Good and transparent management of state-owned companies – reality or utopia?

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ABSTRACT
Certain tasks in the Republic of Slovenia are in the domain of the state or local community. In order to carry out these tasks, state-owned or public companies have been established. The management of such companies is not always good and transparent, and as a result it often leads to considerable damage to public property. Such situations are mostly caused by poor management by the management boards, and rarely by poor and inadequate control by the supervisory boards. They are also the result of poor and inadequate communication between the management and supervisory boards. Unfortunately, poor governance does not occur in isolated cases and the mismanagement of such companies is often only introduced to the public through affairs that are presented in the media.

There are, however, also some positive exceptions with good and transparent corporate governance that bring profits to the shareholders and, consequently, lower the prices of individual services for citizens.

1. INTRODUCTION

Based on the Act on Physical Assets of the State, Regions and Municipalities (Official Gazette of the Republic of Slovenia, No. 14/2007, ZSPDPO) different legal entities governed by public law are recognized in the Republic of Slovenia, i.e., the state, self-governing local communities, public-law institutions, economic public-law institutions, public agencies, public funds and public enterprises. In the following we will focus on the last of these, i.e., public enterprises, hereinafter referred to as JPs.

A JP is a public enterprise that performs one or more different public services on a larger scale and has a monopolistic character (Ivanjko, Š., Kocbek M., Ljubljana, 2003), which can be considered as profitable. It provides public goods, for example, energy and water supply, transport, environmental...

There is also the possibility of the privatized performance of economic public services on the basis of concessions, which are not possible for public enterprises.

From this it can be concluded that JPs are generally not stimulated to achieve good business results due to their status form and the fact that the free disposal of profits is no longer in the domain of the JP, but of the owner. In the case of a loss there are more options: the JP usually receives funds from the budget, is recapitalized, the price of the service is subsidized or the owners simply raise the price for the service provided by the JP.

All JPs are considered to be:

- public purchaser
- supervised by the Court of Auditors.

New legislation, which will regulate the position of public enterprises, has been in preparation for several years, but it has not yet come into force, despite the unambiguous findings by the state of the RS itself (State-Owned Corporate Governance Policy, No. 47600-13/2009/5, Ljubljana, 23rd of July 2009). Most JPs, therefore, operate without a desire for good business results, and it is often the case that individual JPs are a source of the non-transparent spending of money and sometimes even criminal acts of management structures. The public tends to be informed when public money has already been spent. In most cases the responsible authorities do not have to bear any consequences for their actions, the complaints on the courts are poorly prepared, it takes too long, and there are mostly no clear convictions of the accused. But nevertheless, there are also examples of good practices where JPs generate good business results, which I will try to show below.

2. PRESENTATION OF THE JP ČČN DOMŽALE – KAMNIK D.O.O.

The public enterprise Central Wastewater Treatment Plant Domžale–Kamnik (hereinafter JP ČČN DK) is the fourth-largest wastewater treatment plant in Slovenia and has been operating since 1980.

It was established as a part of the Domžale water-supply enterprise and it received its wastewater from the municipalities of Domžale and Kamnik. JP ČČN DK was established as an independent business entity in 1990 and covered several municipalities with their own water-supply enterprises. The former municipalities of Domžale and Kamnik were later divided into several municipalities, so
that the CČN DK covered the following municipalities: Domžale, Kamnik, Mengeš, Komenda, Trzin. The municipality of Cerklje na Gorenjskem joined the ownership of JP CČN in 2015. Since November 2015, the following municipalities are the owner of the enterprise: Domžale (39 %), Kamnik (33 %), Mengeš (14 %), Komenda (6 %), Trzin (4 %) and Cerklje na Gorenjskem (2 %). These municipalities are also the owner of the infrastructure facilities of the CČN (Stražar, M., 2019b).

3. Description of the company's activities

The key activity and a priority task of the enterprise JP CČN is "sewerage" (classification number 37,000). The enterprise performs a wastewater-treatment service for the above mentioned six municipalities, which are the owners of the enterprise.

