UCD GEARY INSTITUTE DISCUSSION PAPER SERIES

Managing state-owned enterprises in an age of crisis

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September 2010

This paper is an output of the Mapping the Irish State project http://geary.ucd.ie/mapping funded by the IRCHSS, and based at UCD Geary Institute. The views expressed here do not necessarily reflect those of the Geary Institute. All errors and omissions are the author's.

Abstract

As with all aspects of public management, the control, financing and regulation of state-owned enterprises (SOEs) are matters subject to changing international trends and domestic political imperatives (OECD 2005). What the effects of the global financial crisis will be on the ownership and financing of SOEs is slowly unfolding but will undoubtedly be heavily influenced by a new era of public sector reforms principally designed to reassert central political controls as well as fiscal pressures to balance state budgets. Responses have not been uniform - while many states are resorting to sales of their assets, certain enterprises, most notably banks, have come into public ownership and reversed the privatisation trend of recent decades. The role of the state is therefore once again in need of reconsideration (Skocpol 2008).

Drawing on the Irish case, the issues of state-owned enterprise ownership, management and financing are addressed in this paper. Findings from two datasets - one concerning aspects of the corporate governance of existing Irish SOEs collected in 2008 (MacCarthaigh 2009) and another which presents a time-series analysis of Irish commercial and non-commercial public bodies since 1924 will identify the contemporary challenges faced by SOEs and how they are responding to them. The study will be informed by insights from institutional and organizational theory, as well as more recent writings on delegation and agencification.

Introduction: Managing state-owned enterprises

How best to exercise ownership rights over state-owned enterprises has long been a matter of considerable debate amongst scholars of politics, economics, public administration (Seidman 1954). It is of course also a matter of great concern to political executives (and their political opponents) as not only do they own commercial undertakings outright, it is also the case that for most states a large percentage of GDP is channelled through publicly-listed state enterprises. Furthermore, through pension and mutual funds, citizens own many current (and former) state enterprises. Thus the control and accountability of such organisations remains politically salient at all times.

The recent financial crisis has nonetheless re-opened some of the more traditional concerns and established norms about the state's role in business. In particular, the relationship of state-owned enterprises to their shareholders, and the manner in which they are governed, has become part of national discourses as governments seek to nurse damaged economies and provide stable domestic financial markets. The nationalisation of individual banks, whilst attracting much public opprobrium, also puts firmly into reverse a policy of privatisation that had established itself in many parts of the globe during the 1980s. Relatedly, the issue of good corporate governance and values within enterprise has also received a radical reappraisal.

The wave of privatisations that characterised developed countries attitudes towards SOEs during the 1980s and 1990s were as result of a desire to reduce subsidies to inefficient companies. The logic of such divestments was to remove the uncertainties that SOEs held for state balance sheets; thus macroeconomic stability would be achieved. For those SOEs surviving into the 1990s, WTO (and EU) agreements and rules limited state provision of grants and subsidies, and the lure of lucrative salaries in private companies, drained management talent away. By the turn of the 21st century, the increased internationalisation of SOEs through decreasing dependence on government assistance, greater exposure to international stock market requirements, and new corporate governance controls has resulted in greater financial reporting and control requirements.

So how are SOEs managed by governments? In this paper, drawing on a survey of Irish SOEs conducted during 2008/9, we consider in some detail aspects of SOE autonomy in relation to personnel, policy and finance. We also examine the relationship between Irish SOEs and their shareholders. Finally, we consider some of the challenges facing SOEs in the current crisis. To begin, the categorisation of SOEs in the context of state organisation is presented, as is an historical overview of Irish SOEs.

How best to conceptualise commercial state-enterprises?

The economic arguments for creating SOEs have been well-rehearsed. The OECD summarise these as follows:

- The state may be the appropriate monopolist in an economic sector where an interlocking supply network is required for the provision of goods or services.
- The State may become involved in the supply of goods or services which the private sector is not incentivised to supply.
- Some merit goods are inadequately provided for in a free market system or there may be a principled reason for taking them out of the market.
- The private sector may overproduce certain goods with negative externalities.
- If the State cannot regulate effectively or successfully contract for services, or cannot credibly promise not to confiscate or excessively tax enterprises, thus inhibiting investment, then it should become directly engaged in enterprise (OECD 2005: 20-1).

However, as well as economic approaches to explaining the emergence, survival and death of SOEs, there is a growing literature that seeks to place them in the wider context of public organizations. Flinders argues that 'the state consists of a highly heterogeneous network of organizations' (2006: 223). For Dijkstra and van der Meer (2003), the multiple dichotomies used to distinguish between types of public organisation, and the multidimensional character of the public/private distinction, is to a large extent based on the use of different perspectives on organizations: 1) a political control and institutional perspective, 2) a legal status perspective, 3) a legal and regulatory power perspective, 4) a legal/economic ownership perspective, and 5) an economic funding perspective. Trying to capture and comprehend these organisations through which the state operates has been the subject of much scholarship and draws on a variety of disciplines, particularly organisational theory and political science. The lenses used to differentiate between organisations have focused variously on formal-legal type (Roness 2007; Wettenhall 2005), tasks (Dunleavy 1991), state activities (Hardiman and Scott 2010), and policy field (UN COFOG categorization). In his dissection of 'public agencies' Scott (2008) goes further and identifies six variables which can be used to distinguish between them: 1) ownership, 2) legal form, 3) funding, 4) function, 5) powers and organizational form, and 6) governance level. Recently, there has also been considerable focus on the concept of 'agencies' as a subject of inquiry (Pollitt at el 2004; Christensen & Lægreid 2006), with detailed cross-national studies also beginning to emerge (Verhoest et al. 2010). In the main, these studies focus on non-commercial organisations.

Within the organizational zoo of the modern state are a group of entities which operate in explicitly market environments and which, though under state control, enjoy considerable autonomy in operational terms as they seek to generate profits for shareholders. Adopting the view of state organisations as a series of 'concentric circles', with the political executive at the centre, the most common understanding of SOEs is that they revolve on the outer orbit of the central state, where the public sphere meets the marketplace proper. Table 1 below depicts the position of these organisations along two dimensions: public funding and 'closeness' to the core executive.

Table 1: The State's organisational zoo

Public Funding	Distance from Central Government Controls			
	High			Low
	Ministerial Department Central Government Offices	Executive/ Departmental Agency	Non-departmental agency	Private Organisations (performing public function)
		Partially publicly-funded bodies	Public-Private Partnerships	
Private/ Self Funding			**Commercial State-owned Enterprises**	Private Companies

While this does provide a reasonable conceptualisation of these bodies, it doesn't allow for the fact that many SOEs are in reality 'closer' to the corridors of power than non-commercial public organisations and can play a very important role in the successful functioning of an economy. For example, industrial unrest within utility companies can have a more serious impact on government survival than strikes within the non-commercial public sector or even the private sector. Also, patronage appointments by governments to Boards of SOEs has traditionally ensured a direct form of accountability in relation to policy decisions, though this is now challenged by tighter corporate governance requirements on Board members (below).

