



CIRIEC International Conference

THE FUTURE OF PUBLIC ENTERPRISE

*Role and Governance in the Implementation
of Innovative Strategic Policies and Economic Development*

*Paris, February 25th 2015
Centre "Pierre Mendès France" in Bercy*

Public Enterprises Today: Internalisation of Missions, Performance and Governance

Luc Bernier
ENAP, Canada

In a first pass we examined fifteen public enterprises in nine countries, active in sectors as diversified as water, electricity, finance, real estate and property infrastructures, postal services, air, local or maritime freight and engineering services. They are complex organisations engaged in public-interest missions, being at the same time efficient operators booking some quite creditable financial performance. These public enterprises populate political systems as different as those in Peru, Sweden, the tradition of British origin in Canada and Ireland or in the continental European systems in France, Belgium or Italy. They function in large countries such as Germany, or in smaller countries such as Austria or Ireland. For many a long year there has been little in the way of research on public enterprises because the researchers concentrated their works on privatisations. The more significant, among the most recent works on the subject, date back to the 1980s. However, the fifteen cases presented in this book attest to the fact that public enterprises still have a rightful place, and that the general interest may be served by a variety of formulas where contractualisation and public ownership blend.

In a second movement the cases of the book directed by Philippe Bance complete this study, extending the analysis to other sectors of State involvement and considering the get-a-man-to-do-it logic bringing in the private sector. This second book, more centred on France, also gives a clear presentation and update of the notion of the general interest and of the link between public policies and public enterprises using some interesting examples.

Public enterprises still have a part to play. The State is not pulling out to yield its place to the private sector. Renationalisation or remunicipalisation of various public services is ploughing on in the same line of thought. The nationalisations intended to weather the crisis of 2008 may well have been done without strategy and were, perhaps, often makeshift, but such is not the case for the enterprises analysed here. The story of the Berlin water company goes back 150 years, Milan hails back to 1888. In Vienna the first horse-drawn tram line harks back to 1865. However, some other presented enterprises are very recent, such as Infrastructure Ontario, showing the relevance and topical interest of the formula.

1) The Public Service Mission

Paradoxically, mapping and describing the mission of public service has been difficult in several case studies, even if a public enterprise without such mission is not really a public enterprise. Contributing to the general interest by distributing drinking-quality water to a population, organising the collection

of waste, organising a spent water and sewage disposal system, distributing electricity, providing a reliable system of ferry boats, etc. are missions that seem self-evident in many countries and are missions that fall within the scope of the general interest. Protection of the environment and social responsibility are also a way of defining the general interest.

The biggest water supply and purification company in Peru, *SEDAPAL* offers very low prices that must be subsidised by the State; one of the principles of its price-fixing is in fact that of social fairness, to allow the majority of the population to benefit from the service. Paris likewise offers a solidarist system for its citizens on the lowest incomes. Public transport is a general-interest service reducing road congestion by private cars, pollution, etc. In Brussels, public transport is recognised as an improver of quality of life. Besides the traditional delivery of letters and parcels, the French Group *La Poste* also delivers newspapers and is involved in public works projects. If all that were simple, then these services could readily be entrusted to the private sector, but it is the public sector that has succeeded in actually providing.

2) Operations and Performance

Having a public mission does not preclude functioning well. In Milan, the public enterprise outperforms the average in water distribution services throughout Italy. The concern for the clientele, brought out by the study on public transports in Vienna, is a recent and telling dimension. The users are clients who deserve a good service. In Cologne, the *SWK* Group has been netting surpluses since 1996. In practice, to fulfil their public mission and to establish their legitimacy, today's public enterprises are efficient and cost-effective. The *Berliner Wasserbetriebe* lose only 2% of their transported water, which is far below the volumes usual in that industry. The quality of service offered by the *Wiener Linien* has been onwards and upwards for the past twenty years, despite operational losses covered by the City of Vienna. The *Brussels STIB* has dealt with a staggering increase of its clientele with some success, and that even living within its means.

Public enterprises are enterprises assuming many and various and sometimes complementary tasks. For example, *Infrastructure Ontario* has now spread its wings to take in a diabetes register in order to fill the gaps left by another government agency. This public enterprise is now also participating in a nuclear power station project. In much the same way *DAA* is now exporting its airport management and commercial expertise to various airports all around the world. Dublin airport is in full spate of economic development and now competes with other Irish airports, allowing judgment of its results by comparison. It would also be interesting to see how this public enterprise service shapes up when compared with the private sector. In the case of *BC Ferries*, as in others, public enterprise has replaced less-efficient private enterprises. With its requirements in terms of equipment it contributes to the upkeep of the shipbuilding industry along the West Canadian coast. France's Group *La Poste* has succeeded in developing, with some impressive results in its banking sector. It is now in fact the first-stop institution for the French.

On the whole, the case studies presented here show that public enterprises tend to perform ably. *VA Syd* also illustrates the systemic gains in efficiency gained in South Sweden. Water rates were reduced by 8% after remunicipalisation in Paris. The quality of services provided by Vienna's public transport stands out in many international ratings. Quite simply, public enterprises can be both efficient and cost-effective.

