WORKING PAPER

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*Italian State-Owned Enterprises After Decades of Reforms: Still Public?**

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Abstract

The present paper analyzes the top ten Italian state-owned enterprises (SOEs) over the period 2004-2013, after both their corporate organization and their markets have been deeply reformed. We question whether SOEs' strategies are more profit or public oriented. The authors find that, on average, the management and performance of the Italian SOEs has improved and it holds the comparison with private and public European industry peers. Still, remarkable divergences persist among Italian in terms of performance and orientation towards markets or public values, largely depending on the intensity of the reforms they went through. Listed SOEs operating in liberalized markets are largely profitable and distribute dividends. They have expanded their business internationally, though cross-border M&As. As a result, a high share of their revenues and employees originates out of Italy. Conversely, unlisted SOEs operating in non-competitive markets are still somehow compelled to maintain an informal public mission; they provide universal services, they often incur in economic losses, which are partly covered by taxpayers.

Il presente articolo analizza le 10 principali imprese pubbliche italiane nel periodo 2004-2013, a seguito delle riforme di liberalizzazione dei mercati e di riorganizzazione aziendale. Gli autori trovano che, in media, la gestione e la performance delle imprese pubbliche italiane è migliorata e risulta ampiamente comparabile ai principali competitor pubblici e privati europei. Tuttavia, importanti differenze di performance e orientamento al mercato persistono tra le imprese pubbliche e sono riconducibili alla diversa intensità delle riforme a cui sono state sottoposte. Imprese pubbliche quotate operanti in mercati liberalizzati risultano profittevoli, distribuiscono dividendi, si sono internazionalizzate, anche attraverso acquisizioni transfrontaliere. Un'alta percentuale dei loro ricavi e addetti è originata al di fuori dei confini italiani. Al contrario, imprese pubbliche non quotate che operano in mercati non concorrenziali sono ancora legate ad una missione pubblica, la fornitura di un servizio universale spiega le loro perdite economiche che sono ancora, almeno parzialmente, coperte dai contribuenti.

JEL Codes: L2; L33; L8

Keywords: state-owned enterprises; public mission; state capitalism; privatization.

1. Introduction

In spite of the wave of privatizations, the Italian government has been keeping some strategic enterprises under its control. In 2013, 5% of the 1,523 major Italian enterprises[3] was controlled by a public – central or local – entity. Their aggregate value added corresponded to 17% of the Italian GDP (1.62 bln euros at current prices in 2013). This first picture suggests that SOEs still cover a relevant position in the Italian economy, especially in the sectors of general interest, where they are the top enterprises in terms of revenues, assets and number of employees (table 1).

Table 1. Major enterprises in Italy by ownership and sector – summary data (bln €, 2013)

	Freq.	Turnover	Assets	Employees
All Sectors				
Private enterprises	1,453	808.10	936.32	2,441,690
SOEs	70	308.36	657.14	582,403
Total enterprises	1,523	1,116.47	1,593.46	3,024,093
Share of public enterprises	5%	28%	41%	19%
Production, distribution and trade of electricity and gas				
Private enterprises	25	26.43	31.05	11,326
SOEs	23	141.59	255.01	122,805
Share of public enterprises	48%	84%	89%	92%
Petroleum fuels, natural gas, mineral oils and petrochemicals				
Private enterprises	22	61.67	28.20	13,654
SOEs	2	115.47	138.38	82,879
Share of public enterprises	8%	65%	83%	86%
Transportation (Airlines, shipping, road and rail transport undertakings and ancillary)				
Private enterprises	41	20.58	19.20	54,730
SOEs	5	9.03	65.73	82,660
Share of public enterprises	11%	31%	77%	60%
Public services (water, airports, motorways, waste collection and postal services)				
Private enterprises	8	3.42	10.64	15,603
SOEs	24	14.51	149.11	175,942
Share of public enterprises	75%	81%	93%	92%
Broadcasting and media (including advertising, film and theatre)				
Private enterprises	5	8.10	12.57	15,291
SOEs	1	2.65	2.31	11,473
Share of public enterprises	17%	25%	16%	43%
Vehicles, aerospace, defence and security				
Private enterprises	41	136.63	154.14	345,265
SOEs	3	20.39	38.97	84,478
Share of public enterprises	7%	13%	20%	20%
Electronics				
Private enterprises	36	13.44	14.30	51,352
SOEs	1	1.42	1.27	9,464
Share of public enterprises	3%	10%	8%	16%

Source: own elaboration on Mediobanca 2014 and Amadeus; Note: data are limited to the top 1,500 Italian enterprises with an annual turnover higher than 50 mln euros.

[3] We consider all the Italian enterprises with an annual turnover higher than 50 mln euros. In case of corporate groups, only the parent company is counted (consolidated data), while controlled enterprises are not included in the list.

Such a description, nonetheless, does not address many transformations occurred to Italian SOEs and their institutional and business environment. Contemporary SOEs are fundamentally different from traditional Italian SOEs that flourished in the twentieth century. During the last two decades, SOEs have undergone some major internal and external reforms. They have reformed their legal status, they have been corporatized and increasingly subjected to a private law regime. They all turned into joint stock companies, some have been partially privatized and listed on the stock market. As a result, their management and corporate structure have been re-organized and increasingly exposed to market incentives. The external environment where SOEs operate has been changing as well. While SOEs used to provide goods and services under a legal monopoly, nowadays they operate in liberalized markets with increasing degrees of competition.

In the light of the major internal and external changes, one can wonder whether corporatized SOEs competing in deregulated and globalized markets have improved their performance and have re-oriented their market strategy and economic behaviour accordingly to the market incentives they have been increasingly exposed to. These reforms bring us also to question whether contemporary SOEs are managed the same way as private companies or whether they still preserve some features of traditional SOEs in terms of public mission and general interest objectives. The key questions are: Have SOEs used corporate re-organization and the challenges of a highly competitive market to expand their specific business reach and improve performance? Is the modern SOE managed as a private company? To what extent do the SOEs continue to pursue the original public mission and general interest goals?

To address these questions we focus on the ten major Italian SOEs. We analyse their budget data, over the period 2004-2013, and we compare them with some selected European private and state-owned industry peers. The paper is structured in the following way. After an introduction on the meaning of the concept of public mission (section 2), section 3 offers an historical overview of how the institutional framework governing Italian SOEs evolved. Section 4 narrows the focus to the analysis sample basket of Italy’s leading SOEs, summarizing the internal reforms that led to changes in their organizational matrix. Section 5 discusses whether the behaviour of the restyled SOEs is more akin to that of private firms or social goals by investigating how the public mission appears, if at all, in the formal documents of the SOEs, ranking each by universal service obligation. The lens of Section 6 is on the SOEs’ economic performance, investments and portfolio strategies. We try to infer whether, after being reorganized and increasingly exposed to market incentives, modern SOEs show an improved entrepreneurial attitude. We assess whether Italian SOEs are profitable, what is their direct and indirect impact on public finances (through dividends or subsidies). We will discuss the change in the firm’s core business, and to which extent the Italian SOEs have internationalized, by expanding their business beyond national borders after markets have been liberalized. Section 7 draws some conclusions on the SOEs attitude towards economic and social issues.

2. Public mission: purpose and content

The fact that there is no consensus on the definition of the concept of public mission is complicated further by the overlap with notions such as corporate social responsibility, social mission, public purpose (see for an extensive analysis: Bozeman, 2007, p. 133; Jørgensen & Bozeman, 2007; Wettenhall & Thynne, 2002), or theories like business ethics and stakeholder theory. Hence, we must first clarify the pragmatics of the 'what' and the 'why' of public mission.

The public mission is a good way to better understand the past and present features of contemporary public enterprises (Florio, 2014), broadly defined as "(a) the direct producers of public services, either through liberalized market arrangements or under franchised monopoly, (b) ultimately owned or de facto controlled by public sector entities, (c) having a public mission that can be identified in legislation, regulation, statutes, etc., (d) whose ownership in principle can be shifted to the private sector" (Ciriec & Bernier, 2014, p. 16). Following Preston and Post (1975), the paper uses the adjective 'public' rather than 'social' because it better reflects the specific context of public life in which the SOE operates. Hence, in this paper, we interpret the term 'public mission' as being the objectives of an organization informed by context-specific public values.

At the organizational level, the public mission translates into a variety of values and needs, both collective (society's public values) and individual (the individual's public values), that are divorced from market logic and legal concerns. Values are enduring beliefs that influence the choices among available means and ends (Kernaghan, 2000, p. 95). For a value to be called 'public' there has to be a collectivity that can benefit from the protection of this value (de Bruijn & Dicke, 2006, p. 719). Examples of public values in the liberalized utility sectors are consumer protection, universal services, reliability, safety, quality and affordability of the service (de Bruijn & Dicke, 2006).

Heath and Norman (2004, pp. 255-256) identify five key categories of responsibilities that the state, a major and highly influential stakeholder, assigns to the SOE task environment:

1. *Macroeconomic*. SOEs are pushed into counter-cyclical spending during recessions, for example: to level out the business cycle; create over-capacity and "make work" projects to stem unemployment and safeguard employment levels; and check inflation through wage and price controls. The government can also leverage the SOEs to meet specific fiscal objectives.
2. *National interest*. Often the 'house stewards' of national industry, SOEs provide domestic firms with subsidized goods and services (especially energy) and markets guaranteed to favour domestic suppliers over foreign suppliers. The SOEs can be a card of national strategic interest, used by the government to invest in sectors of national priority or to support the development of emerging industries to raise international competitiveness. The SOEs also are a mechanism to ensure state ownership and control of the industries, information, and productive technology considered of vital importance to national security.

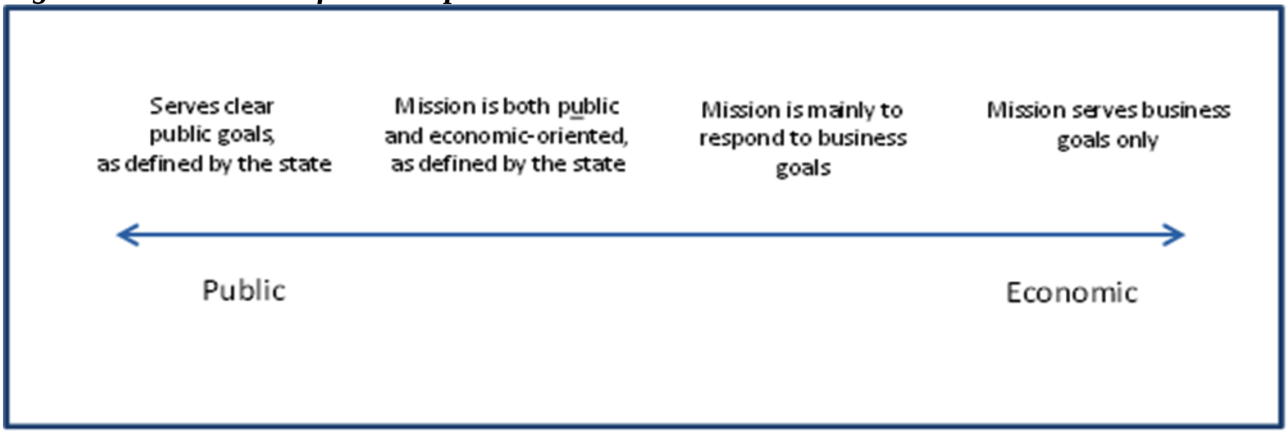
3. *Redistribution.* The state relies heavily on the SOEs to help achieve redistributive goals. This normally translates into refraining from the kind of price discrimination practices adopted by profit-maximizing private firms to ensure that the same services are delivered at the same price nationwide (e.g. postal service).
4. *Model employer.* SOEs are held up as model corporate citizens obliged to 'lead by example' and to act as a 'pressure gauge' for the private firms. As a result, the SOE tends to offer higher wages, superior benefits (e.g. on-site daycare) and better job security, and to hire more women or members of disadvantaged minorities.
5. *Reduction of externalities.* The main social responsibilities of an SOE are to produce positive externalities while the need to control negative externalities means the state keeps certain SOEs firmly in the public sector domain. This is particularly the case of the liquor and gambling industries, where the state monopolies act to prevent the private enterprises from producing "too much" of the relevant good. Likewise, the public ownership of industries with the potential to create catastrophic environmental externalities (such as uranium mining and refinement, nuclear energy generation, etc.).

