



THE FUTURE OF PUBLIC ENTERPRISE

MISSION, PERFORMANCE AND GOVERNANCE: LEARNING FROM SUCCESS AND FAILURES

A RESEARCH AGENDA 2012-2014

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*CIRIEC International Scientific Commission Public Services/Public Enterprises**

1. Introduction

Despite the large-scale privatizations in the last three decades (Bognetti and Obermann, 2008), governments, either at national or local level, still own or partly-own a wide range of organizations providing public services. For several reasons, privatization policies have left under the control of government a core of public enterprises. Recently, some episodes have also been reversing the previous policy trend. The question arises: how should governments define the missions, the performance criteria, and the governance mechanisms of the public enterprises in a changing environment?

CIRIEC's International Scientific Commission on Public Services/ Public Enterprises is launching an international research project on the future of public enterprises. The ambition of the project is to revive the subject of public enterprise as an important field of analysis in the perspective of public economics and of social sciences in general.

The project will last three years (2012-2014), and it is open to the participation of the Commission's members, of the CIRIEC national sections, and of any independent social scientist. It aims to contribute to a new interest on public enterprises through promoting and networking high quality independent scientific research. This text presents the context, rationales, concepts, scope of the analysis, methodology, policy implications, organizational arrangements, and milestones of the project.

* CIRIEC: International Centre of Research and Information on the Public, Social and Cooperative Economy - aisbl (<http://www.ciriec.ulg.ac.be/>)

2. Context

According to Christiansen (2011), who reports the results of a wide data collection exercise, state-owned or partly state-owned enterprises (SOE) in the OECD members states employ more than 9 million people, are worth USD 3 trillions in terms of net assets, and mostly concentrated in the network industries and the financial sector. In absolute terms, countries as diverse as the US, Japan, France, Italy, UK, Poland, Turkey, just to mention some, stand out as the hosts of important SOEs. These include mostly public utilities, but – following the recent global crisis – also, for example, a major car manufacturer in the US (General Motors), one of the biggest banks of the world (Royal Bank of Scotland), and other entities.

The OECD survey is incomplete in terms of country coverage, and of type of firms. For example, the very large number of municipally-owned utilities in Germany or in the Scandinavian countries, and elsewhere, are not covered. Some information at country level is provided by CEEP (2010), which focuses, however, on the different issue of mapping the provision of services of general interest in Europe. Thus, the exact definition and statistical information on contemporary public enterprises are relatively un-surveyed.

Nevertheless, it is beyond doubt that governments in Europe and elsewhere still (fully or partly) own a large number of organizations providing public services. These include inter alia electricity and gas supply, telecommunications, postal services, water and sewage, waste collection, local transport, railways, ports and airports, and several others. In many countries, core financial players are under the control of governments, including major banks, insurance companies, pension funds, etc. Social services, such as health, education, childcare, vocational training, etc. are still widely supplied by public organizations, in some cases as trusts, public corporations, PPPs.

For the purpose of this project, we shall refer to “public enterprises”, in the broad meaning of organizations (a) directly producing public services, either through liberalized market arrangements or under franchised monopoly, (b) ultimately owned or de facto controlled by public sector entities, (c) with a public mission, (d) whose ownership in principle can be shifted to the private sector.

This definition excludes from our scope of research several other organizations:

- manufacturing companies owned directly or indirectly by the public sector
- departments or agencies, which deliver core government functions (defence, law and order, administration, etc.)

- companies which have been put temporarily under government control following a bankrupt, or for other reasons, but for which no public mission can be identified (more on this below).

In this perspective, governments still own substantial productive assets, recruit managers and employees, and accumulate human capital in the public sector, in activities where private investors actually or potentially operate as well. Is this fact a remnant of past history, due to delays in the privatization agenda, or is it a symptom that public enterprises will remain with us in the future? And, if the latter holds, how can we explain and forecast the survival of these organizations?

3. Conceptual framework

3.1 Public mission - Definition

Given our definition of public enterprises, it is important to distinguish two different issues related to public missions of the organizations to be considered: missions of general interest, and public service missions (CEEP-CIRIEC 2000).

3.1.1 General interest goals

Governments always have some broad objectives in terms of macroeconomic and other national policy goals. These include for example policies related to employment, containment of inflation, promotion of research and development, of human capital, of fixed capital accumulation, competition and industrial policies. These objectives can be pursued through regulation of market players as well as of franchised monopolies. The internalization of these objectives from public and private enterprises depends upon laws and other forms of regulation. Historically, public enterprises have been involved in these general interest goals in several ways: for example, they had to sustain public investment, to employ labour in certain regions; they were not allowed to increase their tariffs in times of high inflation, etc. Market opening clearly constrains the potential commitment of public enterprises in these areas of government intervention. An example of constraint is the regulation by the EU institutions of state aid for any undertaking. Since the EC and the Court of Justice consider transfers from the public budget to companies as potentially distorting intra-EU competition, they require a special notification and an approval process. Transfers related to universal

service obligations, or other public missions, are then subject to scrutiny from the perspective of market integration.

