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The Adoption of the Recovery Program – is this a Way to Improve the Financial Performance of the Romanian Television Society?

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Abstract

Through this scientific approach we wanted to tackle a controversial and least investigated area for the Romanian media market that is the public television service. In the current economic context, our objective has been to analyze the way the adoption of the Recovery Program and its implementation have led to an improvement in the financial performance of the Romanian Television Society.

Keywords: recovery program; financial performance; tax debt/ liabilities; financial results; public television;

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1. Introduction

The lack of a clear legal framework and of restrictions regarding expenditure and also not imposing some management performance indicators have determined the teams in charge with the RTC, that is: the Management Board, the Chairman – CEO and the Board of Directors, to establish their own visions and procedures for the organization of public television, and the lack of a coherent strategy for the running of the RTC, in the long run, has led to the absence of financial performance and to the existing difficult situation. Thus, since 2006, although the financial situation of the entity was decaying, the management of the RTC has expanded the ongoing activities by establishing new TV channels, by purchasing some programs/films and expensive sports broadcasting, as well as by increasing the number of personnel and the rights granted to them (Ciurea & Catargiu, 2015). These defective management decisions have triggered off rocketing costs of expenditure and debts of the RTC during 2006 - 2012, a situation which worsened over the years and which actually determined the adoption of the Recovery Program.

Over the time, the only institution in Romania which presented the serious problems that the RTC had been facing was the Court of Accounts in Romania, but its findings and conclusions had not been taken into consideration until now. In the past decade, the RTC was real proof of governance failure of an institution politically controlled, and this was reflected both in financial outcomes and the audience.

In the current economic context, a fundamental role lies within the performance of economic entities in the context of an increasingly close competition for each segment of the market, therefore, the chance of survival grows/increases considerably for those entities that discover and reduce their vulnerabilities very quickly and, more than that, implement performance management tools which facilitate the detection, explaining and solving of various management shortcomings (Macris, 2013; Mironiuc, 2009; Man, Modrak & Grabara, 2011). The main goal in this fight is the increasing competitiveness, but we should not omit various impediments that may occur on the way to success of the economic entities, among which we mention the imperfect and continuous changing legislation, the strong impact of politics on economic processes, the instability in society, all these characterizing the activity of the Romanian Television Company, too.

The research presented in this paper continues the studies performed in television on the performance of entities, especially on the financial one, this way wishing to highlight new ways of financial improvement as a result of the aspects identified at the level of public television service. This work, by its content, wants/intends to add extra knowledge in this field less investigated by specialists.

2. Research Methodology

Our scientific approach regarding the adoption of the Economic Recovery Program of the RTC - a solution for the financial performance improvement, as with any study, has involved an approach to several research strategies. Thus, in this work, we have tried to observe the principles of unity between the theoretical and the empirical analysis, between the unity of the judgments made and those evaluated, as well as of the unity between quantity and quality used in order to highlight the effectiveness of this work's outcomes. With regards to the working tools for the collection and interpretation of data, we have used, as methods of research, the comparative and observation methods which helped us to approach theoretical aspects and then put them into practice. As research techniques and procedures used, we can mention the following: a review of the literature, use of various sources of information, data collection and processing, synthesizing theoretical aspects and research results by using tables and figures.

It is worth mentioning that, in order to achieve this research, we have focused on the data and information collected from the annual financial statements, the annual reports of activity, as well as

other documents provided by the RTC, the Ministry of Finance, the Romanian Court of Auditors and the official statistics of the National Institute of Statistics.

3. Description of the recovery plan adopted by the RTC/SRTv

Our analysis takes into account the financial and economic situation of the RTC, a special influence having the amount of the debts accumulated in the past years which adds to the negative results of the financial exercises, calculated as the difference between the annual income and the expenses of the institution. As pointed out by the Court of Auditors, among the main causes leading to the increase of debts of the RTC, we mention: problems in collecting tax revenue from the TV fee, a drastic decrease in advertising revenue, as a result of poor management of the sale of advertising space by Splendid Media, achieving some very low income from sponsorship, a continuous increase of expenses with human resources in contrast with the evolution of the economic and financial situation of the RTC, major expenses with external collaborators; granting of salary rights beyond the financial possibilities of the institution; purchase of licenses for films and programs beyond the financial possibilities of the institution with burdensome clauses for the RTC, purchase of licenses for broadcasting some sports competitions beyond the financial possibilities of the institution, accumulating some delay increases/penalties as a result of nonpayment of debts to the State budget because of cash availability (http://www.curteadeconturi.ro/Publicatii/SINTEZA_S.R.Tv_17.06.2015).