Many other combinations exist in real-life practice but the above categories serve to give an overall idea of the diverse values and issues that fall within the remit of the public mission. Public values are 'never static' and are 'inherently relative' (Bognetti & Obermann, 2012; de Bruijn & Dicke, 2006, pp. 721-722). They can change according to the historical period (Bruijn & Dicke, 2006; Lorrain, 2005), the 'country-specific institutional characteristics' (Stan, Peng, & Bruton, 2014, p. 482), including 'the dominant patterns of economic organization and control' of the business systems (Hotho, 2014, p. 673; Lorrain, 2005) and the different national public-service traditions (Scott, 2000).

The SOE mission is shaped by the three dimensions of organizational publicness defined by Bozeman (1987), i.e., ownership (public, private, or non-profit), funding (government grants versus consumer payments), and control (by political or market forces) (Andrews, Boyne, & Walker, 2011). All three variables are seen as continuous rather than categorical in Bozeman's original model. Therefore, the dimensional approach recognizes that the SOE mission carries different degrees of publicness (see Figure 1). The organization's mission is a continuum in which the highest level of economic orientation (e.g., profit maximization) stands at the extreme right and the less economic and more public orientation at the extreme left. The two extreme and the two intermediary positions can be directly attributed to the mix of ownership, funding and control variables that cannot be pre-determined[4].

[4] Clearly, therefore, a specific SOE cannot be herded into a discrete category and needs to be treated according to its relative placement along the public-to-private focus continuum (ibidem). Further, the three dimensions of publicness cannot be assigned different degrees of importance or be defined by goal achievement factors.

Figure 1. Continuum of mission publicness



The literature is replete with studies that ask whether the SOE can effectively reconcile concurrent economic and social objectives. More recently, the critics' main empirical research argument is that, despite legal status and especially in cases of market-listed public enterprises, the operations of an SOE fall increasingly under the spell of self-interest, e.g., market profitability rather than customer service or social responsibility (Wettenhall, 2001, p. 27). For instance: the internationalization strategies of the big energy players (Soda, 2015); the use of market criteria in the scheduling of public TV programmes (Meier, 2003); the public broadcasters' attempts to match-make audience orientedness and public mission, ratings and quality (Celli & Balestrieri, 2003; Meijer Costera, 2005); the tension between the *territorial vocation* of utilities and the community of reference; and the *industrial-business vocation* that focuses more on responding to the broadest market stimuli seen as the opportunity centre (wherever located) to maximize technical and commercial know-how and distinctive competences (Citroni, Lippi, & Profeti, 2012; Elefanti & Cerrato, 2008, p. 4 our translation; Giannelli, 2010). This tension is often to blame for the slow *erosion* of the public mission (Delponte, Sorrentino, Turri, & Vandone, 2014).

It has been suggested that the self-interest that is increasingly shaping SOE strategy is due to the combined effects of the isomorphic (coercive and normative) dynamics set in motion by the respective task environments. For example, the wide range of corporate social responsibility (CSR) initiatives to which the SOEs commit or claim recognition for and which up to now have been the undisputed domain and culture of the business world is typical isomorphic behaviour of Italy's ten major SOEs (see below). Does that imply that the CSR actions of the contemporary SOE will absorb the public mission, making it *invisible*? Therefore, to better capture the idea of publicness the paper approaches the two notions from separate analytical and practical levels.

3. State ownership and regulation in Italy: The historical background and emergent trends

The role of the state in the Italian economy had been massive throughout the XX Century. In particular, SOEs represented not only the main instrument of economic governance for network industries, but also important actors in sectors such as finance and manufacturing.

The rise of state intervention in the Italian economy occurred in separate waves. The first large-scale nationalization started in 1905, as the government led by Antonio Giolitti took over main railway concessions from private operators, which merged into *Ferrovie dello Stato* (FS). While the First World War facilitated close relationships among the State and business (Grifone, 1971), it is only after the Great Depression that the state decided to take over assets of some of the most prominent financial and industrial groups. These had been collected within the *Istituto di Ricostruzione Industriale* (IRI), a conglomerate with private-law structure and procedures but directly controlled by the state, established in 1933 to relief financial institutions from the burden of industrial assets and, at the same time, re-launch industrial policy in crucial sectors such as steel, electricity and shipbuilding (Castronovo, 2012).

After the II World War, the economic intervention of the state definitely consolidated between the 1950s and the 1960s. In this period, the size and the role of state capitalism had been shaped by three major strategic decisions. The first concerned IRI's strategy, which refocused on the support to country's development by the provision of infrastructures and basic products for private manufactures (Wormald 1972; Barca & Trento 2010). IRI was strongly present in network industries with subsidiaries such as Autostrade (Motorways), STET (TLC), the Rome's Airports and the national carrier Alitalia. A key role was also played by heavy industry, as in the case of enterprises producing steel (ILVA), ships (FINCANTERI) and defence and aerospace systems (FINMECCANICA). Besides, IRI acquired a number of other companies such as the national TV and radio Broadcaster, RAI, and retail enterprises such as SME and Autogrill[5].

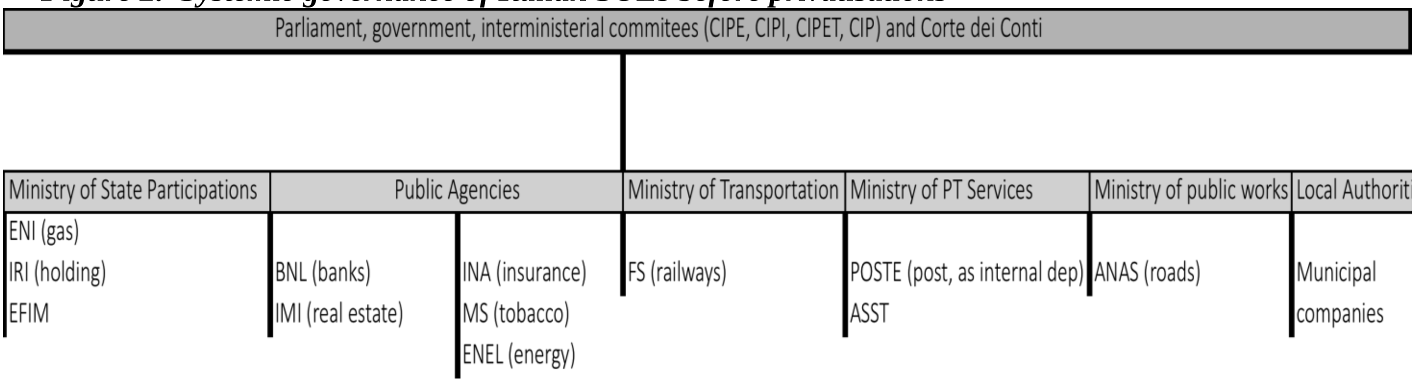
The second strategic decision relates to the oil and gas sector. In the aftermath of the war, the government was about to dismantle Agip, a SOE established in 1927 to promote oil exploration and extraction. Nonetheless, Enrico Mattei, the Agip CEO, conducted a successful lobbying campaign against the operation and, some years later, further developed the domain of the company. In 1953, Agip became subsidiary of the *Ente Nazionale Idrocarburi* (ENI). ENI's mission aimed at creating a vertically integrated oil and gas player. Its activities ranged from extraction and engineering to the actual distribution of fuel[6]. A third strategic decision was made in 1962, when the centre-left government led by Amintore Fanfani nationalized the electricity sector, creating the *Ente Nazionale per l'Energia Elettrica* (ENEL). The main public mission was to promote the universal access to services throughout the whole country at

[5] Although beyond the scope of this paper, it is worth to mention that IRI had been in control of some of the most important financial institutions of the country.

[6] Progressively, ENI added businesses in the chemical industry, as in the 1970s it merged with *Montedison*, the main private player in Italy, and acquired corporations in manufacturing such as *Nuovo Pignone*, a Florence-based enterprise active in the production of turbines and compressors, and the textile company *Lanerossi* (Grant et al., 1989; Sapelli & Carnevali, 1992).

reasonable fares for both individual customers and firms, irrespectively of diversified fixed and marginal costs. FSI, ENEL, ENI and IRI constituted a highly relevant component of the Italian economy in terms of size, sectors covered and investments made (Amoroso & Olsen, 1978; Barca & Trento, 2010). Figure 2 gives an overview of the sectors covered by these four SOEs in the decade before major privatization. In this period, Italian SOEs were run under the public-law, they were *Enti pubblici a carattere economico*, to mean a kind of corporation that, although separated from government in terms of accounting, was ultimately part of the state. The governance of this network was not based on ownership basis of the Treasury. On the contrary, several government departments such as Industry, Public Enterprises, Telecommunications shared coordination powers with the Treasury. Often, such a collaboration took the form of interdepartmental committees, such as those responsible for economic planning and the setting of fares for public services delivery.

Figure 2. Systemic governance of Italian SOEs before privatisations



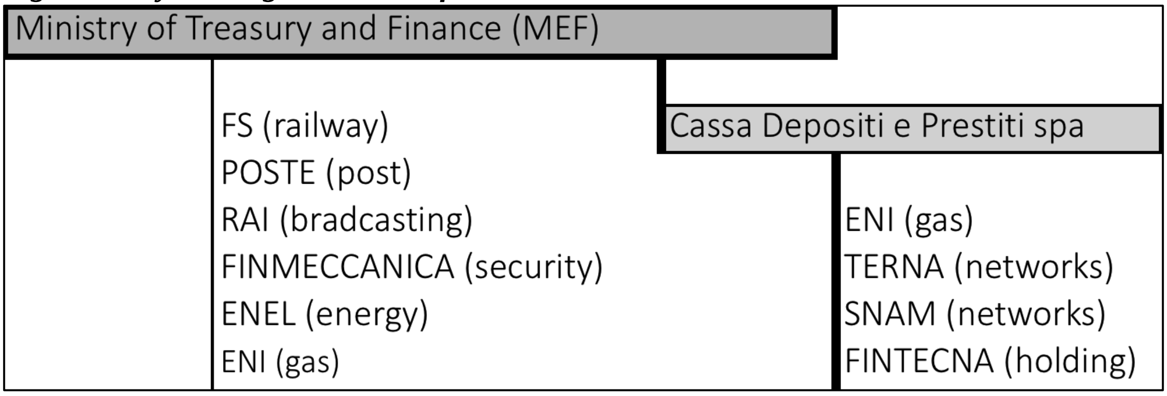
Legend: thick vertical line means "control" (ex. The Ministry of Transportation controls FS).

