

CORPORATE GOVERNANCE - EFFECT OF ORGANISATIONAL CHANGES ON A ROAD MANAGEMENT COMPANY

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ABSTRACT

Recently in Hungary a new merger has resulted one central road administration unit including former county level entities. The centralisation is expected to result considerable savings in State budget as well as more transparent resource allocation and utilisation.

Potential problems of a large-scale re-organisation always include conflicts of interests. Independent parties like the central administration unit and a county level counterpart in some former contracts have become members of the same organisation.

Road user information system in Hungary consists of collecting, processing and distributing information on road closures, accidents and adverse weather condition. After the re-organisation there has been a need for definition of public service provided free of charge and value-added information to be marketed. Public access is provided by a new system of media connections using advanced technology. Access to the value-added information requires a contract and it has a fee.

In the past practice employees dealing with road user information made individual contracts with media units besides their original wages. According to new employee conflict of interest regulations, that proved to be an incompatible activity. Communication is of capital importance for any public utility company therefore it became important to clarify the role and responsibility of employees.

1. GENERAL SITUATION IN HUNGARY

In Hungary significant changes have taken place in the field of Road Administration since 1990 when the transition of economy began. The county level of Road Administration was organised on a spatial administrative basis while the central organisation unit was the powerful Road Management and Co-ordination Directorate. Based on the development of the market economy in 1996 partly the central unit and all district units have been transferred to non-profit companies still owned by the Ministry of Transport.

Presently an active seeking of possibilities is in progress for transferring road related cost out of State budget. This step obviously involved an organisational change in the central Road Administration. The Government has made a decision in 2005 establishing one big central road administration unit including all county level entities. The new Hungarian Roads Management Company is a State owned non-profit company unifying former Technical and Information Services on National Roads and 19 County State Road Management Companies. The new organization is responsible for the 30 000 km public road network, having 4300 employees at 144 locations and 130 million Euros annual revenue.

Special tasks related to motorways are performed by companies of state, private and mixed ownership. Another state owned company deals with the road network development. Figure 1 shows the system of the Hungarian Road Administration in 2006.

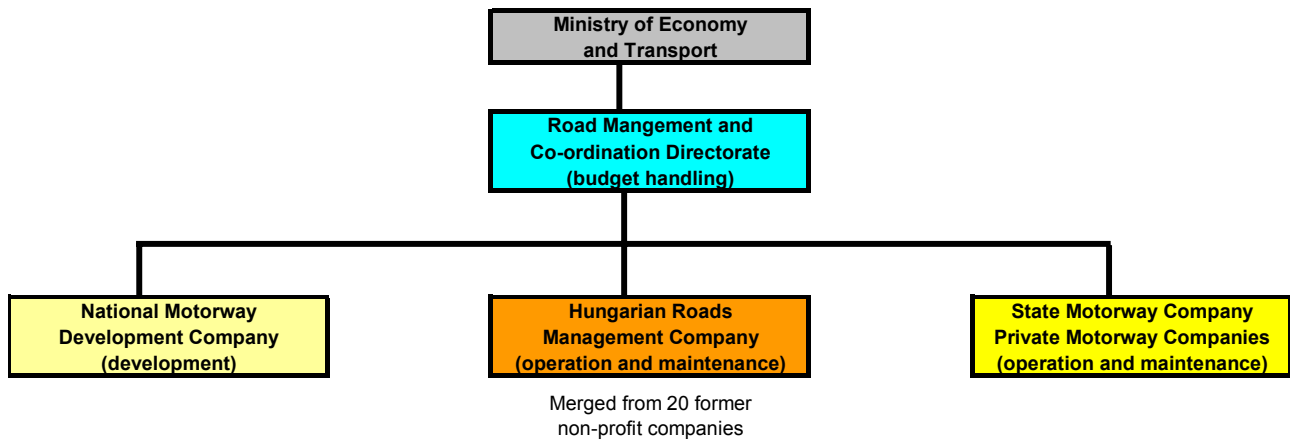


Figure 1 - Current system of the Hungarian Road Administration

Goals of the recent re-organisation of Road Administration are as follows [1]:

- More efficient use of EU funds and better accessibility for tender possibilities
- Conscious consideration of network-related approach
- Improvement of conditions for economical operation, maintenance and development
- Rationalisation of administrative activities divided spatially at present
- Increased effectiveness of asset and resource management
- Improvement of transparent and controllable resource allocation and utilisation
- Better supervision of the performance of road administration

The main task of the Hungarian Roads Management Company is the operation and maintenance of the national public road network performed by its regional units. At the moment there are 19 county level directors but in the near future less regional unit will do the same work. Another regional duty is to provide technical preparation and engineering co-operation for the developments. Some departments of the central unit deal with technical and information background activities.