3.1.2 The public service mission

Under a more direct mechanism of control, public enterprises are required to perform certain specific tasks. Here government ownership may act through hierarchical linkages. While issues of principal-agent relations and of asymmetric information have been discussed in the context of any regulated organization, public enterprises are closer to the public principal, and hierarchy is a more effective mechanism than under private ownership. Specific forms of universal service obligations, in principle, can be applied to any service provider, including the private ones, but the direct linkage between ministries, regional governments, mayors and public service providers is a powerful internalization mechanism.

3.2 Research object and proposed methodological approach

In this perspective, several research themes should be considered. The normative theory of public enterprise, as it had been elaborated until the recent change of public policies, dealt with a different environment. The traditional doctrine started often from a set of assumptions, such as statutory monopoly at national or local level, the direct relationship between public planning and service provision, symmetric information between principals and agents, departmental regulation of prices, etc. These assumptions are less realistic today. In contrast, contemporary public enterprises are often operating in the context of mixed oligopoly, exposure to international markets, regulation by independent authorities, information asymmetries, and a less close relationship with public policy making. In many cases the legal arrangements for public enterprises have changed as well, from public sector entities subject to administrative law toward corporate entities subject to civil law, applicable in similar ways to privately owned organizations. If public enterprises will survive in the next decades, what kind of predictions and prescriptions can be distilled by modern public economics theory, and by the advancement of other social sciences, in order to improve their efficiency and effectiveness?

One possible approach to look at these two broad questions (actual missions and normative theory) is to start from a focus on *case histories of contemporary public enterprises*. In an evolutionary perspective, organizations which have been able to adapt themselves to the new

post-privatization/liberalization environment may suggest lessons to be learned, drawing from their resilience and change in the new context. There is also something to learn from failures in the adaptation process.

3.3 Specific research themes

The case-history approach is the core of the research project as proposed below.

We suggest focusing on a set of specific themes. The list of possible topics is flexible, and will be adapted during the research itself. A first indicative list of themes includes at least the six following ones.

3.3.1 Public mission, market opening, and performance

Under market opening, a plurality of actors enter the arena of public services provision, from multinationals to NGOs, from PPPs to municipally or state-owned enterprises, and compete in some way. They have different performance criteria: financial profitability for private investors, social welfare for public enterprises, or combined criteria for public-private partnerships. Competition can take the form of competition in the market, or for the market (à la Demsetz). How can missions of general interest, and specific public service missions, be accommodated in this environment? Does this plurality of players lead to stable equilibria? Under which conditions does public ownership welfare-dominate other arrangements? Is market opening desirable per se or is it wasteful in some cases? Models of mixed oligopoly have tried to answer the questions, and some empirical studies have been carried out in this area. There is however less evidence on the adaptation necessary to the public enterprise to survive the change. Is in fact the adaptation destroying the public missions of the organization? Or can the general interest and public service missions be preserved within the new environments and strategies? What can we learn from case histories of contemporary and past arrangements under market opening?

Various chapters/sections could possibly be written on performance aspects, since performance varies, depending on institutional contexts and market settings, for instance.

3.3.2 *Governance*

This topic has been widely researched for private organizations in recent years, also because of the perceived wide failures of arrangements in such industries as banking, or in large listed companies, etc. Do we have any evidence that some governance mechanisms are more effective for public enterprises? Is the huge literature on corporate governance of large private firms relevant to public enterprises, with citizens as the ultimate owners instead of shareholders and consumers? The OECD and the World Bank have occasionally suggested corporate governance principle for public enterprises, when privatization is unfeasible or undesirable. The NPM literature has suggested quasi-market mechanisms. Several academics have been engaged in this research area, particularly in the health and education sector, but perhaps less in the SGEI, where corporatization is more common. There are traditional and new questions in this domain. Who appoints managers? To whom are they accountable? How to pay them? How to measure the performance? Should industrial relations be designed to imitate the private sector? To what extent should employees and consumers be represented in the governance of public enterprises ⁽¹⁾?

