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Private Management in Romanian State Owned Companies from Transportation Field

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Abstract: The purpose of this paper is to reveal the results of the attempt to recruit and to set up private managers in Romanian state owned companies. The study aims to highlight the problems that arose soon after the implementation of this project. Far from being a panacea solution for all these companies, from the very beginning this initiative faced a number of difficulties. The research is realized on the Romanian transport sector revealing the major strengths and weaknesses, but also the opportunities and threats that should be considered in the attempt to solve the financial problems of state owned companies.

Keywords: transport, private, management, state.

JEL classification: L91, M10

1. Introduction

The purpose of this paper is to reveal the results of the attempt to recruit and to set up private managers in Romanian state owned companies. The research is based on literature review, covering a series of publications, magazines, journals, books in the field, academic publications.

There are only few studies about the private management in state owned companies and its effects, most of them being focused on those of privatization of this type of companies.

Starting with ’80, the economists found that privatization of state enterprises can improve their performance, an idea materialized in a series of studies [Megginson and Netter, 2001].

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The liberalization of rail transport in the United Kingdom was achieved by auctions in order to enter into franchise agreements with rail operators. The infrastructure manager charges the tax of access to infrastructure that is the subject for periodic review [Shaw, 2000].

Some analyzes over time reveals that such a system allows faster productivity growth and significant benefits for consumers [Pollitt and Smith, 2002].

As indicators of the performance of the transport company usually it is used the delivery on time rate, and in the case of those delayed, the average value of the delays.

2. Private management for state owned companies: strengths and weaknesses

In 2012 started the process of selecting private management of state companies in the portfolio of the Ministry of Economy, Trade and Business Environment, given the commitment of the Romanian authorities to the International Monetary Fund. At the level of this ministry they were identified 48 companies with bad financial situation. At the same time, it began the recruitment of top managers for the Ministry of Transport.

Even though, from some points of view, the offer of the Romanian policymakers to hire private managers in state companies, that have been proven unprofitable in the past 20 years, seemed interesting, but at a closer analysis, it is far to be an attractive offer.

Launching this offer by the Romanian government has attracted a relatively large number of applicants for each state companies involved in the project which aimed to recruit top managers for these companies.

The attempt to recruit private managers of state companies it can say that it was a failure. Recruitment was conducted for state companies with a turnover of more than EUR 7.3 million project and it was funded by the European Social Fund Operational Programme "Administrative Capacity Development 2007-2013" (PODCA) and co-financed by the state.

Although it was taken into consideration the essential aspects, such as salaries, trying to bring them at a level comparable to that of private companies, they were also impediments that, unfortunately, the officials have not wanted to remove them.

In an interview to a TV channel, the Transport Minister of that period recognized that private management was necessary "because the state was not able to stop theft and political clientelism".

Interesting is the fact that at another state owned company, National Company for Highways and National Roads in Romania has not been appointed private management.

The management plan of those who formed the first private railway management was rejected and the company's management was dismissed (table 1). The same minister motivate this by the relatively small number of concrete objectives, the absence of deadlines, of a plan to absorb EU funds, as well as some details about the restructuring of the company.

Also, the private manager from Tarom was forced by the Chairman of Board to outgoing after the first year, due to the recovery plan of the company, unaccepted by the board, although the losses of the company have been reduced in the first quarter of 2013 by 24%, compared to the same period of previous year.

Obviously, for connoisseurs, this result was expected. Even if it is said that at the top level there are not so important the domain knowledge and the specialty skills, managerial skills excelling, in transportation field and, in particular rail transport, it is necessary for those who think reorganization strategy, a minimal knowledge of how the system works, the major shortcomings of its functionality, the problems faced by such a company and, why not, and the history, the evolution of its operation and organization.

It is not a sine qua non condition that people that reached the top of the hierarchy to be persons previous employed by the company, but to have specialized knowledge and to possess an overview and knowledge of its functionality is more than necessary.

By customizing in the case of the railway companies, it can highlight some interesting aspects related to the process of replacing the management realised with persons from their systems by people from the private sector.

At CFR SA, the General Assembly of the Shareholders selects the board of directors, and the board is appointed through a decree of the Ministry of Transport. In the statute of the company there are presented the attributions of the board and of its chairman, who is also the manager of the company.

Because shareholders of these companies consist of representatives of the state, being appointed persons on political criteria, who decide the guidelines of the company's activities, the manager has no real leverage to increase the efficiency of the company. Even if the board members were also recruited from the private sector, the invalidation of the projects and activity plans of them by AGA cancel almost all of the beneficial actions for company. Discrediting policy of the executive managers and recruited members of boards is part of the strategy of those who were used to promote other criteria than competence.

The management of railway companies was conducted from the operational level to the strategic level by people employed by these companies and promoted from the inside of them on the higher hierarchical levels. Theoretically, specialized knowledge has not missed those who were promoted through the system and, probably, nor the managerial skills to a certain level.

Even though rail transport imply entry barriers, in recent years Romanian state owned rail companies have known a competition to be considered from the private operators, relatively recently entered on the market.

One of the most tumultuous attempts of establishing private management was at CFR SA.

Over time the company had to face a number of important issues:

• Difficulties in collection of the tax for the use of infrastructure from two state owned companies, the railway operators CFR Marfa and CFR Calatori, they being also in financial difficulty;

• Arrears to the state budget and energy suppliers;

• High costs of infrastructure maintenance;

• High costs with staff salaries;

• Investment needs for infrastructure modernization;

• Theft of components of the traffic safety systems and construction.

