CIRES

Centro Interuniversitario di Ricerca sul Sud Europa

WP N°1/2012

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# NEW ACTORS IN DECENTRALIZED COOPERATION AND NEW BUSINESS ARENAS. MAPPING THE INTERNATIONAL WATER OPERATIONS OF ITALIAN MUNICIPAL UTILITIES COMPANIES

Cires' Working Paper

Centro Interuniversitario di Ricerca sul Sud Europa

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**Working Paper Series**
**Director: Prof. Andrea Lippi**

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**Summary**

*Research on corporatization has flourished in recent years due to the importance assumed in the public debate and policies by processes of privatization and transformation in governance and operations of activities that were traditionally held in the hands of the State or local governments. Italian former "municipal" companies in the utilities sector represent a crucial case in this respect. One of the aspects of the transformation that have not yet been thoroughly taken into consideration is the international dimension of these processes. The paper aims to map the different ways in which the internal and international dimensions interact and contribute to define agency and actions of these companies. To do so, it explores the ways companies "internationalize" and then focuses specifically on their water operations abroad. The empirical section highlights international strategies on multi-utilities companies such as ACEA and IREN, which have shown propensity to look for markets outside of Italy in the water sector. The section includes accounts of the decision to go abroad, the major projects undertaken, the management of projects on-site and retrenchment/downsizing of operations. Finally, a section summarizes the insights from empirical findings in order to grasp the extent and the mechanisms that drove internationalization.*

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## 1. Introduction

Corporatization represented a major transformation in the provision of public services since the Nineties (Héritier 2002). The utilities sector in Italy, and in particular the utilities companies that were traditionally held in the hands of local governments (municipalities), underwent major changes. Often dubbed as "privatization" and linked to the shifting of powers and functions from the State to the Market, this process actually restructured the "public-private border" in a complex and nuanced way that the term "privatization" did not completely grasp (Citroni, Lippi, Profeti, *forthcoming*). Companies went public (in the form of mixed Private-Public Partnerships, PPPs), merged with other similar companies, reorganized internally with municipalities maintaining a key role as shareholders. Some of these companies also went abroad, they tried to internationalize by selling their expertise and services in foreign countries, they entered into agreements in order to acquire more efficiently natural gas, participated to joint projects with foreign companies, acquired foreign companies or – vice-versa – had foreign companies entering in their capital.

These latter developments are interesting for two major reasons. First, they point out to the emergence of actors in the international economic arena that present some new features. While public and private enterprises have been constantly present in the International Political Economy and Public Management debates (Thynne 1998), the proliferation of companies with hybrid public-private nature evolving from local governments-owned companies – often times the result of the changes occurred in the Nineties in Italy, but that took place in different fashions also in France and Germany – represents a relative novelty that has not yet been thoroughly explored. Second, the opening of the international arena generally presents new opportunities and challenges for the domestic political process. Internationalization is affected by domestic strategies, organization, and governance of such actors (a field mostly analyzed by public policy and political economy) as well as presents new challenges for local actors.

The purpose of this article is to provide a first-cut map to analyze how Italian former municipal companies "went abroad". The article will focus specifically on international water activities of ACEA SpA, the Rome-based company that expanded the most its activities abroad, and IREN SpA,[i] with empirical material coming from the press review, documentary analysis and in-depth interviews with relevant stakeholders.[ii] The aim is to piece together the different activities performed by these companies in the international arena, and putting them in the context of corporatization. Accordingly, rather than providing definitive theories, the paper suggests mechanisms, strands of literature or specific interpretative strategies that can help to make sense of the findings. The story of internationalization, which *per se* was neither too widespread (across companies) nor too intense (in terms of its role in the companies in their overall strategy), is insightful to unveil mechanisms and dynamics of this set of transformations. It also sheds light on promises and pitfalls of the use of new "policy instruments" or "agents" in international development or in business used by local governments.

To tell this story, I will first review the links between corporatization and internationalization, specifying what internationalization means in this context and then presenting a simple "road map" for research questions addressed in the paper. In the second section, which constitutes the core of the paper, I will trace the process of expansion, activity and retrenchment of operations of the companies. Then, I will summarize the major points raised by the previous narrative, trying to detail some overlooked issues and specify some theoretical implications. In conclusion, I will provide insights on the links from this research on internationalization and the study of corporatization and sketch the possible directions of research on the theme.

## 2. Corporatization and internationalization

Internationalization is a fashionable expression for organizations in different sectors that use it to describe the changing environment and its associated challenges as well as to describe the strategic/operational responses that they devise. In the context of utilities such as those analyzed here, internationalization is composed by three specific dimensions:

1. Internationalization as the response to the research of new markets for exporting services and expertise (outward-oriented operations). This also entails the management of operations abroad, with all their political implications;

2. Internationalization as the need to import resources from abroad (inward-oriented operations). This included mergers, acquisitions, and the creation of joint ventures at the national or international level that serve this type of purposes;

3. Internationalization as an outcome of openness of the corporation to international actors and of its disposition to act in mergers and acquisitions abroad (corporate structure-oriented);

In the following pages, I will focus mostly on the first type of internationalization. This is because this type of activities is directly linked with debates on companies as policy instruments and on their effects on local development abroad. In sketching the major features of this process I will refer to its transversal link with the debate on public services transformation. In analyzing this phenomenon, two traditionally separated strands of literature provide the framework for collocating the action of companies and lay down some of the research questions that this type of analysis should address.