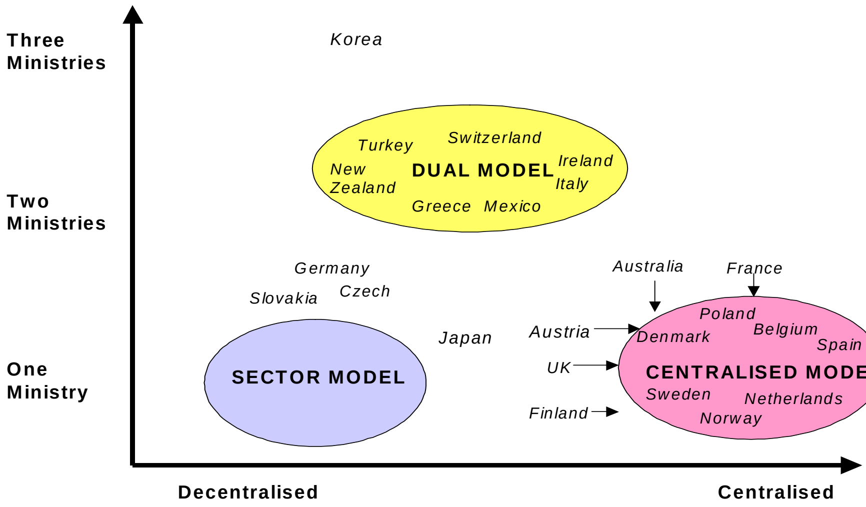
In terms of function, normatively speaking and drawing on Dunleavy's (1991) classic categorisation, SOEs are considered as trading agencies. This categorisation, however, disguises the extent to which many of them are involved in extensive non-trading activity. Apart from universal service obligations, adhering to and achieving environmental objectives and demonstrating corporate social responsibility have moved up the agenda of SOE management teams and Boards.[1] Reflecting this, in their recent study of SOEs, Wettenhall and Thynne (2010) explore the boundaries of the public and private spheres and note the revival of 'community'-based concepts of participation in public administration, including state owned enterprise management. They also document, however, the shift in the conceptualisation of SOE ownership from public to state to government. In the context of the global financial crisis and greater public ownership of financial institutions, the concept of community ownership challenges the traditional model of 'arms-length' engagement by governments in SOEs.

Management of State-Owned Enterprise ownership policy

The manner in which SOEs shareholdings are managed by their shareholders is constantly evolving. As the OECD identifies (Figure 1 below), the most recent development in managing ownership policy is the delegation of shareholding responsibilities to single organisational units. This system has traditionally been used in the Nordic states, (where there is a strong tradition of state ownership and SOEs form a large part of the national economy) but also within EU states such as Belgium, Poland and Spain. What is of interest is the attraction towards this model not only by countries more associated with strong statist tradition (France) but also by countries with more fragmented administrative structures (UK, Australia).

[1] For example, in the survey of Irish SOE's (below), while over a third have public service obligations to particular social groups, 20% are required to achieve certain environmental objectives and 28% must demonstrate corporate social responsibility.

Figure 1: Organisation and Evolution of the Ownership Function in OECD



Source: Adapted from OECD (2005: 43)

Within the centralised model, the form taken by these single ownership entities ranges from advisory bodies to holding companies to organisations with full authority to direct SOEs to achieve certain policy goals. For example, in Britain, the Shareholder Executive was created in 2003 to pool expertise that had previously been dispersed across Whitehall. While it retains direct responsibility for only a few SOEs, it has adopted an increased number of shareholding responsibilities and now covers 28 SOEs across 12 departments. In Austria, the ÖIAG (Österreichische Industrieholding AG - Austrian Industries Holding Company) has a dual mandate of seeking to enhance the value of those SOEs within its remit, while also seeking where appropriate to partially or fully privatize those SOEs.

The most influential of all single ownership units are used by a number of Nordic countries. In Finland, the Prime Minister's Department has an 'ownership steering department' which is charged with the state's ownership policy for SOEs. Similarly, in Sweden, a 'state-owned companies' section within the Ministry of Enterprise, Energy and Communications performs a similar role and an annual report comparing the work and performance of all SOEs is produced (Ministry of Enterprise, Energy and Communications 2008). Norway also has a ‘state ownership’ department within its Ministry of Trade and Industry to co-ordinate policy for Norway’s 80 SOEs.

A recent survey by the OECD found that the most active areas of governance reform within SOEs in the last five years have been in respect of

- Privatization, which remains as an important policy tool not just in developing states, but also within developed economies (e.g. Belgium, Sweden).
- The introduction of corporate governance codes for SOEs, (and relatedly the growing interest in the role of ‘independent directors’)
- The reorganization of the ownership function (Dincer 2010)

Of particular interest for this paper is the trend towards centralisation of SOEs ownership policy, reinforced by the global spread of ideas concerning the need for consistent corporate governance practices across private and public companies.

We turn here to consider in more detail the development of Irish SOEs.

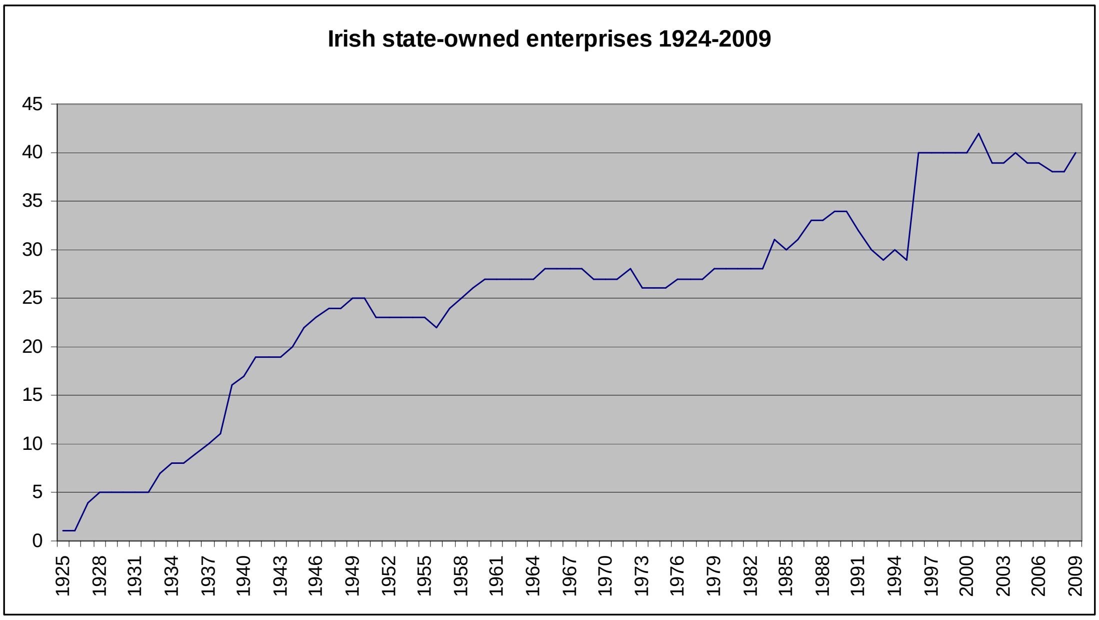
Creation and closure of Irish state-owned enterprises

The problem of classifying the diverse forms of organisation exercising forms of public authority is particularly acute in common law jurisdictions based on the public interest where the relationship between legal form, function and authority is less well defined than in civil law *Rechtsstaat* systems (Wollmann 2003; Pollitt and Bouckaert 2004). Thus in states such as Ireland, public sector organisations have proved themselves particularly resistant to standard classifications and there is often confusion over terminology. Writing on Irish agencies, Scott identifies,

> A…distinct class of agencies adopts the form of companies of various kinds. Some commercial, but state-owned entities, are established as statutory corporations in a manner broadly similar to that of statutory agencies generally. Others adopt the form of private companies – public (i.e. listed) limited companies, private limited (i.e. unlisted) companies and companies limited by guarantee. The terms semi-state or state-sponsored companies are sometimes used to refer to at least some of these entities, although it is not clear that this term makes their status any clearer. (2008: 4)

Adopting a definition of an SOE as '*a company in which the state has a majority or complete shareholding, and which is principally involved in commercial activity in a normally competitive market environment*' we can delineate more clearly the number of organisations. Drawing on a time-series database of public institutions in Ireland, we are able to discern the gradual increase in the number of SOEs since independence in 1922. The Figure below details the number of SOEs in operation in Ireland for each year between the creation of the first one in 1924 and the most recent last year.

Figure 2: State-owned enterprises in Ireland



Source: Hardiman, Niamh; MacCarthaigh, Muiris & Scott, Colin. 2010. The Mapping the Irish State database, version 25 February 2010. UCD: The Geary Institute, http://geary.ucd.ie/mapping/.

This chart tells us little about the type of SOE created during this period however. As might be expected, for the early years of the state's existence, SOEs were created to create interlocking networks (such as electricity), harness natural resources (including foodstuffs), provide finance (banks) and create means of import substitution for the developing economy. A further increase followed during WWII when a number of SOEs were created to ensure provisions of food, fuel and other essentials were managed effectively. There was a modest increase in the number of SOEs in the post-War decades and it was not until the 1990s that a series of privatisations occurred (Table 2).

