

## THE EFFICIENCY OF IMPLEMENTING PRIVATE MANAGEMENT IN STATE COMPANIES

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### **Abstract:**

*In 2012, nine state-owned companies are expected to have private management giving up the state management. Therefore, a full debate of this issue is required, taking into consideration the fact that, in our opinion, this process involves more than just the replacement of a manager with another. The implementation of private management in companies of national strategy, currently in state ownership, is desired to be a profound and also very complex process, aiming to change organizational culture in depth, both vertically and horizontally, so as to increase efficiency in these companies.*

*Implementation of private management could be a good opportunity for an efficient development of these companies, for an increasing level of competitiveness on the international market, but only in terms of a leadership team chosen on performance criteria, with a coherent set of objectives and a high independence level of decision.*

*There are some opinions from people with experience in managing both private and state companies. They believe that the idea of establishing a private management in state companies, is, in the main, good, but it is essential to take into consideration the idea of a team trained to lead the company, instead of one person as a general manager.*

*Another element to be taken into account, so that this idea of private management may have the desired effect, is to precisely determine companies where private management teams should be installed. Not all companies are suitable for the same private management strategy. This type of leadership is better for companies with a real international perspective, such as Tarom, while strategic companies should be rather reformed, including management privatization, and kept as state strategic areas. However, strict criteria of state intervention in decision-making process should be established, a striking question concerning the circumstances under which such a management team could be successful, given that state firms are strongly politicized.*

**Keywords:** private management, marketing decisions, efficiency, strategy, independence, insolvency.

**JEL Classification:** M21

### **1. Introduction**

All discussions about private management of state companies represent an action that illustrates one of the most important "revolutions" in the state system since '89. However, it is very interesting to see whether it will be achieved, because, probably all measures will be drawn-up in late 2012, when nothing could be done in this area of interest. Local power will not give up to the loss of companies of its sphere of interest.

Those who have leadership experience both in private and state companies consider that the establishment of private management in state owned companies is good, but if it ever happens, it is essential to take into consideration the idea of a team trained to lead the company, instead of one person as a general manager. [1].

The idea is very good, especially after numerous examples where the state proved a poor administrator, full of personal ticks. This private management should be done not by one person, as a general manager, but by a whole team.

If the decision to bring executives from the private sector will be implemented, one problem will refer to the choice of these managers. A manager selection should be made without the involvement of a driving force. It would be desirable that this process is achieved by a foreign specialized firm, without any national interests.

Public institutions must carefully design their strategy, so that, to attract candidates, a motivating mix of benefits and professional challenges should be considered, and their selection should support the institution's strategy by clarifying, in the early stages, the expectations of the new position and objectives that must be assumed. Moreover, the choice should be transparent and based solely on competence. The important thing is not to replace customers with foreigners.

For the idea to be successful, we must distinguish between companies headed by private management teams. Not all companies are suitable for private management. For example, Tarom would go on to have international visibility and output, but the energy companies would not be appropriate, because when it comes for Transelectrica or a gas company, all problems already appeared in the case of Petrom

privatization could repeat. Strategic companies be reformed in the direction of privatization management, but must be kept as strategic sector for the state[2].

## 2. Efficiency of private management of state companies

Essentially it's a much deeper, not just talking about replacing a manager and done, solve all problems. Organizational culture must be changed so as to achieve a more efficient company. In a healthy economic environment it is based on supply and demand, and government-owned corporation all of these principles should be to outline strategies.

This process of bringing private management of state companies has a simple solution. Appointment management team should be seen as the last step in a program more complex. Change management does not ensure success. From my point of view, the first step to take is to define very well the problems, grievances related to these companies. This process involves not only replacing management. I disagree with the idea radicalism can't go on black and white models. Are very good specialists even state-owned special economic situations. You can't bring a "wizard" at the head of a company and of all issues. It is clear that we made the right man at the right place. It's an event that will happen tomorrow. I do not think things will work overnight, introducing private management of public companies must take place in stages.[2]

Private management in state firms would be a good opportunity to grow and make a profit, while the management team will be selected based on performance, correct and clearly outlined goals and if it is ensured independence of decision. Type of decision is particular to each company, but certainly should be a primary profit-and state company efficiency. State as entrepreneurs should have a similar behavior to that of private enterprise performance. If indeed this approach is well started, and contract management will be publicly visible all the terms, we expect the contractor to set some clear objectives and performance criteria on which team to follow and not to interfere or make changes leading to disruption management team.