First, management studies have stressed how the search for new markets is an essential, natural feature of firms in competitive settings. Internationalization is one of the specific strategies that firms use to grow, and can be seen as a complex set of decisions that is subject to a wide set of influences, individual, organizational, societal/environmental (Aharoni 1966). The management of the firm can decide to invest abroad both because it believes that the investment will maximize the firm's value and because it will give himself more autonomy from shareholders, by increasing the number of links and the degrees of separation from the principal (thus, increasing complexity and informational asymmetry). Also, different strands in organizational studies have shown how internationalization might either be a decision that escapes the cognitive framework of decision-makers in a firm (Cyert and March 1963) or that, on the contrary, appears as an "appropriate", "sense-making" strategy, for the management.

Second, other studies have showed how local governments – following key internal reforms or changing external incentives – have moved towards the international area. Within the European Union, Regions in particular have profited from EU incentives targeting them to establish their own presence in Brussels, as this provided a new arena where to devise policies, find their economic support, structure policy coalitions that then act in the domestic arena (Keating 1999). Administrative reforms increasing the relative power of local governments vis-à-vis the national ones or that empowered mayors created new opportunities for local actors, as well as new incentives to use diverse arenas to enhance their political visibility or the chances of success of some policies/measures. In this phase, local governments' action abroad went beyond traditional "twinning" and developed new tools and paradigms. One is the creation of transnational networks of cities (LeGalès 2002). This type of action was both following an "epistemic" rationale (from joint applied research to exchange of best practices) and the need to create joint endeavours to apply for funding in non-national contexts rewarding transnational cooperation (in EU framework to begin with). The other is so-called "decentralized cooperation": local governments became active in transnational aid and development activities (Hafteck 2003).

Relatively few studies have taken the firms' structure and strategies as the starting point of their analysis (Lorrain 2005). Still, as mentioned above, the reconstruction of the rationale of actions of these companies might shed light on hybrid agents' behaviour in the international environment. To frame the different ways in which internationalization affects corporatization, it is useful to recur to the lexicon of the principal-agent paradigm (Eisenhardt 1989). "Calculating" the relative weights of public (municipalities) and private (firms) actors and understanding the "chain" that links them is essential and we can frame internationalization as an activity that affects the principal-agent relationship. Thus, I will use these elements as guidelines/questions to be addressed in the following paragraphs.

The key elements can be summarized as follows:

- Management and shareholders might see the same tool, internationalization, as a strategy serving different purposes. For the management, internationalization might increase organizational and "technological" complexity and thus autonomy from shareholders.
- For (public) shareholders internationalization of utility companies they own (their shares being more than 50%) can serve the purpose of developing new arenas (Howlett and Ramesh 2002) and new functions (LeGalès 2002). Still, it can also create two sets of problems. First, internationalization might represent a loss of control over managers. Second it might lead to a diversion of resources from other key objectives. Municipal government, contrarily to the classical theory of shareholders, do not just have to maximize the firm value but have conflicting objectives. Dividends are one, but exigencies linked to the local political arena and effective management of the territory are relevant others.
- In going abroad, companies with local origins might encounter hurdles not just in the relation with shareholders, but also due to endogenous (organizational) and exogenous (environmental) reasons. The (indeed limited) extent of internationalization of this type of companies cannot be accounted for with recurring to this set of factors.

## 3. The evolution of international activities: Development cooperation and "protected" business

A preliminary analysis of the companies mentioned above shows that a key moment for this process to begin is that when in the late Nineties the process of corporatization is at the crucial point when companies will "go public" (meaning in the stock market), there is a window of opportunities for the management and the shareholders to restructure their relations and re-orient their activities, including to begin operations abroad (Finger and Allouche 2002). Exogenous factors decisively contribute to provide an opportunity. The liberalization of some sectors of the utilities markets in Eastern Europe and Latin America, involved a large restructuring of water sector, with cities in 65 countries going towards PPPs to manage water and sewerage service, embracing up to more than a hundred and fifty million people (Marin 2009: 2-3).

A first type of activities abroad can be broadly referred to as linked to "international development" cooperation is summarized in Table 1.

Business reasons are not absent in this phase. Indirectly, business opportunities could in fact arise from projects on development. In 2000, for instance, ACEA had entered a five-year management contract (MC, the value was approximately 4,5 mln Euro) with the Armenian Government for the Yerevan Water and Sewerage Enterprise (YWSE), assisted by the World Bank.[iii] Management contracts involve a company (in this case YWSE) that outsources some of its functions (which is unable to perform on its own) to another company (ACEA) to which it pays a fee (Tokhmakhian and Eiweida 2011). This type of contracts 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, is the presence of AMGA in Albania. AMGA believed it had a stake in the Albanian project funded by the Italian Ministry of Foreign Affairs also because of its potential "*flywheel effect*" in opening other opportunities in the country (interview 5). A developmental work can lead, ideally, to a long term "concession" or to other works.

Thus, a second type of operations abroad involved at least qualitatively different attention to the business side. Three projects stand above as they represent rough "types". In 2000, ACEA was awarded a contract to construct and operate plants in water treatment in Lima, Peru to sell (wholesale) water to SEDAPAL.[iv] The tender thus required two intertwined but separated activities and the consortium of companies, Consorcio Agua Azul S.A., formed to compete (and then manage) included, beyond ACEA, a large construction company such as IMPREGILO. The two companies (both owning the 25,5 % of the shares of Consorcio Agua Azul) have clear interests in sharing relative skills in construction and operations, plus in creating some economies of scale in the procurement of goods.

