

***Faux amis?* The industrialization of water services in Italy and France¹**

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ABSTRACT

Public services in Italy have undergone a deep transformation over the past two decades. A major watershed was first reached with privatization and then by listing in the stock market of some municipal companies that had been providing in-house services for almost a century. These companies then underwent major restructuring, through mergers and acquisitions, investments in relatively new activities, and in some cases internationalization. The article provides a preliminary assessment of Italy's turning towards the French model of industrialization, based on the involvement of big multinationals in public services, tracing commonalities and differences as a result of isomorphic dynamics. Empirical focus is on companies and their relationships with the political sphere, through the analysis of key aspects of governance and strategic decision-making of ACEA, HERA and IREN in Italy and SUEZ ENVIRONNEMENT and VEOLIA in France.

Keywords: Local public services, industrialization, corporatization, water, local governance

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Introduction

Industrialization through corporatization has represented a major policy goal in the restructuring of public services in Europe, both at the national and at the local level (Wollmann, Marcou 2010; Grossi and Reichard 2008; Thynne 1998; Bognetti and Oberman 2012). With reference to Italy, former Prime Minister Romano Prodi argued in the early Nineties that stronger private actors and larger companies were needed to compete in liberalized markets in Europe (Prodi 1992, 851). Although this was referred mostly to the privatization of state-owned enterprises, it also addressed problems that were pressing in local public services, the provision of water to begin with. Here, there was a widespread view that the fragmentation of providers constituted a major flaw in the Italian system, especially when contrasted with the presence of larger firms in other European countries (Massarutto 1999; Boitani 2005).

One country where the process of industrialization has been successful and the centrality of the big companies in the provision of public services has been well

¹ Research for this paper has been developed within the project "citYgov", funded by ESF/Regione Toscana and directed by Andrea Lippi at the University of Florence. The paper is the outcome of a joint effort. For reasons of attribution, paragraphs 2, 4, 5 have been written by Maria Tullia Galanti; paragraphs 1, 3, and section "Internationalization" in paragraph 4 is by Francesco N. Moro. The authors would like to thank in particular Bernard Barraqué, Dominique Lorrain and Giulio Sapelli and the anonymous reviewer of RIPP for precious comments. Any mistakes are our own.

established is certainly France. Home of the two largest multinationals in the sector of public services, SUEZ ENVIRONNEMENT and VEOLIA, France had for long time a system of delegation that resembles, at least at first sight, the model chosen by Italian policy-makers in the Nineties for allocating the provision of several public services. As has been argued, however, the idea of French “model” is not so much linked to an administrative or contractual type of managing public services but it is rather related to the success of French transnational groups in that business (Petitet 2002, 27).

Looking at the Italian case, ideas and instruments included in the reforms of water services might have then paved the way for imitation of the French model, with the occurrence of isomorphism, intended as a constraining process that forces one unit to resemble other units that face the same environmental conditions in organizational fields (Di Maggio and Powell 1983, 148). To take into account the role of local politics and policy legacies in the implementation of water reforms in Italy (Lippi 2000; Lippi, Giannelli, Profeti, Citroni 2008), this article adopts a neo-institutionalist perspective and looks for isomorphism in public utilities in order to provide insights into the process of industrialization of Italian public services, taking the French model as the reference point.

Notwithstanding the differences between Italy and France in the timing of the industrialization of water services and in the industrial features of providers, there are similarities in the institutional asset, with municipalities being key actors in the provision of water services. The main research question of the article is to uncover the current status of the industrialization process as a policy goal (triggered by the Galli law in 1994) in the Italian case and to analyse the role of the policy legacies in determining similarities and differences between the French and the Italian experience. The article aims to show how actors’ configuration and policy legacies in the water sector (the stability of the service management model and the organizational features of firms) were a hurdle to a smooth process of change towards isomorphism for Italian public service providers from the very inception of the industrialization process (Grossi and Thomasson 2011; Thynne 2011; Hodge and Greeve 2009).

In this article, the industrialization of the water sector will be described in relation to the development of the main firms in France and in Italy as the key actors. As a matter of fact, industrialization was an explicit policy goal in the reforms of Italian public services, to be developed through different strategies (see par. 2). By industrialization we mean a process of transformation in the production of public services. Namely, industrialization identifies the change towards a production function that decreases marginal costs, fosters scale economies and finally heads to firms’ dimensional growth (Citroni, Giannelli, Lippi 2008, 55-56). Though not necessary, in the Italian case this process was translated into different forms of privatization, either “formal” (namely “corporatization” in Grossi and Reichard 2008) with municipal public enterprises being forced to transform into private firms or *Società per Azioni* (SPA), “patrimonial”, with the opening to private capitals, mergers with other firms and entry into the stock market and, finally “functional”, by accessing tendering in cases of competition for the market (Killian, Richter, Trapp, 2007).

Undoubtedly the issue is very complex, and one of the arguments of the paper is that the last decades actually saw an increase in complexity, considering both firms’

organizational changes and sectors regulation. In order to deal with this complexity, we will focus on companies in the water sector following a two-fold rationale.

First, this analytic choice is linked quite naturally to the spirit of the reforms that led to industrialization and privatization of public services in Italy while being consistent with the setup of the French system. Second, this perspective provides new empirical insights on an actor, the utility company, that often escaped the attention of political science and public policy, and that now plays a major role in devising and implementing policies.

The institutional setting and firms' strategic decisions (vertical and horizontal integration, M&A, internationalization) will be taken into account in tracking this process. Moreover, the relationship of these firms with national and local politics will be analysed in order to grasp the dynamic facet of change (Barraqué 2012). Policy legacies and actors' configuration in Italian and French water systems will also be considered in order to assess convergence (and enduring divergence) in the two cases. The narratives shed light on the relevance of relationships between centre and periphery, the existence of transnational links among companies that restructure agency in relevant policy sectors, and the internal diversification of national models, where the mix between institutional reforms and political and economic realities allowed the emergence (or re-emergence) of very different models in the provision of public services.

The article proceeds as follows. The next paragraph focuses on industrialization as a policy goal and on comparative institutional settings, briefly sketching the major institutional features of the Italian setting and reforms with reference to water provision. The third paragraph presents the key features of the French system, focusing on the "glocal" nature of French companies and on the way local government use available policy tools to increase their control in the policy process. The fourth paragraph describes the evolution of the main Italian former municipal companies (*municipalizzate*) to track the relationship between municipal government and their companies through the analysis of major organizational and strategic decisions. In both paragraphs, we focus on mergers and acquisitions and internationalization as observable strategies to show the mechanisms underlying divergences. The conclusions wrap up the major findings of the research and propose an assessment of the extent of convergence between the two systems. We argue that notwithstanding the fact that national models have been deeply de-structured by both local and international pressures, convergence is affected by specific arrangements and persisting legacies in governance and organizational models.

Empirical research is mostly based on extensive semi-structured interviews with shareholders' representatives, managers and water experts both in Italy and France on the abovementioned strategic decisions (M&A and internationalization) as key dimensions of the industrialization process.

2

Changing public services in Italy: French-style industrialization?

Industrialization through corporatization as a policy goal

The original models of water provision differed substantially between the two countries. In the French case (see also par. 3), the management through concession contracts and *affermage* (Lorrain 2008) allowed for the consolidation of strong industrial private players in the water sector that negotiated contracts with local politicians (Massarutto 2011, 146-147). The imitation of the industrial model of French firms took on particular features in the case of Italian firms and interacted with the policy legacies of the water system (Lippi, Giannelli, Profeti, Citroni 2008). Whereas the French model of water service provision developed through a relatively stable pattern in regulation and in governance modes, the management of water in Italy followed a tortuous path through reforms and resistances.

The main institutional feature of the water service provision in Italy was the fragmentation of service providers at the local level, with the municipalities directly in charge of the management of service (Citroni, Giannelli, Lippi 2008). In the most industrialized urban areas, the *aziende municipalizzate* specialized not only in water but also in other sectors such as grids (public lighting, road maintenance), energy production and waste management. These represented the exception to the general pattern and carried out investments in water infrastructures more autonomously by using revenues from other services.