3.3.3 *Regulation*

The relationship between public enterprises, regulators and policy makers is now perhaps more complex than it was in the past. Do independent regulators, which after all are public sector employees, bring an added value when public enterprises are concerned, or do they add to the transactions costs of their management? Do managers tend to capture regulators? How do regulators act when they face a mixed oligopoly? The current regulatory economics literature focuses more on the issue of “incumbents” and asymmetric regulation, but often tends to skip the paradoxes arising from different public sector entities, which interact in the market. It would be important to understand the nature of the relationship between regulators, ministries, and public enterprise managers, as this is perhaps the most important change in the architecture of government that has changed the role of public enterprises, beyond the Morrisonian tradition of arms’ length control ⁽²⁾.

3.3.4 *Finance*

Public enterprises used to be financed in three ways, according to countries and sectors: transfers from the Treasury (i.e. general taxation), bond finance, and tariffs. One core aspect of the traditional doctrine of public enterprise was optimal pricing, e.g. the Ramsey-Boiteux

view of the case of budget constrained firms (which is the normal case under EU state aid legislation). In the Laffont-Tirole framework the optimal pricing mechanism has been widely modified by principal-agent issues. In practice, there is limited evidence that price equilibria in regulated mixed oligopoly have converged towards socially efficient pricing of a sort. Which is or should be the pricing strategy, if any, of public enterprises in the current circumstances? This issue is closely related to the next topic. Transfers from the Treasury are now limited by state aid regulations in the EU, but exceptions are still possible. Bond finance, assisted or not by guarantees from the state, is also a current opportunity. In some cases, indirect international bond finance is possible (e.g. by the EIB, EBRD, World Bank). What should be the optimal financial mix for the future, learning from the experience?

3.3.5 Distribution and social welfare

Another core concern of the traditional theory was about distributive issues. Cross-subsidies of tariffs were used to force universal coverage under balance budget, and other mechanisms were in place to ensure the distributive mission of public enterprises. Do public enterprises still perform a role in redistribution of welfare, or has this role been definitively delegated to taxation/subsidies and other mechanisms? There is considerable literature on these issues ⁽³⁾, for example related to fuel poverty, but the way social affordability of public services should be achieved is still lacking an adequate frame of analysis.

3.3.6 Implementing the general interest goals

Public enterprises, as mentioned, and recently restated by Millward (2011), had also some political functions, related to national or local strategies. This was or still is also a matter of perceptions by users and by decision-makers. Examples are issues of territorial cohesion, security of supply, strategic considerations. Are some of these issues still important today for public enterprises in some sectors?

3.3.7 Others

Additional topics may include, for example:

- ❖ the consequences for public enterprises when owners or stakeholders are spread over different government levels and jurisdictions;

- ❖ human resources, including education and background of managers, incentive pay, role of trade unions and industrial relations in general;
- ❖ corruption and quality of institutions;
- ❖ climate change, environmental considerations, sustainable development, etc.

As mentioned, the above tentative list should be seen only as the starting point from which to frame the case-histories. CIRIEC's Scientific Commission will be open to consider other topics in future. But each case-history should be written around the common template (see Annex) which considers the proposed list of topics, within a unified framework.

4. Scope of the analysis

As mentioned in section 2, in this project we use the label “public enterprise” in a broad meaning. We wish to encompass in the scope of the analysis different levels of government, including local government, but in principle also inter-governmental agencies which cannot be considered as belonging to the ‘state’⁽⁴⁾. One could even consider international organizations such as the CERN⁽⁵⁾, the largest inter-governmental research enterprise in the world, or the European Investment Bank.

In turn, by public enterprises, for the purpose of this research project, it seems at this stage unnecessary to make a strong distinction between providers of some social and ‘economic’ services. This distinction seems difficult to be accepted on analytical grounds. Health and education services do not have intrinsic features of Samuelsonian public goods, and are to a large extent supplied by private providers in many countries. The fact that privatization policies have until now only marginally affected hospitals and schools in the EU is probably related to a certain view of the welfare state, but this view has been under attack by the same forces which have proposed the privatization of other services⁽⁶⁾. Moreover, tariff and fiscal arrangements do not allow a sharp distinction between ‘social’ and economic services: ‘social services’ tend to be supported mainly by transfers (but no more for Universities in the UK), and ‘economic services’ by cost-reflective tariffs (but not water supply and local public transport in many countries). These funding arrangements, however, do not seem to be so widespread to exclude social services from the scope of the analysis. Thus, a necessary condition, for the purpose of this project, is that a public enterprise is defined by:

- a) a public mission that can be identified in legislation, regulation, statutes, etc.

- b) an entity with its own budget
- c) a certain degree of managerial discretion
- d) the fact that one or more government levels have a well defined set of property rights over the assets.

