subsidised system as such more closely. Any form of subsidisation can always be questioned in terms of economic principles. As far as bus operations are concerned, two forms of subsidisation have been used in South Africa, namely:

- Passenger subsidies based on ticket sales in respect of the traditional commuter transport system. Passengers are effectively subsidised and not the operator; and
- Deficit subsidy where operators, for example municipal bus operations, are subsidised. The difference between operating income and operating expenses is subsidised by the respective local authority.

The commuter transport system has often been the target of severe criticism. In addition to the socio political arguments against the system that supported the apartheid system over the years, the commuter subsidy system was also criticised on other grounds. Beale and others (1991, p 12) reports that the government decided to change its views on subsidisation during the nineteen eighties. The Welgemoed Commission recommended in 1983 that transport subsidies be reduced and eventually be phased out completely. The subsidised system was increasingly viewed as protection of large bus companies against the growing taxi industry.

According to Walters (1995, p 59) the following criticism was raised over the years against the subsidised system:

- The system resulted in a situation where inefficient operations are also subsidised. The system therefore did not enforce efficiency of operations;
- Operators that are efficient are effectively penalised;
The system actually financed high cost structures not necessarily supportive of primary commuter needs;

Transport networks developed as a result of the subsidised system which supported and stimulated urban sprawl;

The system has led to allegations of ticket fraud;

The “cost plus” approach does not enhance productivity and efficiency;

Although the system makes provision for the replacement of capital, funds are not always used for that purpose;

Comparisons between operators are difficult due to incompatibility of accounting systems, policy and management practices; and

“A lack of user targeting.”

Despite the above negative criticism, the following positive comments were made:

The system is auditable;

The system ensures that passenger volumes are maintained due to the fact that subsidy is based on number of tickets sold. The system therefore rewarded successful marketing strategies;

Classification as user-side subsidy by the World Bank; and

The fact that the operator is not the only planner and provider of the transport network due to the involvement of the Department of Transport and the National Transport Commission in route authorisations.

Administration of the commuter subsidy system also proved to be an area of concern. The subsidised system is exceptionally cumbersome as illustrated by the following process (Walters, 1995, p 66):

The operator applies to the LRTB to increase fares;

The application is referred to the Department of Transport for a recommendation;

The application is investigated and a recommendation made to the LRTB;

The application is considered by the LRTB at a public meeting;

The subsidy portion of the fare is then considered by DOT. If necessary cost accountants can be appointed to verify and audit the cost structure of the company concerned;

The DOT then submits different options to the NTC for consideration;
The NTC then considers the application and decide on either of the following options:
* recommend the application for approval to the Minister of Transport;
* refuse the application;
* refer the application back to DOT for further investigation;
If approved, the NTC recommends to the Minister of Transport "who then approves the recommended subsidy portion of the fare" or can cause further investigation to be done by the DOT or cost accountants;
The DOT advises the Department of State Expenditure on their budgeted requirements;
The Department of State Expenditure then recommends the budget through the Minister of Finance to Parliament; and
The Parliament approves/amends budget and allocate funds to Departments.

If the above cumbersome system is compared to the tender for contract system, the advantages of the new transport policy becomes obvious. The value of sound management principles, which is embedded in the tender system, is gaining support throughout the world.

In view of the fact that municipal bus operations form an important part of the change process, it is necessary to briefly review the following criticism against the deficit subsidy system, which is inherent to municipal services:
* The operator does not have any real incentive to develop the market due to the fact that increased passenger volumes does not increase subsidy. The deficit will be funded anyway;
* There is no incentive to improve efficiency because normal business practices are not followed; and
* The system does not make provision for targeting because all users are subsidised.

It is clear that both subsidy systems discussed above have become outdated in terms of the new policy direction based on tenders for commuter services which will be discussed in detail in the next chapter.
6.6 TOWARDS A NEW DISPENSATION

Increased violence and growing world wide condemnation of the apartheid system during the nineteen eighties have paved the way for accelerated political reform in South Africa. It was clear that the policy of spatial segregation on racial basis was one of the greatest constraints in optimising public transport in South Africa. Dramatic reform of the passenger transport industry was viewed as a necessary step in vitalising the bus industry to serve the needs of the majority of the population of South Africa.

The policy of reducing commuter subsidies during the early nineteen eighties appeared to be a step towards improving efficiency of the commuter transport system. However, the huge travel distances created by the apartheid system grossly distorted economic principles and it was not possible to rectify one mistake of the past with another political mistake. The need to change in terms of the needs and requirements of the new political dispensation is best described by Walters as early as 1991. “Before deregulation management was concerned with developing expertise in regulatory manipulation - objections to permit applications, etc. to gain and maintain a competitive edge in the market. Today the transport executive must rely on his or her ability and creativity to establish and manage a company in a virtually unregulated market to gain competitive advantage.” (Walters, 1991, p 16)

The need to change in terms of the new dispensation was recognised by the organised bus industry. Based on a thorough evaluation of the external environment and the expected requirements of the new democratic government, the industry in 1991 identified the following opportunities and threats regarding future development (Walters, 1991, p 17-24):

**Opportunities**

- Various marketing opportunities;
- Strategic planning approach;
- Increased urbanisation and metropolitisation;
- Contracts for service rendering;
- Community projects;
- Closer working relationships with competitive industries, unions and the communities;
- Rationalisation, coordination and integration of services; and
Achieving an acceptable multi-modal transport policy, accepted by all role players.

**Threats**

- Not marketing services;
- Not reaching out to new role players;
- Not responsive to change;
- Not thinking or planning strategically;
- Further reductions in commuter subsidies;
- Inability to raise the priority of transport in the welfare spending programme;
- Instability and unrest caused by major adjustment of fares and withdrawal of services (or threat of withdrawal);
- Major discontinuity in the policy process;
- Poverty and unemployment;
- Sticking to the traditional ways of doing things; and
- Not recognising the changing environment.

The understanding of the realities of South Africa reflected in the above evaluation of the external environment paved the way for meaningful change in the bus industry. The critical role that the Southern African Bus Operator's Association (SABOA) has played in keeping the industry together during exceptionally difficult times during the early nineteen nineties should not be underestimated. SABOA has also played a leading role in the policy development process, and most of its recommendations regarding industry development were included in the new policy.

As stated earlier, the policy reform process in South Africa started in 1986, but reform policy was not fully implemented. Policies may be inherently sound, but they need the correct timing for implementation. The advent of the new South Africa created an ideal opportunity to review and implement new policy in a new environment, which will be the primary focus of the next chapter.

### 6.7 THE TENDER FOR CONTRACT SYSTEM: PROGRESS AND EXPERIENCES

#### 6.7.1 FIRST BUS TENDERS

As stated, the 1986 White Paper with recommendations on deregulation and privatisation, were not implemented at the time. In May 1990 it was decided not to submit the Passenger Transport
Bill to parliament due to its apparent high costs to government. However, it was decided to put certain services out to tender as demonstration projects to evaluate the effect of tendering in the South African public transport environment.

According to Maeder (1994, p 3) the first services were put out to tender in 1987 in the Daveyton area. Four other transport services, namely Eldorado Park, Atteridgeville, Mamelodi and Empangeni were later put out to tender due to the threat of operators to close down these businesses due to the unprofitable nature of the services. The experiences from the operation of these services, which can be viewed as effects of the policy renewal process, can be used as first valuable lessons in refining the tender system.

6.7.2 RESULTS OF THE FIRST TENDERS
The results of the tendering experiences so far can be summarised as follows:

Department of Transport Perspective

The Department of Transport is convinced that the tendered contract system will ensure improved service provision. "The system is by no means perfect - far from it. It will require concerted efforts from all parties involved to resolve the issues that already exist and that will emerge in the general implementation of the system." (Maeder, 1997, p 4);

Union Perspective

The discontinuation or possible discontinuation of employment is a major concern from a labour point of view. Further concerns and pre-requisites for participation can be summarised as follows, according to Mphatha (1997, p 1):

- Preference should be given to disadvantaged operators in the granting of contracts;
- Government support is required in terms of training and sourcing of funding;
- Clear standards in terms of service, operation and management should be incorporated in the tender specifications;
- Fares and tariffs must be subject to control by the Transport Authority; and
- Upon termination of the tender, the next operator should take over all the personnel at the prevailing terms and conditions.
Perspective by bus operators

Although overseas experiences discussed in chapters three to five have underlined the advantages of the tender system, certain shortcomings of the system for the South African environment should be taken into consideration. Industry concerns about the tender system can be summarised as follows according to Walters (1995b, p 3):

- The system could result in higher costs if compared to the subsidy system. This comment is very relevant, especially over the short term;
- Costs to monitor the system could also result in higher cost if compared to the subsidy system;
- The possibility of discontinuity at the end of the contract period could be stressful to the community, the workforce, the operator and other key stakeholders;
- The long time required to implement the tender;
- “The team involved in evaluating the tender and the evaluation criteria used in selecting the successful tenderer is critical. This is especially the case where the playing fields in terms of, for instance, ownership are not level”;
- The duration of the contract is not sufficient to allow the operator to recover investment costs;
- The escalation clause is based on the truck index which is not necessarily related to the bus industry;
- The potential for asset stripping exists if the operator does not intend to renew the contract;
- Organised labour also has specific concerns about the tender system; and
- Retrenchment cost at the end of the tender period is also a reason for concern.

From an operator's perspective the following recommendations by Jesseman (1997, pp 5-12) are relevant to the objectives of this study:

- It recommended that operators be allowed an implementation period prior to the take-over date to gradually introduce their management style and operational procedures;
- The transition arrangements pertaining to labour should also receive particular attention. Jesseman (1997, p 13) further states: “Job security should further be job related. It is important to note that 60% of the contract penalties can directly be attributed to drivers disobeying rules such as: trips skipped, failing to use...
electronic equipment, early or late departure and failure to display duty numbers.”; and

- Penalties should be revised/improved to enable the operator to improve his services. Penalties should not be to the detriment of users.

The last point is particularly relevant in the transition from a supply driven market to a demand driven market which is created by the tender system. Jesseman concludes as follows: “Innovative ways and means will have to be devised to fund the required services, and at the same time using present operations stimulate the set goals of creating an industry with wide participation from smaller operators without losing efficiency. The policy vision is indeed an applaudable one, and can become a reality if all stakeholders such as Government at all levels, business, the community, labour, and management accept this challenge as a common goal with the acceptance of specific minimum needs, and commitment to finding solutions to benefit our entire country” (Jesseman (1997, p 14).

Erasmus (1999, p 1) provides a more recent perspective on the success of the tender system: “If you ask me if the new system as opposed to the old system is to the advantage of the operator, the answer would be a resounding yes.” To be successful, however, the following preconditions should be met:

- A thorough knowledge of the infrastructure and terrain;
- An understanding of the local politics and the needs of the people in the area;
- Operators should be aware of the social services in the area, because residents will expect those services to continue, irrespective whether they form part of the contract or not;
- The expectations and demands of organised labour should be carefully managed;
- Employees should be made aware of the impact of penalties prior to the tender;
- Operators should be aware of and plan according to the tender period. Despite the right of first refusal, operators can easily lose tenders in the next round of tendering;
- Local, regional and provincial authorities should apply the same rules, regulations and specifications. At this stage different sets of rules are applied by authorities in the different provinces; and
- Consideration should be given to consolidate tenders to simplify administration
if one operator was successful in securing more than one tender.

Despite the problems mentioned, it can be concluded that the tender system has so far been successfully implemented in South Africa. The entire commuter bus industry will be put out to tender in the near future which will result in more operators due to the fact that smaller operators will be empowered as a result.

6.7.3 INTERIM CONTRACTS
On 1 April 1997 interim contracts were entered into between bus operators and the Department of Transport. These contracts basically imply a continuation of the status quo funding arrangements until the full implementation of the tender system. A schedule according to which the existing services will be put to tender was compiled by the Department of Transport to ensure that all services are put out to tender by July 2001. The schedule will provide provinces time to appoint consultants to draw up tender specifications and to invite prospective tenderers. Time is also required in metropolitan areas to implement rationalisation plans. It is essential that these services be rationalised before tendering due to the high degree of duplication that exists as a result of the apartheid system.

Provision is made in the interim contracts for cost escalations in respect of labour and fuel cost. When interim contracts terminate in accordance with the schedule, operators will be required to submit their permits to their respective local authorities. Permits will then be replaced by permissions to operate services within the contract system. It should be stated that although the initial aim was to complete the process by July 2000, it is doubted whether the capacity exists to demarcate tender areas and to finalise tender specifications in time to meet the deadline. Various completion dates had to be postponed and interim contracts extended accordingly.

The interim contracts should be viewed as interim measures in anticipation of the full implementation of the tender system.

6.7.4 PROTECTION MEASURES
It is clear that the extent of transformation of the bus industry is slowed down by key issues such as insufficient institutional structures at metropolitan levels, insufficient human resources and skills as well as certain protection measures. The agreements with labour regarding
retrenchments should be viewed as a major protection measure which is being against pure economic principles. Negotiations were held between government, labour and the organised bus industry to reduce the full implications of the tender system. In November 1997 an agreement (Heads of Agreement) was concluded between these parties.

Certain specifications contained in the Heads of Agreement clearly indicate the intention to minimise the implications of the tender system (Heyns, 1998, p 3): “Agreement was reached on the following points in order to ensure maximum job security in the transition from the interim contracts to the tender for contract system. The government will, as a general principle, in the first round of tendering following the interim contract, undertake to do all in its power through the specification of the tender document and other measures mentioned below, (by limiting set asides, cutbacks, subcontracting requirements, etc in the tender documents) to minimise job losses and potential job losses in the industry. The government will also prevail upon the provinces to strictly adhere to such requirements.”

The government also committed itself towards substantial contributions to an industry retrenchment fund. All participants in the tender system will be compelled to contribute a percentage of the value of the contract towards an industry retrenchment fund. In order to minimise job losses the following decisions were also taken:

- That the right of first refusal between the interim contract and the first full tender be increased from the current 5% to 10%;
- That the requirement in the current tender document that a minimum of 10% of the contract should be set aside for subcontracting be changed to a maximum of 10%. The operator can still exceed this percentage - up to a maximum of 50% of the contract requirements - if it makes business sense for him, but for job guarantee calculation purposes, a maximum of 10% of the subcontracting will be taken into account; and
- That the first tender following the interim contract will be for five years’ duration.

The above transition measures merely postpone the real effects of competitive tendering as introduced in various parts of the world. These protection measures should be evaluated against the impact of labour legislation which will be discussed in the following chapter.
6.8 PROFILE OF THE SOUTH AFRICAN BUS INDUSTRY

To justify the title of this chapter namely the role of policy in the development of the South African bus industry, it is essential to put the present industry into perspective. The bus industry plays an important role in the South African economy and the lives of millions of South Africans who are dependent on public transport to earn a living and meet basic social needs. A total of 80% of the population of South Africa is dependent on some form of public transport for their daily mobility needs.

The total bus fleet operating in South Africa amounts to approximately 20,000 of which 15,000 are involved in public transport for reward. The remaining 5,000 vehicles are used mainly by government, educational institutions and private enterprise for in-house purposes. The effect of the bus industry on the economy can be illustrated by the following facts:

- Replacement value of buses: R 7,5 billion;
- Total distance travelled: 900 million kilometres;
- Annual fuel consumption: 400 million litres;
- Direct employment: 45,000;
- People indirectly dependent on the industry: 225,000; and
- Total trips per annum: 700 million.

The bus industry is therefore an integral part of the South African economy and social structure of the country.

The age and quality of vehicles are key elements of service delivery which need more detailed discussion. Vehicle age is summarised in table 6.1. The relatively high vehicle age is a particular problem in the bus industry which has a negative impact on customer acceptance as well as the image of the industry. As a result of the considerable loss in market share to the taxi industry and a resulting loss in income, as well as high cost escalations, it was not possible to replace vehicles. Vehicle specifications in the tender system could have an effect on vehicle age. Economic realities should, however, be taken into account and it is anticipated that vehicle age will not decrease substantially in the immediate future. However, efforts to attract passengers to public transport will largely fail if the quality of the product does not receive sufficient attention.

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1 Information on this section of the report was provided by the Southern African Bus Operators Association
Table 6.1: Age of Vehicles in South Africa

<table>
<thead>
<tr>
<th>Year</th>
<th>Cars</th>
<th>Minibuses</th>
<th>Commercial Vehicles</th>
<th>Buses</th>
<th>Motorcycles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>7.4</td>
<td>6.5</td>
<td>7.3</td>
<td>7.7</td>
<td>5.2</td>
</tr>
<tr>
<td>1986</td>
<td>7.8</td>
<td>6.9</td>
<td>7.8</td>
<td>8.9</td>
<td>6.1</td>
</tr>
<tr>
<td>1987</td>
<td>8.1</td>
<td>7.0</td>
<td>8.1</td>
<td>9.0</td>
<td>6.8</td>
</tr>
<tr>
<td>1988</td>
<td>8.4</td>
<td>7.1</td>
<td>8.4</td>
<td>9.1</td>
<td>7.5</td>
</tr>
<tr>
<td>1989</td>
<td>8.7</td>
<td>7.1</td>
<td>8.6</td>
<td>9.6</td>
<td>8.0</td>
</tr>
<tr>
<td>1990</td>
<td>9.0</td>
<td>7.3</td>
<td>8.9</td>
<td>10</td>
<td>8.7</td>
</tr>
<tr>
<td>1991</td>
<td>9.2</td>
<td>7.6</td>
<td>9.2</td>
<td>10.1</td>
<td>9.5</td>
</tr>
<tr>
<td>1992</td>
<td>9.6</td>
<td>8.0</td>
<td>9.6</td>
<td>10.7</td>
<td>10.2</td>
</tr>
<tr>
<td>1993</td>
<td></td>
<td></td>
<td></td>
<td>11.4*</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td></td>
<td></td>
<td></td>
<td>11.8*</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td></td>
<td></td>
<td></td>
<td>12.4*</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
<td></td>
<td>12.7*</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td></td>
<td></td>
<td></td>
<td>13.4*</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td></td>
<td></td>
<td>14.1*</td>
<td></td>
</tr>
</tbody>
</table>

Source: SABOA

*Estimated by Saboa from membership surveys

The ownership structure of bus companies receiving subsidies can be summarised as follows:

- Privately owned: 64%;
- Provincially owned: 22%; and
- Owned by Municipalities and local government: 11%.

The various operators operated differently in terms of legislative frameworks which need to be taken into account in the transformation process. Private bus companies operate as private companies according to private management principles. Provincially owned bus companies operate as parastatals, while municipal bus companies are owned and operated by the various municipalities. Private companies and parastatals rendering commuter services participated in the subsidised system, while municipal operators received and still receive deficit subsidy from their owners. If the operating environment of these operators are compared to the requirements of the tender system, it is clear that the depth of transformation required to adapt to the tender system differ. Municipal operators probably require much more preparation than private companies, while some private companies could also be better prepared than provincially owned.
bus companies.

Passenger volumes are summarised in table 6.2. The declining pattern in bus passengers is also noticeable in various overseas countries, particularly the United Kingdom, which was discussed in chapter three. The declining public transport market was also discussed in detail in chapter two. According to the figures in table 6.2, the continuous decline after 1982 can be directly attributed to the dramatic and uncontrolled growth of the taxi industry. These declining patterns call for imaginative solutions to increase the market share of public transport. The Moving South Africa project has set a 80:20 distribution target for public transport and private transport respectively. Although this target appears to be very ambitious, it should be stated that the new transport policy is based on international best practices, which include integrated transport networks. Such initiatives could make the public transport industry more attractive.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>ANNUAL BUS PASSENGER TRIPS (MILLIONS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1188</td>
</tr>
<tr>
<td>1981</td>
<td>1292</td>
</tr>
<tr>
<td>1982</td>
<td>1358</td>
</tr>
<tr>
<td>1983</td>
<td>1291</td>
</tr>
<tr>
<td>1984</td>
<td>1260</td>
</tr>
<tr>
<td>1985</td>
<td>1189</td>
</tr>
<tr>
<td>1986</td>
<td>1070</td>
</tr>
<tr>
<td>1987</td>
<td>917</td>
</tr>
<tr>
<td>1988</td>
<td>877</td>
</tr>
<tr>
<td>1989</td>
<td>816</td>
</tr>
<tr>
<td>1990</td>
<td>803</td>
</tr>
<tr>
<td>1991</td>
<td>780</td>
</tr>
<tr>
<td>1992</td>
<td>750</td>
</tr>
<tr>
<td>1993</td>
<td>720</td>
</tr>
<tr>
<td>1994</td>
<td>700</td>
</tr>
</tbody>
</table>

Source: SABOA

Escalating and spiralling cost structures have always been a problem to the industry. Until recently the average inflation rate pertaining to the bus industry has been consistently higher than the consumer price index, mainly as a result of the high reliance of the bus industry on imported spares and equipment. The weakening of the South African Rand against most foreign currencies
An industry cost profile is summarised in table 6.3. Low cost is a key characteristic that determines success in the tender system, which will be addressed in the change strategy in chapter ten.

### 6.9 ROLE OF THE TAXI IN THE DEVELOPMENT OF THE BUS INDUSTRY

The rapid and uncontrolled growth of the South African taxi industry has had a profound impact on the development of the bus industry. As stated, the steep decline in bus passenger volumes after 1982 as reflected in table 6.2 above can be directly attributed to the growth of the taxi industry. To understand this change in travel pattern, it is essential to evaluate specific supply and demand characteristics of the kombi-taxi mode of transport as described by Joy (1995, p 268):

- There is a steady stream of entrants to an apparent saturated market. This trend occurs despite claims of insufficient profitability;
- Entering the taxi market is perceived to be a desirable form of business ownership by black entrepreneurs. Large numbers of owners are not operators and have earned their investment capital through other employment;
- The demand for second hand vehicles to be used as taxi’s creates a market for the resale of vehicles used for staff transport and other business use. This demand
therefore basically sets the patterns for market prices and replacement policy;

- Insufficient employment opportunities in other sectors creates an ample supply of drivers who are prepared to offer their services at going rates which are generally very low;

- Most of the business is done in peak hours. However, the profitability of the service is determined by the volume of off-peak trips a driver can generate during the day;

- "Even at their premium fares (over bus and rail) the profitability of the industry requires that intending passengers must queue for long periods - even longer than the journey time"; and

- "Provided that the bus or rail alternative is available, kombi-taxi riders will exercise decisive control over fare levels."

The taxi industry in a vital link in the Southern African economy. Despite the problems currently experienced in terms of safety and illegal operations, this industry is also a major employer. Government is committed to formalise the industry and to successfully integrate the taxi industry with the public transport system and the economy at large. The key issue that need to be addressed, however, is how to successfully regulate a distorted public transport system in which 160 000- 180000 taxis compete with approximately 7 000 buses that are "subsidised." This issue will be discussed in more detail in further chapters.

6.10 RESULTS OF THE POLICY ON THE URBAN CUSTOMER

The policy of separate development resulted in a distorted urban public transport customer base. The Moving South Africa project conducted a detailed analysis of present transport users in South Africa and also categorised the users into six major categories which are summarised in table 6.4. The majority of the South African population that were effected by the previous political system fall in the upper categories, characterised by their low income levels and lack of private car ownership. Due to the fact that residential areas were far away from employment, most people became dependent on public transport to earn a living.

Presently 13% of the population are stranded, which implies that no affordable public transport is available. A further 19% fall within the survival category which implies that they are captive to the cheapest public transport available, mostly commuter trains and buses.
TABLE 6.4 URBAN CUSTOMER SEGMENTS

<table>
<thead>
<tr>
<th>Customer segments</th>
<th>Key transport needs (prioritised)</th>
<th>% of SA urban population</th>
<th>Growth to 2020</th>
<th>Number in 1996</th>
<th>Number in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1996</td>
<td>2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strider (prefers to walk or cycle)</td>
<td>Cost</td>
<td>25%</td>
<td>23%</td>
<td>28%</td>
<td>5.4</td>
</tr>
<tr>
<td>Stranded (no affordable PT available)</td>
<td>Cost</td>
<td>13%</td>
<td>12%</td>
<td>28%</td>
<td>2.8</td>
</tr>
<tr>
<td>Survival (captive to cheapest PT option)</td>
<td>Cost, speed</td>
<td>19%</td>
<td>17%</td>
<td>24%</td>
<td>4.1</td>
</tr>
<tr>
<td>Sensitive (captive to PT but selects 'best' option)</td>
<td>Speed, cost, choice</td>
<td>10%</td>
<td>9%</td>
<td>25%</td>
<td>2.1</td>
</tr>
<tr>
<td>Selective (can afford car but willing to use PT)</td>
<td>Speed, choice, convenience</td>
<td>19%</td>
<td>19%</td>
<td>39%</td>
<td>4.1</td>
</tr>
<tr>
<td>Stubborn (only uses car)</td>
<td>Convenience, speed</td>
<td>14%</td>
<td>19%</td>
<td>88%</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>TOTAL Urban population</strong></td>
<td></td>
<td></td>
<td></td>
<td>38% (1.4% pa)</td>
<td>21.4 million</td>
</tr>
</tbody>
</table>

Source: MSA (1998, p 38)

A further 10% fall within the sensitive area, which implies that they are captive to public transport but selects the best option. A large number of these passengers make use of combi taxi transport services.

The strategic implications of the above growth percentages per market segment will be discussed in more detail in chapters eight and nine.

6.11 SUMMARY AND CONCLUSIONS

The main objective of this chapter was to evaluate the role of legislative developments and transport policy in the development of the commuter bus industry. The role of apartheid policies is evident in the development of a supply driven industry characterised by fragmented planning. It is clear that the future of the bus industry will be completely different from its past. The commuter bus industry was for many years an executor of the political ideology of the previous government. Within a democratised South Africa, all sectors of the economy and specifically passenger transport will have to change direction and actively facilitate and support the democratisation process lower down. The effects of specific legislative reforms that were implemented to date, such as demonstration projects and tenders, were also discussed. Results obtained so far were reported in the context of primary study objectives, namely to provide
structured inputs in terms of strategic gaps that will be addressed in the change strategy.

Despite difficult onslaughts during the past two decades, the bus industry survived and is now faced with the critical task to position itself for the challenging road ahead. "It is clear that the historic development of metropolitan public transport in this country has caused major problems that need to be addressed as soon as possible. For years we have ignored the realities and costs of a politically influenced and structured public transport system. It is now time to redress these problems holistically in order to substantially improve our public transport system for future generations. Unpopular decisions will have to be made in the process of restructuring urban public transport. This will have to involve ownership, operational, financial and institutional decisions." (Walters, 1995, p 55)

This chapter provided an understanding of the status quo position of the South African bus industry by evaluating its origins and the effect of previous government policies. It is clear that the historic development of the industry resulted in various distortions and inefficiencies, especially if the South African bus industry is compared with the bus industries in other countries, as discussed in the previous two chapters. Such an analysis will be carried out in chapter eight as a strategic gap analysis.

With a background perspective of the bus industry as basis, chapter seven will focus on the public transport policy that emanated since 1996, which will provide the basis for the transformation and restructuring process.
CHAPTER 7

ASSESSMENT OF PRESENT AND PROPOSED TRANSPORT POLICY AND LEGISLATION

7.1 INTRODUCTION AND OVERVIEW

The impact of policy on the transformation of the bus industry requires an in depth evaluation of past, present and future transport policy and it was not possible to confine all the South African policy matters to a single chapter. A logical breakdown of the various policy issues and their relevance to the objectives of this thesis was therefore deemed necessary. Chapter six focussed on certain past policies and their effect on the development of the bus industry.

The purpose of this chapter is to assess the present and proposed transport policy and legislation with particular reference to those aspects of the legislation that are relevant to the bus industry. Where the previous chapter focussed on the historic development of the bus industry from a policy perspective, the focus of this chapter will be on a critical evaluation of the broad policy directions of the White Paper on National Transport Policy, 1996, key aspects of the National Land Transport Transition Bill, 1999 and future strategy as reflected in the Moving South Africa recommendations. Supporting legislation and their impact on the bus industry will also be discussed where necessary.

A further objective of this chapter is also to provide a sound basis to draw valid conclusions and to make appropriate recommendations on the transformation of the Southern African bus industry. The broad policy objectives and principles of the new legislation will be critically evaluated and their implications for the bus industry will be discussed. Recommendations should, however, not only be limited to issues affecting only the bus industry, but should also include institutional and other matters of importance. The bus industry forms an integral part of the public transport system and the economy at large, and the recommendations should therefore also take the broader environment into account.
As stated in the previous chapter, the apartheid system played a pivotal role in the development of transport policy and the development of the passenger transport industry in particular. With the traditional barriers removed, transport policy and the future of the industry can now receive the priority attention they deserve. For the first time the South African public transport policy is really in touch with international developments as well as the needs of the various stakeholder groups, and for the first time there are noticeable signs of progressive exploitation of opportunities in the external environment.

Although the title of this thesis explicitly states transport policy as its major focus, it is not possible to develop a transformation strategy for the bus industry without an evaluation of the impact of labour legislation and specifically the Employment Equity Bill. Empowerment is an important theme in the proposed transport policy and should be evaluated in the context of related legislation of which the Employment Equity Bill is the most significant. In view of the strong focus of proposed transport legislation on empowerment it was also necessary to briefly review the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa.

7.2 SOUTH AFRICAN POLICY ENVIRONMENT

As stated in chapter two, specific national and international trends have a major impact on the changes that currently take place. In a globalised economy and business environment, different forces govern the policy environment and policy development process. The political transformation in South Africa also has an enormous impact on policy in general and transport policy in particular. Legislation and policies in a stage of transition differ significantly from legislation and policies in a state of stability. To better understand the policy direction of the proposed transport policy, the following general changes in the South African policy environment are mentioned:

- As a reaction to the past policies, the focus of the new government is on growth, employment and reconstruction. The focus on social upliftment and the elimination of past inequalities have specific cost implications which could have a negative effect on large capital projects. The focus on redressing past inequalities and efficiencies has a major impact on business and the economy. Certain sectors are declining, while other sectors are receiving new attention and experience growth as a result of the new government focus. Education, for
example, is receiving much more priority attention than in the previous dispensation;

- Optimum employment, especially for members of the previously disadvantaged communities is also an important focus of legislation. Job creation is viewed as more important than mechanisation for example. Unfortunately the realities of the information age create a situation which is not conducive to job creation. Employment is merely shifted from the industrial economy to the information economy where fewer, but higher skilled people are employed;

- Empowerment of previously disadvantaged individuals is high on the priority agenda and passenger transport is an ideal vehicle for this purpose. Empowerment should be real and sustainable;

- The government and business environment is generally more transparent and open which is conducive for cooperation between the various role players and stakeholders. With the traditional barriers removed, passenger transport can now play a more powerful role in the economy and society;

- Improvement of efficiency as a result of privatisation is a major theme of new legislation such as the National Land Transport Transition Bill. Privatisation has gained worldwide momentum and will play a significant role in the Southern African economy and business; and

- Devolution of authority is implied in new legislation, especially public transport legislation. Provincial structures are in place at the second sphere of government where national policy is refined and executed. An important gap is filled in this way if compared to previous legislation. More powers and responsibilities at third sphere of government create new challenges and opportunities. Devolution of authority, however, also leads to slower decision making over the short term. Officials need to be empowered in new positions at the third sphere of government. Provision should also be made for new structures and systems which generally slow down the decision making process during the transition phase.

As a result of the above factors, devolution is a characteristic of the new legislation and transport legislation in particular. In a post apartheid South Africa the focus is more on social development and upliftment, and an organised public transport system can play a significant role
in this regard. Despite the legacies of the previous dispensation, a spirit of change and transformation is fully embedded in the new legislation which paves the way for a meaningful restructuring of the public transport industry.

Against this background the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996), should be viewed as a logical introduction to the evaluation of the new policy. The constitution is the supreme law of the country and therefore all legislation is subject to it. The Bill of Rights does not guarantee access to transport, but it does guarantee every person the right to work and trade, which requires access to public transport. Public transport is a concurrent national and provincial functional area. This fact requires co-ordinated planning, but on the other hand, has a delaying impact on the promulgation of legislation because the consultation procedure takes so much time. According to the constitution the various provincial legislatures have the powers to make laws for the provinces with regard to aspects such as the environment, housing, local government, public transport, regional planning and development, road traffic regulation, roads, tourism, etc. The powers of the various spheres of government are also clearly demarcated in the constitution.

7.3 KEY VARIABLES IN THE EVOLUTION OF THE NEW LEGISLATION

Before the new policy is discussed in more detail it is essential to focus on key variables that have played an important role in the evolution of the new policy directions. Change is better understood if the forces of and contributors to change are understood and evaluated in perspective. Although the abolition of the apartheid system has had a major impact on policy development in general and transport policy development in particular, the evolution of transport policy during the past two centuries was also incremental and influenced by various forces. Two forces have played a significant role in the development of the South African transport policy, namely:

- The influence of policy developments in other countries. In the information age and a globalised economy it is much easier, and also much more essential, to make international comparisons. These effects and relevant learning experiences were fully documented in chapters two to five; and
- The need to change in terms of local developments. Despite the international influence, policies are developed primarily to serve local needs. The need to change in accordance with local needs and circumstances was discussed
extensively in chapter six.

As far as the influence of overseas developments are concerned, the most important effect on the policy changes was the international trend away from public monopoly and ownership of public transport towards competition and privatisation. Other significant influences can be summarised as follows:

- The realisation of the importance of integrating land use and transport planning;
- Integration of public transport modes and services;
- Separation of policy and operations functions;
- Effective institutional structures;
- The important role that the commuter bus can play in an integrated transport network;
- More streamlined regulation and control of public transport;
- Competitive tendering;
- The key role that private sector involvement can play in the effective provision of public transport in many parts of the world; and
- Less bureaucratic mechanisms in the provision of public transport.

Throughout the policy development process the above influences and learning experiences were taken into account, and the policy directions were customised for local conditions and circumstances. Input by the organised public transport industry is viewed as an essential contribution in the development and evolution of the Southern African transport policy. All significant role players were given the opportunity to participate in the policy development process. Probably the most significant input to the proposed legislation was a comprehensive document by Walters (1995). As far as the South African situation is concerned, this well researched report gives a detailed account and critical evaluation of the following important matters:

- All existing legislation;
- Institutional arrangements;
- Ownership issues;
- Operational arrangements; and
- Financial support services.
A frame of reference for future metropolitan transport is also given. This conceptual model has played a significant role in the evolution of the policy development process. The chapter on international experiences is particularly relevant and provides an in-depth overview of structures and models for the organisation of metropolitan transport. Worldwide experiences are shared and the specific relevance of the various experiences for the South African situations are clearly explained. The primary value of the report, however, is contained in detailed recommendations on institutional arrangements, ownership, operational aspects and contract options.

The main recommendations of this report are as follows:

- A Passenger Transport Act;
- "A new National Roads Act that will redefine the functions of the South African Roads Board;
- A Transport Commission for international, inter-provincial and other disputes emanating from the transport authorities;
- Provincial Permit Boards;
- The establishment of transport authorities as statutory bodies and their functions, representation, voting and dispute resolution;
- Corporatisation of provincial and municipal transport companies as a prerequisite to participation in the bidding process;
- Regulated competition; and
- An all contract system that will deal with subsidised and non-subsidised transport services." (Walters, 1995, pp 195-196).

As far as institutional arrangements are concerned, the following recommendations by Walters (1995, pp 159-161) are particularly relevant in understanding the National Land Transport Transition Bill: "It is believed that some form of common approach should be followed in South Africa in a new regulatory and institutional dispensation for public transport. Reasons are the following:

(a) South Africa is relatively small. It is for instance possible to cross numerous provincial borders (four) within a two hour drive of Johannesburg. Transport being very mobile will need to cross these borders with a minimum of difficulty in order not to harm the economic well-being of the country. Red tape should therefore be avoided. Road traffic matters should be mostly common between the
A more or less common approach is needed in funding solutions for public transport - especially the proposed financial support systems for the taxi industry. Taxis crossing provincial borders with a different financial dispensation than those in the next province could be accused of being financially advantaged and therefore unlevel playing fields. Taxi wars could therefore be extended to the main roads, border crossings, etc.