The enterprise was established to support the CČN infrastructure and thus provide a quality wastewater-treatment service in the region. Until today, JP CČN maintains the notion of its basic mission, which is to ensure the quality of urban wastewater treatments at an affordable price. The priority task of the enterprise is economic and efficient urban wastewater and storm-water treatment within the mandatory public utility service (OGJS), which is the responsibility of the municipalities. CČN DK provides services on the basis of the Cleaning Ordinance, the Company Agreement and the Contract for the Lease of Infrastructure Facilities.

In addition to OGJS, JP CČN also performs industrial wastewater treatments, liquid waste treatments as well as intellectual services in these fields in accordance with the business strategy. These additional activities are carried out within the framework of special and market services with the aim of reducing the price of wastewater treatment for citizens as well as increasing the added value of the enterprise based on the surplus revenues achieved by marketing activities in accordance with the MEDO Regulation.
JP ČČN performs wastewater treatment at the infrastructure installation (facilities), owned by municipalities. The role of the infrastructural facilities is to enable basic urban wastewater and stormwater treatments within the OGJS. In order to achieve the objectives, it is very important to provide a high-quality infrastructure, which must be fit for purpose and has to be properly maintained and modernized. For the next few decades, this goal was achieved by a successful upgrade in 2017. The reconciliation and dependence of the enterprise and the infrastructure enables an efficient and high-quality cleaning service, which is reflected in the satisfaction of users and owners and, most importantly, in responsible environmental management. In addition, the scope and function of the existing infrastructure also enables the performance of special services on a commercial basis for the external clients, in accordance with the owners' instructions.

A well-maintained infrastructure means the performance of basic and additional activities. The high level of knowledge, experienced employees, and the use of all available methods, analyses and process parameters calculations enable optimal management of the cleaning processes at all levels. Pursuant to the terms of the lease agreement, which regulates business and operational relations between the owners and the tenant, JP ČČN performs additional business activities for managing the infrastructure records and prepares reports for the owners. JP ČČN pays the owners rent in the amount of infrastructure depreciation and at the same time represents a key process support to the ČČN infrastructure and provides an efficient wastewater-treatment service through professional process management.

In addition to OGJS services and special services performed on public infrastructure, the JP ČČN experts group also provides marketing services, which are considered as intellectual services and provide additional revenue to the enterprise. These services include, in particular, expert consultancy in the field of wastewater treatment, pilot experiments on the operation of special technological processes, experiments on the decomposition of different substrates, more complex analyses and expert opinions on the efficiency of the processes. The education of wastewater treatment personnel from the whole of Slovenia is one of the activities that brings a high professional reputation with the public as well as financial revenues for the enterprise. The training is provided by the professionally trained staff of JP ČČN and partly by foreign lecturers.

4. SUSTAINABLE DEVELOPMENT STRATEGY

In order to achieve the set goals in terms of sustainable development, a working environment has been created where the employees with their engagements and competences are the driving force for the success, growth and development of the enterprise. With diligent work and the personal commitment of the each individual, the group overcomes a narrow mindset and follows a clearly defined path of responsibility towards nature and people at every step. They are committed to high ethical, environmental and work standards, and therefore build partnerships and mutual trust through open peer relationships. In its sustainability program, JP ČČN has defined responsible behaviour
towards employees, owners, users and the social and natural environment by integrating ecological, economic and social aspects, which are valued as performance indicators. From the sustainable-development point of view, JP systematically undertakes activities for recognized and socially important factors. Through the sustainable development guidelines, activities are undertaken to raise the enterprise recognition and evaluate investments in ecological and economic indicators. Due to the sensitivity of the CČN system in terms of coexistence with the local environment, its activities are carefully monitored and communicated with the interested public following the principle of a correct relationship with the environment.

The most important goal of the enterprise's activities is to follow sustainable development in all aspects and to act on the principle of social responsibility at all levels of operation. The enterprise is socially responsible to the natural and social environment with the priority goal of maintaining clean water, which is one of the most important basic assets. JP CČN manages the treatment plant, which became, after a successful upgrade, again the leading plant in Slovenia. It follows the important goal of continuous development, complemented by the implementation of basic research tasks for gaining a broad knowledge of the field of wastewater treatment. In addition, they trained operators at all professional levels for wastewater-treatment plants and provide expertises in the field of wastewater treatment. Crucial for maintaining the business success is the risk management, which is achieved by considering and addressing all the critical factors and high-quality process management. The best-possible success in the given circumstances is achieved by a high level of knowledge. Upgrading the CČN infrastructure created conditions for quality process control and ensuring the mission, vision and high goals at the process and business levels. The sustainably oriented and reliable performance of high-quality effluent treatment and the implementation of support processes contributes significantly to ensuring the conditions for healthy living in the natural environment. Thus, they supply users with high-quality services at an affordable price and develop professional solutions to reduce environmental impacts.

