



## Encyclopedic Dictionary of Public Administration

The reference for understanding government action

### STATE-OWNED ENTERPRISE

*Luc Bernier, Professor*  
*École nationale d'administration publique*  
[luc.bernier@enap.ca](mailto:luc.bernier@enap.ca)

To begin with, a State-owned enterprise (SOE) is a hybrid organization. It is a government organization charged with implementing public policies; at the same time, it carries out operations of a commercial nature, selling goods and services. Typically, the policies targeted for implementation pertain, for example, to regional economic development, natural resource development, or the control of a particular sector, such as lotteries; they may also be focused on such objectives as sustainable development and social responsibility. Among government bodies, SOEs typically present the strongest resemblance with private sector organizations, owing to their commercial activities. This stands in contrast with the focus on public goods that has traditionally characterized public sector organizations.

There is an array of terms used to refer to this combination of day-to-day business operations and the pursuit of public-minded strategies: State-owned enterprise, government-owned corporation, public corporation, etc. "Government-owned corporation" is probably the term most often used, although "State-owned enterprise" is particularly widespread in academic circles. In Canada, "Crown Corporations" is also quite popular.

As this type of enterprise is partially shielded from the laws of the market, it is able to carry out countercyclical interventions in the economy. Its head officers are habitually appointed to five-year terms of office and are thus preserved from the tyranny of quarterly results. Answering to an "appropriate" minister, a State-owned enterprise has a structure comparable to that of any corporation, with a board of directors and a senior management who operate independently of the department or ministry concerned. As with other arm's length agencies, this form of organization is opted for whenever the day-to-day business is of a nature that does not require frequent monitoring by the political authorities.

Depending on the country and the period, major swaths of national economies have been entrusted to this type of enterprise. Indeed, State-owned enterprises have been around for a long time now. For example, in 17th century France under Louis XIV, the tapestries of the Gobelins were produced by a State-owned enterprise. However, it was after World War I that these corporations genuinely grew in both size and scope. In Europe, following a succession of nationalizations, mail, energy, railways, mining, telephone services, automobile manufacturing, etc. all become sectors targeted by direct government intervention in the economy, generally for reasons of pragmatism. In Canada, Crown Corporations played a significant role in the country's economic development; for

## STATE-OWNED ENTERPRISE

reasons of geography and a limited capacity for regulating private sector activities, the federal and provincial governments established many enterprises of this type (Laux and Molot, 1988). In Quebec, two State-owned enterprises – Hydro-Québec (a hydroelectricity producer, distributor and marketer) and the Caisse de dépôt et placement du Québec (a public pension manager) – stand out as highly successful initiatives undertaken during the province’s Quiet Revolution of the 1960s (McRoberts, 1993). Closer to our own time, during the economic crisis of 2008-09, State-owned enterprises once again became popular, as governments in several countries proceeded to nationalize failing banks and car manufacturers.

For many years, considerable criticism was levelled at governments over their failed efforts at controlling these publicly-owned enterprises. This stumbling block, which is in fact related to a phase in the enterprise’s life cycle (a subject that will be discussed at greater length below), constituted one of the two main reasons that, according to many, lent legitimacy to the privatization of SOEs. The other main reason was that their performance, particularly from a business perspective, was held to be less than optimal and that, following privatization, these corporations would become more effective.

Concerning the performance of SOEs, it should be noted that while some have proven to be major financial drains, others have enabled their governments to reap considerable revenue and at the same time achieve other stated objectives. Research on SOE performance suggests that outcomes are influenced less by the nature of ownership and more by the quality of the management team, the objectives these corporations are mandated to pursue, and their sector of activity (Aharoni, 1986). Very often, change in mode of ownership following privatization has had only a temporary impact, one that indeed stems from transformations carried out prior to divestiture (Bernier and Hafsi, 2005). In addition, privatizations may generate major social costs that are often minimized or disregarded (Florio, 2004).

To again take up the control (or lack of control) of SOEs, it is worth noting the analysis of Hafsi et al. (1989), according to whom the lack of control concerns only one phase in the cycle of relationships between the government and the publicly-owned corporation. When the focus is on founding this kind of enterprise, civil servants and senior managers of the new SOE collaborate with one another, often in the capacity of organizational architects. Then, as the necessities associated with the SOE’s main business become more prominent, management is prompted to structure the organization in keeping with the main practices and directions current in its sector. This evolution can lead to a period of confrontation. If the SOE has the requisite resources, and in particular a form of financial autonomy as the result of its commercial activities, it may grow to become rather independent of the government. At that point, the main issue will be how to organize its governance – the topic of another definition in this dictionary.

### Bibliography

- Aharoni, Y. (1986). *The Evolution and Management of State-Owned Enterprises*, Cambridge (MA), Ballinger.
- Bernier, L. and T. Hafsi (2005). “De l’usage fait des données sur les privatisations: entre les statistiques et l’idéologie,” in F. Lacasse and P.-É. Verrier (eds.), *30 ans de réforme de l’État*, Paris, Dunod, pp. 41-54.
- Florio, M. (2004). *The Great Divestiture: Evaluating the Welfare Impact of the British Privatizations*, Cambridge (MA), MIT Press.

## STATE-OWNED ENTERPRISE

Hafsi, T. (ed.) (1989). *Strategic Issues in State-Controlled Enterprises*, Greenwich (CT), JAI Press.

Laux, J. K. and M. A. Molot (1988). *State Capitalism in Canada*, Ithaca (NY), Cornell University Press.

McRoberts, K. (1993). *Quebec: Social Change and Political Crisis*, 3rd. ed., Toronto, McClelland and Stewart.

---

<b>REPRODUCTION</b>	Reproduction in whole or part of the definitions contained in the <i>Encyclopedic Dictionary of Public Administration</i> is authorized, provided the source is acknowledged.
<b>HOW TO CITE</b>	Bernier, L. (2012). "State-owned Enterprise," in L. Côté and J.-F. Savard (eds.), <i>Encyclopedic Dictionary of Public Administration</i> , [online], <a href="http://www.dictionnaire.enap.ca">www.dictionnaire.enap.ca</a>
<b>INFORMATION</b>	For further information, please visit <a href="http://www.dictionnaire.enap.ca">www.dictionnaire.enap.ca</a>
<b>LEGAL DEPOSIT</b>	Library and Archives Canada, 2012   ISBN 978-2-923008-70-7 (Online)