

Twenty Years After: Management and Performance Measurement in Romanian State-Owned Enterprises

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Abstract In 2011, the economic crisis generated public discussions related to the performance measurement and poor management of state-owned enterprises (SOE) in Romania. The debate revealed the fact that the existence of present SOE, including their creation and strategies, is undermined by an unclear conceptual frame. The study analyzes the theoretical roots of some critical demarcations in the public sector in order to explain the dilemmas or some controversial approaches in the policies regarding the SOEs management. The map of discussions for building the theoretical background of the study takes as main milestones some references related to the issue of public sector demarcations, to the privatization of SOEs and to the organization and management performance appraisals of the SOEs in the specific Romanian context. The methodology of study is tailored to the Romanian context. A collection of case studies and disparate but relevant facts are preferred to statistical tools. They are used to explain a very strange behavior of organizations in this dynamic and theoretically unclear environment. The state of the Romanian public sector is explained first as a result of the national legal context. But the new public sector is also the result of the economic reform, including the privatization after 1990. All these elements triggered some local characteristics of the SOEs management. A representative case for the process of restructuration can be found in the energy sector, with a special significance for the national economy as a “model”. The problems of organizational performance and management appraisal in Romanian SOE are present in discussions using the so-called anti-management concept. Some facts are brought forth to illustrate the concept.

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1 The Initial Trigger for a Discussion About Some Concepts of the “Public Management Theory Jungle”

In the end of the year 2011, in relation to the local manifestations of the economic crisis, the performance and management related to the SOEs became topics prone to cause controversy. The discussion was triggered by the comments expressed by the president of the country, which reflected both a general concern of the state and specific concerns and interests expressed by the representatives of IMF and of other international financial organisms.

The discussion is associated with the central pillar supporting the reorganization of the Eastern economies, namely the privatization. After 1990, the privatization topic has been frequently approached in multiple manners by the Romanian economic environment. At this stage, the privatization comes into being by proposing the support of two components, the sale of SOEs or of certain participations and the initiation of a SOE private management.

The second component mentioned is associated with the performance measurement in the public sector, and especially to SOEs. Moreover, this component is associated in Romania to some specific issues involving the style of SOE managers, as a part of the domestic aspects of agency theory.

The lack of clarity in approaching the performance of the organization and in assessing the management performance seems to represent only “the tip of the iceberg.” The remaining part is represented by a set of concepts and delimitations associated with the public sector. Both the named ambiguity and the ones related to economic policies which include the public sector generate the assumption that they have a more profound source, consisting—in other words—in the definition of basic concepts of the public sector. They lead to immediate pragmatic and theoretical consequences as the “proximal concept” is being defined. This label, associated with a relative positioning, refers to a theoretical element relying on the previous one.

In the case of the present study, the management is referred to an organizational entity named SOE referred to a manner of segmenting the public sector, to the so-called problem of its demarcation, and also to the process of privatization. The privatization seems to be the process having the fastest impact on the alteration of the dividing line between the public and the private sectors within the economic field. Finally, the demarcation of the public sector relies on a set of basic options defining a publicness model. Obviously, the debate on management will begin with discussing the publicness concept and then will be developed in several steps in order to focus on particular aspects of a specific type of organization.

Even a “soft” review of the named concepts and of the reasons underlying the relation between them shows a wide array of points of view that warrants the Koontz (1961) paraphrasing label “public management theory jungle.”

If the deductive component of the study is to be taken into account, the theoretical ambiguities and their pragmatic consequences noticed in mature economies are likely to generate a larger and more difficult to manage database, which is

prone to call in question the solutions that have represented the trigger of discussion and to determine the development of an approach that must be supported more convincingly from the theoretical point of view.

This local and temporary context determines the necessity of a more focused theoretical approach, influenced by the existence of general theoretical reference frames which have guided ample pragmatic approaches abroad, but also by a previous national experience. However, both categories of reference marks must be considered from a critical point of view, due to manifold controversies which have accompanied them.

In a more concrete manner, the discussion about SOE on the “route” publicness and public organization, new public management and privatization, management and performance measurement will be related to American and Western basic references, for a further search for practice-oriented references associated with the category of emergent economies, and mostly to specific Eastern economies.

The review of the named concepts allows the discussion of certain particularities specific to the Romanian environment. They provide both a theoretical component—and thus a comparative approach related to the Western model is to be developed—and also an applicative component which emphasizes a state of facts representing the consequence of a specific context. This context determines the inductive approach of the study and an atypical research methodology involving the Romanian SOE state of facts.

2 Theoretical References Related to the Concept “State-Owned Enterprise”

2.1 Publicness and the Problem of Demarcation of Public Sector

The main distinction between public and private organizations is based on ownership (Rayney et al. 1976). In order to use a simple and steadfast definition, a public organization is an organization owned collectively by members of political communities, municipalities, regions, or of the state. Later on, Bozeman (1987) developed a model of publicness that included other two variables, namely the categories of funding and control related to the organization. Using these three dimensions of publicness, Bozeman postulated an idea which was represented by the title of his book: “all organizations are public.” However, in order to build a conceptual ground for this study, it is relevant to emphasize that the political system and not the economic one has the upper hand when some organizations, labeled as public, are taken into account (Dahl and Lindblom 1953).