In the Eighties, this pattern entered a deep crisis. Sewage and distribution networks needed large investments, which were constrained by the crisis of public finance. The traditional North-South divide deepened although cases of political corruption showed a lack of transparency in public works at the local level also in the North (Massarutto 2011, 47-50). Both policy-makers and experts considered the fragmentation of management and providers as the main policy problem and indicated industrialization as the more suitable solution to the deficiencies of the system of water provision (Carrozza 2008, 10).

Industrialization had to be realized through various instruments, namely the transformation into private corporations, the expansion of the providers through their listing in the stock market, the operations of mergers and acquisitions and the planning of investments through a new multi level governance of water service provision originally based on regulation theories (Lippi, Giannelli, Citroni 2008).

Privatization and New Public Managements-driven reforms aimed at changing organizational form, with the introduction of corporatization as a first step towards a more efficient and industrialized model of capitalism and of service provision (Christensen and Pallensen 2001; Gilardoni and Lorenzoni 2003; Sabbatini 2010, 58). The transformation of the former *aziende municipalizzate* from *aziende speciali* to joint stock companies with mixed and totally publicly owned joint stock corporations (SPA) was strongly enhanced by a number of regulative instruments² and aimed at increasing efficiency through independence from politics (Cavaliere 2007, 235; Massarutto 2011, 56, 54).

Moreover, at the sector level, the Galli law established a new governance structure (Lippi, Giannelli, Profeti, Citroni 2008; Carrozza 2008; Massarutto 2011), based on:

- a. the regulatory system, with a *de jure* separation of control (under the charge of local authorities through a local-based instrument of regulation, the

² SPA could rely on tax allowances, direct award of concessions in case of public ownership, among others (law n. 127, 1997, so-called Bassanini bis).

Autorità di Ambito Territoriale Ottimale or AATO³ to plan investments and tariffs to be then implemented by providers) and provision (under the charge of the newly born corporations);

- b. the integrated management of the water process with providers incorporating all production phases, from abduction to distribution and clearing;
- c. the economic sustainability of the whole water system through the introduction of principles related to full-cost-recovery.

Policy legacies vs. isomorphism

The implementation of reforms has been often seen as a collection of unintended consequences and partial failures (Lippi, Giannelli, Profeti, Citroni 2008, 637; Massarutto 2011, 82-83; Citroni Lippi and Profeti 2012, 49). To introduce the description of convergence and divergence between industrialization processes in France and in Italy in a neo-institutional perspective, we will first focus on the firms' regulatory environment and on the institutional setting after the reforms. Then, we will assess the extent of isomorphism (Di Maggio and Powell 1983). Common constraints to actors in the water sector could be due both to changes in regulation and to the creation of incentives to constitute SPA as a new organizational tool (Thynne 1998).

While stability is typical of the French institutional setting and regulation (that is, change happens, but generally in the long term), the implementation of the regulatory design in Italy was contradictory and opened the way to regulatory uncertainties (Sabbatini 2010). In a first phase, the creation of the regulatory authorities at the local level was obstructed by disagreement among political representatives at different sub-national levels (Interview 1). More recently, the national government radically changed the regulatory design, first cancelling AATOs in 2009 (law 191, 2009), in response to a need for rationalization of public finance, then calling for regions to create a new single authority for the whole regional territory in order to restrain localism.

The national government intervened in the procedures for awarding contracts. The introduction of compulsory competitive tendering (laws n. 135, 2009) was more pro-liberalization and pro-privatization than recommended by the European Union, that in 1999 allowed for the *in house* award procedure in the case of publicly owned SPA under specific conditions (for Teckal sentence of the European Court of Justice, see Massarutto 2011, 56). The European Commission also intervened to challenge the uncertainties for competition on several transitory dispositions in relation to the prorogation of existing awards.

In this process, conflict rose to the level of public debate as a referendum repealed existing rules on award procedures and investments in 2011⁴. Since the referendum, regulative uncertainty has affected the policy even more deeply, notwithstanding recent intervention of the central government that delegated the Authority for the

³ Similarly, the law named the optimal water district *Ambito Territoriale Ottimale*, from now on ATO in the text (see Lippi et al 2008, 624-625).

⁴ The referendum n. 1, 2011 involved the abolition of the compulsive tendering procedures set by art. 23 bis, law 133, 2008 and the fixed amount of capital remuneration as a component of tariffs.

Regulation for Electricity and Gas (AEEG) for regulation of tariffs and control of quality in the water sectors (law n. 214, 2011).

As far as the reduction of fragmentation is concerned, corporatization revealed its ambiguous role. Indeed, corporatization represented an opportunity for municipalities to resist the design of aggregation of service providers. The combination with other regulative provisions, such as the possibility to maintain more than one service provider in the same ATO, limited incentives to firm aggregation, thus weakening the objective of industrialization of the water sector (Citroni, Giannelli, Lippi 2008, 34).

Another consequence of this process was the radical change in the role of local politics in service provision. While municipal councils experienced a loss of control and knowledge over local utilities (Roncoroni 2004, 241), mayors and executives now play different roles, being at the same time involved in the governance of firms as (often dominant) shareholders and in local authorities as regulators and planners. It can be argued that the implementation of reforms helped in creating fragmentation also at the institutional level, with a never-ending confrontation between central, municipal and regional governments that is be found in the French system.

Thus, the implementation of water reforms has been characterized by deep regulatory uncertainty, and, at the same time, the policy legacy of fragmentation at the local level has resisted. This outcome is not homogenous: former *municipalizzate* in the biggest cities in the Centre-North of Italy were often consolidated through mergers and acquisitions, increasing their size while maintaining a multi-utility business model. Moreover, by considering the distribution of sector know-how as a component of the industrialization process, these firms gradually became more similar to the French case, where the concentration of industrial know-how in water and infrastructures is a typical feature of the organizational setup of national champions in the sector.

«Tab. 1. Main facts and ownership structure of the main local utilities and of their “forefathers” (in italics) »

Name	Year of creation	First year as a Spa	First year in the Italian Stock Market	Ownership structure in 2012 (or at time of mergers for forefathers)
GDF SUEZ sa	2008	-	-	Agence de Participations de l'État: 36%; Groupe Bruxelles Lambert: 5,2%; Employees: 2,9%; Caisse des Dépôts et Consignations: 2%; GDF Suez sa: 1,7%; CNP assurances: 1,1%; Sofina: 0,6%; Others <2%: 50,5%.
VEOLIA ENVIRONNEMENT sa	1853	-	-	Caisse des Dépôts et Consignations: 9,30%; Groupe Industriel Marcel Dassault GIMD: 6,3%; Groupe Groupama: 5,42%; Velo Investments (Quatari Diar) 4,73%; EDF sa: 4,22%; Veolia Environment sa: 2,73%; Others <2%: 67,30%.
ACEA spa	1909	1998	1999	Municipality of Rome: 51,00%; GDF Suez: 11,52%; Gruppo Caltagirone: 16,40%; Others <2%: 21,08%
HERA spa	2002	2002	2003	Municipality of Bologna 13,7%; Municipality of Rimini 2,2%; Municipality of Cesena 2,1%; Municipality of Ferrara 0,6%; HSST Spa (Municipalities of Modena): 12,5%; Con. Ami 8,8%;