Inter-provincial regulatory measures need to be addressed from a holistic point of view.

The need to give effect to the RDP programme in public transport will need bold steps and a new regulatory environment. Although national guidelines are not considered necessary to give effect to the RDP in public transport, one could find the same argument surfacing than mentioned in (b) above.

Public transport is irrevocably linked to poor land use patterns - this results in a transport system that is very expensive. Some guidelines will be necessary to change the land use pattern to one of densification of the urban areas. The land-use/transport function should in one way or another be linked to institutional structures that have a public transport responsibility.

Some provinces have a very low regional income base, but extensive transport requirements. Elaborate and expensive solutions must be avoided at the expense of the general tax payer.

The general pool of specialist resources in the country is low. Multiple and complex solutions could further drain this pool. An initial common approach could stretch the pool and ensure a successful transformation to a new regulatory dispensation.

A new strategic vision is needed to provide practical and sustainable medium- and long-term solutions to public transport issues. This vision could be developed by MINCOM and applied in each province based on provincial circumstances.

Institutional structures are currently mainly focussed on the past centralist approach of public transport management. These structures need to be refined based on a new vision for public transport. Should a common vision be shared by MINCOM, national guidelines may be necessary to set up such structures.
Guidelines need to be given for metropolitan and local councils in terms of future regulatory reform. In an area where several metropolitan councils co-exist (e.g. in the greater Johannesburg area) some form of a common approach will be necessary to avoid the potential problem mentioned in (b) above. Institutional structures such as a Metropolitan Transport Authority will play a crucial role in ensuring seamless transport. The powers and functions of such a MTA may require national guidelines.

In order to substantially level the playing field in the bus industry, national legislation is required to corporatise provincial and local government operations to enable such operators to participate in the proposed tendering system. This could be achieved through a new Public Transport Act."

The above recommendations were mostly incorporated in the proposed legislation. Detailed recommendations were also made in terms of institutional arrangements at all appropriate levels of government. The principle that public transport should be managed at the lowest effective level of government is fully supported and explained. As far as the provision of public transport at metropolitan level is concerned, the recommendations of the report are particularly relevant and can be viewed as a successful integration of local needs and international experiences. The functions of the proposed transport authority have been largely incorporated in the National Land Transport Transition Bill.

The above discussion on the key variables in the evolution of the new transport policy sets the scene for an evaluation of the White Paper on National Transport Policy, the National Land Transport Transition Bill and the Moving South Africa policy recommendations.

7.4 THE WHITE PAPER ON NATIONAL TRANSPORT POLICY

The White Paper on National Transport Policy was tabled in parliament and approved on 18 September 1996, 18 months after the policy renewal process commenced in early 1995. The White Paper was the result of extensive consultation with major stakeholder groups. A Green Paper was issued in March 1996, which culminated in the White Paper after the incorporation of comments and feedback.

The White Paper can generally be viewed as a breakthrough to position transport as catalyst for
growth and social upliftment. This message is clearly communicated by Transport Minister Maharaj in the foreword: “It will provide a basis for transport to play a more strategic role in social development and economic growth.” It should be stated, however, that the policy directions are clearly formulated in terms of a desired end result, and therefore more of a long term nature. In this regard Maharaj clearly states: “We recognise that some policy changes cannot be implemented overnight. In such cases we will, in discussion with the stakeholders affected, phase the implementation over a transitional period in a planned manner, inter alia, to give time for the development of a stable institutional capacity to manage the implementation.”

The apartheid policy, if evaluated from a passenger transport perspective, can therefore be viewed as a significant departure or deviation from logical and cost effective economic development which is desperately needed in developing countries. One of the most important objectives of the White Paper on National Transport Policy was to reposition transport to play its rightful role in economic development and social upliftment. “The broad goal of transport is the smooth and efficient interaction that allows society and the economy to assume their preferred form. To play this role, policies in the transport sector must be outwardly looking, shaped by the needs of society in general, of the users or customers, and of the economy that transport has to support. Transport can also play a leadership role, for example in acting as a catalyst for development or in correcting spatial distortions.”

Against this background the following vision was formulated: “Provide safe, reliable, effective, efficient, and fully integrated transport operations and infrastructure which will best meet the needs of freight and passenger customers at improving levels of service and cost in a fashion which supports government strategies for economic and social development whilst being environmentally and economically sustainable.” From a management of change or transformation perspective, visioning is viewed as a powerful means to enhance, and provide structure and broad direction to the change process. Visions describe the desired end results. This concept is fairly new in the South African policy development process and in pace with modern business thinking. A vision in the old dispensation would have been as distorted and impracticable as the political ideology at the time. Imagine a vision of separate neighbourhoods, expensive commuter systems, gross inefficiencies and inconveniences for the majority. With economic and social realities in place, the vision automatically becomes more credible, and attainable.
In support of this vision, the following goals were formulated, which will be critically evaluated in the context of the objectives of this study:

- **To support the goals of the Reconstruction and Development Programme for meeting basic needs, growing the economy, developing human resources, and democratising decision making.** Public transport is by nature ideally positioned to support these goals, provided that political ideology does not distort the basic purpose. In the new business environment the above goals can be achieved;

- **To enable customers requiring transport for people or goods to access the transport system in ways which best satisfy their chosen criteria.** This overarching objective contains a positive policy statement in terms of meeting the needs of the travelling community which was not possible in the previous supply driven public transport system;

- **To improve the safety, security, reliability, quality and speed of transporting goods and people.** This general statement is important in basically any environment, but particularly within the present Southern African context. Safety is of particular significance, especially on the rail mode where regular high levels of violence occur. Road safety is also a particular area of concern in the minibus taxi industry;

- **To improve South Africa’s competitiveness and that of its transport infrastructure and operations through greater effectiveness and efficiency to better meet the needs of different customer groups, both locally and globally.** The shift to global thinking and renewed focus on South Africa’s competitiveness should be viewed as particularly important. Increased efficiency is by far not a characteristic of public monopoly and focus on efficiency and competitiveness should be increased in the public transport environment;

- **To invest in infrastructure of transport systems in ways which satisfy social, economic, or strategic investment criteria.** This objective is particularly relevant in the new policy environment where strategic investment criteria has changed significantly. Unfortunately excessive previous investment in inappropriate and now redundant infrastructure will for some time determine new investment. The long term implications of this objective should, however, be taken into account; and
To achieve the above objectives in a manner which is economically and environmentally sustainable, and minimises negative side effects. It can be stated that the above goals are fully supportive of the new business environment. These goals should be viewed as primarily pro-active, namely to actively exploit opportunities within the transport environment to the benefit of the travelling community and the economy and society at large. Reconstruction also forms an important focus area.

Regulation

In accordance with the new policy initiatives in the White Paper (pp 10-11) it is the intention of government to regulate only in those areas where it is essential. Provision is made for the following forms of regulation:

- **Regulation of specific services provided under contract**, which is a very detailed form of regulation with specified sanctions and penalties if specifications are not met;
- **Regulation of monopolies** such as controlling tariffs and setting standards. Examples include state airports, ports and concessions,
- **Regulation of the operations of competing operators** to ensure level playing fields and safety regulation; and
- **Regulation by contract** which involves the establishment of a formal contract with an operator to “abide by an agreed set of rules.”

It is clear that regulation has become more efficiency orientated with a strong business focus. Regulation only where it is essential should be viewed as a concerted effort to move away from the traditional bureaucratic form of regulation. The new focus of the National Department, namely to focus on policy and to facilitate change is clearly reflected in the above policy measures. Pertaining to land passenger transport, the following strategic objectives have been formulated:

**Funding**

- **To ensure sustainable and dedicated funding for passenger transport infrastructure, operations and law enforcement.** Funding of the ineffective commuter transport system has been a controversial subject for many years. The
above policy statement is clearly an effort to ensure appropriate and dedicated transport funding.

**Spatial**

- **To encourage more efficient urban land use structures, correcting spatial imbalances and reducing travel distances and times for commuting to a limit of about 40 km or one hour in each direction.** The commuter system resulted in excessively long travelling distances of over 100 kilometres in one direction and severe inconvenience to commuters and their families. Spatial distortions cannot be rectified over the short term and it is foreseen that this objective will only be achieved over the long term;

- **To promote the use of public transport over private car travel, with the goal of achieving a ratio of 80:20 between public transport and private car usage.** This objective is an ambitious effort to reduce congestion and to improve the mobility of people. However, similar objectives form part of the integrated transport strategies in various parts of the world; and

- **To promote rural development that will improve access to opportunities by ensuring that rural workers are housed in close proximity to their work locations and services, thereby reducing the need to travel.** As stated in chapter two, massive urbanisation is a problem throughout the developing world. This objective should therefore be viewed as very ambitious but attainable.

Generally it can be stated that spatial development and transport development can not be separated and the above policy statements address the key issues that contributed to the inefficiencies of the previous dispensation.

**Customer-based**

- **To ensure that passenger transport services address user needs, including those of commuters, pensioners, the aged, scholars, the disabled, tourists, and long distance passengers.** This explicit market objective is not only a concerted effort to change past inefficient service provision but also fully supportive of the changed business environment in general. Increased market focus and quality service have become key success factors in business;
To improve accessibility and mobility, limiting walking distances to less than about one kilometre in urban areas. This objective should also be viewed as a concerted effort to rectify past inefficiencies and to better serve customer needs. Initiatives of this nature are required to achieve the 80:20 distribution between public transport and private transport as envisaged by the Moving South Africa project;

- To provide an appropriate and affordable standard of accessibility to work, commercial and social services in rural areas. Renewed focus on rural areas is an effort to ensure equality, but these objectives will have to be evaluated in terms of cost benefit considerations;

- To ensure that public transport is affordable, with commuters spending less than about 10 percent of disposable income on transport. The excessive cost of the commuter transport system resulted in an overburdened travelling community despite massive government subsidies. It is unreasonable to expect anyone to spend more than 40% of his or her disposable income just to reach employment. This objective also clearly supports the intention of government to alleviate poverty;

- To promote safe and secure, reliable and sustainable passenger transport. An increased focus on and demand for sustainable development actions are noticeable throughout the world. Sustainability is also a prerequisite for effective long term development and upliftment and this policy objective should therefore be welcomed; and

- To provide readily-accessible information for the assistance of passenger transport users. The commuter system was generally not customer friendly, especially in terms of customer information systems. This objective forms part of the development and upliftment initiatives of the White Paper.

It can be concluded that the previous transport dispensation was largely supply driven. Every supply driven system runs the risk of losing market opportunities. Supplying without addressing real customer needs is also against professional management principles. The above policy statements are intended to completely change the system to a demand driven system. In a demand driven system the market forces will change completely and the service can generally add more value to the customer. Such a system should cater for the real needs of the users.
The new business environment also focuses on upliftment and empowerment. Within this environment a supply driven system is totally inappropriate. Empowerment improves the living standard and expectations of people. People become more critical and it can be expected that they will increasingly demand high quality services.

**Planning and regulatory**

- **To provide appropriate institutional structures, which facilitate the effective and efficient planning, implementation, funding, regulation and law enforcement of the passenger transport system, devolved to the lowest competent level.** A new dispensation requires new and dynamic institutional structures. The focus on the lowest competent level of government is in accordance with international developments as well as South African needs;

- **To encourage, promote and plan for the use of non-motorised transport where appropriate.** Non-motorised transport still plays an important role in certain rural areas and inclusion of this policy objective is viewed as very relevant;

- **To provide for the registration of all public transport operators as formalised commercial entities, bound by the regulations pertaining to their permission to operate.** This policy objective is viewed as absolutely necessary in the formalisation of especially the taxi industry. Participation in an integrated transport network is not possible without appropriate registration. Formalised commercial entities are required to improve the efficiency and control of operations through the tender system;

- **To replace operator permits with permissions (authorities) issued in terms of approved passenger transport plans.** It was necessary to replace the old permit system with permissions in terms of approved transport plans to enable the successful implementation of integrated passenger transport plans and the tender system; and

- **To promote and implement a system of regulated competition for public transport routes or networks based on permissions or tendered contracts.** Regulated competition should be viewed as a healthy balance between government control and effective private sector involvement.
It can be concluded that one of the key inefficiencies of the previous political dispensation was the fragmentation of planning. The above policy measures make provision for structured planning and regulation.

Operational

• To empower and assist disadvantaged operators to participate meaningfully in the land passenger transport system. The stated objective to empower disadvantaged operators should be viewed as a concerted attempt to execute general government policy. This objective should be viewed as a challenge and opportunity that should be exploited as a matter of urgency;

• To ensure that operations become economically viable, requiring the minimum financial support. Overseas experiences, especially the integrated bus system of Curitiba has shown that public transport systems can be rendered with no or minimum financial support from government. Although South Africa has particular adverse circumstances, the policy focus should be welcomed;

• To foster manpower and human resources development. The passenger transport industry and the bus industry in particular has suffered from insufficient numbers of trained personnel, especially for managerial and other skilled positions. The above policy statement is clearly and effort to reverse the situation;

• To ensure that transport modes are integrated in respect of scheduling, routes and ticketing systems. Integrated transport systems in other parts of the world have clearly shown the advantages of integration and the aim of this policy statement should be viewed as an effort to improve service provision as well as resource utilisation;

• To promote acceptable and fair labour practices in the transport industry. New labour legislation has specific implications for the public transport industry and fair and acceptable labour practices are viewed as essential to execute the new dispensation. A healthy relationship between management and labour is essential in the tender system because penalties will be to the detriment of both;

• To ensure that land passenger transport operations are more environmentally sensitive and sustainable, and are energy efficient. As indicated in chapter two, environmental protection has become an increased
general as well as business focus. Scarce resources and the environment should be protected; and

- **To promote strong, diverse, efficient and competitive long distance passenger transport and charter sectors within the limits of the sustainable transport infrastructure, and to enhance the quality of such services through the provision of safe, secure, reliable and cost-competitive systems.** Despite the focus on effective transport services at metropolitan services, it is also essential to promote long distance passenger transport. The long service bus industry, especially the intercity and charter markets, has specific problems in terms of utilisation, foreign competition and other considerations which should be attended to ensure the future viability of the industry.

**Land use and spatial development**

Pertaining to land use and spatial development in support of land passenger transport, the following policy statements are included in the White Paper:

- **Land use development proposals must be subject to a land use/transport policy framework within an agreed development planning process.** Effective and integrated development planning is essential to optimise the contribution of all sectors of the economy. The above policy measure will enable integrated development planning; and

- **The effective functioning of cities and industrial areas must be enhanced through integrated planning of land use, transport infrastructure, transport operations and bulk services.** This policy statement is particularly relevant in the optimisation of scarce resources. The apartheid system and the commuter transport system contributed to ineffective cities and a change in this development pattern is regarded as essential.

The above policy statements form part of a broader policy renewal process. Transport should form an integral part of the planning process to ensure optimum use of land and other resources.

**Urban restructuring and efficient land use/transport interaction**

The following policy statements focus on urban restructuring and efficient land use/transport interaction:
• Establishment of structures (all tiers of government) which facilitate integrated planning of infrastructure, operations and land use in a co-ordinated manner;
• Regulation of land use development at local level so that development approval is subject to conformity with integrated land use/transport plans;
• Land use frameworks, guidelines and policies to channel development, particularly employment activities, into public transport corridors and nodes;
• Development priority will be given to infilling, densification, mixed land use and the promotion of development corridors and nodes. These policy statements are aimed at optimum economic development within transport corridors. The Curitiba urban planning system has clearly shown the advantages of integrated land use and transport planning and application of these principles has enormous potential. It is anticipated that densification will eventually reduce the need to travel and will also lead to increased vehicle utilisation.
• Containment of urban sprawl and suburbanisation beyond the urban limits will be addressed through provincial spatial development plans. The commuter system was a main contributor to urban sprawl and this policy statement should be viewed as a pro-active step to effectively neutralise sprawling land development patterns;
• Decentralisation which disperses employment activities must be discouraged, except in specific cases where it is favourable in terms of decreasing total transport costs and travel times on the basis of an integrated land use plan. Industrial decentralisation policies of the previous dispensation resulted in excessive cost and inefficiencies; and
• Unrestrained car usage and subscribed car parking will be contained through the application of policy instruments which could include strict parking policies, access restrictions for private cars, higher license fees, road pricing or area licencing. Restraint on private car usage will however not be implemented independently of improvements in the quality of public transport.

It is clear that the above objectives are in full support of the macro economic development and
social upliftment actions of government.

An evaluation of the White Paper on National Transport Policy would not be complete without reference to the Land Transport Policy Framework. This document was issued in December 1996 by the National Department of Transport. The purposes of the publication, as stated in the foreword, are threefold, namely:

- "To provide more comprehensive detail on the principles and policies on land passenger transport elucidated in the White Paper on National Transport Policy;
- To describe the transitional steps that will be required to move from the current state to the desired state; and
- To explain the reasons for the structure and context of the working documents for the drafting of overarching land transport legislation."

The policy document clearly defines the problems pertaining to the present transport system in terms of the following aspects:

- Defects in the transport system;
- Land use distortions;
- Fragmented legislation;
- Fragmented responsibilities;
- Lack of comprehensive planning;
- Public transport regulatory deficiencies;
- Funding for land transport;
- Inefficient subsidy policies;
- Inadequate safety, security and insurance for commuters; and
- Lawlessness in land transport.

The document comprehensively explain the following policy statements:

- Land use and spatial development;
- Institutional structures;
- Framework for the provision of services;
- Ringfencing and corporatisation of municipal and parastatal bus undertakings;
- Concessioning of rail commuter services; and
- Funding.
Key recommendations are made on the following key issues:

- Infrastructure;
- Human resource development;
- Development of small, medium and micro enterprises;
- Special categories of passengers;
- Passenger information and marketing systems;
- Energy efficiency;
- Environmental sustainability; and
- National and provincial guidelines and requirements.

This policy framework policy document provides valuable guidelines and recommendations to implement the policy statements contained in the White Paper on National Transport Policy. Of particular significance is the framework that is provided to put the policy in perspective. Policy guidelines and comments are also very valuable and provide a better understanding of the Moving South Africa recommendations which will be discussed in a later section of this chapter.

7.5 NATIONAL LAND TRANSPORT TRANSITION BILL 1999

7.5.1 INTRODUCTION AND OVERVIEW

It should be stated that the South African transport policy is still in a process of development. It is therefore not possible to use a final transport act of parliament as focus of this study. It should be kept in mind that the implementation of this Bill will be largely at provincial and local government level, which implies a considerable volume of work further down the line. An assessment of the impact of this national policy document on the restructuring of the public transport industry is therefore difficult, because the results could be contaminated and influenced by various intervening variables, such as delays, policy changes, implementation, customisation in provincial context, etc.

According to the National Land Transport Transition Bill of 1999 (p 113), the draft National Land Transport Bill was approved by Cabinet during May 1997. A final version of the Bill will be drafted at a later stage. It was deemed necessary to make provision for transition arrangements and hence a National Land Transport Transition Bill was published on 19 January 1999 for comments. This Bill "is designed to bring about a fundamental restructuring of the laws
regulating land transport in the country, with emphasis on public (passenger) transport. It was
decided that the full policy of the National Department of Transport, as formulated in
consultation with the provinces, cannot be implemented immediately due to the need to dovetail
it with the new and proposed government legislation. For this reason the Bill is transitional in
nature, and is scheduled to be replaced by final legislation within the next three years. The Bill
therefore also sets the scene for the long term restructuring of the land transport system as
envisioned by the Moving South Africa project.” (National Land Transport Transition Bill, p, 113)

7.5.2 REGULATED COMPETITION
In view of the fact that transport legislation is still in a process of development, it is deemed
necessary to critically review the essence of those aspects of the proposed legislation that are
relevant to the bus industry. The most significant legislation in this regard is contained in Part
9 of the National Land Transport Transition Bill that deals with regulated competition. Section
9 makes provision for subsidised service contracts and commercial service contracts.

Subsidised service contracts
Clauses 58 and 59 of the Bill are particularly relevant:

“58  (1) After the expiry of any interim contract, or current tendered contract, the public
transport service that had been provided in terms thereof, must, where it is proposed to
continue a similar service thereafter, be provided in terms of a subsidised service
contract.

(2) A provincial department, a transitional transport authority, a core city and a
municipality that has the capacity to do so, may enter into a subsidised service contract
only if -

(a) the service to be provided in terms thereof, has been put out to public
tendering in accordance with a procedure prescribed by or in terms of a
law of the province;

(b) the tender has been awarded by the tender authority in accordance with
that procedure; and

(c) the contract is entered into with the successful tenderer.”

Clause 59 states that in order to qualify as a tenderer, the following conditions must be met:

• Taxi operators must be registered with the provincial registrar;
Tenderers must operate according to business principles with financial ringfencing;

Attempts to organise the taxi industry and to manage their entry to the formal public transport system should be welcomed. The present estimated 160 000 - 180 000 taxis versus the 7 000 buses that participate in the "subsidised" system reflect an imbalance that need to be addressed.

Ringfencing is also clearly explained in the Bill. It is clear that the principle of competition is a major part of the policy. It is stated that transitional transport authorities and municipalities may not operate public transport services. It is clear that the focus is competition for the road and not on the road. Very few arguments can be raised against this form of service delivery, except that competitive tendering as such has not proved its ability to attract passengers to public transport, as discussed in chapters three to five.

Commercial service contracts

61. "A province, a transitional transport authority, any core city and any designated municipality may, by notice published in the provincial gazette and in a newspaper generally circulating in the area where a public transport service is to be provided -

(a) Invite quotations from public transport operators for the operation of that service in terms of a commercial service contract; or

(b) Invite public transport operators to tender for the operation of that service."

The introduction of competition as basic principle should be welcomed, but the same argument raised above in terms of increased use of public transport remains the same. Imaginative solutions other than competition are required to ensure the viability of public transport.

7.5.3 OTHER SIGNIFICANT ASPECTS OF THE BILL

7.5.3.1 TRANSITIONAL TRANSPORT AUTHORITIES

The role, function and competencies of transitional transport authorities are outlined extensively in the Bill. Transport authorities will be the heart and nerve centre of integrated transport systems and extensive policy guidelines are therefore essential, especially at this early stage. Although provision is made for functions to improve customer service such as integrated fare
systems, improvement of safety and public consultation, the success of the policy will be
determined by the extent to which the policy is implemented and enforced at provincial and local
government level. Sufficient powers are delegated to provinces to implement creative and pro-
active policy measures at lower government levels to improve and effectively regulate public
transport.

7.5.3.2 REGULATION AT PROVINCIAL AND LOCAL LEVEL
Sufficient provision is also made in the Bill for regulation of public transport at provincial and
local level. Of particular significance is the provision made in the Bill for the formation of joint
transport executives between two or more transitional transport authorities to perform certain
functions, which could lead to better utilisation of resources and increased synergy at local level.
Provincial MEC's also have substantial power to make regulations pertaining to transport
planning.

Provision for by-laws is also made for by-laws which are necessary for the effective rendering
for public transport at local level. The preparation of tender specifications and documents, for
example, is critical in implementing the proposed policy at local level.

7.5.3.3 FUNDING
Provision is made for funding from central government to the provinces. Application of these
funds is strictly prescribed for purposes such as payments in terms of interim contracts, tendered
contracts and subsidised service contracts. Strict specifications also apply for payments to
transitional transport authorities. Funding is a critical element of a sustainable future transport
system, and it is anticipated that the future need to finance viable public transport will require
continuous policy renewal.

7.5.3.4 TRANSPORT PLANNING
The policy principles contained in the Bill support key aspects such as integrated transport and
land-use planning, densification of corridors and modal integration. The policy proposals require
interaction between national, provincial and local authority level to ensure an effective public
transport system.

The Bill is very specific about the integration of planning and the relation to other appropriate
legislation such as the Development Facilitation Act, 1995 and the Local Government Municipal Structures Act, 1999 is shown. The integration of transport planning and land-use is an integral part of planning at the various spheres of government.

Policy is also provided for the development of transport plans and integrated transport plans to ensure coordination between local and provincial levels of government. Provision is also made for rationalisation plans prior to tendering to ensure that the duplicated services and infrastructures do not continue in the tender system.

7.5.3.5 REGULATION OF THE TAXI INDUSTRY
Detailed measures to regulate the taxi industry are contained in the Bill. These measures are to be put to the test, especially in view of the culture of limited law enforcement pertaining to the taxi industry. Provision for a code of conduct should be viewed as a positive step in controlling the taxi industry.

The implementation of national land transport had been delayed for extensive periods. The urgent promulgation of the National Land Transport Transition Bill will make a substantial contribution towards streamlining and finalisation of provincial and local government public transport policy.

7.6 MOVING SOUTH AFRICA
7.6.1 OVERVIEW
An evaluation of the proposed South African public transport policy will not be complete without incorporation of the strategy recommendations made by Moving South Africa. This project is viewed as "the most ambitious, comprehensive, leading-edge work in transport strategy in many decades in any part of the world." (MSA, 1998, p 19). "The Moving South Africa Project was designed to be a data-driven program for strategic action that extends the short to medium term policy formulation embodying the sets of trade-offs and choices necessary to realise the vision as set out in the White Paper." (MSA, 1998, p 5). The strategy focus is over a 20 year period.

The Moving South Africa project was launched at a time when the key policy principles of the new dispensation were already in place. During 1997, the White Paper on National Transport Policy as well as a draft version of the National Land Transport Bill (1997) were already
published. There was a need for a long term strategy to realise the broad policy principles and vision of the new policy and hence the Moving South Africa project was initiated. It was realised that the legacy of apartheid resulted in distorted land-use and travelling patterns and other inefficiencies that could not be reversed over the short term which supported the need for a long term strategy. Although the primary focus of this study is short and medium term, namely to recommend a transformation methodology to prepare the bus transport industry over the next five to seven years, it is essential to direct the change strategy towards long term objectives.

"The guiding premise of the strategy is the satisfaction of customers of transport, principally the end users of the system, but also the nation, in the service of fulfilling national objectives. Thus, the strategy works to propagate a vision, a set of ideas that integrates the need of transport customers and the need of policy-makers, while ensuring that the system can deliver on these needs in a sustainable fashion into the future." (MSA, 1998, p 90)

7.6.2 KEY STRATEGIC ACTIONS FOR PASSENGER TRANSPORT

Moving South Africa recommends the following key strategic actions for passenger transport:

- **Densification of corridors and nodes** to reverse the present pattern of dispersal;
- **Optimisation of modal economics and service mix** to ensure that public transport modes are optimised; and
- **Improvement of firm level performance** through competitive tendering.

"The strategy will substantially improve systems performance but will require overcoming difficult obstacles. It is likely to take 10-20 years to unwind the legacy, but the results will be better system performance in terms of access, travel times, etc. and the satisfaction of customer needs, particularly those of the disadvantaged. Key obstacles will be the lack of coordination within and between levels of government and lack of institutional capacity." (MSA, 1998, p 11)

7.6.3 EVALUATION OF KEY STRATEGIC ACTIONS

The above key strategic actions will now be evaluated in the context of the objectives of this study and in accordance with the specific recommendations made by Moving South Africa (MSA, 1998, pp 135-136):

"**Densification of corridors** to achieve economies of scope through increased use of controls and incentives and provision of public transport investments to support corridor densification. This
action is the linchpin of the urban strategy, creating a ‘corridor vision’ for urban areas across the
country.” This strategic recommendation is indeed the linchpin of the urban strategy. The
principle is based on international best practices and the only viable alternative available to
reverse the historic land-use and travelling patterns. The effective use of controls and incentives
need considerable development and refinement to achieve tangible results.

“Optimising modal economics (through economies of scale) and service mix to meet customer
needs.”

- “Focussing infrastructure investment on supporting corridor development, especially to improve roads and dedicated road-based public transport infrastructure like busways.” Densification of corridors will only realise if these
conditions are met. Dedicated busways have proved to be extremely effective in South American cities. These facilities will be of critical importance in the restructuring of the South African commuter bus industry;

- “Reorienting planning and operation of public transport services to promote the mode that offers the best cost/service trade-off for a given corridor, and encourage differentiated public transport services, to meet higher level customer needs without subsidies or cross-subsidies.” This strategy recommendation is also based on international best practices which were discussed in chapters 3, 4 and
5. Most Brazilian cities provide bus service in high density corridors without subsidy. This policy recommendation should be welcomed;

- “Implementing tough road space management and car restrictions to improve the performance of public transport.” These measures are essential to manage the entrance of private cars to central business districts and to attract passengers to the public transport system. Such measures will play an important role in optimising public transport; and

- “Targeting subsidies towards poorer segments while encouraging use of the optimal mode and incentivising modal integration.” This policy measure will play a significant role in optimising the role of the bus in integrated transport networks. The optimisation of modes should result in a growth of the bus market share relative to the taxi mode, which is essential in reducing congestion and improving safety.

“Improving firm-level performance and productivity, by creating:

- Competition within and between modes through tendering/concessioning of

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services to private operators.” The introduction of competition is already an integral part of policy. Experience in most overseas countries has shown that costs decrease and productivity generally increase as a result of competition or the threat of competition;

- “Effective regulation of all modes, especially taxi’s, to meet customer needs, reduce system costs and create sustainability.” Effective regulation of the taxi industry is vital in improving the public transport industry in South Africa; and
- “Improved funding for infrastructure and upgrading to ensure sustainability.” The legacy of the apartheid system resulted in inappropriate and outdated infrastructure and a reversal of this trend is essential.

The Moving South Africa study is based on extensive international and local expertise and provides a well founded future strategy for all sectors of the transport industry. It is clear that considerable additional work is required to realise the long term vision. The report (MSA, 1998, p141) states that the following public entities should “act in concert” to realise the stated objectives:

- National government is responsible to provide the overall vision;
- Provincial government is responsible to create provincial land-use strategies;
- The Roads Agency “will need to align investments in national roads in urban areas with the local corridor strategies developed by local entities.”; and
- Local government and transport authorities are responsible for the development of transport strategies.

Moving South Africa recognises the importance of coordination in the implementation of the strategy recommendations. Coordination as key variable is discussed separately in the latest Moving South Africa report which gives an indication of the critical importance of coordination and cooperation between the three spheres of government, the transport industries and other role players.

7.7 PROPOSED LEGISLATION IN PERSPECTIVE

7.7.1 METHODOLOGY

As stated in the introduction of this chapter, it is essential to critically evaluate the proposed policy and legislation and to focus on its implications for the bus industry. A critical evaluation
of the proposed policy should at least address the following critical issues, which emerged as vital during the previous chapters:

- The ability/capacity of the policy to successfully change the past inefficiencies of the public transport industry. This ability is really one of the most crucial tests for the proposed policy;
- The provision that is made for effective institutional structures;
- The ability/capacity of the proposed policy to pro-actively address the changing needs of the various travelling communities;
- The extent to which the policy will increase the efficiency and effectiveness of scarce and expensive resources;
- The provision made for the integration of modes and services with the aim to improve the efficiency of public transport;
- The ability/capacity of the proposed legislation to empower members of the previously disadvantaged communities;
- The provision made for transitional arrangements to ensure the effective implementation of the new public transport dispensation;
- The extent to which the Bill promotes public participation and transparency; and
- Finally, but most importantly, the ability of the proposed legislation to increase the market share of public transport.

Within the structure of the above framework, the White Paper on National Transport Policy, the National Land Transport Transition Bill and the Moving South Africa recommendations will be critically evaluated. For the purposes of this study it is not regarded as essential to spend too much time on the detailed aspects and clauses of the policy but rather to focus on broad objectives and a holistic interpretation of the different parts. Where specific detail is relevant, especially in the remaining chapters, specific quotations from the policy will be made.

7.7.2 PAST INEFFICIENCIES

By far the most important inefficiency of the previous transport dispensation was the distorted land use patterns as a result of the apartheid policy. The creation of separate facilities and transport systems for whites and non whites resulted in excessive cost and distinct operational inefficiencies. The new policy has the sincere intention to completely reverse these structural inefficiencies.
Land development, spatial development and the integration of transport planning and land use planning forms an integral part of the policy. The policy is not only clear about the future structure of development but also very explicit in redressing past inefficiencies. Infilling, densification, mixed land use and the promotion of development corridors are powerful examples of the focus of the policy. Efforts to redress inefficiencies also include infrastructure creation and management.

It can be concluded that the content of the policy on land use and related issues are sufficient to reverse the historic land use patterns from a public transport perspective. It is also essential to evaluate the implications of the policy in conjunction with other legislation such as the Development Facilitation Act. It should be stated however, that efforts to change past inefficiencies will require much more than mere policy. Dedicated funding, prudent policy implementation and dedication at provincial and local government levels will be crucial in realising the long term vision.

7.7.3 INSTITUTIONAL STRUCTURES
The political dispensation that came into power in 1994 is more decentralised than the previous political dispensation. Of particular significance is the strong emphasis on the third sphere of government. These structural changes have been successfully incorporated in the National Land Transport Transition Bill.

The powers and duties of the various spheres of government are clearly defined and explained. It is also clear that the intention is to devolve decision making on passenger transport to the lowest competent level of government. The focus of central government in public transport is more of a policy making and facilitating nature which is supported by strong provincial and metropolitan structures. One of the key deficiencies of the previous policy was central planning of transport while other planning, for example land use planning was done at lower levels. At third sphere of government transport authorities will play a significant role in the regulation and provision of public transport with optimum opportunity to involve the private sector and to empower people. It should be kept in mind that the proposed structures are new and considerable time and effort will be needed before the new structures are really able to fulfil their envisaged roles.
7.7.4 CHANGING NEEDS OF TRAVELLING COMMUNITIES

As stated, one of the key inefficiencies of the previous public transport system was the centralisation of decision making on public transport. This state of affairs resulted in a largely supply driven public transport system. The focus was on the supply of transport within the confines of an unjustified political system.

The National Land Transport Transition Bill makes provision for integrated transport plans which will have to be developed in accordance with community needs. The focus on decision making at a much lower level will ensure that service provision is structured and in accordance with the real needs of the communities served.

The policy framework of the White Paper on customer based policy has been successfully incorporated in the Bill, while customer focus is a central theme of the Moving South Africa policy recommendations. An important key issue is the extent to which the proposed policy will be implemented. A customer driven mindset at the strategic, tactical and operational level is a prerequisite for an effective public transport system in a changing environment.

7.7.5 RESOURCE EFFICIENCY

Resource efficiency is of critical importance in the rendering of public transport services. The historic commuter transport system is based on long travel distances to and from work. Vehicle utilisation is therefore largely limited to morning and afternoon peak services. Bus utilisation is therefore generally low if compared with certain overseas bus systems such as the Curitiba bus system.

Although the proposed policy will not have an immediate effect on the improvement of resource utilisation, it can be expected that land use patterns that will develop over time will be more conducive to improved vehicle utilisation. It should, however, be taken into account that informal settlements and squatting near employment opportunities in metropolitan areas could have a negative effect on vehicle utilisation due to the shorter travelling distances.

7.7.6 INTEGRATION OF MODES AND SERVICES

Historic imbalances and central transport planning did not promote modal and resource integration. The duplication of services and infrastructure for the various population groups at
municipal level, as discussed in chapter 6, clearly illustrates the principle.

Although transport planning received priority attention in the 1977 Road Transportation Act, the application of the Act did not really promote integrated planning and resource utilisation. The proposed policy is, however, very explicit on integrated planning. The establishment of transport authorities will enable integrated planning and service provision at third sphere of government. Transport authorities will be responsible for integrated transport plans in which all modes will participate in accordance with their respective characteristics and distinct features.

Provision is also made for the concessioning of rail services which will further contribute towards better integration of modes and services. The formalisation of the combi taxi industry will also make a substantial contribution towards modal integration. Taxi operators will have the opportunity to tender for services and bus operators can also sub contract certain routes to taxi operators.