If the three-dimensional model of Bozeman and the idea developed by his book are considered, the consequence of publicness is that some differences could be observed not only between private and public organizations, but also between

public agencies and public companies. Once again, if the idea of Bozeman is taken into account, the valid conclusion would be that the dimensions of publicness represent a continuum for public organizations. The “medium” agency is more public than a “medium” public company, due to the funding and control dimensions. A public company is controlled predominantly by political forces, being, however, more “market oriented” than an agency, even in the case of a monopolistic structure.

The main theoretical approach related to publicness could be identified in leading journals from UK and the USA. The data rely on empirical evidence provided by comparisons between private and public organizations within countries such as UK, Australia, Canada, and the USA. However, these countries, and especially USA, seem to express a more favorable opinion toward the private than toward the public activity. This fact generates a rather “unbalanced” interest on the management of private organizations and on the public sector agencies.

Even if there are many empirical studies on management differences between public agencies and private organizations within the USA related to this context, a weak interest on public companies management is reflected by studies. If one takes into account the fact that most of these studies developed in the USA represent the results of a small amount of researchers’ efforts, the most renowned names being Bozeman and Rayney (Boyne 2002), the area of theoretical references on publicness and public companies relevant for the Romanian context should be expanded by consulting the theory developed in European and Asian states in order to counterbalance the American bias.

The publicness seems to become in a more obvious manner the result of a political culture different in Europe from that of the USA, as a result of the experience of strongly centralized European states. The first theoretical issue is to define the public interest and to find a clear demarcation for the public sector, as discussed in Lane (1993). The demarcation problem was a central theme for the so-called Austrian school, including Friedrich Hayek and Ludwig von Mises. Schumpeter (1965) discussed the organization of the society on the basis of public control and private ownership of the means of production, in fact the Mises’ market-bureaucracy distinction. Demsetz (1982), an important scholar of the so-called Chicago school, argued that the distinction between private and public ownership should not be identified with the distinction between competition and hierarchy.

Many other writers are involved in this conceptual discussion involving the demarcation of both sectors, using various interaction concepts related to ownership, allocation mechanisms, forms of control or the production–consumption balance. As these concepts are used to cross-tabulate the distinction in order to build a more analytical approach, the number of solutions that involved the ideal forms of social interaction have increased. It may be argued consequently that the theoretical border between the private and public sectors is indeed vague and dynamic. The pragmatic consequences are that each state presents a specific solution for demarcation and that the European states probably present the most

various social and political visions related to the field, obviously without the involvement of a clear, strategic, or rational plan.

From a managerial point of view, both the demarcation problem and the distinction between related fundamental concepts represent in fact the choice made by society or state between “bureaucratic management” and “profit management” (Mises 1962).

2.2 The Privatization and the State-Owned Company

The empirical evidence involving the state of facts in the European countries, especially in the Eastern European and former Soviet ones, is expected to provide data that would seem “unbelievable” for the American theoretical framework. These states have experienced for more than 40 years a strong form of communism, involving planned economy, state ownership, and total control of organizations. After 1990, the basic choice has changed and thus the private sector has developed sharply as a result of the privatization process. The specificity of the public sector of each Eastern European state before 1990 and the specific national formula developed for the transition to capitalism and privatization redefined the demarcation border and this has led to different outcomes. The results involved specific configurations of the public sector, taking into account the amount and size of the public companies. Each East European state has developed a specific model for each industry and also for each significant public company. As a logical consequence, the study of these public organizations has focused on the current diversity of the management variables that have increased from West to East.

The discussion on demarcation has added to the one concerning publicness and definition of public organizations. In fact, for this stage of the study, it is important to shed light on the differences between public companies and public agencies in order to develop the theoretical framework for analyzing the management in a specific context, place, and time, of the former category. However, the result of this addition is the enlargement of the referential system used to conceptualize the management of public companies and also to design the list of characteristics reflecting the expected performance.

The current economic crisis has brought about a number of new reasons to discuss the problem of demarcation and the pragmatic approaches related to the management of public companies.

Considering that this study will further analyze the public sector and the economic transition in Europe, the implementation of new labels for the organizations in discussion could provide a better account on references on the local legal context. On the other hand, these labels allow the distinction of fine differences between the cultural approaches involved in public sector organizations in the USA and Europe.

In order to clarify the definitions and the new labels, the works of Bös (1986) must be taken into account. Bös discussed about public enterprise instead of the

public company and described it using three different sets of characteristics. These sets refer to the enterprise itself, to the relevant government agencies which control public enterprises and to the strategies developed by government in order to influence the enterprise.

The first main characteristic of the public enterprise is the use of a price which may or may not cover costs. The second possibility, price under cost, will be a sensible aspect of the Romanian management.