				Ravenna Holding 7,8%; Holding Ferrara Servizi S.r.l. 2,2%; Livia Tellus Governance spa (municipality of Forlì) 2,0%; Other Municipalities 8,9%; Others <2%: 39,2%.
<i>AGEA spa – merged in HERA in 2004</i>	1964	2000	-	<i>Municipality of Ferrara: 100%</i>
<i>META SpA – merged in HERA in 2005</i>	1997	1997	2001	<i>Comune di Modena: 63,6%; Comune di Castelfranco Emilia: 4,2% Comune di Pavullo: 2,3%; Finenergie: 2,8%</i>
<i>ACEGAS-APS spa – merged in HERA in dec 2012</i>	1997	1997	2000	<i>Acegas-Aps Holding: 62,8%; Intesa Sanpaolo spa: 3,7%; Fondazione Cassa di Risparmio di Trieste: 5,1%; ING sa: 2,5%; Others <2% : 25,9%.</i>
IREN SpA	2010	2010	2010	Finanziaria Sviluppo Utilities (owned by Municipalities of Turin and Genova): 35,96%; Municipality of Parma: 6,60%; Municipality of Reggio Emilia: 8,38%; Fondazione Cassa di Risparmio di Torino: 2,51%; Intesa Sanpaolo Spa: 2,97%; Others < 2%: 43,58%
<i>AEM Torino SpA – merged with AMGA in IRIDE in 2006, now IREN</i>	1907	1997	2000	<i>Municipality of Turin 68,85%; Sanpaolo IMI spa: 4,85%; Assicurazioni Generali spa: 4,39%; Fondazione Cassa di Risparmio di Torino: 2,01%; Others <2%: 19,9%</i>
<i>AMGA spa – merged with AEM Torino in IRIDE spa in 2006, now IREN spa</i>	1922	1995	1996	<i>Municipality of Genoa: 54%; Veolia Eau – Général des eaux spa: 17%; Impregilio spa: 5%; Others <2%: 24%.</i>
<i>IRIDE spa – merger of AMGA into AEMT, now IREN spa</i>	2006	2006	2006	<i>FSU - Finanziaria Sviluppo Utilities (jointly owned by the municipality of Turin and Genoa): 57,6%; Intesa Sanpaolo spa: 4,7%; Fondazione Cassa di Risparmio di Torino: 4%; Others <2%: 33,7%.</i>
<i>ENLA spa – merged in 2010 in IRIDE, now IREN</i>	2005	2005	2005	<i>Municipality of Reggio Emilia: 21,9%; Municipality of Parma: 17,3%; Municipality of Piacenza: 4,6%; Other Municipalities: 18,1%; Amber Capital LP: 2,8%; Ecofin Ltd: 2%; Pictet Asset Management Ltd: 2%; others <2%: 31,3%.</i>

Source: Companies' Annual Reports, various years; CONSOB dataset.

In the following paragraphs, the cases of two French “national champions”, VEOLIA and SUEZ ENVIRONNEMENT, and of three Italian multi-utility firms, IREN, HERA and ACEA presented in table 1, will be analysed in order to better understand the nuanced picture of the evolution of big firms in water service provision and of their relationship with politics at different territorial levels.

3

The French model: big business and small politics?

The emergence and evolution of national companies

VEOLIA and SUEZ ENVIRONNEMENT constitute a constant presence around French villages, towns and cities. This presence is the outcome of a long process through which delegation in the management of water services took hold more by custom than by formal regulation (Guérin-Schneider and Lorrain 2003). This section

diachronically traces the way in which these companies managed business in France as well as looking at current structure and strategies.

COMPAGNIE GÉNÉRALE DES EAUX (CGE) and LYONNAISE DES EAUX, ancestors respectively of VEOLIA and SUEZ ENVIRONNEMENT, started their activities in the second half of the Nineteenth century as providers of water services to increasingly populated urban environments where public finances alone had limited ability to enhance the existing infrastructures and new management techniques had to be developed and/or adapted to water services provision. This represents a first set of institutional arrangements in the sector, where long-term concession contracts with municipalities delegated to private companies investments in the assets and operations management (Pezon 2011). These companies were established from the very beginning as nation-wide companies: the largest and most enduring were the CGE, established in 1853 with an act by the Emperor Napoleon the Third as required for private corporations (Jacquot 2003), and the SOCIÉTÉ LYONNAISE DES EAUX ET DE L'ÉCLAIRAGE (SLEE), founded in 1880 by a large bank, the Credit Lyonnais.

A second set of institutional arrangements, in the early part of the 20th century, is characterized by municipalities taking over control of water services. The scarce geographic extension of modern technologies in the sector due to limited profit margins for private companies created incentives for local authorities to act on their own, not without several conflicts with the companies that ended in administrative courts (Pezon 2011). As had been done in the past, large network infrastructures were realized through private companies, thereby increasing the number of users connected to the water network. The system of *régies municipales* that emerged, however, did not lead to the disappearance of private water companies, but rather to their transformation into sub-contractors in certain types of “design and build” activities (with reference, for instance, to hygiene and water quality) and providers of specific services such as early versions of customer management.

The progression to the third phase, where the *affermage* develops as a key tool in the interaction between companies and municipalities (Lorrain 2008), is the outcome of transformation occurring after World War II. Here, in the water sector, as elsewhere, mixed public-private arrangements emerged: key investments in infrastructures are financed directly or indirectly through public funding (the system is described in the classic work of Zysman 1983). Private companies such as CGE largely benefited from this division of labour, together with increases in cash flows due to increasing water consumption. Together with consumption, the institutional arrangement of *affermage* contributed to the expansion of delegation both in percentage and in total number of users (Guérin-Schneider and Lorrain 2003). These revenues allowed in turn not only the financing of further investments in water but the expansion of private companies.

Companies in constant becoming: Vertical integration, expansion, and divestitures

Companies developed different organizational models over time. A key moment in this evolution is linked to the use of cash flows deriving from the increasing size of the water market. It has been observed how it is not just market growth but also market stability that have guaranteed wide opportunities for the development of CGE and SLEE (Defeuilley 2005). In a regulated market such as that regarding water

service provision, the knowledge that contracts tend to be renewed, that this consistency over time allows companies to develop skills that are only partially reproducible by other actors, the existence of durable relations with politicians and the economic agents (financial to begin with, as they know that they can rely on the stability of business) all play together in strengthening incumbents and creating competitive advantages.

This long run perspective sheds light on investment strategies that had led to the restructuring of companies, which became quite different from their original versions. The process of expansion of the firms was both aimed at diversifying activities and to horizontally and vertically integrating their core business sector. With reference to the latter type of growth, one key acquisition by water companies has been in the sector of constructions, which was useful for water infrastructures. SLEE's acquisition of DEGREMONT, an emerging private firm dealing with the production of drinking water and treatment of sewage that had operations extending abroad is a case in point. CGE already represented a vertically integrated company (SADE - SOCIÉTÉ AUXILIAIRE DES DISTRIBUTIONS D'EAU, dealing with water treatment, had already been created in 1918). In 1966, it also acquired shares of ODA (OMNIUM D'ASSAINISSEMENT), named OTV, a company specialized in the treatment of wastewater. Acquisition of other smaller private water companies also increased the market shares held by CGE and SLEE so that at the beginning of the century about 80 per cent of citizens were served by private companies, compared with less than 20 per cent in the pre-war period and 33 per cent in the early 50s⁵.

More complex is the process of diversification of activities. From the Sixties, CGE and SLEE started acquiring companies in sectors that grew increasingly diverse over time. While maintaining networks and urban transport (being services with a strong link to local communities), wastewater treatment, residential heating and waste management represented activities where economies of scale with existing core competences were signalling a move away from core business. Following consolidation in the water market in the Eighties, with contracts having been won in major cities such as Lyon and Toulouse, CGE and SLEE continued to enter new market sectors, two of which included public works and infrastructures (BTP, *bâtiment et des travaux publics*) and media. In the first sector, SLEE merged with DUMEZ, while CGE acquired SOCIÉTÉ GÉNÉRALE D'ENTERPRISES (SGE), whereas in the media sector, CGE became the owner of media groups in the fields of telecommunications and television. This latter process, which began in the Eighties and skyrocketed in the mid-Nineties, signalled at least for CGE the shifting focus to new activities as the major core business, given the size assumed by media, transport, constructions and electricity, with the merge between the "heating" branch and an external company that gave birth to the DALKIA subsidiary within the company. Even the name of the new conglomerate, VIVENDI, metaphorically marks a departure from the original model.