Such a system underwent a radical change during the 1990s. In 1992, the emergence of a joint financial and monetary crisis pushed national policy makers to design and implement a drastic cut back of public assets culminating in 1999 with the privatization of IRI's Autostrade and STET[7]. Others less profitable IRI's companies have been reassembled in FINTECNA and transferred to the Treasury. IRI's dismantling was part of a larger design that Beniamino Andreatta – foreign minister in 1994 – negotiated with the European Commission to cope with both the Italian public debt and compatibility of IRI with Common Markets rules on state's aids after the Maastricht's Treaty (Artoni, 2014). A first look to the new governance of SOEs shows a pivotal role played by the Treasury, which became by far the most important department, controlling SOEs by shareholder powers grounded in private law. Indeed, the Italian SOEs reformed their legal form and they were corporatized. Previous public-law entities turned into joint stock companies, *Società per Azioni* (*SpA*) in Italian, allowing the separation of their budget from that of the state and from the composition of the public debt. Among the newly corporatized Italian

[7] Conversely, the privatization of ALITALIA has been implemented in many steps and completed in 2009.

SOEs, some remained totally owned by the state (FS, POSTE, RAI, FINTECNA), while others underwent partial privatization and have been listed to the stock market, with the Treasury keeping a role as key shareholder (ENI, ENEL, FINCANTIERI).

Figure 3. Systemic governance of Italian SOEs in 2013



Legend: thick vertical line means "control" (ex. The Ministry of Treasury controls FS).

During the following decade, such a pattern underwent a further reshuffling, with the emergent involvement of *Cassa Depositi e Prestiti* (CDP), a state-controlled financial institution managing postal savings and providing financial services for the state and local governments. In 2003, the government corporatized CDP[8], allowing it to acquire shares in strategic enterprises on the condition that these were economically and financially viable. Over the last decade, CDP took over relevant shares of SOEs formerly owned by the Treasury. Moreover, after the grid unbundling in the network industries CDP has become the major shareholder of national grid operators - Terna (electricity) and Snam (gas). This phenomenon partially restructured the governance of SOEs in a more polycentric arrangement and has been underpinned by a mix of financial, legal and industrial drivers.

First, CDP has always had a crucial importance in the management of state's debt. In fact, the huge amount of postal savings it manages has been mainly deployed for investments of both the state and local governments. After 2003, the possibility for CDP to take over shares of SOEs introduced for the government a further instrument to expand its current assets at need without "real" privatization or pure nationalization. In turn, the portfolio of investments CDP has in the network industries (mainly the gas and electricity grids, respectively SNAM and TERNA), provides a convenient risk/return ratio for its shareholders (Battilossi, 2014, pp. 87-92; la Repubblica 2013, 28). A not less important driver of CDP involvement in SOEs relates to the development of an industrial policy in strategic sectors. In fact, the initial idea that market regulation and privatization would have also been the optimal solution for industrial growth has been gradually replaced by a more pragmatic approach towards the potential role of the state. Under this perspective, the

[8] Since its foundation, CDP had been a branch of the Treasury. A first reform occurred in the 1980s, as CDP acquired more organizational autonomy. The 2003's reform transformed CDP i a limited company, with the Treasury holding a 80% stake, while the remaining 20% has been taken over by financial institutions controlled by local governments (s.c. Fondazioni Bancarie).

2008 financial crisis represented the juncture that allowed CDP to effectively implement state's comeback to economic policy making (Financial Times, 2012, 17; Salvemini, 2014, p. 290). However, it should be noted that such an involvement does not seem to reproduce a new IRI, as some commentators claimed. Differently from IRI, CDP does not use public money and cannot by statute invest in loss-making companies. A further rationale behind CDP involvement in the network industries is related to the shift towards regulatory governance and the legal basis of market opening in these sectors. In this sense, CDP ownership of SNAM and TERNA constituted a viable solution for the Italian state to unbundle the grid operators from the national incumbents while continuing to keeping indirect public control over strategic assets and preventing them from being privatized.

The abovementioned restructuring of state ownership has coevolved with the liberalization of services of general economic interest (SGEI), since European sectorial policies have broken up former vertically integrated monopolies and opened them to market competition. Three main processes of market building were introduced at the EU level to foster competition and to protect costumers: 1) the unbundling of networks; 2) the opening of the market to non incumbents through the sell of licenses for the operation on the network; 3) the creation of independent regulatory agencies (IRA) at the national level, with different competencies over prices, costumer protection, service quality. Similarly, the institution of national IRAs was very diverse regarding the timing, the powers and the existence itself of the authority (without considering the varying degrees of formal independence). Such interventions have not been implemented homogeneously both across sectors and in comparison with the experiences of other EU countries. In sectors such as electricity and gas where the Italian regulation requires institutional separation between infrastructure management and service provision, CPD represented a viable solution to meet EU requirements and not to loose the public control on both infrastructures and provision of services.

The OECD indicators – which measure the intensity of the market reforms against 4 variables reported in the table below – offer a quite straightforward information on the heterogeneity of the market reforms among sectors[9].

[9] The OECD indicators are normalized between 0 and 6 with 6 being the smallest grade and 0 being the largest grade in terms of reforms; Entry: measures the presence of barriers to entry the market, where 0 represents the lowest level of entry barriers and 6 the highest level; Market structure: market share of the largest company, where 6 indicates a market share higher than 90% and 0 a share lower than 50%; Vertical Integration: 0, 3 and 6 correspond respectively to ownership separation, Legal/Accounting separation and no separation; Public ownership: graded 6 in case of 100% public ownership and 0 in case of no public ownership; Overall: average of the grades attached against the other criteria.

Table 2. Intensity of market reforms among sectors

	Overall			Entry		Market structure		Vertical integration		Public ownership	
	1991	**2003**	**2013**	**2003**	**2013**	**2003**	**2013**	**2003**	**2013**	**2003**	**2013**
Telecoms	6,0	0,6	0,4	0,0	0,0	1,7	1,3	-	-	0,0	0,0
Electricity	6,0	3,4	1,4	2,3	0,0	3,0	0,0	4,5	0,0	3,6	1,9
Gas	6,0	2,3	1,9	0,0	0,0	3,0	0,8	4,7	1,9	1,6	1,8
Post	5,8	4,3	3,3	2,0	1,0	6,0	4,0	-	-	5,0	5,0
Rail	6,0	3,1	2,8	2,0	2,0	1,5	0,0	3,0	3,0	6,0	6,0

Source: OECD ETCR 2013.

These differences suggest the absence of a coherent political design towards the transformation of some constitutive aspects of the SOEs, namely of the public mission itself. The different intensity and timing of the liberalisation and of the introduction of the regulatory institutions and tools also show the lack of a stable political orientation, at least in general. As the analysis will show, stable orientations are difficult to be found also considering each policy sector separately. Indeed, the different extent of liberalisation and of implementation of the different reforms may also depend on the actor configurations in the policy domain: following Asquer (2011), in the sectors where the national champions were stronger on the domestic market, the opening of the market was wider and the internationalisation of former national monopolies more pronounced. Thus, it is plausible that common lines of development (either pro-opening or conservative), when existing, can be seen only at sector level. In sum, state ownership underwent deep changes during the last three decades in Italy. These changes are strictly interwoven with the introduction of both EU and national sector regulation, which diversified markets for services. In the next session, we will illustrate how these transformations impinge on the redefinition of the public mission in SOE's.

4. The reformed SOEs

Italian SOEs are thus a complex phenomenon to deal with, encompassing features of both stability and change. On the one hand, public ownership has stably represented an important element of Italian political economy. Although privatizations culminated over the 1990s and the 2000s produced a state's retreat in some sectors such as Motorways and Telecommunication, the overall public assets seemed to be resilient, as they still represent an important share of country's economy. From a different point of view, nonetheless, the markets where Italian SOEs are currently involved have undergone significant changes toward higher degrees of contestability.

This section shows how the persistence of SOEs and the emerging of markets in previously closed sectors are strictly interwoven. SOEs adapted to the changing institutional and business environments through an intense re-structuring of their corporate governance. All of them, for instance, became joined stock companies and assumed a "holding" structure; this, in turn, eased several processes of unbundling. Moreover, some SOEs underwent a deeper change with partial privatisation and floatation on the Italian stock market. Also the state restructured its strategy as a shareholder. In general, it gradually diluted its capital in some of the most profitable companies, such as Eni and Enel, and, in some cases, restructured its controlling power through CDP, which is taking over an increasing amount of public assets. Table 3 summarizes the main features concerning the corporate governance of our sample of SOEs. These differ with respect to the number of shares owned by the central government, the type of control (direct or indirect), the legal status and whether they are listed on the stock exchange.

Table 3. A taxonomy of the major Italian SOEs

SOE name	Legal form	Public-owned shares	Type of control	Listed
Eni	Joint Stock company	25,76% CDP, 4,34% MEF	Indirect: CDP	Listed since 1995
Enel	Joint Stock company	25,5% MEF	Direct: MEF	Listed since 1999
FS	Joint Stock company	100% MEF	Direct: MEF	Unlisted
Finmeccanica	Joint Stock company	30,2% MEF	Direct: MEF	Listed since 2000
Fintecna	Joint Stock company	100% CDP	Indirect: CDP	Unlisted
Poste Italiane	Joint Stock company	100% MEF	Direct: MEF	Unlisted
RAI	Joint Stock company	99,56% MEF	Direct: MEF	Unlisted
Snam	Joint Stock company	30% CDP reti	Indirect: CDP	Listed since 2001
Stmicroelectronics	Joint Stock company	27,5% STMicroelectronics Holding II BV	Indirect: MEF	Listed since 1994
Terna	Joint Stock company	29,8% CDP reti	Indirect: CDP reti	Listed since 2004

The ten cases considered in this study are all joint stock companies and they are structured as holding companies, with the only exception of STMicroelectronics that is a limited liability company. The Ministry of Economy and Finance is the major shareholder of ENEL (with the 25% of the shares), FINMECCANICA (30%), and it wholly owns FERROVIE DELLO STATO, POSTE and RAI. Moreover, it indirectly controls the other companies - ENI, FINCANTIERI and FINTECNA, in SNAM, in TERNA and in STMicroelectronics - via CDP and its subsidiaries.

Some of the SOEs where the government is the major, but not unique shareholder, have been opened to private equity and listed in the Italian Stock Market. These SOEs are subject to the supervision of the Italian Authority CONSOB. This impressed a major change in the size and structure of Stock Market (Barucci & Pierobon, 2007), where publicly owned enterprises which underwent only partial privatizations account today for the 40% of the whole capitalization (Consob 2013, p. 6). Notably, out of the SOEs we are focusing on, those who are listed (and their listed subsidiaries) overall count for 28% of the total Italian market capitalization (table 4).

Table 4. Market capitalization of Italian SOEs (bln euros, 2014)

	Market capitalization	% of total market capitalization
Enel	34.87	7.49%
Enel Green Power (controlled by Enel)	8.72	1.87%
Eni	52.94	11.37%
Saipem (controlled by Eni)	3.87	0.83%
Fincantieri (controlled by Fintecna)	1.31	0.28%
Finmeccanica	4.48	0.96%
Ansaldo STS (controlled by Finmeccanica)	1.67	0.36%
RAI WAY	0.86	0.19%
Snam	13.91	2.99%
Terna	7.60	1.63%
Total	130.24	27.96%
Total Market Capitalization	465.80	100%

Source: Borsa Italiana, LSEG market analysis; December 2014.

Corporate governance in SOEs represents a main concern in the public and the academic debate (Grossi et al., 2015; Kowalsky et al., 2013). For instance, it sheds lights on the relationships between actors in the firm and influences the strategy of the firm. In the case of public enterprises, the analysis of some elements of the corporate governance serves to show how the public actor interprets his role as shareholder in the Board of Directors (BoD).