The organization structure and the functions of the new road administration are based on business models with an emphasis on marketing. The technical departments have got the majority of staff and their work is helped by economic, human resources, informatics, legal and public purchase, communication and structural development departments. Right now the main source of the revenues is the state budget and this determines the activities. However the strategy of the company is to increase the proportion of business revenues in supposedly emerging market conditions.

The new organisation provides almost all functions of central Road Administration and preserves the regional operating system. The centralisation has already resulted considerable savings in State budget as well as more transparent resource allocation and utilisation.

2. CORPORATE GOVERNANCE – CONFLICTS OF INTERESTS

Non-profit companies existing between 1996 and 2004 were owned by the State. However, one of the goals of their foundation was to gradually bring these non-profit companies into the market economy permitting to get a given part of their revenues from marketed activities. This given part varied yearly from 10 to 30 % according to economical and political considerations. Contracts signed with the central road administration for maintenance and operation tasks as well as for engineering tasks of construction works provided the main revenue of county road administration units.

Potential problems of a large-scale re-organisation always include conflicts of interests. Independent parties like the central administration unit and a county level counterpart in some former contracts have become members of the same organisation. The past practice was that district level organizations made sub-contracts with consultants and contractors for some works fitting into their everyday activities.

Parts of centrally contracted construction work like work zone traffic control had been sub-contracted frequently to county level companies as illustrated in Figure 2. Design works like design of temporary traffic control often had been contracted out centrally to an engineering consultant but performed by employees of the administration working as individual engineers (Figure 3).

Shifting state budget originated or any other kind of public revenues into so-called private or market or business revenue always works against transparency and excludes competition [2]. The overall dependency between the purchaser and the sub-contractor makes worthless any virtual business success at an imaginary market. Therefore a decision was made to quit that practice by merging individual non-profit companies into a new large organization.