Thus, in analyzing the results of the financial exercises, as compared to the year 2006 when a deficit of 17,158,538 lei was recorded, in 2012 an accounting loss of 146,837,955 lei was registered, and in 2013 there was an accounting profit of 3,175,325 lei, while in 2014 the result of the exercise returned to a loss of 81,460,870 lei, all these resulted on the background of a constant evolution of income and increase in expenses, driven mainly by penalties calculated as a result of losing the separation, the provisions for the TV fee not collected in time and the expenses with sports broadcasting (Performance audit report, 2015). The evolution of the financial exercises of the RTC during 2006-2014 is presented in the table below.

Table 1. The Evolution of Financial Results during 2006-2014

Years	Deficit	Profit
2006	17,158,538	-
2007	29,451,567	-
2008	53,834,115	-
2009	48,018,958	-
2010	161,956,133	-
2011	160,807,908	-
2012	146,837,955	-
2013	-	3,175,325
2014	81,460,870	-

Source: own processing

Nevertheless, the debts accumulated in this period are more relevant to the entity and they show a much worse financial and economic situation than before adopting the Recovery Program, and thus the total debt of the RTC on December, the 31st 2014 reached 699 million lei, approximately 156 million Euros, according to the results presented in the financial statements at the end of this year. In the figure below, **the composition of these debts** is given as follows:

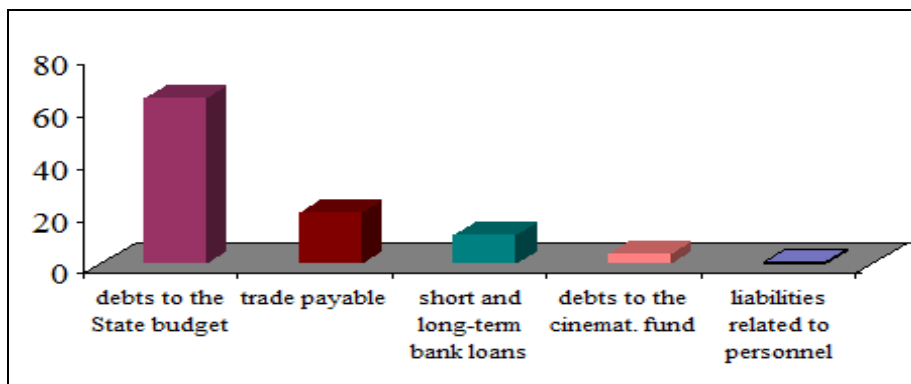
64% - debts to the State budget, to the State social insurance budget, to the single national fund of social health insurance, to the unemployment fund, to other funds and other State claims;

20% - trade payable to internal and external suppliers;

11% - short and long-term bank loans;

4% - debts to the cinematographic fund;

1% - liabilities related to personnel (salaries, benefits, and uncollected rights), various creditors, settlements within the group, other guarantees, interest to be paid, payments collected in advance.



Source: Adapted after the Summary Audit Report of the Court of Auditors, 2015

Figure 1. Debt structure on December, 31st, 2014

Given that, in May 2012 the annual deficit had reached the value of 160,807,909 lei and the total debt value was of 553,881,806 lei, debts made from payment obligations to internal and external suppliers of goods, services and property, the personnel of the entity, the general consolidated State budget, bank loans, etc, on June 27th 2012, the Romanian Government issued *the Emergency Ordinance No. 33 on some measures to ensure the provision of public service television* where they established that the Board of Directors of the RTC is required to approve a program of economic recovery within 45 days from the date of entry into force. Through the Economic Recovery Program approved by the Board of Directors of the RTC, No. 110/28.08.2012, a series of objectives had been established and they were:

- **Re-position of editorial policy and capitalization of the RTC productions** from the channels provided in the functioning law, by *reconsidering the main tool of relating to TV viewers, the TV grids and the resetting of the entity;*
- **Adaptation of all resources material and human ones, to the major constraints of the moment,** by framing the commitment of expenditure into the amount of constant income and payment of all debts;
- **Re-obtainment of financial and organizational balance.**