Even though the appointment of directors formally pertains to a political choice, a central role in the governance of publicly owned enterprises is attribute directly to the MEF, especially in those firms where it is direct shareholder. The MEF monitors the activities of all its corporations and exerts its rights as shareholder according to the civil law (i.e. it approves the balance, the appointment of directors etc.). The MEF also enjoys powers in the form of "golden powers", but only over extraordinary operations in enterprises in sectors as defence and national security, energy, transports and telecommunications. The Italian legislation has recently introduced a stricter regulation over transparency, which obliges to the publication of the wages of managers in publicly owned enterprises. Moreover, the unlisted SOEs have to contribute to the overall goals of the spending review and efficiency in management (ex. Directive of the MEF April, 24 and June, 24, 2013). These directives define the eligibility criteria and the appointment procedures and also introduced limitation to the wages of delegated directors according to the "spending review" law n. 95, 2012.

The firms in our sample differ in reason of the number of the director directly or indirectly appointed in the BoD, and for the type of public shareholders who decides. As far as the number of appointments is concerned, the government jointly with the MEF appoint 6 members up to 9 in both the BoD of ENEL and ENI. In FINMECCANICA, the MEF appoints 7 up to 11 directors and expresses a further director deprived of the vote, to guarantee for the special safeguards state by law n. 474/1994. Moreover, the MEF directly nominates the whole BoD of FS (5 directors, in agreement with the Ministry of Transports) and of POSTE (5 directors). In the case of RAI, the MEF appoints only 2 directors up to 9, while the rest selected among MPEs by the parliament itself, according to a partisan logic.

STMicroelectronics represents a further exception, since it is the only enterprise in our sample that adopts a dual model of corporate governance. The MEF appoints 3 members of the Supervisory Board and 1 member in the management board. Finally, CDP nominates respectively 5 up to 9 in TERNA and 5 up to 9 in SNAM.

Hence, the privatisation of former public enterprises has shaped differently the corporate governance of each SOE; the public nature of the state as shareholder and the memory of the politicization of appointments in former public enterprises also imposed further obligations on transparency and limitations to management wages. In other words, the passing of time after privatisation may have changed some "privileged" rules for public shareholders, but it has also made the picture much more complex.

5. The new boundaries of Publicness

Previous sections showed how SOEs face today an increasingly complex environment. Though they have been corporatized, partly privatized and brought to compete in liberalized markets, SOEs still represent actors with which national and local governments maintain privileged relations. As a result, the public mission of these enterprises is expected to be influenced by such institutional and organizational changes. While it is plain that the provision of public services represents a typical case of public mission, less clear is to what extent SOEs are still committed to them. The emergence of a significant profit orientation of SOEs challenges the publicness of their original models. With this respect, we distinguish between a *formal* public mission that SOEs may be explicitly required to pursue from an *informal* public mission that may be deduced, for example, by analysing the SOEs behaviour and strategy in terms of profit destination; degree of internationalization, attitude towards the issue of employment. In the following, we discuss whether the concept of public mission is formally embedded into the SOEs' statutes and whether SOEs are formally subject to a universal service obligation.

5.1 Analysis of the SOEs statutes

Our textual analysis of the statutes (articles of association) of the 10 companies investigated in the study reveals a total absence of direct references to their respective public mission. The average document length of the Articles, which set out the purpose of each company and how they are run, governed and owned, including the responsibilities and powers of the directors and other corporate bodies, is approximately 20 pages. However, none of the clauses on the purpose of each company shed much light on the public mission and, given that all the organizations in question are large-sized multibusiness operators, tend to be highly generic.

We also examined the content provided by the official websites. Here, too, there were but two allusions to the SOEs' overall idea of the orientation to publicness: the main stakeholders targeted by the web-driven communication; and the methods used to communicate the respective missions and values, which are directed at the external environment.

The main corporate communication targets of the PEs are the clients, the media, jobseekers, suppliers, investors, and consumer associations. The web pages of the "Company profile" or "Mission" sections generally deliver brief statements on recurring values, such as: corporate social responsibility (CSR), respect, ethics, trust, transparency, integrity, attention to people and their needs, commitment to innovation. Sustainability (with the emphasis on environmental issues) is the main focus of the institutional website content[10]. The homepage menus of many of the companies investigated direct the user to sections dedicated to the CSR initiatives launched in a variety of sectors through foundations and cultural and other projects, in Italy and abroad.

It was decided to explore the homepage menu to see if we could find any documents of relevance that could shed light on these same values. Indeed, this proved an easy route to not only the company profile and the financial statements, but also to the Code of Ethical Conduct, the Report on Sustainability, human resource policies, and corporate governance systems. The content is almost always rich and appealing[11]. In addition, all the companies make active use of the most popular social media.

In short, while acknowledging the fact that the results of this analysis rely significantly on the structure of the websites visited, as well as the business in which the specific company operates (usually to serve a vast market), our findings indicate that none of the companies has clearly stated their public mission, and that the public commitment of the panel investigated mainly revolves around their CSR activities. Nevertheless, it is worth remembering that corporate communications are unidirectional by definition, regardless of the methods and tools used. In other words, the chorus is incomplete, and other 'voices' (those of the stakeholders *in primis*) are needed to understand and show how these companies actually translate their stated principles into concrete behaviours and practice. We should bear in mind, also, that some of these players have a history tainted by unresponsive behaviour, the impact of which had global repercussions.

[10] On the topic of sustainability, Terna is the only company of the panel of ten that distinguishes among the different stakeholder categories, which it divides into the following groups: regulators of licensed activities; public decision makers and authorities; shareholders; lenders; electricity system operators; media and opinion makers; customers (non-regulated activities); suppliers; business partners; employees; the wider community; local communities. Terna, in fact, sets out its commitment to each category, as well as the methods used to monitor and check the results.

[11] Some of it is even in multimedia format, such as the interactive financial statements of SNAM or the Terna website's streaming of Professor Freeman's video, the scholar who developed the theory of stakeholders.

5.2 SOEs as providers of universal services

The passage from the vertically integrated monopoly towards more de-regulated market shifted some functions related to the public mission towards different actors of the regulation and relied on different instruments. The concept of Universal Service Obligation (USO) has been introduced at the European level to concretely translate the concept of public mission in relation to the delivery of services that would not be spontaneously provided by the market otherwise. The liberalization of service markets itself helped redefine the universal service in the different sectors.

For instance, in the electricity sector ENEL does not formally receive from the State any compensation for the USO. At the same time, the issue of consumer protection has been tackled by establishing the Acquirente Unico SpA (Single buyer), a subsidiary of GSE indirectly controlled by the Treasury, is vested by law with the public mission of procuring continuous, secure, efficient and reasonably-priced electricity supply for households and small businesses[12]. Nonetheless, the public interest can be pursued through other instruments. For example, in 2008 a “social tariff” has been introduced by legislation. Moreover, law n. 239/2004 delegates the national government to regulate issues of energy security. Another indirect contribution to the public interest may lay in the initiatives of the Ministry of Economic Development aimed at the development of Resource and Development activities through some joint ventures to be financed with three-year agreements.

Another example from the electricity sector concerns the 25-year concession agreement signed in 2005 by Terna SpA and the Ministry for Economic Development that calls for the agent company to comply with the obligations of a public service (Article 3), specifically: to ensure that all users are treated equally (Article 3); to remain impartial and neutral in the service of transmission and despatch (Article 4); to respect the principles of transparency, neutrality and non-discrimination of users and/or categories of users (Article 7). In the gas sector, the obligation to provide a “safeguard regime” (in Italian: servizio di tutela) only remains for a particular category of domestic clients since 2013 (see laws n. 125/2007; n. 69/2013; AEEG del. n. 280/2013/R/gas and 457/2013/R/gas). In railway transports, Italy decentralized the system for USO (Di Giulio, 2011). The USO is financed with transfers from the state to the Regions, which award concessions for the operation of regional transports. Overall, Trenitalia receives around €2 bn a year – inclusive of regional integrative funds – for carrying out local mobility services. The instrument to regulate this system is the regional service contract between the Region and the railway operator who holds the concession. Similar contracts, but of lesser value, have been introduced also for some non-profitable freight and long distances passenger services, which the Department of Transport directly awards to Trenitalia. In postal services,

[12] Acquirente Unico (AU) buys electricity in the market on the most favourable terms and resells it to distributors or retailers of the standard offer market (“mercato di maggior tutela”) for supply to small consumers who did not switch to the open market. Finally, the AEEG determines the prices for energy acquired via the AU. Hence, we can say that in the energy sector the public goals are not implemented through regulated markets and public subsides.

Poste Italiane holds the concession for the Universal Service until 2026, as established through the EU and the Italian legislation (2008/6/CE, D.Lgs. 58/2011). The national regulatory agency AGCOM dictates the conditions for universal postal services with the deliberation n. 353/12/CONS AGCOM. The content and the financing of the Universal services are contained into a “program contract” between the Ministry of Economic Development and POSTE ITALIANE, under the supervision of the AGCOM that impinges on the monitoring of activities, the conditions of the service and the composition of compensations for the public service. This type of service contract is usually signed for three years and often extended in prorogation. A form of service contract also regulates the Universal Service as public broadcasting for television. The main issue relates to the awarding of the “Public Service”, the name that the Universal Service takes in the sector of broadcasting, paid mainly through television license fee. Therefore, RAI receives the television license fees as the main compensation for some particular limitations to program schedule and reserved video time. The RAI is awarded the concession for the public service until 2016 and it is compelled to structure its programme schedule according to the service contract renegotiated every three years on paper with the Ministry of Economic Development.

To summarize, the provision of universal service is not any more embedded into the firms’ voluntary public mission, while it has been increasingly addressed by means of regulation or contracts/concessions. SOE obliged to provide USO are rewarded through public subsidies. POSTE is a case where the incidence of subsides on total revenues is irrelevant (343 millions from service contracts over 22,822). FS gains less than a half on service contracts (3,000 out of 8,329), while the RAI basically lives on the Universal Service Obligations, as the great part of its revenues comes from the general public (1,755 out of 2,748).

6. Contemporary Italian SOEs: an economic assessment

This section analyses the behaviour of Italian SOEs looking at the main economic and financial outcomes produced over the last decade. The main goal is to understand whether the contemporary Italian SOEs have improved their performance and financial position; whether their strategies still differ from the private companies’ ones and whether they still achieve, though more softly or indirectly, an informal public mission.

In 2013 the value added of the top ten Italian SOEs corresponded to 4.5% of the Italian national GDP (table 5). Moreover, compared to the ten top Italian private enterprises, the 10 major Italian SOEs have higher operating revenues and assets, while they employee a lower number of workers. The assets of the ten major Italian SOEs are even higher than the aggregate level of assets of the Italian top 50 private enterprises (table 6). The reason behind their significant size in terms of assets and revenues is quite straightforward. Most of these SOEs provide primary services to a very large number of consumers. They mainly operate, though not exclusively, in sectors of general interest with features of network industry, where they still hold a dominant position and own a relevant market share.

Table 5. The ten top Italian SOEs – Value added (bln euros, 2013)

SOE name	Value added
Eni	26.002
Enel	19.567
Finmeccanica	5.392
Poste Italiane	7.998
FS	5.802
Fintecna	1.031
Snam	3.087
RAI	1.187
Terna	1.679
Stmicroelectronics	0.655
Total SOEs	72.399
Total industry and services	1,423.104
National GDP (current prices)	1,618.904
SOEs on total industry and services	5.10%
Total SOEs on national GDP	4.50%

Source: own elaboration on Mediobanca 2014 and Amadeus.

