



## Public Institution Management. Case Study – The Romanian Mail

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**Abstract** *Public institutions in all developed countries have played an important role until privatization when they took second place. These companies reached the privatization when they were not profitable anymore due to the poor management implemented either by an unskilled manager or a manager who maliciously led the institution with the purpose to collapse it as he had various promised or already received advantages from a competitor.*

**Key words:**

Public institution, management, privatization, manager, employee

**JEL Codes:**

H40

### 1. Introduction

Public interest in this kind of institution is the top priority. Satisfying taxpayers involves employing very competent people to follow the law and precedents.

*There are two reasons why these institutions are relevant. First, their activity is dependent on the government sector and second, it is a feature of public sector management, which controls the organizations activity for profit. Public institutions have always presented particular problems of management, which included social policy and industrial investment. If government control is too rigid, public institutions lose their status as independent entities.*

*But if control is too loose, they are no longer profitable for public.<sup>1</sup>*

One of the privatization arguments is that public institutions cannot be effectively controlled because of the manager who was politically appointed or put money in the election campaign of the party that won the election, and thus their performance is below that of private companies. Thus the purpose of public management in public administration is to satisfy the public interest, without having regard to a material profit, while managers from private companies constantly seek material gain.

Public transportation and postal services are still under the state's authority. These sectors have competition. While mailing services and letters sending remained a

state monopoly, courier services, fax and email have serious competition. The rail and bus network has competitors in private transportation systems.

In a common market they are in direct competition with private companies. The question is if they are profitable and operate in the same way as their competitors, why must be they owned by the government? On the other hand, if they are profitable and well managed, why don't they remain in the state property and their profit to be used for the benefit of civil society?

Governments hold these companies on the competitive market for several reasons: to foster competition and to maintain control of strategic sectors.

### 2. Mismanagement of the Romanian Post

The Post was created on Romanian lands during voivodes, from the need to send their commands.

*The first document regarding the existence of postal services in our country is the "Charter" by Prince Mircea the Old, in 1399, in Giurgiu. By this, localities were required to provide to royal couriers vehicles of transportation, horses and carts on two wheels, called „olace". At its beginning, the epost mainly comprised the passenger transportation service and official correspondence for the lords and princes.*

*In the second half of the eighteenth century, voivode Constantin Mavrocordat established that all couriers move to the state, with all expenses. They are building places for travelers and officials - so called mail inns, stables for horses and is accepted the public transportation by post chaise for a fee. Until the*

<sup>1</sup> Marinescu, P. (2001). *Public Institution Management*, Course Notes.

*Revolution of 1848, Posts were leased to individuals, usually for periods of three years.*<sup>2</sup>

Postal services have evolved since 1864, when voivode was Alexandru Ioan Cuza, the postal service united with the telegraphic one and later in 1893 also with the telephone service, giving birth to the PTT symbol. After 1989 the Ministry of Post and Telecommunications was established, later renamed The Ministry of Communications. By Decision no. 448 of June 1991, the Romanian Government disposed the abolition of RA "Romposttelecom" and the separation of activities through the establishment of four autonomous named: R.A. Romanian Post, R.A. Romtelecom, R.A. Radiocommunications and the General Inspectorate of Radio. By Decision No. 371 of July 1998, the Romanian government has disposed the transformation of R.A.-Romanian Post in company with the name of National Company "Romanian Post" S.A. By the same decision was established the "Articles of Incorporation" of C.N. Romanian Post S.A. (Annex to H.G. nr.371/1998).

Today the CN Romanian Post S.A. is the national postal operator from the postal services and is owned by the Romanian state, represented by the Ministry for Information Society (75 percent of the shares) and the Property Fund (25 percent of the shares) .

The company's activity is:

A. Postal services:

- I. Basic postal services;
- II. Other postal services.