It should be stated however, that the breaking up of large tenders will obviously result in fragmentation as such. At this stage the large operators render integrated transport services over extended operational areas. Demarcation of the tender area into smaller tenders will result in more but smaller operators. The overall control and service integration, which is now the responsibility of the larger operator, will be largely lost. Subcontracting to smaller operators where the larger operator is still responsible for overall integration and control can largely overcome this problem, if properly managed.

Finally it can be stated that the Moving South Africa recommendations are very explicit on modal integration and increased efficiency of the integrated transport system.

7.7.7 **EMPOWERMENT**

One of the most positive and challenging opportunities contained in the policy is the opportunity to empower members of the formerly disadvantaged communities through the new public transport dispensation. The present bus system is still dominated by large public transport operators. The tender for contract system will make provision for smaller operations which provide opportunities to small operators to participate in the tender system.
The National Land Transport Transition Bill paves the way for the establishment of transport authorities and integrated transport plans. Integrated transport plans provide ample opportunities for the empowerment of small bus and taxi operators as well opportunities for small businesses as a result of the economic activity that will be created by increased movement and concentration of people at ranks and termini.

The cost of empowerment versus the end result should be clearly evaluated. If the empowerment of the small operator happens at the cost of fragmentation and decreased service levels, the efforts will be fruitless. It is therefore essential that satisfied and empowered passengers within an effective system be the primary focus, and that the organised industry continue their concerted efforts to empower small operators.

7.7.8 TRANSITIONAL ARRANGEMENTS
Sufficient provision is made in the Bill for transitional arrangements. It should be taken into account that the desired future state as reflected in the vision of the White Paper on National Transport Policy and the status quo are very far apart and that the transition to the desired state will not be without serious limitations and restraints.

New institutional structures, for example can not be established immediately without pertinent arrangements to phase out outdated structures, systems and procedures.

7.7.9 PUBLIC PARTICIPATION AND TRANSPARENCY
Centralisation of decision making, as reflected in the previous public transport dispensation, and effective public participation are not compatible. The National Land Transport Transition Bill makes sufficient provision for structures and mechanisms to promote public participation and transparency. The principles of democratisation have been incorporated.

7.7.10 ABILITY TO INCREASE THE MARKET SHARE OF PUBLIC TRANSPORT
It was clearly stated in chapters three to five that the introduction of competitive forces in the market as such does not attract passengers to public transport. In this final policy area, it is not certain whether the proposed policy measures are sufficient to attract passengers to the system. The Moving South Africa policy principles are based on international best practices and implementation of the policy directions will make a definite contribution towards increasing the
market share of public transport over the long term. Whether the policy proposals will be successfully implemented is still to be seen.

It is clear that a paradigm shift is required to affect fundamental change in the public transport industry. Implementation of the policy principles as such may not necessarily lead to the desired changes. The experience in Great Britain, for example, has shown that the initial, policy reforms resulted in continued passenger losses, despite lower cost and improved organisational efficiencies. A reappraisal of the public transport policy was therefore necessary and initiatives such as quality partnerships were implemented. It is essential that these learning experiences be taken into account in the implementation of the new policy.

7.7.11 POLICY IMPLEMENTATION
Policy implementation is a critical issue that can influence the outcome of the policy. It is therefore necessary to comment on the implementation of the proposed policy at the various spheres of government. Cronje (1999, p 2) attributes the poor current state of public transport to ineffective policy implementation: “Currently no South Africa citizen can live an all-embracing life solely dependent on public transport. In order to live this all-embracing life, we need transport for education, medical care, work, relaxation, shopping and civil interaction. I venture to say that public transport does not provide the mobility required to do this. While the vision (as contained in the White Paper) is commendable, the implementation seems to fail.” The ability of the public transport system to attract passengers, which is critical to ensure its success and future sustainability will largely depend on the quality of policy implementation. The marketing and customer focus of the authorities and operators responsible for the implementation of the policy will determine the success of the future system.

7.8 LABOUR LEGISLATION
7.8.1 WORLDWIDE TRENDS
Although labour legislation is a specific matter and technically outside the scope of this thesis, it is deemed necessary to briefly review the most important labour legislation and more specifically the Employment Equity Bill. Labour has become a very significant stakeholder in business and it is essential to make labour an integral part of the tender for contract system. The labour situation should be evaluated against the following global trends, according to Heyns (1998, p 9):
- **Centralised collective bargaining.** Centralised bargaining is a key element of the Labour Relations Act. The worldwide trend is towards decentralised bargaining; and

- **Union membership.** While union membership is declining worldwide, union membership in South Africa is increasing.

The above trends have specific implications on productivity improvement in the working situation. There is actually a contradiction between the market forces specified by the principles of the tender system and the direction of the labour laws. A shortening of work hours is counter productive and further decrease South Africa’s competitive position.

### 7.8.2 THE LABOUR RELATIONS ACT, 1995 (ACT 66 OF 1995)

The Labour Relations Act 1995, provides for collective bargaining and protects employees from unfair dismissal. If the collective bargaining processes prescribed by this Act are not carefully managed, it can have a major disruptive effect on the bus industry. In accordance with the implications of this act, labour should be viewed as a very significant stakeholder in the business environment.

### 7.8.3 BASIC CONDITIONS OF EMPLOYMENT ACT (ACT 75 OF 1997)

The Basic Conditions of Employment Act specifies more *liberal* employment conditions than previous legislation. This Act determines minimum standards for the conditions of service of any employee. Virtually nobody is excluded from the definition of employee. The Act makes it mandatory for an employer to grant maternity and compassionate leave. Paid overtime, compulsory rest periods and maximum working hours are also guaranteed in this act. It can be concluded that this Act will further increase employment costs, such as spread-over costs in respect of drivers.

### 7.8.4 SKILLS DEVELOPMENT BILL OF 1997

The Skills Development Bill also has specific positive implications for business in general. The Bill actually replaces the Manpower Training Act, 1981, the Guidance and Placement Act, 1981 and the Manpower Training Amendment Act, 1990. As far as the development of skills is concerned, it should be stated that SAOBA had taken pro-active action with the establishment of a Foundation for the empowerment of small bus operators.
7.8.5 EMPLOYMENT EQUITY ACT, 1998 (ACT 55 OF 1998)

A lack of suitably qualified people, especially for technical and managerial positions, should be viewed as a major inhibiting factor in the bus industry over the previous 40 years. The situation was particularly problematic before the Rand Afrikaans University introduced the Certificate in Road Transport and related training courses for the road transport industry during the early nineteen eighties. Unfortunately, certain key positions such as Technical Managers and top management positions are still predominantly filled by white officials. In accordance with the policy statements contained in the Employment Equity Act, it is essential that the transformation strategy as primary focus of this study also makes provision to rectify the historic imbalances and employment inequity in the bus industry.

This Act mainly provides for compulsory implementation of affirmative action programmes. The Act aims mainly at larger businesses and smaller businesses with large turnovers (R 10 million in the transport industry) as well as different spheres of government. According to a Parliamentary Bulletin on the Employment Equity Act dated 20 April 1998, the reason for existence of the Act can be summarised as follows: “Four years after our transition to a democratic state, the economy of our country remains largely in the hand of those privileged by apartheid. The market place has barely begun to be deracialised. Management is, with a few exceptions, largely white dominated, and where companies claim to have made progress in correcting the historic imbalances amongst management, this apparent progress often consists of token appointments, with black managers appointed to symbolic positions, without real decision-making powers. Of top managerial positions, 96.4 percent of jobs in South Africa are still held by whites. In the last three years there has only been a 2.3 percent increase in the appointments of blacks to senior management levels, mainly in administrative areas, not in policy making positions. In the almost invisible middle management level the increase has only been 1.6%. South Africa has the most unequal distribution of income in the world. The bottom 20% of income earners receive 1.5% of national income, while the wealthiest 10 percent earn 50%. Poverty is overwhelmingly concentrated in the African and Coloured population. 95 percent of Africans are poor, and 33% of the Coloured population live in poverty.”

The aims and objectives of the Act are clearly founded in the historic imbalances in employment in South Africa. The vision of the Act, in the words of President Mandela, is as follows: “The primary aims of affirmative action must be to redress the imbalances created by apartheid. We
are not asking for hand-outs for anyone nor are we saying that just as a white skin was a passport to privilege in the past, so a black skin should be the basis for privilege in the future. Nor is it our aim to do away with qualifications. What we are against is not the upholding of standards as such but the sustaining of barriers to the attainment of standards; the special measures that we envisage to overcome the legacy of past discrimination are not intended to ensure the advancement of unqualified persons, but to see to it that those who have been denied access to qualifications in the past can become qualified now, and that those who have been qualified all along but overlooked because of past discrimination, are at least given their due. The first point to be made is that affirmative action must be rooted in principles of justice and equality."

In an assessment of the impact of labour legislation on the transformation of the bus industry it is essential to evaluate the changes that will occur to the structure of the bus industry. The tender system will probably result in more bus operators but with smaller operations. Traditional bureaucracies will change considerably due to smaller tenders if compared to present large operations, as well as subcontracting to small operators. Large head office organisation structures, for example, will have to be reconsidered. More organisations, although smaller in size, will create more opportunities for small entrepreneurs. This can be viewed as an opportunity as well as a challenge. In a smaller organisation expertise in the various disciplines is not readily available, which will have a detrimental effect on empowerment in the workplace. On the contrary, the absence of on-site expertise will enhance independent decision making.

7.9 WHITE PAPER ON THE NATIONAL STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF SMALL BUSINESS IN SOUTH AFRICA

This White Paper should be viewed as a very goal directed and powerful effort to empower members of the previously disadvantaged population groups. The primary objective of the national small business strategy is:

- To create an enabling environment for small enterprises as primary objective;
- Facilitating greater equalisation of income, wealth and economic opportunities;
- Creating long term jobs;
- Stimulating economic growth;
- Strengthening the cohesion between small enterprises; and
- Level the playing fields between big and small business.
According to Finance Minister Trevor Manual in the foreword to the White Paper "Small, medium and micro-enterprises (SMME’s) represent an important vehicle to address challenges of job creation, economic growth and equity in our country. Throughout the world one finds that SMME’s are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. We are of the view that - with the appropriate enabling environment - SMME’s in this country can follow these examples and make an indelible mark on this economy. The stimulation of SMME’s must be seen as part of an integrated strategy to take this economy onto a higher road - one in which our economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes."

Against the above background perspective it is clear that the policy implications of this White Paper have been successfully incorporated in the White Paper on National Transport Policy, as well as the National Land Transport Transition Bill. The public transport industry and specifically the bus and taxi industries are exceptionally well suited to accommodate SMME’s in the economy. The following constraints pertaining to the small business sector are described in the White Paper:

- Legal and regulatory environment;
- Access to markets;
- Finance and business premises;
- Acquisition of skills and managerial expertise;
- Access to appropriate technology;
- Quality of business infrastructure in poverty areas; and
- The tax burden (in some cases).

The above constraints are very relevant to existing and prospective small bus operators. Discussions with small operators revealed a considerable need for management and operational assistance in most of the above areas. It is therefore clear that the passenger transport industry has the responsibility, and opportunity to empower small business development as priority. The integrated passenger transport model envisaged in the new legislation will create various opportunities to empower small entrepreneurs.

**7.10 SUMMARY AND CONCLUSIONS**

It can be concluded that the major objective of this chapter, namely to critically assess the present
and proposed transport policy and legislation with particular reference to those aspects of the legislation that are relevant to the bus industry, has been achieved. Three major policy documents, namely the White Paper on National Transport Policy, the National Land Transport Transition Bill and the Moving South Africa project were critically evaluated against the objectives of the study.

The policy statements contained in the White Paper on National Transport Policy create the desired climate in which public transport can be transformed into a pro-active industry that can play a significant role in economic development and social upliftment. The major policy statements in the White Paper have been successfully incorporated in the National Land Transport Transition Bill. Urgent implementation of this Bill is essential to enable provinces and local authorities to streamline policy at lower spheres of government. The Moving South Africa report contains various pro-active recommendations and policy initiatives to create a long term viable and sustainable transport network for South Africa.

The most important conclusion is the fact that considerable time, effort, funding and dedication will be required to redress past inefficiencies. Although the proposed policy contains the most obvious measures to change the status quo towards the desired end result, the national policy as such will not be sufficient to achieve the overarching vision of the White Paper. Successful implementation of the policy, especially at provincial and local government spheres will be an absolute prerequisite for success. Further refinement of policy at these levels should be focussed to ensure a customer driven public transport system.

In an effort to determine the focus of the remaining chapters, it is deemed necessary to briefly summarise the key policy issues that were discussed in the present and the previous chapters. As a result of the apartheid policy of the previous government, the commuter bus industry was instrumental in executing this policy by transporting labour between remote residential areas and job opportunities in metropolitan areas. The public transport system that was developed, is characterised by various inefficiencies and distortions. New policy initiatives emerged since the early nineteen nineties and when the new government took office in 1994, a totally new policy approach was introduced. Regulated competition will replace public monopoly, which is in line with overseas best practices. Against this background policy perspective, chapter eight will focus on the strategic gap that need to be addressed to transform the bus industry for its future role.
CHAPTER 8

THE STRATEGIC GAP

8.1 INTRODUCTION AND OVERVIEW

The assessment of the strategic gap that is carried out in this chapter forms the essence of the primary objective of this thesis, namely to develop a change methodology to guide the transformation process of the South African bus industry. This chapter is basically an integration of all the previous chapters with the aim to serve as methodological basis for the last two chapters. There is consensus that the bus industry is not positioned at strategic and tactical level for its future role. This chapter will focus on the areas in which effort should be directed to achieve the desired end result envisioned for the bus industry.

The gaps will be addressed to develop a change strategy as secondary objective of this thesis. In terms of these objectives of this thesis, the purpose of this chapter is to assess and report on the following strategic gaps mentioned in chapter one:

- The gap between the status quo position of the Southern African commuter transport industry and policy, and desired best practices based on international developments. This gap will be determined by an analytic assessment of the international experiences and the Southern African status quo position. Of particular significance is the ability of the new legislation to address the key local issues in a constantly changing environment; and

- The strategic gap which accounts for the difference between the desired end result and the expected end result if the present course of action is not changed. The key question that should be addressed is what will happen if the present direction is not changed? This gap will be broken down into a large number of subdivisions to determine the primary focus required for the change strategy that is proposed in the next chapter.

An assessment of these gaps will provide a basis for the development of the change strategy and
specific recommendations that will be discussed in the final two chapters.

8.2 ASSESSMENT OF CHANGE REQUIRED

An assessment of the change required is deemed necessary as a broad frame of reference and introduction to the strategic gap analysis. Although new policy is the primary force behind change in the bus industry, it is essential to also consider the effect of other forces behind the change process. To understand the full extent and nature of change in the industry, the most common driving forces behind change, as suggested by Thompson & Strickland (1996, pp 74-78), are used to guide the process:

- **Changes in the long-term industry growth rate.** The industry growth rate has changed considerably during the past two decades. The decline in market share since 1982 is one of the major reasons behind the change proposed for the bus industry;

- **Changes in who buys the product and how they use it.** Users of public transport have not changed considerably over the past number of years, but their expectations, however, did change. As a result of socio-economic upliftment it can be concluded that the modern commuter passenger is more insistent on quality and service;

- **Product innovation.** Product innovation manifests in two ways, namely innovation of the vehicle and technological innovation pertaining to supporting transport technology. The innovation of the taxi if compared to the bus resulted in considerable change already discussed. Innovations in the field of electronic ticket machines, computerisation and route and schedules could further change the industry;

- **Technological change.** The commuter bus technology in general did not change substantially during the past few decades;

- **Market innovation.** The market innovations implied in the new dispensation will change the industry considerably;

- **Entry or exit of major firms.** Disinvestment in the industry, even by prominent operators increased during the late 1980's and early 1990's. These entries have had a major influence on the nature of change in the industry. One of the negative consequences was the exodus of expertise for better career prospects outside the industry. The tender system provides excellent opportunities for new entrants to
the market. Overseas operators have indicated their intention to enter the industry in this way;

- **Increasing globalisation of the industry.** Globalisation as such does not have an immediate direct impact on the bus industry, except for the possible expansion of foreign operators into South Africa as part of their globalisation strategies;

- **Changes in cost and efficiency.** Both cost and efficiency have changed in the recent past. Due to declining government subsidies and increasing cost structures, it has become increasingly difficult to maintain efficiency levels;

- **Emerging preference for differentiated products.** Although public transport in its present form does not provide much room for choice, taxi "differentiation" is indeed a major threat to the bus industry causing change;

- **Regulatory influences and policy changes.** Policy and policy changes over many years have been the primary driving forces behind strategic change in the bus industry. The primary objective of this study is to assess the impact of policy on the restructuring and change in the bus industry. Labour legislation also has a major impact on change, especially in terms of key issues such as the empowerment of previously disadvantaged people and other key labour issues discussed in chapter seven; and

- **Changing societal concerns, attitudes and lifestyles.** Various changes in societal concerns, attitudes and lifestyles have an impact on the bus industry. Whether they contribute to large scale change, however, are debatable. However, the public transport system as proposed by the new policy should be customer driven and in this regard changes in the norms and lifestyles of the travelling community are of critical importance.

To assess the nature and extent of the change required in the bus industry, it was decided to obtain the views of prominent bus operators. A programme to manage change effectively, which was viewed as an ideal opportunity for this purpose, was presented by the Southern African Bus Operators Association during 1997. In view of the requirements of the tender system and its implications for the bus industry, SABOA decided to present the programme to its members in an effort to create broad solutions required to optimise the position of the bus operator within the new dispensation. This programme was followed up with various working sessions with bus operators during which empirical data was generated that will be used to assess the industry.
8.3 **STRATEGIC GAP ANALYSIS**

The gap concept in strategic planning refers to the difference between expected and desired future states. The gap can be identified by measuring or identifying the difference between the following two steps, namely:

- Decide what the preferred or desired future state is/should be at a specific time in the future. This state can be expressed in terms of sales, profitability, size, market share or any other measure. This desired future state can be viewed as the company objective, ideal or vision; and
- The next step is to state the position of the company at the same time but as it would be if the strategy is not changed in any way. This position will be the result if the status quo is maintained.

The difference between the two states, namely the desired and expected future state can be defined as the strategic gap. In accordance with the basic aim and purpose of this thesis, an analysis of the gap between the above states can make a substantial contribution towards developing a change strategy for the Southern African bus industry. The strategic gap can be viewed as a conceptual gap that needs to be measured and quantified to initiate and enable focussed strategic effort. Various attempts will therefore be made to determine and quantify this gap. Based on the assumption that a strategic plan endeavours to address the gap, the content of the proposed strategy in the next chapter should be viewed as *gap driven*.

To ensure that the objectives of this thesis are achieved, the concept of strategic gap should therefore be viewed in holistic rather than specific context. In the next chapter the focus will be on strategies to fill the gap. Any effort to determine the strategic change and effort required to achieve the desired state should be viewed in the context of gap analysis. The difference between gap and solution is less important than the end result. It is therefore not possible to confine all the gaps to this chapter and all the solutions to the next chapter.

The time period is also important in an assessment of the strategic gap. The simplest classification would be to distinguish between long, medium and short term gaps. Within this classification the Moving South Africa project identifies the long term gaps (20 years). The White Paper on National Transport Policy can be used as basis to assess medium term gaps (4-7 years). Short term gaps can be viewed as those gaps that should be addressed within the
following two years. During this period operators will have to tender for their own services. The primary focus of this thesis is short to medium term. It is essential, however, that long term gaps be evaluated and taken into account to direct short and medium term actions in accordance with long term needs.

The simplest way to assess the strategic gap according to its definition is to determine the difference between the desired end result or vision and an expected future state if the present strategy is not changed. As basis for the strategic gap according to this method, the following vision, which was developed during working sessions with bus operators and adapted in terms of the latest changes in the environment, is used as basis for the desired future state. The timeframe of the vision is the period up to 2005. At the end of 2005, the next tenders would have been awarded, if present planning schedules are adhered to. The present services will most probably be put out to tender before July 2001, and it can be assumed that the next tenders will be in operation by 2005. It is anticipated that the second round of tenders will be more in line with international tenders. The actions that were taken to soften the impact of the tender system discussed in chapter six could be altered in the next round of tenders, which will increase the nature of competition.

**Bus Industry Vision 2005**

Bus operations are economically viable and profitable and play a significant role in an effective and fairly regulated passenger transport industry. The bus mode, as low capital cost solution, plays a leading role in integrated transport networks. Policy measures to optimise the role of the bus have been successfully implemented. The bus industry, which is largely privately owned, is valued as an integral part of economic development and social upliftment. All role players work closely together to achieve the desired synergy and optimisation of effort and the travelling community is satisfied with the high quality of the service. Formerly disadvantaged communities have been successfully empowered.

A comprehensive change strategy will be required to achieve this vision. To determine the strategic gap it is essential to determine where the industry will be in the year 2005 if the present strategy is not changed in any way. This gap analysis will be a conceptual exercise based on a critical evaluation of empirical data generated during various workshops with bus operators. As first step in the gap analysis the strategic tension will be examined. Strategic tension accounts
for the difference between the status quo and the desired end result. The larger the difference between the status quo and the desired end result, the greater the strategic tension. Against this background the tension manifests as follows:

- **Bus operations are economically viable.** In its present (pre tender) form, the bus industry is not economically viable;

- **Profitable.** Most operations are not profitable at this stage. During strategic workshops with bus operators, profitability was identified as an important key success factor in the new environment;

- **Play a significant role.** The bus industry, despite its past and present limitations, play indeed a significant role, however limited in view of the low market share of the bus in the public transport industry;

- **In an effective and fairly regulated passenger transport industry.** After the approval of the National Land Passenger Transport Bill, the new regulatory system will be in place. Thereafter it will still take time to empower the structures required for effective regulation;

- **The bus mode, as low capital cost solution plays a leading role in integrated transport networks.** The bus industry is not playing its rightful role due to the dominance of the taxi on routes that are much more suitable to the bus. Integrated transport networks have not been implemented although pro-active work in this regard has been done by some local governments. The fact that the bus is indeed a low capital cost solution is also not fully realised by policy makers at the various levels of decision making;

- **Policy measures to optimise the role of the bus have been successfully implemented.** Such measures are at this stage mostly ad hoc and not really effective. Supporting by-laws at the local sphere of government are also not yet in place;

- **The bus industry, which is largely privately owned.** At this stage the industry is still predominantly government owned;

- **Valued as an integral part of economic development and social upliftment.** The commuter bus industry supported the apartheid policy. Its real value to economic development and social upliftment is most probably still questioned.

- **All role players work closely together to achieve the desired synergy and optimisation of effort.** At this stage all role players do not work closely together.
It will still take considerable time to achieve a situation of synergy and optimisation of effort;

- **and the travelling community is satisfied with the high quality of the service**

The travelling community is generally not satisfied with the quality of the service. Most operators agree that the present level of service is well below the required standard; and

- **Formerly disadvantaged communities have been successfully empowered.**

Although the industry took early initiative and constructive actions in terms of empowerment, the successes achieved to date are well below the desired future state.

With the above tension between the desired end result and the status quo as basis, it is also necessary to make certain definite assumptions about the future in an effort to determine where the industry, or the major players in the industry will be if the present course of action is not changed. The strategic gap, per definition is the gap between the desired end result and the expected end result if the present course of action is not changed.

At the 1999 SABOA strategic planning session it was decided to determine the strategic gap more accurately. One of the key questions to address in determining the strategic gap is what will happen if the organised bus industry takes no pro-active action pertaining to the future. It was realised that if the organised bus industry does not lead events pertaining to its future, the industry will be at the mercy of events, which could have a serious detrimental effects on the travelling community and the economy at large. No pro-active action to position the bus industry for the future will result in the following outcomes:

- The bus industry will become marginalised, resulting in modal distortion. The bus industry will therefore become smaller, while the taxi industry will further continue its uncontrolled growth. It is inevitable that present bus services will be set aside for the taxi industry. Inefficiency will increase, resulting in higher costs structures and increases in congestion and road accidents;

- The bus industry will lose its credibility in the public transport industry, as well as the economy and the communities in which the industry operates. Once the industry has lost its credibility, it will be extremely difficult to regain it at a later stage;
• The knowledge base in the industry will be weakened and synergy will be largely lost. The organised bus industry is an ongoing “think tank” for the creation of solutions;
• Synergy in legislation will be lost, resulting in different sets of incompatible legislation for the different provinces. The eventual outcome will be a weakened transport system between provinces and in the country at large;
• The opportunity to empower small, medium and micro operators from the previously disadvantaged population groups will be lost. This empowerment opportunity is viewed as a powerful means to successfully implement transport and other legislation, and failure to do so could have very negative long term consequences; and
• Industry agreements with government will not be honoured, resulting in further exploitation by the taxi industry and other negative effects on labour.

If the situation continues, the following longer term consequences may occur:
• No properly structured public transport resulting in an industry which will be ineffective;
• The impact on the economy could also be negative;
• Presently marginalised operators will remain marginalised without prospects to improve their position; and
• Finally, third world stagnation could become a reality.

It is clear that the strategic gap is enormous. To achieve the desired outcome, considerable pro-active strategic effort is required. The above analysis provides the broad extent of change required, but the analysis as such is worthless if the gaps are not structured and expressed more explicitly. The remainder of this chapter will focus on strategic gaps in the context of the overall study objective, namely to provide a methodological basis to guide the transformation and restructuring of the South African commuter bus industry. A planned change strategy will only be successful if all major strategic gaps are addressed. The changes that need to occur lie within the responsibility of the industry and national, provincial and local government levels. Pro-active action and close cooperation between these essential change agents are required to achieve the desired outcome.
An accurate and well defined set of gaps is required as basis for the change strategy and recommendations to guide the transformation and restructuring of the bus industry. As a result of the magnitude and extent of the individual gaps, methodological considerations in the debating of and reporting on the various gaps, become critically important. To express the seven preceding chapters, as well as new information that will be discussed in this chapter, in a logical set of gaps that should be addressed, needs a sound methodological basis. The following methods of classification were considered:

- **Classification by source:** The following main sources of gap information were used in this study:
  - A detailed international literature study. The results of the literature study were reported in chapters three to five and summarised in a table at the end of chapter five;
  - An evaluation of the South African policy and public transport system, as reported in chapters five and six;
  - The White Paper on National Transport Policy. The policy goals of the White Paper provide a structured framework for the assessment of the strategic gap;
  - The Moving South Africa project. The results of this data driven research project were reported in most previous chapters and additional gap information will be reported in this chapter;
  - Industry analyses. The organised bus industry conducted various analyses during workshops, strategic planning sessions and other occasions which will be discussed in this chapter;

- **Classification by nature or type of gaps,** including the following:
  - Policy gaps;
  - Public transport system gaps;
  - Market gaps;
  - Industry gaps;
  - Skills gaps, etc;

- **Classification in terms of management focus,** namely focus on the following levels at which gaps occur:
  - Strategic level;
  - Tactical level;
Operational level;

- Classification of gaps in terms of controllability, namely to what extent can the gap be managed or controlled; and

- Classification be means of random listing as gaps occur.

Based on the structure of available information, the most logical approach will be to discuss the nature of the gaps per source and to compile a detailed list per major category. This list of gaps will then be used as basis to propose a change strategy and solutions at strategic, tactical and operational level.

8.5 GAPS: INTERNATIONAL LITERATURE STUDY

8.5.1 PUBLIC TRANSPORT POLICY

It can be concluded that the South African policy development process was done comprehensively, under competent leadership and by incorporating a wealth of international experiences. It was an attempt to transform the industry from its present and previous state to its desired state through a process of addressing gaps identified by government. This study focusses on the ability of the industry to achieve these goals. As stated several times in this report the political developments in South Africa has had an important detrimental effect on the passenger transport industry and economic development. The key question therefore is to establish whether the new policy in fact makes provision for a reconstruction of the past in terms of prevailing needs and circumstances.

Although the policy development or renewal process started almost two decades ago, the implementation thereof is much later than in comparable overseas countries. Various reasons can be submitted for the late implementation, however the uncertainty regarding the political transformation should be stated as major contributing factor. The fact that proposed transport legislation has not yet been approved at national level, delays the transformation process at the lower levels of government. A gap that automatically emerges is therefore a lack of policy at provincial and local level to offset the real transformation process.

International experience has shown that competitive tendering as such does not attract passengers to public transport. The continuous decline in passenger volumes after implementation of tendering and deregulation was particularly evident in Great Britain as discussed in chapter three.
The South African model of regulated competition should therefore be assessed in terms of its ability to increase passenger volumes. Legislation at provincial and local level may include additional measures to achieve this goal, but is not yet finalised, which implies that the gap still remain.

In general it can be concluded that no further gaps exist between South African transport policy and transport policy in those countries that were studied in chapters three to five. It should be taken into account that policy and cost of implementation should be carefully considered. Where overseas policy makes provision for sophisticated systems, it may simply be that the particular country is more in a position to afford its implementation. In chapter seven the proposed policy was assessed against various criteria relevant to the South African situation. According to the evaluation, the proposed policy meets most of the needs discussed throughout this thesis. A further important criteria is what works best for South Africa's unique circumstances. International best practices should be customised for South Africa's unique circumstances and requirements.

It can be concluded that, although some elements of the South African transport policy such as tendering have been implemented, it is much too early to decide whether the policy in its entirety will be successful. The policy evaluation that was done in chapter seven indicated sufficient coverage of the most important issues, but successful implementation of the policy will be the only proof that the policies are indeed working in the complex South African environment.

**8.5.2 TRANSPORT SYSTEM GAPS EMANATING FROM THE LITERATURE STUDY**

It is extremely difficult to determine public transport system gaps based on an evaluation of overseas systems due to the difference in resources, historical imbalances and other considerations. The basic rationale was therefore to focus on what works well in overseas countries that should be considered for implementation in South Africa. To realise the long term objectives of the Moving South Africa project and the vision of the White Paper on National Transport Policy, certain overseas best practices could have very positive implications for South Africa and need to be considered. Based on this rationale, the following gaps were identified based on the conclusions of the literature chapters and an evaluation of the status quo position in South Africa:

- Lack of a customer driven public transport system. A customer driven approach
is not yet part of the South African public transport culture. The primary driving force was political and not based on the needs of the customer. Imaginative actions are required to improve service to the customer;

- Insufficient marketing actions to position public transport;
- Ownership of the South African public transport industry is still largely vested with provincial and local governments and large private operators;
- Insufficient operator diversification. Bus operators have not yet positioned themselves in other viable transport related ventures;
- Distorted modal integration. The bus does not play its rightful role in the provision of public transport;
- Distorted land use patterns. Development is scattered and not directed in dense corridors;
- Law enforcement in South Africa is well below the standard required to optimise the role of public transport. This problem is particularly evident in the taxi industry where operators operate with vehicles that are not roadworthy. Some taxis also operate illegally which is to the detriment of the bus industry;
- The present transport system in South Africa is, as a result of the previous policy, still largely fragmented. Effective overseas public transport systems are well integrated in terms of modes and services as well as supporting infrastructure and services such as integrating ticketing systems;
- Institutional structures, although sufficiently provided for in the proposed legislation, are far from operational which reflects a huge gap that need to be addressed in achieving the desired end result;
- Insufficient dedicated busways and other measures to give priority to the bus exist in South Africa which are required to optimise the role of the bus mode in metropolitan areas; and
- Although the Moving South Africa project has paved the way for effective long term planning, the planning focus in South Africa is still not appropriately directed over the long term. A long term planning approach is urgently required to effectively redress past inefficiencies. Integrated long term planning is an important long term requirement to reduce the need to travel that occurred as a result of sprawling urban development.
8.6 GAPS: SOUTH AFRICAN PUBLIC TRANSPORT SYSTEM

In addition to the above obvious gaps emanating from the international literature study, the following additional gaps were identified during an evaluation of the public transport system in chapters six and seven:

- System inefficiency due to distorted land use patterns. The resettlement of workers in remote areas resulted in an inefficient transport system;
- High operating cost due to long travelling distances. Bus utilisation is largely limited to the morning and afternoon peak periods;
- Passenger inconvenience due to travelling time, modal transfers and other inefficiencies;
- Pertinent gaps in technology if compared to international best practices. The present age and standard of the South African bus fleet is well below the required level to attract passengers to the bus mode. This gap should, however, be viewed in conjunction with local operating circumstances such as gravel roads;
- The lack of competition in the industry at present, excluding competition from the taxi industry, also reflects a major gap. The tender for contract system has only been implemented in selected operations. Due to the delayed implementation of legislation, the further implementation of the tender for contract system is also delayed which increases the gap;
- Limited integration of the transport system. The previous political dispensation resulted in a largely fragmented public transport system, as discussed in detail in chapter six. The lack of integration is particularly evident at metropolitan level where different bus services were created for the different population groups;
- Duplicated systems and structures. As a result of the above distortions at metropolitan level, systems and structures were duplicated at great cost. To align these existing outdated systems and structures in accordance with the needs and requirements of the new dispensation implies a major gap. Outdated and inappropriate infrastructure include bus depots, transfer stations and maintenance facilities; and
- Large public ownership profile. The desired end result of the policy changes include a largely private ownership profile, which reflect a huge gap if compared to the status quo.
These gaps, as well as the gaps identified by means of the literature study should be evaluated in conjunction with the findings of the Moving South Africa project which will be discussed next.

8.7 **GAPS: WHITE PAPER ON NATIONAL TRANSPORT POLICY**

The White Paper on National Transport Policy is a very powerful frame of reference for the evaluation of the strategic gap, especially if the status quo position of the public transport industry is compared with the following broad goal of transport as defined in the White Paper: “The broad goal of transport is the smooth and efficient interaction that allows society and the economy to assume their preferred form. To play this role, policies in the transport sector must be outwardly looking, shaped by the needs of society in general, of the users or customers, and of the economy that transport has to support. Transport can also play a leadership role, for example in acting as a catalyst for development or in correcting spatial distortions.” There is a substantial gap between the present ineffective public transport system and the desired outcome as defined in the following vision contained in the White Paper: “Provide safe, reliable, effective, efficient, and fully integrated transport operations and infrastructure which will best meet the needs of freight and passenger customers at improving levels of service and cost in a fashion which supports government strategies for economic and social development whilst being environmentally and economically sustainable.”

In support of this vision, a number of goals and policy statements were formulated which will be used to discuss the strategic gap in more detail:

- **To support the goals of the Reconstruction and Development Programme for meeting basic needs, growing the economy, developing human resources, and democratising decision making.** This objective is of an overarching nature and contains various gaps which will be discussed in this chapter;

- **To enable customers requiring transport for people or goods to access the transport system in ways which best satisfy their chosen criteria.** Large gaps were identified by the Moving South Africa project which will be discussed later;

- **To improve the safety, security, reliability, quality and speed of transporting goods and people.** Those aspects of this objective that are relevant to the objectives of this study will be discussed later;

- **To improve South Africa’s competitiveness and that of its transport**
infrastructure and operations through greater effectiveness and efficiency to better meet the needs of different customer groups, both locally and globally. This important objective paves the way for public transport to play a leading role in the economy. Due to past inefficiencies this role was not fully developed and reflect gaps at institutional, industry and operator level, which will be discussed in detail in this chapter;

- **To invest in infrastructure of transport systems in ways which satisfy social, economic, or strategic investment criteria.** This overarching objective reflect many gaps in terms of aspects such as redundant infrastructure investments which are not directly related to the objectives of this study; and

- **To achieve the above objectives in a manner which is economically and environmentally sustainable, and minimises negative side effects.** The moving South Africa project addresses a number of pertinent gaps pertaining to the long term sustainability of the public transport system.

**Regulation**

In accordance with the new policy initiatives in the White Paper it is the intention of government to regulate only in those areas where it is essential. Provision is made for the following forms of regulation:

- **Regulation of specific services provided under contract,** which is a very detailed form of regulation with specified sanctions and penalties if specifications are not met;

- **Regulation of monopolies** such as controlling tariffs and setting standards. Examples include state airports, ports and concessions;

- **Regulation of the operations of competing operators** to ensure level playing fields and safety regulation; and

- **Regulation by contract** which involves the establishment of a formal contract with an operator to “abide by an agreed set of rules.”