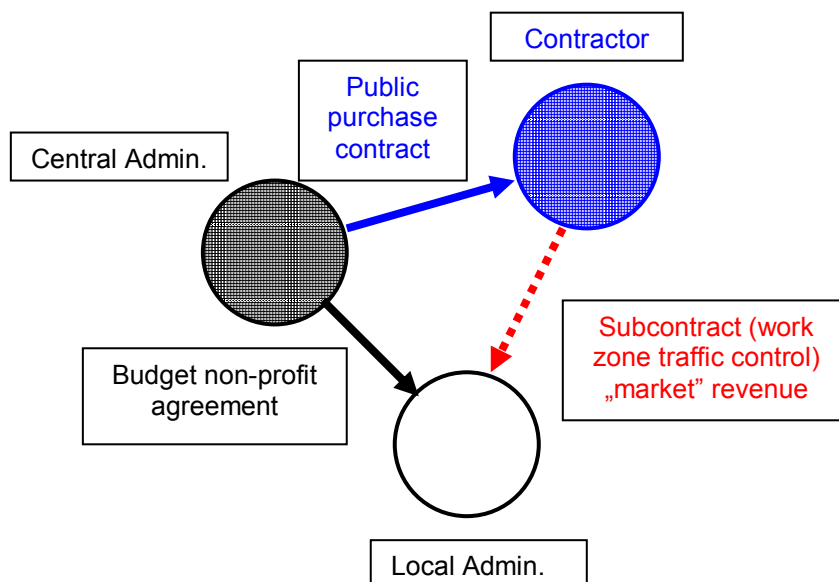


Figure 2 - Former practice of generating „market” revenue

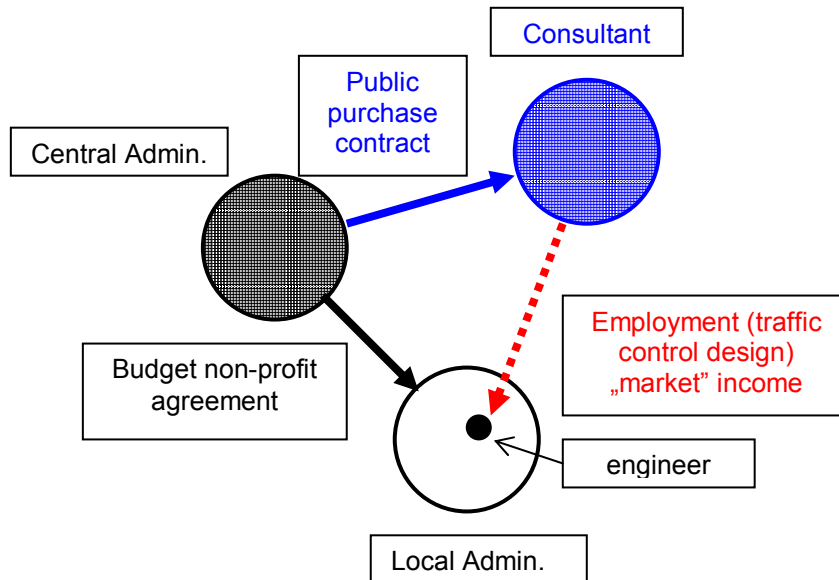


Figure 3 - Former practice of generating „market” income

Entering market economy is still a problem for the new Roads Management Company. In the first full year of its existence the proportion of real business revenues was about 20%. Its main task, operation and maintenance of state public roads are financed from the budget. The successful handling of conflicts of interest resulted in working out an incentive system concerning market activities and revenues.

3. THE ROAD USER INFORMATION SYSTEM

Road user information system in Hungary consists of collecting, processing and distributing data on road closures, accidents and adverse weather condition. This information is distributed to media as well as to individual road users in order to enhance general traffic condition and road traffic safety.

The central Road Administration already in 1975 recognized the need for a road user information system and established the so-called Road-inform Service. From the beginning the dispatchers have been working 7 days 24 hours in 24-hour shifts. This requires at least 8 employees as minimum. In winter and in case of catastrophic events like flood there have been 3 or 4 assistants on duty. The Civil Protection unit of the Ministry in such cases can have a direct access to all information.

The historical changes of the place of this unit within the organization show a very interesting picture. At the beginning in a small central administration the Road-inform Service was directly managed by the managing director. Later on, as the structure of the organization became more sophisticated, the Road user information service can be found on lower levels. Figure 4 shows the place of the unit before the 2005 merger while on Figure 5 it is clearly visible that it is now one element of big machinery.