The sustainable development guideline incorporates important goals that are pursued on a daily basis. Firstly, the activities are aimed to reducing the environmental impact. The emphasis is on ensuring the quality of the treated water for reducing the impact on the Kamniška Bistrica river and the groundwater. This is achieved through continuous education and increased interdisciplinary skills. Therefore, efforts and resources are being invested in research and development as well as the introduction of modern technologies for the removal of various pollutants from the wastewater. This objective is also pursued through activities that include education, counselling and raising awareness of the local population and legal entities about the importance of reducing water use, treating wastewater and preserving our environment.

The goal of sustainable development is foremost followed by responsibility to employees. In this way we build trust and encourage them to acquire knowledge, which is very important for managing a demanding system, such as a wastewater-treatment plant. Through a transparent and reciprocal
collaboration with the owners a common path is built. The performance of special services means an exception among Slovenian public enterprises, therefore conscientious work in this area also shows responsibility to the users. Due to the high depreciation and higher-quality cleaning services, our residents still pay an acceptable price for the service, which is partially covered by specific activities.

5. UPGRADE IN THE YEAR 2017

In 2017, the upgrade of the infrastructure for tertiary treatment, necessary for the effective implementation of wastewater treatment to the applicable standards, was completed. The treatment plant provided the required level of cleaning over the years and as a part of the upgrade also implemented stricter environmental standards.

The investment in the upgrade amounted to about €15.5 million, where 80% of the eligible funds came from the EU through the Cohesion Fund. An increased value of fixed assets and depreciation, which represent the rent paid by the enterprise to the infrastructure owners (in this case the six municipalities), is significantly greater than it was before the upgrade. The rental cost is distributed by water gauges to all users and represents the network charge, paid monthly by the users. The network charge is also included in the calculation of the treatment costs for industrial taxpayers. Such a treatment is carried out according to a special methodology where the cost depends on the load and degradability of the individual waste water. Equally, the cost of the network charge is taken into account when calculating the price for receiving liquid waste. The treatment of industrial wastewater and liquid waste does not fall under the category of OGJS, but represents special services, whose revenues reduce the price for their users.

The cost of the service includes the materials and services necessary to achieve the proper quality of the treated water that the CČN discharges into the Kamniška Bistrica river. The cost of wastewater treatment is charged separately and represents the equal amount (in m³) of drinking water consumed in each household. After the upgrade, the cost of the service increased due to receiving more wastewater for cleaning and providing a greater cleaning effect, the increased consumption of chemicals and energy, increased maintenance and spare parts, and more dehydrated sludge.

Through the implementation of special services and a market approach, CČN DK managed to keep the network charges and the OGJS services below the average of comparable cleaning facilities in Slovenia, despite the upgrading of the infrastructure, which requires higher rent and costs in order to provide an improved cleaning effect. The total cost of the wastewater treatment for the average household thus increased from about €4 per month to about €7 per month, which is below the Slovenian average.

6. MARKET ANALYSIS WITH RISK MANAGEMENT

The company pursues the goal of providing a high-quality service at an affordable price, which is achieved through the additional performance of special and market services that are outside the scope
of the OGJS. Due to the fact that JP ČČN does not exclusively carry out activities within the framework of the OGJS, it is exposed to potential business risks that must be taken into account when planning its operations. Revenue and expense risks affecting business stability are managed through an advanced, process and business professional approach, supported by experience and professional knowledge. Effective risk management can crucially contribute to better results and safer performance of the enterprise's primary and supportive activities to ensure a sustainable, business-oriented management with a positive business result at the end of the financial year. Risks are assessed in the management as well as in the operational performance of our activities. High-quality is ensured by the implementation of the ISO 14001 standard, which is constantly upgraded to achieve the desired goals, in accordance with the nature of the enterprise's activities.