A state or private company can run just as well if done properly choosing the management team. If management objectives are drawn correctly and long term.

Recruitment in this case should not involve any feature from normal processes. Depending on the specifics of each company, where the objectives are and will be set by employers, the choice may be composed of diverse management team. Level salary package will depend on the company and the objectives to be achieved by the management team. I hope that remuneration packages will be closely linked to the performance achieved and that a less inspired management will not have a substantial compensation package just because the management team is supported by both sides of the political spectrum.

Private management can be a way to change the fate of state firms only if the conditions were talking about earlier. For a management team to operate successfully, must have clear objectives set, to be defined and to be provided with resources they can use to be allowed to develop their own strategy for achieving its objectives and give freedom to follow the steps as approved strategy, without interference from employers that may lead to changing the composition of the team, working strategy and performance criteria.

Private management could be a solution for state firms to the extent that they follow mainly their efficiency and economic performance and less, using them as a "political reasons". In Romania - like everywhere - politics and economics affect each other. The difference with us is that there is a high degree of political instability and it affects public companies and covering them constantly interrupted pace of development, such as a change in the political realm, reverberating and the state companies. Hence most difficult challenge for their management to develop medium and long term strategies, implement them consistently and consistently monitor and adjust to them.[2]

Certainly attract private management of state companies is a viable alternative economically - success will be assured when politicians become convinced of the priority of economic performance on other "interests". My opinion is that the challenge will come to convince managers to consider this movement in their career and to prove that they seek solutions to medium and long term, and not just "emergency dressings" to check one more requirement international organizations.

Private management of state companies should be loyal to form public-private partnership in which each partner to win, but equally unequivocal answer to and achieving targets. The adoption of private management of state firms can be considered two options: indigenous management or management abroad, taking into account the advantages and disadvantages of each variant. For example, in addition to the advantage of management experience management, and the advantage of being more resistant to the temptations of corruption. At the same time, has a major drawback, the difficult adaptation to organizational culture in Romanian space.

Whichever is adopted, the private management will be successful only to the extent that the Government is willing to resort to radical change current practices to eliminate political interference in the

economic. In this regard, management teams - at all hierarchical levels, from top management and to the supervisors - should be made only competent persons professional.[3]

Each member of management structures to occupy this position only through public competition, accompanied then by a management agreement with the objectives and responsibilities for performance / failure to meet targets. Such a change would mean giving up political clients.

Yes, private management companies could change the fate of the state, provided that the political factor (government) to stop miming, supporting and promoting change through strong regulations in this regard.

Most liberal politicians, or that call themselves "defenders right", spades agreed on implementing measure effectiveness of private management team at the helm of state companies. Proponents of this measure considers that private management is preferable, in exchange for full privatization because the company could record profits while being under state control. At a closer look, however, we can see that things are not as simple as they seem. [3]

First, the question: what if the situation changes in the top management of the state comes from the private manager? Bureaucratic structure of the company remains the same, and to be changed, the manager needs several permits. Therefore, a key role is played not so manager as his supervisors.

Second, why should we believe will be de-politicized institution with the appointment of private manager? Since the company is still under the tutelage of the state, we conclude that the policy they will be pressured and ultimately, even appointing manager will be, most likely, on political grounds. Therefore, no sin can't escape politicization.

Third, how could a manager stimulate private to be effective? The answer, obvious to some, would be the salary bonuses. But the same reward system can be implemented in the absence of private management. Underlying problem is different: because the manager does not operate to its capital, but with public funds, is inclined to take greater risks and therefore be less wise. Therefore, boosting efficiency is a myth.

And last but not least, how to record profit company, if it is meant to serve citizens? If you operate on the principle of profitability, the company will be allowed economic calculation. But where there are no prices, there can be no rational economic calculation, so the manager will set a price system. But this means that the institution will not be available to all citizens, which financed indirectly through taxes, and therefore entitled to benefit from services.