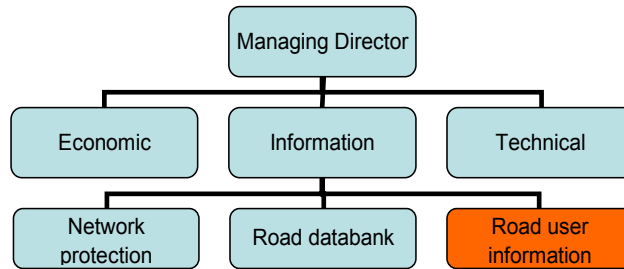


Figure 4 - Organization chart before the change

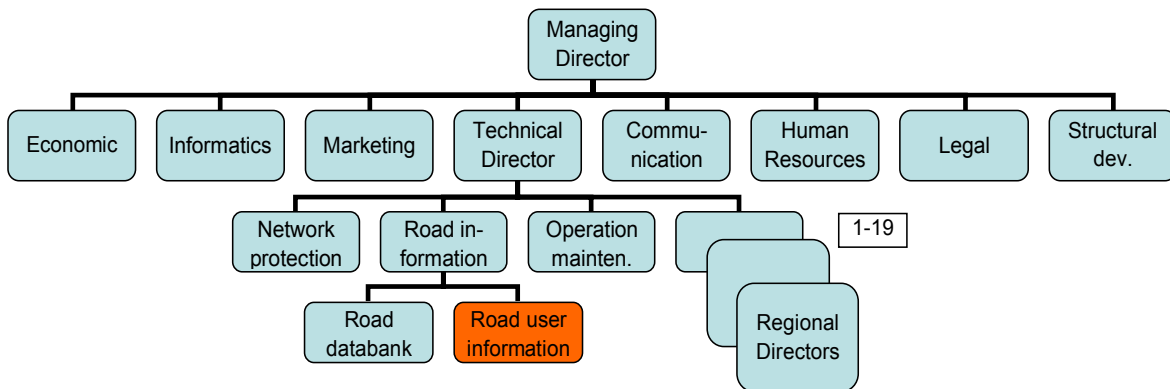


Figure 5 - Organization chart after the change

Both inside and outside connections are very important for the flawless work of the Road user information service. Besides the direct management line there are some formal or even informal connections within the organizational structure of the Company (Figure 6). The Communication unit officially drives the image and presentation of information and manages media contracts as well. Marketing has a special role in negotiations selling road-related information. The Operation and maintenance unit uses updated road condition information especially in winter situations. Network protection requires closure information for issuing route permits.

The Road user information service has got regular connections with regional road administration units based on internal rules as well as with transport authorities and other transport-related organisations. Figure 7 contains some of the most important connections mentioned.