A second project the provision of services to Bogota in Colombia (ACEA, 2003), as it involved the management of 2 out of the 5 areas in which the city is divided. Management in this case means "ordinary maintenance" and "billing". In this type of works, the municipal-owned company outsources some of its services (thorugh a tender) to an external company when it believes it would be economically convenient not to produce such services in-house (because of inefficiency linked to the lack of technical expertise and/or high costs of labour). This type of setup, supported by the World Bank and the Inter-American Development Bank (IDB), should ideally combine the maintenance of the structure of local public service companies with a higher level of efficiency guaranteed by the expertise of the international company. Gains in efficiency on a part of the business also allow local politicians to balance their political interests: On one hand, they gain the quality of services to the population, and on the other the "rent" linked to the reduction in costs by outsourcing allows the local companies – though relatively ineffective – to survive (also, thus, maintaining occupational levels), and hopefully learn.

A third type of projects – currently quite unique – is represented by San Pedro Sula, in Honduras, where the consortium Aguas de San Pedro (ASP), formed by ACEA, IREN (then, AGAC Reggio Emilia), the Italian constructing company Astaldi and the engineering consulting company Carlo Lotti Associati[v] won in 2000 a 30-year concession to manage of 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 managed directly the aqueduct, faced the (large) investments needed to transform the system, including installation of meters and wells, pumps, their reparation, and so on. Needless to say, this requires deeper involvement in local politics, as the company has the municipality as the direct counterpart and direct relationships with the citizenship that encompass all the problems in the (not limited to billing, as in Bogota).

Table 1. Major "development" activities abroad

| Company | Country | Project Name | Donor | Project - start | Project - duration | Project Value (mln Euro) |
|---|---|---|---|---|---|---|
| | | | | | | |
| ACEA, AMGA | Moldova | Rehabilitation of drinking water service for the city of Chisinau | EBRD | 1997 | 36 | 1,2 |
| ACEA, AMGA | Ukraine | Zaporizhzhia Water Services Corporate Development Assistance | EBRD | 1998 | 48 | 1,1 |
| AMGA, ACEA | Albania | Technical and Financial Assistance to the Greater Water and and Sewerage Enterprise of Tirana (TWS&SE) | Italian Cooperation, Ministry of Foreign Affairs | 2001 | 48 | 10 |
| AMGA | Albania | Design and installation of Bovilla Activated Carbon Water Purification Plant | No major int'l donor | 2002 | 6 | 0,45 |
| AMGA | Albania | Gjirokastra Water Network Rehabilitation works | EU Phare Program | 2004 | 18 | 5 |
| AMGA | Albania | Urban and Industrial Waste Water Collection And Treatment and Surface Water Sewerage In the Municipality of Vlore | No major int'l donor | 2005 | 18 | 1,6 |
| AMGA | Albania | Pollution Remediation at Ballshi Oil Refinery, Albania. | EuropeAid | 2006 | 18 | 0,86 |
| AMGA | Albania | Vlora Waste Water Treatment Plant | No major int'l donor | 2006 | 12 | 2,65 |
| IRIDE Acqua Gas | Albania | Water production and storage rehabilitation in Tirana | Italian Cooperation, Ministry of Foreign Affairs | 2009 | 18 | 3,85 |
| IRIDE Acqua Gas | Albania | Works to improve Bovilla water treatment plant performance | Italian Cooperation, Ministry of Foreign Affairs | 2009 | 9 | 0,9 |
| IRIDE Acqua Gas | Albania | Construction of sewerage system in Golem | EuropeAid | 2009 | 23 | 4,4 |
| IRIDE Acqua Gas | Tunisia | Rehabilitation of the Water Treatment Plant in Ghdir el Golla - Tunis | No major int'l donor | 2006 | 15 | 0,9 |
| IREN Acqua Gas | Palestinian Territories | Capacity Enhancement of Water & Sanitation Department in Hebron Municipality | Italian Cooperation, Ministry of Foreign Affairs | 2011 | 24 | 0,7 |

Sources: Iren, "International Experience", presentation provided by the company. ACEA and IREN: Budget and Financial Statements, several years

The activity of IREN in Albania and Tunisia deserves a separate treatment, mostly because it 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 Genova on regular bases), to explore further works in the area, using Albania also as a platform to move in the wider region, specifically in Kosovo, Macedonia, and Montenegro (interview 6). In this phase AMGA Albanian Branch was awarded (together with local companies) a EU-funded contract worth about 5-mln Euro for the rehabilitation of the aqueduct of the city of Girocastro. Continued presence on the ground allowed to enter other contracts as well, in two major sectors of activity. First, works were undertaken in the construction or rehabilitation of infrastructures. This is what happened in a number of contracts from 2004/5 including, most recently (2009) one for the construction of the sewerage system in Golem, south of Durrës. Second, AMGA Albanian provided support in the management of new facilities by training personnel, also with field trips of Albanian workers to Genova. According to IREN managers, the Chairman of IREN, in those years 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 5, 6). Works undertaken under the umbrella of international organizations, as noticed, were welcomed as they offered secure payments.

## 4. Staying abroad

A preliminary analysis of the management of operations abroad unveils some new actors and dynamics. Local politics in the foreign country of operations does matter in different ways from the tender phase. Here, interviews seem to indicate different patterns, mostly according with the type of contract awarded and the scale of operations. When the contract involves as a customer the local municipal or state-owned company as a customer, and there is no direct contact with end users (the case of Agua Azul/SEDAPAL in Lima), ACEA's other most relevant interaction is with the trade unions. With reference to local companies, an ACEA manager noticed how smooth relationships were also the outcome of similar organizational cultures. Most local public services companies are owned by local or (as in the case of the Dominican Republic and SEDAPAL) national governments: As one ACEA manager put it, "*you find on other side someone who thinks in your own terms*" (interview 2), in other words there was an advantage in sharing a similar governance type. Also, possibly because wholesale provision of water by Agua Azul did not encounter problems, but was quite successful in expanding the number of households reached by water while not raising tariffs, political changes – even the election of a President of the Republic (Ollanta Humala, in 2011) known for favouring nationalization of some industrial sectors – left the business environment favourable and did not require direct meddling in the political arena (interview 2).