Table 2: Privatizations of Irish SOEs

	Name	**Policy Domain**	**When**
1.	Bord Bainne (Milk Board)	Agriculture, fisheries and forestry	1975
2.	Pigs and Bacon Commission	Agriculture, fisheries and forestry	1983
3.	Kilkenny Design Workshops	Recreation, Culture & Religion	1988
4.	Cómhlucht Siúicre Eireann, Teoranta (Irish Sugar Co.)	Agriculture, fisheries and forestry	1991
5.	Irish Life Assurance	Enterprise and Economic Development	1991
6.	British & Irish Steampacket	Transport	1992
7.	Irish Steel	Enterprise and Economic Development	1996
8.	Irish Potato Marketing	Agriculture, fisheries and forestry	1997
9.	Bord Telecom Éireann	Communications	1999
10.	Irish National Petroleum Corporation	Enterprise and Economic Development	2001
11.	ACC Bank	Enterprise and Economic Development	2001
12.	ICC Bank	Enterprise and Economic Development	2001
13.	Trustee Savings Bank	Enterprise and Economic Development	2001
14.	Aer Lingus	Transport	2006

Source: Hardiman, Niamh; MacCarthaigh, Muiris & Scott, Colin. 2010. The Mapping the Irish State database, version 25 February 2010. UCD: The Geary Institute, http://geary.ucd.ie/mapping/.

The decline in the number of SOEs arising from privatization have been offset by the creation of several new SOEs since the 1990s. (The leap in numbers around 1996 represents the alternation of the state's port companies' status to allow them have a commercial remit). As well as the creation of brand new enterprises, a number of corporatizations and nationalisations have also occurred over the period in question, as Tables 3 and 4 below identify. Table 3 sets out the creation of corporate state bodies from entities which had previously been subordinated within a ministerial department.

Table 3: Corporatizations in Ireland

	Name	**Policy Domain**	**When**
1.	National Film Studios of Ireland	Recreation, culture, Religion	1975
2.	Bord Telecom Éireann	Communications	1984
3.	An Post	Communications	1984
4.	Bus Éireann (Irish Bus); Dublin Bus; Iarnród Éireann (Irish Rail)	Transport	1987
5.	National Oil Reserves Agency	Enterprise and Economic Development	1995
6.	Ordnance Survey Ireland	General Public Services	2002
7.	Council for Education, Recruitment and Training for the Hotel Industry (CERT)	Education and Training	2003
8.	TG 4 (Irish Language TV station)	Recreation, culture, Religion	2007

Source: Hardiman, Niamh; MacCarthaigh, Muiris & Scott, Colin. 2010. The Mapping the Irish State database, version 25 February 2010. UCD: The Geary Institute, http://geary.ucd.ie/mapping/.

Table 4 below profiles the nationalization of what had previously been private companies. The nationalisation of Anglo-Irish bank in 2009, in response to the imminent collapse of the bank as a consequence of the property crash, represented the first nationalisation since the mid-1970s of a private enterprise by the Irish state, and rapidly reversed a trend whereby banks under state ownership has been privatised in the early 2000s.

Table 4: Nationalisations of private enterprise in Ireland

	Name	Policy Domain	When
1.	National Theatre Society Ltd	Recreation, culture, Religion	1925
2.	Irish Life Assurance Co.	General Public Services	1938
3.	Córas Iompair Éireann (National Transport Co.)	Transport	1944
4.	National Stud Ltd	Recreation, culture, Religion	1946
5.	Irish Steel Holdings Ltd	Enterprise and Economic Development	1947
6.	Arramara Teorante (Alginate Industries Ltd)	Enterprise and Economic Development	1949
7.	Great Southern Hotels	Enterprise and Economic Development	1961
8.	British & Irish Steam Packet Company	Transport	1965
9.	Chester Beatty Library	Recreation, Culture, Religion	1969
10.	Crafts Council of Ireland	Recreation, Culture, Religion	1976
11.	Anglo-Irish Bank	Enterprise and Economic Development	2009

Source: Hardiman, Niamh; MacCarthaigh, Muiris & Scott, Colin. 2010. The Mapping the Irish State database, version 25 February 2010. UCD: The Geary Institute, http://geary.ucd.ie/mapping/.

The above Tables identify no clear patterns; this reflects the traditional pragmatic approach of Irish governments to SOEs, which has never been elaborated beyond creating 'public value'. The defining feature of government policy towards Irish SOEs has been the relative absence of strong ideological views over state intervention. Over half a century ago, contrasting socialist states' planned economic development with that of Ireland, Taoiseach (PM) Séan Lemass argued that 'state-sponsored bodies' emerged in Ireland 'in a more haphazard way to meet particular needs and opportunities as they arose, when no other course appeared to be practicable' (1959: 278). Also of interest is the fact that the tendency to create large state enterprises receded over time (MacCarthaigh 2009: 11).

Jackson provides a less benign view of Irish government approaches to SOE ownership (2010: 79-81). He identifies a number of government decisions in relation to the activities of SOEs that appear at odds with any economic rationale and which have often proved fatal to the commercial viability of many. He also argues that inconsistent policy towards SOEs has 'hastened the ensuing demise of competitive SOEs in Ireland as opposed to those operating in monopoly situations' (2010: 79).

Just as the type and size of SOEs altered as the State developed, so too did their formal-legal character. Internationally, the original commercial state enterprises in areas such as postal service, telegraphs and railroads were organised, financed and controlled in much the same way as a government department (Seidman 1954: 183). However, as the role of the state in the twentieth century expanded and the limits of the machinery of government exposed, a form of autonomous public body was established which normally took the form of a statutory corporation (or state company) (Wettenhall 2001). The use of the public corporation form became more popular as the remit of government expanded into areas of social as well as economic activity, and as the need to substitute political control with an alternative mode of management grew more pressing.

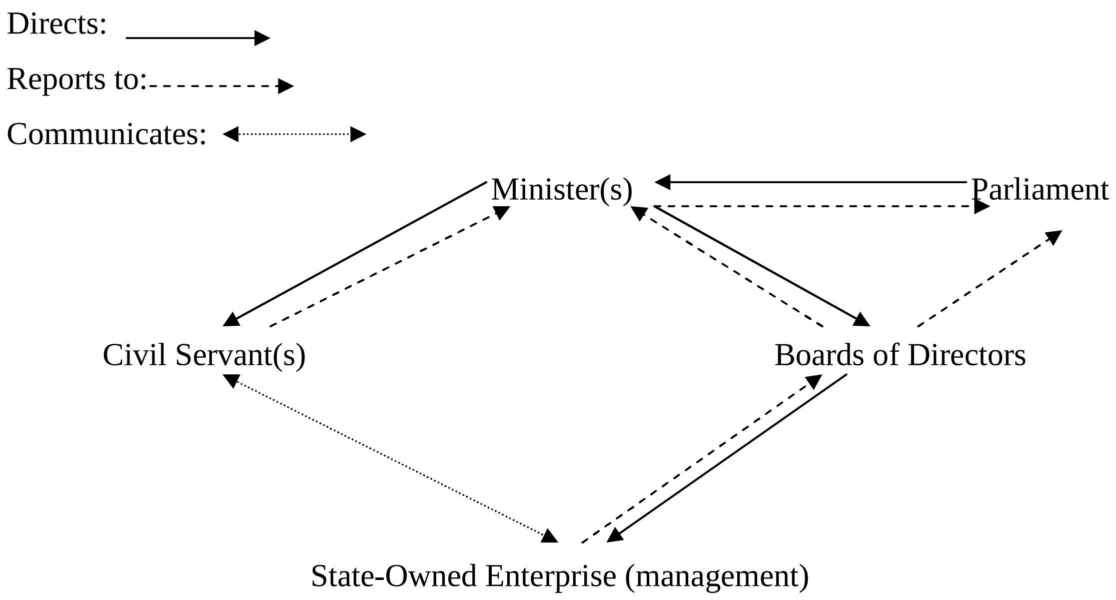
In Westminster-style democracies, as the idea of government-created and owned enterprises gained in popularity, they were established as statutory companies. The statute itself determined the status of the organisation, its Board composition, powers, capital allocation and other key features and characteristics. The difficulty with the statutory company form was that any changes to the role of the enterprise required new amending legislation. Thus the idea of creating limited companies with Ministers as sole shareholders and which would be subject to the stipulations of companies legislation (for example, the holding of an AGM at which shareholders could attend) evolved. It was thus much more flexible and devolved much shareholder responsibility from government.