The outcome of this process was the creation of "blue-chip" companies whose nature of conglomerates with very diverse business units starkly contrasts with the

⁵ In 2001, CGE served 24.2 million people and SLEE 11.4 million people (out of a population of 60 million). A third group active in water is SAUR, serving 6.2 million people. Data from Guérin-Schneider and Lorrain 2003.

original model of water companies and immediately leads us to discuss the business model adopted. The restructuring of the French companies is mostly linked to economic and financial pressures: high debt levels and lack of investors' confidence in the extent of diversification that contribute decisively in reshaping the management and its strategies⁶ (Daniels 2002). The pace of this further transformation, which started at the very beginning of the year 2000, was fast and divestitures soon show the return to industries focusing on more sectorial businesses. VIVENDI sold its BTP division, which became a colossus on its own in the sector (VINCI), as well as creating its subsidiary in environmental services (VIVENDI ENVIRONNEMENT), renamed VEOLIA ENVIRONNEMENT in 2003. In this latter configuration, the company refocused on an expanded version of traditional core business, and became active mostly in water services, waste, electricity, and local transports.⁷ Lyonnaise's path was less tortuous: after the merger with DUMEZ (1990), there was a further merge with SUEZ, a group active in gas and electricity, and whose name it subsequently adopted. Big changes occurred in 2008, when SUEZ merged with national champion GAZ DE FRANCE (GDF) to give birth to GDF-SUEZ and the spin-off SUEZ ENVIRONNEMENT (listed in the stock market, with GDF-SUEZ having 35 per cent of the shares of the company), dealing primarily with water and waste management.

Internationalization

Expansion of operations abroad constitutes a key feature of French companies active in public services, so much so that in 2012 SUEZ ENVIRONNEMENT and VEOLIA ENVIRONNEMENT respectively gained 64 per cent and 59.3 per cent of their revenues from international activities. Tracing the process at company-level is complicated because it depends largely on the business sectors involved. International operations in the management of a delicate service such as water are definitely not the first type of activity undertaken outside France by CGE and SLEE (through branches and subsidiaries), including plant installation and engineering activities (in water-related sectors). If not the major pull to start the direct management of water services, the presence of a favourable opportunity structure existed when French companies began exploring abroad. In other words, a vertically integrated structure provided relevant resources for internationalization because of the existing skills within the firm in terms of organizational experiences and assets (project management, international networks) (Lorrain 2005a, interviews 2 and 3).

SLEE's international undertakings are linked to the entry of Jerome Monod as CEO of the company in 1979, when he sponsored the institution of a small unit created to explore international projects. The Eighties were a period of expansion across different areas of the globe from Spain and the UK in Europe to the United States and East Asia (Macao). The international debut of CGE came in later years, but it was in the Nineties that international presence boomed, also due to liberalization and privatization processes in different parts of the globe. Latin America is possibly the

⁶ Daniels N. (2002), *Les priorités de Fourtou, sécuriser les finances et définir une stratégie*, in «Le Figaro», 04.07.2002

⁷ Other activities include HVAC (heating, ventilation, and air conditioning), street lighting, facility management.

most striking example: in less than a decade SLEE/SUEZ started activities in major cities such as Buenos Aires, Santiago and La Paz. In parallel, CGE/VIVENDI was awarded contracts in China (Chengdu) and started operating in sub-Saharan Africa.

Tools of this process are heterogeneous. In some cases, French companies acquired local companies active in water services (VIVENDI's acquisition of CHEMATRON in South Africa, now VEOLIA WATER SYSTEMS). Elsewhere, the contract roughly reproduced the model of the concession, such as with LYONNAISE's activities in Macao. This latter experience also shows how large contracts abroad are won and managed through the creation of joint ventures with companies that are either local or already operating in the area.⁸ French companies, also in order to limit the exposure in terms of debt, entered design, build and operate (DBO) and management contracts⁹ as well¹⁰. This method is typical of the strategy, which VEOLIA adopted in several US cities, implemented through its subsidiaries.

European operations show well this diversity at work, which can be illustrated by two "national" examples related to SUEZ's activities. In Spain, LYONNAISE acquired shares of AGUAS DE BARCELONA (AGBAR) in 1979 and currently detains 75 per cent of its shares. Besides the water service in Barcelona, AGBAR is present in 10 other countries, and the Barcelona company is currently used as the face of the company in important operations in Latin America (but also in other continents), where some of AGBAR's organisational assets (ranging from specific skills in complex technical processes such as desalination to knowledge of the language) are particularly precious. Some of VEOLIA's operations in that region are also done through a joint venture involving PROACTIVA with Spanish FCC (FOMENTO DE CONSTRUCCIONES Y CONTRATAS).

SUEZ's presence in Italy presents some peculiar features, and is mostly focused around its role as a shareholder in ACEA (currently detaining about 13 per cent of the shares)¹¹. Together with ACEA, SUEZ's subsidiary in Italy, ONDEO ITALIA, holds shares in companies managing the water, such as NUOVE ACQUE SPA (ATO 4 Arezzo), PUBLIACQUA SPA (ATO 3 Florence) and ACQUE SPA (ATO 2 Pisa).

GDF-SUEZ's activities in ACEA are not confined to water, but also involve electricity and gas. In the electricity sector, the joint venture between ELECTRABEL (partly owned by SUEZ) and ACEA to manage the electricity business (upstream and downstream) dates back to 2002. However, in 2010 the joint venture dissolved and electric power plants were given to GDF-SUEZ, allegedly because of different ways in which the two groups perceived the evolution of the joint activities, with GDF-SUEZ willing to invest more in the gas infrastructure and ACEA's majority shareholder (the municipality of Rome) and the other relevant shareholder (the entrepreneur

⁸ In the case of Macao, the joint venture is between LYONNAISE/SUEZ and Hong Kong's NWS Holdings.

⁹ Management contracts involve a company that outsources some of its functions (which is unable to perform efficiently on its own) to another company to which it pays a fee.

¹⁰ Several types of contract exist for the water sector. For a more complete view, see for instance the World Bank's list, available at:

<http://ppp.worldbank.org/public-private-partnership/agreements/concessions-bots-dbos>

¹¹ As of November 2013, SUEZ ENVIRONNEMENT detains 8.32 per cent of the shares, and GDF-SUEZ detains 4.99 per cent.

Caltagirone) less inclined to do so¹² (interview 4). In the gas sector, intense relationships and common plans also came to an end between 2009 and 2010, with ACEA and GDF-SUEZ resorting to an international arbitrator and then managing their activities¹³ more autonomously. The examples above show the significant weight of French companies such as GDF-SUEZ in shaping governance and strategies of foreign partners, including those that constitute the object of the present article.

Politics and the firm in France

Providing local public services is a densely political form of business, and France makes no exception. The narrative above, however, shows that two private companies are key actors, while the reconstruction of their major activities and evolution over time highlights how the French transnational companies in the sector benefited from a regulation that was stable over time and allowed private business to make profits in the provision of public services. Therefore, the question is: how do politics and firms interact? With reference to the centre-periphery dimension, French companies are national private companies that have been transforming into multinational private groups. They are also a classic example of national champions, as is the case for CAISSE DES DÉPÔTS ET CONSIGNATIONS and other French investors (among whom, ÉLECTRICITÉ DE FRANCE, where the French State has 85 per cent of shares), are or have been until recently some of the major shareholders of VEOLIA, and following the divestiture from VIVENDI there has been a hot debate on the need to maintain the company in French hands (Lorrain 2005b).

The companies' links with national politics are not limited to shareholding or brokering agreements over major governance transformations, but also involve elites' *pantouflage*, with frequent movements from posts in the *État* to management posts in private companies. This, consistently with a French tradition (Suleiman 1975) happens both at high levels and for the middle management. For instance, the abovementioned Monot, before joining SLEE, was directing DATAR (*Délégation Interministérielle à l'Aménagement du Territoire et à l'Attractivité Régionale*), an important French ministerial department in charge of regional planning (and his new team at SLEE had similar career patterns, Lorrain 2005a).