Quite different is the tone of the relationship with trade unions. Here, an ACEA manager pointed out how unionism there was more than conservative, as unionists adopted a conflictual approach together with a conservative stance on most proposal of the company (interview 3). Trade unions in Latin American cities have traditionally held strongholds in public-owned enterprises, and their ability to mobilize workers affects local politics and decisions on the provision/management of public services. So much so that the spread of private (international) – public (local) partnership favoured by MFIs in Central and South America was limited also due to the presence of veto coalitions led by unions (on unions in Latin America, see Murillo 2001). One seems to observe in this microcosm, thus, a very faithful and real representation of the "neoliberalism and its critics" debate (Esteban Castro 2008; Marin 2009).

A second type of contracts, though the service is still technically provided to the local company, entails because of its nature direct relationships with end users, and thus presents additional involvement (the cases of Bogota, "Lima 2", and ACEA Dominicana). Here the major difference with the contracts above is that the company shows directly its "face" to the population, being there no intermediary. Difference with the first type is more in theory than in practice, at least as there has been no reported instance of serious problems arising from billing and collection, which potentially represents the most delicate aspect of business. In any case, this implies that meddling with local politics can be more frequent, and that changes in local politics can affect the daily run of business. The presence of "spoil system" in Bogota, for instance, requires company managers to "*weave relationships, explain, review everything*", as the cadres and top management of local companies change with the election of a new mayor (interview 3).

Quite different is a third type, represented by concessions for the whole water service (ASP in San Pedro Sula), involves deeper and more complex relationships. An ACEA manager describes the daily schedule of on-site visits as composed for half time by "*networking*", "*you talk with city councillors, administrators of the concessions, the mayor and so on*" (interview 3). The issue that raises most problems is, quite understandably, the management of tariffs. During the contract, ASP raised the tariff after two years from the start of the concession (that included such an option) this brought to inevitable conflict with citizenship. Some local politicians and municipalities' administrator took up such grievances: "*ASP needs to see that the problem isn't just technical–it's social and political*" and while "*there is a cost involved in delivering water to each home, but people need water to survive, and so there are humanitarian considerations*" (quoted in Constance 2004). Others have recognized the positive impact of ASP's work, which guaranteed a 20 percent of the homes with residential water service at no cost for public finance (ASP pays 5 percent of revenues to San Pedro Municipality). Frictions were also found as new investments were required in order to new pipes and pumping stations (existing ones being not sufficient, contrarily to what was planned, for extending services). Besides cost-sharing problems, legal issues arose as well in connection with the need for acquiring private land. In legal issues that went to court, the local judicial system eventually upheld ASP's rights.

Increasing density of the relationship with local political and social forces also depends from the intentions of the foreign company. If the company already has a contract, and wants to expand its activities, besides good performances, good relationships with politicians and bureaucrats can prove very useful. In Bogota, for instance, when the operator of one of the five zones in which the city is divided went bankrupt, Agua Azul Bogota was awarded the management of the area (in the same sectors it deals with in the other two zones). While better performance than the other operator still present (Proactiva, a joint venture of the French Veolia and Spanish construction company FCC, Fomento de Construcciones y Contratas, which works with local companies), is reportedly the criterion for allocation of the contract, the presence of good relationships with local politicians does help for sure. The ability of recruiting able local personnel and forming ventures with local companies as they are more "*embedded in the [social] fabric*(…)" (interview 3).

IREN's presence in Albania, being linked to possible expansion of activities, also involves a constant relationship with public authorities. The major problem to be solved is informational. This is true, of course, at all stages and this is why MFIs and other international donors play such an important role, in this case in shaping the tenders and providing accurate and standardized information to participants. When these actors less involved, the presence of people able to guarantee access to decision-makers is decisive. That is why it is important to maintain and develop the networks that one might have established with previous projects (as it has been the case in Albania for AMGA). Local consultants play a key role in solving informational asymmetries and to effectively access public bureaucracies and their modes of operations, which of course are essential for participating to "local" tenders (interview 5). AMGA's idea of creating an Albanian Branch thus allowed to develop relationships with the "right persons", that allowed prolific business development. A key hurdle encountered by managers trying to achieve longer term goals of getting the concession for the management of the concession of Tirana water services was the lack of continuity in policy-making due to changes in local and national governments and attritions between the two. The provision of water services being a politically salient issue, when the central government decentralized the management of water service, conflict arose with then mayor of Tirana Edi Rama, who faced election and shortage of funding that would have impaired the project, together with his chances of re-election (interview 5, World Bank 2011). Difficulties for AMGA Albanian Branch/IREN to operate were linked to this political/administrative *vacuum* and discontinuities in interlocutors that are essential in the phase of "unsolicited proposals".