Management of Irish State Owned Enterprises

The management of Irish state-owned enterprises has traditionally operated along the 'dual-ministry' model described by the OECD (Figure 1 above), with the Department of Finance the co-shareholder with the relevant sectoral Department for virtually all SOEs. Parliamentary involvement in the policy-setting and oversight functions has traditionally been weak. The major departure of note was the establishment of a 'Joint Committee on Commercial State Sponsored Bodies' in 1976. While the committee did not have a role in setting policy for SOEs, it did allow for greater engagement with parliamentarians and exposed management and Board members to questioning. In 1996 the Committee dropped the 'commercial' in its title and began looking at a wider range of state agencies. Following a general election in 2002 and a reorganization of the committee system, the role of SOE oversight was dispersed between various ministry-shadowing or sectoral committees.

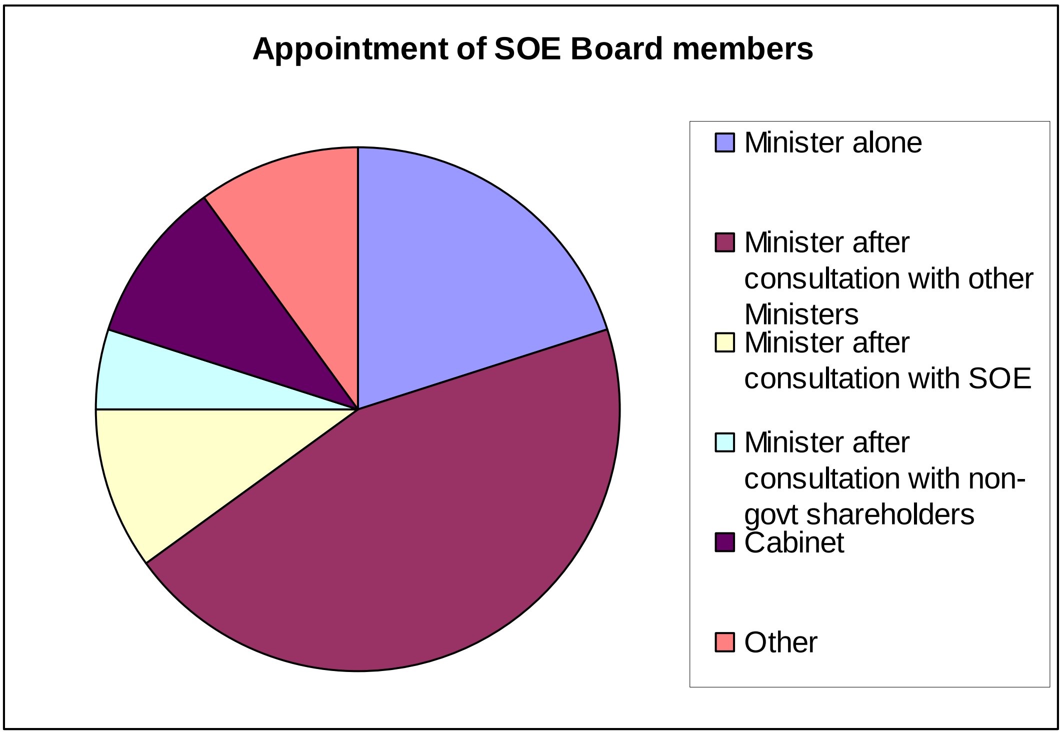
The formal governance system for managing Irish SOEs is detailed in Figure 2 below. In reality, of course, the system does not follow these lines – for example, experienced civil servants will play an important role in determining policy for individual SOEs; Ministers can use their government's majority to acquire parliamentary approval; and these is irregular examination or review of Board appointments by parliament.

Figure 2: Formal governance structure for Irish SOEs



The Board of Directors, however, is a central conduit between government and SOE management. The normal route of Board appointment in Ireland is by the parent Minister, either with or without consultation with fellow Ministers (see Figure 3 below). In practice, the Cabinet is generally notified that a person is to be named to an SOE Board, particularly if the SOE in question is of significant national importance. The responsibilities of Directors are increasingly formalized as a result of international corporate governance failures. Most recently, the Department of Finance released a revised version of its 'Code of Practice for the Governance of State Bodies', which updated the 2001 edition. Whereas its predecessor had not made many distinctions between Board member requirements in commercial and non-commercial state organizations, this new Code made more of such allowances. Reflecting concerns about a number of domestic incidents involving Boards failing to perform their functions, the new Code is stronger in tone and prescriptive on some key areas (e.g. travel expenses). Other new developments include a role for the Chair in advising the relevant Minister on competency gaps in the Board, new sections on risk management, confidential disclosure, and on performance and defining expectations.

Figure 3: Board appointments



However, apart from these broad trends in international and Irish SOE development, there is a lack of more detailed analysis of how SOE autonomy operates in practical terms, and the means through which they are controlled by their shareholders. Drawing on the COBRA[2] survey model adapted to suit the circumstances of SOEs, we turn here to consider the findings of a Study of the corporate governance of Irish SOEs.

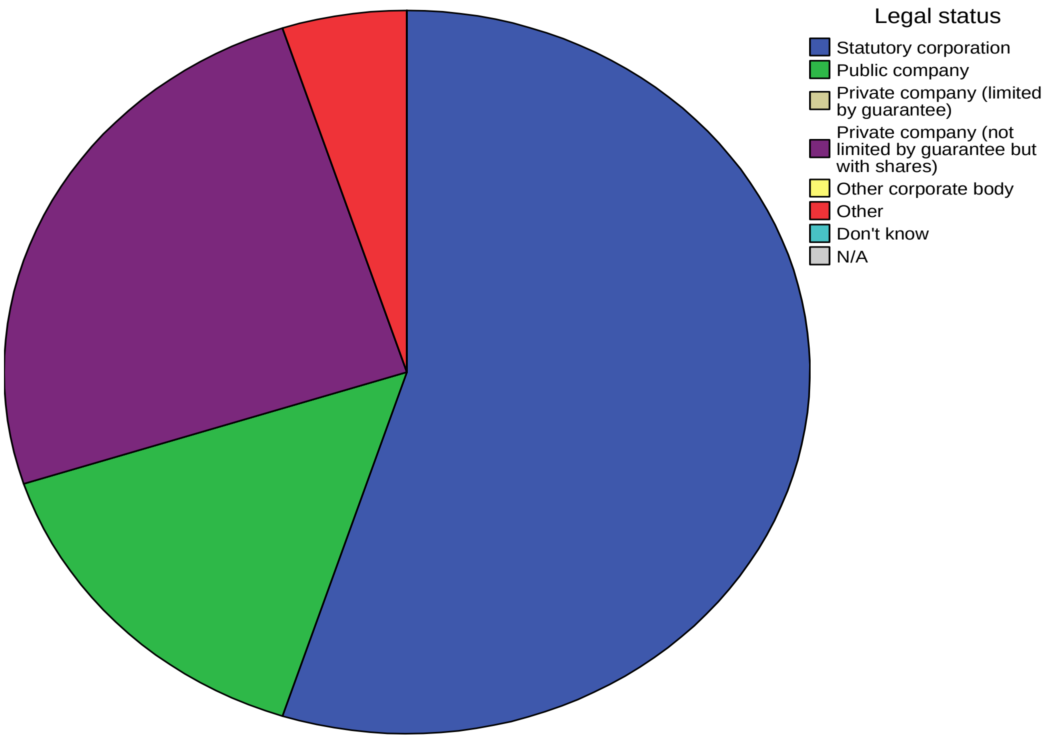
Survey findings

Thirty-seven organisations were sent a questionnaire asking questions on aspects of their autonomy, control and accountability in relation to a variety of corporate governance issues. Twenty-five SOEs responded (68%) and the preliminary findings published as a research report (MacCarthaigh 2009). Eliminating the 5 smallest of these (which included those with staff of less than 50 and budgets of less than €30million – see Appendix 2), we are left with 20 SOEs for analysis in this paper.