It may be convenient or just practical to focus on some specific sectors. CIRIEC's Scientific Commission might take a decision about priority sectors, based on the specific proposals received. Also, in terms of country coverage, there is no reason to be unduly restrictive, even if a EU main focus would have the advantage of some common legislation and institutional frame. However, there are potentially interesting stories in the US, Canada, Japan, Latin America and elsewhere.

5. Methodology

The proposed research approach is focussed on three work-packages, each leading to a set of working papers and reports:

- a) critical reviews of **literature** on the recent advances in the theory and empirical analysis of public enterprise in general (not limited to one sector or country/continent);
- b) selection of interesting **case histories** of contemporary successful or less successful public enterprises, focussing on their internalized public missions, performance and governance, and analysing them according to the annexed template;
- c) **synthesis and lessons learned**, with a focus on policy implications for the future. As the title of the project suggests, the overall orientation of the research is to learn lessons from case histories in order to analyze new scenarios (see on this below).

— As for the first activity, the scope of the research should be primarily concerned with such strands of literature such as mixed oligopoly, incentive theory, regulatory economics within the domain of public economics; NPM and other approaches in the field of government, managerial sciences, sociology of organizations; new institutional economics; regulation as seen in the perspective of political science, policy analysis, business history.

Interdisciplinary surveys of the literature are welcome. The starting point could be a meta-review, and then a more in-depth review of specific topics. The aim of this work-package is to firmly establish where we are with public enterprise theory and empirics vis-à-vis the traditional doctrine as embodied in the literature until the 1980s (i.e. before the intellectual

and political attraction of privatization and liberalization). Then, a statement of some working hypotheses – valid for various types of institutional contexts, market settings and economic sectors – should steer the field-work.

— The collection of case histories is the core of the research project. Based on the above mentioned working hypotheses, a template, or ideal table of contents of each report figures in Annex and should be implemented by country teams. Each report should focus on the last ten to twenty years of the selected GOE, and should achieve a good understanding of the performance of the enterprise, its governance mechanisms, relationships with government and regulators, competition issues, pricing and finance, management and principal-agent problems, organization's role in terms of social identity and cohesion, etc.

The case histories, crucially, need a combination of desk research from a variety of sources (including existing studies, company reports and websites, press, etc.) and of interviews of different stakeholders. The proposal of a case history will be considered by CIRIEC's Scientific Commission only if it considers field-work, particularly some interviews, structured around the common template or check-list. This is obviously the most difficult and time-consuming activity, but also the only one that offers some added value to the case history approach. Co-ordination of field-work is needed to ensure a comparable high quality of analysis.

As mentioned in the Introduction, CIRIEC's Scientific Commission is particularly, but not exclusively, interested in success stories, which can suggest positive evolution and adaptation. There may also be an interest in learning from case-histories which document the failures of public enterprises along the different dimensions of mission, performance, and governance.

This raises the question of the “success” criteria in the first place. On this point we need to be straightforward: a successful public enterprise is one which achieves good results in terms of its public missions (policy effectiveness), and minimizes the combined welfare burden for the taxpayer and the user (efficiency). In some cases this can be evaluated in terms of social costs and benefits in quantitative terms, but in other cases a more qualitative assessment may be necessary (Del Bo and Florio, 2011).

Based on this criterion, a public enterprise that does not have (or no more has) a public mission, either in terms of general interest or of public service objectives, cannot be included in our sample. A high profitability is not per se a selection criterion either. The existence of a policy mission can be traced back in formal or informal evidence, but should be well

documented. If the government is mute about the role of an organization it owns, we have no way to assess its public mission effectiveness. At the same time, in order to understand efficiency achievements, adequate cost data and some benchmarking are needed (for example comparison with similar organizations, either private or public). Hence, efficiency (for a fair service quality) is a selection criterion. In principle, also case histories of failure are interesting. Examples are public enterprises which have recently lost their public mission, or that are no more cost-effective, etc.

The most promising candidate case histories (including access to data, feasibility of interviews, etc.) will be selected based on a call for proposals. The number of selected organizations does not need to be high. Albert Hirschman built his seminal book ‘Development Projects Observed’ around eleven case histories. Elinor Ostrom also used a limited number of case histories in her work on common goods. There are several other examples in social sciences of influential research based on limited, but well-chosen and carefully analyzed case studies, and we should be inspired by former research based on this approach⁽⁷⁾.

— Eventually, the synthesis work is a challenging endeavour, as no statistical inference can be performed based on a small number of case histories. Thus, the ‘Lessons Learned’ synthesis implies a dose of ingenuity, creativity, and reasoning on the evidence, considering also the background of the literature review.

6. Possible scenarios and policy implications

The final report should be able to answer some key questions about the future of the public enterprises. It would be helpful, since the inception of the project, to have in mind some possible options and scenarios, which can influence the future of the public enterprises.