## 5. Towards "retrenchment"

Starting in 2004, ACEA did not look for new contracts abroad (the exception is the abovementioned second contract in Peru, which was technically undertaken by Aguazul Bogota), and did not participate to tenders to renew existing contracts. The order from the new management, appointed in 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 2,3). This is directly linked to foreign activities, thus "*We keep what we have now, better of course if we can make it grow, but we don't invest anymore, no more development, indeed if we can we sell*" (interview 5). Such a decision is – stakeholders' accounts converge on this – relatively unrelated to the performance of foreign operations *per se* (as mentioned, only activities in Honduras had presented serious risks), as much as to an exogenous factor, the so-called "dotcom bubble" and the failure of ACEA's experiment to enter the ICT business. In previous years, starting from 1999, ACEA had entered in a joint venture with the Spanish Telefonica and other major companies in Italy to launch e new operator in the ICT (including fixed lines, mobile phones and internet/data services) market. During the explosion of the bubble, ACEA's title crumbled in the stock market – mostly because lack of confidence on the profitability of the new business – 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.[vi] In the following years, the opening of opportunities in the electricity and gas market due to the unbundling of national companies (ENEL and ENI) in the sector were seen as the primary objectives for expansion in sectors that would have maximized control over local public services rather than exploiting economies of scale provided by internationalization (interview 1).

Parallel to this proceeded the downsize of ACEA's direct presence in foreign countries. ACEA's personnel abroad shrank approximately to the current number, with no expatriates in Bogota and for Lima 1, and 4 in total for the new contract in Lima, the Dominican Republic and Honduras. The total personnel working in these ventures is about 1600. If this certainly corresponds to a 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 4). High levels of debt of the company, linked to major investments in the acquisition of electricity assets (a major power plant in Turin) in a liquefied natural gas offshore terminal on the coast of Livorno, and in a (controversial) plant for thermo-valorisation in Parma, reduced propensity to risk anywhere but in those "core" investments. So much 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 it is quite profitable (interviews 4,5). 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). AMGA Albanian Branch currently staffs about 6 people, of which an Albanian General Manager who is also partly responsible for business development in the wider region and an Albanian engineer who deals directly with on-site works.

### 6. Going abroad (1). Actors, preferences, interests

As a follow-up to the description of the major activities abroad, this section provides a more analytical map of actors and their strategies with reference to internationalization. ACEA's presence abroad has been seen as a decision of the new management, headed by CEO Paolo Cuccia, to "explore" new business opportunities (interviews 1,2,3). A first empirical check shows how the earliest attempts at internationalization respond to a rationale of prudent exploration of the international business environment through the search for projects that carried some form of "insurance". In fact, the first steps of internationalization have been made under the tutelage of international organizations or projects sponsored by the Italian Government. Eastern Europe has been the primary area of action, as there was the need to completely overhaul the sector of local public services. Multilateral Financial Institutions (MFIs) played a relevant role in opening up external opportunities for new actors exploring the possibility of business abroad. This presence provides an important insurance against so-called country risks. The presence of MFIs in the process and the mechanism of allocation of the services, based on a public tender, are in the eye of the potential provider the best guarantees that the process will be relatively smooth process of attribution, (at least ideally) not spoiled by corruption or hidden bargaining by actors with influence over local politicians and decision-makers. A similar role was performed by EU agencies that, limitedly to the Balkans and Eastern Europe, provided funding for projects in these sectors.

Getting closer to the companies' decision-making, the development of an international presence seems to respond to the top management's conscious choice based on existing expertise. In a 2000 interview, ACEA CEO Cuccia talked about "*a presence in the global market for water*"[vii], and Italian business newspaper Il Sole 24 Ore reported that "Africa, Middle East and Latin America are at the core of the business" of ACEA's water operations.[viii] Consistently, an ACEA manager argued that "*we always intended to focus on our core business, water, and still do. (…) Companies have to create value from what they have in their DNA*" (interview 2) and another that "*water has been linked to the Roman specific (business)*" (interview 3).

In the constellation of actors related to the first steps of internationalization, other economic agents besides the local utility companies matter as well, in particular companies with interests in working and investing abroad that belong to two major groups: Engineering companies and construction/infrastructure companies have an important role in this respect. Given the limited number of the projects in question, it is relatively easy to name some of them. In the case of ACEA, Carlo Lotti Associati, a company that for decades has been active in international projects in the field of infrastructures, played an active "brokering role". So much so that the Carlo Lotti Associati manager in charge of joint international projects with ACEA eventually became the person chosen by ACEA to manage its recently-established international operations.

Similarly, companies such as constructor Astaldi (in the case of ASP in Honduras) contributed to involve AGAC. As an AGAC manager recalls "*we did not select initiatives on our own, rather we were called*" by other companies mostly in the field of constructions (interview 4).

As mentioned, AGAC business went beyond water (where infrastructure companies obviously have major stakes), thus it was also contacted by – and participated to projects with – firms in mechanical/automotive sectors, for instance to participate to tenders in waste management/disposal. On of those projects on waste management in San Pedro Sula, Honduras, for instance, was conducted together with OMB (a company in Brescia specialized in that sector). The role played by IMPREGILO follows a somewhat similar logic: going there with it, for ACEA, is a "*guarantee*", as the companies work together in Italy and as IMPREGILO has a long experience of working in Latin America (interview 3). Because of the importance the knowledge of the local context plays, these actors activities, be they an actual "push" to undertake activity or a "pull" that contributes to provide a favourable business environment, lead to important insights on the reasons to go abroad. Some other actors external to the company concur in the explanation. In the Nineties, MFIs, EU institutions or, more limitedly, the Italian Cooperation, played a key role in creating opportunities to invest in a phase (that the first two contributed to create) of liberalization of public services worldwide. These actors contributed, as mentioned above, to make the new environment less uncertain by providing access to information, relatively transparent procedure, more secure payments.