This does not mean that local politics is absent: reforms undertaken since the 80s have actually increased their role, as these changes provided new tools to manage services, thereby strengthening the *pouvoir périphérique* (Grémion 1976). While municipalities, for instance, have traditionally been in charge of the provision of water services, the number of SPL (*Sociétés publiques locales*) and SEML (*Sociétés d'économie mixte locales*) dealing with several aspects in local development and territorial governance has seen an increase: rising from about 600 in the late 70s to more than 1000 stably active in the last two decades of the 20th century (Lorrain et al. 2002). These tools also combine with several forms of inter-municipal cooperation and provide relevant tools for municipalities to organize the services they provide without recurring either totally or in part to private companies, also by overcoming economies of scale-related problems.

¹² Serafini L. (2009), *Suez-Gdf rinuncia a Roma*, in «Il Sole 24 Ore», 22.07.2009.

¹³ Serafini L., (2011), *Gdf non molla la presa su Acea*, in «Il Sole 24 Ore», 27.03.2011.

One of the major features of the French system for the provision of public services is modularity, which is confirmed by the fact that these tools often juxtapose and overlap for different modules of the service. The water service in Paris, from 1987 to 2009, was managed by a combination of public and private actors: production, transportation and quality of water were managed by the publicly-owned EAU DE PARIS, while maintenance, distribution and extension of the service were delegated to private operators (VEOLIA's subsidiary on the Right Bank of the Seine and SUEZ's subsidiary on the LEFT BANK, see Valdovinos 2012).

Mayors of course can use contractual tools to influence firms' behaviour. The most radical is the perspective of republicisation, and with reference to this the role of political actors can be seen to be increased by the credibility of the threat. What happened in Paris, where the mayor decided not to renew the abovementioned contracts and proceed to entirely remunicipalise the water service, which is now fully in the hands of EAU DE PARIS, a case of municipal *régie*, is exemplary of a trend that had already started with early termination of the delegation contract in Grenoble in 2001 (Barraqué 2012).

Thus, politics does play a central role in the firms, but this role does not lead to organizational hybridization. Firms don't become shareholders, they don't appoint managers, and they don't argue about SUEZ or VEOLIA undertaking complex operations abroad. Firms are a key part of the fabric of urban capitalism, but they remain clearly separate entities from local governments (Lorrain 2005b). This separation does not make them impermeable to political and regulatory change. The process of re-municipalisation, though currently more a symbol than a fast-paced trend, signals increasing political salience of the water issue, more attention by municipalities to contract terms, and potentially changes the firms' incentives, re-orienting their balance among their different business activities and between domestic and international activities. Also, the so-called *Loi Sapin* (law 29 January 1993) and the *Loi Barnier* (2 February 1995) introduced new rules or strengthened existing ones in order to favour transparency and competition in the allocation of public services. More recent changes in jurisprudence of the *Conseil d'État*, which had been a traditional "ally" of private companies, towards the enforcement, also retroactive, of these laws (in particular, a ruling of 8 April 2009) created new pressures for private actors (Valdovinos 2012). Besides the institutional incentives, however, it is also the specific features of the French system of delegation that effectively allow increasing autonomy for the municipalities. The abovementioned modularity in the delegation of services and clear definitions of financial commitments (investments to begin with) associated with re-integrating the services make political choices for the municipalities reversible (interview 5).

It is early for a sound assessment of how political and regulatory changes are affecting private companies. Still, what can be noticed is that French firms are affected by these challenges in a phase of relative "maturity". First, size matters in this business, and SUEZ and VEOLIA are large companies that can afford to lose one contract and to make reasonable bets on new foreign ventures. Second, and relatedly, they have been in the business of local public services long enough to have developed internal skills to manage existing commitments and develop new ones. These skills range from engineering and management to the formal and informal business-politics networks that are essential in this type of business (Chandler –

Hikino 1997, Lorrain 2005a). While these elements are difficult to disentangle in empirical observation, they combine to give French companies a solid, but not too limited “core”, that make them resilient organizations as they face increasing challenges to a favourable *status quo*.

4

Marriages of convenience: three examples of adaptation to environmental change

Municipal companies entering the market

As recalled in paragraph 2, water services and local public services in general presented a double pattern of development in the beginning of the Ninetieth century, either through direct management (in the majority of cases) or through the constitution of a specialized municipal entity named *azienda municipalizzata*, with municipalities playing a crucial role in service provision and implementation of investments financed by the central government.

The three firms under scrutiny represented the main cases of industrialization and expansion, also facing competition of national champions in electricity and gas such as ENEL and ENI. In particular, HERA, IREN and ACEA¹⁴ developed as municipal entities progressively expanding their sectors of activity and maintaining this multiplicity as their distinctive feature through time, notwithstanding the great differences between sector regulation and markets (for a summary of compared corporate data, see table 2 below). This section recalls the main organizational legacies of these firms and introduces the key moments in their recent development.

Tab. 2 – «Financial statement analysis, selected indicators»

GDF SUEZ					
	2008	2009	2010	2011	2012
Revenues (mln euro)	67923,8	79908	84478	90673	97038
Enterprise value (mln euro)	113184,8264	106552,1367	105646,0194	107511,4003	95210,7367
Dividends per share	1,4	1,47	1,5	1,5	1,5
Employees (n.)	226094	183000	191900	191296	189870
VEOLIA ENVIRONMENT					
	2008	2009	2010	2011	2012
Revenues (mln euro)	35764,8	33951,8	28764,2	28576,5	29438,5
Enterprise value (mln)	29920,5086	29555,486	29546,2398	22531,0975	18207,1044

¹⁴ Despite its presence as water provider in Brescia, A2A, the other big firm listed in the stock market, based in Milan and Brescia, has not been included in the present study, for its core business is mainly focused on energy production, waste management and waste-to-energy plants. For an account of its main transformations, see Di Giulio et al., (2013).

euro)					
Dividends per share	1,21	1,21	1,21	0,7	0,7
Employees (n.)	336013	312590	287043	258400	248805
ACEA					
	2008	2009	2010	2011	2012
Revenues (mln euro)	3056,181	2265,244	2480,469	3217,123	3522,752
Enterprise value (mln euro)	3996,5169	4204,7055	4173,8883	3634,1725	3726,4512
Dividends per share	0,657	0	0	0,28	0,3
Employees (n.)	6387	6687	6822	7050	7179
HERA					
	2008	2009	2010	2011	2012
Revenues (mln euro)	4204,204	3668,563	4105,68	4492,748	4204,204
Enterprise value (mln euro)	3787,4233	3806,6904	3489,7913	3859,2699	3787,4233
Dividends per share	0,079	0,079	0,0889	0,0889	0,0889
Employees (n.)	6391	6481	6491	6484	6539
IREN					
	2008 (as IRIDE spa)	2009 (as IRIDE spa)	2010	2011	2012
Revenues (mln euro)	2355,634	2087,634	2600,075	3254,248	4003,654
Enterprise value (mln euro)	2577,425	3122,5786	4554,5198	4304,0382	3747,8463
Dividends per share	0,085	0,085	0,085	0,013	0,0523
Employees (n.)	2610	2571	4752	4622	4567

Source: Bloomberg dataset, accessed January 2013.

HERA was constituted as a joint stock company in 2002, from the merger of SEABO, owned by the Municipality of Bologna, and other eleven multi-utilities belonging to municipalities of the Emilia-Romagna region, including Ravenna, Faenza, Imola, Forlì, Cesena, Rimini. The process of privatization led to the selling, in 2003, of 40 per cent of shares previously detained by municipalities. The mergers with two important multi-utilities in the energy and waste sectors, AGEA (owned by the municipality of Ferrara) and META (owned by the municipality of Modena) occurred in 2004 and 2005.

This series of mergers led the main shareholder, the Municipality of Bologna, to decrease the number of shares controlled, currently 13 per cent of the total (see table 1). The top management has been quite stable since 2005 and strengthened HERA's strategies in the gas, water and energy distribution, whilst maintaining the focus on waste activities.