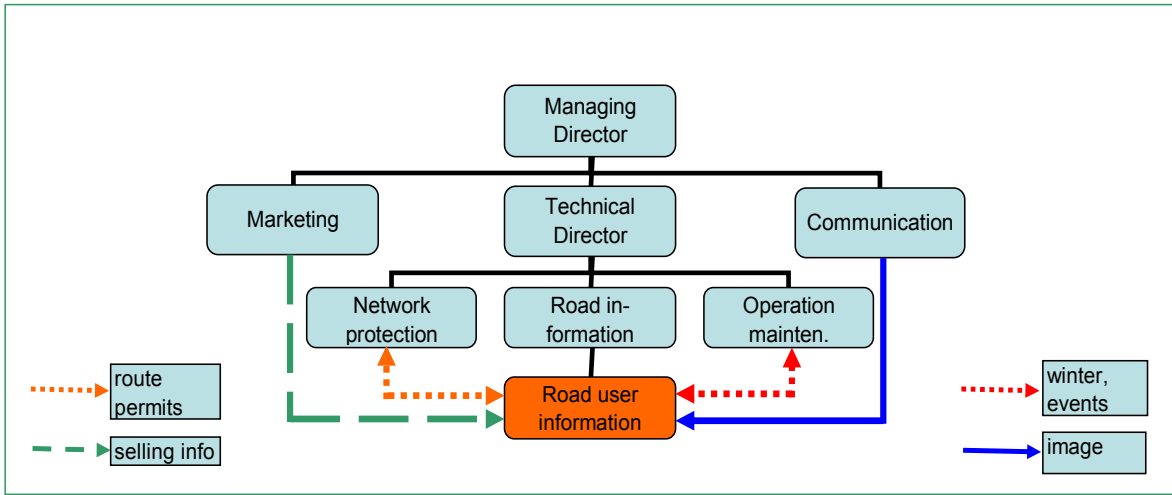


Figure 6 - Connections within the organization

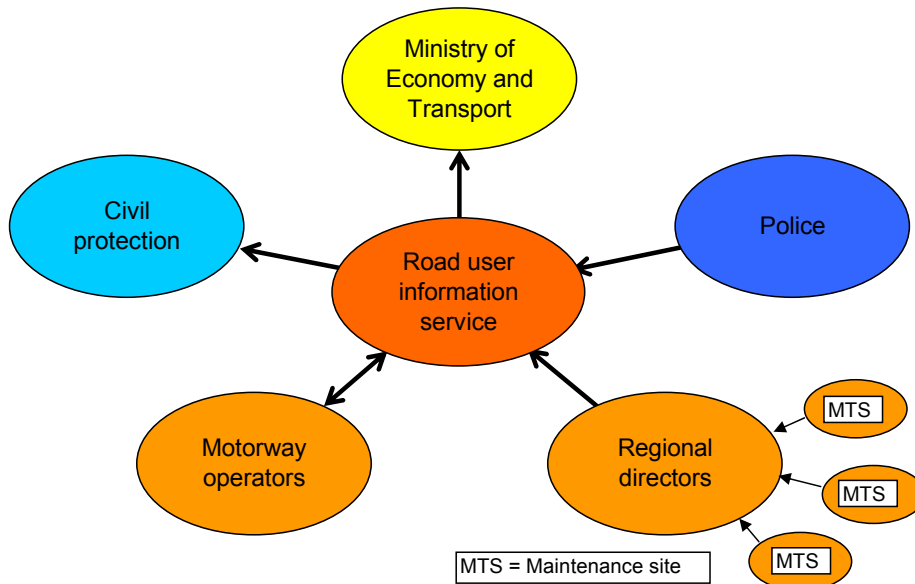


Figure 7 - Connections with other organizations

The sources of information are the regional entities and their maintenance units within the Hungarian Roads Management Company. Motorway operators provide valuable information, too. In case of extraordinary situations a connection to the Ministry of Economy and Transport as well as to the Civil Protection Directorate becomes alive. The Police connection is used mainly for exchanging information on accidents.

4. PUBLIC AND BUSINESS SERVICES

After the re-organisation there has been a need for definition of public service provided free of charge and value-added information to be marketed. This was especially important for the Road user information service because one main group of its users is commercial media. Other important users are public media and individual travellers.

The management has established clear rules distinguishing by way of information processing. Public access is provided by new system of media connections using advanced technology. Basic element of information distribution is regularly updated voice files on the Internet. Media can access these files after a free of charge registration. Value-added information is provided by on-line live voice transmission, drawings and sketches for TVs and specialised regional news. Access to the value-added information requires a contract and it has a fee.

Table 1 lists types of information while Table 2 explains types of services and communication used in the new system.

Table 1 - Types of information

Information type	General	Customized
Raw	Public services	Regional queries
Processed	Graphics, maps, sound	Value-added business services

Table 2 - Types of services and communication

Service type	Public services		Business
Communication type	Road users	Public media	Commercial media
Telephone	Call centre	-	-
Internet	Text, map, webcam	Text, sound file	Customized file
Live connection	-	-	Voice

The new situation is emphasized by the changing of the logo of the former Road-inform service to the official logo of the new Roads Management Company (Figure 8). The message of this change is that the Road user information service is an integrated part of the Road Administration. The original logo has remained in use together with the new one.



Figure 8 - Change of the logo

The on-line information system of the Road user information service is currently under development. It is a content provider system based on information of public usage. The database of the system consists of data of actual road conditions on the national public roads. The system collects all kind of information related to road transport that affects the continuity and safety of traffic, and provides on-line access to this information.

Different user groups are defined within the on-line information system as:

- road users, citizens,
- ministries, budget institutions,
- value-added service providers utilizing information like companies dealing with logistics, forwarding and transportation.

The on-line information system gives possibility for consolidated and tailored publication of information based on special needs of users. Information is represented on maps and later on will be available in English and German according to international practice. Road users can reach a telephone call-centre in 24 hours of the day getting messages on current road conditions. The menu of the call-centre is illustrated on Figure 9.

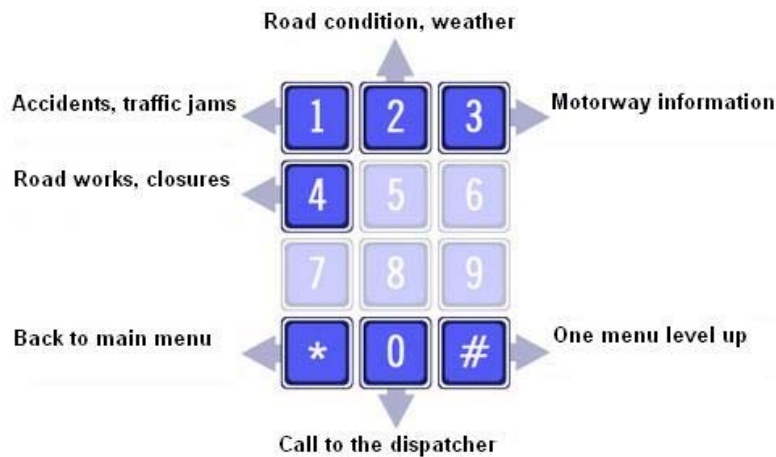


Figure 9 - Call Centre menu

The first phase of the new content provider system has been working since September 2006. Up to now there are some visible elements of success and satisfaction from the media side. The number of registered users is continuously increasing. Table 3 shows the situation at the end of the year 2006.