As far back as the title of this Program, the measures taken relate to the economic recovery of this entity, and in the first part of the Program it is stated that: *"The stake of the Recovery Program presented is the reevaluation of the accumulated debts and claims and, in the end, the establishment of a climate of financial balance."* As a result of the projections of the Recovery Program, the coverage of the existing losses has been expected to be achieved between the years 2016, 2017 and 2018, the year 2016 being the last year with total losses accumulated while 2017 will be the first year on profit. In this respect, the measures taken in the Economic Recovery Program, whose implementation will generate positive effects on the functioning of this entity, through the results and the correlations with the short and medium-term estimations, will lead to the reformation of the public television, the data presented in the below table are relevant:

Table 2. Estimated Income and Expenses/Financial Results

Indicators	2015	2016	2017	2018
Expenses	335,394	341,266	346,138	351,010
Income	471,696	495,281	520,045	546,047
Gross profit	136,302	154,015	173,907	195,037
Cumulative result	-	- 73,987	99,919	294,956

As it can be seen from the table above, it is planned that, during 2016 - 2018, substantial income be obtained in comparison with the expenses that will be made so that all cumulative debts should be liquidized over the years and even profit should be made.

4. The analysis of the economic recovery program implementation

The Directive of the Board of Directors of the RTC, No. 110/2012 stated that the necessary measures for the implementation of the Program be decided by the Board of Directors, President - CEO and Board of Directors of the RTC, according to a monitoring schedule approved by order of the CEO President, and while reporting to the Board of Directors. Analyzing the information available, we realized that this calendar had been approved neither by order of the President as requested by the directive of the Board of Directors nor by other documents. Also, the fact that the entity did not establish functional costs centers which should allow the analysis of the impact of each center on the entity's profit/deficit, this led to the impossibility of a realistic foresight of the financial and economic evolution and of operative interventions to stop all uneconomical (Dima & Man, 2012, 2013; Calin, Man & Nedelcu, 2008; Catargiu, 2015; Macris & Grabara, 2014).

This situation was also negatively caused by the lack of significant activities which should clearly and explicitly specify the attributions of each manager/responsible of the costs center, which should primarily aim at framing the financial possibilities of the moment (Barbulescu, 2003; Dumitru & Ioanaș, 2005; Catargiu & Ravaș 2014; Batrancea, 2008).

Therefore, through the Economic Recovery Program, the RTC wished for a financial balance, though the debts of the entity increased, even though this situation had not been strictly caused by the way expenses were made in the past 2 years - the expenses of 2013 and 2014 declined in comparison with the ones in 2012 - but because of some debts from previous years reaching the maturity date and also because of the accumulation of additional penalties which were caused by the loss in 2014 of tax debt payment rescheduling.

By obtaining tax debt payment rescheduling, a perspective of economic situation amelioration was created, but in order to achieve this advantage, the chart of debt installments should have been observed. The scheduling measure had a favorable effect on the reduction of main debts to the consolidated State budget, the main tax liabilities, excluding the accessories, represented by penalties, delay penalties, interest. Thus, they were lower by approximately 40 million lei at the end of 2014 compared to the level recorded at the end of 2012, given that the RTC paid the ongoing and outstanding obligations estimated on the rescheduling graph on time, except for the outstanding rate on November, the 25th 2013 (2013) which, in the end, led to the loss of the rescheduling.

At the same time, during 2012 - 2014 there were some **positive aspects** recorded within the entity, and they consisted of the reduction of some expenses, the achievement of other revenues as well as the diminution of some components of the commercial debt, among which we could mention (Report of the Board of the RTC, 2015), (The decision of the Board of Directors of the RTC, 2012):

- *The debts to the RTC trading partners diminished at the end of 2014 as compared to the*

previous year;

- *The TV fee income recorded a small increase of 1% in 2014 while the advertising revenues increased to 37.5% as compared to the previous year;*
- *Following the process of collective dismissal in 2013, the personnel expenses decreased by 17.3% in 2014 in comparison with their level in 2012, before the collective dismissal.*

Although State authorities approved the request of the RTC of rescheduling the outstanding tax obligations, over a period of 7 years, the entity did not pay the outstanding obligations, maturing on schedule on November, the 25th 2013 (2013), representing the penalty for failing to comply with the deadline.