Reasons endogenous to the companies are more complex to explore. A first reason, as mentioned, is to be found in the structure of opportunities linked to corporatization. The interaction between this internal change and environmental/exogenous incentives partly explains the widespread activism of Italian local utilities in the early post-corporatisation years.[ix] The main role of corporatisation here is to provide an opportunity: Changed corporate structure allowed to explore new business and reorient/restructure the existing organizational setting in order to favour such process. Companies could get international activities' expertise by hiring managers and personnel to work in the international business development with far simpler procedures (and more attractive prospects) than a municipal company. In 1998/1999, when ACEA started its activities abroad, internal personnel lacked the skills to manage the new international ventures, and two external managers were hired to lead the new unit that would have dealt with this type of business (interviews 2, 3).

Second, "business" expansion abroad responds to management's initiatives, or to their acceptance of external offers to participate in foreign activities. It is difficult to specify if the decision has been made for purely business reasons or if a "logic of appropriateness", "environmental adaptation", or "isomorphism" through imitation – corporations that go public should show behaviours similar to other corporations in the market or in the same business sector as a tool of self-legitimization – are also at work (Aldrich 1979). The "image" of a great corporation, able to compete with powerful international rivals, resonates not just within the management but also in Italian newspapers' business articles.[x]

This leads to a third point, the position of the public shareholder with respect to going abroad. Although empirical evidence on this is scant, it might as well be that different actors – the owners and the senior managers to start with – interpreted attempts towards internationalization according to different frames. The new "tool" provided by internationalization, far from being neutral or purely ascribable to a rational profit-maximizing rationale, was and is subject to be charged with specific values by different actors with a stake in the process (Lascoumes & Le Galès 2007). The distinction is – given evidence – probably extreme, but city politicians saw it mostly in the framework of international development cooperation, through so-called decentralized cooperation that developed in the Nineties following administrative reforms and expansion of areas of activism of municipalities. The mayor (then Francesco Rutelli) himself went abroad and sponsored ACEA's role in the rehabilitation of the aqueduct of Lebanon's capital.[xi] In the same period, as mentioned above, municipalities started to exploit other tools to expand their visibility and presence (autonomously from the central government) in the international arena. Further on, one politician has recalled that international operations "*As a whole (…) they are marginal*", and that, "*when they develop as development cooperation with international rules, we have to make them. Even though we have to avoid to have local companies excessive risks*" (interview 1).

Public shareholders' diffidence is not completely misplaced, or at least it is understandable in the light of evident informational asymmetries on operations in environments that do present risks of various types, from the need of justifying relatively minor operations in the city council and elsewhere difficulties in assessing profitability (the presence of country and exchange rate risks). With reference to the first type of risks, hurdles to internationalization also came in a by other actors: Water is a politically charged issue and parties in the city council had their say in ACEA's new horizon of operations. Needless to say, this political resistances created (a quite classic, indeed) disconnect between managers and political actors, in the municipal government and in the city council and in civil society. Similar difficulties, in the account of a manager, were experienced by AGAC. In the early stages of international operations, "*the authoritativeness*" of the company, linked to the (political) recognition that it had a "*a highly qualified technical*" profile guaranteed a certain degree of screening from the daily political conflict, with a part of the Left criticizing "*exploitation of the natural resources of a less developed country*" and part of the Right arguing against the "*diversion of resources from the territory*" (interview 4). Retrenchment here and in AMGA was not so much due to open divergences between management and public shareholders on the specific issue of internationalization, as much as to an overall reshaping of the company through the series of mergers that gave birth to IREN. As one former AGAC manager recalls, the choice of mergers led to decreasing autonomy of the company in its decision to allocate resources: "*When these processes of mergers began (…) the management lost and the political component acquired weight*" (interview 4). In this new "setup", all resources (human as well as material) were diverted back to the restructuring of the domestic business and organization.

Even in ACEA, the management that reportedly had to play a "*chess game*" with Center-Left administrations critical of "*exploitation*" and Center-Right administrations critical of "*wasting*" Roman money while "*enterprises is either good or bad, entrapreneurship cannot be justified on ideological, or even worse demagogical, bases*" (interview 2). An ACEA manager also notices how international activities suffered of temporal inconsistencies due to changes of Mayors and city administrator (the municipality of Rome retains 51 percent of ACEA's shares): "*If every time that the mayor changes (one has) to put into discussion the international strategy because someone has doubts and uncertainties, this does not allow a real takeoff*" (interview 2).

Second, as expansion of activities abroad makes companies more complex, it diminishes the relative control of shareholders favouring management. A former city administrator has described the situation in the first years following the IPO as one where "*the company is very self-centered*", with the shareholder playing a limited role in controlling the management. Facing the crisis on ICT, and conscious of the very bad signals coming from the stock market, the new shareholder (intended as the new administration that had taken charge in autumn 2001) promoted a retrenchment which meant no further risk, by which they meant no further investment in operations out of the "core business", be it defined geographically (outside Italy) or functionally (the core being gas, electricity, water, with possible opening to waste services). This solution to define risks seemed to respond not so much to an evaluation of the costs and benefits of the individual projects undertaken by the firm, as to a "*shortcut*" that re-balances the centre of gravity of ACEA's operations back in Italy, and in Rome in particular (interviews 2,3).[xii] From 2003 the new top management had clear directions from the shareholders on the major objectives to pursue. The first of these was the strengthening of the electricity business, through the creation of a partnership with an important European player in the sector in Europe. Eventually, ACEA finds that partner in Electrabel, a Belgian company partly owned by Suez (then, already among the private shareholders of ACEA).[xiii] The analysis of this latter phenomenon would open a different area of analysis of internationalization linked to corporate structure.

**7. Going abroad (2): A complex environment and limited resources**

Up to now, internationalization intended as the search for new market is a phenomenon circumscribed in space of time. A first sketch of the hurdles encountered in this process, which can contribute to explain the limited extent of internationalization should also include an analysis of the features of the environmental and of their link with the limited resources that Italian companies could use in the international arena.