With the exception of the demonstration projects, regulation of competition in the bus industry is fairly new to the South African policy environment, which implies a substantial gap between the status quo and effective regulation as envisaged above. Effective regulation can only become a reality if the proposed policy is implemented at all levels of government.
Pertaining to land passenger transport the following strategic objectives were formulated which will be used in evaluating the strategic gap:

**Funding**
- To ensure sustainable and dedicated funding for passenger transport infrastructure, operations and law enforcement. A critical gap exists pertaining to the funding of public transport. To reach the stated policy goals of the White Paper, substantial amounts of funding will be required. The chapters on overseas transport reforms indicated that an increase in passenger volumes can only be realised by substantial investment in technological renewal.

**Spatial**
- To encourage more efficient urban land use structures, correcting spatial imbalances and reducing travel distances and times for commuting to a limit of about 40 km or one hour in each direction;
- To promote the use of public transport over private car travel, with the goal of achieving a ratio of 80:20 between public transport and private car usage; and
- To promote rural development that will improve access to opportunities by ensuring that rural workers are housed in close proximity to their work locations and services, thereby reducing the need to travel.

The above spatial policy goals reflect the most serious gaps pertaining to the entire public transport system. Spatial distortions are immense resulting in an ineffective public transport system due to long travelling distances and low vehicle utilisation during the off-peak periods.

Pertaining to land use and spatial development in support of land passenger transport, the following policy statements are included in the White Paper:
- Land use development proposals must be subject to a land use/transport policy framework within an agreed development planning process; and
- The effective functioning of cities and industrial areas must be enhanced through integrated planning of land use, transport infrastructure, transport operations and bulk services.
The above policy statements reflect pertinent gaps as a result of the previous political dispensation. The present sprawling land use pattern is in contrast with these policy statements which add to the cost of transport and reduces its efficiency.

The following policy statements focus on urban restructuring and efficient land use/transport interaction:

- establishment of structures (all tiers of government) which facilitate integrated planning of infrastructure, operations and land use in a co-ordinated manner;
- regulation of land use development at local level so that development approval is subject to conformity with integrated land use/transport plans;
- land use frameworks, guidelines and policies to channel development, particularly employment activities, into public transport corridors and nodes;
- development priority will be given to infilling, densification, mixed land use and the promotion of development corridors and nodes;
- containment of urban sprawl and suburbanisation beyond the urban limits will be addressed through provincial spatial development plans;
- decentralisation which disperses employment activities must be discouraged, except in specific cases where it is favourable in terms of decreasing total transport costs and travel times on the basis of an integrated land use plan; and
- unrestrained car usage and subscribed car parking will be contained through the application of policy instruments which could include strict parking policies, access restrictions for private cars, higher license fees; road pricing or area licencing. Restraint on private car usage will however not be implemented independently of improvements in the quality of public transport.

It should be stated that urban restructuring and effective land-use/transport interaction are prerequisites for the effective restructuring of the commuter transport industry. The above policy outcomes or objectives will only realise if all role players at all levels work closely together. The present gap is therefore substantial due to the fact that institutional structures are not yet operational.

**Customer-based**

The following customer-based policy statements are contained in the White Paper:
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; and

- To provide readily-accessible information for the assistance of passenger transport users.

It is clear the gaps are enormous. In view of the strong customer focus of Moving South Africa, customer-based objectives will be discussed in the Moving South Africa context in paragraph 8.8 of this chapter.

Planning and Regulatory

- To provide appropriate institutional structures, which facilitate the effective and efficient planning, implementation, funding, regulation and law enforcement of the passenger transport system, devolved to the lowest competent level. Although provision is made in the Land Transport Transition Bill for appropriate institutional structures, the gap between the status quo and effective transport authorities is large. After promulgation of the proposed legislation it will still take a considerable period before the new structures are fully empowered for their role and function. Time should also be allowed to build partnerships and cooperation between the various stakeholders before the institutional structures can function at their optimum potential;

- To provide for the registration of all public transport operators as formalised commercial entities, bound by the regulations pertaining to their permission to operate. The gap pertaining to the formalisation of all operators is still very large, especially pertaining to the taxi industry and provincial and municipal bus operators. Provision is made for taxi registers, but orderly
registration of operators is still a long way from completion. Corporatisation is also far from completion and considerable preparatory work is still required in this critical area of transformation;

- **To replace operator permits with permissions (authorities) issued in terms of approved passenger transport plans.** Provision is made in the new policy but considerable preparatory work is still required empower authorities and to finalise integrated transport plans as suggested in the new policy; and

- **To promote and implement a system of regulated competition for public transport routes or networks based on permissions or tendered contracts.** Regulated competition is one of the most significant changes in the new policy representing one of the largest gaps. Regulated competition can only be successful if there is close cooperation between all stakeholders at all levels in the transport industry.

**Operational**

- **To empower and assist disadvantaged operators to participate meaningfully in the land passenger transport system.** This objective implies an enormous gap if compared with the status quo position. Existing and prospective disadvantaged operators need a considerable amount of knowledge, guidance and other forms of assistance before they can be viewed as a meaningful part of the transport system;

- **To ensure that operations become economically viable, requiring the minimum financial support.** The legacies of the previous political dispensation resulted in an ineffective supply-driven system. A larger number of existing operators are not prepared for the new challenges and are generally used to the customs and practices of the subsidised transport system. Operators will have to be turned around to be successful in the new competitive environment;

- **To foster manpower and human resources development.** Existing operators and other stakeholders do not have the knowledge and skills for the new operating environment and substantial investment in manpower and human resource development is essential;

- **To ensure that transport modes are integrated in respect of scheduling, routes and ticketing systems.** In this critical area, a considerable gap exists
between the objective and the status quo. The present public transport industry is fragmented resulting in further declines in passenger volumes;

- **To promote acceptable and fair labour practices in the transport industry.**
  The organised industry had taken various pro-active steps to promote fair labour practices. It should be stated, however, that protection measures to “soften” the impact of the tender system should be viewed as a major gap if compared to international best practices; and

- **To ensure that land passenger transport operations are more environmentally sensitive and sustainable, and are energy efficient.** This objective is important to the public transport system but not critical in terms of the objectives of this study.

The above gaps identified from the White Paper on National Transport policy provide a strong basis for the evaluation of gaps from other sources. The above gaps will be discussed in the context of the Moving South Africa gaps in the next section.

8.8 **GAPS: MOVING SOUTH AFRICA PROJECT**

8.8.1 **MAJOR STRATEGIC CHALLENGES**

In view of the fact that Moving South Africa is a strategy to implement the policy objectives of the White Paper, it is essential to use this strategy as basis for the assessment of long term gaps.

Literature on the Moving South Africa project indeed provides a wealth of information on strategic gaps that need to be addressed over the long term. This project is an ideal source of strategic gaps because of its data driven nature. As an introduction to gaps identified by the project team, the following major strategic challenges facing the system, as identified by the Moving South Africa project, should be evaluated in perspective:

- Lack of affordable basic access for the stranded passengers;
- An ineffective public transport system with long journey times and high costs;
- Increased dependance on the car; and
- Poor and ineffective spatial planning. (MSA, 1998, p 131).

If the above problems are not addressed appropriately, “the situation will become much worse, with almost every indicator dropping in the next 20-25 years.” It is clear that the key strategic
gaps that need to be addressed are reflected in the above statements.

8.8.2 BROAD GOALS

The above strategic challenges should be viewed against the following broad goals that were set by Moving South Africa for the urban public transport sector. The broad goals reflect pertinent gaps if compared to the status quo, as well as the differentiators, or requirements of an effective system which are listed in table 8.1

These goals reflect pertinent gaps if compared to the status quo position in terms of the most important characteristics and requirements of a safe, reliable effective and affordable public transport system. Deviation from these goals are viewed as the most important strategic gaps that should be addressed.

<table>
<thead>
<tr>
<th>TABLE 8.1 GOALS AND DIFFERENTIATORS FOR A FUTURE TRANSPORT DISPENSATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goals</strong></td>
</tr>
<tr>
<td>• 80:20 ratio of public to private transport</td>
</tr>
<tr>
<td>• Convenience (frequency, reliability, etc.)</td>
</tr>
<tr>
<td>• Choice (cost/service trade-off)</td>
</tr>
<tr>
<td>• Affordability: maximum 20% of disposable income</td>
</tr>
<tr>
<td>• Maximum of 40 km or 1 hour each way for commuter travel</td>
</tr>
<tr>
<td>• Walking distance of less than 1 km in urban areas</td>
</tr>
<tr>
<td>• Access for people with disabilities or special needs</td>
</tr>
<tr>
<td>• Published routes and schedules for public transport</td>
</tr>
<tr>
<td>• Clean, safe, equipped inter-and intra-modal facilities</td>
</tr>
</tbody>
</table>

Source (MSA, 1998, p, 9)

Although it is not possible to quantify all the gaps in terms of the above broad goals, the information in the table clearly reflect a dramatic difference between the status quo and the policy objectives. Those gaps that were quantified are summarised in table 8.2.
### TABLE 8.2 PERFORMANCE OBJECTIVES FOR THE URBAN PASSENGER TRANSPORT SYSTEM

<table>
<thead>
<tr>
<th>Measure</th>
<th>Target</th>
<th>Current gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable</td>
<td>Commuter fares</td>
<td>&lt; 10% of income</td>
</tr>
<tr>
<td>Accessible</td>
<td>Walking distance to public transport</td>
<td>&lt; 15 minutes</td>
</tr>
<tr>
<td>Reasonably fast</td>
<td>Door to door journey times</td>
<td>&lt; 60 minutes</td>
</tr>
<tr>
<td>Choice</td>
<td>Availability of differentiated modes/level of service</td>
<td>More than one mode, where required</td>
</tr>
</tbody>
</table>

**Target:** National transport objective  
**Current gap:** Average percentage of all customers for whom target is not met

Source (MSA, 1998, p 134)

The effect of government policy on the segmentation of the public transport market was discussed in detail in chapter six. The most significant gaps identified in terms of the six market segments are summarised in table 8.3 below:

### TABLE 8.3 CURRENT TRANSPORT GAPS

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>MAJOR GAPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stranded</td>
<td>A total of 2.8 million are stranded due to a lack of affordable access</td>
</tr>
<tr>
<td>Survival</td>
<td>Only 23% have access to the train which is the only affordable mode to this segment. A total of 46% are above the travel time goal</td>
</tr>
<tr>
<td>Sensitive</td>
<td>A total of 43% are above the travel time goal, while 51% have a choice between 2 modes and 12% have a choice between 3 modes</td>
</tr>
<tr>
<td>Selective</td>
<td>A total of 43% are above the goal for waiting time, while 50% have a choice between 2 modes and 10% have a choice between 3 modes</td>
</tr>
<tr>
<td>Stubborn</td>
<td>Pertaining to the last three categories the, gaps in the 80:20 public/private goal are as follows:</td>
</tr>
<tr>
<td>Strider</td>
<td>* All trips: 47:53</td>
</tr>
<tr>
<td></td>
<td>* Commuter trips: 62: 38</td>
</tr>
</tbody>
</table>

Source: (MSA, 1998b, p 39)

#### 8.8.3 PUBLIC TRANSPORT MODAL DISTORTION

Modal distortion is an important deficiency of the public transport system: "The role of each of the transport modes is distorted by various system-level drivers resulting in inefficiencies in public transport." (MSA, 1998b, p 47). These drivers, which include regulation and planning, subsidy targeting, concentration, and industry rivalry, resulted in the following distortions:
Taxi

- Limited feeder role. Only 10% of bus and train commuters use taxi feeder services; and
- The taxi mode competes with bus and train on high density corridors rather than serving low-demand routes, which is based on international best practice.

Bus

- The bus mode serves mainly long distance commuters. The average trip distance is 28 km while 50% of subsidy is used for distances over 40 km; and
- Bus companies in developing countries internationally serve a wider range of settlements, while the distances are far shorter.

Train

- In South Africa, the rail mode serves medium distances with average trip distances of 20 km and low income customers; and
- In developed countries, the rail mode serve wealthy users over longer distances.

Modal distortion is further clarified by vehicle utilisation and cost considerations: “Due to the strategy of targeting subsidies on commuters, the time profile of trips varies significantly between modes. Bus and train trips are highly peaked whereas taxi trips are more evenly spread throughout the day. The impact of having taxis, the lowest fixed cost mode, as the main provider of off-peak services increases transport costs with about R 500 million per annum, a portion of which could be saved through more appropriate roles for modes in the off peak.” (MSA, 1998b, p 48)

8.8.4 SKILLS GAPS

Skills gaps also form an integral part of the gaps identified by Moving South Africa. MSA (1998b, p 32) has identified the following skills requirements:

“Specific skills requirements at national level:
- Strategy and policy;
- Integration of government actions;
- Agency management; and
Specific skills requirements at provincial and local government levels:

- Land-use/infrastructure planning skills;
- Contract design and management;
- Monitoring and enforcement;
- Multi-modal urban passenger system research, design and management; and
- Politicians who are transport literate to oversee the transport authority.

Pertaining to the skills requirements of the tender system, it is important to note the difference in skills required for the different (old and new) systems (MSA, 1998b, p 32). The skills required for the tender system are more demanding and challenging and give an indication of the large skill gap that need to be addressed:

Management requirements of permit system:

- Design a permit application in a non-competitive environment;
- Customer convenience and service provision not connected to permit;
- Limited monitoring requirements;
- Operational inefficiencies made up through guaranteed subsidy;
- Operational procedures determined by company’s convenience; and
- Manage a hierarchical and static corporate structure built upon central control.

Skills requirements in the competitive environment, however, differ significantly and can be summarised as follows:

Management requirements of tender system:

- Design a tender in a competitive environment;
- Service provision organised around customer requirements;
- Service levels regularly monitored;
- Run a cost effective service in order to compete with other bidders;
- Adapt operations to meet externally defined specifications; and
- Manage a flat and flexible corporate structure built upon devoted responsibility and service to the customer.
The above skills gaps are critical in exploiting the opportunities of the tender system.

8.8.5 IMPACT OF THE STRATEGIC GAPS IDENTIFIED BY MOVING SOUTH AFRICA

The impact of the strategic gaps identified by the Moving South Africa project can best be described by the information in table 8.4. Lack of basic affordable access will become a major problem if the situation is not addressed appropriately. Based on the above introductory facts and figures, three major strategic gaps pertaining to urban transport emerge which are summarised in table 8.5.

The situation is aggravated by high cost of public transport delivery and the low level of income of the majority of transport uses. “As a result of SA’s land use legacy, the poorest people usually live the furthest from the CBD/employment nodes. Since longer travel distances mean higher transport costs and, in most cases, lower coverage by public transport, the combined income/landuse situation is a primary driver of the lack of affordable basic access for Stranded and Survival customers.” MSA (1998 b, p 43).

<table>
<thead>
<tr>
<th>TABLE 8.4 EXPECTED CHANGES AND FUTURE TRANSPORT GAPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHANGES EXPECTED TO 2020</td>
</tr>
<tr>
<td>* Real cost of public transport increase by 10-20%</td>
</tr>
<tr>
<td>- Bus and train cost decrease as a result of competitive tendering but are more than offset by increased taxi costs due to industry formalisation</td>
</tr>
<tr>
<td>* Potential capacity shortages due to lack of funding for re-investment</td>
</tr>
<tr>
<td>* Increase in car ownership and usage:</td>
</tr>
<tr>
<td>- Segments able to afford cars (Sensitive and Stubborn) grow by 58% to 11.2 m in 2020</td>
</tr>
<tr>
<td>- National car population expected to grow by 64% to 8.7 m in 2020</td>
</tr>
</tbody>
</table>

Source: (MSA, 1998b, p 40)

The unattractive nature of the present public transport system is also a strategic gap that need
be addressed. Long travelling times and poor safety and security are main contributors to the situation and it is essential that this gap be addressed in the change strategy. (MSA, 1998b, p 44)

<table>
<thead>
<tr>
<th>TABLE 8.5 KEY GAPS IN URBAN TRANSPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of basic affordable access for</td>
</tr>
<tr>
<td>Stranded and Survival</td>
</tr>
<tr>
<td>* Current lack of affordable public</td>
</tr>
<tr>
<td>transport and/or</td>
</tr>
<tr>
<td>* Public transport currently not</td>
</tr>
<tr>
<td>available for many users</td>
</tr>
<tr>
<td>* Increased costs in 2020 reduce basic</td>
</tr>
<tr>
<td>affordable access</td>
</tr>
</tbody>
</table>

Source: (MSA, 1998b, p 40)

8.8.6 SYSTEM SUSTAINABILITY

Finally, the strategic gap should be evaluated against the sustainability of the system over time. According to MSA (1998b, p 100) sustainability can be measured in the following manner:

"Infrastructure:
- Will the providers be able to maintain the network?
- Can capacity be added to meet customer needs?

Operations:
- Will there be sufficient customer demand?
- Will there be sufficient cash flow to cover required long-term capital investments?
- Will there be sufficient cash-flow to offer an adequate return to investors?

Government:
- Will there be sufficient sources of funding to cover the activities undertaken by the government?"

To ensure sustainability of the system it will be necessary to appropriately address the above gaps outlined by the Moving South Africa team.
8.9 **GAPS: INDUSTRY ANALYSES**

8.9.1 **OVERVIEW**

The gaps emanating from the White Paper and the Moving South Africa project provide a structured basis for an assessment of the gaps by means of various industry analyses. As stated in the introduction of this chapter, short, medium and long term gaps should be addressed. The primary focus of this thesis is the restructuring of the bus industry over the short to medium term. The various analyses therefore focus on the short to medium term. Information used to conduct the industry analyses was obtained during working sessions with operators and other stakeholders.

As introduction to the various gaps that should be addressed, the need for change as perceived by operators is used as basis. The need to change reflects information on the most important gaps to be addressed. As part of the 1998 strategic planning session of SABOA an attempt was made to determine the extent and nature of change required by the bus industry. A scorecard was designed and completed by a number of participants. The questionnaire with 49 statements aimed at “requesting a response about the importance of the statement for the success of the bus industry, the current situation, the preferred future end the likely future.”

According to the scorecard the following areas statements are linked to the **highest need for change** in the industry:

- Law enforcement in the public transport industry;
- Intermodal tickets;
- Integration of public transport;
- Growth of the bus industry;
- Manpower capacity to ensure proper planning and execution at all levels of the bureaucracy;
- Economic sustainability of the government’s policies;
- Interaction between the bodies who plan, regulate, provide and enforce transport legislation;
- Understanding of the value of the commuter bus industry;
- Subsidisation of special category passengers by the government;
- Optimisation of scarce resources by the regulatory system; and
- Relationship between the bus industry and the provincial government.
The high need for change in the above areas confirm the conclusions made earlier as well as in further analyses. Key issues that reflect gaps emerge from the above analysis that will be discussed in more detail in the remainder of this chapter.

8.9.2 SWOT ANALYSIS

A SWOT analysis remains one of the most powerful means to evaluate a company in terms of its environments and can therefore be used constructively in the assessment of the strategic gap.

Strategy emerges as a result of the interaction between various forces such as the vision of a company and forces within its internal and external environment. A SWOT analysis is ideal to assess the internal as well as external business environment. The choice for this particular technique was further motivated by the fact that most bus operators know the technique.

Detailed lists of strengths, weaknesses, opportunities and threats were created, but only those that are directly related to the study objectives are reported. An evaluation of the data against the study objectives reflects the following gaps that need to be addressed:

Gaps emanating from opportunities:

- The need for diversification into new transport related markets. At present the focus is primarily on the core business, while additional income is required to achieve desired levels of profitability;
- The need for infrastructure and network management to comply with the requirements of the new system. At present the system is not integrated;
- The need for transport related expertise at national and provincial level and the opportunity to position bus operators as the experts;
- The opportunity for better planning due to certainty of funding and the contract period. Planning is not viewed as a particular strength at operator level at this stage;
- Outsourcing as empowerment opportunity. The tender system requires reduced levels of employment to be competitive. Outsourcing should be considered;
- The need to integrate modes and services. The present system is largely fragmented, as discussed in chapter six; and
The high levels of congestion creates the opportunity to optimise the situation.

Gaps emanating from threats:

Although a very long list of threats were created, only the following threats are viewed as relevant gaps that need to be addressed:

- The possibility of increased labour unrest. A joint management/labour vision was identified as key success factor. It is therefore essential that joint solutions between labour and management be created;

- Lack of capacity/direction at institutional level due to devolution of authority to lower levels of Government. Officials at the various levels do not yet have the skills and capacity to successfully implement the new policy;

- Deterioration of road infrastructure. The present condition of the roads, especially in rural areas have a negative impact on operating cost;

- Lack of funding. Insufficient levels of funding should be viewed as a major gap that should be addressed;

- New competition, taxis and intermodal. Operators are not yet sufficiently prepared for the challenges created by the tender system;

- Reduced tenders - routes instead of route networks. Demarcation of smaller tenders could have a detrimental effect on integration and control, as discussed in chapter six;

- Possible reduced employment levels. People who become redundant as a result of tendering should be accommodated in the economic system;

- Insufficient numbers of skilled personnel in the transport industry, especially people with skills to be successful in the tender system;

- Community reaction to tender system. The community will have to be informed and prepared for the tender system to secure their support;

- Over supply of taxi's in off peak. This threat reflects a transport system gap that should be addressed in the design and implementation of integrated transport networks;

- Uneven playing fields between the various transport modes. Bus operators believe that authorities are more supportive of the taxi industry which is to the detriment of the bus industry; and

- Uncertain provincial policy in terms of contracts. The delay in the
implementation of the Land Transport Transition Bill has a delaying effect at provincial and local government spheres.

Gaps emanating from internal weaknesses:

- The low levels of education in the industry reflect a major gap that needs to be addressed;
- Expensive labour. Remuneration paid by existing operators are higher than minimum requirements. New entrants could secure tenders by paying lower remuneration packages;
- Low levels of productivity in the industry. Existing man to bus ratios are generally much higher than the ideal ratio to secure tenders;
- The high age of fleet, as discussed in chapter six is a major weakness and strategic gap;
- Resistance to change. The tender system is still resisted by some people;
- Poor use of information technology is viewed as a major gap in the rendering of quality services in the tender system;
- Insufficient equity at management level. Insufficient members of the previously disadvantaged population groups are in management and senior positions;
- Poor customer relations and insufficient customer systems. A customer driven approach is still lacking;
- High temptation for pilferage. Profitability is hampered by high levels of pilfering; and
- Lack of pro-active marketing orientation constitutes one of the most significant gaps that need to be addressed to increase the market share of public transport.

8.9.3 GAPS PERTAINING TO CORPORATISATION

As discussed in chapter seven, municipal and provincially owned operators must be corporatised before they can participate in the tender system. It was therefore deemed necessary to do a separate analysis to determine the gap pertaining to provincial and municipal operators. As stated in chapter seven, operators are not at the same level of readiness to comply with the requirements of the new policy. Municipal operators are probably the least prepared. Special workshops were convened to determine the gap at provincial and metropolitan level.
It was also decided to use a force field analysis as additional model for the evaluation of the strategic gap. The basic model was developed by the social scientist Kurt Lewin. With the vision as basis, specific helping or enabling forces that will support successful corporatisation, and restraining forces that will prevent or restrain corporatisation. It should be stated that most of the gaps identified by using the SWOT analysis were also identified by using the force field analysis. With this model as basis, the following additional gaps were identified at municipal bus operator level:

- The high operational cost of the present operations. The operating cost of municipal operators are generally higher than the operating cost of private operators, which will reduce their competitiveness in the tender environment;
- Political resistance to corporatisation is particularly strong at municipal level;
- Inefficient organisation structures exist to successfully tender. Certain support services at municipal level are rendered by the city councils. In the tender environment the entity that tenders should be a separate legal entity;
- Uncertainty on the position of assets in terms of the National Framework Agreement;
- Resistance by organised labour. Corporatisation is resisted by labour due to the fact that their careers will be in jeopardy and their belief that public transport is a social service to be rendered by the state;
- Existing conditions of employment are not conducive to the transformation process.
- A lack of information and education on corporatisation curtails the change process towards the tender system; and
- The lack of profit motive in present system leads to inefficiency and also constitutes a major gap. Existing staff members need considerable preparation to be successful in the competitive environment.

In addition to the above pertinent gaps, the following problem areas at especially municipal level constitute gaps that need to be addressed:

- The present deficit subsidy system is not supportive of accountability;
- Insufficient rewards are embedded in the present system;
- There is generally a lack of business skills for new challenges;
- There is generally a great deal of uncertainty regarding the formation, structure
and management of the separate legal entity;

- The value of assets to be transferred to the new entity could have a negative effect on competitiveness;

- Uncertainty who the legal entity will be; and

- The present low fares based on deficit funding.

The following needs expressed by municipal and provincial operators to conform with the new requirements provide more structure in the prioritisation of the strategic gaps:

- Education for operators in terms of key issues to enable a smooth transition to the new dispensation;

- Guidelines on business principles as defined in the new policy;

- The need for a “compromise” between social responsibility and business principles;

- Guidance and advice on vehicle requirements;

- Solutions on how to ringfence and to comply with the policy requirements to participate in the tender system. A great deal of uncertainty exists on the principle of ringfencing and its practical application;

- Access to financial resources;

- Clarity on the implications of the National Framework Agreement on the new system;

- Solutions to incorporate and inform all stakeholders;

- Functioning and powers of the transport authority, eg. to change routes to ensure economic viability;

- The impact of the tender system on labour and appropriate mechanisms to deal with this important issue; and

- Empowerment of small operators.

8.9.4 KEY SUCCESS FACTORS

It was also necessary to develop key success factors pertaining to the desired future state of the bus industry as reflected in the vision discussed earlier. Key success factors are those areas in which the operators in the bus industry should be competent to be successful in the new policy environment discussed in chapter seven. It is clear that the key success factors in the previous and proposed dispensations differ substantially. The following key success factors for success
in the tender environment have been identified:

- Securing the tender;
- Shared labour/management vision;
- Customer focus;
- Standard of fleet;
- Decision maker focus;
- Community partnership;
- Organisational efficiency;
- Development of non-core business;
- Effective communication internally and externally;
- Making a profit; and
- Skills development

In an attempt to identify the strategic gap, a measuring instrument was developed to measure current performance on the 11 key success factors. Performance can be classified according to 5 performance intervals, ranging from level 5 performance, which is superior and a pre-requisite to achieve the vision, to level 1 performance which is grossly inadequate to sustain present service levels. Level 3 performance can be viewed as just sufficient to maintain present performance levels according to the present environmental influences and demands.

**Securing the tender**

**Level 5:** Increasing market share as result of successful tendering at tendered profit.

**Level 4:** Retaining market share by combining own and new business at tendered profit.

**Level 3:** Retaining of own tendered business and achievement of tendered profit. Unsuccessful in new business tenders.

**Level 2:** Loss of portion of own tendered business. Unsuccessful in any new business.

**Level 1:** Loss of own total business.

**Shared labour/management vision**

**Level 5:** Management and labour in full cooperation to achieve goals as agreed.

**Level 4:** Agreement between labour and management on most issues.

**Level 3:** Disagreement without labour unrest.

**Level 2:** Management and labour pursuing different agendas. Occasional unrest.
Level 1: Continuous labour unrest.

Customer focus

Level 5: No tender contract penalties and continuous growth in terms of passengers and trips.

Level 4: No tender contract penalties and limited growth.

Level 3: Limited penalties. No growth.

Level 2: Penalties and cancellation of some trips.

Level 1: Cancellation of tender.

Standard of fleet

Level 5: Above tender specifications in all respects.

Level 4: Above tender specifications in some respects.

Level 3: Fleet meets requirements specified in tender document.

Level 2: Under specifications in certain respects. Regular penalties.

Level 1: Withdrawal of vehicle. Severe penalties.

Decision maker focus

Level 5: Continuous and pro-active consultation. Consensus on all issues.

Level 4: Regular consultation. Consensus on most issues.

Level 3: Consultation with no consensus.

Level 2: Limited consultation. No consensus.

Level 1: No contact. Managing own agendas.

Community partnership

Level 5: Full corporate partnership with feeling of ownership. (Communities acknowledge and accept the bus service as an integral part of their lives).

Level 4: Partial partnership. Ad hoc agreements.

Level 3: Tolerance with no disruptions.

Level 2: Sporadic service disruptions.

Level 1: Community rejection.
Organisational efficiency

Level 5: All resources are optimally integrated and aligned towards achieving of mutually accepted goals and standards based on zero based budgeting.

Level 4: Maintaining goals and standards in all performance areas.

Level 3: Maintaining goals and standards in most areas.

Level 2: Under achieving in terms of resources and efficiency.

Level 1: All resources are fragmented resulting in poor coordination and excessive waste.

Development of non-core business

Level 5: Full utilisation of fleet in off peak at a profitable base. Optimum private hires and long distance operations.

Level 4: Utilisation of more than more than 40% of off peak buses.

Level 3: Utilisation of 30-40% of off peak buses.

Level 2: Utilisation of less than 30% of off peak buses.

Level 1: No off peak business, private hires or long distance operations.

Effective communication internally and externally

Level 5: All stakeholders actively work together to achieve common goals. They are informed and involved on key issues at all times.

Level 4: All stakeholders share a common understanding. Communication is frequent and effective.

Level 3: Communication is sufficient to maintain present business levels in present mindset.

Level 2: Communication generally inefficient and one-sided. No common understanding.

Level 1: Thriving destructive grapevine. No mutual understanding between stakeholders.

Making a profit

Level 5: Achieve more than profit budget.

Level 4: Achieve profit budget.

Level 3: Achieve break even position.

Level 2: Contribution to profit.

Level 1: Loss situation.
Skills development

**Level 5:** Sufficient skills available for present and future needs.

**Level 4:** Competency at current levels with development plans and career paths in place.

**Level 3:** Skills for immediate requirements. Development planned.

**Level 2:** Training unstructured and ad hoc. Thinking about skills development.

**Level 1:** Training for sake of training or no training at all. Skills shortage. No development plan whatsoever.

The performance of the industry was thereafter evaluated on various occasions during the period July 1997 to March 1999, and the following average scores were obtained:

<table>
<thead>
<tr>
<th>Key success factor</th>
<th>Achievement level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securing the tender</td>
<td>3</td>
</tr>
<tr>
<td>Shared labour/management vision</td>
<td>2</td>
</tr>
<tr>
<td>Customer focus</td>
<td>2</td>
</tr>
<tr>
<td>Standard of fleet</td>
<td>2</td>
</tr>
<tr>
<td>Decision maker focus</td>
<td>3.5</td>
</tr>
<tr>
<td>Community partnership</td>
<td>3</td>
</tr>
<tr>
<td>Organisational efficiency</td>
<td>2</td>
</tr>
<tr>
<td>Development of non-core business</td>
<td>2.5</td>
</tr>
<tr>
<td>Effective communication internally and externally</td>
<td>3</td>
</tr>
<tr>
<td>Making a profit</td>
<td>1</td>
</tr>
<tr>
<td>Skills development</td>
<td>3</td>
</tr>
</tbody>
</table>

With an average score of 2.45 it is clear that operators will have to implement pro-active change strategies to stay in business. This conclusion supports the earlier assumption that the industry is at present facing a very difficult future to adapt to the new competitive environment.

### 8.10 SUMMARY OF STRATEGIC GAPS THAT NEED TO BE ADDRESSED IN THE CHANGE STRATEGY

The objective of this section of the chapter is to summarise the main strategic gaps emanating from the research that should be used as basis for the change strategy. The gaps should be viewed and judged against the facts and discussions of all previous chapters, and particularly
from the various gap analyses discussed above. Paragraph 8.4 of this chapter suggested an initial broad focus with a detailed and focussed list of gaps in tabular form, which will now be presented. It should be stated that, although this chapter does not focus on solutions, the choice of gaps for that should be addressed in the change strategy will be influenced by the ability of the organised industry to control the gap.

This study was born out of a need in the organised bus industry to prepare for the tender environment. The proposed solutions should therefore largely focus on those strategic inputs that are within the control of the industry and the gaps summarised in tabular form should be viewed as a strategy checklist. The next chapter will focus primarily on a change strategy for the bus industry.

<table>
<thead>
<tr>
<th>AREA</th>
<th>FOCUS</th>
<th>DISCUSSION/CLARIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>National policy</td>
<td>Promulgation of Transport Bill</td>
<td>Time required for approval of the legislation curtails the transformation process</td>
</tr>
<tr>
<td></td>
<td>Market share of public transport</td>
<td>Competition as such does not attract passengers. Further measures are required to increase the market share of public transport</td>
</tr>
<tr>
<td></td>
<td>Taxi permits</td>
<td>Possible implications of exchange of permits for 28 seater bus.</td>
</tr>
<tr>
<td></td>
<td>Law enforcement</td>
<td>Insufficient law enforcement</td>
</tr>
<tr>
<td></td>
<td>Implementation</td>
<td>Delayed or insufficient policy implementation</td>
</tr>
<tr>
<td>Provincial policy</td>
<td>General</td>
<td>Time required for finalisation of provincial public transport policy curtails the transformation process</td>
</tr>
<tr>
<td></td>
<td>Market share</td>
<td>Specific measures to attract passengers to public transport are required</td>
</tr>
<tr>
<td></td>
<td>Law enforcement</td>
<td>Limited law enforcement</td>
</tr>
<tr>
<td></td>
<td>Interprovincial compatibility</td>
<td>Possible interprovincial policy incompatibility if policy development is not sufficiently monitored</td>
</tr>
<tr>
<td></td>
<td>Tender evaluation criteria</td>
<td>Different tender criteria used by provinces, resulting in operator difficulties in participating in the tender system</td>
</tr>
<tr>
<td></td>
<td>Implementation</td>
<td>Delayed or insufficient policy implementation</td>
</tr>
<tr>
<td></td>
<td>Demarcation of tender areas</td>
<td>Smaller tenders lead to fragmentation of the public transport industry</td>
</tr>
<tr>
<td>Local government policy</td>
<td>General</td>
<td>Supporting by-laws to improve public transport not yet in place.</td>
</tr>
<tr>
<td></td>
<td>Law enforcement</td>
<td>Limited law enforcement</td>
</tr>
<tr>
<td></td>
<td>Implementation</td>
<td>Delayed or insufficient policy implementation</td>
</tr>
</tbody>
</table>
### TABLE 8.7 TRANSPORT SYSTEM GAPS

<table>
<thead>
<tr>
<th>AREA</th>
<th>FOCUS</th>
<th>DISCUSSION/CLARIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated networks</td>
<td>Land-use</td>
<td>Dispersed land use pattern</td>
</tr>
<tr>
<td></td>
<td>Cost</td>
<td>High travelling cost</td>
</tr>
<tr>
<td></td>
<td>Corridors</td>
<td>Insufficient corridor density</td>
</tr>
<tr>
<td></td>
<td>Integration of planning</td>
<td>Planning not yet integrated</td>
</tr>
<tr>
<td></td>
<td>Through ticketing</td>
<td>Through ticketing ad hoc and grossly inadequate</td>
</tr>
<tr>
<td>Nature of system</td>
<td>General</td>
<td>Ineffective, cumbersome, fragmented</td>
</tr>
<tr>
<td>Customer focus</td>
<td>All modes</td>
<td>Grossly inadequate</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>General</td>
<td>Inadequate and wrongly placed</td>
</tr>
<tr>
<td>Vehicles</td>
<td>All modes</td>
<td>Old and unattractive</td>
</tr>
<tr>
<td>System sustainability</td>
<td>All modes</td>
<td>Not sustainable in present form</td>
</tr>
</tbody>
</table>

### TABLE 8.8 MARKET AND SERVICE GAPS

<table>
<thead>
<tr>
<th>AREA</th>
<th>FOCUS</th>
<th>DISCUSSION/CLARIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Service gaps</td>
<td>Stranded 2.8 million are stranded</td>
</tr>
<tr>
<td></td>
<td>Survival</td>
<td>23% have access to the train, 46% above time goal</td>
</tr>
<tr>
<td></td>
<td>Sensitive</td>
<td>43% above travel time goal, 51% have choice between 2 modes, 12% have choice between 3 modes</td>
</tr>
<tr>
<td>Modal distortion</td>
<td>Taxi</td>
<td>Limited feeder role</td>
</tr>
<tr>
<td></td>
<td>Bus</td>
<td>Serves long distance customers, Limited use on shorter routes</td>
</tr>
<tr>
<td></td>
<td>Rail</td>
<td>Focus on short distances</td>
</tr>
<tr>
<td></td>
<td>Bus/taxi ratio</td>
<td>Bus grossly underutilised if compared to taxi</td>
</tr>
<tr>
<td>Affordability</td>
<td>Commuter fares</td>
<td>25% spend more than 10% of income</td>
</tr>
<tr>
<td></td>
<td>Accessibility</td>
<td>4% walk longer than 15 minutes</td>
</tr>
<tr>
<td></td>
<td>Trip duration</td>
<td>12% travel longer than 60 minutes</td>
</tr>
<tr>
<td></td>
<td>Choice</td>
<td>Availability of differentiated modes 50% access to one mode only</td>
</tr>
</tbody>
</table>

Source: MSA (1998)
<table>
<thead>
<tr>
<th>AREA</th>
<th>FOCUS</th>
<th>DISCUSSION/CLARIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical industry gaps</td>
<td>All operators</td>
<td>Insufficient return on investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High fleet age</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Insufficient corporate equity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High levels of pilferage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low levels of empowerment if compared to taxi</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Insufficient positioning within community</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Insufficient empowerment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Insufficient empowerment models</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Not positioned with new business partners</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Measures to soften impact of tender system</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Undiversified</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unattractive nature of public transport industry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Insufficient community partnerships</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Too large public ownership</td>
</tr>
<tr>
<td>Small operators</td>
<td>Urgent need for access to markets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technology, systems etc largely based on large operations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Viability of small operations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lack of coordination of smaller operations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Possible fragmentation of transport</td>
<td></td>
</tr>
<tr>
<td>Industry positioning</td>
<td>SABOA</td>
<td>Insufficient capacity</td>
</tr>
<tr>
<td></td>
<td>Regional structures not fully effective</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Training of regional staff</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The need to market the bus industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Policy positioning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Need to update code of conduct</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Urgent need to get Foundation operational</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Enforcement of industry agreements</td>
<td></td>
</tr>
</tbody>
</table>

It is clear that the time horizon of the gaps differ substantially. Some gaps will have to be addressed immediately while others will require medium and long term implementation. It is not feasible at this stage to classify the gaps in tabular form in terms of time priority. A detailed strategic analysis will be carried out in the next chapter that will focus the strategic effort. Recommendations in the final chapter will also give an indication of the priority of suggested actions. The gaps in tabular form also do not reflect priority. The analysis that will be done in the next chapter will also give an indication of the priority of the gaps. It should be stated that
more policy gaps and possible policy gaps were discussed throughout this study. Policy measures are not within the direct control of the industry. Gaps which the industry can directly control and affect changes will therefore receive much more attention.