ACEA also followed a multi-utility pattern of development. The *Azienda Elettrica Municipale* was founded in 1909 to produce light and electricity for the city of Rome. In 1937, it took charge of the construction and management of water infrastructures. In 1945, it took the name *Azienda Comunale Elettricit  e Acque*, ACEA and later on acquired from a private firm the property of another local aqueduct in order to unify

water distribution in the municipal area. This firm thus represents the product of a typical strategy adopted by municipalities to facilitate urban development: to concentrate activities in a multi-utility company so as to respond coherently to the challenges of urbanization and industrialization in their territories.

In the years following its foundation, ACEA increased its role in the water and energy sectors. After privatization in 1998 (and listing in 1999), it acquired part of the electric grid from ENEL, in 2001. With the Municipality of Rome still controlling the majority of its shares, in the new millennium, important private partners have progressively consolidated their position as shareholders. These partners are very heterogeneous: one being GDF-SUEZ, and the other being Francesco Gaetano Caltagirone, an entrepreneur very active locally in constructions and media who now owns more than 15 per cent of ACEA's shares.

IREN is the case where we find the pattern of multi-utility matched with a regional territorial expansion covering quite distant and disconnected portions of territory, from the Municipality of Turin to the Municipality of Genoa and the provinces of Reggio Emilia, Parma and Piacenza. It was constituted in two steps: the constitution of IRIDE after a first merger between the AEM TORINO and AMGA in 2006, followed by a second merger in July 2010 between IRIDE and ENÌA, a multi-utility in Northern Emilia.

Currently (2013), IREN's main shareholders are the Municipality of Turin and Genoa through the FINANZIARIA SVILUPPO UTILITIES, who own 35 per cent of the shares, and the Municipality of Reggio Emilia with 8 per cent. Even though the Statute of IREN formally requires an obligation for 51 per cent of the shares to be public, the private shareholding has peculiar characteristics. BANCA INTESA SAN PAOLO, one of the most important Italian banks, owns 3 per cent of shares, but is particularly significant for the role traditionally played by the bank in the economic life of Turin. The other important private shareholder is an historic local bank foundation of Turin, namely the FONDAZIONE CASSA DI RISPARMIO DI TORINO.

In all three cases, municipalities reacted sharply to the reforms of the Nineties by choosing to transform their *municipalizzate* into joint stock companies and agreeing to access the stock market, thereby obtaining ready-to-spend financial resources by selling capital while preserving the possibility to receive yearly dividends.

Models of expansion and strategic decisions: M&A and alternatives

HERA, ACEA and IREN reacted to the evolution of the regulatory framework in water and in other sectors by pursuing industrialization with different strategies, partly due to the different relationships between top managers and the Municipalities, which at are the same time shareholders, regulators and stakeholders in local public services.

In the case of HERA, the expansion of the firm progressed in the 21st century with a series of acquisitions of other multi-utility firms in the adjacent territories. This strategy aimed at aggregating a number of highly specialized firms with valuable know-how and technology, not only in water but also in gas distribution and waste

management and possessing a number of relevant critical assets such as waste-to-energy plants (Interview 6).

Two aspects emerge as typical of HERA's evolution. Firstly, the structure of the ownership assumed a peculiar feature, with the dilution of block-holding positions after each acquisition and the collocation of more stocks on the market. At the same time, the organization of the firm was centralized, with the creation of operative branches for the different territories coordinated at the central level and the integration of top managers in the governance of the firm.

Recently, this M&A strategy expanded towards north-eastern Italy to include firms specialized in the energy and gas sectors and interested in competing for gas distribution tendering in the very near future. This was the case of the merger in 2012 with ACEGAS-APS (the multi-utility controlled by the Municipalities of Padua and Trieste, already listed in the stock market) and of the present negotiations with AMGA (Udine). Notwithstanding these moves towards more distant territories, HERA did not so far consider internationalization as a valuable option for expansion, given the uncertainties related to market and politics in developing countries (Interview 7).

The evolution of IREN followed a radically different path, with municipalities maintaining a primary position in the shareholding and a peculiar macro-regional presence (in Piedmont, Liguria and Emilia), with the firm organized as a holding composed of operative societies with distinct competences and branches, each corresponding to the structures of the ancestors. The sequence of M&A operations that led to the current setup of IREN can be seen as the result of a double input: one by the strategic decisions of the mayors of Turin and Genoa in the setting-up phase and subsequently of Reggio Emilia; one by top managers' strategy of "going to the market to resist multinational giants" (Interview 8). This orientation was shared despite the different organizational cultures of the original firms, some more oriented towards enlargement in new markets (AMGA and ENIA), and others (AEM TORINO) sensitive to shareholders' needs (Interview 9).

These elements emerge in the reconstruction of the expansion process. In a first phase (2005-2006), IRIDE was constituted from the merger of AEM TORINO, the utility with a tradition in energy production and local networks services, owned by the municipality of Turin, and AMGA, the former *azienda municipalizzata* specialized in water provision that reunited all the water and gas networks of the city of Genoa after its privatization (Gilardoni and Lorenzoni 2003). In the creation of IRIDE, the resistance of local stakeholders and councilmen, who worried about loosening shareholding control over the firm, was overcome through the joint efforts of mayors and managers. Once consensus was reached, the value of the assets of the two firms was set at a high level and it was decided to maintain territorial branches of the new company in the different cities, notwithstanding the duplication of functions.

The same arrangement was proposed for the subsequent merger with ENIA in 2008-2010. This multi-utility specialized in water and waste sectors was created after the mergers in 2005 of AMPS (owned by the municipality of Parma) and TESA (owned by the municipality of Piacenza) with AGAC. The latter, the *azienda municipalizzata* of the city of Reggio Emilia, inherited the know-how in constructions and in water and gas

distribution from the CIGA, *Consorzio Gas ed Acqua*, the result of inter-municipal cooperation in the province of Reggio Emilia.

During this phase, the role of politics was crucial, also in extending the length of negotiations, which led to a negative reaction of the stock market, with the consequence of a decrease in the price of stocks. After the failure of negotiation for an operation between HERA and ENIA for managerial motives (Interview 7), the approval of the merger with IRIDE fuelled an open conflict between the mayor and the city council in Genoa that was resolved with the obligation to grant public ownership to 51 per cent of the shares.

IREN's development was also influenced by the legacies of risky strategic operations such as investment on assets in central-northern Italy and acquisition and award procedures in Sicily. The investment in the regasification plant to be located on the shore facing the town of Leghorn (Livorno) had not yet been completed in 2013, thus producing debts and not providing revenues. One of the problems with such an investment was the partnership with the company ASA, a local water provider also owned by the Municipality of Livorno, scarcely industrialized and badly managed (interview 10). Also the investments in a controversial plant for thermo-valorisation in Parma worsened the debt situation of IREN, leading also to local conflicts involving citizens and political movements contesting the construction of the plant. Moreover, the award of water provision in Palermo (in ATO1) through ACQUE POTABILI SICILIANE, controlled by IREN and SMAT, the in-house water provider controlled by the municipality of Turin, proved to be a failure after the bankruptcy of the corporation due to the inability to cover operative costs following two recapitalizations and the block of tariffs imposed by the ATO1¹⁵.

ACEA presents different features in its development, deciding not to merge with the other biggest multi-utility, but rather going for commercial alliances and opting to acquire little corporations in the centre of Italy, in order to diversify its core business beyond water towards electricity production with a joint venture. ACEA's main shareholder, the Municipality of Rome, played an important role, sometimes favouring, sometimes vetoing negotiations managed by the firm at the top executive level. In the joint venture for an industrial partnership in electricity with ELECTRABEL, politics let the managers lead the operation through a complex due diligence process in 2002-2003 (Interview 4). A similar situation arose in 2007, with the operation involving ACEA assets on gas and the acquisition by ENI of DISTRIGAS, a Belgian company owner of gas infrastructures and controlled by GDF-SUEZ, private shareholder in ACEA.

This operation was halted following the election of the new mayor of Rome, Gianni Alemanno. Similarly, the abandonment of the merger with other companies in order to pursue "system operations" (so-called *operazioni di sistema*) towards the creation of bigger players from the former *aziende municipalizzate* was due to a sudden withdrawal of the interest of public shareholders in the operation. The top managers of ACEA carried out the negotiations, as the original project involved the merger with HERA, the ideal partner in view of a multi-utility development in relation to the synergies deriving from complementary skills in the waste and gas sectors (Interview 4).