The legal forms of public enterprises could be agency (departmental), public corporation, or state company. The first form does not have a legal personality and the link with the government is straightforward. The others have a distinctive legal personality, the public corporation being an institution of public law and the state company being an institution of private law.

The public corporation is usually financed by the state using an allotment of capital or a loan. This form is frequently used in order to manage the so-called “nationalized industries” in UK, France, Italy, and the USA, but not in Germany. Within the Eastern European states, the current public corporation is a former large organization created in the communist era or a nationalized firm developed after World War II with the aid of significant state investments. In Romania, this category of public enterprises was deemed as “strategic” by a specific law (Law 15/1990) and labeled in Romanian “regie autonoma” RA (in fact a public corporation), according to the French “style,” with legal characteristics inspired by the French legislation.

The government controls the state company wholly or partially as the owner of shares, and thus, the label used in economic literature is SOE. Each state defines a specific level for the minimum amount of shares allowing the control of the government. In Europe, controlling more than 50 % of the shares is considered as “normal” in order to control the respective organization. In Romania, the label usually used for a number of SOE is “national company,” even if several SOEs were established and have operated under ordinary commercial law used for private companies.

The privatization, having an important impact on the border of demarcation, namely the privatization, was developed within the Western economies during the 1980s. Details on these privatizations are provided by Hawkins (1991) for the Western Germany, Beesley (1992) for UK and Morin (1998) for France, but also by many other studies and works. Several studies focus on specific industries, as railway transport, financial services, or electricity.

The comparative perspective on privatization in Western Europe is also very well represented in studies. This perspective is significant because it offers a realistic image on the dimensions of privatization. Compared with the “Big Bang” of Eastern nationalizations, the dimensions of Western privatizations were rather modest. The “tough” privatization, labeled as “large privatization,” was to be experienced in the UK, where accumulated proceeds in GDP during 1979–1991 were under 12 % (Stevens 1992).

The comparative approach has been extended after 1990. Usually, a group of Western European states were compared to Eastern ones, involving a usual

“pattern.” Due to the fact that the characteristics of ex-communist states were different and also the interest of Western investors and politicians for the these countries, the comparative studies discuss about Central European states, as Austria and Czechoslovakia, and Eastern European states, as Poland and Hungary. The image about the process of privatization of the states from the “Eastern first line,” depicted by comparative West–East studies (i.e., Bös 1993), is detailed from a national perspective only for an “internal” use.

All the studies about privatization in former communist states from Europe and Soviet Union reflect the existence of very different models of privatization. Adopted as plans to be developed in a few years, their implementation was difficult and the mixed results determined the decision makers to operate several changes. Finally, an important dispersion of facts could be observed, different from the theoretical framework developed in the US or in the Western European states. Neither the process of privatization, nor the processes of dispersion are complete. The logical consequence is that the dispersion in management follows the mentioned trend.

Despite the theoretical framework and the references related to the “success model” involved in the implementation of privatization plans in a number of Eastern European economies, the economic and management realities in Romania are poorly discussed and mapped in the international literature. A reason for this situation could be that Romania represents an “atypical” case, involving communist nationalization, the style of economic planning from 1970 to 1989 and the further chaotic privatization.

After 1995, for several political reasons, the Romanian government has transformed the legal character of public enterprises during the privatization, changing the public ownership into the state–private ownership. Several corporations have become SOE, and the government has gradually diminished its share.

2.3 The Organizational Performance Appraisal in the Public Sector

After providing a critical review of problems involved in the conceptual demarcation in the public sector, the discussion on management and performance measurement in SOE could be more focused. Further on, the focalization process consists in the distinction of appropriate references that are relevant for Romanian SOE.

The topic of organizational performance measurement has generated an impressive list of references in many disciplines. The initial interest has focused on performance measurement in the private sector (Johnson and Kaplan 1987), due to the fact that the expected results were “profit-oriented.” After ‘90, it has been accepted that companies compete using information based not only on cost and price, the two being key-elements in the model of Porter (1985), but also on the

non-financial information. As a consequence, several multidimensional models for organizational performance measurement have been developed (Fitzgerald et al. 1991; Lynch and Cross 1991; Kaplan and Norton 1992).

After '80, the transfer of managerial knowledge from the private sector to the public sector has included the performance measurement. Countries like Australia, the USA, Canada, the UK, and some other OECD states have tried out the theories involved in the field. The resulted approach for the public organizations was labeled as "new public management" (Hood 1991).

The focalization on the public sector and nonprofit organizations became a common sign of the interest for efficiency manifested by the society. This interest promoted by government and academics in the USA and the UK was reflected in empirical studies diffused in the influential American and English journals. The studies were focused on the domestic public sectors, administration, education, and health services being the most investigated fields.

