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INSIDE TRACK

MANAGEMENT PUBLIC SECTOR:

Welcome to the ways of the market

Sweden is learning private sector ways, but resisting wholesale privatisation, says **Christopher Brown-Humes**

On a bright November morning in central Stockholm, 100 analysts and journalists trooped through the city's streets to attend the capital markets day of Vasakronan, a Swedish real estate company.

There would be nothing unusual in this if Vasakronan were a quoted company sharing its ideas on strategy, markets and prospects with its investors. But Vasakronan is 100 per cent state-owned and yesterday's capital markets day was just the sort of market - friendly behaviour the Swedish government wants to encourage. The aim is to promote transparency and comparisons with listed companies in its sector, and help make the company itself more efficient.

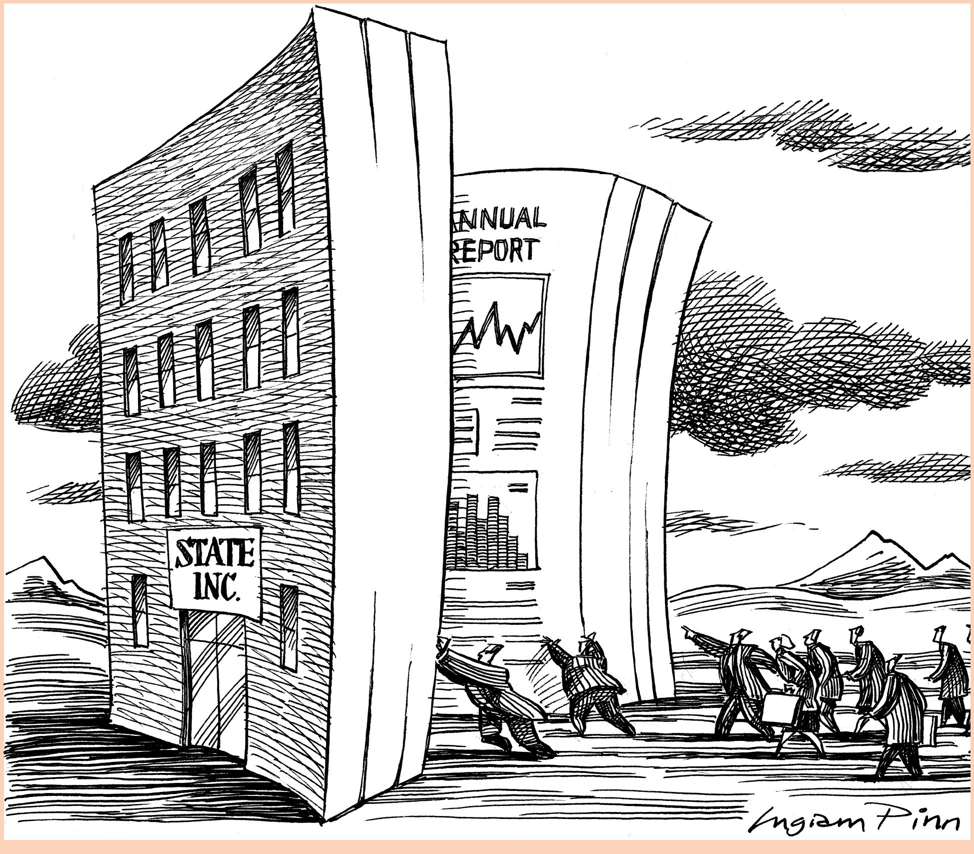
"Any marginal improvement in the performance of state-owned companies will have an effect on the whole Swedish economy," says Dag Detter, an investment banker-turned-civil servant who is leading the efficiency drive within the ministry of industry.

For years, state ownership and Swedish politics were mixed up and there was little attempt to manage companies professionally. Today the emphasis is firmly on active management.

Private sector disciplines are being brought to bear on state-owned companies, irrespective of whether they are eventually privatised. Sweden has fully or partially privatised some state-owned companies, such as Nordbanken, the banking group, and AssiDoman, the forestry group, and is likely to continue the process, but its approach is pragmatic and it has ruled out privatising companies with natural monopolies.