Of these SOEs, over half are statutory corporations, while a quarter are private companies. The remainder are public companies adopting different legal forms.

[2] Comparative public Organization data Base for Research and Analysis. This questionnaire was developed in partnership with the Instituut voor de Overheid of the Katholieke Universiteit Leuven, which has facilitated similar work in other countries through the COST-CRIPO Network.

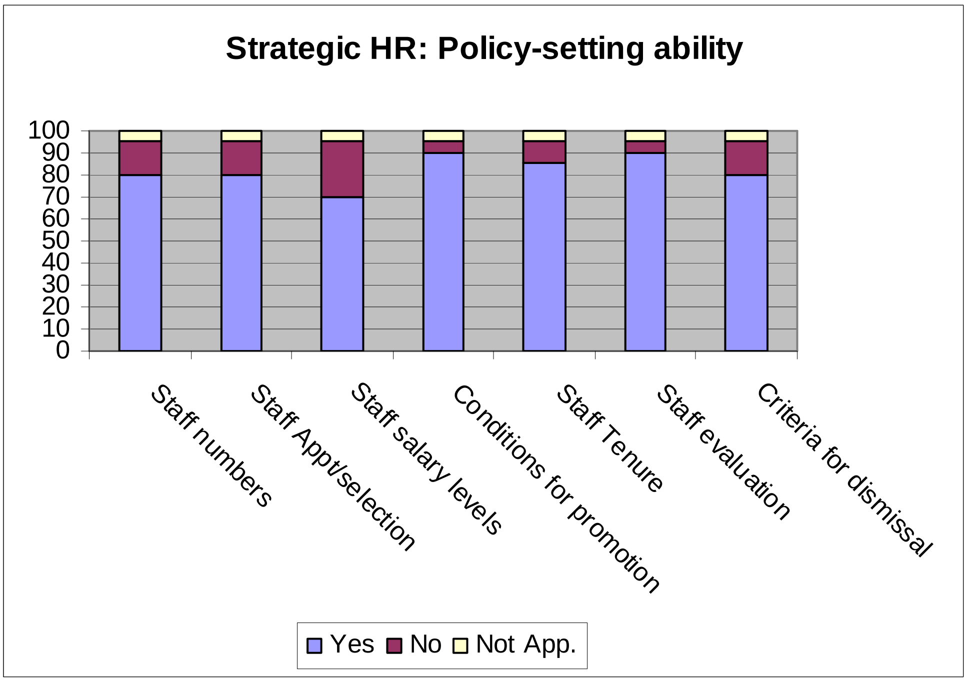
Figure 4: Formal-legal status



Strategic Autonomy: HR policy

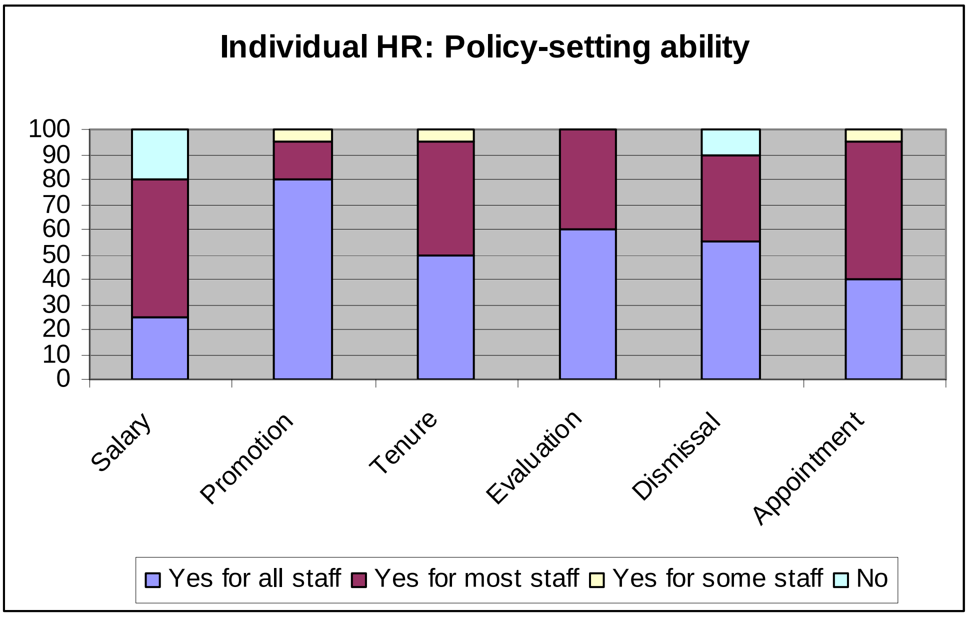
The ability to manage internal HR capacity is a core feature of organisational autonomy. Survey results reveal that in terms of setting *general* policy positions in relation to staff numbers employed, salary levels, tenure, conditions of employment and so on, as might be expected, SOEs retain considerable discretion (Figure 5). (Indeed, one prominent Irish SOE attracted much attention when in the face of tough public sector budgetary cutbacks it awarded a pay increase to its staff). For a small number of respondents, however, staff remuneration is heavily influenced by centrally determined national pay rates.

Figure 5: Strategic HR



Turning to HR matters concerning *individual* members of staff, we find that SOEs have, in general, slightly less collective autonomy (Figure 6). Staff promotions tend to be the issue organisations had most autonomy over, but for other matters, and particularly salary levels, individual organisations' remit extends to most but not all staff. Typically, the remuneration packages of CEOs and other senior staff in SOEs require approval from the parent Department and also the Department of Finance. Most recently, in the face of severe budgetary pressures, the Irish government has sought to reduce the salaries of CEOs in commercial state enterprises.