After more than a decade of theoretical debates and empirical studies, several works of research have tried to use taxonomies in order to systemize the domain of performance measurement. Micheli et al. (2005) identified five broad topics that deal specifically with performance measurement in the public sector. Three topics were focused on more technical aspects, such as characteristics and use of systems, benchmarking, or balance between internal and external measures. Other two topics dealt with human aspects. They also identified three organization theories, agency, institutional and resource dependence theory, which have been more frequently used as a frame for this kind of research. Vickers and Yarrow (1991) also examined the implications of different ownership types in terms of managerial incentive structures and enterprise performance and they argued that "ownership matters."

Following this trend, during the next years, other national experiences have been revealed. Brignall and Modell (2000) discussed the topic referring to the UK and Scandinavia (Sweden).

Paradoxically, during the next decade, this transfer of private company management concepts was directed to improve the management of public service organizations and the public enterprise was neglected. In fact, the implicit assumption was that the SOE is very similar with the private firm and the transfer is "natural." On the other hand, it seems that the American researchers and scholars are not very interested in the management of SOE, as a consequence of their national practice on this segment of the public sector.

However, the level of interest in the SOE management is different in the countries where the tradition of state ownership is strong, that is, France or Germany, or in the countries where the sociopolitical contexts involve a more intense state control of public enterprises, that is, Canada or Greece. In what these countries are concerned, there are several studies describing the general situation or specific management problems of SOEs and also the specific industries and specific types of SOE.

For instance, Canada, despite the American models or the English NPM experiences, has an important number of SOEs. The Canadian state was involved

in the standard activities of electricity generation and distribution, telecommunications, postal services, water and sewage, ports, and airports, etc. Furthermore, Canada has owned at various times an airline (Air Canada), a railroad (Canadian National), an oil company (Petro-Canada), and numerous mining operations, but has also been involved in shipbuilding, aerospace, forestry, oil and gas exploration, nuclear reactor building, agricultural land ownership, interurban bus service, and automobile insurance. Taking into account the list above, Heath and Norman (2004, p. 255) state that “The standard ‘public goods’ rationale for state involvement is absent in these cases.” The heterogeneity of the industries on the list and the comments on rationality of state involvement raise immediately some dilemmas in measuring performance of Canadian SOEs. In the American cultural context, some studies, that is, Boardman and Vining (1989, 1992), explain the characteristics and behavior of these organizations regarding performance and underline the idea that “ownership matters” in determining the efficiency.

Within the same geographic regions such as Romania, Greece has had the same basic problems in what SOE management is concerned. Illustrating the origin of current problems 20 years before the economic crisis, Lioukas et al. (1993) discussed the managerial autonomy in SOE, including the scale of the state involvement. Implicit dilemmas on performance management were presented in this study and the current situation has “validated” the related concerns.

In fact, during the last century, the history of SOE in every state has showed a very “irrational” list of industries where the state has had a “special” interest.

2.4 References on the Organizational Performance Appraisal in the Romanian Context

For the current Romanian SOE context, the experiences of the European Mediterranean states or of the Asian emergent economies, the Asian “tigers” included, could offer a more appropriate perspective. Italy, Spain, and Greece feature some common characteristics of the sociocultural environment that could induce a similar managerial behavior regarding the performance and its measurement. On the other hand, South Korea and China offer an interesting experience concerning the performance measurement of SOE, before and after corporatization or before privatization.

For instance, Menozzi (2009) analyzed the influence of political environment, namely the nomination of representatives of political groups on the board of Italian SOE operating public utilities, a topic which is very interesting for the Romanian perspective on SOE performance measurement. In Greece, as early as 20 years ago, Lioukas and Kouremenos (1989) were interested in identifying certain models for SOE, labeled as “typical,” as a base for an implicit discussion about performance measurement. In Greece, and also in Italy, as it can be observed in these

studies, the concern for economic performance is counterbalanced by the concern for social issues.

In the Asian emergent economies, an increased interest for measuring performance of SOE can be identified as a step toward obtaining a more effective public sector. A special position, not necessarily as an emergent economy, but as a challenging area for research on SOE, is that of the Popular Republic of China. All the issues of interest above are discussed in several studies written by Chinese and also by Western researchers. Xu and Wang (1997) have studied the correlation between ownership structure of organizations and their performance. The mentioned research, *inter alia*, reflects the government concern and could be seen as a theoretical preparation for a new design of the public sector. The demarcation has been made gradually, utilizing “soft” tools, as the corporatization of SOEs, or with “hard” tools, as the privatization. In the first case, Aivazian et al. (2005) discussed the possibility of the SOEs performance improvement, the state keeping a stake in order to obtain some social results on long term. For the newly privatized Chinese firms, Wei et al. (2003) argued that the performance and the financial measures were essential.

The research results of these studies are consistent with several Western studies and theories, but the China case is quite different because the statistical base for empirical studies is very large and primary data are collected by Chinese public agencies. A very shrewd political command could be referred to in order to support the present public policy regarding the SOE, a policy tailored in Chinese style on long term and with a strategic perspective.