In the event that the manager will implement a system of artificially low prices under actual market price, so that all citizens benefit from the services, the private management will be useless because economic calculation no longer based on the principle of profit. In conclusion, any working hypothesis invalidates the supposed benefits of private management.

### **3.Privatization - as key**

If private management is not a viable measure of how privatization would be better? For several reasons. First, and perhaps most importantly: privatization saves taxpayer to pay certain taxes, namely the value of funds that otherwise would have leaked into the pockets of company managers.

The second reason is that the only way the company could be de-politicized, it is true, not completely. Only a free market could be completely depoliticized, but Romania is light years away from such an economic system. So privatization would exclude all political pressures, but it is the manager aware of consumer demand, which should serve them, and therefore would also guided by other criteria, not political ones.

The third reason is that finally, the company could become effective. Obviously, maybe fail, because in the absence of the safety net, which provides government subsidies, the manager will be required to take, indeed, the most effective measures.

And the fourth reason is that, with a full privatization, the government might respond to the need to restructure the budget unit. Long promised reform, which take into account budgetary availability and drastic reduction of governmental expenditures, could finally be implemented. But just because privatization is, in itself, a welcome solution does not mean that, if applied correctly will meet all government cabinet preceding steps. What will be, and especially how privatization will take place remains to be seen. [3]

### **4. Insolvency, a step towards privatization?**

Actors directly and indirectly involved in domestic economic phenomenon were surprised by the announcement in June on Hidroelectrica company into insolvency. Insolvency process reflects maintain economic and financial bottlenecks in Romania about five years since the Great Depression - the most severe global crisis since the end of the Second World War. [5]

In other words, the adjustment of the domestic economy from the global crisis wave is far from over. Moreover, Romania is facing a second recession from 2008 to present. And near-term prospects are bad, both in terms of macro-financial context international (mainly European) and domestic political context.

First, insolvency Hidroelectrica draws attention to inefficient operation of state-owned companies in Romania. More specifically, the distortion introduced by the involvement of political economy, more than two decades after the regime change. Hidroelectrica case is not singular, most public companies across relatively similar situations. [6]

However, this process of insolvency of the main domestic energy producer was a blow to the image of the domestic economy in the face of potential investors (especially foreign). That a utility company (the results should be relatively constant from one year to another) called insolvency expresses an inappropriate functioning market economy internally (although Romania has acquired this status for about a decade).

Damage to the company's results for the last quarter driven mainly by natural factors (drought reduced the quantity of energy delivered by Hidroelectrica) revealed structural problems of the functioning of society. Perhaps in the absence of natural factor Hidroelectrica continued to operate by the same standards.

We refer to the problem of energy selling price. Several companies have done over the years contracts to buy power from Hidroelectrica prices were not market driven. Basically, the more indirectly subsidized economy, energy is a fundamental input in the production process. In other words, the state (and thus taxpayers budget) failed to realize the potential benefits from practicing a fair price hydro energy. [7]

Besides the high cost of investment picture (hard to measurable) if Hidroelectrica draws attention to another aspect of fundamental importance. I mean renegotiating contracts with major customers, leading to an increase in their operating costs, which could result in generalized increase in domestic prices in the coming quarters, and reduce external competitiveness (the largest exporting companies of the production - if Alro). Increase their purchasing power prices could cause, per se, a persistent contraction of the domestic economy in the coming quarters.

## 5. Conclusions

In conclusion, a development strategy of state-owned companies from different sectors and detailed action plan will be very important. The question remains whether the Government really wants it or this is part of common political games.

Attracting private management in state companies could be a viable alternative from an economic perspective – the success is assured if the political class would be convinced of the priority of economic performance over other interests. The challenge comes from convincing managers to take into account this change in their career and to prove that medium and long term solutions are sought, not just solutions in crisis time to check another requirement imposed by international bodies.

We can say that, in general, Hidroelectrica should emerge stronger from the process of insolvency, cleaned of ticks. Strictly from this point of view, such a procedure might prove effective. On the other hand, it is still a singular case, most public companies must go through such experiences in order to revitalize.

It must, however, be noted that the practice of new prices for goods provided by companies controlled by the state will be a negative shock (on the supply side) for the economy, at least in the short term perspective.

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