Although the payment schedule was maintained at first on the condition of penalties payment within 90 days, penalties calculated because of not having complied with the deadline on November, the 25th 2013 (2013), that deadline was not observed because of the lack of cash reserves, and this led to the permanent loss of the payment schedule on May, the 21st 2014 (2014). The permanent loss of the payment schedule led to the calculation, by the tax body, of additional penalties in 2014, representing penalties for the loss of NAFA (National Agency for Fiscal Administration) payment schedule and accessories - interest and penalties - to the payment of outstanding tax obligations.

Given the above conditions, the additional obligations accumulated in 2014, as a result of the loss of the payment schedule because the RTC had failed to comply with the reimbursement chart, are likely to cancel the progress registered in that period, which makes the current financial and economic situation to be more complicated than the one prior to the approval of the Economic Recovery Program, there being a permanent risk to get to the incapacity of carrying on with the activity.

As stated in the section regarding: *“The calendar for the coverage of outstanding tax and trading debts”* the payment schedule of the tax debt reimbursement over a period of 7 years has been stipulated, that is by 2020, with the obligation of paying an interest corresponding to the level of the capital market, a completion to the paragraph 2 of Ordinance No. 33/2012 being suggested as follows: *“The Economic Recovery Program will include measures on the organizational structure of the Company, as well as economic and staff restructuring necessary for its efficient functioning in order to pay, within 7 days from the date of the approval of the Program, tax debts and the corresponding interest of the payment schedule, that is the rescheduling, by negotiation, of the other debts.”*

Following this approach, the Government approved the Memorandum on the topic ***“The approval of some measures to provide the public television service”*** which proposed the amendment and supplementation of the Government Emergency Ordinance No. 29/2011 *on the regulation of granting the payment schedule*, thus:

- *entering an exception regarding the period of payment rescheduling, meaning that, those contributors with tax debts over 300 million lei will benefit from the rescheduling payment of debts over a period of 7 years;*
- *Expanding the exception on the formation of guarantees applicable to public institutions and to autonomous administrative authorities.*

Since the date the payment schedule was lost, the RTC have been regularly receiving Payment Summonses and Writs of Execution, there was an attempt to block the accounts by NAFA in July 2015, a situation which was eventually resolved through the intervention of State authorities. Nevertheless, despite the fact that the Government and the Parliament had provided the legal framework for the payment schedule of the tax debts of the RTC over a 7-year period, the entity failed to comply with the conditions to maintain that facility (payment terms), a situation which generated penalties for losing the payment schedule and for further burdening this entity. Eloquent in this respect is the fact that the current interim president of the RTC reported in a letter sent to the Parliament that the

financial projections at the end of 2015 showed a deficit, together with the perspective of accounts blocking by the NAFA for some historical debts maturing in March and April 2016, a situation which would lead to a new financial jam.

Consequently, although the implementation of this program has brought about some positive aspects related to the measures taken, however, the difficult current financial and economic situation of the RTC makes us consider that, by adopting the Economic Recovery Program, the financial performance still has to wait under the given circumstances.

4. Conclusions

The adoption of the Economic Recovery Program of the RTC represented an important step to reform the public television and re-size the institution in accordance with the current economic situation. The administration of the RTC started to implement the measures included in this document, which is why, throughout this period, the efforts of economic recovery were correlated with those referring to regaining the credibility and trust of the RTC partners: international organizations, internal partners and, most importantly, the viewers.

Although the importance of the RTC on the media market is indisputable, aspect supported by the practice at the European Union level in this field, we found that its legal status and organizational form had not been clearly established by legal regulations which should be applicable and leave no confusions, doubts or subjective interpretations. All these led to the present serious economic and financial situation.

By analyzing the contents of the Recovery Program, we have discovered that its objectives were set in a far too general form, they were not sufficiently clear and concrete defined, there were no concrete deadlines for achievement, and no organizational structures nor persons responsible were mentioned, so that the measures undertaken by this program to have had any effects.

In our opinion, all the measures taken to the adoption and implementation of the Recovery Program proved ineffective for the improvement of the financial performance of the RTC, because the accounting policies applied did not have the capacity to ensure a proper speed of liquidity so that the balance of receipts and payments be secured. The time lag between the moment of revenues recognition and their collection on the one hand, and the moment of expenses recognition and their payment, on the other hand, has always represented the financial outcome of an entity, respectively of this one from this study. In this respect, practice has shown us that it is necessary that we should focus on the outcome of the treasury or on the treasury itself because it is the treasury that finances and operates the business under efficient and optimal conditions.

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