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The reasons of the renewal of the interest on the theme of public enterprises

Massimo Florio
Università degli Studi di Milano

After several years of neglect, public enterprises are coming back as an important research topic. Why, after more than two decades of neglect, is there such a new interest on the theme? There are at least five reasons.

1) ***Despite mass privatization since the 1980s governments still own and manage major companies in many countries. And these companies perform well.***

For example, out of the top two thousand listed companies of the world (in the Forbes Global 2000 ranking) more than 10% are ultimately controlled by governments. These giant public enterprises own more than 20% of assets of the list, have a market value and profits well in excess of 15%. In financial terms they show a median return on sales (ROS) higher than private enterprises, and return on equity (ROE) and on assets (ROA) similar to them. State-owned enterprises (SOE) in the top league are located in countries as diverse as Brazil, Russia, India and China (BRIC) but are also in advanced economies as France, Italy, Norway and Switzerland. Industries where the SOE are performing particularly well include electricity, gas, oil, but also transport and telecommunications. Many governments seem now much less interested in privatizing these firms than in effectively managing them.

2) ***Following the Great Recession since 2008, nationalization or other forms of State control were the response by several governments to the collapse of banks and strategic firms.***

Core banks in the UK, top car companies in the US, and several other firms had to be rescued by governments, even in countries where the dominant neo-liberal thinking was hostile to SOE. The simple fact that these governments (and others) have considered and implemented such nationalizations, even if admittedly as exceptional and temporary emergency solutions, is similar to what happened during the Great Depression in the 1930s, when many SOEs were created for similar reasons. The evidence that managers appointed by governments, and capital provided by governments, had to rescue private enterprises, has led the attention to the fact that ultimately governments perceive to have certain responsibilities and capacity when confronted with the possible breakdown of organizations of systemic economic importance. This has shifted the previous consensus according to which it was never desirable for governments to take the control of firms.

3) ***In many countries there is a wave of "republicization" of formerly privatized firms providing services of general interest, or "remunicipalizations" of local public services franchised to private companies.***

There is wide evidence that particularly municipal governments after the experience of concessions or other form of involvement of private capital in water or other local services, concluded that such arrangements were not in the interest of citizens, and reverted to direct management of public services. In the case of water, examples of remunicipalization can be found in France, Germany, US, and in Latin America. This was mainly due to difficulties of private companies to adequately invest, or to ensure appropriate maintenance of the network, or to offer affordable tariffs to residents, or some municipalities simply concluded that it was less costly for them to go back to manage the service by themselves.

4) ***In network industries, particularly in energy and telecoms in the European Union, where the market has been opened to competition, major public enterprises offer reasonable price to consumers, and are financially healthy.***

In the EU, a government is a top shareholder of some important players, e.g. in Germany, France, in the Scandinavian countries, *etc*. Recent research at the University of Milan[1] shows that often consumers enjoy lower prices and higher satisfaction in countries where there is a public enterprise in the market. Moreover, these public enterprises are profitable. It seems that SOE in these industries have often survived privatization and adapted well to the challenge of competition.

5) ***In the market for corporate control, public enterprises are no longer just targets of privatizations. They are acquiring private and public enterprises and overall these deals respect a managerial efficiency criterion, as acquirers are firms performing better than targets.***

Research at the University of Milan and with CIRIEC (*www.publicenterprise.unimi.it/*) and at the OECD (*http://www.oecd.org/daf/ca/soeworkingparty.htm)* has noticed the new acquisition activism of state-owned enterprises. An important finding[2] of this novel research line is that public enterprises as acquirers do not violate the Inefficient Management Hypothesis. Out of a large sample of deals that took place worldwide during the period 2004-2012, public acquirers are both larger (in terms of assets, employment and turnover) and characterized by higher financial performance indicators than their private and public targets. In this perspective, SOEs as acquirers are contributing to the efficiency of the market for ownership, according to the standard theory.

[1] Florio M. (2013), *Network Industries and Social Welfare. The Experiment that reshuffled European Utilities*, Oxford University Press, Oxford and New York.

[2] Clo' S., Fiorio C., Florio M. (2014), 'Ownership and Performance in the Market for Corporate Control: The Role of State-Owned Enterprises', Working Paper n. 2014-17, Department of Economics, Management and Quantitative Methods at Università degli Studi di Milano.