There are three factors, which may reverse the large-scale privatization trend of the past decades (Bance and Bernier, 2011).

a) Following the global crisis of 2008, it is possible that the neo-liberal paradigm based on a high confidence in market solutions has been weakened. The way the general interest was supposed to be embodied since the 1990s within the deregulated functioning of markets has been criticized by different strands of policy debate (notably by Joseph Stiglitz). This may lead to a new interest in public enterprises, even if the recent “emergency” nationalisations in some countries have not yet produced such a change of perspective.

- b) A second possibility is the coming back of certain collective preferences for the management by the public sector of certain activities. These preferences were typically expressed in the national and sometimes local political dimension in relation to specific sectors, and associated to broad issues of general interest, such as national security, security of supply, economic, social or territorial cohesion, anti-cyclical demand management (for a review see CEEP-CIRIEC, 2000). It is unclear whether governments now have the capability to express these objectives in forms that could be internalized by the public enterprises (Bance, 2004).
- c) A third possibility is linked to changes in the international dimension of public policies and institutions, which to a certain extent co-determine government action in the national, regional or local dimension (Bance and Bernier, 2011). In this perspective it is interesting to monitor possible changes of preferences of such actors as the IMF and the World Bank. These have often been supportive of nationalization until the 1960s, adopted the 'Washington Consensus' in favour of privatization since the 1970s, and are now possibly re-thinking again their policies and advice to national governments, because of the difficulties in implementing the privatization agenda for public services in some countries, notably in Latin America.

Different scenarios can be identified for the future of the public enterprise:

- i) a sustained global liberalization scenario, which would imply a further decrease of the scope of public missions. This trend can be accompanied by the transformation of the remaining public enterprises into corporations without a specific role, and more or less gradually, a definitive decline of their identity, followed then by new waves of privatizations;
- ii) the coordination at global level of new regulatory arenas, which would imply the production of global public goods (Kaul, 2006) of world-wide scale : environmental and technological risks may be pivotal in this change of perspective. This perspective may need new international organizations which are in charge of such issues as climate change, financial stability, and other global challenges;
- iii) a transfer of competencies from the national level to a larger regional level, i.e. with the building of new cross-country political spaces. These can in turn take different forms, as the current debate on the EU institutions shows. In such a context, some dimensions of public mission, typically addressed by national public enterprises in the

past, can be transferred to the upper regional dimension, and a role for new forms of public ownership can emerge.

Having in mind these scenarios and their variants may help in thinking on the case histories and the lessons to be learned from them at a later stage.

7. Mobilization of research capacity

The project, as outlined, needs the mobilization of a network of researchers in different countries and with different backgrounds.

Ideally, CIRIEC's Scientific Commission hopes that:

- some researchers should cover the different topics of the critical literature review, delivering a set of thematic or 'horizontal' working papers (e.g. on mixed oligopoly, tariffs, performance criteria, public missions, etc.);
- in order to reach a critical mass, a minimum of ten in-depth case histories is needed, possibly in different countries and sectors (mini-case studies may be also helpful, as a complement to the main stories);
- a small team of experts should be in charge of drafting the synthesis, but there may be some additional thematic contributions on the scenario analysis and policy implications.

CIRIEC's Scientific Commission welcomes expressions of interest and contributions by its members, experts designated by national CIRIEC sections, independent experts and young researchers.

8. Workshops, Outlets and Dissemination

The Commission will ensure high visibility to the research outputs selected at each stage of the project.

- a) This will include a special issue of two refereed journals: *Journal of Economic Policy Reform* (2013) and of the *Annals of Public and Cooperative Economics* (2014), but also additional agreements with an international publisher for the synthesis book.
- b) CIRIEC working papers related to the project will be included in REPEC and SSRN, which will ensure immediate visibility of intermediate outputs to a world-wide audience.

- c) There will be possible opportunities of exchange of visiting scholars across participating teams in order to enhance collaborations within the network.
- d) If possible, a web-site area will be devoted to inform about the progress of the project.
- e) A workshop for young scientists and/or a Summer School could be organized in 2012 or 2013, possibly taking advantage of one international conference.
- f) Three Workshops are foreseen:
 - ❖ a first Discussion Workshop is foreseen in Berlin in Spring 2013 focusing on theory contributions and literature review;
 - ❖ the Milan European Economy Workshop in June 2013 will be the intermediate step, where the main case histories and some thematic papers should be presented;
 - ❖ a third workshop for additional topics will be organised in Brussels mid-September 2013 to present further potential interesting contributions related to the project.
- g) A final conference with policy makers, managers, trade unions, etc. will be organized in 2014.