Table 3 – Registered media users

Registered users	Public media		Commercial media	
	Radio	TV	Radio	TV
Central	3	1	4	2
Regional	-	-	20	1

5. THE ROLE OF EMPLOYEES

In the past practice employees dealing with road user information made individual contracts with media units besides their original wages. According to new employee conflict of interest regulations, that proved to be an incompatible activity. It became therefore important to clarify the role and responsibility of employees and consequently solve some human resource management problems.

The income structure of employees has changed considerably (Figure 10). In the past the dispatchers had got royalties from media based on the quantity of their live voice broadcasts. As the former practice was forced to quit, at the same time their gross salaries have been increased by 20%. Unfortunately that means somewhat less increase of net

income because of new general taxation rules. The main substitution element is now a bonus calculated and paid after the increase of business revenues. Using this kind of bonus that is general for the total Company, the income of employees dealing with road user information practically reaches its former level.

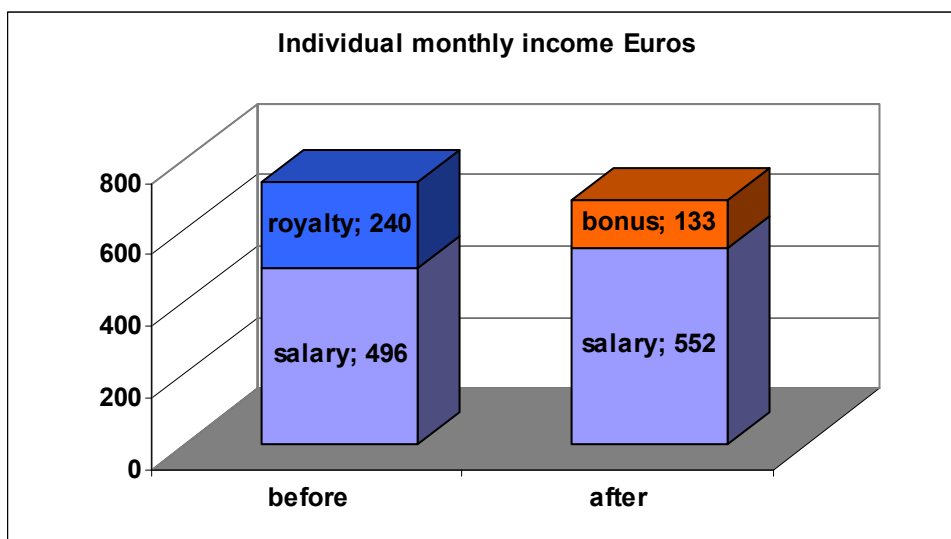


Figure 10 - Change of the income structure

The information service fee collected from media is rather theoretical because in practice it provides only about 2 per mill of the total company business revenues. Figure 11 shows that the total cost of media has remained nearly at the same level. From the point of view of the Company, the present situation is more transparent.