Rail operators direct their acquisition costs for railway rolling stock, railway traction vehicles. Annual expenditure includes a significant proportion of fees for access to the rail infrastructure that they pay to the railway infrastructure company. The need for rail modernization requires investments in information and communication technologies.

Punctually, the offered solutions by the general manager of CFR SA were appropriate. Obviously, it was strictly necessary the reassessment of the entire staff of the company, quite large at the time, about 28,000 employees. But he overlooked a crucial aspect, namely, how it was designed this assessment. For a long time, these assessments were not strictly objective, and that was known by everybody from the system, sometimes even those outside of the company. Organization in terms of objectivity of these assessments would represent, first of all, high costs for the company. The reassessment with foreign personnel it is possible for certain types of positions within the entity, but for positions located at tactical and operational levels, where prevails the importance of specialty skills and expertise, it was necessary to find solutions to eliminate the subjectivity or, even the corruption of the examiners, in most of the cases.

A second proposed solution was that of the staff restructuring. The fact that the new management team who is recruited to ensure the private management was unable to produce more than a decrease in absolute number of staff, without detailing the territorial distribution of staff reductions, it is also due to lack of knowledge of hotspots that require really to be restructured. From this derives a number of risks, including reducing staff, as in the previous restructuring processes, right there where it is not necessary, which is the most prominent risk. It is well known that the restructuring of the 90's created serious disruptions in the organization and operation of the company.

Among the most important proposed measures and the results there are also:

- Reduction the fuel consumption;
- Decreasing the cost of services from subsidiaries;
- Increased revenue from rents for land and commercial premises;
- Negotiations on the reduction of the purchase price of electricity.

The biggest drawback of private management in railway companies was, on the background of ignorance of the technical specificity of the transport companies, the lack of attention given to rail safety.

The first action should have been taken in this direction, where, due to the lack of maintenance funding, there are some delays in compliance with schedule of the works, with impact on railway safety.

An important part of the costs of railway infrastructure companies need to be allocated to the maintenance of buildings and railway installations. In a short period after the nomination of private management in several public companies, they have enjoyed an unexpected prize: rescheduling the tax liabilities of companies that had debts exceeding 300 million lei to the state budget for a period of seven years. The beneficiaries of this measure have been CFR Marfa, CFR SA and the Romanian Television.

The Ministry of Transport has increased by 400 million the share capital of CFR Calatori, money being destined to the payment of the fee for infrastructure use to CFR SA.

With the collected money, CFR SA has paid part of the tax liabilities and a debt to E.ON Gas Distribution, as a result of taking over an amount receivable through the contract of assignment of receivables of the E.ON Energie.

As a result, the payment of fiscal obligations could be achieved through the contribution of the state. Even the payment of the debt to the energy supplier has taken the way to the state treasury, being provided in the form of dividends to the Ministry of Economy.

So, eliminating or reducing the company debt is due only partly to private management, which is possible because the measure imposed by the Ministry of Transport.

In 2013 started a recruitment procedure for seven executives addressing the professionals from railway system and outside this, and carried out by an internal committee of the company. For the recruitment of five Chief Officers the procedure was developed in collaboration with independent firms specialized in HR recruitment.

At the beginning of 2014, the Board was replaced because of the failure of supervision and control of the executive of the company, leading to the perpetuation of the executive acts harmful to the company, and violation of legal provisions. There were identified, from economic, administrative and organizational deficiencies to infractions, such as disappearance of over 1000 wagons from the patrimony of the economic entity.

Tabel 1: Key moments in the implementation of private management in state owned companies

State owned Company	Key moments in the implementation of private management
Tarom	• Refusal of the first private manager in November 2012 immediately after the nomination; • Revocation of the CA by the AGA due to conflict between members of board and CEO, • Completion of the mandate at the end of the first year of office for the second recruited private manager;
CFR Marfa	• Resignation of Chairman of the Board of Directors; • Failure of the privatization
CFR SA	• December 2012 - Refusal of the Presidency of CA by the first nominated candidate; • April 2013 - Rejection by the Ministry of Transport of the management plan proposed by President of the Board ⇨ the change of CA and the resignation of the manager; • September 2013 - Resignation of the next President of the Board who invoked personal reasons; • January 2014 - The entire Board has been revoked due to poor performance of the management, which affected the financial situation of the company; • Resignation by two members of the new Board.

Less than two years after the appointment of the first private managers at the state owned companies subordinated to the Ministry of Transport, the Minister asked the Internationally Monetary Fund to give permission to give up this kind of management, due to failure to comply to certain decisions of the AGA. However, nor the shareholders structure is one that indicate that in its decisions would prevail the professionalism in the field, as long as there are people with no specialized knowledge in transport.

Conclusions

After a much publicized recruiting of private managers of state companies, costly and long lasting, the results were far from the target. Furthermore, the existence of interest groups in the ownership of these companies acted as a lever to sabotage the actions of these managers, practically chasing private managers of state owned companies.

On the other hand, private managers felt they were pressured, AGA asking them to pass over irregularities: rigging auctions and unfavourable contracts for the company, requests for awarding major contracts to companies that did not meet legal conditions.

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