The public policies in South Korea have always been to take into account the concern regarding the performance of SOE and generally of the public organizations. The accounts on Korean efforts to improve the performance are more available in studies and research reports published in Korean rather than in English. However, it is obvious that the Korean government has tried to reform the public sector using a classical Western approach, involving corporatization of SOE and privatization as an extreme measure against the 1998 economic crisis (Ahn and Kim 2000). In this context, the performance measurement will focus mainly on profitability, operating performance (reflected in sales and net income), and leverage level, but also on employment. Features to be taken into account by this study are the “demarcation” of the public sector and the list of Korean SOEs that were privatized during the last decade (see the Canada case discussed above). Among the companies inscribed on this list, one can take into account large SOEs from the fields of telecommunication, steel and heavy industries, tobacco and ginseng, a specific Asian product involving a higher public concern. A matter with a significant impact is the Korean manner to relate the experiences of Eastern European transition economies and their theoretical explanations. An example could be the explanations offered by the Hungarian Kornai (1992), regarding the poor performance of SOE within Eastern European region due to the use the “soft budget constraint.”

Finally, it can be assumed that the SOE performance measurement will consist nowadays of a mixture of Western methodologies, mostly represented by profit-

oriented tools developed in the American style within a sociopolitical framework set by NPM that has been strongly influenced by historical and cultural matters. These studies use statistic tools in order to obtain “predictable” results that support certain public policies related to SOEs in emerging or transition economies, with a strong emphasis on privatization.

As far as the Romanian economy is concerned, invoking the public interest—ambiguously labeled as “strategic”—has generated not only a highly “original” configuration of SOE, but also the dilution of performance assessment orientation toward financial results. Even the dynamics of the privatization process has been affected, the “slow” stages of the process being interspersed with stages characterized by sudden transformations. The latter are questionable as far as their procedures and goals are concerned, a fact that leads to a significant amount of dissimilar management problems. The balance between the profit-oriented and the social-oriented strategies in measuring performance has followed the dynamics of privatization. The orientation coherence in pursuing performance does not match either the market-oriented approach belonging to the Anglo-Saxon type, or the state management approach practiced by Western economies such as France or by emerging Asian economies.

2.5 The Management Performance Appraisal

If the initial “trigger” of this study is taken into account, an implicit assumption would be the existence of a correlation between the quality of management of SOEs and the level of their organizational performance.

The managerial performance appraisal is another Western concept that has received a special attention from the specialized literature, with the pragmatic consequence of top management compensations. The topic has been discussed for 80 years in hundreds of studies, as the empirical research has focused on Anglo-Saxon countries, with a strong emphasis on the USA.

If the topic is translated into the public sector, the problem of variable compensation is under control due to the fact that the salaries are limited within these organizations. The problem of managerial appraisal still remains in discussion, augmented in this peculiar case by the fuzziness of the aforementioned connected topics.

The appraisal of top management performance within private companies relies mostly on two factors: individual goal achievement and organization performance. The most frequently used organization performance is the profit accounting. However, the appraisal can be ineffective even in this case because of unclear performance criteria (Longenecker 1997). In general, the appraisal could be analyzed as a part of agency theory (Fama 1980), with the significant impact of the information asymmetry between the principal, the board or the owner on the one hand, and the agent, namely the executive on the other.

The first dilemma specific to the top management appraisal in SOE is related to the balance between the economic performance and the social results, considered as long-term objectives. The difficulties involved by the other problems discussed are amplified by the structure of the ownership and stakeholders.

3 A “Puzzle Methodology” to Study Romanian SOEs

This study involves an inductive research and consists of two main components. The first attempts to map a “jungle theory” which refers to public organizations and, more specifically, to SOE. This map is useful in order to identify the problems involved in the demarcation of SOEs domain.

A minimal framework of basic concepts is established in order to define a number of characteristics describing the process involved in assessing performance measurement and the management of public organizations. An extended list of concepts and theories would cause a divergent effect, impeding on defining a realistic and precise image of the “jungle.”

The concepts are chosen in order to provide a shortcut from the theories related to private organizations to the domain of public organizations, a domain which is always open to debate and further clarification. The discussion relies on the concepts of “public ownership” and “publicness,” considered as tools involved in the “demarcation of the public sector” and in the differentiation between agencies, public companies, and SOE. The special emphasis laid on privatization will redefine the boundaries between the public and the private sector, with the renewal of the managerial and performance behavior of organizations. Performance measurement and managerial appraisal represent characteristics specific to SOE which were induced by the “design” of public sector.

The review refers to the Romanian environment, taking into account Anglo-Saxon theories and a number of referential empirical researches developed within the Western world, including examples from Asian, Mediterranean, and former communist East European states. The extension was made in order to describe the relation to a similar context, involving the enlargement of the “jungle.”

The wide array of concepts has interfered with some geographic examples and references, the framework of the study involving an exploratory character. Several secondary characteristics are explanatory in an obvious manner, even if the explanations did not attempt to achieve a comprehensive status. As a matter of fact, if the realities of the public sector of the Western world are hard to be explained in a “rational” manner, the same concern is involved for the emergent economies.