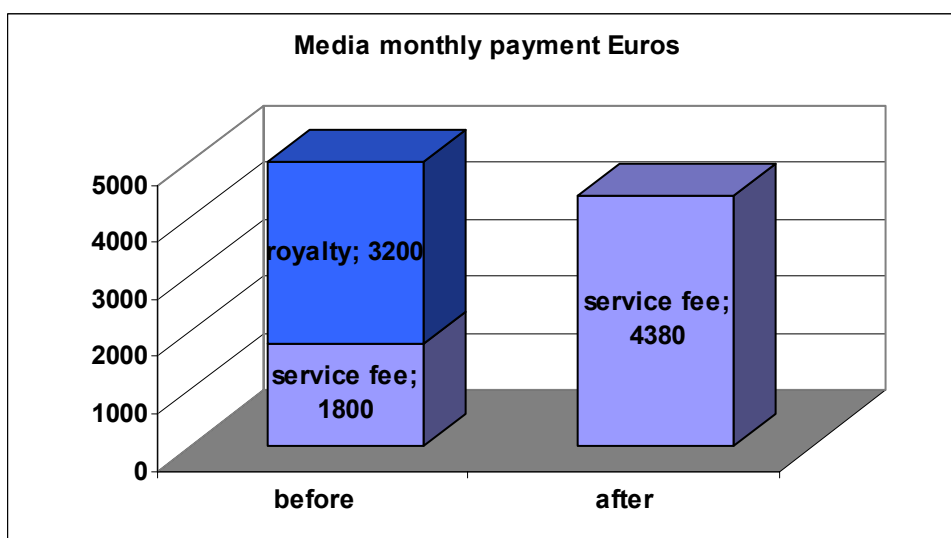


Figure 11 - Change of revenues

Personal rights are considered seriously even that no royalties can be paid anymore. The live voice connections always end with the name of the dispatcher and the name of the Company. The TV screen graphics and maps always contain the photo and the name of the dispatcher on duty who performed them (see an example on Figure 12).

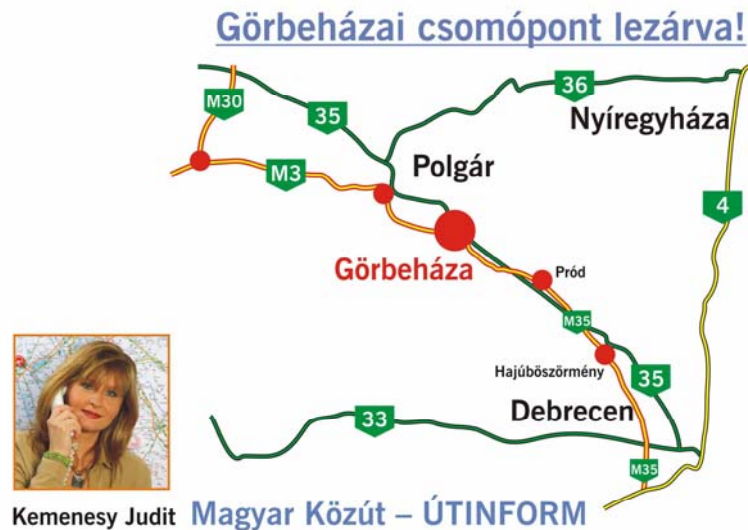


Figure 12 - Sample media presentation

6. INTERNATIONAL POSITION

The result of the earlier work of the PIARC Technical Committee on Performance of Road Administrations [3] gives possibility for determining the role and position of a given Road Administration in different relations.

The Hungarian road network is in the Upgrading stage with respect to relationship between economic development and road network. This means stage 3 within the 4 stages Cox model. However the high-speed network is still in the Growth stage (stage 2) as there is ongoing a large program for its development.

With respect to relationship between Government and organisation the Hungarian Road Administration can be characterised as an output based management organisation with a few elements of business model. Strategic planning, more transparency, outsourcing and public tendering are common within everyday activities.

Traditional tasks like construction, major maintenance and consulting have been outsourced since the beginning of the economic transition. However minor and routine maintenance as well as operation are still in-house activities. Within the central organisation take place administration, management and planning, contracting, information collection and dissemination together with other related technical and information background tasks.

According to the Talvitie model the Hungarian Road Administration is situated somewhere between the separation and commercial corporate phases (these are phases 3 and 4 within the 5 phase model). This classification is not unique because it depends on activities performed by the Road Administration.

International comparison shows that the characteristics of the Hungarian Road Administration among countries of similar economy and road network development stage

are above average because of providing conditions for operation on business principles. On the other hand, the rather poor condition of the existing road network and the lack of resources needed for its rehabilitation places Hungary below international average.

Lessons learned and relations recognised from the analysis of changes taking into account their causes and consequences in case of Road Administrations can be useful for other countries as well. Positive experience supports good governance and even negative experience may help to avoid mistakes.

7. CONCLUSIONS

Large-scale re-organizations always result some conflicts of interests concerning corporate governance. The key for success is in resolving such conflicts either by strict rules or by changing the corporate culture. Rules can be effective in short-term but the real renewal is always based on an updated corporate culture involving business principles.

Communication is of capital importance for any public utility company. The renewed Road user information service of the Hungarian Roads Management Company provides an essential element of its communication strategy. Positive experience supports good governance and strengthens institutional integrity.

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