Figure 6: Individual HR

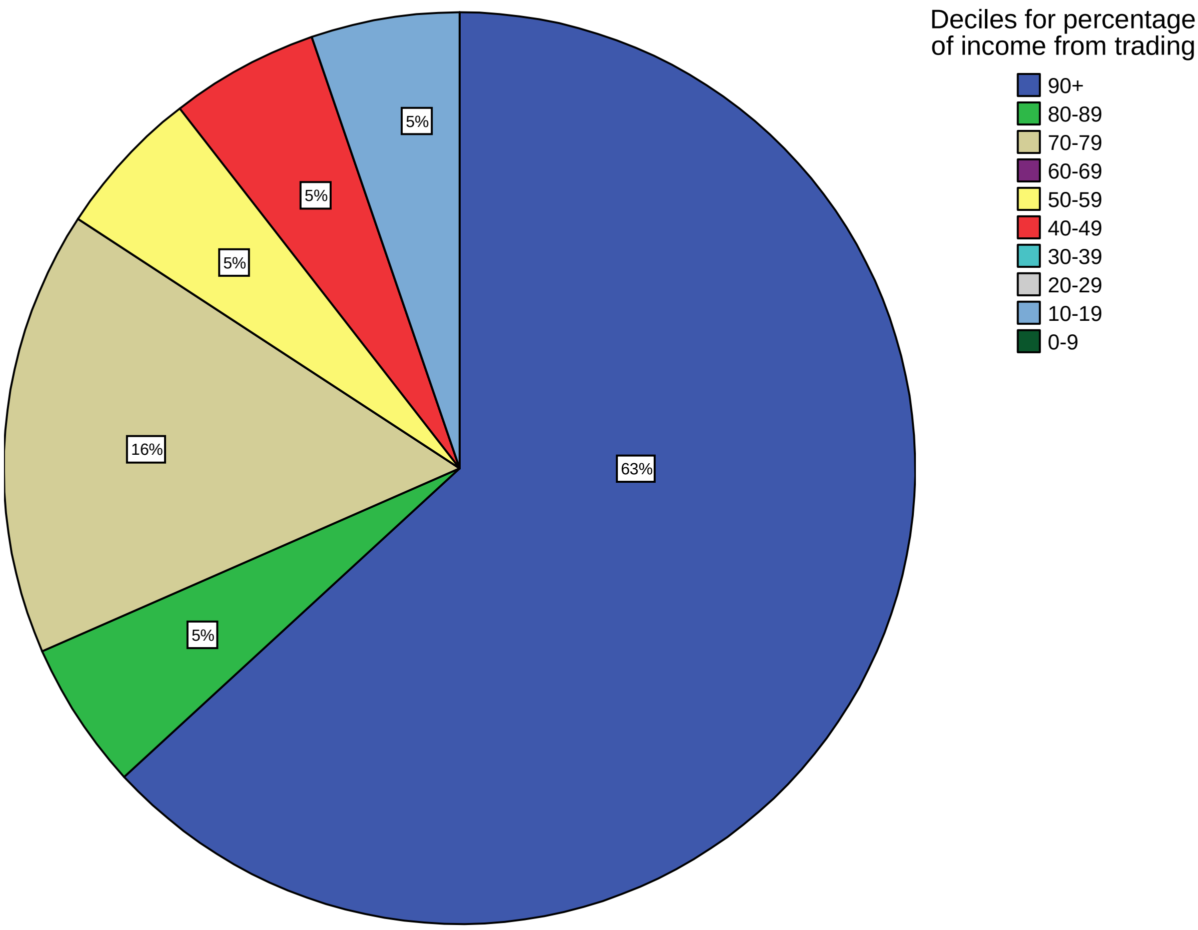


Strategic Autonomy: Finance

While SOEs are rarely established on a purely profit-making basis, the extent to which they accrue dividends and other benefits to the state plays an important role in their ongoing operational autonomy. (Many regulatory authorities are also self-financing through the collection of levies and make returns to the Central Fund or Exchequer).

As Figure 7 below depicts, approximately two-thirds of SOE derive over 90% of their funding from trading goods and services, and only 10% of SOEs derive less than a majority of their income from such means. For this minority, the state provides a considerable portion of their development costs, with a view to reducing the allocation over time.

Figure 7: Self-generating income



Half of SOEs claim to have complete discretion over the level of charges they set for customers, with no pattern emerging as to the type or market in which these SOEs operate. Most of the remainder require approval from their parent Department(s) or regulatory body[3] before setting charges.

In terms of indicators of strategic financial autonomy, respondents were asked about four connected issues:

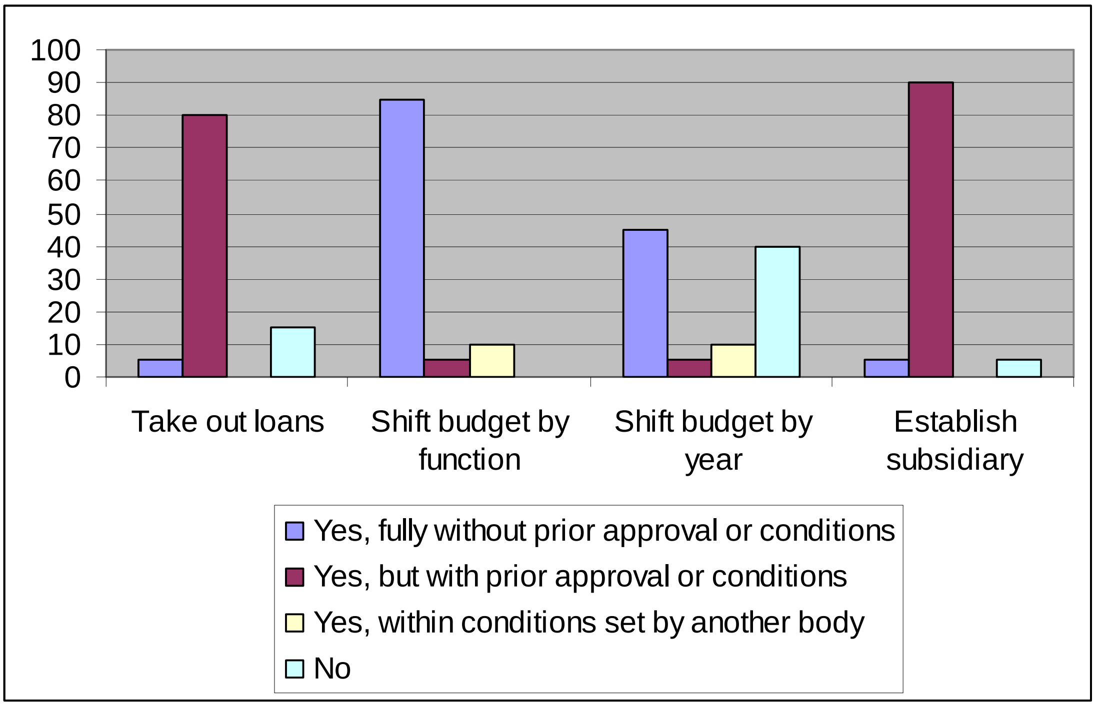
- Their ability to take out loans

[3] Even though regulatory bodies were presented as an option and not selected, follow up inquiries indicate that they have the authority to direct SOEs to raise and lower charges.

- Their ability to shift budgets across functional areas
- Their ability to shift budgets over years, and
- Their ability to establish subsidiary companies

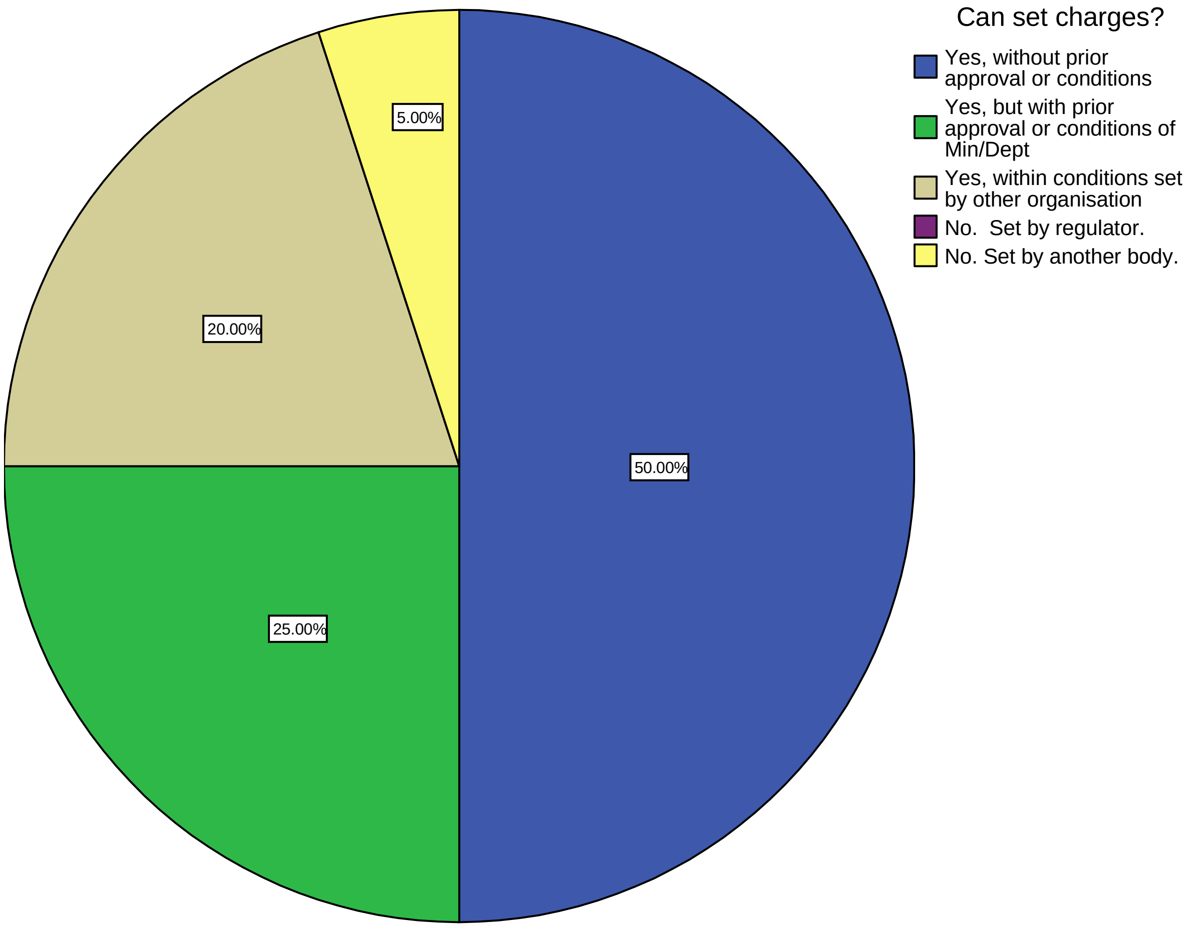
Figure 8 identifies that SOEs had most autonomy in relation to shifting budgets by function and, to a lesser extent, across years. In 40% of cases, there was no possibility for SOEs to carry surpluses across years. As might be expected given the traditionally tight controls exercised by the Department of Finance over public spending, the acquisition of loans and the creation of subsidiaries could only be achieved within specified conditions.