As a deductive approach and the use of statistical tools for a quantitative analysis are concerned, the main difficulties related to small or medium countries are the heterogeneity of organizational populations to be studied and the extreme diversity of legal contexts determining the operation of public organizations. As an

amount of doubt is related to the official figures provided by national statistics offices, there is some concern on the adequacy of a “technical” approach used when researching the SOE in the unknown environment of small or medium countries. A collection of case studies could have been a more appropriate method to utilize when doing research on countries of this size.

Referring back to the inductive approach, the data have been collected by using various and sometimes unusual tools, due to the attempt to develop reliability by triangulation. The secondary data were collected from various Romanian studies or researches, and the “very hot” data were collected from newspapers reflecting the last managerial development of SOE. These newspapers have utilized several specific investigation methods, accessing a significant amount of data labeled as “confidential,” despite the fact that this category of data has to be made available for the public.

The primary data were collected by observation, unstructured or informal interviews. The facts and people taken into account as sources of primary data are either involved in SOE in a straightforward manner or have developed a significant relationship to this environment. The exploratory phase concerning a specific type of SOE has been planned in order to define their operation according to the political context of Romania and also of the European Union. Eventually, the collection of data has become more focused.

Finally, it has to be stressed that a novel approach on a reliable “decryption” of formal data collected in Eastern ex-communist countries is related to the choice of this methodology. The result of this decryption has influenced the selection of concepts referring to the public sector and to SOE.

The most recent data utilized in this study were collected in May 2012, after the Romanian government had changed.

4 Facts, Figures, and Emergent Strategies in Romanian SOEs Sector

4.1 The Legal Context and the Demarcation Process After Privatization

At the end of 1980s, the Romanian public sector included all the enterprises belonging to the exploration field, the manufacturing industries, the public utilities, and the financial and insurance services. The state owned the industry and transport infrastructure, the oil, gas and mining resources, and significant areas of forest and agricultural land. The private sector was limited to a small number of family-owned enterprises and the so-called co-operative enterprises, which in fact were controlled by the state. Twenty years after, at the beginning of the year 2012, the Romanian public sector counts 760 SOEs representing 11 % of the GDP (figures available in Romanian newspapers). The state also holds an amount of minority participations in former SOEs, now private companies.

In order to define the economic behavior of these SOE, their present ownership, and the last changes, the influences in their status should be described. The large SOEs are owned by the government, which is represented either by a ministry or a central agency. Several medium SOEs operating in public utilities belong to the municipality or county ownership. The property rights for specific organizations were transferred from the government to local authorities, as a consequence of a new public policy developed for this category of organizations. For instance, as the domestic heating services are concerned, the supply companies owned by the government (and also their significant debts!) were transferred, in 2008, to municipality ownership. As the water and sewage services are concerned, the owner usually is the county council. There are, however, several public partnerships between municipalities, counties, and the government.

Going back to 1990, the first post-communist government launched a program of economic reforms relying on a new vision related to ownership. This program started with the Law 15/1990 that separated the state-owned entities in two distinct categories: the so-called “commercial companies,” as state companies (the label SOE fits to the category) which were to be privatized, and the so-called “regii autonome,” RAs, in fact public corporations which were to belong, as a whole, to state ownership. The RAs were considered as “strategically significant” (a label which is still difficult to define!), and this category included fuel and mining utilities, defense enterprises, and also a huge amount of other enterprises considered as “peculiar” due to their operations, market structure, and ownership (represented by both municipality and county). In fact, this law seems to be issued in order to draw boundaries of public sector for the next decade.

After few years, the first demarcation between the private and the public sector proved to be ineffective. The main issue involved was that several RAs were very attractive for foreign investors, as many SOE were not. The solution was to redefine the boundary, by importing entities belonging to the second category into the first one, a RA becoming a SOE with the opportunity of being privatized. The creation of a SOE in order to attract investors was to be the result of the division of a RA. Eventually, a small part of it held the original label and the legal statute.

The dynamics involved by the demarcation have proved a lack in the development of coherent plans, as the privatization process has proved the same degree of incoherence. The results of objective analyses have been frequently supported by opinions, explanations, and facts provided by decision makers involved in privatization. Any figure regarding the SOE performance has represented a bone of contention with important social consequences.

4.2 The Case of Energy Sector

A more coherent process of privatization has been developed within the electrical energy sector. After 1997, due to the interest on EU membership, Romania launched an energy sector reform focused mostly on electricity. The managers

assumed the secondary role assigned by the Romanian political decision makers, and as a consequence, the performance measurement was replaced by political considerations which attempted at meeting the EU objectives. Foreign advisors were employed in order to provide technical assistance for drafting legislation, regulatory frameworks, and industry structures.

In a few years, after a gradual transformation, technically labeled as “deregulation,” “open market,” and “internationalization,” a national vertically integrated company was divided into many dozens of regional and process- or product-oriented SOE. A number of new regional SOEs were sold to SOE or public companies from Germany, Italy, and Czech Republic. This is the way in which Romania has developed the EU directives on the energy market, without taking into account the dominance of powerful national companies which are vertically integrated not only in the Western Europe, but also in Central and Eastern European states, and overlooking the poor local experience in deregulation and privatization of the natural monopolies.