B. Publishing, printing, marketing and preservation of postage stamps and postal effects in the conservative stamp;

C. Other services related to the above and other activities required by law.

The Romanian Post has over 30,000 employees, more than 5,500 postal subunits, 950 computerized post offices, post offices in VPN (Virtual Private Network) more than 750, total population served 21,680,974 and 7,500,000 address distribution. This company has worked very well during the communist regime but with democracy gained after 1989 began to scart like the train wheels from the CFR Merchandise. Just like CFR, the Romanian Post began to be on loss as a result of contracts executed by different companies.

In 2008, the Court of Auditors found several irregularities in the activity of Romanian Post which generated damages to the operator and among causes were: the contracts signed with Blue Air - 40.9 million Ron, with the European Bank for Reconstruction and Development (EBRD) and with Alfa medical Center.<sup>3</sup>

By comparing the income made by the Romanian Post with these institutions and costs, it resulted in loss, fact that demonstrates the failure of the principles of economy, efficiency and effectiveness. So the management of this company, because of bad will, or out of ignorance, is lacking.

These mistakes led, in 2013, to discussions about the layoff of 3,650 employees and severance pay in the amount of 7.4 million Ron.

With business of 1.26 billion Ron in 2012, the Post is the largest local operator of this profile and has a network of 5,600 territorial units.

The company had at the end of 2012 a total debt of 568.2 million Ron, up 2.9% compared to 2011.

In the last four years, the company has accumulated losses of 530 million Ron, although they budgeted profit each year. Post had 32.887 employees as of 31 December 2012, instead of an average number of 35.576 in 2008.

### 3. Economic and financial indicators

#### 3.1. Liquidity indicators

##### Current liquidity

The indicator shows the amount by which current assets exceed short-term debt and offers the warranty of covering the current liabilities from current assets. Recommended and acceptable value is about 2. So, the higher is its value, the better is the entity's situation.

$$CL = \frac{ACR}{DC} \quad (1)$$

ACR = current assets;  
DC = current liabilities.

In our case the current liquidity ratio is less than 1 so the situation is not good both in 2011 and in 2012.

##### Quick liquidity

This indicator eliminates stocks because you can not immediately turn in availability, expressing the entity's ability to pay debts. The recommended value is about 1. The "acid test" is greater than 1, the entity's situation is better.

Immediate liquidity (acid test)

$$IL = \frac{(\text{Current assets} - \text{Stocks})}{\text{Current liabilities}} \quad (2)$$

In case of immediate liquidity we have the same situation so bad, both in 2011 and 2012.

<sup>2</sup> [www.posta-romana.ro](http://www.posta-romana.ro)

<sup>3</sup> [www.mediafax.ro](http://www.mediafax.ro)

Table 1.

		December 31, 2011	December 31, 2012
Liquidity indicators	Current liquidity	0,39	0,34
	Immediate liquidity	0,36	0,32
Risk indicators	Indebtedness	1,04	23,84
	Indebtedness indicator	1,03	19,25
Operational indicators	Turnover (days)	6,83	4,89
	Receivables turnover (days)	32,19	38,27
	Loans turnover (days)	49,56	45,33
	Total asset turnover (days)	1,11	1,19
Profitability Indicators	Gross margin from goods Sales	15,11	15,57

Source: Romanian Post

### 3.2. Risk indicators

$$\text{Indebtedness} = \frac{\text{Borrowed Capital}}{\text{Employed Capital}} \times 100 \quad (3) \text{ or}$$

$$\text{Indebtedness} = \frac{\text{Borrowed Capital}}{\text{Equity}} \times 100$$

Borrowed capital = loans over 1 year

Employed Capital = capital + reserves + loans over 1 year

The indicator shows what percentage from equity loans represents the loans over 1 year and can be covered from reserves and capital.

We note that the risk in 2011 is 1.04 and in 2012 greatly increased, reaching 23.84. Risk should not rise more than 30%.

### 3.3. Activity indicators (management)

Activity indicators provide information on:

- input or output speed of the cash flows of the entity;
- entity's ability to control working capital and basic commercial activities of the entity.

Inventory turnover rate

$$\frac{\text{Cost of sales}}{\text{The average stock}} \quad (4)$$

The indicator shows how many times the stock has been run over the financial year.