According to a senior official in the UK Treasury, countries such as the UK and Italy are also seeking to manage their state assets more professionally, and the issue is receiving close attention from the Organisation for Economic Co-operation and Development.

What differentiates Sweden is the scale and diversity of its holdings, and the cohesive approach it is trying to bring to the 60 companies it owns or part owns. They range from Telia, the former telecoms monopoly being merged with Telia of Norway and Vattenfall, the country's biggest utility, to the Royal Opera and Royal Dramatic Theatre. The companies have a combined turnover of SKr286bn (Pounds 21.2bn) and are worth about SKr500bn, about a quarter of the whole of Swedish-owned industry.



James Sassoon, head of privatisation at Warburg Dillon Read in London, says: "Many countries think about how do we privatise companies, rather than how do we look after the companies we have and manage them actively.

"The Swedish initiative is particularly interesting, because it is the first European government to revisit this area, and because of the size and diversity of the government holdings."

Too often with privatisation and asset management programmes different state companies remain under the control of different ministries and a coherent approach becomes impossible to implement because of power struggles between them.

Sweden feels it has largely got around this problem by bringing 80 per cent of its state-owned assets under the wing of the Ministry of Industry and giving one minister overall responsibility for state-owned companies.

The attempt to inject market discipline has led the ministry to recruit people with backgrounds in capital markets to head the civil service unit responsible for state enterprises. Preparatory work has also included deregulating a number of industries to promote competition in areas such as telecoms and power.

According to Mr Detter, the words "economic value-added" - the attempt to create, and measure the creation of, shareholder value - are very much part of his team's lexicon. He says the efficiency drive aims to achieve five things. First, to make companies more transparent and benchmark them against their competitors. Companies are expected to publish detailed financial information and annual reports, and host capital markets days, as if they were listed companies. Some have been assessed by independent analysts.

The second aim is to increase focus. One company that has come under particular scrutiny is SJ, the state railway operator. The government is encouraging it to divest its non-core activities such as ferries, hotels and restaurants so that it can concentrate on its passenger and cargo activities.

Daniel Johannesson, SJ chief executive, says: "Our goals are purely of a financial and service quality nature. SJ is no longer an instrument for transport policy but seen by government as a commercial transport operator."

Next, the drive aims to get people with private sector experience on to the boards of state-owned companies. In the last year, about 40 per cent of the board members have been replaced in the eight largest state-controlled companies.

Fourth, it intends to make the capital structure of state-owned groups more efficient. There are plans to take up to SKr15bn in surplus capital out of their balance sheets and increase the amount paid in annual dividends by around SKr4bn a year to SKr12bn.

The ministry is also looking at privatising the debt of some companies - as an alternative to privatising the equity - as a way to get them a credit rating. Mr Detter accepts this could increase borrowing costs, but argues the dynamic effects of the move on companies should outweigh that. Two com-panies where this is being considered are the national grid and the civil aviation authority.

Last, it aims to implement incentive programmes. This is a controversial area because it could be seen as going against the public sector ethos. But it is also a way of recruiting and retaining talent that might otherwise be lost to the private sector.

Vasakronan is piloting an incentive scheme that rewards employees for meeting targets over a three-year cycle. Hakan Bryngelson, chief executive, says the company's salary structure is competitive with rivals in the private sector, but he admits it is hard for state-owned companies to replicate the share option programmes that are increasingly a feature of Swedish corporate life.

It is too early to judge the success of the Swedish programme. However, it is clear that it marks a distinctive approach to managing state-owned companies. This is as relevant to countries that have already sold off big chunks of their assets, but still have some more difficult cases on their books, as it is to those just starting out on the privatisation process.

As one observer of the Swedish programme says: "This is the opposite of what Mrs Thatcher was doing in Britain in the 1980s. She took the view that state companies would only become efficient once they were in the private sector, and she didn't mind selling com-panies cheaply to achieve her aims. The Swedish way should ensure that taxpayers get reasonable returns, if and when the companies that it owns are eventually privatised."

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