With reference to environmental challenges, the role of competitors and of opportunities provided domestically, "from within", by Italian institutions deserves more attentive treatment. The international market for utilities, and in particular the market for water, resembles an oligopoly, with two French companies – currently SUEZ Environnement[xiv] and Veolia Environnement[xv] – playing the lion's share. Other companies that currently or in a recent past played a role in the mentioned market are Seven Trent and Thames Water (of British origin although not always ownership), German Gelsenwasser and Berlinwasser. Spanish Fomento de Construcciones y Contratas (FCC) and Veolia have a joint company, Proactiva (with each party detaining 50% of the shares), which operates internationally in water and waste services, and SUEZ Environnement often manages operations in Latin America through AgBar (Aguas de Barcelona), of which it owns the 75 % of shares. Also, SUEZ Environnement detains 12,5 % of ACEA shares.

SUEZ and Veolia's 2011 revenues amounted to, respectively, 13,9 and 29,6 bln Euro.[xvi] Extra-European activities of SUEZ account to 28 % of total revenues, with 14000 people working in those activities. Extra-European activities of Veolia account for 21 %

of total revenues, with about 30000 employees. The ACEA and IREN revenues in the same year both amount to about 3,5 bln. For ACEA, 2011 international revenues were about 3 % of the total revenues, while for IREN they did not reach 1 %. AgBar's total revenue are more in line with ACEA and IREN (at least, the water and sewerage sector – the one in which is mostly active AgBar), although AgBar much larger share of revenues linked to international activities (about 27 %) is also due to SUEZ strategy to use AgBar as a proxy for activities in Latin America (and, on a minor scale, of maintaining other ventures abroad under its control).

It is quite unsurprising that venturing in the international water market does imply facing comparison with these companies, and that this in turn creates a relatively small potential market. In the account of an ACEA manager, ACEA's presence was well-received by MFIs and politicians, "*it was a new thing (…) that broke the oligopoly*" (interview 2). Still, also with SUEZ, ACEA's shareholder, relationships were sometimes "tense" (interview 3). The difference in scale, to which one must add important historical legacies, does determine to a large extent the result with reference to internationalization (for the traditional view, see Chandler 1986). Previous presence clearly facilitates networks (that is why "brokering" is all the more important for smaller firms, Dana 2001), and some projects in the water sector require initial investments and resources that are easier to commit for larger companies. "Diversion of resources" also implies "human" resources, and this also helps explaining limited presence as well as downsizing. As noticed above, in the late Nineties these companies had neither autonomous units specifically dealing with foreign operations nor personnel with adequate language skills or experience abroad. Investing in foreign activities thus required a somewhat demanding organizational restructuring that took place in part but was limited to a rather short time frame. In intra-organizational competition for resources, this meant that the internal coalition supporting the allocation of resources for international operations. The related lack of a "*culture*" of international activities also represents a hurdle with respect to this (interviews 2, 3).

Once again, evaluations based on profitability or risks might explain decisions to a large extent. But one should not underestimate that processes of consolidation of IREN and ACEA, as well as the fact that they present some differences. The "critical mass" (in terms of size at least) ACEA had in water services made it readier to face larger projects abroad than any of the companies that eventually merged into IREN. It is certainly the case that these companies showed a similar pattern in scaling down their activity abroad.

Also, this is linked in all cases to the "prevalence" of domestic strategies. This implied that money for investments was moved back to strengthening of activities in Italy. Two changes in the domestic environment contributed to press the companies towards this direction. First, regulatory changes towards liberalization implied that former municipal companies progressively had the possibility to bid for service provision elsewhere in the country, but also progressively had to compete for service provision in their "own" territories. As a former AGAC manager puts it "*now that it is compulsory to participate to tenders for the provision of services, defending the territory rather than expansion has been privileged*" (interview 3). Second, and also because of the normative changes, a process of consolidation and merging including expansion both geographical (in Italy) and functional, began.

This is where some differences among Italian companies lie. In the cases of AGAC and AMGA diversion of resources abroad was made more complicated, and eventually almost abandoned, because of the requirements of the different steps of mergers. Definitive unification of the aqueducts of the larger Genova (for the AMGA Genova side), and the mentioned operations in the electricity sector (for the AGAC/ENIA side) involved all the investments of the company (in fact, they led to high leverage). Also, mergers involved organizational restructuring, that occupied a large part of the management of the companies involved. For ACEA, internal expansion meant mostly two things. In the water service, the acquisition of shares of companies providing water services in Central and Southern Italy. The partnership with Electrabel in the provision of electricity service (starting in 2003), the subsequent acquisitions in the sector of power generation, and the attempt (that began in 2007 but was not brought ahead by the new administration led by Gianni Alemanno, elected in 2008) to acquire the local (Rome) gas network together drained most of the resources of the company.

Finally, a reference to the role played by the Italian national government and its structures devoted to the promotion of Italian business abroad. Early actions, as exemplified by the funding for the project in Albania, part of the wider cooperation activities in that country, provided an effective incentive for companies to go beyond the local and national borders and explore a new arena. Some managers, however, complain that such an effort was not followed by a continued action that would have supported further business development, and that now "*the public utilities business in Albania from Italian companies, while German ones entered, after funding was provided by Italy (…)*" (interview 3). According to interviews (limited in number but coherent in their opinion), the role of

Embassies and the offices of the Institute for Foreign Trade (ICE) is limited, if not absent *tout court*, An ACEA manager argues that while the provision of water service in France is rather backward, French companies most than everyone else were able to exploit, early on, the opportunities of internationalization. This is also because "*the French Ambassador (…) plays a role of commercial director*" in other countries (interview 2). Similarly, an IREN manager recognized how French companies abroad are "*much more protected by their own government*" (interview 4). In requesting aid for foreign operations, also, a manager complained of the length of the bureaucratic process, incoherent with the faster pace of international tenders (interview 4). Of course, this is just one side of the story, but it nonetheless points out the presence of "systemic" dysfunctions.