Figure 8: Strategic Financial Autonomy



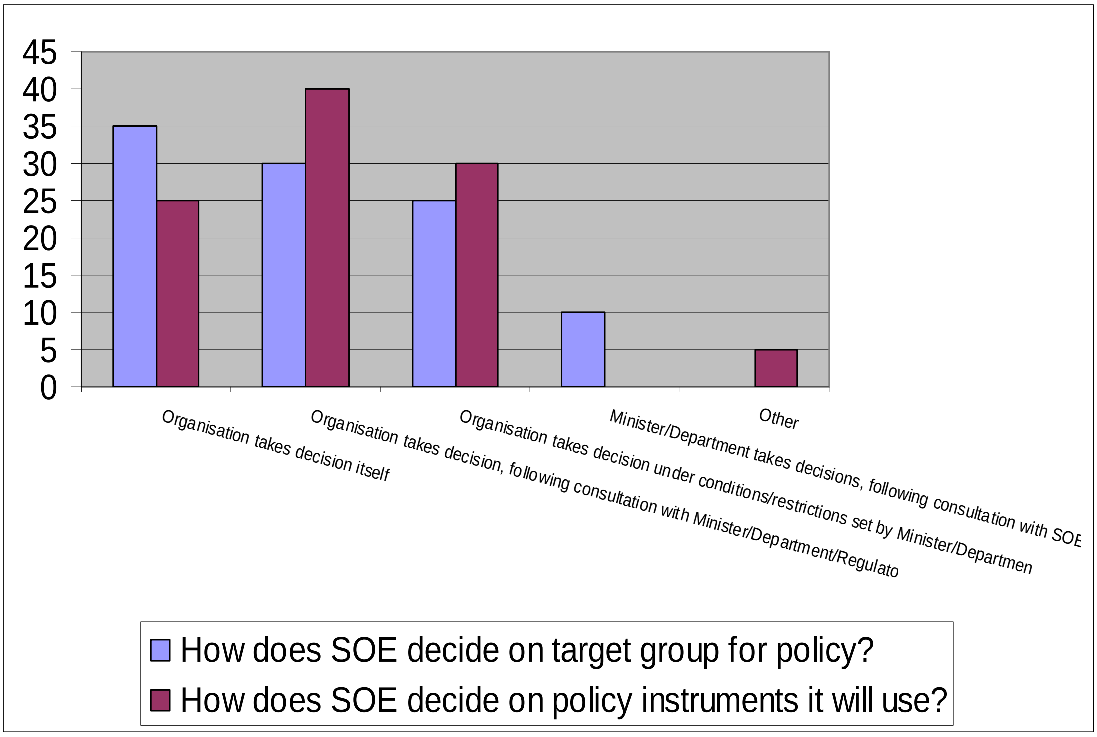
The ability of SOEs to generate their own income is a core determinant of their financial independence. However, only in half of all cases was this an unfettered right. As Figure 9 details, for most of the remaining organisations, fees and charges they intend to use must first be approved by their parent Department or another regulatory organisation.

Figure 9: Ability to set charges for goods and services



Turning to the final areas of policy autonomy, the SOEs were asked a number of questions about their capacity to target particular social groups and use different policy instruments. Figure 10 identifies that while approximately a third of SOEs had full autonomy to decide whom to target in the delivery of their services, the remainder were obliged to first seek approval or their parent Department or regulator, or were already limited in this discretion. An ever greater proportion were similarly limited in relation to their ability to decide on policy instruments.

Figure 10: Strategic Autonomy: Deciding on Target Groups and Policy Instruments (%)

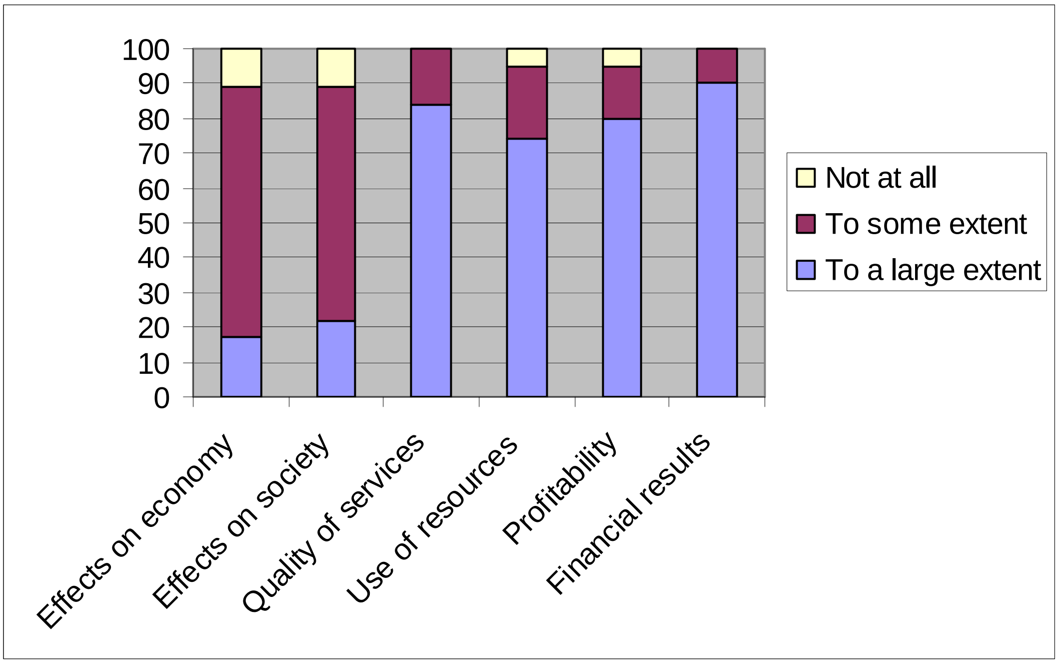


The relationship between SOEs and parent Departments

Irish SOEs operate within the OECD's 'dual model'. As in other states, the relationship between SOEs and their parent departments has become more formalised and there are more attempts to standardise reporting arrangements and accountability requirements. Performance indicators have gained in importance. An analysis of these indicators provides a useful insight into the key matters of concern to Departments.