¹⁵ Prisco F., (2011), "A Palermo la società mista si arrende", Il Sole 24 Ore 08.06.2011.

The dominant role of Rome as a shareholder and the importance of mayors in decision-making at the local level prove to be not sufficient for the realization of mayors' projects. In spring 2012, the mayor Gianni Alemanno proposed the sale of 21 per cent of the shares as part of the strategy to cope with the budgetary problems of the municipality of Rome¹⁶ and to follow the direction of the national government regarding privatization (see decree n. 138, 2011). The operation failed due to the harsh opposition of the Council, especially the *Partito Democratico*, and the activation of the Italian Constitutional Court¹⁷ and administrative tribunals¹⁸ (in particular the *Consiglio di Stato*), that contributed towards increasing the divisions also inside the governing coalition¹⁹.

Internationalization

The newly listed ACEA CEO Paolo Cuccia was behind the expansion of the company beyond its traditional geographic boundaries (interviews 11, 12). Similarly to what happened to SUEZ, though on a smaller scale, a new unit with personnel coming from outside the company and specific expertise was formed to deal with internationalization. In 2000, ACEA entered a five-year management contract (MC, the value was approximately 4,5 million Euro) with the Armenian Government for the YEREVAN WATER AND SEWERAGE ENTERPRISE (YWSE), assisted by the World Bank.²⁰ This type of contract presents a hybrid nature that goes beyond “aid”, as it is often a first step towards further and more complex activities. Different in form, but similar in rationale, was the arrival of AMGA in Albania. AMGA chose to participate in a project funded by the Italian Ministry of Foreign Affairs to assist the GREATER WATER AND AND²¹ SEWERAGE ENTERPRISE OF TIRANA (TWS&SE) also because of its potential “*flywheel effect*” in opening up other opportunities in the country (interview 3). A developmental work could lead, ideally, to a long term “concession” or to other works.

A second type of operation abroad involved at least qualitatively different attention to the business side. In 2000, ACEA was awarded a contract to construct and operate plants in water treatment in Lima, Peru to sell (wholesale) water to SEDAPAL.²¹ The tender required two intertwined but separated activities and the consortium of companies, CONSORCIO AGUA AZUL S.A., formed to compete (and then manage) included, as well as ACEA, a large Italian construction company like IMPREGILO. This signals a difference with French companies, where various phases in the building of plants were conducted by vertically integrated companies. Other types of projects

¹⁶ Di Pillo L., (2012), “Roma farà cassa con municipalizzate e gioielli di famiglia”, *Il Sole 24 Ore*, 14.03.2012.

¹⁷ Ciaffone M., (2012), “Acqua, la consulta boccia Tremonti. Pietra tombale sulla vendita di ACEA”, *Repubblica* ed. Roma, 20.07.2012.

¹⁸ Dominelli C., (2012), “Su ACEA nuovo stop dal Consiglio di Stato”, *Il Sole 24 Ore*, 25.07.2012.

¹⁹ Cerasi G., (2012), “ACEA: la maggioranza si spacca ancora, mettete sul mercato solo l'11 per cento”, *Repubblica*, ed. Roma, 22.07.2012.

²⁰ This is the amount ACEA was paid for the MC: 3.43 mln \$ for managing YWSE for the 4 years and 1.41 mln \$ of performance-based bonus.

²¹ SERVICIO DE AGUA POTABLE Y ALCANTARILLADO DE LIMA (the Peruvian state-owned water company dealing with the areas of Lima and Callao).

included the provision of services to Bogota in Colombia (ACEA, 2003), involving the management of 2 out of the 5 areas into which the city is divided. Management in this case means “ordinary maintenance” and “billing”. More complex activities were undertaken in San Pedro Sula, Honduras, where the AGUAS DE SAN PEDRO consortium (ASP), formed by ACEA, IREN (then, AGAC of Reggio Emilia), the Italian construction company ASTALDI and the engineering consulting company CARLO LOTTI ASSOCIATI²² won in 2000 a 30-year concession to manage the water services of the city (the second-largest in the country), after a bid based on the lowest tariff in which ASP competed with English BIWATER and Spanish URBASER. In this case, then, the consortium led by Italian companies directly managed the aqueduct, faced the (large) investments needed to transform the system, including installation of meters and wells, pumps, their repairs and maintenance, and so on.

The activity of IREN in Albania shows a different type of “activation”. During the project on the Tirana aqueduct, AMGA decided to establish an Albanian branch, staffed by Albanians as well as some expatriates (with personnel coming from Genoa on a regular bases), to explore further works in the area, using Albania also as a platform to move into the wider region, specifically in Kosovo, Macedonia, and Montenegro (interview 13). In this phase AMGA Albanian Branch was awarded, together with local companies, a EU-funded contract worth about 5 million euro for the rehabilitation of the aqueduct of the city of Gjirokastra. Continued presence on the ground allowed access into other contracts as well, both in the construction or rehabilitation of infrastructures and in management support in new facilities by training personnel, also with field trips of Albanian workers to Genoa. According to IREN managers, the Chairman of the company who was then CEO of AMGA (Roberto Bazzano), reportedly believed that activities abroad should focus on business sectors where the know-how could be exported, with limited commitment of human and material resources and no capital investment (interviews 13, 14). Works undertaken under the “umbrella” of international organizations, as aforesaid, were welcomed as they offered secure payments.

As from 2004, ACEA did not look for new contracts abroad²³ and did not respond to calls for tenders to renew existing contracts. The order from the new management, appointed and led by CEO Andrea Mangoni (who took charge in November 2003), reportedly was “*let’s come home, (...) as we can’t face new risks. (...)*” (interviews 11, 12). Such a decision was not only due to the performance of foreign operations *per se*, as much as to an exogenous factor, the so-called “dotcom bubble” and the failure of ACEA’s experiment to enter the Information and Communication Technology (ICT) business. In previous years, ACEA had entered a joint venture with the Spanish Telefonica and other major companies in Italy to launch a new operator in ICT. ACEA’s title crumbling in the stock market and consistent budget losses convinced shareholders, the Municipality of Rome to begin with, that a reshape of the company’s top management and strategies was needed.²⁴ Parallel to this ACEA downsized its direct presence in foreign countries. If this certainly corresponds to a

²² Originally AGAC/ASTALDI and ACEA/CARLO LOTTI were competitors. During an early phase of the tender, though, AGAC’s local partner withdrew and management entrusted with the project approached ACEA in order to propose a new partnership (interview 4).

²³ The exception is a second contract in Peru, which was technically undertaken by AGUAZUL Bogota.

²⁴ Pogliotti G., (2003), *Acea, con i nuovi vertici focus sul core business*, Il Sole 24 Ore 25.10.2003.

rationalization of costs (local personnel costs much less than expatriates), it might also signal the prevalence of a sceptical view on developing business of the “mother company” that requires constant meddling in the local political arena.

Retrenchment of IREN has been more limited and was due to a widespread belief that “*experiences [were] too dispersive*” in a phase in which internal restructuring drained most of the new company’s resources (interview 13). High levels of debt of the company, linked to the major investments in assets in Livorno and Parma and to the further acquisition of electricity assets (a major power plant in Turin) reduced the propensity to risk anywhere but in those “core” investments. So much so that the directive coming from the top management, similarly to ACEA, was to “sell” stakes in foreign participation and stop development of operations abroad. Thus, IREN’s permanence in ASP seems to be linked more to the rather limited opportunities to sell at an appropriate price for a business that is quite profitable (interviews 13, 14). An exception is Albania, where IREN’s objective remains to activate a concession for the water system of Tirana (and/or of the smaller cities).

