

Comparative Studies of the Performance of State Owned Enterprise in Selected Sectors

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Background:

The search for improved public sector performance is a major concern for modern government and the pursuit of effectiveness and efficiency intensifies as the public sector is confronted with greater demands from citizens.

Understanding the performance of public enterprises is an elusive exercise. This is partly attributable to the fact that public enterprises have traditionally been allocated multiple objectives. Unlike privately owned companies that aim to maximise profits the objectives pursued by public enterprises are often broad and include: the efficient allocation of scarce resources, contributing to regional development, facilitating stable employment and ensuring equal distribution of income so that profits were not excessive against what was needed to effectively provide services (Rees 1976). The broad nature of these objectives can lead to complications when attempting to analyse the performance of these companies.

These complications include:

1. Choosing the correct performance indicators which are aligned to enterprise objectives.
2. Accessing relevant data that covers a sufficient time period.
3. Benchmarking performance against suitable comparators (from the private sector or international peers).

Objective of the Proposed Study:

This study seeks to conduct a harmonised cross-country analysis of the performance of public enterprises in selected sectors. The study will involve:

- The selection of countries;
- The selection of sectors and enterprises (e.g. postal services and transport companies)
- The identification of appropriate performance indicators (see below)
- The selection of a suitable and practical time period.
- The publication of results (refereed journal articles or edited volume)

Choosing Performance Indicators

Given the mix of objectives generally assigned to public enterprises, Pestieau and Tulkens (1993) advocate that the performance of public enterprises be measured and compared on the basis of **productive efficiency**. It is proposed that the participants in this study adopt a sophisticated methodology for measuring productivity, such as total factor productivity (TFP), data envelopment analysis (DEA) or stochastic frontier analysis (SFA) where appropriate data is available. The precise methodology adopted will depend on the type of data available over time, and a common approach must be agreed by participants. For example, in the case of transport companies (e.g. bus or rail companies) passenger kilometres might be chosen as the agreed measure for output if consistent data exists for this measure across companies and countries. Inputs could be measured by gathering data on units of labour, hours worked, cost of inputs, capital stock, investment and depreciation rates, etc..

The proposed study also aims to conduct a harmonised analysis of the **financial performance** of SOEs in chosen sectors. Such comparative analysis will require a consistent approach to constructing measures of financial performance based on data that is commonly available from the financial accounts (annual reports) of the relevant enterprises. Relevant indicators in this regard include turnover, Profit before Interest and Tax, Net Profits, Return on Capital Employed, etc..

Finally, the proposed study proposes to gather comparative data on indicators that are relevant to specific sectors. Examples include delivery times (postal services) ticket prices (bus companies) etc.

Requirements and Timeline

A truly harmonised study will require a co-ordinated approach from participants in at least 5-6 countries. The initial task will be to scope out a study and to establish that required data is available in participant countries. Once this is established the study can commence in earnest. The proposal is to scope out the study in early 2019.

References

Pestieau, P., and Tulkens, H. (1993) 'Assessing and explaining the performance of public enterprises', *FinanzArchiv/Public Finance Analysis*, 293-323.

Rees, R. (1976) *Public Enterprise Economics*, London: Weidenfeld and Nicolson.