Table 6. Top ten public enterprises in Italy (thousand euros, 2013)

Enterprise	**Sector**	**Turnover**	**Assets**	**Employees**
ENEL	Energy	80.54	164.15	71,394
Sector weight		48%	57%	53%
ENI	Oil and Gas	116.93	138.29	73,171
Sector weight		66%	83%	76%
FERROVIE DELLO STATO ITALIANE	Transportation	9.37	63.24	71,031
Sector weight		32%	74%	52%
FINMECCANICA	Defense and security	17.03	29.03	63,355
Sector weight		11%	15%	15%
FINCANTIERI	Construction	3.83	7.06	20,341
Sector weight		2%	4%	5%
POSTE ITALIANE	Other public services	13.20	133.93	145,531
Sector weight		74%	84%	76%
RAI	Broadcasting	2.81	2.31	12,965
Sector weight		26%	16%	48%
SNAM	Energy	4.11	24.18	6,034
Sector weight		2%	8%	4%
STMICROELECTRONICS	Electronics	1.44	1.27	9,464
Sector weight		10%	8%	16%
TERNA - RETE ELETTRICA NAZIONALE	Energy	1.99	14.88	3,465
Sector weight		1%	5%	3%
Top ten SOEs (sum)		251.23	578.33	476,751
top ten private enterprises (sum)		213.84	331.99	676,980
top fifty private enterprises (sum)		354.64	491.23	1,126,117
top ten SOEs/top ten private enterprises		117%	174%	70%
top ten SOEs/top fifty private enterprises		71%	118%	42%

Source: own elaboration on Mediobanca 2014 and Amadeus.

What remains less clear concerns their economic performance and industrial strategy. In addition to being large, are these companies profitable? Have they improved their performance? Moreover, how do they behave compared to other private and public enterprises? In the next sections, we analyse the SOEs budget data and industrial strategies to infer whether their behaviour differs with respect to private enterprises and can somehow be linked to an informal public mission. We first analyse whether modern Italian SOEs are profitable and what is their impact on the national public finances by comparing the dividends from the SOE to the central governments with the economic transfers from the governments to its SOEs (section 6.1). Then, we move to analyse whether and to which extent the Italian SOEs have internationalized, by expanding their business beyond national borders after markets have been liberalized. In this way we try to infer whether, after being reorganized and increasingly exposed to market incentives, modern SOEs show an improved entrepreneurial attitude (section 6.2). Next we analyse their approach towards the issue of employment: Are SOEs used by the government to support employment? Have they improved their labour productivity? Does their approach towards employment strongly diverge from their private benchmark? (section 6.3). Then, we look at the level of investments by analysing the trend of their assets (section 6.4).

In particular, we will look at the SOEs balancing sheet data over the period 2004-2013, and we will compare them with some industry peers. As proper industry peers cannot be identified within the national domestic borders, we broaden our geographical scope of analysis and for each Italian SOE we look for some European industry-peers operating in the same sector of activity, and with comparable size in terms of total assets. We have chosen for each Italian SOE at least one private and one state-owned benchmark[13], and they are reported in table A.1 of the Appendix I.

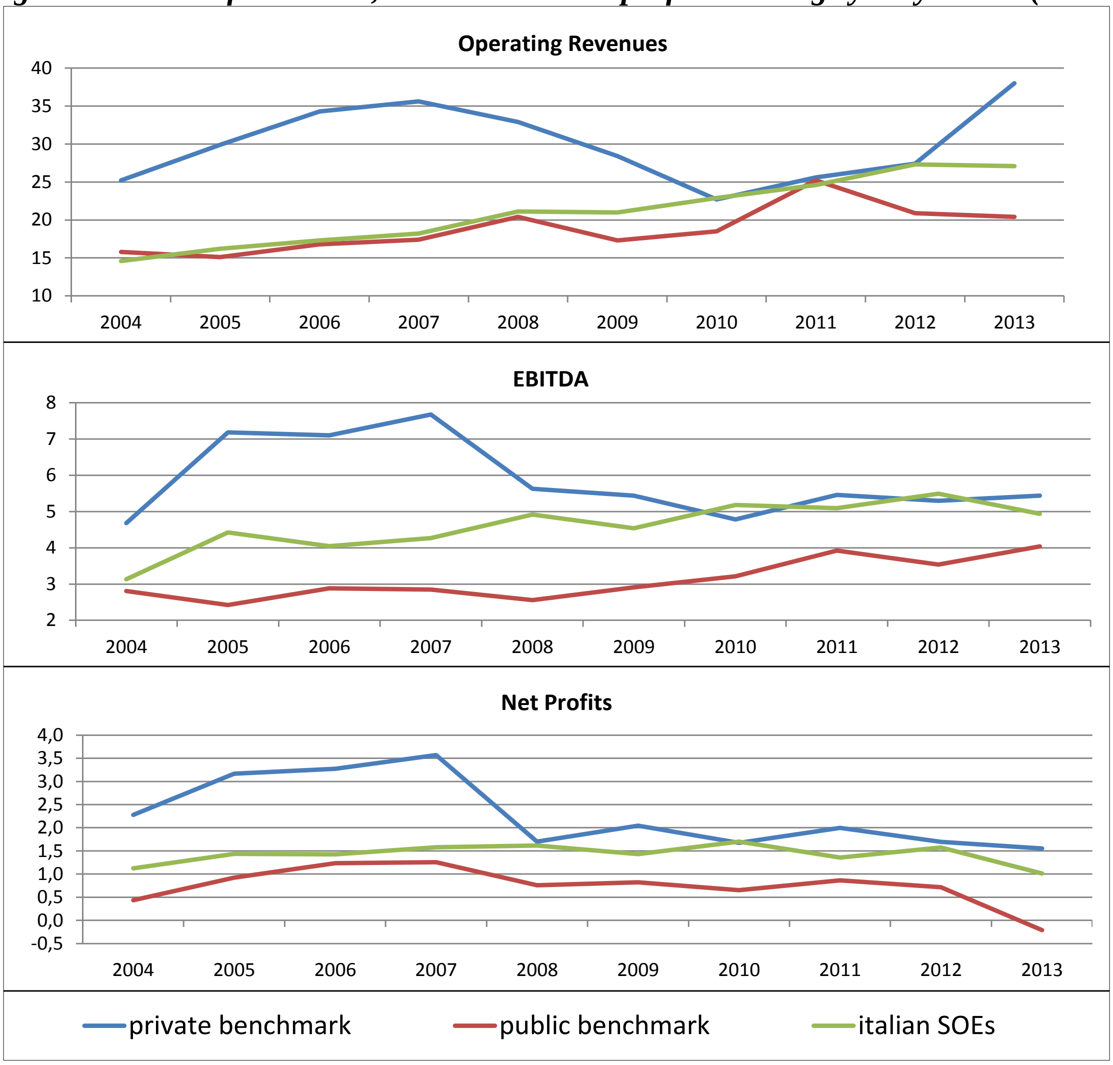
6.1 Italian SOEs as economic players: profitability

Traditional SOEs were widely found to be unprofitable, and the Italian SOEs did not represent an exception to this case. Their excessive and unsustainable burden on public finances were one of the main motives for promoting privatizations also in Italy. Are these arguments still valid after the Italian SOEs have reformed their corporate, legal and corporate profile? We want to assess whether the modern Italian SOEs are still unprofitable and, in particular, what is their impact on the national public finances. In general, contemporary SOEs do not directly affect public finances anymore. After they have reformed their legal status, they face budget autonomy and the European State Aid rule strictly regulates and limits economic transfer from the states to enterprises. Nevertheless, as controlling shareholder, the state is entitled to receive an amount of dividends in proportion to the percentage of owned shares, while public finances are likely to decrease due to the transfer from the state to its SOEs by virtue of specific contracts for the provision of a universal service under no direct costs' remuneration. We first compare the economic performance of the Italian SOEs with their industry peers first by looking at their average revenues, EBITDA and net profits. Aggregated data show that the Italian SOEs, on average, have earned over the period 2004-2013 positive net profits. In particular, we observe that SOEs

[13] We have not found a private benchmark for "Poste Italiane" since most of the postal services in EU is provided by a SOE, while we have not found an appropriate state-owned benchmark for the firm "Stmicroelectronics".

and their state-owned benchmark face a comparable trend with respect to all the considered variables, though, on average, the former shows higher values than the latter. Conversely, before the financial crisis the private benchmark shows significantly higher revenues, EBITDA and profits than the Italian SOEs, while their values tend to converge after 2008. This suggests that the crisis has affected more private than SOEs.

Figure 4. Trend of Revenues, EBITDA and net profits – average yearly values (mln €)

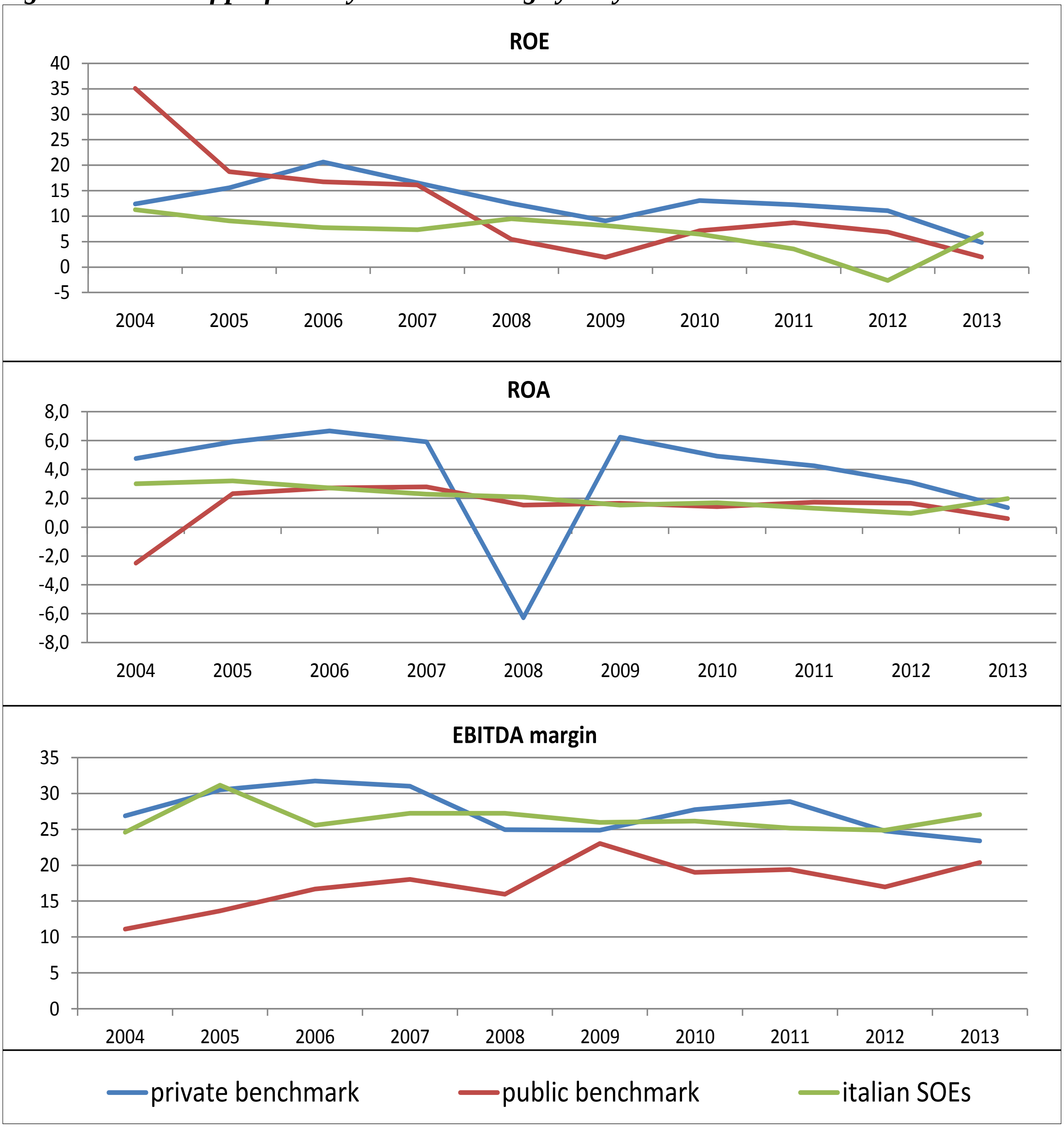


Source: own elaboration on Amadeus.