Number of storage days (the sales average)

$$\frac{\text{The average stock}}{\text{Cost of sales}} \times 365 \quad (5)$$

6,83 days (2011) and 4,89 days (2012)

The indicator calculates the number of days in which goods are stored in the unit. The lesser is the number of days, the better the situation is, meaning that stocks are used in manufacturing, supply stocks are rhythmic and there is no risk of recording slow moving stock or difficult to sell.

Rotation speed of customer receivables

$$\frac{\text{Customers average balance}}{\text{Turnover}} \times 365 \quad (6)$$

32,19 days (2011) and 38,27 days (2012)

When the indicator's value is high, indicates that there are problems in the unit concerning the credit control accorded to the customers and therefore receivables are harder to cash in (bad clients payer). The entity must take the necessary measures to cashing them.

*Rotation speed of the credits-providers*

$$\frac{\text{Providers average balance}}{\text{Procurement of goods (without services) or Turnover}} \times 365$$

= 49,56 days (2011) and 45,33 days (2012)

The indicator expresses the number of days of lending that the entity obtains from its suppliers.

Total asset rotation speed

$$\frac{\text{Turnover}}{\text{Total asset}} \times 365 \quad (8)$$

1,11 days (2011) and 1,19 days (2012)

The indicator evaluates the effectiveness of the total assets management by examining the value of turnover generated by entity's assets.

### 3.4. Profitability Indicators

Gross margin on sales

$$\frac{\text{Gross profit on sales}}{\text{Turnover}} \times 100 \quad (9)$$

15,11 % (2011) and 15,57 % (2012)

A decrease of the percentage can point out that the entity is not able to control its production costs or to achieve an optimum sale price.

Table 2.

No.	Indicators	Year 2012
1	Total revenue	1.388.983.856
2	Total cost without tax	1.441.045.035
3	Gross profit Taxable / loss (1-2)	-52.061.179
4	Tax depreciation	42.283.547
5	Other non-taxable income	130.362.600
6	Similar items to income	8.964.006
7	Profit / loss	-215.743.320
8	Non-deductible tax expenses	188.412.724
9	Profit / loss tax	-27.330.596
10	Loss tax to be recovered from previous years	-245.997.918
11	Taxable profit / loss tax recoverable in future years	-273.328.514
12	Minimum tax on profit paid	0
13	Tax on profit due	0
14	Tax on profit due for recovered	0

Source: Romanian Post

National Company Romanian Post recorded in 2012 a loss of 52.061.179 Ron.

As of December 31, 2012 compared to December 31, 2011 the postal network was as follows:

Table 3.

Subunit type post	31.12.2011	31.12.2012	Differences
Urban post offices	622	608	-14
Rural post offices	545	532	-13
Urban postal counter	179	166	-13
Rural postal counter	1368	1377	9
Central distribution post offices	48	48	0
Mechanized rural post offices	87	87	0
Postal agencies	2759	2629	-130
Rural postal districts	180	157	-23
Regional transit centers	9	9	0
International Exchange Offices	4	2	-2
Quick post county points	40	46	6
Total	5841	5661	-180

Source: Romanian Post

As we can notice from the table above, urban and rural post offices, urban post counter, postal agencies, rural postal districts, international exchange offices decreased and rural post counter and quick post county offices grew.

#### 4. Conclusions

Companies such as the Romanian Post and CFR merchandise have reached this the present estate due to poor management applied by the managers who led them. This is unfortunate for the employees who worked there and will be dismissed and for those who are still working but living with stress that one day they will be fired.

Why did the Romanian Post resist during the Ceausescu regime and after 1989 when it met the competition and could not cope with it even if it had and

still has lower prices? Why did the contracts pull the company down?

Why did they get in such a situation? Can those people who led these companies still sleep peacefully? There are questions whose answer I'm not expecting for.

The democracy won after 1989 has given us the right to liberty and not to theft.

#### Bibliography

Marinescu, P. (2001). *Public Institution Management*, Course Notes.

\*\*\* [www.posta-romana.ro](http://www.posta-romana.ro)

\*\*\* [www.mediafax.ro](http://www.mediafax.ro)