Haar and Marinescu (2011) refer to the process of liberalization and privatization involving the energy sector in Romania as a lesson learned on strategies involving European utilities. Even if this lesson seems to be positive in an economic perspective, it does not explain the perseverance of France and Germany in keeping gigantic national companies or the “California lesson,” namely the electricity crisis of 2000 and 2001, caused by a supply gap created by energy companies such as Enron, in order to create an artificial shortage (Weare 2003).

This study emphasizes the gradual adaptation of the Romanian legislation related to the energy sector and explains the consequences for the ownership of SOE sector. In the final stage of the EU alignment determined by GD 638/2007, the electricity sector was completely open. The energy SOE population is defined by Diaconu et al. (2008), cited by Haar and Marinescu (2011), as consisting of 63 thermo-producers (former parts of “Termoelectrica”) owned by municipalities, one transmission system operator completely unbundled and regulated as a public corporation mainly state-owned (“Transelectrica”), 8 fully regulated distribution network operators and implicit suppliers of which 5 have been privatized with Enel (Italy), E-on (Germany), and Cez (Czech Republic), 104 suppliers, and 8.6 million consumers, of whom 8 million are residential and 0.6 million industrial.

In order to complete this image, it should be mentioned that the electricity production is still concentrated (about 70 % of the market) in three SOE, namely “Hidroelectrica,” “Nuclearelectrica,” and “Thermal Station Turceni.” The European investors have pursued a vertical diversification in distribution, supply, sales, and trading segments of the domestic energy market. The project involving the creation of one or two Romanian-integrated energy utilities created by sharing electricity producers, namely SOE such as “Hidroelectrica,” “Nuclearelectrica,” and “Termoelectrica” and a gas producer “Romgaz,” and distribution units, integrating them with transmission operator “Transelectrica” and expected to foster regional competitors has been postponed.

Referred only to the 10 years, the performance measurement is questionable due to frequent asset distribution between new and old enterprises. Each step in the

creation of new organizational structures and of new entities was attempted by new managers. However, the movement of managers was more frequently caused by the changes of the political components of the government.

Today, the main public problem refers to the huge profit gained by private traders, the so-called by newspapers “smart guys” who use long-term contractual arrangements with energy producing SOE, and to the threat this fact involves for the domestic price of electricity. A secondary problem is the assumption that the manipulation of economic results supports the sales of government’s shares to some public corporations operating as natural monopolies (i.e., “Transelectrica”). The incompetence of top managers, employed mainly taking into account political criteria, and their secretiveness regarding the “smart guys” remains an exotic topic for the Romanian TV shows.

In what gas is concerned, the business is represented by two large SOE, “Romgaz” for production, and “Transgaz,” for transport. Due to the fact that the price of Russian gas is very high in comparison with the cost of the Romanian gas, the theoretical margin is also high and can be shaped in order to obtain a certain social impact. This opportunity offers a significant level of power to managers which gives them the possibility to bargain with the decision makers at regional and national level. Even if the world of top managers is not open for public inquiry, the newspapers criticize the exotic acquisitions of these SOE, including an expensive “toy”—a professional football team in the first league representing a rather small community. The explanation of team’s financial support is emblematic for the top management: the source consists of the SOE “private money.”

The gas distribution has been privatized, after splitting the national monopolistic SOE in two enterprises. The new private companies preserved for South and for the North of the country the monopolistic position on market.

Considering these facts it could be concluded that the entire Romanian energy sector has developed an emergent strategy and not a deliberate one, the development of events identifying the strategy, using the words of Lindblom (1959), as the “science of «muddling through».” Even if it is difficult to distinguish social objectives specific to the public sector, the overall liberalization related to the price of utilities seems to endanger the Romanian standard of life with no improvement in the competitiveness of national firms.

4.3 The Organizational Performance and the “Antimanagement”

In the last 20 years, the organizational performance appraisal remains with a strong political distortion. For instance, the government considered the performances achieved by the coal mining sector after 1997 as unacceptable, considering the financial performances, and eventually implemented a policy of reorganization, which included the liquidation of unprofitable exploitations. During the fall of

1998, thousands of mine workers from Valea Jiului (the main Romanian pit coal area) were on strike and started a protest march, which became a march for Bucharest. After a number of negotiations and conflicts with the police forces, the strike ended and the “reform process” continued. Nevertheless, after 15 years, the main SOE operating in coal mining, “Compania Nationala a Huilei” CNH (“The Pit Coal National Company”), the origin of the aforementioned strike, and “Societatea Nationala a Lignitului Oltenia” SNLO (“The Oltenia Lignite National Society”) are classified between the public entities with the most significant debts to the state. In 2011, CNH was the “king debtor” with a debt of almost 2 billion RON (around 500 million euro). The performance measurement of operations or the financial performances could be discussed by taking into account the “social” or “strategic” role of these SOE, as the newspapers frequently report on the “exotic acquisitions” of the SOE top managers and other facts which are difficult to explain. For example, the top managers cannot explain their private fortune. Eventually, in the case of coal mining, the SOEs are entities playing a significant useful social and political role. The consequence of this public policy is the decline of the economic performance of this category of SOE, as the role of managers is mostly political.