## 8. Conclusions

The paper presents a summary of the activities abroad of two Italian former municipal companies, ACEA SpA and IREN SpA (including AGAC and AMGA). It does not cover all the range of activities, but rather tries to strike a balance between the completeness information provided and their analytical interest by focusing on activities in the sector of water services, which represented by far the most developed abroad. What emerges is that, diachronically, Italian companies experienced a little "boom" in international activities starting in the late Nineties under the umbrella of domestic or, more often, large international projects funded by EU or MFIs in what can broadly defined as "international development cooperation". From here, companies were – to a different extent – able to develop some more business-oriented activities limitedly to some parts of Latin America and the Balkans. Expanding the analysis to other Italian companies would possibly confirm at least this geographic trend, confined to the Balkans.

Few years into these projects, a quite brisk stop – and sometimes withdrawal – took place. This sheds some light on some diverging objectives and views among managers and public shareholders. Preferences of the public shareholders/municipalities appear as the attempt to strike a balance between allowing the managers to develop the opportunities they perceive as most profitable and the requirements of domestic/local consolidation in local public services. In terms of external opportunities, the local nature of companies limits access to, and support of, national institutions. If this limited international involvement is a lasting phenomenon linked to some structural features or it is more dependent on contingencies, it is hard to say. Empirical evidence gathered until now and presented above seems to show that the two things co-exist. This brings to consider possible advancements of this type of research, which should focus on the analysis of the different strategies of the leading European (mostly, French and German) companies. This could provide insights both on structural/country-level differences as well as on the organizational/unit-level dimension in explaining how internationalization is affecting former municipal utility companies.

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[i] Activities of IREN SpA also refer to companies that eventually merged into IREN SpA. Thus, the analysis includes activities of AMGA Genova, Iride Acqua Gas (the company that deals with operations abroad after AMGA's merger with Turin's municipal electricity company AEM, in 2006) and Reggio Emilia's AGAC Reggio Emilia, which becomes ENIA after merger with other companies in northern Emilia Romagna. IRIDE and ENIA merge to become IREN in 2010.

[ii] Interviews presented include all managers in charge of International water operations for the companies considered. They are drawn from a larger pool of interviews collected during several research projects conducted by the author and the research group she/he is associated to.

[iii] 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.

[iv] Servicio de Agua Potable y Alcantarillado de Lima (the Peruvian state-owned water company dealing with the areas of Lima and Callao).

[v] 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 for a new partnership (interview 4).

[vi] "Acea, con i nuovi vertici focus sul core business", Il Sole 24 Ore 25.10.2003

[vii] "Cuccia (ACEA): Nell'acqua spazio per 4/5 grandi gruppi", Il Sole 24 Ore, 1.09.2000

[viii] "Africa, Medio Oriente e America Latina al centro del business. Avversarie da battere le francesi Lyonnaise e Général des Eaux", Il Sole 24 Ore, 27.03.2002

[ix] "Lavori all'estero: nuova sfida. Forte presenza delle imprese degli enti locali in tutti i paesi in fase di ricostruzione o espansione", Il Sole 24 Ore, 09.05.2003.

[x] "Intesa Acea-Bouygues per Palestina e Praga", Il Sole 24 Ore, 18.03.1999; "Africa, Medio Oriente e America Latina al centro del business. Avversarie da battere le francesi Lyonnaise e Général des Eaux", Il Sole 24 Ore, 27.03.2002; "Lavori all'estero: nuova sfida. Forte presenza delle imprese degli enti locali in tutti i paesi in fase di ricostruzione o espansione", Il Sole 24 Ore, 09.05.2003.

[xi] "Acea punta 651 miliardi sul riassetto", Il Sole 24 Ore, 26.01.1999

[xii] Besides shareholders, some analysts had noticed how in the water sector "steps" had been "too big", see for instance "Acea, dopo il vertice si attende la nuova strategia", Corriere della Sera, 22.10.2003.

[xiii] Change of strategy was clearly perceived by all types of stakeholders. See "Acea, con i nuovi vertici focus sul core business", 25.10.2003; Il Sole 24 Ore, "Acea, dopo il vertice si attende la nuova strategia", Corriere della Sera, 22.10.2003.

[xiv] Suez Environnement is the division dealing with water and waste services of the GDF-Suez group, the result of the 2009 merger between Gaz de France and Suez S.A., the latter being in turn the result of the 1997 merger between Compagnie de Suez and Lyonnaise des Eaux.

[xv] Veolia Environnement is a multi-utility company dealing with water, waste, electricity and transportation. The company represents the "evolution of the Compagnie Générale des Eaux, then conglomerate Vivendi (from 1998), and Veolia Environnement (from 2003).

[xvi] GdF-SUEZ group 2011 revenues amount to more than 90 mln Euro.

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**Interviews**

Interview 1: Municipality of Rome, Member of the Local Government

Interview 2: ACEA manager, Water operations area

Interview 3: ACEA manager, International development area

Interview 4: IREN/AGAC manager

Interview 5: IREN/AMGA manager, International development area 1

Interview 6: IREN/AMGA manager, International development area 2