3) Governance and Regulation

One dimension, if any, that merits more research is the degree of political governance. Is it really so - for example in water services - that local elected members should serve on the board of directors? The replies elicited in the case studies vary according to tradition. The renationalisation of water in Berlin came about through a popular movement, without the support of any political party, after

debate on water rates, which were deemed to be too high. For the man in the street it seemed altogether normal that a public enterprise should handle such services. In Cologne, and according to German law, employees are numerous on the supervisory board. In Canada, public enterprises have been created to distance their management from politics, but this is not true in all cases. In the case of water in Paris, the undue closeness to politics does not leave the enterprise enough room for manoeuvre. For local public transport public in Brussels, the question of the link with the political parties is also raised, the members of the board of directors of the *STIB* having a link with the parties in power. Certain of the more controversial decisions in the case of *British Columbia* were those taken by the Council of Ministers of the province in the past. A more modern model has since been adopted there: an independent administration, a commercial enterprise to manage the ferries with an autonomous board of directors, an independent regulator and a service contract.

The case of remunicipalisation of water in Paris is interesting from the angle of governance in another manner. In the French tradition, there are large private operators that have become multinational enterprises. They inevitably have the resources and the know-how to convince the governments to assign to them the management of aqueduct systems. If they have given up fighting remunicipalisation, does this imply an estimation on their part that this sector is now low-return for private enterprises?

The contemporary public enterprises have governance structures that are often those popularised by the OECD, in particular with independent administrators. This normalisation means, for example, in the case of *ENEL* in Italy, that the change of owner has not led to any fundamental change of ownership structure of the old public enterprise. Public enterprises of this kind have boards of directors with, however, a principal that is not in dispersed ownership. This more akin to the institutional investor model.

Another dimension to bear in mind is the creation of public conglomerates. Such is the case for *SEDAPAL*, which is part of a group of Peruvian State enterprises. The enterprise may well have a relatively clear mission, but the strategic plan of the whole has yet to be defined. In Vienna, public transport is incorporated in the *Wiener Stadtwerke Holding AG*. *Infrastructure Ontario* has replaced three former public enterprises. *A2A* and the *SWK Group* are illustrations of multi-activity groups, even if for *A2A* the diversification is mainly geographical. The *A2A Group* is the biggest Italian multi-activities group: energy, water and waste. The public enterprise of Cologne is active in gas, electricity, public transport, logistics services (docks and harbours, etc.), public baths, housing, the collection of waste and telecommunications, as well as recycling, town planning, etc. There is a substantial scientific literature on the private holdings, but what do we know about the holdings in the public sector? This is a subject for research that needs to be explored.

In the case of public enterprises established in Europe, regulation is a matter for the national bodies but also for the European authorities. In point of fact, the regulation of network enterprises has become an area of research in its own right, as is their governance. Regulation and corporate governance must go hand-in-hand but require that all are capable of playing their respective roles.

4) Other Issues

What also emerges from the case studies collected in these books is the sophistication of institutional arrangements as regards management and operations and for the governance of these enterprises. For example, the creation of *VA SYD* in South Sweden had been preceded by four studies in the towns concerned and discussions in the municipal councils. In other words, the knowledge for a good governance and optimum functioning exists and is being put to use. Decisions on scheduled charges likewise involve calculations that benefit from many years of acquired experience. Governance is a question that has been relatively well studied and resolved, and it is no doubt more on the spirit of enterprise of the directors of these enterprises that research should press ahead at present.

The absence of debate around the municipalisation of water in Paris or the lack of questioning on the current institutional arrangement in Vienna for public transport may be signs of the legitimacy of these public enterprises. The case of the enterprise in Cologne is representative of the legitimacy that these enterprises could have, enterprises for which there is no desire for privatisation, neither in the municipal council, nor among the population.

Whereas privatisation programmes are not pursued for reasons of the general interest, today's public enterprises, quite on the contrary, are situated on a very fine demarcation line between private and public. Indeed, we note that the movement in one direction or the other is not irreversible. If nationalisation may be temporary, as was the case for the Swedish banks during the 1990s or the banks and car manufacturers during the crisis of 2008, then it is also possible to renationalise, privatise temporarily, and then return to the public. It is therefore possible to privatise only partially and keep back for the State a sufficient portion of the capital to retain control.

A further dimension is that of the commercialisation of public enterprises. These have sometimes gone on to become major international players whose role in the world economy, or in the European context in particular, must be better understood.

5) For the Rest

Public enterprises are hybrid organisations with complex logics that must internalise the general-interest missions entrusted to them; they have shown that they can do this. Effectiveness and the general-interest mission can be combined. The internalisation of general-interest missions is a central issue when it comes to evaluating these enterprises, which have been forced to adapt in a moving context. The public enterprises have succeeded in renewing themselves in a changing context. That is what the public enterprises continue to do today, and it is possible that they will be a model for tomorrow that CIRIEC will continue to study.