Profitability ratios allow for a better comparability among enterprises with different size. They confirm that, on average, the profitability of the Italian SOEs is aligned to their state-owned European peers and quite comparable with their European private peers. Disaggregated data at a firm level show some heterogeneity in the Italian SOEs profitability. Notably, only those firms operating in the energy sectors – Eni, Enel, Terna and Snam – plus Poste Italiane show positive profit ratios over time. Conversely, FS and STMicroelectronics incurred in economic losses before 2008, while their profit ratios turned positive in the last period 2009-2013. In particular, FS' profit increase has been mainly due to the entry into operation in 2007 of the High Speed network. The opposite occurred when looking at Finmeccanica and Fintecna, whose profits have declined after the economic crisis. Finally, RAI shows negative data over the whole period.

When comparing the Italian SOEs to their respective private and state-owned peers we observe that the Italian energy SOEs – Enel, Terna and Snam – show better or highly comparable profit ratios. In particular, those enterprises operating in the energy sectors, and in particular the grid/pipeline operators, have the highest profitability ratios. Eni, Poste Italiane and Fincantieri show better values for just one of their peers, while the other Italian SOEs have a worse performance than both their private and public benchmarks.

Figure 5. Trend of profitability ratios – average yearly values



Source: own elaboration on Amadeus.

6.1.1 Dividends and subsidies

After having undergone some major reforms, Italian SOEs are on average profitable firms, with remarkable differences among firms and sectors. How are these profits employed? To which extent are their kept inside the firm and used for investing in the future of the company or distributed among shareholders in the form of dividends? In this section we first focus on the Italian listed SOEs, as they are the most profitable ones, and we try to infer whether their dividend policy differs with respect to the private listed enterprises. For this purpose, we focus on their dividend yield over the period 2009-2013: the ratio of the last annual dividend per share paid to shareholders and the share closing price.

Table 7. Dividend Yield for Italian listed major SOEs

	2009	2010	2011	2012	2013	2009-2013 mean
ENEL	7,1	7,4	7,3	5,9	4,8	6,5
Eni	6,8	6,2	7,1	6,5	6,5	6,6
Finmeccanica	4,0	4,5	0,0	0,0	0,0	1,7
Snam	6,2	6,5	6,6	7,4	6,8	6,7
STMicroelectronics	5,1	4,9	5,3	6,8	4,8	5,4
TERNA	7,4	6,8	7,5	7,2	6,0	7,0
Mean SOEs	6,1	6,1	5,6	5,6	4,8	5,7
Mean top ten private firms	5,9	3,7	4,9	5,4	4,0	4,8

Source: own elaboration on Mediobanca.

Over the period 2009-2013 the Italian SOEs granted a higher dividend yield than the top ten private companies listed on the Italian stock exchange. This suggests that some of the Italian SOEs, and the listed ones in particular, not only have turned into well performing and profitable firms; they also bring some relevant revenues to their shareholders. This also brings us to exclude that, when listed, the Italian SOEs behave in a significant different way from other private enterprises in terms of dividend policy. If anything, this suggests that Italian listed SOEs are instructed to distribute among their shareholders a high share of their positive profits in the form of dividends. The following table reports the amount of dividends that the Italian listed have distributed to their controlling and minority shareholders over the period 2009-2013. RAI and FS are not reported as they have not distributed dividends over the considered period. Data show that the Italian SOEs have distributed a higher amount of dividends than the top 30 private listed firms. On average, 2.4 bln €/year of dividends have been distributed to the public shareholder over the period 2009-2013. This points out that the control of some enterprises by the Italian central government ensures some positive economic returns and suggests that one of the driving motives for keeping these firms under public control is that these firms are profitable and bring to the state a non-negligible amount of economic entries which increase public finances. The opportunity costs of distributing dividends is given by a lower amount of profits which could be kept into the firms and that would improve the firm's financial position (liquidity) allowing to develop long-term investments with a lower leverage position. If anything, this suggests that for the Italian listed SOEs the short-term dividend goal weights strongly. Thus, we have not found a clear evidence that, when listed, the Italian SOEs strongly diverge from private enterprises in terms of profit and dividends.

Table 8. Distribution of dividends among controlling and minority shareholders (€ mln.)

	2009	2010	2011	2012	2013	2009-2013
ENI						
Controlling shareholder	1,097	1,097	1,142	1,178	1,200	5,714
Total shareholders	4,079	4,188	4,371	4,118	3,986	20,741
ENEL						
Controlling shareholder	734	823	764	441	382	3,144
Total shareholders	2,351	2,675	2,483	1,452	1,273	10,233
TERNA						
Controlling shareholder	114	126	126	120	120	606
Total shareholders	381	421	422	402	402	2,028
SNAM						
Controlling shareholder	-	-	-	424	326	750
Total shareholders	-	-	-	845	845	1,690
STMICROELECTRONICS						
Controlling shareholder	47	73	75	74	71	340
Total shareholders	171	264	274	269	258	1,236
FINMECCANICA						
Controlling shareholder	72	72	-	-	-	143
Total shareholders	237	237	-	-	-	474
POSTE ITALIANE						
Controlling shareholder	150	500	350	350	250	1,600
Total shareholders	150	500	350	350	250	1600
FINTECNA						
Controlling shareholder	30	30	30	100	100	290
Total shareholders	30	30	30	100	100	290
Total SOEs						
Controlling shareholder	2,244	2,721	2,487	2,263	2,123	11,837
Total shareholders	7,399	8,315	7,930	6,691	6,269	36,602
Weight controlling shareholder	30%	33%	31%	34%	34%	32%
Private enterprises listed on the Italian Stock exchange						
Controlling shareholder	1,067	876	1,089	1,651	1,040	5,723
Total shareholders	3,396	3,177	3,214	3,363	2,526	15,676
Weight of the controlling shareholder	31%	28%	34%	49%	41%	37%

Source: own elaboration on Mediobanca and firm annual reports.

We finally compare the revenues returned to the Italian governments in terms of dividends with the transfers made by the state to certain SOEs by virtue of specific program contracts or agreements for the provision of an universal service. We observe that over the period 2009-2013 the amount of transfer to the Italian SOEs which are subsidized to provide a universal service (FS and Poste Italiane) is comparable with the total amount of dividend distributed by the Italian SOEs. Nevertheless, only part of the dividends has been distributed to the public controlling shareholder, thus the government incurred over the period 2009-2013 in a deficit equal to 24 mln euros. Moreover, the firms receiving the public transfer are different from those who earn positive profits and have distributed dividends to the government. This constitutes a kind of cross-subsidization among firms and sectors which brings us to distinguish those SOEs, which are listed, profitable and do not show significant differences with respect to private enterprises, from other enterprises, such as RAI, Poste Italiane and FS, which are unlisted, wholly controlled by the state, and mainly unprofitable. Indeed, RAI has incurred in losses, while the positive net profits registered by Poste Italiane and FS in the last years could have been influenced by the direct transfers they received from the government in terms of both current and capital assets. It is worth to mention that these firms are the most labor intensive ones and that, after their corporatization, they have improved their corporate organization and the quality of their management. Moreover, they have expanded their business into new and more profitable markets (high speed rail for FS and financial services for Poste Italiane). What can we infer is that these companies have the duty to provide a public service, and the related costs are mainly financed through direct transfers from the central government rather than being entirely passed through into final prices. Though assessing the quality of these services goes beyond the scope of this paper, this analysis has highlighted that both the services provided by this latter category of SOE and the way these services are financed can be linked to an informal public mission, which is the provision of a universal service financed through a cross-subsidization system.

Table 9. Surplus and Deficit between transfers and dividends (€ mln.)

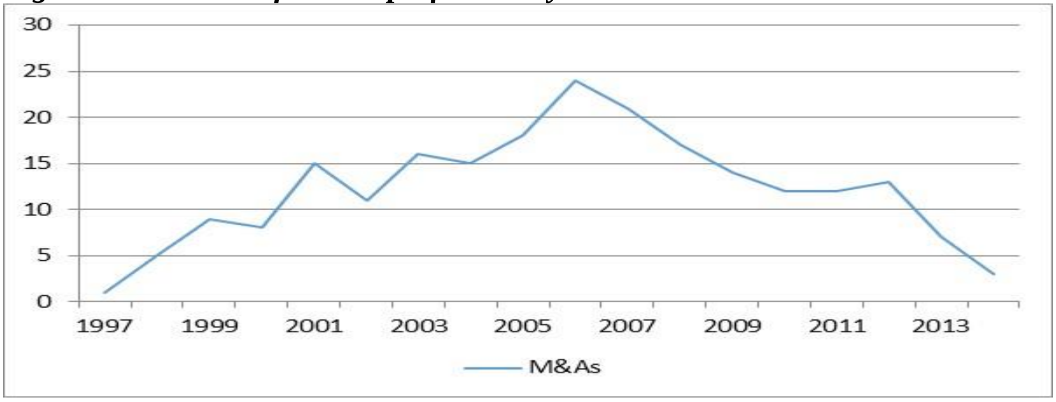
	Transfer from Italian Government		Dividends By Italian SOEs		Total Dividends – Total Transfers	Dividends to – Transfers from the central government
	Poste Italiane	**FS**	**All Shareholders**	**Controlling shareholder**		
2009	682	9,134	7,399	2,244	-2,417	-7,572
2010	489	5,806	8,315	2,721	2,020	-3,574
2011	380	6,484	7,930	2,487	1,066	-4,377
2012	360	7,559	6,691	2,263	-1,228	-5,656
2013	350	5,228	6,269	2,123	691	-3,455
Total	2,261	34,211	36,602	11,837	130	-24,635

Source: own elaboration on Mediobanca, Aida, Arrigo and Di Foggia 2013; 2014; FS and Poste balance sheets data. State transfers to FS are inclusive of both current and capital assets.

6.2 Italian SOEs as global players: internationalization

As discussed above, for SOEs profit-oriented activities rapidly grew in values and strategic importance. SOEs used to hold a monopolistic position in their domestic markets. Recently, market liberalization gave as well to SOEs the opportunity to explore new business opportunities in a global scenario. They have been increasingly playing an active role in the financial markets and to diversify their business and expand internationally though cross-border M&As. In particular, Italian SOEs have been quite active players in the Market for Corporate Control. We have recorded 327 deals between 1997 and 2014. This activity has increased before the financial crisis, and then it declined.

Figure 6. Number of M&As performed by Italian SOEs in the new millennium



Source: own elaboration on Zephyr.

Eni, Enel and Finmeccanica are the most active Italian SOEs in the market for corporate control. Together, they cover more than 70% of these deals. Respectively, 57%, 48% and 36% of their deals targeted firms outside Italy. While the internationalization of ENI and FINMECCANICA is not a recent phenomenon, ENEL used to operate only within domestic borders. Thus, the pattern of M&As performed by ENEL is informative on how ENEL has re-oriented its business strategies by looking at new expanding markets and facing the challenge of competition in a globalized scenario. The ENEL's internationalization has been a radical change, boosted by the takeover of ENDESA, the Spanish power incumbent with a leading position in Latin America. Today, the Group serves approximately 61.5 million power and gas customers in 40 countries worldwide (Soda et al., 2012).

Interestingly, also FS, Snam and Terna have expanded their economic activities beyond the Italian borders, consistently with the increased geographical scope and European integration of the markets where they respectively operate. In particular, FERROVIE DELLO STATO recently internationalized mainly in the German market with NETINERA for passengers and with TX LOGISTICS for freight (Di Giulio & Moro, 2015) . Conversely, Poste Italiane, RAI, Cassa Depositi e Prestiti and Fintecna have performed a lower amount of M&As, and mainly at a domestic level.