In the area of risk, the enterprise has been paying a lot of attention to following new technological approaches and, in recent times, to tightening the legal conditions, which are based on a tendency of increasing environmental protection from all possible aspects. The ČČN system operates in accordance with the Environmental Protection Authorization (OVD), which incorporates the Industrial Emission Directive (IED) guidelines and defines the entire JP ČČN activity, requiring the system to have an integrated approach and quality management of all environmental risks. In particular, more and more requirements and conditions for investing are emerging from the legislation, which is connected with the introduction of new technologies, more and mandatory monitoring with an increased set of analyses and measurements and upcoming obligations for the extraction of raw materials from individual fractions of the wastewater treatment processes. More importantly, in terms of risks to society, it is worrying that legislation or state authorities are placing more and more restrictions and tightening conditions for the reception of liquid waste by treatment plants. This fact may have a significant impact on the cleaning cost for citizens in the future, which at this time is still low and acceptable only because the company is treating liquid waste.

All identified aspects of the risk are interrelated. Quality assurance is thus crucial, as reflected by the adequacy of the prescribed parameters across all emission sources. Only in the case of quality assurance at all sources and levels we will be able to create the conditions for the intended range of services, which in turn is also linked to market demand. It is only at this stage that any demand can be considered as a business opportunity, which, if successful, is reflected financially. In case of a reduction of the volume of special services, which is the most risky in terms of process and financial planning, it will be necessary to start a timely approach to the price of the wastewater-treatment service for the category of OGJS. Regular monitoring of all aspects related to the operation of processes, business fluctuations and changes in the legislation enables the timely identification of threats to the stability of the enterprise's operations.

The enterprise will continue to manage its resources economically with a sustainable and holistic approach to performing its activities and successful operations. An important concern is cost management and economical use, which is done through regular and careful procurement procedures.
and a thorough review of each contract. On the cost side, there is the risk of potential unforeseen events and technological problems in processes that are usually difficult to influence. These risks have been adequately managed in the past and will be expected in the future due to years of experience and good expertise.

In the area of risk, two of the most critical indicators are identified that could have a significant impact on the scope of the operations of the enterprise in the future, i.e., the achievement of environmental requirements and the scope of special services.

**Environmental requirements**

The successfully completed upgrade of the system has significantly reduced the risk of financial and misdemeanour liability due to the potential non-achievability of legal requirements. In the event of exceeding the parameters at the outflow or outflow of the sub processes, significant risk would arise because the ČČN would have a restriction on the acceptance of liquid waste, which would consequently significantly reduce the JP ČČN revenues. According to the MEDO Regulation, revenues from special services are taken into account in such a way as to reduce the cost of a particular public service. Due to the interconnectedness and impact of special services revenues on the price of OGJS, there is a risk of uncertainty in the volume of market revenues, which poses a potential risk to the enterprise's operations.

The ČČN system operates in accordance with the prescribed values or within the requirements of the environmental permit, which is expected in the future. All process assemblies within the system function properly and the basic wastewater treatment activity is carried out to the intended extent and quality. Due to the complexity and variability of external process conditions, the existing process sets are subject to certain risks, so in the future our main objective will be operationally aimed at managing risks by effectively managing the processes in all conditions and reaching the statutory limit values on all the emission sources.

The wastewater-treatment service, as the main activity and the liquid-waste-treatment service as the support activity, must be provided in a quality and demonstrable manner at all times, which is achieved through regular monitoring and appropriate measuring devices and analyses. Risks in this segment are usually of a technological or technical nature and are managed by a team of experts through a critical appraisal approach and an immediately effective response. Only in this way can the risks of quality assurance, which could seriously jeopardize the business future and consequently have an impact on environmental pollution through increased emissions, be reduced.