The environment of SOEs operating in transport is similar to the one discussed above. The Ministry of Transport has in its portfolio a number of railway enterprises, an airliner, a subway, and a number of airports, ports, and national roads. The regional roads and the local companies for public transport belong to the municipality or county ownership. All the transporters have to confront a significant amount of debts. For instance, “CFR Calatori” (railway passenger transport) confronts debts of more than 600 million lei (140 million euro) after the first semester of 2011, with an increase in operational loss for each month.

A specific issue is related to the SOEs resulted after the split of the national railroad company, labeled as CFR. Despite the personal cuts and other cost reductions, the debts and losses have increased during the last 5 years.

As in the cases of South Korea or of Canada, the list of Romanian SOEs includes many organizations operating on competitive markets. “CEC Bank,” “Antibiotice Iasi” (pharmaceutical industry), “Oltchim” (chemicals), “Televiziunea Romana” (TV), and “Radio Romania” (broadcasting), “Posta Romana” (postal services) are the most significant examples. The reasons to maintain the total or partial state ownership vary according to each case, and their publicness could become a topic involved in academic debates. For a number of cases, the only reason of concern is the poor economic performances or eventually the state of bankruptcy. Consequently, the performance measurement takes into account various criteria and the financial support provided by the state can come under a specific form, as in case of TVR.

Regarding the appraisal of top managers of SOEs, the problem of unclear criteria is augmented by the demarcation of the public sector, all other issues being referred to as changes involving the legal form of ownership. The same effect has been caused by the strategy of privatization. On the other hand, if the organization

performances, social objectives included, are prone to doubt, the achievement of personal objectives can be considered as an appraisal reference.

These “personal objectives” have been a feature of the bureaucratic system with strong connections to Romanian political groups with a strong representation in all the significant parties which ruled the state during the last 20 years. The evidence is provided by the fact that 99 % of the top managers have represented a party involved in the government and their hiring has been determined exclusively by political criteria, namely direct connections with significant names of certain parties. This is a clear representation of the so-called in Romania “antimanagement” (Bratianu 2003) and the Russian term “apparatchik” (which has been also adopted by the French media in order to categorize certain managers, as Bernard Attaly at Air France) describes this relation in the most appropriate manner. Consequently, each change at the government level is immediately reflected into the change of SOEs managers. According to findings available to the public, the replacement of managers was accomplished 3 years after the 1996 general elections, 3 months after the 2000 elections, and 3 days after the 2004 elections or after the last government change in 2010.

Each top manager and each SOE can represent a consistent and spectacular topic for an academic case study. However, the “color” is influenced by peculiar facts and figures which go beyond the formal statements.

5 Conclusions

Both the definition and the demarcation of the Romanian public sector have had to assume the great number of field-related problems and ambiguities existing in the Western countries. The multiple modifications of the privatization public policies which have eventually influenced the SOE list prove there is not such a thing as a coherent strategy of the public sector. No significant components have been transferred from the experience specific to the Western steadfastness, to culturally similar Mediterranean states, or to the transition developed in East European or Asian states.

Due to the widespread conceptual ambiguity, a distinctive feature of the public sector, and public organization management—an ambiguity reflected also in the privatization policy—the decision makers are guided by indefinite political reasons and not by measurable references, reasonable according to social and economic criteria. This fact is emphasized by the new public management in general, and by the incoherence of the national strategy in particular. The management peculiarities are illustrated by economic reasons involved in such instances where the social ones should prevail, as in the case of natural monopolies existing in the sector of public utilities, and, on the other way round, by social reasons involved in instances where the economic ones should prevail, as in the case of SOEs operating on competitive markets.

The performance measurement of the Romanian SOE presents principle-based difficulties associated to the current theory, amplified by the exacerbation of the influence exerted by political factors. A probable consequence would be the interpretation of each performance with an attempt at justifying a future public policy, an approach pointed out by studies developed in states which are interested in promoting both NPM and the privatization. Such an approach, even if substantiated by empirical studies, discredits any reasonable attempt at translating into practice the performance-oriented management developed in textbook manner.

The SOE managers have become the pawns involved in the political environment display of power. The actual manifestations provided by case studies illustrate this fact by taking into account each and any SOE. In a similar manner, when SOE groups of certain specificity are discussed, the actual manifestation is characterized by a perpetual reorganization which involves their transfer from public–state ownership to the private–state ownership, implying—in other words—their transformation into SOE.

Therefore, the multitude of SOE evolves in Brownian motion with no influence from a managerial plan providing economic or social objectives associated with the usual theoretical approaches belonging to the Western type. The environment is characterized by cases which are peculiar due to the evolution of results and incomes specific to an exotic management for which the political level makes the difference.

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