9. Funding

CIRIEC will not directly fund research activities, but it will devote efforts and resources to steering the research, networking of researchers, dissemination of results. The teams should be prepared to raise as far as possible their own research funds from national or international schemes. Some accommodation expenditures related to the 2013 edition of the Milan European Economy Workshop will be co-financed by the funds of the Jean Monnet Chair of EU Industrial Policy. Some participants may consider applying for other EU funds with an overlap of research themes and consortia.

10. Organization

The CIRIEC International Scientific Commission Public Services/Public Enterprise will act as the responsible body of the project. Some functions will be delegated to ad hoc committees:

- a) a **Research Steering Committee** has been appointed, for the overall management of the process. It includes Gabriel Obermann, President of the Commission (WU Vienna University

- of Economics and Business, Austria), Philippe Bance (University of Rouen, France), Luc Bernier (ENAP Québec, Canada), Massimo Florio (University of Milan, Italy);
- b) an advisory committee in charge of commenting on submission of text for publication, which, since the working papers stage, should possibly appoint anonymous referees (to be combined with the current rules for CIRIEC working papers);
 - c) one organizing committee for each of the planned events;
 - d) The project coordination will be ensured by Barbara Sak, Managing Director of CIRIEC International (contact: ciriec@ulg.ac.be).

11. Time frame and milestones

The project is designed to last three years (2012-2014).

Individual researchers can however take part in only some aspects of the overall project, by contributing to specific work packages, without accompanying the project for its entire duration.

The time frame looks as follows:

- Spring 2012: calls for proposals/expression of interest related to: a) survey of literature/contribution to theory; b) case histories based on the annexed common template.
- Early summer 2012 (May 21 and June 30): deadline for proposals and examination by the Research Steering Committee.
- September 2012 (or other appropriate time): possible Summer School/Seminar for young researchers/doctoral students.
- Autumn 2012 - Summer 2013: main work period on theory/survey of literature and on case histories
- Spring 2013: Workshop in Berlin to present theory contributions/literature surveys.
- June 2013: Milan European Economy Workshop, with presentation of draft case histories.
- September 2013: Workshop in Brussels to present additional thematic contributions.
- Autumn 2013: continuation of work and finalisation of contributions and papers.
- January-May 2014, drafting of the synthesis report.
- June 2014: final conference with policy stake-holders, etc.
- All along the project (2012-2014): publication of contributions to the project within CIRIEC's Working Papers series.

- End 2013 and 2014: publication of results possibly as one book with an international publisher (synthesis), and two or three special issues of refereed journals (theory/horizontal papers; selected case histories).

Contact point and information

Researchers wishing to receive additional information, and/or to express their interest at this stage are kindly invited to contact CIRIEC's secretariat: ciriec@ulg.ac.be

(contact person: Barbara SAK)

Endnotes

- (1) See for example Palcic et al. (2011) on employees' ownership in the transition from public to private ownership.
- (2) This is common law term (see e.g. <http://www.duhaime.org/LegalDictionary/A/ArmsLength.aspx>) which needs a careful re-thinking today in our context.
- (3) See for example Clifton et al. (2011).
- (4) See e.g. Warner (2011) about inter-municipal entities in the US, and Bernier (2011) about federal versus provincial public organizations in Canada.
- (5) European Organisation for Nuclear Research
- (6) In the UK, Price et al. (2011) show that, even at the level of the national accounts under the current UN System of National Accounts conventions, the distinction between public corporation, not-for-profit and other types of organizations is blurred and leads to confusion. See also Golubova (2011), who discusses New Public Management reforms of vocational training in Lithuania. In principle, a vocational training centre can be under the control of the ministry, or relatively autonomous within the public sector, or privately owned.
- (7) See for example, World Bank, 2005 and Flyvbjerg, 2006.

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Research Project: “The future of public enterprise”

Template for the submission of CASE HISTORIES

ANNEX to the document presenting the research project (this version: end of March 2012)

The following template offers a suggested structure for the preparation of case histories of public enterprises (PEs) in the framework of the CIRIEC research “The Future of Public Enterprise”. It should be read as a complement to the main research project document. The case histories are the core of the research, and it is important that the different teams involved use a common approach and presentation of their findings. Each research team, however, has the freedom to adapt the template to individual circumstances, provided that this adaptation is well justified.

Thus, unity with flexibility, in order to produce integrated research outputs.

The proposal of a case history will be considered by CIRIEC's Scientific Commission only if it considers field-work, particularly some interviews, structured around the present common template or check-list.