**Extent of specific services**

JP ČČN has been engaged in the disposal of liquid waste as a special activity for many years, which is a rarity in wastewater-treatment plants in Slovenia. This advantage has been gained and maintained by being classified as an IED member and obtaining an IED environmental permit. The enterprise has recognized the business potential related to the ecological aspect, which is reflected in the professional approach to solving the problem. This activity, related to the revenues and the cost of
cleaning for the OGJS category, is permitted on the basis of a professional skilled research team and years of experience in managing the processes of wastewater treatment and the disposal of liquid waste. Analytical and experimental procedures have been developed to verify substrates for suitability of reception. Thus, the reception of liquid waste is limited to only certain waste classification numbers that the CČN can accept in accordance with the OVD, with the amount depending on the capacity of the disposal facilities and the possibility of treating these substrates in a process sense. Risks associated with the reception of liquid waste require a timely and effective response to changes in the process conditions and the adaptation of market activities. For this reason, they have developed a base of acceptable substrates and a plan for the scope of services for the future. The specific services segment assesses the scope and type of services, taking into account the potential risks posed by intense competition, the consequent need for price reductions and, in particular, procedural constraints.

The treatment of industrial wastewater and liquid waste falls under the scope of special services, and at individual emission sources, in accordance with the OVD, we are obliged to ensure that the processes ensure adequate quality on the discharge from the installations. Since the limit values for discharges from individual processes (EK and BRO) are very low, there is a certain risk of exceeding the values and, consequently, the prohibition of the acceptance of this wastewater into the CČN system.

Therefore, special attention will be paid to the management of these processes and, with the professional knowledge and the necessary resources, we will ensure that, in the light of new environmental and technological requirements, this waste is enabled. The quantity of services is also very important in the industrial wastewater segment as any failure of an industrial plant means a significant reduction in wastewater volume or the cost of a service would have a significant impact on the price of public services, so there are also some risks in this part. The trend in the scope of industrial wastewater treatment services is difficult to plan with greater certainty, as industrial pollutants cannot be estimated in the long term due to fluctuations in production processes. However, it is important that the upgraded CČN offers the reception of greater volumes and greater loads of wastewater from industrial sources, which is an important fact for industrial users. The planning of the volume of industrial wastewater poses a certain risk in terms of forecasting the quantities and also the cost of the service, which depends on the load of each source of pollution. All major industrial users are contracted and the cost covers the cost of cleaning this category at a profit.

7. REVENUE ANALYSIS

Considering the fact that the company does not work as a classic sewage treatment plant with limited activity solely within the framework of OGJS, but derives a significant part of its revenues from special services, the realization of revenues is more unpredictable and depends on the processing capacity and success of acquiring business in the market.
According to the MEDO Regulation, revenues from users of the cleaning service are divided on the network charge and the cost of running the cleaning service. The network charge is charged to the amount of infrastructure depreciation and the revenue from the treatment service represents the cost of running the wastewater treatment. The amount of revenue from the basic wastewater treatment depends on the volume of quantities accepted for treatment. Revenue is generated only on the basis of a charged amount that is much lower than the amount actually received.

In 2018, revenues from the OGJS category involving households and the municipal wastewater were €2,137,319, which is an 88% increase compared to the previous year. Increased revenues are primarily the result of an increase in the price of the network charge and also of the service, and partly also a consequence of additional connections to the sewer network. Revenues from the category of sewage sludge and sludge cleaning, accounted by the amount of consumed drinking water, were €121,243, meaning 135% higher than last year, due to the increase of network charges and services from 1.1.2018.

Revenues from the treatment of industrial wastewater received by the ČČN through the sewer network, which represents the category of special activities, were €1,285,808, which is 4% less than in the previous year. Revenues of this category under the invoiced price fully cover their own price, including the network charge. Revenues from special driveway activities totalled €695,005 in 2018, an increase of 29% over the previous year. The increased revenues are mainly due to the increased cost for the provision of these services by JP ČČN. The volume of quantities accepted that do not represent the activities of the OGJS is crucial to ensuring sufficient revenue to fully cover the cleaning service. According to the MEDO Regulation, revenues from special activities, if carried out on infrastructure, must cover the loss of revenue due to the failure to reach its own price at the OGJS. This means that in the case of reduced volumes and revenues from specific activities, the cleaning price of the OGJS category will have to be increased to the level of its own price.

Total revenue from all the above categories and from marketing services amounted to €4,379,555, which is 32% more than in the previous year. The increase in revenues can be seen primarily in the category of OGJS, where, despite the increase in the beginning of 2018, the sales price of the service and network charges is still much lower than its own price, since the loss of revenue is covered by revenues from special services.