Politics and the firm

The evolution of HERA, ACEA and IREN is revealing regarding the transformation in the relationship between these firms and politics. At the organizational level, interviews reveal the multi-utility as a complex organizational actor that not only cannot merely be reduced to a tool in the hands of politicians, but also cannot even be considered a totally autonomous actor. Interests of managers and politicians often mingle, leading to a hybridization of structures and logics. The orientation towards industrial growth and competition in liberalized markets often clashes against the multiple interests of political actors at different territorial levels. At the same time, the uncertainties related to the regulative framework may tighten the relationship between the firms and the regulator at national and regional levels. Furthermore, this process is reinforced by the fact that the know-how in water services has migrated from public offices to these multi-utility firms (interview 15). In this complex picture, strategic decision-making is the product of a combination of factors where financial constraints of municipalities, individual political careers of mayors and ministers and windows of opportunity play a role in which it is impossible to discern a single pattern.

In order to understand the role played by politics, it is useful to describe the interactions of managers with politicians at different territorial levels. At the national level, such a relationship can be observed on the part of regulation and on the part of the abovementioned *operazioni di sistema*. Top managers of the main multi-utility also lead FEDERUTILITY, the interest group representing local utilities in the water and gas market. In particular since 2011, through this channel and thanks to their technical knowledge, these utilities have put pressure upon government to clarify the rules regarding tariffs and investments. At the same time, different members of government have proposed single operations and a more ambitious industrial project for the aggregation of a “big multi-utility” in the Centre- North of Italy, to be developed also thanks to State financial intervention, as in the case of a deposits and consignments fund named CASSA DEPOSITI E PRESTITI (CDP), a SPA owned by the

Italian Ministry of Economy and Finance (MEF) that manage a major share of postal savings (interview 7). On this type of issue not only managers, but also municipalities, are involved.

By the same token, mayors acting as shareholders can be crucial actors in building relationship networks among members of the partisan élites at local, national and regional level. Attention has to be focused on the transformation of the relationship between the firm and the municipalities, considering in particular the role of mayors and councils acting as shareholders.

Borrowing from principal-agent terminology, informational asymmetry in favour of the management has increased with reference to technological know-how and market dynamics, where mayors can, however, still play an influential role. While the control over service provision through the service contracts seems difficult to implement by local bureaucracies in smaller municipalities, as “IREN dictates the composition of the tariffs to the AATO” (interview 15), the detention of a consistent amount of shares remains the preferred instrument of influence, while formalised agreements among public shareholders (*patti di sindacato*) represent the key to understanding relevant actors and interactions among public shareholders (Citroni 2009). This mechanism emphasizes the connections between the mayors and the firm, leaving councilmen outside the processes that drive strategic decision-making and day-by-day management of the firm.

At the same time, the pacts aim at solving conflicts among major and minor shareholders when dealing with strategic decision-making. Often, conflict on strategic decisions reflects diversity in the use of corporatized firms made by different municipalities. A clear distinction appears among pro-dividend *vs.* pro-service mayors: depending on the relative influence in terms of share or clients, pro-dividend mayors use dividends or dismissal to balance the budgetary position of the Municipality, as in the case of Turin and, recently, Genoa and Rome. Instead, pro-service mayors are interested in promoting the industrial growth of the firm for different reasons: to obtain dividends for sure, but also to secure service quality and to better manage network infrastructures that can be sometimes crucial for their re-election (interviews 15, 16 9, 6).

Hence, municipalities can no longer be considered as unitary actors, but as complex networks of individuals acting in multiple roles (as regulators, as representatives of shareholders, as clients) according to (often) conflicting logics (economic, relational, political). In the process of industrialization of the multi-utility firms, the factors that contribute towards increasing their influence over firms are the concentration of shares and, though not paradoxically, the uncertainties linked to the functioning of water and waste markets. Multi-level interactions among political representatives can also play a role in defining coalitions aggregating each time around different stakes.

These elements emerge more in specific contingencies, for example when the existing concession expires and regulatory authorities are called to put them under tendering procedures or to renew them. In this case, conflict between local centres (the big city-shareholder), and local peripheries (the small villages or provincial agglomerates) may arise, with peripheries willing to perform in-house award explicitly against the “big” company. This was recently the case of water awarding in the

province of Reggio Emilia, where the local authorities opened the procedure to move towards in-house management instead of confirming IREN²⁵ as provider.

5 Conclusions

Industrialization of public services represented one of the major objectives of reforms carried out in the 90s in Italy. To assess the extent of convergence towards the typical case of industrialized provision of public services as happened in France is a complex task, but nonetheless useful to shed light on some major, and more specific features of the Italian “model”.

While isomorphism represents an exception, or a rhetoric artefact, policy legacies strongly conditioned the process of industrialization. The industrial growth of the main multi-utility in the Centre-North of Italy is counterbalanced by the differences in terms of regulatory uncertainty and lack of a clear separation of roles between municipalities and companies. In other words, the change in regulatory environment and the entrance of multi-national champions in the Italian market produced only slight pressure to isomorphic change towards industrialization *à la française*.

Besides sheer measures of size, the main difference between the Italian multi-utility and the French multinationals is the hybridization of structures and logics of actions in Italian firms. The triple role of municipalities as shareholders, as regulators and as clients for service provides a number of tools that allow them to influence firms’ strategies, so that the autonomy of firms radically depends not only on the shareholding structure and the corporate governance, but also on local interests of political actors at different levels of government. The narratives about M&A operations of IREN and ACEA can be considered as two cases in point. Such hybridization of structures represents a case for weak isomorphism in comparison to French firms and a limited success in the imitation of the model of industrialization.

Another aspect is related to the regulatory environment firms interact with. The instability of the Italian framework cancels a long-term perspective for utilities, but at the same time provides opportunities for municipalities and regions to play a crucial role in making decisions about the prolongation of existing concessions. On the whole, the relationship between politics and the firms remains very different in France, with respect to Italy. In the former, the absence of structural hybridization allows the definition of an often conflictual but still rather clear dialogue between the firm, acting as an autonomous economic actor, and the municipalities, acting both as public stakeholder and as client. In the latter case, having municipalities acting both inside and outside the firms allows politicians to use a number of tools to influence the firm, while the evolution of the regulatory framework with the national government and legislator often intervening on privatization and award procedures opens the way for a conflict between centre and periphery. What is similar in both cases is the tendency towards more complexity of internal markets, sector specialization and competitive award procedures, so that municipalities may have more instruments to maintain or reassess their control over services, as in the case of

²⁵ Fontanili R., (2013), “L’acqua ritorna ad essere pubblica”, la Gazzetta di Reggio, 28.11.2013. See also the act of the Regional Authority for water and waste services *Agenzia Territoriale dell’Emilia-Romagna per i servizi idrici e rifiuti* (ATESIR), del. CAMB/2013/23, nov. 13, 2013.

the EAU DE PARIS and of the on-going attempt of remunicipalisation favoured by the Province of Reggio Emilia.

This variegated situation suggests the importance of unpacking national models of public service provision and looking at the specific configuration of interests and interactions in a given territory.

Interviews

Interview 1: AMGA/IREN manager and member of the executive municipality of Genoa, Genoa, 19.06.2012

Interview 2: Former SUEZ Manager, Paris, 11.03.2013

Interview 3: Former VEOLIA Manager, Paris, 13.03.2013

Interview 4: member of the executive municipality of Rome, Rome 25.06.2012

Interview 5: EAU DE PARIS Manager, Paris, 14.11.2013

Interview 6: HERA Manager 1, Bologna, 20.2.2012

Interview 7: HERA Manager 2, Bologna, 28.11.2013

Interview 8: civil servant municipality of Genoa, Genoa, 9.02.2012

Interview 9: civil servant municipality of Turin, Turin, 7.12. 2011

Interview 10: IREN manager, Livorno, 25.01.2012

Interview 11: ACEA Manager 1, Rome, 16.05.2012

Interview 12: ACEA Manager 2, Rome, 11.07.2012

Interview 13: AMGA/IREN Manager, Genoa, 27.07.2012

Interview 14: AGAC/IREN Manager, Reggio Emilia, 7.06.2012

Interview 15: mayor, Forlì, 6.11.2013

Interview 16: IREN consultant, Reggio Emilia, 15.12.2011

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