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<tr>
<th>TABLE 8.10</th>
<th>INSTITUTIONAL SKILLS AND CAPACITY GAPS</th>
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<td>AREA</td>
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<td>Provincial and local government</td>
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<td>Transport authorities</td>
<td>Insufficient pro-active planning to form transport authorities</td>
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<td>Insufficient knowledge of tender system</td>
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<td>Insufficient operational expertise</td>
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<td>Insufficient knowledge of integrated planning</td>
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<tr>
<th>TABLE 8.11</th>
<th>INDUSTRY SKILLS AND CAPACITY GAPS</th>
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<td>Tender system</td>
<td>General</td>
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<td>Provincially and municipally owned operators</td>
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<td>Small operators</td>
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8.11 CONCLUSIONS

Finally it can be concluded that the objectives of this chapter have been achieved. The gap between the status quo of the Southern African transport industry and policy, and international developments was assessed by means of a comprehensive literature study, an evaluation of the South African transport industry and policy, and conclusions drawn from the Moving South Africa project. The strategic gap which accounts for the difference between the desired end result and the expected end result if the present course of action is not changed, resulted in a huge conceptual gap which was further broken down in tabular form. This focussed summary will be used as basis for the change strategy and recommendations that will be addressed in the final two chapters of this study.

Major gaps that manifested at industry level can be summarised as follows:

- Ineffective application of public transport modes in accordance with their unique operating characteristics. The bus industry's present share of the public transport market is grossly inadequate to ensure sustainability over the long term;  
- Pertinent skills deficiencies at operator level to successfully manage change in the new competitive environment;  
- Profitability of the present operations which is well below operator expectations;  
- Insufficient knowledge of the tender system and its requirements;  
- Insufficient actions to empower people of the previously disadvantaged communities;  
- Insufficient preparation for increased competition; and  
- Old and ineffective policies, systems and procedures.

It is clear that the strategic gap at industry level is enormous. The industry is not prepared for the challenges and considerable effort and imaginative solutions are required to position the bus industry for its future role.
CHAPTER 9

CHANGE STRATEGY FOR THE BUS INDUSTRY

"I believe that the bus industry has a bright future in the new South Africa. Properly managed, it is a flexible, versatile and efficient transport mode." (Maharaj, 1995, p 15).

"As the third millennium approaches, public transport has a tough time ahead. It faces challenges on economic, social and environmental fronts in addition to the constant and powerful attraction of the private car. It is now over to us, the transit operators, to prove that public transport is the best answer to urban expansion. We need to be actively supported in our work by the authorities, decision-makers and local councils." (Baily, 1999, p 11).

9.1 INTRODUCTION AND OVERVIEW

The above statements set the scene for a comprehensive change strategy to direct the bus industry into the future. Against this background the objective of this chapter is to present the change strategy or conceptual basis to guide the change strategy. This strategy is based on theoretical and practical aspects discussed throughout the thesis as well as the strategic gaps identified in the previous chapter. The primary focus of the chapter is on viable solutions that are within the control of the industry. Specific recommendations to achieve the desired end result as discussed in chapter eight that are more related to government responsibilities, will be made in the next and final chapter.

Towards the end of this thesis it is deemed necessary to briefly review the study objectives in the context of the two final chapters. The primary objective of the study is to develop a methodology to guide the transformation and restructuring of the bus industry. This objective will be completed at the end of the next and final chapter. The main objective will be achieved through the following secondary objectives:

• To relate international transformation experiences to the South African bus industry in an effort to develop a methodological basis for the change process.
This objective was achieved in chapters two to seven. The major conclusions of these chapters will be used to substantiate the strategy recommendations that are proposed in this chapter, as well as the next and final chapter. Various cross references to previous chapters will therefore be made;

- To assess the strategic gap in an effort to determine the focus of the change process. Based on the content of the preceding chapters (two to seven), the strategic gaps were discussed in detail in chapter eight; and

- To develop a detailed change strategy to guide the transformation process. This objective is the primary focus of the present chapter. Recommendations in the next chapter are aimed at creating a climate in which the proposed strategy can be successfully implemented.

The need to change and the need for a pro-active change strategy is best described by (Axen, 1994, p 235): "In my opinion, the change of system brought about by competition in the field of passenger transport must, and I repeat must, be preceded by a strategic plan, which clarifies the vision of what we want to achieve in order to optimise the benefits to society, or in other words our goals." Planned change, which is urgently required, forms the primary focus of this chapter.

With the new legislation formalised and a set of strategic gaps identified in the previous chapter, it is now necessary to focus on the change required to position the bus industry for its challenging role in the new dispensation. The international literature study in chapters two to five has indicated that South Africa still has a long way to go to realise the benefits experienced with policy reforms in other parts of the world. The strategy proposed in this chapter should make provision for a smooth transition towards the desired future state in the new dispensation.

It is clear that major, or even revolutionary changes are required to redirect the industry for its future role. Hamel (1996, p 69) supports new revolutionary strategies as means to survive and grow in a constantly changing environment and to adapt new challenges. In creating an industry revolution, the following four tasks are of paramount importance:

- Identify the "unshakable beliefs that cut across the industry";
- Search for "discontinuities in technology, lifestyles, working habits, or geopolitics that might create opportunities to rewrite the industry’s rules";
- Ensure a thorough understanding of the company’s core competencies; and
Finally the company should use all its knowledge to "identify the revolutionary ideas, the unconventional strategic options that could be put to work in its competitive domain."

If the true meaning of the term revolution is taken into account, the above steps are very relevant to the bus industry. The Concise Oxford Dictionary defines revolution as "Complete change, turning upside down, great reversal of conditions, fundamental reconstruction." In terms of the strategic gaps identified in the previous chapter and the new policy that was evaluated in chapter seven, a fundamental reconstruction of the industry is essential. Where policy changes fundamentally, it can be expected that an industry should also change fundamentally to keep pace with the changes.

The most important challenge in this chapter is to condense all the key issues discussed in all preceding chapters into a viable strategy with appropriate solutions. This is quite a challenging task which is complicated by the fact that the database is fairly comprehensive. The list of gaps identified in the previous chapter is also extensive and it is not possible to address all gaps at the same time. A multiple evaluation method is used in this chapter to ensure that all facets of the change strategy are evaluated and taken into consideration to determine focus. This approach has its distinct advantages but also its disadvantages, such as the large number of alternatives that need to be integrated into a coherent whole. Integration of the information actually requires a process similar to a factor analysis in statistics where clusters or factors that belong together are identified. The only method to identify the factors or priorities relevant to this study is inductive reasoning, which will be guided by a multiple evaluation approach.

It should be stated that, although the multiple evaluation approach created an exceptionally large "database", certain key issues emerged from most analyses. The multiple evaluation method resulted in various perspectives of these key issues and also reinforced basic assumptions about the industry, its environment and its stakeholders. A logical starting point would be these key issues which will become evident in the various analyses.

Although the focus of the industry strategy is largely short to medium term, it is essential to align present efforts towards long term requirements as reflected in the 20 year strategy proposed by Moving South Africa. According to MSA (1998, p 223) three steps are required for implementing
implementing the proposed long term strategy, namely disseminate and create understanding, develop implementation plans and begin institutional alignment through clarification and prioritisation of national objectives.

"By implementing the proposed strategy, we in the transport sector can contribute to building the new South Africa - one which is strong and competitive, one which is socially integrated, one which provides basic mobility for all citizens, and one which creates the foundation for a just and mobile society." (MSA, 1998, p 223).

9.2 CHARACTERISTICS OF A GOOD STRATEGY

9.2.1 OVERVIEW

The primary aim of this chapter is to propose a good strategy, or at least to formulate a sound basis that will enable the organised industry and operators to finalise the strategy. It is therefore deemed necessary to review the characteristics and requirements of effective strategies. It should be stated that literature on strategic management generally refers to company strategies. For the purposes of this research project, most of the arguments are also relevant to industry strategies.

The logic that strategy comes before structure is particularly relevant to the objectives of this study. With the focus on the transformation or restructuring of the bus industry, clarity should be obtained on the deliverables and content of the strategy before structure can be addressed effectively. Structuring, or restructuring, is viewed by most theorists on strategic management as part of strategy implementation which further illustrated the need for a good strategy as basis for structuring or restructuring.

Thompson & Strickland (1996, pp 53-54) suggests the following tests for a winning strategy:

- **The goodness of fit test.** There should be fit between the company’s or industry’s internal and external situation;
- **The competitive advantage test.** A good strategy should result in sustainable competitive advantage; and
- **The performance test.** A good strategy should improve the performance of the company or industry.

Thompson & Strickland (1996, p 180-181) suggests the following thirteen commandments for
successful business strategies:

- Focus energy on strategic moves that will improve the competitive position of the company over the long term;
- Well defined and clear consistent strategy “builds reputation and recognizable industry position”;
- Avoid middle of the road strategies “stuck in the middle” or compromises;
- “Invest in creating a sustainable competitive advantage;
- Play aggressive offense to build competitive advantage and aggressive defence to protect it;
- Avoid strategies capable of succeeding only in the most optimistic circumstances;
- Be cautious in pursuing a rigid or inflexible strategy that locks the company in for the middle term with little room for manoeuvre - inflexible strategies can be made obsolete by changing market conditions;
- Don’t underestimate the reactions and the commitment of rival firms;
- Be wary of attacking strong, resourceful rivals without solid competitive advantage and ample financial strength;
- Consider that attacking competitive weakness is usually more profitable than attacking competitive strength;
- Be judicious in cutting prices without an established cost advantage;
- Be aware that aggressive moves to wrest market share away from rivals often provoke aggressive retaliation in the form of a marketing ‘arms race’ and/or price wars; and
- Strive to open up very meaningful gaps in quality or service or performance features when pursuing a differentiation strategy.”

Most of the above commandments are relevant to the bus industry, especially those referring to competition and competitive advantage. The role of competition in the new dispensation was debated at length in chapters three, five and seven, and it is essential that the impact and dynamic nature of competition on the proposed strategy be taken into account. The new policy paves the way for improved system performance as a result of market forces. Competitive advantage is critical in this environment and the bus industry should capitalise on this opportunity.
9.2.2 STRATEGIC FIT

Strategic fit is immensely important in the assessment of a good strategy in general and in the creation of a change strategy for the bus industry in particular. In an environment that is fairly new to all players, it is essential that efforts be supportive of national goals as well as the needs of all stakeholders. Porter (1996) describes three types of strategic fit. The important elements of the change strategy for the bus industry can be evaluated as follows against these types of fit:

- **First order fit which implies simple consistency between each activity and overall strategy.** Due to the fact that public transport forms an integral part of the economy and social fibre of a country or community, it is essential that consistency be achieved between each activity and the overall change strategy. Unlike an organisation where top management is responsible for consistency, the situation is more complex in an industry, especially the bus industry. SABOA as highly representative association of the industry, is viewed as the most viable facilitator of change. SABOA will therefore be responsible to ensure consistency between each activity and overall strategy. As in the past, the role and contribution of SABOA will be pivotal in the transformation of the bus industry;

- **Second order fit when activities are reinforcing.** Second order fit is essential to ensure that activities are not duplicated between the role players, or in conflict. SABOA can also play a leading role in this regard. The devolution of authority to lower levels of government and the fact that new officials have taken up employment in the new structures at the various levels of government further underline the urgent need for second order fit to ensure that activities are reinforcing; and

- **Third order fit which implies optimization of effort.** Optimisation of effort is only possible if synergy can be achieved between the various inputs and actions. SABOA as representative of the industry will therefore have to play a leading role in achieving this type of strategic fit. The traditional deficiency of fragmentation should be replaced with integration, which undoubtedly requires synergy and optimisation of effort. Optimisation of effort is only possible if all stakeholders, especially operators and authorities, work together. Institutional structures in the new dispensation have new roles and functions and close cooperation between them and operators is essential. The quality partnership concept in Great Britain, which was discussed in chapter three, is a good example of the required
cooperation as prerequisite for product and service quality.

9.2.3 THE ROLE OF INNOVATION

Innovation in strategy formulation and implementation is also characteristic of good strategies. In fact, innovation has become one of the most important key success factors in modern business. Markides (1997, p 12) suggests a number of ways to initiate and improve strategic innovation. The applicability of these initiatives to the bus industry can be assessed as follows:

- **Redefine the business.** The new competitive environment necessitates a complete redefinition of the bus industry. The basic rules of business in the new environment are completely different from the rules in the previous dispensation. Innovation is required to exploit new opportunities. The largely supply driven nature of the bus industry is redefined in the new policy, which is based on market forces and customer focus in a competitive environment;

- **Redefine the who (customer).** Attention to customer needs in the previous dispensation was confined to the restrictions of the commuter transport system. During workshops and programmes with management of bus operations it was agreed that a customer orientation in the previous dispensation was and still is well below the required standard. It is therefore essential to redefine the customer. In the interrelated and complex environment pertaining to the bus industry, all significant stakeholders should be viewed as customers and their needs and expectations should be re-assessed;

- **Redefine the what (products and services).** Tender specifications will in future be based on demand and not supply, which will in essence redefine the what. Consultation with communities and other stakeholders for an integral part of the tender system. This consultative approach automatically implies a redefinition of the what. Operators also realise the urgent need to generate additional revenue outside the core business and additional markets will have to be exploited;

- **Redefine the how.** It will primarily be the how that will have to change considerably. The competitive environment will largely dictate measures and practices supportive of efficiency. Cumbersome systems and procedures created to comply with the requirements of the subsidised system will have to be redesigned; and

- **Start the thinking process at different points.** Thinking strategically in the
new environment will also have to change. Innovation is required at different levels and points and the traditional “driven from the top” approach will have to change considerably. Democratisation will have to be taken further, and although policy makes sufficient provision for and actually dictates democratisation, sufficient initiatives to incorporate the needs and views of all levels of stakeholders are still lacking.

It is clear that innovative solutions are required to direct the bus industry in the desired direction. In a situation where the environment and the business rules change substantially, innovation should be viewed as a powerful means to create the desired solutions.

9.2.4 STRATEGY AND SUCCESSFUL COMPANIES

Finally it can be concluded that every bus operator intends to be successful in the new environment. An evaluation of key elements of success in successful companies may also provide additional inputs to the change process and evaluating good strategies. Based on a comprehensive study of organisations older than 100 years, De Geus (1997) has found “four shared personality traits” in extraordinarily successful companies. Implications for the bus industry can be summarised as follows according to the said traits:

- **Conservatism in financing.** Over commitment in terms of funding has led to the demise of transport operators. It can be concluded that the fixed terms of the contracts will provide more certainty for investment decisions;

- **Sensitivity to the world around them.** A sensitivity to environmental influences will be crucial in securing tenders and to successfully render tendered services. As major player in integrated transport networks, bus operators will have to be even more sensitive to their environment in which other modes will also play a major role;

- **Awareness of their identity.** The new system provides ideal opportunities for new identities to develop. Identity in the traditional commuter system could have been negatively associated with he apartheid system. Strategic alliances and joint ventures with SMME partners create various exciting opportunities to establish new players with new identities in the public transport industry; and

- **Tolerance with new ideas.** As stated earlier in this chapter the previous public transport dispensation did not really foster and stimulate innovation. Innovation
will be required to successfully exploit the tender system. The democratisation of work and society will also create opportunities to involve people in lower levels of the organisation. Their ideas can be very valuable in the restructuring of their companies and the industry at large.

What the above discussion also reveals is that successful companies have good strategies that are sustainable over time. Conservatism in financing and sensitivity to the world around them are clear strategic options that lead to success over time.

9.2.5 REQUIREMENTS EMANATING FROM THE LITERATURE STUDY

The international literature study carried out in chapters two to five also revealed specific requirements of a successful strategy. At the end of chapter five the following checklist was compiled to structure the change strategy in accordance with international best practices:

Policy

- It is essential that clear and well founded policy be in place to direct the change process;
- Provision should be made for incremental changes to the policy, based on learning experiences and results achieved after implementation;
- It is therefore essential that provision be made for controlled experimentation of key policy aspects and concepts. Demonstration projects are ideal for this purpose;
- Measures should be taken to improve the effectiveness of the tender system. Initiatives such as performance based contracts should be further investigated and refined;
- Policy renewal should be fundamental if the objective is to retain and grow the market share of public transport;
- Policy at the different spheres of government should include bus priority measures to position the bus for its optimum role in public transport;
- Policy is not effective if not properly implemented at all spheres of government;
- Competitive tendering as such will not necessarily attract more passengers. Proper implementation, law enforcement and stakeholder commitment are also necessary;
• International best practices should be evaluated for local implementation; and
• Technological improvement and fleet renewal should be promoted through pro-
active policy.

Operations
• Operators should play a leading role in the positioning of the bus as essential
mass transport mode in an integrated public transport system;
• Operators should establish themselves with authorities and other stakeholders,
and actively influence the policy formulation and implementation process;
• Operators of the different modes should work closely together to ensure optimum
utilisation of public transport resources;
• Operators should actively market their services;
• Operators should exploit diversification opportunities;
• Operators should create imaginative solutions to be successful in the new
environment;
• Operators should take a leading role in the implementation of technology that will
support integration of modes and services such as through ticketing; and
• The value of the bus as low capital cost solution should be actively promoted.

Institutional
• Institutional structures play a key important role in public transport and it is
therefore essential that they be fully empowered for their role;
• Relationships between authorities and other stakeholders should be established
and developed;
• Policy and operations, as prescribed by the new South African policy, should be
separated;
• An effective working relationship between operators and authorities should be
established and developed;
• Policy implementation and effective law enforcement should be actively driven
from institutional level; and
• Public-private partnerships should be facilitated as an ongoing priority.
Customer focus

- Customer focus should be the primary driving force of the change process;
- Real customer needs should be used as basis and not what operators perceive them to be;
- Authorities and operators should work closely together to meet customer needs;
- All stakeholders should work together to create and support a customer care culture;
- Networks and supporting structures and facilities such as through ticketing should be structured around customer needs; and
- Quality should become an important supporting theme of the change process; and

Planning

- Visioning is a powerful driving force of the change process and it is essential that visions be shared by all stakeholders;
- Planning should have a long term focus and all medium and long term planning should be directed towards achieving the vision and long term objectives;
- The vision should be expressed in a number of measurable long term objectives;
- Strategic, tactical and operational planning should be fully integrated. To achieve this integration, clear roles between stakeholders and a healthy working relationship is essential;
- Transport, land-use and other forms of development planning should be integrated. Integration of the planning functions further underline the need for cooperation between the stakeholders;
- Corridors should be used as primary tool to direct development; and
- Provision should be made at all levels for incremental learning as important part of the planning process.

The above checklist, which is based on international best practices will be used as conceptual basis for the formulation of the change strategy.

9.3 Key Strategic Issues Facing the Industry

The strategic issues facing the industry were extensively debated in previous chapters, especially chapter one and six. To ensure focus, some form of condensed summary is required as
introduction to the change strategy. Thompson & Strickland (1996, p 111) proposes a number of questions to determine what strategic issues companies normally face. These questions and issues will be used as departure point. The bus industry can be assessed as follows against the issues:

- **Whether the present strategy is adequate in light of the driving forces at work in the industry.** Although SABOA has taken considerable pro-active action to position the industry for the challenges ahead, the strategy needs further refinement, especially at operator level. The broad direction and principles have been determined but considerable work still lies ahead to change successfully in the desired direction. Strategies to empower small operators, for example, still need to be developed and implemented. Based on information obtained at various strategic working sessions with operators, it can be concluded that present strategies at operator level, if they exist, will have to be further developed and refined to address the real strategic issues in an appropriate way;

- **How closely the present strategy matches the industry's future key success factors.** As discussed in previous chapters, the future key success factors pertaining to the commuter bus industry differ significantly from those factors required for success in the previous dispensation. The greatest challenges will be to successfully incorporate small operators and to secure tenders amid strong competition. The supply driven nature of the previous dispensation will have to be replaced by a demand and service driven approach. The previous chapter has identified a major gap between the status quo performance and desired performance as measured by the 11 key success factors developed for the bus industry. It was found that the gap between the desired end result and the expected end result if the present strategy is not changed, as measured on the 11 key success factors, is enormous;

- **How good a defense the present strategy offers against the five competitive forces - particularly those that are expected to intensify in strength.** The already strong competition from local operators will most probably intensify as a result of the entry or at least potential entry of overseas operators. SABOA took the lead by offering assistance to operators to prepare themselves for the increased threats in the environment. It can be assumed that operators still need considerable preparatory work to position themselves for the tender system. The
analysis of competition in chapter eight revealed that the rivalry among sellers and the potential threat of new entrants are the most important considerations from a competition point of view;

- **In what ways the present strategy may not adequately protect the company against external threats and internal weaknesses.** Certain threats in the external environment can be more easily and effectively neutralised than others. Threats such as the low value of the Rand, however, are more severe and operators can generally do less to neutralise its effect. Industry strategies such as the comprehensive strategic plan of SABOA can only focus on the most important general issues. Specific weaknesses prevail at operator level and should be addressed by the respective operators. As stated earlier, the smaller operators do not have the expertise and resources to develop and implement proactive strategic plans;

- **Where and how the company may be vulnerable to the competitive efforts of one or more rivals.** Due to the fact that tender criteria will not only focus on price but also significant issues such as empowerment, virtually all operators are vulnerable to the efforts of competition in general. The potential entry of new players, which may include international transport companies, will generally make the industry more vulnerable. However, increased competition can eventually have more positive than negative results. Should overseas operators exploit tender opportunities aggressively, the threat to the larger operators with extensive vested interest will be more severe;

- **Whether the company has competitive advantage or must work to offset competitive advantage.** Competitive advantage in the new environment will be the result of creativity and imaginative efforts by operators to secure tenders and to render demand driven services in a highly competitive environment. Some companies do have a strong competitive advantage while others do not have such advantage;

- **How strong the strong and weak spots are in the present strategy.** SABOA succeeded in identifying the most crucial issues at industry level. The broad structures such as the SABOA Foundation and the Industry Training Board have been initiated and good progress are being made to position these institutions for their new and challenging roles. The Training Board is already functioning
properly. Strategies at operator level will have to be assessed individually for compliance with the goals of the company concerned and the key success factors of the industry. It can be assumed that most small operators do not have a formal strategy; and

- **Whether additional actions are needed to improve the company's cost position, capitalize on emerging opportunities, and strengthen the company's competitive position.** Cost position is of significant importance in the new environment and considerable action will be required by especially the larger operators to reduce cost to be in a position to secure tenders. Opportunities in the tender system will require concerted efforts to exploit.

The above strategic issues provide a focussed introduction to the multiple evaluation method that will be conducted to determine the focus of the change strategy.

### 9.4 ANALYSIS AND CHOICE

#### 9.4.1 METHODOLOGY

The purpose of this section of the study is to use various models to determine the broad direction and elements of the strategy to follow. Pearce & Robinson (1997, pp 218-241) refer to certain generic and master, grand or business strategies. The generic strategies are based on combinations of cost, differentiation and focus and will be discussed in the context of alternatives for the bus industry later in the report. Grand strategies provide the basic direction for strategic objectives and actions. These strategies include:

- Concentrated growth;
- Market development;
- Product development;
- Innovation;
- Horizontal integration;
- Vertical integration;
- Concentric diversification;
- Conglomerate diversification;
- Turnaround;
- Strategic alliances;
- Joint ventures;
- Divestiture; and
- Liquidation.

For the purpose of the analyses, the bus industry should be viewed as representative of a typical bus company in its present form. Although companies differ in terms of size and resources, they show remarkable similarities. As stated earlier, the extent of the gap may differ substantially between operators. Municipal operators, for example, generally still have a longer way to go than large privatised operators. Change strategies for such operators will therefore have to be more comprehensive and detailed.

Data generated during various working sessions with bus operators were used in the analyses. During these meetings there were considerable consensus on the key issues facing the industry, as well as the internal environments in the various bus companies.

9.4.1 INTERNAL ANALYSIS

Although a SWOT analysis provides information about both internal and external environments, Pearce & Robinson views it primarily as an instrument for internal analysis. The model explained in table 9.1 is proposed for this purpose. The SWOT analysis should be viewed in conjunction with the strategic gap identified the previous chapter where the sets of data are presented in detail.

<table>
<thead>
<tr>
<th>TABLE 9.1</th>
<th>SWOT ANALYSIS DIAGRAM</th>
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<tbody>
<tr>
<td></td>
<td>Numerous environmental opportunities</td>
</tr>
<tr>
<td>Critical internal weaknesses</td>
<td>Cell 3: Supports a turnaround oriented strategy</td>
</tr>
<tr>
<td></td>
<td>Cell 4: Supports a defensive strategy</td>
</tr>
<tr>
<td></td>
<td>Major environmental threats</td>
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</table>

It is clear that cells 3 and 4 best describe the environment relevant to the majority of public bus operators. The fact that the threats by far outnumber the opportunities, as discussed in the previous chapter, is indicative of the serious position in which the bus industry finds itself at present. It is clear, however, that there are also numerous opportunities, especially from a legislative point of view. Although some operators have substantial internal strengths, it can be safely concluded that the majority of operators currently have a number of critical internal weaknesses.

According to the model, turnaround and/or defensive strategies are therefore the most appropriate strategic focus under the present circumstances. A defensive strategy also makes sense in view of the fact that a considerable amount of vested interest in the bus industry should be defended. The powerful role that the bus can play in future transport should also be defended and actively exploited.

9.4.2 GRAND STRATEGY SELECTION

The choice of a grand strategy is of utmost importance in affecting long term change. To evaluate possible change strategies for the bus industry in perspective, the selection matrix of Pearce & Robinson presented in table 9.2 is of particular significance.

<table>
<thead>
<tr>
<th>TABLE 9.2 GRAND STRATEGY SELECTION MATRIX</th>
<th>Overcome weaknesses</th>
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<tbody>
<tr>
<td>Internal (redirected resources within the firm)</td>
<td>Turnaround or retrenchment.</td>
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<tr>
<td></td>
<td>Divestiture</td>
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<td></td>
<td>Liquidation</td>
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<tr>
<td></td>
<td>Supports an aggressive strategy</td>
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<tr>
<td></td>
<td>Supports a defensive strategy</td>
</tr>
<tr>
<td></td>
<td>Supports a diversification strategy</td>
</tr>
<tr>
<td></td>
<td>Maximize strengths</td>
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In selecting the most appropriate grand strategy, two variables are of critical importance, namely
the principal purpose of the grand strategy and the choice of emphasis (external or internal or both) for realising profitability and growth objectives. It is clear that the initial focus should be internally, while the purpose would be to overcome weaknesses. Should this assumption be correct, the grand strategy focus would be on turnaround or retrenchment, divestiture and/or liquidation.

In terms of the critical importance of the passenger transport industry in the economy, this assumption should preferably be limited to a turnaround strategy. However, divestiture and liquidation strategies, which will be discussed in more detail in paragraph 10.4.5 are inevitable. It can be concluded that this evaluation confirms the conclusions of the SWOT analysis above.

9.4.3 **MODEL OF GRAND STRATEGY CLUSTERS**

It was also decided to use the model of grand strategy clusters as suggested in table 9.3.

<table>
<thead>
<tr>
<th>TABLE 9.3</th>
<th>MODEL OF GRAND STRATEGY CLUSTERS</th>
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<tbody>
<tr>
<td></td>
<td><strong>Rapid market growth</strong></td>
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<tr>
<td></td>
<td>1 Concentrated growth</td>
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<td></td>
<td>2 Vertical integration</td>
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<td></td>
<td>3 Concentric diversification</td>
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<td></td>
<td>1 Reformulation of</td>
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<td></td>
<td>2 Horizontal integration</td>
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<td></td>
<td>3 Divestiture</td>
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<tr>
<td></td>
<td>4 Liquidation</td>
</tr>
<tr>
<td><strong>Strong competitive position</strong></td>
<td></td>
</tr>
<tr>
<td>1 Concentric diversification</td>
<td></td>
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<tr>
<td>2 Conglomerate diversification</td>
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<tr>
<td>3 Joint ventures</td>
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<tr>
<td><strong>Weak competitive position</strong></td>
<td></td>
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<tr>
<td>1 Turnaround or retrenchment</td>
<td></td>
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<tr>
<td>2 Concentric diversification</td>
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<td>3 Conglomerate diversification</td>
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<td>4 Divestiture</td>
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<td>5 Liquidation</td>
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<tr>
<td><strong>Slow market growth</strong></td>
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</table>


The model is “based on the idea that the situation of a business is defined in terms of the growth rate of the general market and the firm’s competitive position in that market.” (Pearce & Robinson, 1997, p 267). Once again the broad strategic option is confirmed. In its present form, the bus industry is in a weak competitive position. The market growth of the public transport industry can at best be regarded as slow, despite the high population growth. Of the strategic
options, turnaround can be viewed as the most viable.

The analysis in table 9.3 also suggests possible diversification options and it was decided to further investigate this alternative.

### 9.4.4 DIVERSIFICATION MODEL

Thompson & Strickland (1996, p 189) suggests a number of corporate diversification strategies in table 9.4. This model, based on exactly the same arguments raised above, suggests the following broad strategic options:

- Reformulate single-business concentration strategy (to achieve turnaround);
- Merger with a rival firm (to strengthen competitive position);
- Vertical integration (only if it strengthens competitive position substantially);
- Diversification;
- Harvest/divest; and
- Liquidation (as last resort in the event all else fails).

The turnaround focus is once again reconfirmed. Of particular significance is the strategic alternative of mergers with rival firms to strengthen competitive position. Within the tender environment solutions such as mergers, alliances, joint ventures or other forms of cooperation should be viewed as viable possible alternatives that need to be considered.

It should be stated that diversification is an operator specific matter, but that the organised industry can play an important role in investigating appropriate alternatives. In the tender system cooperation with other modes should be strongly encouraged which creates various opportunities which may not be viewed as diversification in the technical sense of the word but which is surely an improvement on the status quo. The stated intention to develop the non core business also paves the way for possible diversification. The exploitation of various markets both in and outside the bus industry have been debated at length during various strategic planning sessions with bus operators. It is essential, that these opportunities be further investigated and those that appear viable be exploited.
<table>
<thead>
<tr>
<th></th>
<th>WEAK</th>
<th>COMPETITIVE POSITION</th>
<th>STRONG</th>
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<tbody>
<tr>
<td><strong>Rapid market</strong></td>
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<tr>
<td>growth rate</td>
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<td>Strategy options</td>
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<td>attractiveness)</td>
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<td></td>
<td>business concentration</td>
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<td>strategy (to achieve</td>
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<td>turnaround)</td>
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<td></td>
<td>• Acquire another firm</td>
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<td>in the same business</td>
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<td>(to strengthen</td>
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<td>competitive position)</td>
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<td>Vertical integration</td>
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<td>competitive position)</td>
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<td></td>
<td>• Diversification</td>
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<td></td>
<td></td>
<td>• Be acquired/sell</td>
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<td>out to a stronger</td>
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<td>rival</td>
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<td>• Abandonment (a last</td>
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<td>resort in the event all</td>
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<td>else fails)</td>
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<tr>
<td><strong>Slow market</strong></td>
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<td>Strategy options</td>
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<td>growth rate</td>
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<td>(in probable order of</td>
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<td>attractiveness)</td>
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<td>business concentration</td>
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<td>strategy (to achieve</td>
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<td>turnaround)</td>
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<td></td>
<td></td>
<td>• Merger with a rival</td>
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<td></td>
<td></td>
<td>firm (to strengthen</td>
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<td></td>
<td></td>
<td>competitive position)</td>
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<td></td>
<td></td>
<td>• Vertical integration</td>
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<td></td>
<td></td>
<td>(only if it strengthens</td>
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<td></td>
<td></td>
<td>competitive position</td>
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<td>substantially)</td>
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<td>• Diversification</td>
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<td></td>
<td>• Harvest/divest</td>
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<td>• Liquidation (as last</td>
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<td>resort in the event all</td>
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<td>attractiveness)</td>
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<td></td>
<td></td>
<td>• International expansion (if market opportunities exist)</td>
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<tr>
<td></td>
<td></td>
<td>• Related diversification</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>• Unrelated diversification</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Joint ventures into new areas</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Vertical integration (if it strengthens competitive position)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Continue single-business concentration (achieve growth by taking market share from weaker rivals)</td>
<td></td>
</tr>
</tbody>
</table>


Whether opportunities outside the bus industry should be exploited should be evaluated against the core competencies in the industry. Success in the bus industry requires a particular management approach, and whether success in another industry can easily be achieved is an open question. Another alternative is to outsource existing support functions and focus on markets which require core competencies. Quinn & Hilmer (1994, p 3) states that “by strategically outsourcing and emphasizing a company’s core competencies, managers can leverage their firm’s skills and resources for increased competitiveness.” Outsourcing is viewed as a powerful tool to empower members of the previously disadvantaged population groups in South Africa.