As a reminder, for the purpose of this project, we shall refer to “public enterprises”, in the broad meaning of organizations (a) directly producing public services, either through liberalized market arrangements or under franchised monopoly, (b) ultimately owned or de facto controlled by public sector entities, (c) with a public mission, (d) whose ownership in principle can be shifted to the private sector.

The time period to cover will depend on the PE considered (size, scope, internal organisation (e.g. holding/subsidiaries/partnerships), sector, national or regional situation, etc.), the market conditions and their evolution (presence or not of private competitors, ...), the regulation, the sectoral/industry perspective, and other external elements that influence the 'life' of the PE considered. Thus in some cases, the history might go back to the 1960-70's.

Further, in each section, there is scope for descriptive work and for analytical work. It is crucial to combine desk research from a variety of sources (including existing studies, company reports and websites, press, etc.) and of interviews of different stakeholders.

Potential authors of case histories should specify in advance what their contribution will mainly aim at. The ultimate goal of the research project is to come out with an analysis of the lessons to be learnt from case histories and then discuss policy implications.

Finally, in some cases, it will be necessary to deal with future prospects: short-term evolutions to come following possible legislative modifications, changes in the institutional context, or even long-term developments in case of foreseen structural changes in the environment of the PE considered.

The overall length foreseen for a case history is 50 to maximum 80 pages.

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Section A: “Identification of the enterprise” (2-3 pages)

The case-history should briefly describe the object of analysis, and why it has been selected. In some cases it is important to clarify whether the organization is part of a group or relatively self-standing. As a summary at the beginning of the case study, we need a general table that presents the PE. If the organization is part of a group, for example a regional branch of a national organization, it is necessary to show that the study of a single branch is appropriate, because e.g. the organization is relatively independent from its umbrella-organization.

In any case, the report should clearly state in this section

- official name of the organization, legal address, site of the headquarters and main operations and any identification elements, such that there is no ambiguity about the boundaries of the analysis
- a brief (*no more than one page*) statement of the reasons why this organization has been selected (e.g. a reputation of being particularly successful; a controversial case; very good access to data; etc.)
- some basic information for the most recent year, in a synoptic table: sectors of activity (possibly coded under a standard international classification, e.g. NACE), turnover if the sale of service is substantial; transfers from governments if substantial; number of

- employees (and full time equivalent); population served and/or area of operation; direct and ultimate owner;... (*This table should be no more than one page.*)
- Presentation of the research team involved in the case history (team leader, researchers, current position, five lines maximum of biographical note for each researcher)

Section B: “History” (5 pages)

Some PEs have a long history, sometimes this is fascinating and reveals many aspects that are still of topical interest. For the most important ones (e.g ENI in Italy or EDF in France) there is a wide historical literature. For smaller organizations, e.g. some municipal entities, their history is less known. In any case, this section should present in a concise form (maximum five to ten pages) the historical background from foundation until the recent years, with the proviso that the last 10-20 years will be dealt with in greater detail in the rest of the report. The focus of the project is on the last twenty years, not on the earlier history but nevertheless, a longer historical perspective might be necessary to understand the objectives of the PE, etc. The focus of the historical background should broadly cover the following aspects: rationales for the foundation or acquisition of the organization by the public sector; earlier general interest objectives and public missions; evolution of performance and governance; institutional context; etc.

As we are not aiming at an historical essay, this section should provide a sketch with the main insights of the evolutionary pattern, and cite references to more detailed historical researches, if they exist.

It is very important to detail the contextual situation of the sector, be it institutional/legal or economic (e.g. actors and stakeholders involved, more or less open competition, type of regulation, etc.).

It is also important to cover history over the long run when it brings added-value to the comprehension of the evolution and developments.

Section C: “Public mission” (5-8 pages)

Under this heading there are two key questions, to be discussed in a careful way, i.e. combining evidence and critical analysis:

- ❖ Which objectives of general interest are deliberately pursued by the organizations?
- ❖ Which are the specific public service missions that can be identified?

Firstly, historically, PEs have been involved in these general interest goals in several ways: for example they had to sustain public investment, to employ labour in certain regions, they were not allowed to increase their tariffs in times of high inflation, etc. The report should discuss whether this function was actually assigned and performed to the organization.

Secondly, direct linkage between ministries, regional governments, mayors and public service providers is a powerful internalization mechanism of specific service missions. In some cases there are no hierarchical linkages, but contracts, statutes, law, or other formal mechanisms to define the public service mission of the organization. These should be carefully analyzed.

Additional items to possibly consider:

- link with aspects developed in Section B concerning the evolution of the public mission assigned (in some cases for large incumbent PE, this can cover 40-50 years of evolution and need more than 5 pages of description/explanation);
- possible complexity of various public missions assigned, sometimes not explicitly, to the PE.