The following is a graphically presented share of wastewater by source in 2018, which shows a clear difference between the percentages of received wastewater and the revenue from these quantities, which is significantly higher for special services compared to the category of OGJS. The following is a table of financial output by category and municipality for 2018, compared to 2017. Further, a table of revenue from the network charge by municipality for 2018 is presented.
8. PERFORMANCE APPRAISAL AND PERFORMANCE INDICATORS OF THE COMPANY

Table 1 (Stražar, M. 2019a) presents a comparison of business results for 2017 and 2018. The increase of operating income and net profit is clearly evident. The latter represents almost 9.5 % of the value of revenue for 2018, which is an extraordinary result for a public enterprise.

Figure 2: Percentage of calculated wastewater quantity by sources in m³

Figure 3: Share of operating income by source in EUR
Business and financial performance indicators of the company

Below is a comparison of JP CČN's business results and the average of the industry sector using indicators of accelerated coverage of short-term liabilities, operating efficiency and average monthly salary per employee, published by the Agency of the Republic of Slovenia for Public Legal Records and Related Services (2020). Industry sector E 37 - sewage treatment is considered for the comparison.

Comparison of JP CČN's operations with industry average E 37 - sewage treatment

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<th>2017 average</th>
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<td>JP CČN</td>
<td>JP CČN</td>
<td>E 37 average</td>
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<td>Value added per employee (EUR)</td>
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<td>Labour cost in added value (%)</td>
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<td>76.80</td>
</tr>
</tbody>
</table>

Table 1: Comparison of JP CČN's operations with industry average E 37 - sewage treatment

A comparison of the JP CČN business with the industry average E 37 - sewage treatment has certain limitations, as industry data include the operations of all wastewater-treatment and wastewater-service providers, both public and purely commercial, without including service providers that are dominantly engaged in another activity. The methodological appropriateness of the selected indicators for assessing business performance is also limited. The ratio of accelerated coverage of short-term liabilities should be analysed together with other liquidity indicators as a static indicator. The company has no financial debt leased and fully finances capital operations, so the maturity of financing sources...
is much better than in the industry. The indicators are higher than the industry and comparable to previous years, while being significantly better than the average of the utility sector, E 37 - sewage treatment. The amount of the average monthly salary depends very much on the educational structure of the employees, which is generally high in companies that perform wastewater treatment only, because this is dictated by the requirements of technological processes.

9. SATISFACTION OF SERVICE USERS AND THE ROLE OF THE SUPERVISORY BOARD

Satisfaction of service users

In December 2018, the enterprise received a Survey of Customer Satisfaction with JP CČN Domžale—Kamnik d.o.o. Services, ordered earlier that year. The survey raised some key questions for service users about their knowledge of the company, their reputation, their satisfaction with the services, the relevance of the price/quality ratio, and any complaints about the work of the company. In the research source (Cerkvenik, S., 2018) the two most important issues are found: satisfaction with the services provided and the relevance of the price/quality ratio by the respondents are given a very high rating. Satisfaction with the services provided was rated on a scale of 1–5 with a rating of 3.9, and 70% of the respondents rated the price/quality ratio as adequate.

Role of the Supervisory Board

The Supervisory Board was constituted only in 2012. At present, the SB has three representatives of shareholders who have certain supervisory tasks in accordance with the applicable social contract. The impact and the work of the Supervisory Board on the management of the enterprise are not measurable so far, but they are also reflected in the enterprise's exceptional business results and the impeccably executed €15 million investment in upgrades, which did not result in any affair, complaint or damage to the enterprise's reputation. In 2018, the Supervisory Board also carried out a self-assessment of its work in accordance with the source (Kovač, B., et al. 2011) and informed the Management Board about its findings.

10. CONCLUSION

In the modern world, the success of the enterprise is mostly highlighted by economic indicators. The responsibility for protecting the nature and the environment is often forgotten.

An example of the organization and activity of a public service enterprise CČN shows that much more can be achieved on a treatment plant than required by the public service provider and the owners. Successful performance of specific and market-based services will reduce the cost of wastewater treatment for the user by providing acceptable household costs, contributing a permitted share of profits to municipal budgets, and facilitating the enterprise's advanced and development-oriented business strategy. This makes the enterprise more than just a public service enterprise.
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