The major conclusion that emanated from this analysis is a reconfirmation of the turnaround
focus in the grand strategy for the bus industry and the diversification possibilities.

9.4.5 ASSESSMENT OF INDUSTRY ATTRACTIVENESS AND INVESTMENT DECISIONS

It has often been said over the past 10 years that the bus industry is not an attractive industry from an investment point of view. It was therefore decided to evaluate this statement by using an appropriate model.

An industry attractiveness assessment scale is proposed by Pearce & Robinson (1997, pp 286-287) to guide strategic analysis and choice in multi-business companies. This model is viewed as relevant to assess the attractiveness of the bus industry against other modes of public transport as well as other business opportunities. Some multi-business companies have interests in the Southern African bus industry, and application of the above model can be used appropriately to assess their bus transport interest against other businesses in their portfolios. The model is also applicable for potential overseas multi-business investors. The broad model makes provision for an assessment of the relative attractiveness of the industry and the strength of the business based on an assessment of certain key parameters in table 9.5.

Investment decisions, according to the model proposed by Pearce & Robinson, should be guided by the basic model outlined in table 9.6. The primary rationale is that the higher the industry attractiveness and the business strength, the more favourably investment in the industry should be considered. On the contrary, the less attractive the industry and the weaker the business, the less favourable should investment in the industry be considered. This is a conceptual model which illustrates a broad principle, and conclusions on the assessment should be considered in context. The conclusion from the assessment is, however, confirmed by practical evidence of the number of operators that have left the industry to exploit more viable opportunities in other industries.

Based on the assessment the industry is not very attractive. Since the middle 1980's various bus operators indeed followed divestiture and harvesting strategies due to a considerable decline in their profitability at the time. It should be stated, however, that investment in the bus industry should be assessed in terms of a completely changed business environment.
<table>
<thead>
<tr>
<th>INDUSTRY ATTRACTIVENESS</th>
<th>BUSINESS STRENGTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of competitive rivalry</td>
<td>Cost position</td>
</tr>
<tr>
<td>* Number of competitors</td>
<td>* Economies of scale</td>
</tr>
<tr>
<td>* Size of competitors</td>
<td>* Manufacturing costs</td>
</tr>
<tr>
<td>* Strength of competitors’ corporate parents</td>
<td>* Overheads</td>
</tr>
<tr>
<td>* Price wars</td>
<td>* Labour cost</td>
</tr>
<tr>
<td>* Competition on multiple dimensions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Bargaining power of suppliers/customers</td>
<td>Level of differentiation</td>
</tr>
<tr>
<td>* Relative size of typical players</td>
<td>* Promotion effectiveness</td>
</tr>
<tr>
<td>* Numbers of each</td>
<td>* Product quality</td>
</tr>
<tr>
<td>* Importance of purchases from or sales to</td>
<td>* Company image</td>
</tr>
<tr>
<td>* Ability to vertically integrate</td>
<td>* Brand awareness</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Threat of substitute products/new entrants</td>
<td>Response time</td>
</tr>
<tr>
<td>* Technological maturity/stability</td>
<td>* Manufacturing/service flexibility</td>
</tr>
<tr>
<td>* Diversity of the market</td>
<td>* Time needed to introduce new products/services</td>
</tr>
<tr>
<td>* Barriers to entry</td>
<td>* Delivery times</td>
</tr>
<tr>
<td>* Flexibility of distribution system</td>
<td>* Organisational flexibility</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic factors</td>
<td>Financial strength</td>
</tr>
<tr>
<td>* Sales volatility</td>
<td>* Solvency</td>
</tr>
<tr>
<td>* Cyclicality of demand</td>
<td>* Liquidity</td>
</tr>
<tr>
<td>* Market growth</td>
<td>* Break-even point</td>
</tr>
<tr>
<td>* Capital intensity</td>
<td>* Cash flow</td>
</tr>
<tr>
<td></td>
<td>* Profitability</td>
</tr>
<tr>
<td></td>
<td>* Growth in revenue</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial norms</td>
<td>Human assets</td>
</tr>
<tr>
<td>* Profitability</td>
<td>* Skill level</td>
</tr>
<tr>
<td>* Leverage</td>
<td>* Morale</td>
</tr>
<tr>
<td>* Credit practices</td>
<td>* Managerial commitment</td>
</tr>
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<td></td>
<td>* Unionisation</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Socio-political considerations</td>
<td>Public approval</td>
</tr>
<tr>
<td>* Government regulation</td>
<td>* Goodwill</td>
</tr>
<tr>
<td>* Community support</td>
<td>* Reputation</td>
</tr>
<tr>
<td>* Ethical standards</td>
<td>* Image</td>
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</tbody>
</table>

As stated, the future of the industry will differ significantly from its past in a number of ways. Industry attractiveness in the new public transport dispensation should rather be evaluated against, and guided by the following considerations:

- The traditional image of the bus industry as primary vehicle of the apartheid system will change if the proposed strategy is implemented and it is envisaged that perceptions by possible investors will also change;
- The basic “rules of the game” has changed considerably. The tender system provides more structure to guide investment decisions such as a fixed contract term and remuneration;
- The competitive environment will provide incentives for operators applying sound private enterprise management principles, which will make the industry more attractive; and
- The design of tenders will change the supply driven nature of commuter transport and also result in a market driven and more attractive industry.
It should also be stated that the possibility of further harvesting and divestiture strategies in the bus industry can not be excluded. In a fairly saturated market, new entrants would technically imply a smaller portion of the market for existing operators. Limited other opportunities will finally result in divestiture or liquidation. The specific strategy to be followed will depend on the circumstances. In this regard the following definitions of the possible strategies will be useful:

- **Harvest:** “A harvest strategy steers a middle course between preserving the status quo and exiting as soon as possible. Harvesting is a phasing down or endgame strategy that involves sacrificing market position in return for improved cash flows or short term profitability. The overriding financial objective is to reap the greatest possible harvest of cash to deploy to other business endeavours.” (Thompson & Strickland, 1996, p 177);

- **Divestiture:** “A divestiture strategy involves the sale of a firm or a major component of a firm.” (Pearce & Robinson, 1997, p 234); and

- **Liquidation:** “When liquidation is the grand strategy, the firm is typically sold in parts, only occasionally as a whole - but for its tangible asset value and not as a going concern.” Since the middle 1980’s various bus operators indeed followed divestiture and harvesting strategies due to a considerable decline in profitability at the time. (Pearce & Robinson, 1997, p 235).

The attractiveness of a bus company as a going concern in the tender environment should be evaluated against the availability of tender opportunities and potential buyers at the time. Unfortunately some existing operators will have to either leave the industry completely, or become smaller through any of the above strategies. It is, however, envisaged that strategic alliances and joint ventures, which will be discussed later in the study, will be more viable and attractive alternatives. The bus industry can not afford to lose its expertise.

Judged by many considerations the bus industry could have been viewed as weak business, especially during the past 5-10 years. Harvesting is considered to be a strategic option for weak business. According to Thompson & Strickland (1996, p 177) a harvesting strategy implies: “....keeping reinvestment to a bare-bones minimum and taking actions to maximize short-term cash flows in preparation for an orderly market exit.” This strategy had been followed by various large, medium and small bus operators since the decline of the bus industry started in the middle 1980’s. Within the tender environment operators will have more security for investment decisions.
due to a firm agreement in terms of funding for the tender period. This strategy is possibly the only option for some bus operators at this stage.

9.4.6 **TURNAROUND AS GRAND STRATEGY**

The above evaluations clearly illustrate the urgent need for a turnaround strategy for the bus industry, with the possibility of diversification of some kind.

Within the new environment, which differs significantly from the previous environment, turnaround strategies should be more focussed in accordance with the needs and demands of the competitive environment. Pearce & Robinson (1997, p 231) defines a turnaround strategy as follows: “For any one of a large number of reasons, a firm can find itself with declining profits. Among these reasons are economic recessions, production inefficiencies, and innovative breakthroughs by competitors. In many cases, strategic managers believe that such a firm can survive and eventually recover if a concerted effort is made over a period of a few years to fortify its distinctive competencies. This turnaround strategy is known as turnaround. It typically is begun as through one of two forms of retrenchment, employed singly or in combination.” These forms of retrenchment are cost reduction and asset reduction.

According to Thompson & Strickland (1998, p 206) a turnaround strategy is needed “when a business worth rescuing goes into crisis; the objective is to arrest and reverse the sources of competitive and financial weakness as quickly as possible.” Some of the most common causes for the crises requiring turnaround strategies include:

- Incurring too much debt;
- Overestimating potential for growth;
- The burden of high fixed costs;
- Unrealistic optimism to enter new markets; and
- “being overpowered by the competitive advantages enjoyed by more successful rivals” (Thompson & Strickland, 1998, p 206).

These causes are perfectly relevant to the bus industry, especially in terms of the following considerations:

- As a result of the high cost of vehicles and other capital assets, the urgent need to replace existing fleets, declining revenues and other considerations forced most
operators to incur debt;

- The increasing bus passenger growth pattern up to 1982 resulted in an overestimation of future growth at the time;
- The burden of high fixed overhead costs is a serious problem in the bus industry. It is not possible to reduce these costs soon enough when revenue decreases;
- Unrealistic optimism to enter new markets is also a problem that some operators encountered during the past 3-5 years. The peaceful 1994 elections, the 1995 rugby world cup and South Africa's aspirations to secure the 2004 Olympic Games created unrealistic expectations about the tourism market which did not materialise. Various bus operators invested heavily in luxury coaches without realising the expected return on their investment. These investments further increased the burden of debt; and
- The competitive advantage of the minibus taxi aggravated the above situation and clearly confirms the need for a turnaround strategy.

Thompson & Strickland (1998, p 206-207) suggests a number of turnaround strategies for businesses in crisis namely selling off assets, strategy revision, boosting revenues, cutting costs and a combination of efforts. The bus industry is now faced with the challenging task to turn around and simultaneously adapt to a new set of rules and realities created by the competitive tender system. Specific strategy options in respect of the above strategies will be discussed in the second part of the chapter. It should be stated that countries such as Great Britain, Australia and New Zealand, as discussed in chapters three and five transformed under comparable circumstances and their learning experiences are very valuable. These countries succeeded in reducing costs, while the new policy was implemented. Specific cross references to these experiences will be made when the proposed change strategy is discussed.

9.5 EVALUATION OF INDUSTRY AGAINST SPECIFIC RELEVANT STRATEGIES

9.5.1 RATIONALE

As part of the multiple valuation approach it was also decided to evaluate the bus industry against specific strategies on which suitable literature could be found. Companies in certain situations or growth phases tend to follow specific strategies to achieve their long term objectives. A selected number of strategies, in addition to the turnaround strategy discussed above, will be used to provide additional direction to this chapter. Despite the distinct characteristics of the bus industry
and its large number of differences if compared to other industries, certain general principles apply to all industries and organisations. These general principles will be discussed in the context of the bus industry and the objectives of this chapter.

9.5.2 SHAKEOUT STRATEGIES

Day (1997) describes two syndromes that are particularly relevant to the passenger transport industry namely the boom-and-bust syndrome and the seismic-shift syndrome. Organisations that do not survive, experience shakeouts.

Boon-and-bust-shakeouts

Boom-and-bust shakeouts occur in cyclical business and attractive emerging markets. During so called boom periods, large numbers of entrants are attracted to these markets due to their perceived attractiveness. As competition increases and prices reduce as a result, new entrants to the market reduce substantially and existing competitors fail or are shaken out. Eventual bust is inevitable due to the following reasons:

- Disappointing growth. While high growth attracts competitors to the market, a decline in growth is viewed as a negative indication to potential and existing investors;
- Emergence of a dominant design. New designs can easily attract consumer interest resulting in a decline in the market of the existing product range;
- Scarce resources. “Resource shortages can trigger a bust in high-growth markets, depriving companies of the fuel they need to grow.”


The South African taxi industry is a typical example of the boom-and-bust syndrome. This market is still severely oversupplied and it can be expected that this syndrome will still take its toll amongst present operators. The restructuring of the passenger transport industry and especially the integrated transport plan will ensure regulated entry to the market. Improved control will make a significant contribution in this regard.

Seismic-shift shakeouts

The seismic-shift shakeouts normally occur in stable and mature industries. Industries that are hit by seismic-shifts have enjoyed prolonged periods of protected prosperity. The
South African bus industry is a typical example of this syndrome. Although it can be argued that for many years before the new dispensation the protected prosperity was not really attractive, bus operators still enjoyed certain privileges.

"Protected prosperity is the result of isolating mechanisms - market factors that deter competition." (Day, 1997, p 96). This syndrome is normally offset by the following triggers:

- Deregulation. Deregulation removes the restraints on competition and opens the market to new entrants. Although deregulation as such is not on the South African agenda, competition will result in more new entrants to the market;
- Globalisation. Access to global markets are becoming increasingly easy resulting in increased competition;
- Technological discontinuity. If technological obsolescence occurs, competitive knowledge and technology in the old technology is no longer a competitive advantage. New entrants therefore have the same opportunity to learn and adjust to the new technology; and
- Emergence of a “Competency Predator.” These innovators optimise economies of scale opportunities. “Once they have mastered competency in a given market, often with the help of information technology, they apply the resulting skills and know-how to enter new regions, markets and industries.” (Day, 1997, p 97).

Companies that survive the boom-and-bust syndrome are called adaptive survivors. Those that survive the seismic-shift syndrome are called aggressive amalgamators. Two specific messages for the two transport industries concerned are contained in these definitions of the survivors. Closer cooperation between the bus operators, in whatever form, should be investigated and options such as joint ventures and strategic alliances should be further investigated.

"Companies left standing after seismic shifts are often those with the foresight and the skills to force the shakeout on their own terms by a process of aggressive amalgamation. Aggressive amalgamators develop the right business model for the emerging environment, rapidly acquire and absorb smaller rivals, cut operating costs, and invest in technologies that increase minimum"
efficient scale.” The right business model will be a pre-requisite for success in the new environment and considerable effort should be afforded to the development of models to empower SMME operators.

9.5.3 STRATEGIES FOR COMPANIES IN MATURING INDUSTRIES

Thompson & Strickland (1996, p 152) suggests a number of strategies for companies competing in maturing industries. For the purpose of this analysis the bus industry can be viewed as a maturing industry. If the performance of the bus industry over the past 15 years is taken into account some of the following assumptions underlying strategies in maturing industries are particularly relevant:

- **Slowling growth in buyer demand generates more head-to-head competition for market share.** The slowing growth in the demand for bus services is a direct consequence of the growth of the taxi industry;

- **Buyers become more sophisticated, often driving a harder bargain on repeat purchases.** Buyers in the Southern African public transport market have indeed become more sophisticated. Price cutting by the taxi industry should be viewed in context of the abovementioned “bargain.” The level of sophistication is further increased by the present efforts to empower and uplift people in South Africa as a counter strategy of the apartheid policy;

- **Competition often produces a greater emphasis on cost and service.** Despite the fact that the taxi industry did not receive government subsidies, they succeeded in undercutting the subsidised bus tariffs. Taxis also have the added advantage of superior mobility and accessibility;

- **Firms have a ‘topping out’ problem in adding production capacity.** “Slower rates of industry growth mean slowdowns in capacity expansion. Each firm has to monitor rivals’ expansion plans and time its own capacity additions to minimize oversupply conditions in the industry. With slower industry growth, the mistake of adding too much capacity too soon can adversely effect company profits well into the future.” (Thompson & Strickland, 1996, p 153) This statement is particularly relevant to evaluate and understand the oversupply conditions in the bus industry where most large operators have spare capacity in terms of vehicles;

- **Product innovation and new end-use applications are harder to come by.** This assumption is relevant to the bus industry. “Producers find it increasingly difficult
to create new product features, find further uses for the product, and sustain buyer excitement.” (Thompson & Strickland (1996, p 153) The off peak market in the bus industry has largely been exploited by taxi operators and further innovations and product/service applications become more difficult. However, an innovative approach pertaining to service delivery will be essential to be successful in the new policy environment;

- **International competition increases.** As stated, prominent international operators have indicated their intention to penetrate the Southern African bus market through the tender system. It can be assumed that this threat to the local bus market will be in the commuter, intercity, as well as charter markets;

- **Industry profitability falls temporarily or permanently.** Industry profitability has declined considerably, especially during the past decade. This decline can be attributed to two primary reasons, namely reduced government subsidies which became policy as recommended by the Welgemoed Commission in the middle nineteen eighties, and reduced passenger volumes as a result of the uncontrolled growth of the taxi industry during the same period; and

- **Stiffening competition induces a number of mergers and acquisitions among former competitors, drives the weakest firms out of the industry, and, in general, produces industry consolidation.** This tendency occurred in the bus industry during the past 10 years. Furthermore the tender system is designed to incorporate small operators and it can be anticipated that further consolidation will take place.

Based on these assumptions, companies operating in maturing industries can use various strategies to optimise their position in the market. “As industry maturity begins to hit full force, and changes in the competitive environment set in, several strategic moves can strengthen firms’ competitive positions.” According to Thompson & Strickland (1996, pp 153-154) these strategies include:

- **Pruning the product line.** This strategy is not really relevant to the commuter bus industry in view of the fact that principally one main product/service is provided;

- **More emphasis on process innovations.** This strategy is particularly relevant to the bus industry. A major portion of the present commuter system comprises government owned operations. These companies have systems and processes that were designed particularly for the commuter system in the previous dispensation.
The tender system will result in more smaller operations with particular focus on efficient operations. Process re-engineering should be considered as a major strategy to reposition operators in the industry for tender opportunities;

- **A stronger focus on cost reduction.** Cost reduction should be a definite strategy due to the competitive environment created by the tender system. Cost structures will have to be reduced to secure tenders. Certain cost structures pertaining to the bus industry are fixed and efficiency improvements and a leaner structure should rather be the focus of reducing cost;

- **Increasing sales to present customers.** This strategy is not particularly relevant to the bus industry. However, efforts can be made to market private hire and off peak services to existing commuters. Services to the corporate market such as contracts with employers can also be expanded. Bus operators should also endeavour to regain passengers lost to the taxi industry;

- **Purchasing rival firms at bargain prices.** This strategy actually occurred in the bus industry over the past 10-15 years. Within the tender environment existing routes and services will be subject to tendering and the best tenderer will secure the business. Purchasing of rival firms is still a possibility which could lead to industry consolidation. Consolidation after policy renewal occurred in Great Britain, South America and other countries; and

- **Expanding internationally.** Foreign operators and even freight operators have intentions to enter the bus industry via the tender system. As a result of the maturity of the bus industry abroad, foreign operators may increasingly invest in the local market. Due to the low value of the South African Rand against most overseas currencies, international expansion is not as this stage viewed as viable alternative.

### 9.5.4 STRATEGIES IN STAGNANT AND DECLINING INDUSTRIES

Thompson & Strickland (1996, p 155) suggests a number of strategies for companies in stagnant or declining industries that are relevant to the bus industry. These strategies include:

- **Pursue a focussed strategy by identifying, creating, and exploiting the growth segments within the industry.** This strategy has specific implications for the tender system. In an open tender system operators can tender anywhere they want. They can focus on niche markets outside their traditional operating environment
and expand their operations in this way;

- **Stress differentiation based on quality improvements and product innovation.** Differentiation was not actually part of public transport in the previous dispensation due to the supply driven character of the industry at the time. Depending on tender specifications, differentiation may be possible in the tender system; and

- **Work diligently and persistently to drive costs down.** Diligence, persistence and cost reduction should be part of any bus operator that intends to secure tenders and to be successful in a highly competitive environment.

### 9.5.5 Strategies in Fragmented Industries

Thompson & Strickland (1996, p 157) suggests the following strategies for companies competing in a fragmented industry:

- Constructing and operating “formula” facilities;
- Becoming a low cost operator;
- Increasing customer value through integration;
- Specialising by product type;
- Specialising by customer type; and
- Focussing on a limited geographical area.

Due to past policies, the public transport industry became fragmented and the above strategies were adopted by the various public transport modes. The very nature of the new policy is to actively integrate the public transport industry which require a different approach and focus in future. Certain elements of the broad strategy, namely to become a low cost operator and increasing customer value, still remain relevant. Increasing customer value is an overriding theme of the Moving South Africa project and also emerged as major theme in the literature chapters. One of the most powerful methods to attract passengers to public transport is to increase customer value. The quality partnership concept in Great Britain, which was discussed in chapter three is a good example of increasing customer value through close cooperation between operators and authorities.

### 9.6 New Business Mindset

A further attempt to determine focus is to evaluate the impact of the business environment that
emerged after the 1994 election on the bus industry. During the strategic planning workshops with bus operators the following guidelines to deal with the new business environment have been formulated:

- Enter into partnerships with the community;
- Give ownership to the formerly disadvantaged communities;
- Let customers share in the fortunes of the company;
- Include all role players in planning;
- Revisit real customer needs;
- Invest in communities and make them feel part of the system;
- Be prepared for higher cost structures as a result of social responsibility and marketing cost;
- Accept organised labour as major stakeholder;
- Plan for higher cost structures due to proposed labour legislation, corporate equity and other statutory requirements;
- Ensure the acquisition of new skills to remain competitive, especially in areas such as entrepreneurship, information technology, communications and cross cultural skills;
- Expect greater competition from overseas sources;
- Follow a turn around strategy to stay in business;
- Be prepared to manage change as ongoing priority to stay in business;
- Change the work ethic to ensure an atmosphere conducive to efficiency;
- Focus on affirmative action and corporate equity;
- Strengthen relationships with decision makers and know the processes; and
- Expand information and resource networks.

Although various different options to deal with the new environment are suggested, considerable focus on the key strategic issues emerge. The above analysis was particularly useful in the sense that it focussed the attention of operators on the new rules of business and initiatives to be successful in the new environment. The overwhelming support for a turnaround strategy is once again confirmed in the above suggestions.

9.7 CURRENT FOCUS OF THE ORGANISED BUS INDUSTRY

Any new strategic initiative should be evaluated against what is currently in place. At the 1998
SABOA strategic planning conference, the following priorities were formulated:

- The industry must try to ensure (by influencing) that operational tender specifications are in order;
- SABOA must facilitate development of models and guidelines for joint ventures and the empowerment of SMME’s. These models must be endorsed by SABOA and supported by participating members. There must also be an ongoing development and communication of tangible benefits of belonging to SABOA, especially for small operators;
- SABOA must set up workshops on public transport promotion and empowerment to find common ground amongst various transport modes;
- Together with bus operators SABOA must keep working at the alignment of national and provincial transport policies;
- SABOA must arrange workshops and training courses and generally disseminate information about the transition process;
- SABOA must set standards and write specifications for contracts and establish a process for monitoring them;
- SABOA must do a needs analysis to develop a central database for the industry;
- SABOA must continue to lobby at national level, but must give particular attention to the growing need for a voice at the local levels of government;
- SABOA must find creative ways to provide security for finance houses to facilitate the advancement of funds to small business; and
- SABOA must establish a development foundation for the advancement of small business in the passenger industry.

At the 1999 strategic planning conference the following priorities were identified:

**Regions**

- Full time personnel;
- Empowerment of regional staff and SABOA members;
- Resource matrix; and
- Make membership mandatory in awarding tenders.

**Positioning of SABOA**

- Code of conduct;

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• Marketing the bus industry;
• Image of SABOA as perceived by stakeholders;
• Representation at all spheres of government; and
• Positioning with other stakeholder organisations at macro level.

Resources

• Empowerment of the development foundation; and
• Use the foundation as channel for government funds.

The urgent need by operators for guidance in terms of the transformation process is clearly reflected in the above requirements. Of particular significance is the suggestion, or need, to diversify into the training, consultancy and electronics industries. The broad direction identified with the diversification model above is confirmed and should, as suggested, be further investigated.

The above strategy can be further substantiated by the following priorities or focus areas created during various other strategic planning sessions:

• To improve efficiency at all levels of the organisation;
• To improve communication internally and externally;
• To secure/develop sufficient knowledge to secure tenders;
• To ensure a mutual commitment between labour and management;
• To actively pursue community partnerships and joint ventures;
• To achieve acceptable profitability levels;
• To establish a customer care culture at all levels of the organisation; and
• To implement a formal corporate equity plan.

The above focus areas also clearly confirm the basic assumptions of the various analyses. Within the basic strategic direction of turnaround, the above focus areas substantiate the what and the how of the strategy at industry and operator level.

9.8 ELEMENTS OF THE CHANGE STRATEGY

As stated earlier, the multiple evaluation method followed in this study makes it difficult to report research findings in a chronological manner. The conceptual basis for the evaluations was obtained
from two textbooks on strategic management, namely Pearce & Robinson (1997) and Thompson & Strickland (1998). Terminology and sequence of the key strategic concepts and issues differ in the works of the said authors, which makes it difficult to find a middle of the road reporting format. For the purposes of the proposed structure of change strategy that follows, the classification and process of Pearce & Robinson was found to be the most appropriate.

The first part of the process, or rather strategic management model, includes the formulation of a mission, the development of a company profile, an evaluation of the external environment and strategic analysis and choice. This process, with the exception of the mission statement, which is not viewed as relevant to this study, has been completed. The remainder of the process, which is summarised as follows, will be followed in presenting the change strategy for the bus industry:

- Formulation of long term objectives;
- Formulation of generic and grand strategies;
- Action plans and short term objectives;
- Functional tactics;
- Restructuring, re-engineering and refocusing the organisation; and
- Strategic control and continuous improvement.

It should also be noted that it is not possible, or necessary, to comply with all the requirements of good strategies in an academic study of this nature, especially in terms of specific completion dates and allocation of responsibility. The conceptual framework will be provided in accordance with the objectives of the study which will enable the industry to complete the process. In the next chapter, specific recommendations will be made in terms of the conclusions made in this chapter.

### 9.9 FORMULATION OF LONG TERM OBJECTIVES

As indicated in chapter two, one of the megatrends that shape the future of the world, and the future of business in particular, is the shift away from short term planning to long term planning. The value of long term plans is also realised in a study of best practices in Australia. Chapter six

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outlined the value of these plans in New South Wales and more specifically its capital city, Sydney. Challenging long term objectives are required to ensure effective long term planning and the realisation of the desired future state defined by the organised bus industry. Long term objectives for the industry are closely related to the operator vision. Pearce & Robinson (1998, p 214) state the following qualities of long term objectives:

- Acceptability to management;
- Flexibility in terms of "unforseen or extraordinary changes in the firm’s competitive or environmental forecasts";
- Measurability to enable monitoring of the objectives;
- Motivating to provide challenges to management;
- Suitability in terms of the broad aims of the organisation;
- Understandability to those responsible for the execution of the objectives; and
- Achievability. Finally objectives should be realistic in terms of their achievability.

Based on the above qualities and requirements, long term objectives for the bus industry should be aimed at achieving the vision for the industry. To ensure focus in the formulation of the long term objectives, the vision formulated for the bus industry is repeated. Although this vision was formulated for the year 2005, which is technically more medium than long term oriented, the vision contains strong elements of the desired outcome contained in the Moving South Africa proposals, and is therefore suitable to guide the formulation of long term objectives. The successes of the integrated land-use/transport system of Curitiba, as discussed in chapter four, illustrated the value of visioning in realising positive long term change.

**Bus Industry**

**Vision 2005**

Bus operations are economically viable and profitable and play a significant role in an effective and fairly regulated passenger transport industry. The bus mode, as low capital cost solution, plays a leading role in integrated transport networks. Policy measures to optimise the role of the bus have been successfully implemented. The bus industry, which is largely privately owned, is valued as an integral part of economic development and social upliftment. All role players work closely together to achieve the desired synergy and optimisation of effort and the travelling community is satisfied with the high quality of the service. Formerly disadvantaged communities have been successfully empowered.
Based on the desired end result described above, the gaps identified in the previous chapter, as well as other considerations discussed in chapters eight, nine and the first part of this chapter, specific measurable objectives should be formulated in the following focus areas:

- **To secure an economically viable portion of the services rendered in integrated transport networks.** The conclusions made in chapter 4 and 5 support the optimisation of the bus in an integrated network. Compared to highly successful transport networks in especially South American cities, the commuter bus is underutilised in South Africa. This strategic focus area should possibly be addressed on regional level with strong guidance from SABOA. The Moving South Africa project has clearly shown that modes are not utilised effectively according to their primary characteristics in the present system. By using the desired 80:20 distribution between public and private transport, consideration should be given to set a specific objective for the bus in the new dispensation in comparison to the other modes. The bus is particularly suited to operate as mass transport mode on high density corridors, where taxis operate at present. High levels of congestion created by taxis on these routes are not in the interest of the public transport industry and its stakeholders. It is critically important that local authorities and transport authorities, once they are in place, be guided to fully understand the long term benefits of the bus mode. The organised industry should take the lead in this regard, and the following recommendations are submitted for consideration:

  * That a detailed positioning strategy be compiled to achieve this long term objective. This strategy should focus on national, provincial and local level;
  * That further research be undertaken in terms of the Moving South Africa project that will enable the optimisation of the bus in the 80:20 ratio. Expression of the Moving South Africa in terms of a bus vision could be used as powerful theme to position the commuter bus;
  * That specific measures to improve the utilisation of the bus such as dedicated bus lanes be considered and implemented. The value of these measures was clearly illustrated in chapters four and five;
  * That capital investment be secured for technological renewal and upgrading of the existing fleets. People identify with success stories and a new and modern fleet will create the ideal image;
• **To secure and gain market share in the public transport industry.** In addition to the previous focus area, a specific target may be considered in terms of the market share of the existing operators. In terms of the high likelihood of new foreign entrants to the local market, it makes sense to set a specific objective on market share. Concerted efforts to regain existing market share, within the specifications of the tender concerned, should further improve the competitive spirit of the tender system. Growth should not necessarily be to the detriment of other modes. If the market share of public transport increases towards the 80:20 ratio, a much bigger market will emerge in which the bus industry can position itself as major player with its rightful share of the market based on economic considerations. Sustainable market share for the bus mode was created in Curitiba, as discussed in chapter four. An increase in the market share of public transport was also noticeable in countries such as Australia as a result of customer based initiatives;

• **To establish a marketing mindset in the industry.** The establishment of a market driven and customer based management philosophy should be firmly embedded in the industry over the long term. Chapters three to five revealed the critical importance of a marketing and customer driven approach as prerequisite for growth of the public transport market share;

• **To establish a quality partnership concept.** The new policy focus in Great Britain, as discussed in chapter three, underlined the value of quality partnerships in rendering public transport services. Cooperation between all the stakeholders in the new dispensation will be critical to increase the market share of public transport. The relationship between operators and authorities in particular will have to be developed and strengthened to improve service levels and to attract passengers to public transport and specifically the bus mode. It is therefore recommended that a concept similar to the British quality partnerships be considered;

• **To improve quality and service to the travelling community.** The primary driving force of a future public transport dispensation, as envisaged by Moving South Africa, is the customer. International best practices in various parts of the world is based on product and service quality, which resulted in success. Quality and service are therefore of utmost importance, and the following
recommendations are submitted for consideration:

* That specific attention be paid to vehicle upgrading and technology improvement as discussed above. The existing bus fleet is too old and unattractive to attract passengers. Alternatives such as trolley buses should also be considered;

* That specific attention be paid to network integration and supporting technology such as through ticketing. Integrated networks in various parts of the world, for example Curitiba, discussed in chapter four and Australia, discussed in chapter five, are highly effective and succeed to attract passengers to public transport. Bus operators should play a leading role in this regard and position themselves with authorities. Operational matters such as routes and schedules should also be refined and improved to improve the quality of the service;

- **To form alliances and joint ventures with other players in the public transport industry.** Although alliances and joint ventures are operator and tender specific issues, some form of tangible outcome should be considered at industry level;

- **To empower small and medium sized entrepreneurs in the bus industry.** In a situation where market forces operate it is difficult to set specific empowerment objectives. It should be stated, however, that empowerment in the new environment is not negotiable but mandatory. More measurable objectives on the empowerment process could further give substance to the empowerment efforts of the bus industry. Particular attention should be focussed on the development of specific subcontracting and empowerment models;

- **To secure acceptable levels of profitability.** Profitability within the tender system will be determined on the competency of the tenderer to secure the tender and to render an efficient service in terms of the contract specification. Some form of standard norm or objective in terms of profitability should be considered;

- **To become lean and effective operators.** International experiences have shown the benefits of competition on the effectiveness of bus companies. Even the threat of competition resulted in expenditure savings. Although re-engineering should rather be viewed as part of strategy implementation over the short to medium term, specific long term objectives in terms of the transformation from supply driven operators to effective operators in the competitive environment may be considered;
To plan for, and successfully manage industry consolidation. Chapter three confirmed a situation of industry consolidation after the implementation of policy renewal. It is essential that the possible effect of industry consolidation be considered and carefully managed. For example, the effect of consolidation on key issues such as the empowerment of small operators should be anticipated in time to allow for alternative plans of action.

It is clear that the commuter bus can play an immensely important role in achieving the long term objectives of the country and its people. The effective performance of busways if compared to other mass transport alternatives is one of the outstanding features of the Curitiba system. “Surprisingly, although much studied, few well designed busways have been implemented outside South America. The problems preventing the widespread, routine development of busways are primarily institutional rather than technical - they have no natural promoters, because of their lack of image and a lack of what is achievable, even though their effectiveness and economic worth are demonstrable.” (Allport 1998, p 32). In other countries or cities where busways were implemented, positive results were reported. “The Leeds Guided Busway project has demonstrated that a bus corridor enhancement scheme can deliver levels of service performance similar to that of light rail system, but at a fraction of the cost.” (Allport 1998, p 32). It is therefore essential that long term objectives to position the bus industry be formulated and implemented. Most of the current restraints are indeed based on perceptions rather than facts and a bus positioning strategy is of utmost importance.

To ensure that the long term objectives are formulated in accordance with the Moving South Africa objectives and the peculiar needs of the industry and operators, it is recommended that a task team be appointed for this purpose. It is essential that operators take the lead in creating their own future. A wait and see approach will lead to further deterioration of the industry. It is now the opportune time for operators to position themselves with the different spheres of government and to influence further policy development and policy implementation. But, statutory measures are one side of the argument. The industry should portray an image of strength and effective organisation. Bus operators should excel by outperforming other modes. In the final analysis, people on the bus will be the only real difference between a successful industry and a declining industry. By focussing on low-cost/high impact solutions, such as service improvement, bus operators can make an immediate difference as first step in securing a prosperous long term future.
9.10 GENERIC STRATEGIES: GUIDELINES AND IMPLICATIONS

Competitive advantage can be achieved in a number of ways. The following competitive strategy approaches suggested by Thompson & Strickland (1996, p 116) and discussed in chapter 8 are the most important:

- **A low-cost leadership strategy**: Striving to be the overall low-cost provider of a product or service that appeals to a broad range of customers;

- **A broad differentiation strategy**: Seeking to differentiate the company’s product offering from rivals’ in ways that will appeal to a broad range of buyers;

- **A best-cost provider strategy**: Giving customers more value for their money by combining an emphasis on upscale differentiation; the target is to have the best (lowest) costs and prices relative to the producers of products with comparable quality and features;

- **A focussed market niche strategy based on lower cost**: Concentrating on a narrow buyer segment and outcompeting rivals on the basis of lower cost; and

- **A focussed or market niche strategy based on differentiation**: Offering niche members a product or service customized to their tastes and requirements.