Section D: “Operations” (5 pages)

This section should describe the current activity of the organization, its evolution in the last 10-20 years, and challenges for the future. The text should be as factual as possible, based on solid evidence, and supplemented by tables and charts.

For example, for a provider of local transport, this sections will provide the number of passenger transported over the years, the number of buses, the number of routes and their length, and whatever core indicators of the activity.

Section E: “Performance” (5-8 pages)

Given the background of information in the previous section, this part of the report should evaluate the performance of the organization.

This should start by financial performance: first, is the organization covering its costs or does it need transfers from the government? Here a summary balance sheet and evolution over the years would be very helpful. Second, is the organization cost-effective? This would require a comparative discussion with other private or public organizations as a benchmark, as far as possible. Here financial performance and cost-effectiveness are in the meaning of e.g. European Commission, Guide to Investment Projects, 2008.

This Section should be restricted to facts and evidence on financial performance (operation and investment) and cost-effectiveness, while being related to the possible transformations/adaptations of the public mission(s).

Section F: “Governance” (8 pages)

The section should provide evidence on the formal and informal governance mechanisms adopted and their change in the last 10-20 years. How ownership rights are enforced by the government? Who appoints managers? To whom are they accountable? How are they paid? How to measure their performance? Are employees part of the governance of the organization? Are users of the service involved? Who are the important stakeholders or interest groups (for example environmentalist for energy producers)?

This is clearly one of the most important part of the report, and the one more likely to be based on interviews and other qualitative evidence. One possible way to structure the section is by each type of stakeholders: managers, employees, consumers, leaving the external formal regulation in the next section.

For large PE, it might be difficult to explicit the relevant formal and informal governance mechanisms. It is important to sketch evolutions over time, and show the interactions of players and stakeholders in the field. The transformation of the PE "culture" is important to put to the fore: i.e. for example, from a technical culture to a business culture.

Section G: “Regulation” (5-8 pages)

The section should analyze the formal and informal relationship between the PEs, regulators and policy makers. In some sectors there is an independent regulator and an incumbent PE, in others the regulator is de facto a government department or an office. Example of research questions are: Do managers tend to capture regulators? How do regulators act when they face a mixed oligopoly? Are there conflicts or cooperation/collusion among different players in the public sector? If there are private competitors, how do they influence the regulatory environment? Have regulatory bodies been created to regulate the activities?

The public capacities or not to internalise the public service mission, in relation to a possible regulator capture, should be analysed in depth.

Section H: “Tariffs, Investment, Finance and Distributional issues with respect to public missions” (3-5 pages)

This section should concisely answer the following questions. Are the tariffs or revenues able to cover costs including capital investment? If not, are the tariffs able to cover operative costs? If not, and the deficit should be ultimately paid by tax-payers and public debt, can we identify the rationales of this specific sharing of the financing of service provisions? How do we evaluate the source of funds for the specific enterprise we are examining in the case history? Distributive issues related to pricing, taxation, etc. should be dealt with in this context: for example with a discussion of the progressive or regressive structure of the price structure, as applied by the organization. Do we have any evidence that social benefits of the operations are greater than social costs, even if the organization does not cover its costs? Here social CBA is in the meaning of e.g. European Commission, Guide to Investment Projects, 2008.

Social effects and social cost-benefit analysis should be shown and analysed in Section H (in complement to the other performance aspects considered in Section E).

Is it possible to measure/evaluate (?) the fulfilment (success or failure) of the public service mission over the period observed?

Section I: Open Section

Space for additional remarks or specific comments.

Section J: “Conclusions and lessons learned” (3-5 pages)

The case study should end with the main findings of the authors and suggests if there is a more general message arising from this story. The latter, however, should be cautious. The researcher should avoid conveying here her or his general views on more general issues (this can be done in other papers). Here only more specific ‘lessons learned’ should be suggested.

This is the most important Section for the added-value of the present research project. Thanks for particularly working on this last one!

Practical instructions

- Language for the case studies should be English. Preliminary drafts could be in other languages (French, German, Spanish), but the final version needs to be delivered in English.
- Reports should be in WORD, with graphs and tables also in WORD or EXCEL.
- Total length in no case should exceed 80 pages, including tables, references, etc.
- Style: the quality of the narrative should be good, focussing on key issues, without tiny details.
- List of interviewees should be in a separate annex, not public.
- All tables should state the sources.
- References should be in the style of APCE (http://www.ciriec.ulg.ac.be/en/pages/5_3note_auteurs.htm). Main business history research should be cited.
- In most cases, boxes with some facts or excerpts from interviews will be helpful.
- Websites should be cited with date of access, and URL.