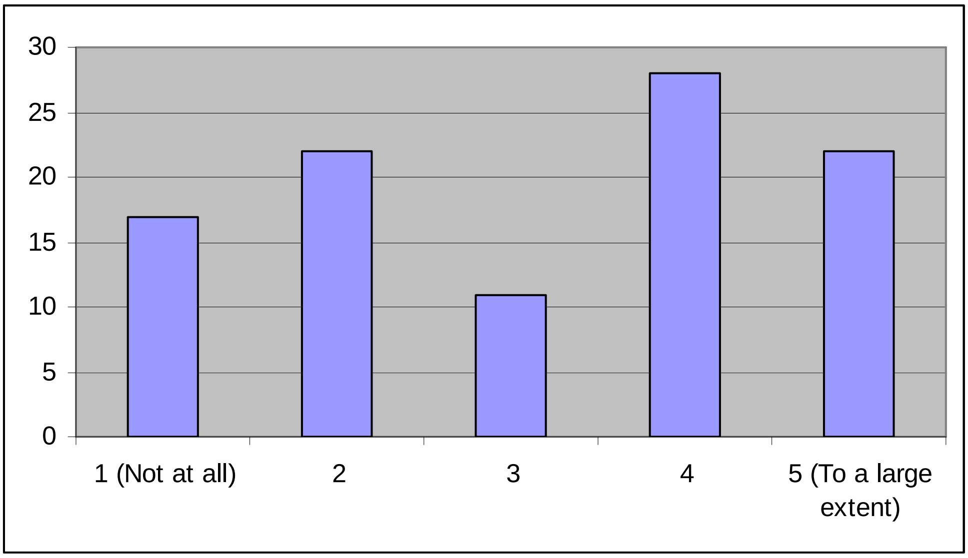
Figure 11 below identifies that for the 20 SOEs surveyed, the performance indicators were most concerned with service quality, resource use, profitability and financial results. The effects of the SOEs' work on society and the wider economy were not explored through the use of the indicators.

Figure 11: What do performance indicators measure?



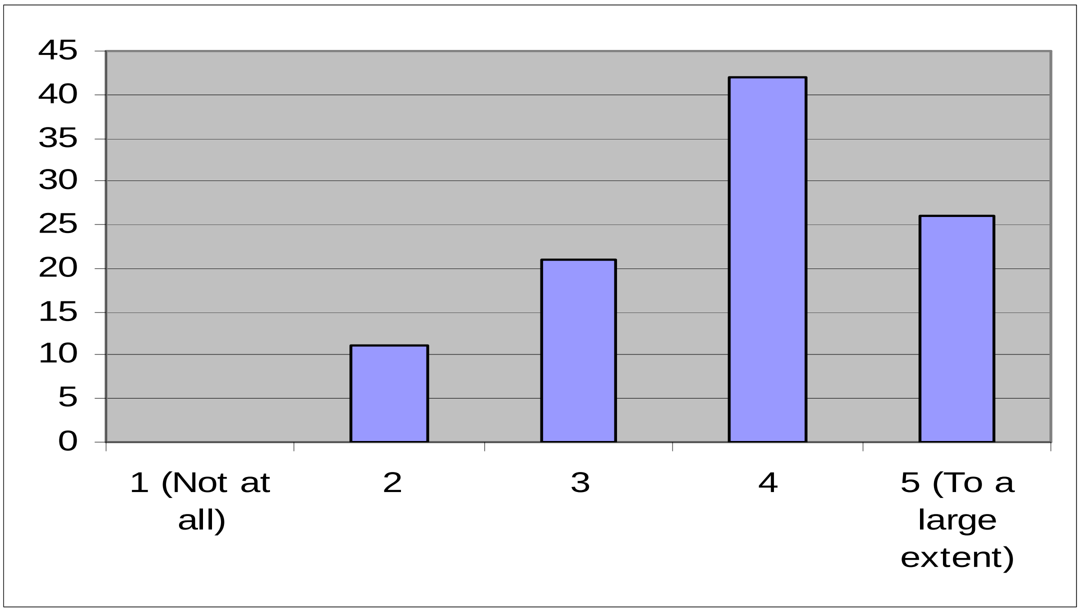
As with other aspects of their corporate governance, there is considerable variety across SOEs in the way resources are allocated to them. Survey findings reveal that while for SOEs, there is little or no relationship between their performance and their resource allocation, for others they are closely linked (Figure 12).

Figure 12: Are resources allocated on the basis of results?



The fiduciary, legal, financial and other responsibilities of Board directors are onerous, and mean that directors are under some pressure to engage fully with their responsibilities. Survey findings (Figure 13) indicate that for most SOEs, their Boards are becoming less involved in day-to-day operational matters and more concerned with broad strategic policy matters.

Figure 13: Shift in role of the Board from operational to more strategic control (%)



Current challenges for CEOs

The findings above in relation to HR, financial and policy autonomy as well as in respect of the relationship between SOEs and their parent Departments demonstrate considerable variety and inconsistency across government. The recent financial crisis has also forced the government to seek to maximize all revenue sources available to it, and SOEs are under pressure to maximize dividends. Communications with CEOs from a selected number of large Irish SOEs also identify the following three challenges facing them and their organizations:

- The cost of raising capital

While this is not a matter specific to Ireland, concerns during 2009 and 2010 about the ability of the Irish government to tackle a rapidly growing budgetary deficit resulted in an increased premium for the Irish government to borrow on international markets.

Irish SOE’s have also felt this increased cost in accessing funds for development, (though the relationship between the government’s standing in international markets and that of individual SOEs is not clear).

- The quality of Boards

Though a perennial problem for Governments and SOEs, as noted above the demands of modern SOE Board membership are considerable. While interviews suggest that patronage-styled appointments which characterized the Board appointment process for many years is less common (not least due to the corporate governance requirements), there was an ongoing need to ensure that Board members were capable and had the skills necessary to manage modern SOEs. On a related point, the demands of meeting modern corporate governance requirements, and in particular the requirement for confidentiality and collegiate decision making, also placed pressure on the system of worker-representative Board appointments where it exists.

- The skills and understanding of civil servants of the work of SOEs

Traditionally, the Irish civil service provided an optimum career choice for second and third level graduates. However, the rapid growth of the Irish economy since the mid-1990s resulted in a large number of well-remunerated private sector employment opportunities, particularly in the financial products market. Equally, over the course of recent years, many skilled senior civil servants were attracted to private sector employment. While little work has been conducted on the scale and consequences of this movement, a ‘capacity review’ of the Department of Finance, the key shareholder for SOEs, found that ‘there has been significant movement of staff within and from the Department during the last number of years due to organisational adjustments which were made in order to respond to changes in the business environment, and to decentralisation’ (2009: 26). The review also found skills gaps in key areas relating to SOE management: ‘Particular skills are needed in areas such as regulatory economics, energy economics and finance/accounting’ (2009: 31).

Conclusions

The financial crisis has brought the ownership and management of SOEs into sharp relief. Not only are they exposed to the harsh conditions of international markets, but so too are they subject to domestic demands of governments to exercise public sector reform programmes. While recent years have seen a growing convergence on more simple ownership structures, it is not clear how this trajectory has been affected by recent events and the contraction of the state's reach in many aspects of the economy (including PPPs). This study identifies that within individual states, such as Ireland, there is a wide variety of practice in relation to corporate governance practices. In this Irish context, the early statist approach to mobilizing resources gave way over time towards ad hoc creation and removal of SOEs and a greater preference for market solutions to public enterprise. As a result, ownership and accountability structures today are varied, and the challenges faced by CEOs represent a mix of traditional difficulties combined with those brought about by more contemporary circumstances.

SOEs will continue to be an important part of national economies, and their corporate governance and performance will remain a pre-occupation of governments and their administrations. Other issues not explored here but which also come into play include the ongoing rigidity of work practices, union capture of decision-making, and the challenge of balancing political patronage appointments with good corporate governance practice. As the development of SOEs reflects of the story of each state's economic and political development, the type and form of SOE, as well as their mode of governance, that emerges from the recent crisis will provide much food for thought for researchers in this field.

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Appendix 1: Organizations used in the Analysis

Housing Finance Agency plc

TG4

The Port of Cork Company

Coras Iompair Eireann (Holding Company only)

Dublin Port Co.

EirGrid plc

Horse Racing Ireland

Irish Greyhound Board

Ordnance Survey Ireland

Railway Procurement Agency

Shannon Development

Bord na Mona plc

Bus Atha Cliath - Dublin Bus

Bus Eireann

Coillte Teo

Dublin Airport Authority

ESB

Irish Aviation Authority

RTE

VHI Healthcare

Appendix 2: Scatterplot of surveyed organisations (n=20)