The selection of a single generic strategy is problematic in view of the nature of competition in the competitive environment. The tender for contract system makes provision for competition for the road. Once the tender is approved, the primary competition element is no longer the primary motive, until the end of the tender period. The generic strategy to secure the tender would therefore generally be a low-cost leadership strategy. Price remains one of the most important tender criteria. However, a specific combination of tender specifications may also require elements of focus or a best cost provider strategy.
Pertaining to the non core business, namely exploitation of any other opportunity which is not part of the tendered contract, some of the other generic strategies may be considered. It should be stated, however, that commuter passengers generally include the lowest earners in the economically active population. To most commuters, cost remains the prime concern in the choice of transport. In such a market, the scope for focus and differentiation based strategies are generally limited. The further upliftment of the commuter passenger could, however, change the situation. One of the most important reasons for the loss of market share of the bus industry to the taxi industry, was indeed the ability of the taxi to differentiate itself from the bus mode in terms of speed, accessibility and other considerations. In a highly competitive environment established paradigms should be replaced by innovation and creativity and bus operators should revisit the market with innovative solutions. Such creative solutions were discussed towards the end of chapter five.

9.11 GRAND STRATEGIES: GUIDELINES AND IMPLICATIONS

9.11.1 TURNAROUND

Multiple analyses conducted in the first part of this chapter indicated an overwhelming preference for a turnaround strategy. It should be stated that the turnaround strategy proposed in this section of the report is influenced by the following considerations:

- The extent to which the organised industry can address the specific issue collectively. Operator specific issues can not be addressed in a report of this nature; and
- The critical importance of strategy implementation, with specific reference to re-engineering and restructuring. These important aspects of the strategy should be viewed as an integral part of the turnaround strategy;

To ensure a logical reporting of research findings, restructuring and re-engineering will be presented under a separate heading. This section of the report will therefore focus on the broad turnaround strategy. Based on the multiple analyses in the present and previous chapters, the
following strategies are suggested:

- **Selling off assets.** Selling of assets is a strong possibility in the transition to the new dispensation. It should be taken into consideration, however, that the disposal of old vehicles in a relatively saturated market is not really viewed as a viable alternative at this stage. It is also very difficult to determine at this stage who will be successful in their tender bids. A vehicle disposal strategy, for example can only be finalised after the approval of tenders. It should be stated that SABOA is already playing a leading role in advising the authorities and members in terms of tender and asset specifications. Should operators have the need for advice on specific asset requirements and disposal options, SABOA would be in a ideal position to advise the operator on the most viable course of action. The asset base, excluding vehicles, is also a very specific issue that should be addressed at operator level. The technology aspect of assets, such as electronic fare systems and equipment will be specified in tender documents and disposal of redundant or additional assets will have to be addressed by the operator concerned. Depot infrastructure, especially infrastructure that are ideally situated in terms of the market, should as far as possible be retained in the industry and, where possible, be shared by operators. Expensive infrastructure of this nature could prevent SMME operators from entering the industry. Alliances and joint ventures such as subcontracting could create various opportunities to share expensive infrastructure;

- **Strategy revision.** Strategy revision by the organised industry is high on the agenda of SABOA and considerable progress in this regard had been made during the past 18 months. This entire research project should be viewed as a major effort initiated by SABOA to change direction towards the desired future state. To ensure successful transition at operator level, a basic proposal to assist operators is included as the last part of this chapter;

- **Boosting revenues.** Tenders will enable some operators to boost revenues outside their present operations, provided that they retain their existing business. Increased revenue can also be generated through better exploitation of the private hire, employer contract and other markets. It should be stated that competition in these markets is very fierce, and also limited to vehicle capacity of the operator. The long term objectives discussed above also make provision for profitability. Specific objectives in this regard should be formulated at operator level. The
possible diversification opportunities should also be further investigated as further means to improve revenue, and the profitability of bus operators;

- **Cutting costs.** This strategy will form an integral part of the change process. The key issue to be addressed is to find means and ends to cut overhead cost in accordance with the requirements of new tenders. The success of operators in the tender environment will depend on their ability to control costs of the following operational resources:

  - **Labour cost:** Labour cost on average already exceeds 30% of total operating cost. It can be safely assumed that labour cost will increase in future due to the effects of labour legislation. The only alternative operators therefore have is to improve labour efficiency through leaner staff structures and higher productivity;

  - **Fixed infrastructure cost:** High capital cost to cover fixed infrastructure cost is also a key variable that will contribute to the success of operators in securing tenders and keeping cost down;

  - **Financing cost:** The high cost of capital will further increase the operating cost and operators with less loan commitments will be in a much more favourable competitive position.

It can be concluded that competitiveness will primarily be determined within the confines of the above cost items. Cost reduction in these items are therefore critical in securing tenders. Cost reduction in most of the other cost categories is only marginal. Fuel cost, for example, which constitutes roughly 17% of total operating cost, are virtually the same to all operators. Certain available cost ratios, for example on maintenance, will also enable various different operators to arrive at virtually the same cost estimates. It can therefore be concluded that as far as cost cutting is concerned, a lean and efficient staff structure is one of the key decisive factors for inclusion in a turnaround strategy. Efficiency should further be improved by effective support functions, systems and procedures; and

- **Combination efforts.** A further possibility is to use more than one of the above strategies in combination, which indeed happened in the bus industry since the dramatic loss in market share to the taxi industry. This comprehensive effort to develop a strategy for the bus industry is not only a combination of various models and methodological approaches but also a combination of the above strategies.
It can be concluded that a turnaround strategy should be the basis of the change strategy and that other strategies and actions should be employed in support of the turnaround strategy. Implementation of a turnaround strategy is the responsibility of the operator concerned, and implementation thereof should be considered in conjunction with recommendations pertaining to re-engineering and empowerment models. It is clear that a considerable reduction in man-to-bus ratios are required to secure tenders in the competitive environment. Acceptable ratios should be reflected in a re-engineered organisation which makes provision for successful empowerment of members of the previously disadvantaged population groups. Chapters three and five confirmed the transformation of ineffective state owned bus companies to effective privatised companies in Great Britain, Australia and New Zealand. Turnaround strategies played a key role in the transformation process.

9.11.2 DIVERSIFICATION

To ensure that the desired future state for the industry is achieved, certain diversification opportunities should be considered.

To ensure optimum utilisation of the core competencies already vested in the industry, related diversification should be considered as first alternative. In view of the fact that the primary purpose of this study is to contribute to the transition of the bus industry from fragmented supply driven industry to lean and effective industry, which is part of an effectively integrated public transport system, diversification technically falls without the scope of the study. However, it is in the interest of bus operators to survive and grow their business interests in the new business environment. It is therefore recommended that further research be undertaken to identify diversification opportunities and to develop appropriate models. Bus operators in Great Britain and South America, as discussed in chapters three and four successfully diversified into the rail industry and a more focussed evaluation of their learning experiences could be valuable.

9.11.3 MARKET DEVELOPMENT

According to Pearce & Robinson (1997, pp 222-223) market development consists of “marketing present products (and services), often only with cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or distribution.” Although market development opportunities appear to be very limited for a typical
commuter bus, any viable alternative to increase the utilisation of the asset base should be considered, especially if the relative low risk of market development is considered. "Market development commonly ranks second only to concentration as the least costly and least risky of the 14 grand strategies." (Pearce & Robinson, 1997, p 222). Aggressive development of private hire and special contract markets should therefore be considered.

The viability of market development as long term strategy could also improve for the following reasons:

- The orderly integration of public transport over the long term could improve the image of the industry, and possibly also the product; and
- The present high age of the fleet limits the exploitation of additional markets. Upgrading and replacement of fleets over the long term could have a positive effect on the product and its marketability.

### 9.11.4 JOINT VENTURES, STRATEGIC ALLIANCES AND EMPOWERMENT MODELS

Pearce & Robinson identifies 3 grand strategies under the heading *corporate combinations*, namely joint ventures, strategic alliances and consortia. Joint ventures and strategic alliances are viewed as viable supporting grand strategies in the new environment. The difference between the two strategies is that with strategic alliances the parties involved do not “take an equity position in one another.” (Pearce & Robinson, 1997, p 237). In joint ventures shareholding is shared among the venture partners.

The very nature of the tender system in its present format, namely to subcontract a certain portion of tendered services to SMME operators, is a significant opportunity for alliances and joint ventures. To ensure effective transition to the new environment, it is essential that particular attention be paid to the further development of sufficient models in this regard. The key focus should be broad and focus on all of the following aspects that are essential in the transformation process:

- Joint ventures;
- Strategic alliances;
- Subcontracting models;
- Empowerment models; and
- Ownership models.
Solutions required by the industry are complex and not confined to a specific strategic grand strategy or model. It is essential that criteria be developed and refined to evaluate the various options. Irrespective of the circumstances, the basic focus of the new policy is on the orderly entry of members of the previously disadvantaged population groups in the exploitation of tender opportunities. Empowerment models are probably the most correct description.

Further development on appropriate models is essential to ensure a smooth transition to the desired future state. During working sessions with bus operators, the viability of various models were considered. During these working sessions the following most common alternative models were identified:

- Driver ownership;
- Profit sharing;
- Establishment of separate subcontracting employee company;
- Involvement of outside operators, such as taxi operators;
- Selling of sub-units of the operation to workers;
- Combination of external operator with employee scheme; and
- Community ownership.

Various other models should also be considered. In their efforts to assist local authorities with the privatisation or outsourcing of service functions, First National Bank identified the following broad models or forms of partnership agreements that may be considered and/or further refined for application in the bus industry:

- **Management contracts**: Private sector management is introduced into a business owned by a local authority;
- **Franchising**: A local authority gives the exclusive right to one or more private firms for the delivery of a service or a portion of a service;
- **A concession**: A local authority gives the exclusive right to one or more private firms to perform a specific function for a certain period;
- **Leasing**: Leasing refers to letting a public sector facility to a private agency to use;
- **Corporatisation/ringfencing**: A public agency is given semi-autonomous status in order to promote a commercial operation;
- **Jawboning/seed money**: A local authority provides some capital to kickstart a
private investment;

- **BOO (build-own-operate) schemes**: A local authority transfers responsibility to a contractor or sponsor in the private sector to build, finance, operate and maintain a major project;

- **Volunteers**: Delivery of services by volunteers;

- **Linkages/quid pro quos**: Linkages and quid pro quos involve giving an investor company certain rights in exchange for linkages with a community project or programme;

- **User fees**: A user charge is an amount paid by the public for the use of a specific service;

- **Subsidies**: Subsidies are paid when all or part of the cost of a service provided by the private sector is funded by local government grants; and

- **Privatisation**: A public entity is entirely sold to a private agency. (FNB, 1998).

Considerable further research is required to identify and develop appropriate models for the bus industry. It is essential that criteria be developed to assess the models prior to development and refinement. The following most relevant criteria were used in the assessment of viable models:

- Controllability;
- Capital requirement;
- Risk for operator;
- Acceptance by employees;
- Acceptance by the community;
- Acceptance by passengers;
- Real empowerment; and
- Acceptability by the Department of Transport and tender boards.

By using weights the contribution of the above assessment can be further refined in accordance with the specific needs of the operator.

The successful implementation of suitable ownership and subcontracting models is pivotal to the long term success of the tender system. A few large operators have done considerable development work in this regard and also gained first hand experience. Once again it is highly recommended that expertise be shared and that the most effective models be further developed and
streamlined. In terms of legal and other cost considerations it is not viable to duplicate development work in this regard. Synergy will also be an additional advantage if expertise and resources are shared.

Finally, the following recommendations are submitted for consideration:

- That SABOA takes the lead in the development and refinement of appropriate empowerment models. The Development Foundation is an ideal vehicle for this purpose and it is essential that tangible results be achieved over the short term;
- That appropriate funding be secured for this purpose. Empowerment is a national priority and funds should be made available for this purpose;
- That specific suggestions to evaluate empowerment models by means of demonstration projects be submitted for consideration;
- That expertise within the industry be shared. Various successful tender operations already exist in which SMME empowerment models are embedded. It is essential that these learning experiences be shared within the industry;
- That consideration be given to convene a national conference on SMME empowerment in the public transport industry; and
- That empowerment models be developed in conjunction with other actions suggested by this thesis such as re-engineering.

9.12 ACTION PLANS AND SHORT TERM OBJECTIVES

According to Pearce & Robinson (1997) action plans "translate generic and grand strategies into 'action' by incorporating four elements." These elements include:

- Specific short term functional tactics and action to build competitive advantage;
- A clear time frame for completion;
- Creating accountability; and
- Specification of immediate outcomes that actions should generate.

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in view of the time frame for the completion of this study it is not realistic to formulate realistic and valid short term objectives. By the time this thesis is examined, the stated short term objectives will most likely be completed. However, in accordance with urgent requirements in the industry, certain short term achievements are of crucial importance, which include the following:

- To formalise and structure the SABOA Development Foundation as primary vehicle for the empowerment of small and medium sized entrepreneurs in the transport industry; and
- To facilitate further cooperation in the industry to share expertise and resources in preparing for the new challenges.

It should further be stated that the existing SABOA strategy includes the above initiatives as well as a large number of other short term actions to prepare member operators for the new environment. To optimise the findings contained in this study, it is recommended that a special task team of knowledgeable people be appointed to prioritise short term actions. It should be stated that existing strategies and action plans already cover a substantial part of the findings and recommendations contained in this thesis. A task team can, however, play an important role in streamlining existing strategies and to refocus strategies in accordance with changing needs. Capacity is also a major restraining force in the implementation of strategies and it is essential that the task team formulate specific implementation plans based on the low cost/high impact principle.

9.13 FUNCTIONAL TACTICS

Pearce & Robinson (1997, p 16) define functional tactics as “detailed statements of the ‘means’ or activities that will be used to achieve short-term objectives and establish competitive advantage.” In terms of the stated academic objectives of this study as well as the immensely detailed nature of a bus operation, it is not feasible to focus too much on functional tactics.

The short term focus of functional tactics is also sufficient reason to leave this part of the strategy
to operators and other decision makers in the industry. However, the principles and demands of the new business environment should always be incorporated in the formulation and execution of tactics. Tactical aspects of the strategy can also be interpreted over the medium term and within this context, the bus industry is in a position to strongly communicate at least the following three powerful themes to achieve long, medium and short term objectives:

- The industry can make a much more significant contribution in future transport due to the removal of political barriers and the integration of public transport after decades of fragmentation. The bus industry in the new dispensation can indeed contribute to economic development and social upliftment;

- The bus industry is ideally positioned to become a primary vehicle for the empowerment of entrepreneurs from the previously disadvantaged population groups; and

- The bus industry is a low capital cost solution if compared to rail, with distinct advantages within an integrated transport network. Chapter four outlined the role of the commuter bus as viable and effective low cost solution.

The above arguments can indeed play a major role in securing funding for the execution of the short term objectives discussed in the previous paragraph. These themes should be an integral and ongoing part of any communication with authorities and other stakeholders. It is recommended that an industry communication strategy be developed in which these themes are structured for optimum use at operator and industry level. Such a strategy can also include other vital aspects of the existing industry strategy as well as initiatives emerging from this study that are not necessarily short term in nature. It was stated in chapter one that the bus industry was not positioned at the strategic and tactical level. With the traditional barriers such as the apartheid policy removed, more focused attention is required at tactical level. Repositioning of a neglected industry should now receive priority attention at the tactical level.
9.14 RESTRUCTURING, RE-ENGINEERING AND REFOCUSING THE ORGANISATION

9.14.1 STRUCTURAL CONSIDERATIONS

The principle that structure follows strategy now makes more sense than earlier in the report. It is essential that an organisation or an industry be structured in accordance with its primary goals and objectives. In accordance with the objectives of this study, the following strategic structure requirements have been identified:

- Bus transport operators could increase in number and decrease in size. The demarcation of tender areas could therefore result in more smaller operators;
- Ownership of bus companies will change to private ownership. This ownership issue will also change the structure. The application of financial ringfencing, sound management principles and other requirements to become corporatised as stated in the National Land Transport Bill, generally demand more effectively structured organisations;
- Irrespective of present size, ownership and other distinct features, transport operators will have to become much more effective which has certain implications on their structure. More streamlined and lean organisation structures will have to be considered;
- The support staff function, especially in large bus companies will have to be redesigned. Smaller organisations can simply not afford the cost structures to accommodate functional specialists typically employed in a transport head office situation. Positions that will most likely be affected include:
  - Organisation and method practitioners;
  - Public relations managers and officers;
  - Human resource practitioners;
  - Group security officers;
  - Project teams; and

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• Other specialised support staff.

The impression should not be created that specialists in these positions will not be needed in the new dispensation. On the contrary, much more high level transport support expertise is and will be required to ensure successful transition to the new dispensation. It is essential to restructure the industry in such a way that expertise be retained and operating structures are lean and effective.

This endeavour underlines the fact that expertise be shared, and that some form of self help concept be implemented to assist especially small operators in their new demanding operating environments. Specific recommendations in this regard are made in the next chapter.

9.14.2 RE-ENGINEERING

The need to re-engineer was assessed by means of an appropriate model. According to Cross and others (1994) re-engineering should be considered if management of a company answers yes to any of the following questions, against which the bus industry will be evaluated:

• Are your customers demanding more for less? In a globalized market where the focus is on cheaper prices, customers in general are demanding more for less. The competitive environment may also increase this demand;

• Are your competitors likely to provide more for less? The tender system will increase competition “for the road.” It can be concluded that competition will be fierce as a result of local and international operators that would participate in the process;

• Have your incremental quality improvement efforts been stalled or a disappointment? Most operators that participated in the workshops during which data was generated for this study, acknowledged that service quality is well below the required standard;

• Have your investments in technology not panned out? An answer to this question will differ from operator to operator. However, it can be argued that existing technology may not always be suitable for the new environment. Equipment such as electronic fares collection systems, for example, is part of the tender specifications;

• Are you planning to introduce radically new products and services or serve new markets? Service provision in the tender system differs from the old system,
but whether the difference is radical is arguable. Operators who tender for new service will definitely serve new markets. It is also unlikely that present operators will regain their entire operation on the same specifications through the tender system;

- **Are you in danger of becoming unprofitable?** An overwhelming yes will be the response to this question by the majority of bus operators. In fact, most of them have already become largely unprofitable during the past decade;

- **Have your downsizing and cost-cutting efforts failed to turn the ship around?** Various bus companies implemented large scale cost cutting exercises which also included downsizing. These efforts were taken because no other alternatives were available at the time. Growth despite increasing loss of market share to taxis is generally not viewed as a viable option. Despite these actions bus companies did not succeed to achieve former profitability levels;

- **Are you merging or consolidating operations?** Mergers, joint ventures and other forms of consolidation will be a logical consequence of the tender system. Different technologies will have to be incorporated in a systematic and planned manner which further calls for re-engineering; and

- **Are your core business processes fragmented and disintegrated?** The answer to this question will also differ from operator to operator. For the purposes of tendering for smaller operations it can be argued that core business processes will have to be revised.

During various working sessions with bus companies and other stakeholders of the bus industry the above questions were asked and an overwhelming yes was received on most of the questions. It can therefore be concluded that re-engineering appears to be a viable option. The need is further reinforced if the essence of the following definitions of re-engineering are considered in the context of the transformation process:

- "Re-engineering involves the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality service, and speed." (Cross and others 1994, p 4); and

- Re-engineering is the concurrent redesign of processes, organisations, and their supporting information systems to achieve radical improvement in time, cost,
Dramatic improvements are indeed required to achieve the vision and long term objectives of the bus industry. The physical redesign of the processes is beyond the scope of this project and further research and development by the industry is essential. As basic guideline in the redesign process the following redesign principles of Petrozzo (1994, p 198) are viewed as very relevant to the bus industry and it is suggested that they be followed:

**General principles**
- Keep it simple; and
- Push work up, not down.

**Process design**
- Design for the 80% case with exception handling for the tougher cases;
- Validate data at the source; and
- Eliminate “review” tasks.

**Organisational structure**
- Organise work groups around extended processes, not tasks;
- Involve as few people as possible in the performance of a process; and
- Use coaches instead of supervisors.

**Interfaces**
- Simplify the customer interface; and
- Reduce dependancy on E-Mail, fax and telephone communication among work groups.

**Automation**
- Avoid automation for its own sake; and
- Mechanise routine, mundane tasks before mechanising interesting work.

**Information system details**
- Beware of “information” as a corporate resource;
• Avoid reverse engineering of existing databases;
• Avoid coding data; and
• Avoid reports more than a few pages long.

The following most common reasons why re-engineering efforts are, according to Petrozo (1994), sometimes not successful should be considered:

• Lack of a clear vision and strategy to direct the re-engineering process;
• Re-engineering without understanding customer needs and market trends;
• Efforts to re-engineer sub processes without understanding the dynamics of the core business system;
• Failure to create an environment for organisation learning;
• Trying to do too much too soon;
• Thinking about technology as automating what is done today;
• Spending time on unessential activities that are less critical in the new design;
• Focussing only on a single dimension of performance;
• Delaying the human side of re-engineering; and
• Failure to maintain a constancy of purpose and sense of urgency.

Conclusions and recommendations contained in this report are aimed, as far as possible, at creating an environment in which re-engineering can be successfully conducted. The supply driven environment of the previous dispensation virtually dictated certain processes that have become irrelevant or outdated for the new challenges. In view of the fact that some of the larger operators have already embarked upon re-engineering programmes, it is strongly recommended that those re-engineered processes as well as the expertise gained in the development process be shared with the industry at large. Although organisations in the bus industry differ in some respects, most essential processes are the same which is a further reason to pool resources.

Re-engineering is viewed as a viable solution to achieve the objectives of this study, and to ensure that re-engineering supports the successful transformation of the commuter bus industry, consideration should be given to the following proposals:

• That the organised industry take the lead in terms of re-engineering. Insufficient expertise is available at operator level to make a meaningful contribution in this regard. Re-engineering required specific knowledge and it is more appropriate to
secure expertise at SABOA level for this purpose;

- That the re-engineering exercise be directed at creating systems, structures and processes for the most likely organisation sizes in the new dispensation. It is clear that smaller organisations will play a significant role in future tenders. Most processes were developed in the previous dispensation and are clearly too cumbersome for the *lean and fit* environment. It is therefore essential to develop appropriate systems for the smaller organisation. Medium sized and even larger organisations will also play a role in future tenders, but the efficiency of these organisations will have to be much better than at present to secure tenders. More streamlined systems and processes will be required for this purpose. It is therefore suggested that the three or four most likely organisation sizes be identified and that system guidelines be developed to assist operators to re-engineer at operator level. The following broad classification should be considered as basis for further refinement:
  * Fewer than five buses;
  * Five to ten buses;
  * Ten to fifty buses;
  * More than fifty buses;

It is also essential to make provision for various options within the different subgroups. Systems required by a five bus operation rendering services as a subcontractor may differ from the systems required by a five bus operator as main tenderer;

- That the re-engineering exercise be executed in conjunction with the development of empowerment models required to facilitate the entry of SMME operators. It is not possible to address these important priorities in isolation;

- That funding be secured for this purpose. Successful empowerment and re-engineering models can play a significant role in the successful implementation of national, provincial and local government policy. It is therefore recommended that funding for this purpose be secured from national government. It should be stated that pioneering work in this regard is required which, if successfully executed, can serve as national role model for empowerment and effective public transport; and

- That the development work be accommodated as demonstration projects under
The new dispensation requires lean and effective organisation structures with new focus. It is essential that an approach be followed where significant development work is done by the organised industry which can be used at operator level.

9.15 STRATEGIC CONTROL AND CONTINUOUS IMPROVEMENT

Successful implementation of the strategy and continuous control and improvement is of particular importance, especially in view of the costly learning experiences that normally follow the transition towards a new environment. Chapter four also outlined the distinct value of an incremental approach to strategy which implies that solutions emerge over time as a result of the effective implementation of the strategy. SABOA is already exercising considerable pro-active strategic control at industry level. Implementation and control of issues emerging from this study should be incorporated with their existing functions.

As far as continuous improvement is concerned, the following principles as suggested by Cross and others (194, p 183) are proposed:

- Develop a balance sheet of performance measures that serve as lead indicators of the business;
- Design critical checks in the new system for corrective action feedback: a process to improve the process; and
- Design a system to quantify the improvement opportunity and the rate of progress.

The process suggested should be viewed as a concerted effort to affect quick change in the industry to adapt to its new role, but also as an effort to ensure incremental improvement over time to realise the desired end result.
Transformation also requires continuous training and empowerment of those individuals and groups that are responsible for regulation, planning and service provision in the new dispensation. This process will also have to be continuous to ensure improvement over time. The public transport policy renewal process in South Africa is implemented late in terms of other countries, and no time should be wasted to successfully implement and complete the transformation process.

9.16 IMPLEMENTATION CONSIDERATIONS

9.16.1 STRATEGY IMPLEMENTATION

Strategy implementation can be viewed as one of the most critical and difficult steps in the entire strategic management process. Comprehensive and well researched strategic plans are worthless if they are not effectively implemented. Thompson & Strickland (1996, p 242) suggests the following critical tasks in strategy implementation:

- Building an organisation capable of carrying out the strategy successfully;
- Developing budgets to steer ample resources into those value-chain activities critical to strategic success;
- Instituting best practices and mechanisms for continuous improvement;
- Installing support systems that enable company personnel to carry out their strategic roles successfully day in and day out;
- Tying rewards and incentives to the achievement of objectives and good strategy execution;
- Creating a strategy-supportive work environment and corporate culture; and
- Exerting the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed.

Although the above steps are suggested to implement strategies in organisations, the same principles apply for strategy implementation in industries such as the public transport industry. As far as the industry level is concerned, provision should be made for:

- **Institutional matters that should be collectively driven by the organised industry.** Over the years SABOA has become instrumental in initiating and guiding transport policy. SABOA as representative association is the mouthpiece of the industry and key policy and strategic issues pertaining to the new dispensation which may emanate from this report should be communicated to and
negotiated with the authorities concerned; and

- Operational matters of a broad industry nature that should also be driven by the organised industry. As part of its mission and commitment to its members, SABOA is also responsible to attend to matters that are of concern to all operators. As far as the transformation process is concerned, certain issues can be attended to at industry level and shared with members. A proposal to assist operators in revising their own strategies, which follows, as well as certain recommendations contained in the next chapter, are areas in which SABOA can make a considerable contribution in guiding its members.

It is therefore clear that SABOA should be responsible for the above two broad industry strategies.

9.16.2 STRATEGIES AT OPERATOR LEVEL

Strategies at the operator level are the responsibilities of the individual operators. To ensure that the change methodology contained in this thesis is also accessible at operator level, it is necessary to develop and simplify a process and change methodology to guide individual operators. Against this background the following process, or rather basic framework, which needs considerable refinement, is suggested to enable operators to develop and implement their own strategies:

- **Formulation of operator vision.** Throughout this thesis, visioning was found to be a very powerful means to direct the change process and to serve as basis for priorities and goals. It is suggested that visions be developed in more operational detail than the industry vision. At operator level, more operational detail is required to create a desired end result and specific end results in terms of the following may be included in the vision:
  * Geographical area;
  * Specific tenders and/or routes;
  * Organisation structure and empowerment models/structures;
  * Profitability;
  * Empowerment deliverables;
  * Organisation size;

- **Formulation/reassessment of mission statement if required.** If required,
mission statements may be formulated/reassessed. However, missions as such are not as powerful tools in the transformation process statements of vision. Visions reflect the desired end result and inspire action;

- **Scenario development.** A scenario for the specific operating environment may provide valuable insights in understanding the dynamic nature of the immediate external environment. Such a scenario should include assumptions about the social, economic, demographic, political and other characteristics of the immediate environment. The discussion of a more comprehensive scenario focussing on national and even international trends may be a good orientation to stimulate creative thought. Due to the complex task of formulating various possible outcomes and the specification of deliverables and signposts, single future assumptions may be sufficient, unless a skilled facilitator is used;

- **Strategic analysis and choice.** With the vision as basis and primary driving force, a simple evaluation technique is suggested to evaluate strategic options in the market based on the competencies of the company concerned. Two of the evaluation models used in chapter nine, namely the SWOT analysis or force field analysis may be considered for this purpose. An approach that proved to be working well is a SWOT analysis which is followed up with a detailed cross impact analysis which enable operators to:
  * Determine their vulnerability in terms of the threats in the operating environment;
  * Identify the most viable opportunities in terms of their competencies;
  * Combat threats in terms of their competencies;

Various other analyses similar to those conducted earlier in the chapter are also very suitable at operator level and can be used in support of the above analyses;

- **Formulation of priorities, objectives and action plans.** The next step would be to formulate appropriate priorities, objectives and action plans, based on the specific needs and aspirations of the operator concerned and in accordance with the requirements discussed earlier in this chapter; and

- **Evaluation of specific tender opportunities.** Within the tender environment strategies will change substantially in focus. Most of the preparatory work will be tender specific. To decide which tenders to exploit, it may be considered to weigh the various individual tender opportunities against certain criteria,
depending on operator specific requirements;

It is also necessary that operator strategies include the following elements:

- **Functional strategies.** Supporting strategies for the functional departments and support functions are also essential to ensure proper implementation of the strategy in functional departments and at the lower levels of the operator organisations;

- **Marketing.** The overseas learning experiences discussed in chapters 3-5 indicated the absolute necessity of a pro-active marketing approach in increasing market share. Operators should start following these best practices in securing their future in the bus industry;

- **Diversification.** Overseas bus operators succeeded in diversifying their businesses in their efforts to exploit opportunities in a changing business environment. Bus operators in Great Britain and South America, as discussed in chapters three and four successfully exploited rail concessioning. It is recommended that these opportunities also be considered by bus operators;

- **Labour.** Labour has become an increasingly important stakeholder in the public transport industry. It is essential that management and labour jointly neutralise threats and exploit opportunities in the new environment. It should be clearly understood that the world of employment has changed and that traditional employment patterns and models will never be the same in future. The advantages and disadvantages of traditional employment versus the new trends of outsourcing, self employment and entrepreneurship should be debated to find common ground. Employees should be made aware of the immense opportunities of the tender system and how they can position themselves for the future. It is essential that a joint management/labour vision, as suggested by the key success factors be developed and that consensus on protection measures be achieved, especially in view of long term objectives. Labour should also be prepared for the impact of the tender system. The new policy is not known by the workforce and concerted efforts are required to inform and prepare them. Orientation sessions, courses and workshops should be used for this purpose;

- **Empowerment.** The message should be clearly communicated that the bus industry can also empower the small entrepreneur. For too long the perception
was held that the taxi industry is a superior medium of empowerment. Operators should take the lead in this regard and position themselves with new local structures for this purpose; and

- **Skills gaps.** Operators remain responsible to address the skills gaps in their organisations and concerted efforts will be required key personnel for their new tasks in the competitive environment. Labour productivity will have to increase dramatically to be successful in the new environment. With lower staff-to-bus ratios labour productivity will have to increase substantially and training goal directed training is one of the most viable solutions.

### 9.16.3 IMPLEMENTATION CONSIDERATIONS: CORPORATISATION

Corporatisation of municipal and provincially owned operators as process is not a primary objective of this thesis. The desired end result in the tender environment is the same, irrespective of present ownership. To ensure the effective implementation of the proposed policy, it is essential that corporatisation be effectively implemented. It was stated in chapter eight that the gap between the desired end result and the status quo position of municipal and provincially owned operators, to a lesser extent, reflect a larger gap. It is therefore deemed necessary to submit specific proposals in terms of corporatisation. Learning experiences pertaining to the successful corporatisation of state owned bus services in Australia and new Zealand, as discussed in chapter five, should be used as basis for the transformation in South Africa.

With the strategy created by the SABOA Local Authorities Committee as basis, the following proposals are submitted for consideration:

- **To secure the acceptance and commitment of all role players for corporatisation.** Resistance to corporatisation is a major restraining force at municipal management level. It is essential that this resistance be removed before any meaningful progress towards the transformation of municipal operations can be expected. The different local and provincial authorities/shareholders should take an active lead in the change process. The following broad solutions should be considered:
  * Communicate the effects of ignorance;
  * Highlight the advantages of corporatisation;
  * Remove the myths about corporatisation and competitive tendering;
* Address the realities about the system;
* Make provision in planning for a transition phase;
* Turn the concept into a challenge;
* Involve labour throughout the change process;
* Establish a steering committee per operator to manage the transformation process;
* Ensure ownership of the concept;

- **To become a cost effective and efficient operator.** The greatest contribution to become cost efficient will have to come from the various operators. A comprehensive strategy per operator will have to be developed and implemented. The entire change strategy suggested in this chapter is also valid for municipal and provincially owned bus operators;

- **To design a model for ownership that includes multiple shareholding and empowerment opportunities.** This model should be viewed as important prerequisite for successful corporatisation and participation in the tender system. The following options were proposed by operators that need to be further investigated:
  * Private Public Partnership;
  * Incorporate options/ensure flexibility;
  * Councils as major shareholder;
  * Gain sharing system;
  * Management contract;
  * Identify all forms of ownership;
  * Make provision for a transition period; and
  * Any viable option in which the Council can play a facilitating role.

It should be stated that the above models only address the structural aspects of the transformation process and not the efficiency and management considerations. As stated earlier, the demands and requirements in the new environment will be the same, irrespective of present ownership. Comprehensive change strategies to comply with the key success factors in the new competitive environment will have to be developed and implemented. Provincial and municipal operators should be in a position to secure tenders in a highly competitive environment,
which will require operational efficiency, lean and effective structures and compliance with other key success factors.

9.16.4 FORMALISATION OF CHANGE METHODOLOGY

To ensure that the recommendations of this study are implemented, it is recommended that the change methodology be formalised and made available to operators to guide them during the transition process. Due to the limited availability of skilled senior personnel in the industry to guide operators, increased use of a self help approach with less guidance is strongly recommended. The Department of Transport has issued various transport planning guidelines that are extremely useful in the transformation process. A similar approach is recommended to assist operators with key issues. The strategic planning process for operators and re-engineering guidelines are among the first processes that should be fully documented and made available to operators.

It should be stated that relatively few operators have had the opportunity to gain experience with the tender system. The tender process, for example is new to most operators and a comprehensive guide on tendering with the required documentation could be of great assistance to operators. Although the policy guidelines issued by the national Department of Transport are available, further development work and refinement are necessary.

The Industry Training Board should play a leading role in formalising technology required to fill skills gaps at industry and operator level, especially in terms of course and programme development and standardisation.

9.16.5 GUIDE FOR SMALL OPERATORS

Implementation of the recommendations on empowerment is critical in the achievement of government policy as well as the objectives of this study. An operators' guide can be of immense value in the empowerment of small operators and other entrepreneurs within the broader transport industry. Discussions with small operators have revealed an overwhelming need for advice, guidance, training and development, especially in terms of the following aspects:

- How to enter the market and to grow market share;
- How to tender and how to secure subcontracts from large operators;
- How to secure tenders through detailed budgeting and cost analysis;
• How to effectively maintain the fleet;
• How to compile, implement and manage short, medium and long term plans;
• How to compile an effective business plan, especially for financial institutions;
• How to find the most effective business entity and how to register such an entity.
• What are the advantages and disadvantages of the various entities;
• How to successfully manage a business; and
• How to optimise the human resource.

Operators therefore need a comprehensive manual with supporting documentation and training material to enable them to successfully set up a business, to secure tenders, to grow a business and to successfully manage all aspects of a small bus operation. Provision should also be made for structured training inputs based on the content of the manual. Despite that the focus will be on simplicity, follow-up training will be required to really empower the operators.

The manual should cover all processes required to successfully manage a bus operation. Based on the key requirements of a typical bus operation in the tender environment, the following broad classification is suggested:

• A management guide;
• An operations guide;
• A human resource guide;
• A technical guide;
• A financial/administration guide;
• A procurement guide; and
• A management information/computer guide.

It is recommended that the Industry Training Board and the SABOA Development Foundation consider this alternative as basis for the empowerment programme. Successful and sustainable empowerment is not possible without a well founded methodology, which will be provided by this guide or manual.

9.17 SUMMARY AND CONCLUSIONS

This chapter succeeded in providing a strong conceptual basis for a strategy to direct the bus industry to achieve the desired future state.
By using a multiple evaluation method, the urgent need for a turnaround strategy was firmly established. It is clear that fundamental change is required to position the bus industry for its challenging role in a future public transport dispensation.