Table 10. Domestic and cross-border M&As by the Italian major SOEs

	Domestic M&A	Cross-border M&As	Share of cross-border deals	Target countries
CDP	12	4	25%	AT, GB, NL
Enel	47	44	48%	BG, CL, DE, DZ, ES, FR, GR, NL, PA, RO, RU, SK, SV, TR, US
Eni	36	48	57%	BE, BR, CH, CZ, DE, DZ, ES, FR, GB, HU, IN, IR, NG, NL, NO, PL, PT, SK, TR, UA, US, VG
Finmeccanica	39	22	36%	ES, FR, GB, LY, MY, NL, RU, TR, US
Fintecna	10	0	0%	-
FS	3	6	67%	DE, FR
Poste Italiane	11	1	8%	RU
RAI	2	0	0%	-
Snam	16	7	30%	AR, BE, GB, GR
Terna	17	8	47%	BR, ME, SM, DE
Total	185	134	42%	

Source: own elaboration on Zephyr.

A look at the corporate re-organization through subsidiaries controlled by each SOE confirms the SOEs' expansion in the global arena. The number and percentage of subsidiaries held abroad in different countries confirm that Eni and Finmeccanica are highly internationalized, as 80% of their subsidiaries are located out of Italy, respectively in 53 and 37 foreign countries and various continents. Even more interestingly, firms that used to operate within domestic borders, such as Enel, Terna, Snam and FS, have caught the opportunity of market liberalization to expand their business abroad. While ENEL has become a global player, owning subsidiaries also in North America and Latin America, Snam Terna and FS have mainly expanded in Europe, where markets have been increasingly integrated bringing domestic players to compete in an enlarged scenario.

Table 11. Domestic and foreign subsidiaries controlled by the Italian major SOEs

Company	**Domestic Subsidiaries**	**Subsidiaries abroad**		**Foreign Countries**
	N	**N**	**%**	**N**
Enel	17	25	60%	7 (BE BR CA CL ES NL US)
Eni	71	347	83%	53 (AE AO AR AT AU BE BM BR BS CA CG CH CN CY CZ DE DO DZ EC EG ES FR GA GB GR HU ID IE IN IQ KW KZ LU LY MA MZ NG NL NO PG PL PT QA RO SA SG SI TN TT UA UG US VE)
Fincantieri	23	14	38%	8 (AE BE BR DK IN NL NO US)
Finmeccanica	75	288	79%	37 (AE AR AU BE BR BW CA CH CN DE ES FR GB HK HU IE IN KZ LK LU LY MU MX MY NL PL PT QA RO RU SA SE TR UA US VE ZA)
FS	22	67	75%	8 (AT BE CH DE DK FR NL SE)
Poste Italiane	41	2	5%	2 (BR DK)
RAI	11	3	21%	2 (FR US)
Snam	11	5	31%	3 (BE FR NL)
Stm	9	1	10%	1 (MT)
Terna	5	8	62%	5 (BE DE ME SM TN)

Source: own elaboration on Aida.

Next, we assess which part of the SOEs' revenues and employees refers to domestic or foreign markets. We focus on the Italian listed SOEs which have shown a higher propensity towards internationalization and we compare them with the top 30 private companies listed on the Italian stock exchange. Interestingly, we find that the Italian listed SOEs generate more than 50% of their revenues outside Italy. STMicroelectronics and Finmeccanica operate mainly abroad and their foreign revenues represent respectively 98% and 80% of their total revenues. On average, their share of cross-border revenues is highly comparable with the ones by the top private listed Italian enterprises, which show a high degree of internationalization. Conversely, the core business of network operators and basic service providers, such as Poste Italiane, FS, Snam, RAI and Terna is still mainly focused on the domestic market, though they own some assets even outside Italy, and they do not report significant data on cross-border revenues.

Table 12. Domestic and cross-border revenues (€ mln.)

	Domestic Revenues			Cross-border Revenues			Share of cross-border revenues (%)		
	2009	2012	2013	2009	2012	2013	2009	2012	2013
Enel	30,739	32,695	32,566	31,759	50,004	44,692	51	61	58
Eni	27,950	33,998	32,044	55,277	93,222	82,678	66	73	72
Finmeccanica	3,975	3,119	2,829	14,201	14,099	13,204	78	82	82
Snam	2,438	3,405	3,416	0	0	0	-	-	-
STMicroelectronics	11	26	20	927	1,327	1,403	99	98	99
Terna	1,317	1,724	1,839	0	0	0	-	-	-
Total SOEs	66,430	74,967	72,714	102,164	158,652	141,977	61	68	66
Private listed corporations	63,617	55,995	52,784	91,770	176,697	175,561	59	76	77

Source: own elaboration on Zephyr and Mediobanca.

Part of the share of cross-border revenues is export-driven, thus the comparison between domestic and cross-border employees gives a clearer information about the degree of firms' internationalization through delocalization/relocalization. Enel and Eni show highly comparable shares of cross-border revenues and cross-border employees. This points out that they have effectively internationalized and expanded their business by delocalizing plants and activities beyond the national borders. Since they employee more than 50% of their employees outside Italy, it is difficult to argue that they have been following a clear public mission in terms of employment policies. Conversely, in the case of Finmeccanica the share of cross-border revenues doubles the share of cross-border employees. This implies that a relevant part of their cross-border revenues is export driven, as its manufacturing activity is mainly based in Italy.

Table 13. Domestic and cross-border employees

	Domestic employees			Cross-border employees			Share of cross-border employees (%)		
	2009	2012	2013	2009	2012	2013	2009	2012	2013
Enel	38,121	36,114	34,269	43,087	37,588	37,125	53	51	52
Eni	35,085	26,804	26,782	42,633	51,034	55,507	55	66	68
Finmeccanica	43103	39771	37663	29953	27637	26172	41	41	41
Snam	6,307	6,067	6,034	0	0	0	0	0	0
Terna	3,447	3,433	3,442	0	3	3	0	0	0
Total SOEs	126,063	112,189	108,190	115,673	116,262	118,807	48	51	52
Private listed corporations	229,798	222,106	222,334	280,777	419,155	419,217	55	65	65

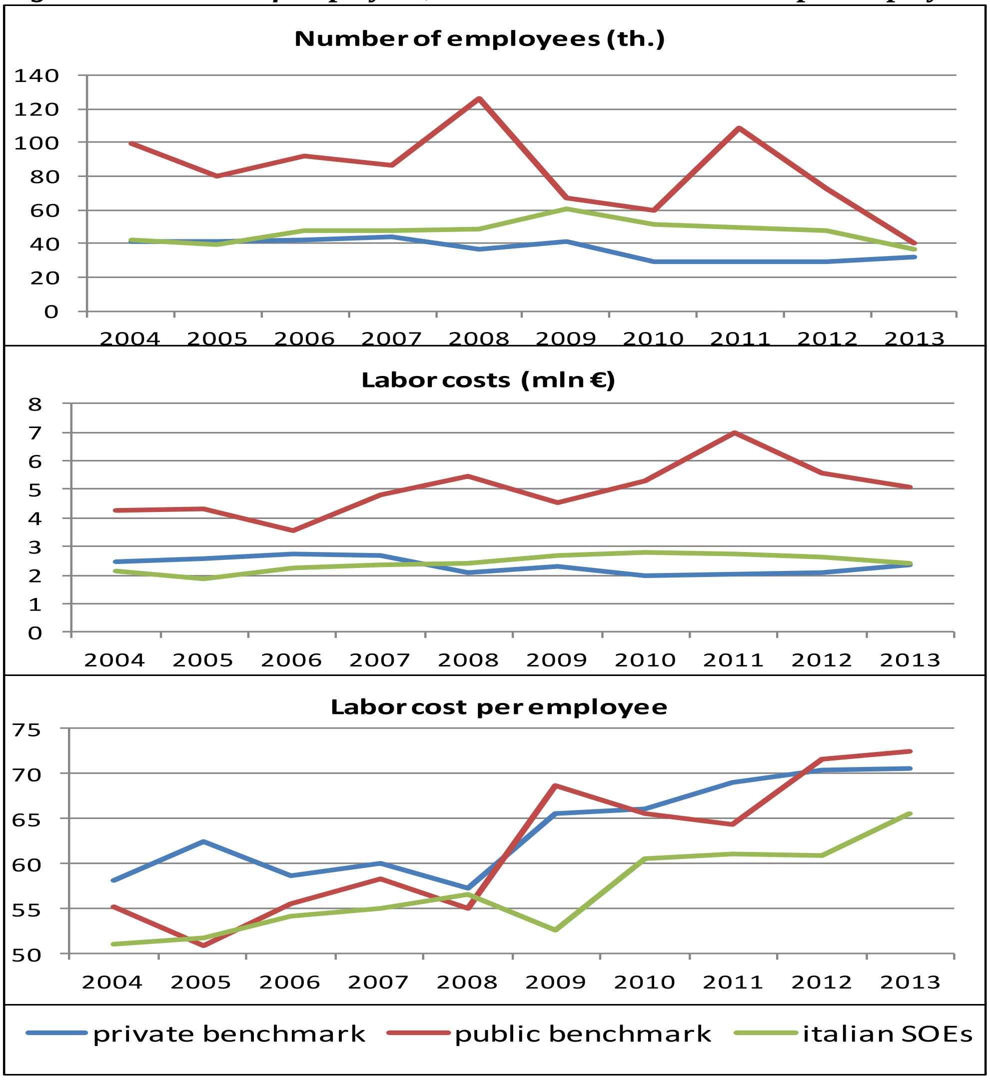
Source: own elaboration on Zephyr and Mediobanca.

6.3. Italian SOEs as employers

In this section we try to gain further insights on the SOEs' approach towards employment. We observe that the Italian SOEs are on average quite aligned to their private European benchmarks in terms of number of employees and labor costs, while they show lower value than their state-owned European peers. In detail, the number of workers employed by Italian SOEs has decreased over time (-11% from 2004 to 2013 from 41,858 to 37,140), while labor costs have grown by 12%. The same trends, though more pronounced, can be observed for the European state-owned firms. As a result, the Italian SOEs' labor costs per employee show an increasing trend over the period 2004-2013, though on average they are lower than their private and public European peers. This brings us to exclude the risk that the central government has interfered with the management of their controlled firms to support employment, as it used to take place in the past decades.