Long term objectives for the industry should be formulated in, inter alia, the following key focus areas:

- To secure an economically viable portion of the services rendered in integrated transport plans;
- To secure and gain market share in the public transport industry;
- To form alliances and joint ventures with other players in the public transport industry;
- To empower small and medium sized entrepreneurs in the bus industry;
- To secure acceptable levels of profitability; and
- To become lean and effective operators.

The generic strategy to secure tenders should be primarily a low cost leadership strategy. The essence of turnaround strategies should focus on cost reduction, which should largely be achieved through increased efficiency. Other grand strategies include diversification, market development, joint ventures and strategic alliances.

Specific short term objectives and functional tactics were discussed. Guidelines in terms of re-engineering and corporatisation were also given. Finally, guidelines to adjust operator strategies and to assess empowerment models are provided to guide operators in the transition process. This chapter focussed on a change strategy at industry and operator level. With a conceptual basis formalised, the next chapter will focus on specific conclusions and recommendations at the various spheres of government to ensure successful change required for the implementation of the new transport policy.

It is deemed appropriate at the end of the semifinal chapter to draw the most important conclusions that emerged from the study in the present and preceding chapters. The following major conclusions form an essential bridge between the last two chapters:

- The South African commuter bus industry in its present form emerged as a result of political ideology. This ideology was not based on sound economic principles
and resulted in an ineffective public transport system that does not serve the primary needs of its users. The commuter bus does not fulfil its rightful role in the public transport system;

- The new democratic dispensation resulted in new public transport policy that is based on sound economic principles and international best practices. The new policy creates the opportunity to transform public transport to play its leading role in economic development and social upliftment. For the first time in the history of the South African public transport industry, the traditional barriers have been removed. Competition as key element of the new policy paves the way for increased efficiency, but tendering as such does not necessarily increase passenger volumes;

- The bus industry is not yet positioned for its future role and considerable creative work is required in this regard. There is a huge gap between the desired end result and the expected outcome if the present strategy is not changed. The industry needs a new vision, strategy and structure. This study only provides proposals and a conceptual basis which needs considerable further refinement and additional research;

- The new policy only provides a broad basis for transformation and considerable effort is required to implement the policy at the various spheres of government. New structures will have to be empowered and working relationships between authorities, operators and other key stakeholders will have to be established; and

- The industry should take the lead in creating its own future. In the final analysis the future of the bus industry will be determined by the pro-active action that the industry is prepared to take. A fundamental turnaround is required and all actions should, as Moving South Africa proposes, be focussed on the needs of the customer. Although international role models can not be followed to the letter, they provide excellent learning experiences for application under local circumstances.
CHAPTER 10

CONCLUSIONS AND RECOMMENDATIONS

10.1 INTRODUCTION AND PURPOSE
The purpose of this final chapter is to summarise the preceding chapters, to draw conclusions and to submit specific recommendations for consideration by the stakeholders concerned. This chapter should also be viewed an essential bridge between the academic findings of the thesis and the practical application and implementation thereof. Research findings are too often not streamlined for practical implementation, and eventually not implemented, which should be viewed as a waste of time and resources. Major concerns by bus operators about the future of the bus industry in the competitive environment initiated this study. It is therefore deemed necessary to share the pragmatic side of the research with them and other key stakeholders by means of appropriate recommendations. As far as the restructuring of the industry for its future role is concerned, detailed recommendations were made in the previous chapter. This chapter will put these recommendations further into perspective and also focus on recommendations to the other stakeholders.

To pave the way for recommendations it is necessary to summarise the most important findings and conclusions. At the end of the previous chapter the following five overarching conclusions were made.

- The South African commuter bus industry in its present form emerged as a result of political ideology. This ideology was not based on sound economic principles and resulted in an ineffective public transport system that does not serve the primary needs of its users. The commuter bus does not fulfil its rightful role in the public transport system;
- The new democratic dispensation resulted in new public transport policy that is based on sound economic principles and international best practices. The new policy creates the opportunity to transform public transport to play its leading role in economic development and social upliftment. For the first time in the history
of the South African public transport industry, the traditional barriers have been removed. Competition as key element of the new policy paves the way for increased efficiency, but tendering as such does not necessarily increase passenger volumes;

- The bus industry is not yet positioned for its future role and considerable creative work is required in this regard. There is a huge gap between the desired end result and the expected outcome if the present strategy is not changed. The industry needs a new vision, strategy and structure. This study only provides proposals and a conceptual basis which needs considerable further refinement and additional research;

- The new policy only provides a broad basis for transformation and considerable effort is required to implement the policy at the various spheres of government. New structures will have to be empowered and working relationships between authorities, operators and other key stakeholders will have to be established; and

- The industry should take the lead in creating its own future. In the final analysis the future of the bus industry will be determined by the pro-active action that the industry is prepared to take. A fundamental turnaround is required and all actions should, as Moving South Africa proposes, be focussed on the needs of the customer. Although international role models can not be followed to the letter, they provide excellent learning experiences for application under local circumstances.

The literature study on international transport policy and trends and an evaluation of the Southern African bus industry has found that South Africa can learn extensively from international experiences, although no single and fully appropriate role model exists anywhere in the world to direct the local change process. It was generally found that the South African public transport policy is based on various international best practices as well as local needs. Of particular value throughout the study was the realisation of the benefits of increased competition and increased involvement of the private sector. The privatisation drive throughout the world has had a significant impact on the efficiency of organisations. This focus is viewed as a major opportunity that should be exploited in all facets of the public transport industry.

Despite its distorted past, the bus industry has a very exciting and challenging future, which
should be exploited to the benefit of all its stakeholders. The commuter bus is an ideal vehicle to give economic substance to integrated transport networks and to empower people. Economic development and empowerment are major themes of governments at all levels and the bus can play an immensely important role in achieving both.

10.2 SUMMARY AND MAJOR CONCLUSIONS

10.2.1 INTRODUCTION

In support of the above introductory conclusions, specific conclusions as they emerged chronologically throughout this study will now be briefly discussed and evaluated in perspective. Conclusions in this context are not the mere repetition of the conclusions made at the end of each chapter, but rather a summary of the highlights and major conclusions and how they affect the recommendations.

10.2.2 BACKGROUND PERSPECTIVE, PROBLEM STATEMENT AND STUDY OBJECTIVES

South Africa is in a process of dramatic transformation and the transition towards an equitable dispensation for all citizens requires that all sectors of the economy should work together to achieve the desired results. Due to the policy of spatial separation on racial grounds, the bus industry has played an important role in executing this policy. The new transport policy implies major changes and it is clear the future of the bus industry will be substantially different from its past. Operators and institutional structures are not yet ready for the challenges that lie ahead. The competitive environment in the new public transport environment will be particularly challenging to operators and it is clear that a comprehensive change strategy is required to direct the future of the industry.

Against this background, the main objective of this study was to develop a methodology to guide the transformation and restructuring of the South African bus industry. To execute the primary objective, the following secondary objectives were formulated:

- To relate international transformation experiences to the South African bus industry in an effort to develop a methodological basis for the change process;
- To assess the strategic gap in an effort to determine the focus of the change process; and
- To develop a detailed change strategy to guide the transformation process.
10.2.3 STUDY OBJECTIVES AGAINST CHANGES IN THE MACRO ENVIRONMENT

Rapid changes in the external business environment necessitate a pro-active approach in managing the future. The information age and increased globalisation call for a new business approach to be successful. Although there is a dramatic growth of the private vehicle to the detriment of public transport, policy makers throughout the world realise the necessity to promote the use of public transport. An organised and well structured passenger transport industry is viewed as essential in the development of a country.

Increased privatisation is a central theme in the world and an important basis for international transport policy. Competitive tendering has proved to be an effective alternative to public monopoly in the rendering of public transport services, although tendering as such does not increase public transport market share.

10.2.4 INTERNATIONAL LEARNING EXPERIENCES.

The policy and industry transformation in the various countries was studied to establish a conceptual basis for the transformation and restructuring of the South African commuter bus industry. The following methodology was used:

- Overview of the transport system and salient features prior to reform;
- Key issues underlying the renewal and change process;
- The policy measures implemented;
- The effects of the policy changes; and
- Conclusions reflecting the relevance of the experience and possible lessons for South Africa.

Great Britain

The new competitive policy focus that emerged in Great Britain in the nineteen eighties has shown that the competitive market is in some ways superior to public monopoly. The policy reforms of Great Britain were followed by various other countries in the world. It was found that privatisation has an important impact on efficiency improvement. Deregulation can also be effective in certain circumstances. Despite certain obvious advantages of increased competition, certain negative observations were made such as a decline in patronage and fragmentation of integrated services. Great Britain reconsidered its public transport policy and it was realised that
fundamental reform is essential to attract more passengers to public transport. A more holistic view is therefore necessary. Finally, extensive marketing and close cooperation between operators and authorities are essential to transform public transport.

South America

Sound and pro-active transport policy can play an immensely important role in the development of a country and it was found that visioning and incremental policy developments over time are sometimes more successful than a merely a long term strategy. The transport experiences in South America, and Curitiba in particular, are very relevant to the Southern African situation. Transport planning and land-use planning should be integrated to ensure the effective utilisation of scarce resources. Densification of corridors reduce the need to travel and improve the efficiency of public transport. The commuter bus is an exceptionally flexible mass transport mode if compared to rail and has proved its success as a low capital cost solution. It is possible to render bus services without direct subsidy, provided that high bus utilisation can be achieved. Considerable densification of transport corridor will have to realise in South Africa before the Curitiba system can be effectively applied.

Australia, New Zealand and best practices in other countries

The experience in Australia and New Zealand in terms of the competitive market has specific useful messages for South Africa. Corporatisation of government owned enterprises can play a significant role in the implementation of tendering. A small and effective Ministry of Transport can play an effective policy and facilitating role in public transport and institutional structures play a critical role in the effective regulation of public transport. Competition results in lower operating cost and increased system effectiveness.

Policy measures to give priority to the bus mode can be very successful to improve the effectiveness of public transport. A paradigm shift at institutional and operator level is required to attract passengers to public transport and to meet long term objectives.

10.2.5 THE ROLE OF POLICY IN THE DEVELOPMENT OF THE SOUTH AFRICAN COMMUTER TRANSPORT INDUSTRY

With the international literature study as basis, the South African bus industry was evaluated, especially from a historic perspective. It was found that the commuter bus industry was
stimulated by the policy of spatial separation on racial grounds. This above policy developed incrementally over time and was formalised and strengthened with the Group Areas Act of 1950. The bus industry was viewed as important vehicle of the apartheid system and the commuter system resulted in various economic and social distortions, including urban sprawl. Due to public transport policy, the commuter bus system was largely supply driven, and the real needs of commuter passengers were not addressed. Separate bus services were created for the various population groups at metropolitan level. These services are characterised by low levels of asset utilisation which reduced their viability.

The bus industry has lost a major portion of its market share to the combi taxi industry. The present public transport system is ineffective and does not meet the needs of the travelling public and future requirements.

10.2.6 THE NEW POLICY IN PERSPECTIVE

A comprehensive evaluation revealed that the South African transport policy is based on various international experiences and best practices. Transport legislation is compatible with the needs of government and the stakeholders of the public transport industry. However, results can only be achieved if policy is appropriately implemented by the various spheres of government. A delay in the implementation of national policy delays the change process.

Visioning and a sound strategic management approach is firmly imbedded in the new transport policy, which has proved to be highly successful in the overseas role models that were studied. This methodological basis of the policy should be viewed as a major driving force behind change in the direction of the desired end result. Controlled competition is an essential element of the new legislation which provides new challenges to operators. Sufficient provision is made in the policy for the devolution of authority to the lower levels of government.

Empowerment is a central theme in legislation in general and transport policy in particular which provides various opportunities to empower members of the previously disadvantages population groups. Sufficient provision is made in the new policy to rectify distorted development patterns over the long term. Despite the positive aspects of the legislation, considerable time and effort will be required to reverse historic development patterns, or to neutralise their effect. Sprawling land use patterns will imply considerable densification along transport corridors.
Finally a comprehensive data driven long term strategy (Moving South Africa) has been developed to guide the transformation of the entire transport industry over the next 20 years.

10.2.7 STRATEGIC GAP ANALYSIS AS BASIS FOR THE CHANGE STRATEGY

Strategic gap analysis confirmed a significant gap between the expected future and desired future states of the bus industry. If the status quo is maintained, bus operators will not be in a position to maintain their existing market share in the tender for contract system. Although the multiple evaluation and change model revealed large numbers of gaps, certain main themes such as the need for a turnaround strategy, emerged from the analysis. Major gaps pertaining to the internal environment of the bus industry have been identified which will have to be addressed in the change strategy.

Strategic gaps were also identified in the following areas:

- **Policy gaps** are expressed in terms of the three spheres of government. Delays in the implementation of policy and insufficient law and policy enforcement were identified as major gaps;

- **Transport system gaps** include a dispersed land use pattern, high travelling cost due to long travelling distances, outdated infrastructure and insufficient corridor density;

- **Market and service gaps** include low public transport market share, modal distortion, limited accessibility and affordability gaps; and

- **Skills gaps** at institutional and industry level. It is clear that pertinent skills gaps exist at the three spheres of government as well as at industry level to ensure success in the new policy environment.

The change strategy to position the bus industry for the challenges of the tender system, as discussed in the previous chapter, includes long term objectives, generic and grand strategies, action plans and short term objectives, functional tactics, restructuring and re-engineering, and strategic control and continuous improvement. The essence of the strategy findings and recommendations will be discussed in paragraph 10.4 which deals with recommendations at industry level.
10.3 OVERARCHING RECOMMENDATION

Throughout this study it has become clear that fundamental transformation of the public transport industry, and the bus industry in particular, is required to fulfil its challenging role in the future. The mere implementation of the tender system will not necessarily attract passengers to public transport. Imaginative solutions are required to ensure a viable and sustainable industry over the long term. It is therefore recommended that all stakeholders reconsider their present strategies and focus on the long term viability of the public transport industry, especially in view of the Moving South Africa recommendations. Fundamental change is required at institutional and operator level to achieve the long term objectives identified by the Moving South Africa project. Moving South Africa is based on international best practices as well as the needs of the South Africa travelling community. It is absolutely essential that all policy, policy implementation as well as other initiatives be directed towards this well founded and all-encompassing future vision and strategy.

It should further be stated that the full impact of the tender system is currently postponed due to measures to soften its impact on labour. These measures will most probably be phased out in the long term, and it is essential that the industry and labour prepare themselves for the full impact of the tender system in approximately 5-6 years from now. Protection measures are against the spirit of competition and its value to the economy, and it is essential that the tender system be implemented to its fullest extent as soon as possible.

Based on the need to establish a viable long term industry, it is clear that fundamental change is required to fully implement the new policy. Change is required at industry and institutional level which will be discussed in the remainder of this chapter.

10.4 RECOMMENDATIONS: INDUSTRY LEVEL

A detailed change strategy for the bus industry was proposed in the previous chapter. It is recommended that this strategy be refined for implementation. It has become clear that the industry is not yet positioned for the challenges that lie ahead and operators will have to change direction and become much more efficient if they want to successfully participate in the tender system.

The organised industry should formulate specific long term objectives in the following areas to
position the bus mode in the new dispensation:

- To secure an economically viable portion of services rendered in integrated transport networks;
- To secure and gain market share in the public transport industry;
- To establish a marketing mindset in the industry;
- To establish a quality partnership concept;
- To improve quality and service to the travelling community;
- To form alliances and joint ventures;
- To empower small and medium sized entrepreneurs in the bus industry;
- To secure acceptable levels of profitability;
- To become lean and effective operators; and
- To plan for, and successfully manage, industry consolidation.

A multiple evaluation approach was conducted to select the most appropriate generic and grand strategies. It was concluded that the industry should position itself as a high quality but low cost producer. To achieve this, a turnaround strategy was confirmed by the various strategic analyses. Cost reduction is essential to adapt to the new environment and forms an integral part of the turnaround strategy. Efficiency improvement, as primary means to reduce cost, was found to be the most critical area in which major change is required. Other grand strategies that should be considered are diversification, market development, joint ventures, strategic alliances and empowerment models. Empowerment and ownership structures are required to empower members of the previously disadvantaged population groups. Guidelines and recommendations are provided to further develop these models.

Short term objectives include actions to position the SABOA Development Foundation for the empowerment of small and medium sized operators and to facilitate further cooperation in the industry to share expertise. Functional tactics should focus on positioning of the bus as vehicle of empowerment as well as low capital cost solution. Re-engineering is viewed as an essential step to streamline and improve organisations for the competitive environment. Specific guidelines are submitted to deal with re-engineering.

Implementation of the proposed strategy is critical in realising the desired end result. Specific guidelines to ensure proper implementation of the proposed strategy include:
A broad framework to enable operators to develop new or adjust their present strategies for the new challenges;

Recommendations to facilitate the corporatisation of provincial and municipal bus operators;

Recommendations to formalise change methodology, based on the *self help* principle, to enable operators to transform in a structured manner; and

The development of a guide for small operators as basis for empowerment.

To ensure further refinement and proper implementation of the proposed strategy, it is essential to focus on and optimise the role of the organised industry. Although the industry has very competent management, knowledgeable people are over-committed with their day to day business, which places an increased burden on SABOA. This association has played a vital role since the association was formed in 1980, which includes meaningful contributions to the new transport policy. Now that the new dispensation is basically in place and the legislation process finalised, SABOA should play a strong facilitating role to position the bus industry as a low capital cost solution. The powerful role that the commuter bus can play as low capital cost solution was confirmed in chapter four. It is essential that the organised industry take the lead in empowering the bus industry accordingly. Creation of the capacity required to execute its role and function in the new environment is also a responsibility at SABOA level.

The organised industry should continue to facilitate fleet and technological renewal. “We must design well-adapted, high performance and innovative networks. Technological advances, which abound at the end of the 20th century, can greatly facilitate the use of public transport. Everything which improve passenger service, whether through the latest technology or human effort, represents a worthy asset for the future, not only for public transport but of our cities.” (Bailey, 1999, p 11). SABOA is ideally positioned to execute this role. It is clear that traditional noisy and old commuter buses need upgrading and renewal. Due to a lack of funding the bus industry stagnated during the previous decade. The new political dispensation shows its first successes in terms of empowerment and people will no longer accept old and ineffective vehicles and poor service. Compared with the taxi industry, the only benefit of the bus is probably a safer journey. The bus industry should create imaginative solutions to position itself as a key player in a future dispensation. One solution would be to develop a partnership between operators and authorities to develop pro-active solutions for the future. Innovation is the key to turn the industry around.
The industry itself should be pro-active and the operators in particular should make it their priority to outperform other modes, especially the taxi mode. Through quality services and a total customer commitment, passengers lost to the taxi industry can be regained. Through ticketing and other initiatives to satisfy customer needs should be considered. Competition for the road is but one aspect of total service delivery. It is essential that operators adopt a totally new philosophy to change their way of thinking that was dominated by the supply driven nature of the previous dispensation. Operators now have the opportunity to position themselves as essential links in the new dispensation and every means to do so should be fully exploited.

Finally the bus industry should consider a bus summit or similar initiative as major thrust behind the change process and to formulate a blueprint for the creation of solutions required to optimise its role in the future dispensation. A further initiative that may be considered is to conduct further research as basis for the compilation of a position document on the role of the bus in the Moving South Africa strategy. A structured and factual frame of reference, which should be the primary aim of the position document, is required convince government at all three spheres of the critical role of the bus in the future of public transport in South Africa. Such a document should, inter alia, include the following:

- An expression of main recommendations of Moving South Africa in bus terms;
- Forecasts of bus volumes over the strategy period (20 years);
- Financial, social, congestion and other implications of different scenarios, for example further unrestricted growth of the taxi industry versus the optimal bus application;
- Economic impact of the above scenarios, for example the secondary effects on the manufacturing industries, job creation etc;
- The role of the bus in corridor densification;
- The bus as low capital cost solution;
- Other benefits of the bus as mass transport mode in the structured implementation of government policy; and
- Recommendations to implement Moving South Africa strategy from a bus perspective.

Such a position document will also play a valuable role in conceptualising and structuring the
10.5 THE ROLE OF INSTITUTIONAL STRUCTURES IN THE TRANSFORMATION OF THE BUS INDUSTRY

Chapters three to five confirmed the critical importance of institutional structures in public transport. It is clear that the different spheres of government will have new roles and responsibilities in future. The primary role of the national Department of Transport is to create policy and strategy and to facilitate change. Provincial governments will have to implement national policy and also develop and implement policy at provincial level. Local government will play an immensely important role in the planning and integration of public transport. The transformation of the bus industry is dependent on the effective execution of the responsibilities of all related structures at all three spheres of government. The empowerment of these structures for their new roles is therefore of critical importance.

It is therefore deemed appropriate to submit separate recommendations in respect of these spheres of government.

10.5.1 RECOMMENDATIONS: NATIONAL SPHERE OF GOVERNMENT

It can be concluded that the national Department of transport has paved the way for meaningful transformation of the passenger transport industry. The Moving South Africa project should be viewed as a milestone in the creation of long term transport solution. This data driven project, as well as other policy initiatives have shown that the department is ideally positioned to execute its new role, namely to facilitate change and to determine broad policy. It is essential that the National Land Passenger Transport Transition Bill be tabled in parliament and that effect be given to the implementation of the recommendations made by the Moving South Africa project. The final project report contains far reaching recommendations aimed at redressing the imbalances created by the previous government. “The key challenge facing the transport system is its lack of alignment with the emerging national strategy of the current government - spatially, socially and developmentally.” (Lipman & Monaghan, 1998, p 37). Effective implementation of the recommendations of Moving South Africa is therefore essential.

One of the most powerful recommendations is the densification of development corridors and the effective application of modes in an integrated transport network. It is therefore essential that
the bus market share of the public transport industry be increased. National government should continue to reinforce and implement the key elements of its own policy. The bus industry is of the opinion that government is more sympathetic towards and supportive of the taxi industry. If this is true, it would not be possible to position the bus industry for its role as envisioned in the Moving South Africa project.

It is therefore essential that national government give consideration to the following recommendations:

- That considerable attention be given to the implementation of the Moving South Africa recommendations, as stated above. This data driven project is a constructive effort to affect meaningful long term change, and immediate and concerted action is required to ensure its implementation. In this regard the following recommendations are submitted for consideration:
  * That the content of the strategy be communicated much wider. It is essential that all significant role players be well informed on the strategy, its broad goals and value to the community and society. The broad public and the different sectors of the economy should be more informed and educated on the critical and leading role of transport in economic development and social upliftment;
  * That detailed implementation strategies and actions be developed at provincial and local government spheres. It is essential that the national Department of Transport provide the necessary guidelines. It can not be assumed that the strategy principles will automatically be followed by provinces in accordance with present policy. Moving South Africa is a national initiative and should be driven at this level to secure long term success. It is essential that the financing of the strategy be addressed and funding sources be identified;
  * That the role of the bus in achieving the stated 80:20 public/private transport ratio be expressed in terms of the 20 year strategy. It is clear that the market share of the bus will have to increase substantially and policy implementation directions should be provided by national Department of Transport. The implementation of policy at this stage does not reflect sufficient support for the bus mode and it is essential that the factual basis of Moving South Africa in terms of the future role of the bus be actively supported from national sphere of government;
• That the principle of set asides of existing bus routes to the taxi industry be abandoned. Tenders should be based on economic principles as envisaged in the new policy and not on mode preference that can not be justified on economic grounds;

• That measures to soften the impact of the tender system be reconsidered in conjunction with the role players concerned. Postponement of the reality is not necessarily in the best interest of the industry and its stakeholders;

• That national transport legislation be promulgated as a matter of urgence. The transition process is delayed and timeous approval of the National Land Transport Transition Bill is viewed as essential;

• That the demarcation of tender areas be considered with utmost care. Breaking up of existing large operations into too may smaller entities could have a negative effect on integration. It is essential that operations control be retained. It is therefore essential that empowerment models be structured in such away that the present system does not become more disintegrated. Although demarcation of tender areas is not a national responsibility, national Department of Transport should provide guidelines;

• That the tender system be further refined in terms of key issues such as its ability to attract passengers, performance incentives to operators and quality improvement. Specific demonstration projects may be considered for this purpose. Funding of further research should be increased. An incremental, learning approach has proved to be successful in Curitiba, which supports further refinement;

• That the skills gaps at institutional level as identified by Moving South Africa be addressed as a matter of urgence. New skills for an entirely new dispensation with new and challenging requirements are critical in successful transformation. Appropriate training courses and development programmes should be considered for the various spheres of government. In terms of cost considerations and expertise required, national Department of Transport should take the lead and assist in securing funding for this purpose. The international learning experiences that were discussed in the literature chapters, confirmed the critical importance of effective institutional structures and it is essential that empowerment of these structures receive priority attention;
That special efforts be directed towards the empowerment of transport authorities and their members for their new roles. Transport authorities will play a critical role in the implementation of the new policy direction. Although training at this level can be viewed as a provincial or even local government responsibility, considerable savings can be realised and the quality of training material be improved if key syllabi are developed centrally. The policy guidelines issued by National government are very effective and further developments in this regard can make a substantial contribution to the industry;

- That the development of empowerment models to exploit the opportunities in the tender system be viewed as a critical matter and that sufficient funds be made available for this purpose. Additional demonstration projects may be considered to evaluate the models; and

- That the finalisation of provincial policy be continuously facilitated to ensure compatibility between the provinces and timeous completion. The devolution of authority to lower spheres of government should be supported by efforts to ensure compatibility between national, provincial and local public transport policy.

The national department succeeded in formulating pro-active policy to ensure that public transport fulfils its primary role. The legislation also makes provision for the empowerment of SMME operators. To ensure the successful empowerment at industry level, the national Department of Transport can play a leading role in securing funding to further develop resources and technology required in the empowerment process.

It is clear that imaginative solutions are required to secure support for public transport over the longer term and the national Department of Transport can play a leading role in this regard. It is therefore recommended that further and continuous research be stimulated and facilitated at national level to support the Moving South Africa recommendations and to further refine public transport policy and systems. National Department, in terms of its policy making and strategic role, should continue to be a facilitator and driver of the change process.

10.5.2 RECOMMENDATIONS: PROVINCIAL SPHERE OF GOVERNMENT

Provincial government is playing an important role in the implementation of the new policy. Provinces will also play a leading role in empowering the institutional structures, for example
transport authorities, required to implement the new policy. Expediting the process is essential to ensure the pro-active implementation of integrated transport strategies and plans.

The devolution of authority to lower spheres of government created immense opportunities for provinces to use public transport as catalyst for growth and prosperity. Although provinces have their own unique peculiarities and priorities, it is recommended that provinces give consideration to the following matters that are of a general nature:

- **Law enforcement.** It is essential that law enforcement in all aspects of transport be improved and the provinces can play a decisive role in this regard;
- **Tender criteria.** As far as possible, tender criteria should be compatible between provinces. Operators who want to tender in other provinces should be encouraged to do so and compatible tender criteria can make a meaningful contribution in this regard;
- **Demarcation of tender areas.** Demarcation of tender areas should be considered in terms of empowerment considerations as well as key aspects such as possible disintegration of existing networks. Considerable further development is required and provinces can play a leading role in this regard;
- **Empowerment of new structures.** Although it was suggested that national government take a leading role in the empowerment of new structures, provinces should actively prepare for the new dispensation and embark upon training and development programmes. Provinces can also play an important role in securing additional funding required in the empowerment process; and
- **Further refinement of policy and tender system.** Provinces can also play a key role in further refinement of policy and the tender system at provincial and local spheres of government.

Provinces are in different stages of policy development and implementation. It is essential that expertise be shared and the existing mechanisms to enhance synergy should be optimised. Very good development work has and are being done in especially the larger provinces, and it is essential that expertise and learning experience be shared with other provinces. Further measures to coordinate research and to communicate developments should be considered.
Local government will play a pivotal role in the implementation of the new policy. “One of the major shifts in urban transport planning in South Africa in recent times has been at the level of final decision making. There has been a shift of power, from officials, who previously held considerable authority over all levels of the decision making process, to the elected politicians. This change has occurred throughout metropolitan South Africa... the processes by which decisions are made require fundamental change if there is to be the progress in urban transport which is called for by national, provincial and local policy documents. In particular, the technical tools used by officials need to dramatically adapted to suit the new order, and also to bring them in line with international thinking.” This statement by Kane (1998, p 111) sets the scene for change required at local sphere of government. To execute their new roles in accordance with the requirements of the new order, Kane (1998, p 114) suggests the following categories of assessment of transport:

- Economic efficiency;
- Environmental protection;
- Safety;
- Accessibility;
- Sustainability;
- Economic regeneration;
- Finance;
- Social equity; and
- Practicability.

“Politicians must become more involved in the development of urban transport policy objectives for their area, and in so doing they must take ownership of their advocacy role in forwarding transport strategies. Transport objectives must be in line with higher levels of existing policy, and must cover all dimensions of the transport problem. Officials must accept their role as respondents to politically motivated transport objectives and must adapt current practice to suit this.” Against this background perspective by Kane (1998, p 114) it is clear that considerable preparatory work is required at third sphere of government to successfully execute national, provincial and local government policy.

Local authorities can use by-laws as powerful means to further structure and direct public
transport at local level. Existing by-laws, especially those pertaining to bus transport, are totally inadequate for the new dispensation and urgently need revision. Local authorities now have the opportunity to make by-laws in accordance with the needs and requirements of the new national and provincial policies. The new or revised by-laws should play a meaningful role in enabling the respective local authority to:

- Successfully regulate public transport at local sphere of government;
- Support all national, provincial and local government policy and legislation;
- Improve mobility in cities and within the area;
- Promote the use of public transport;
- Support integrated land use and transport planning;
- Enable the effective design and functioning of an integrated, multi-modal transport network;
- Reduce private car use in central business districts;
- Improve safety;
- Improve the utilisation of resources;
- Ensure cooperation between the various modes of public transport;
- Ensure effective use of facilities;
- Improve service levels of the respective modes of transport in the entire study area;
- Ensure a better service to the travelling community;
- Contribute to the successful execution of the strategic objectives of the respective local authority;
- Improve the physical integration of modes within their areas; and
- Enable and support effective and goal directed local government.

Local government plays a crucial role in the implementation of the new policy directions. It is recommended that local government use the opportunity to position public transport to fulfil its leading and rightful role in economic development and social upliftment. Particular attention should be paid to:

- **Integrated planning.** Integrated planning is a major responsibility of the transport authority. Although transport authorities will only be operational in the distant future, concerted efforts should now be made to move towards an integrated planning approach. Local authorities know well in advance that they
will have to assume leading roles pertaining to public transport and it is essential that they prepare themselves for this role. Based on international best practices, Cowan (1999) outlines the following roles of planning in local government, which are viewed as relevant in executing the planning role of local authorities pertaining to transport as catalyst for development:

* "The planning system is the most powerful tool a local authority can use to achieve its objectives;

* Planning has a capacity for agreeing visions, analysing problems and opportunities, organising consultation, setting policy and guiding design and implementation;

* Planning is a process through which difficult decisions involving major conflicts of interests can be taken openly, fairly and accountably;

* Development is the key to making things happen. The planning system’s enormous potential lies in its statutory power to guide and control development;

* None of the various plans produced by local authorities is based on such wide economic, social and geographical analysis as a development plan. No other plan has such a direct impact on what happens on the ground;

* At the heart of the best planning practice is a real engagement with the process of development. The planning service should take a pro-active approach, rather than merely fulfilling the statutory planning function.”;

Demarcation of network areas and operations. In view of the high possibility of increased congestion of vehicle traffic in certain urban areas, alternative measures to regulate vehicles in the central business districts or high density areas should be considered. The viability of declaring no go areas for private cars should be investigated and appropriate by-laws considered. In these areas no vehicles should be allowed, except valid public transport vehicles operating in a public transport network. To implement such measures, by-laws should be developed for:

* Demarcating and declaring the public transport network area;

* Demarcating and declaring the public transport network in terms of roads, ranks, and other facilities to be used only by vehicles that have been contracted to operate in such a network;

* Demarcating and declaring the informal transport network where other vehicles
can also operate;

- **Bus lanes.** It is recommended that provision be made in the by-laws for the creation of bus lanes and related initiatives to give priority to the bus in the rendering of integrated public transport services. The bus as primary and flexible mass transport mode at metropolitan level should be strongly promoted. Positioning of the commuter bus as low cost solution should be exploited as viable opportunity at by local governments;

- **Corporatisation.** Although corporatisation is mandatory in terms of the proposed national legislation, it is recommended that Services Councils fulfil a coordinating role in this regard. It appears as if very little pro-active action is taken by local authorities throughout the country to prepare for corporatisation. A wait and see approach is followed while a more goal-directed approach is now required; and

- **Empowerment of small entrepreneurs.** The role and function of local authorities in the creation of infrastructure to enhance the growth of the informal sector should also be addressed. Organised public transport creates concentration points of people which can be viewed as ideal locations for street vendors and small entrepreneurs. Empowerment of small operators to participate in the competitive tendering system should also be addressed as a matter of urgency at local authority level.

### 10.6 RECOMMENDATIONS FOR FURTHER RESEARCH

Despite the volume of work done in executing this research project, it was difficult not to divert into other areas that are not directly related to the study objectives. It is clear that considerable further research is required to fully execute the objectives of this study as well as to achieve the stated long term public transport objectives at the various spheres of government. Based on an understanding of the new policy direction and the needs identified by this thesis, it is recommended that further research be considered in the following areas:

- Optimisation of institutional structures in the provision of safe, reliable and affordable public transport;

- Refinement of the present contract system for peculiar South African or regional requirements;

- An evaluation of operator incentives in the contract system;
• The need for a paradigm shift in public transport policy;
• The role of customer focus on the increase of passenger volumes;
• Bus priority measures to optimise the role of the bus in Public transport;
• An evaluation of the impact on the South African public transport policy on the other public transport modes;
• An assessment of the impact of the proposed public transport policy on the environment;
• An evaluation of international best practices in the design and implementation of integrated transport networks;
• The impact of corridor densification in South Africa;
• An assessment of the size of tenders on the fragmentation of existing integrated transport services;
• Application of the Curitiba integrated transport and land-use planning system in South Africa;
• Implications of and opportunities for technological renewal in the bus industry;
• The impact of the new transport policy on marketing in the bus industry;
• An evaluation of diversification opportunities for the bus industry;
• Empowerment models for the bus industry;
• Franchising as empowerment model in the proposed transport dispensation;
• An assessment of the skills gap at the different spheres of government;
• Re-engineering alternatives in the tender system; and
• The viability of a quality partnership concept for implementation in South Africa.

Controlled experimentation is a powerful tool to create solutions in a dynamic and challenging environment. Execution of the Moving South Africa strategy, the strategy proposed in this study, as well as many other supporting strategies, will require an incremental learning approach. The national Department of Transport, as policy making authority and facilitator of change, should continue their creative renewal process by making increased use of demonstration projects.

10.7 EPILOGUE
A long and exciting journey through hardship and opportunity has reached a new phase, delivery. A basic policy framework is almost in place to direct change in the direction of a
positive desired outcome. The smaller and easier part of the journey is completed.

Despite uncertain markets, recessions, violence, corruption and constant change, the wheels must keep rolling. The primary motive of this study is to initiate positive change. As stated at the outset, the science of Transport Economics is increasingly challenged to create new solutions to existing and emerging mobility issues, and to create and exploit new opportunities to improve the well being of mankind. South Africa has the following distinct strengths according to Sunter (1992, p 177):

- Best infrastructure in the developing world;
- Abundant mineral resources still remaining;
- "World in one country" could stimulate tourism to the country; and
- Abundance of entrepreneurial talent waiting to be released.

From a passenger transport perspective, these strengths can be viewed as strong and very positive driving forces. Passenger transport can indeed make a meaningful contribution in unlocking the optimum potential of South Africa and its people. The commuter bus can play a leading role in achieving this objective, provided that a goal directed course of action be embarked upon as a matter of urgency.
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