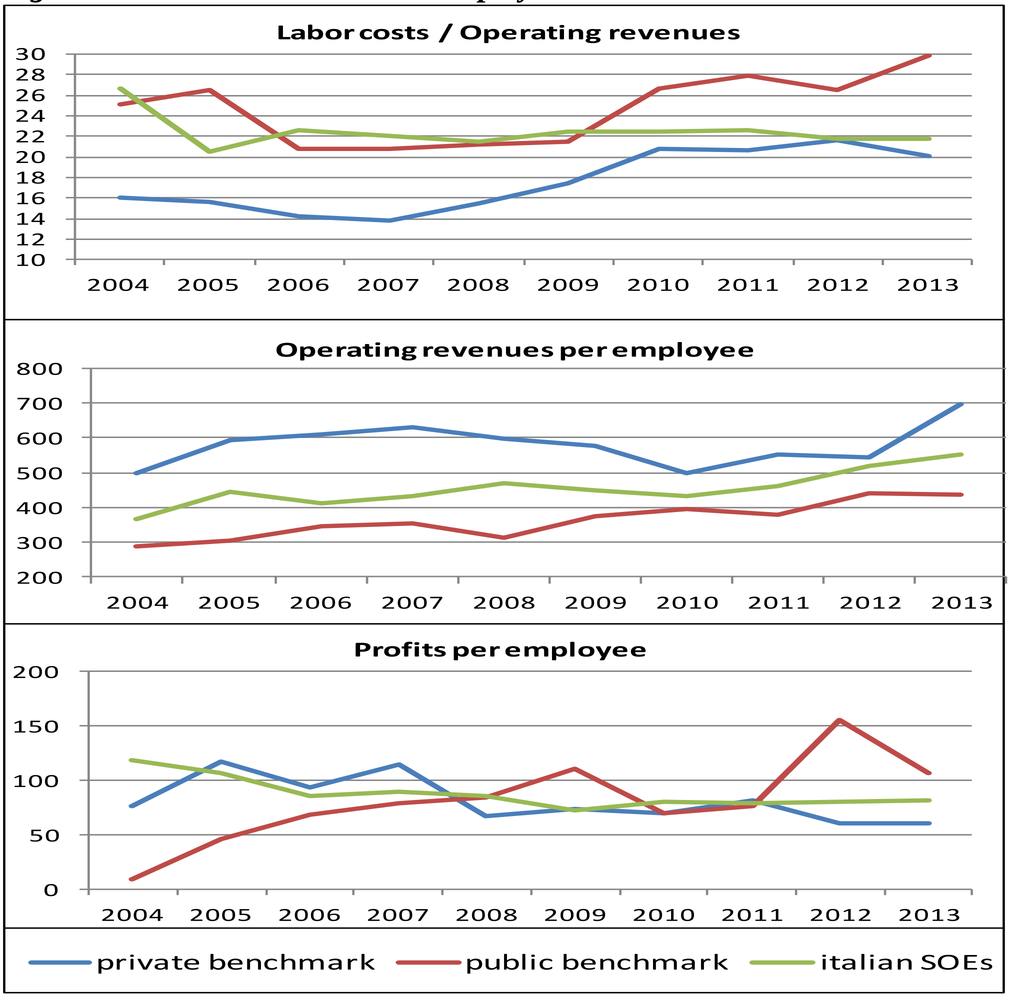
We also look at some "per employee ratios" as a proxy for the labor productivity. Figure 8 shows that, on average, over the period 2004-2013, labor costs cover 22% of the operating revenues for the Italian SOEs – in between the values registered by the public benchmark (25%) and the private benchmark (18%) – and they show a declining trend mainly due to their revenues' increase over time. For the same reason, also operating revenues per employee increase over time, like in their benchmark cases. Moreover, the Italian SOEs and their private industry peers have on average similar profits per employee and both show a declining trend over time, as the number of employees decreases more than their profits. In terms of labor productivity we do not find significant differences among firms depending on their ownership nature.

Figure 7. Number of employees, labor costs and labor costs per employee



Source: own elaboration on Amadeus.

Figure 8. Labor costs ratios and employee ratios



Source: own elaboration on Amadeus.

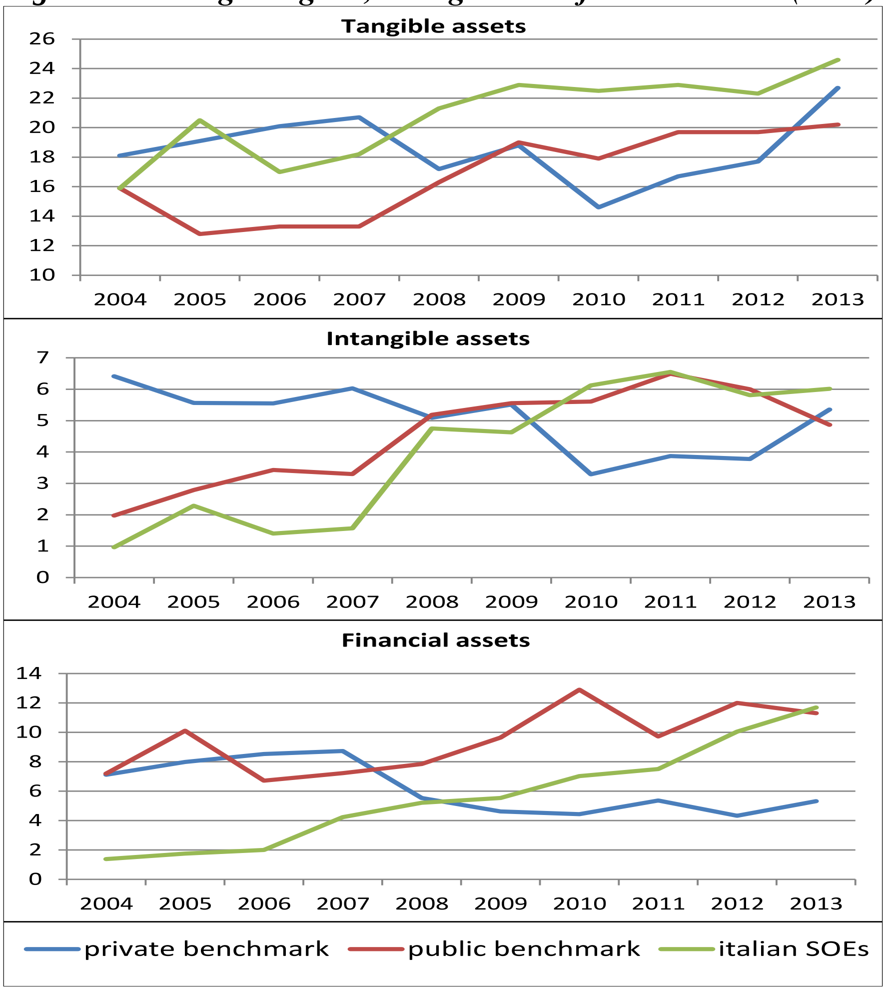
These data do not show strong divergences among the Italian SOEs and their industry peers in terms of employment policies and productivity. To gain more insights we first focus on the Italian SOEs and then we compare each of them with their respective private and state-owned peers.

First it should be noticed that the postal service is the most labor intensive service, followed by the rail service. In Italy, while the number of people employed by Poste Italiane and the related labor costs have increased over time, they have instead declined in the case of FS. Interestingly, FS shows lower labor costs per employee than its European peers. Moreover, the ratio between the labor costs and revenues is highest in the case of FS (higher than its peers and other Italian SOEs), though it has significantly declined over time as a consequence of a management more aligned to the private standards. Among the other SOEs, Poste Italiane, RAI, Finmeccanica and STM show higher percentage of labor costs over revenues. Conversely, Enel, Eni, Snal and Terna the highest operating revenues and profits per employee, mainly because they are capital intensive sectors. Notably, the firms operating in the energy sectors are highly comparable of slightly better than their respective peers and the same holds for Poste Italiane and Finmeccanica. Conversely, FS, RAI and Stmicroelectronics are worse than their respective peers.

6.4 *Italian SOEs as investors*

The trend of assets is quite informative about the type of investments undertaken by various companies. In particular, we observe that Italian SOEs on average behave more likely to their public industry peers than to the private ones in terms of investments. Indeed, both the Italian SOEs and their state-owned industry peers have increased their investments in tangible assets over time, the former more than the latter. Their long-term strategies do not seem strongly influenced by the financial crisis. Conversely, the private industry peers have significantly reduced their tangible assets during the financial crisis, while increasing them in the new decade. Concerning the intangible assets, state-owned and private enterprises show opposite trends. State-owned firms have increased their investments in intangible assets during the first decade of the 2000s, while reducing after the European economic recession. Conversely, private enterprises have divested until 2010, while increasing their investments in the new decade. In 2013, the level of intangible assets is quite comparable among SOEs and private counterparts. Similarly, Italian SOEs and their public European peers on average have increased their financial assets, while privates have lowered them over time.

Figure 9. Average tangible, intangible and financial assets (bln €)



Source: own elaboration on Amadeus.

The firm detail confirms that the energy and the rail sectors are the most capital intensive ones. Notably, FS, Enel and Eni have significantly higher fixed assets than the other Italian SOEs. Enel and Eni have increased over time their investments in tangible assets in correspondence with their increased internationalization. Conversely FS has significantly lowered its tangible assets[14]. Enel has the highest amount of intangible assets, followed by Eni, Finmeccanica and Snam. Poste Italiane shows the highest and fastest increasing amount of financial assets, mainly as a consequence of its increased activity of savings' collection through its subsidiary Bancoposta, followed by Eni, Enel and FS which have increased their shares and credits in other enterprises during the first decade of the 2000s.

7. Conclusions

This paper has provided an analysis of behavioural and institutional features concerning the most important among contemporary Italian SOEs. Although these corporations have very different organizational legacies and face heterogeneous and often idiosyncratic markets some general trends can be drawn.

A first overarching finding concerns the size and the scope of Italian state capitalism. To this respect, it can be said that, after major retreat from specific sectors such as telecommunication and motorways, occurred in the late 1990s, state direct intervention in the economy through publicly controlled companies remained a stable feature. In second place, with the sole exception of the national broadcasting company, RAI, Italian SOEs underwent a deep restructuring of both their structures and strategies toward models, which are peculiar of the private sector in terms of corporate structure and orientation to profitability.

Nonetheless, with respect to this latter dimension, the sample of corporations examined also highlighted relevant differences. On the one hand, in fact, the national champions of energy such as ENI and ENEL and the aerospace manufacturer FINMECCANICA underwent the most radical transformation, in line with (and because of) the deep restructuring of the markets they face, which are becoming even more deregulated and internationalized. They have been partially privatized and listed on the stock market, even if the state still maintains controlling power. Moreover, the gas and electricity grids, respectively SNAM and TERNA, once vertically integrated to ENI and ENEL, have been recently unbundled, listed on the stock market and put under the control of Cassa Depositi e Prestiti.

Conversely, companies such as FINTECNA, POSTE and FS underwent a more smooth transformation. They in fact have been only corporatized, since the state so far has kept 100% of shares. Moreover, these companies have faced a more stable and protected business environment, often characterized by highly subsidized sectors,

[14] We believe this change is accounting-based and it derives by the adoption of the international standards IAS / IFRS. Indeed, in these years FS has not divested its assets nor it has sold some of its subsidiaries. Conversely, the length of the rail network has slightly increased from 16,686 to 16,704 km. The reduction in the value of the FS' tangible assets by 23 bln € has corresponded to a reduction of the risks fund by 25 bln €.

as in the case of railway services. Nonetheless, also in these cases, as SOEs started to mark profits the corporate strategies are becoming more business-oriented. In the last decade, POSTE has strongly diversified its activities, becoming a relevant player in the market of financial services and even a traditionally loss-making corporation such as FS started to internationalize its business in Europe. Also within FINTECNA, the last of IRI's manufacture assets kept by the state, recent reshufflings has been implemented since FINCANTERI, its main subsidiary, has been listed in the stock market in 2014 and has recently obtained two large orders, respectively from the Italian Marine and the MSC shipping company, amounting to €5 bn.

In parallel with the emerging market orientation of main SOEs, the paper highlighted a general weakening of the "publicness" of these corporations. No specific mention to public goals can in fact be traced in their statutes. Of course, Italian SOEs provide the large majority of universal services and normally carry out environmental, cultural or social projects, alone or in partnership with third sector organizations. This, nonetheless, does not represent a distinctive characteristic of public enterprises, as also privately owned companies are often involved (and benefit from) such "socially responsible" activities.

If one of the direction undertook by Italian state capitalism, thus, seems to be that of a profit-oriented conversion of SOEs, less certain is so far what the state is intended to do with its ownership rights. On the one hand, in fact, all the last national executives have expressed their commitment to further privatize SOEs and some steps in this direction have been made. The Treasury stakes in ENI, ENEL and FINMECCANICA have been constantly diluted over time, and further divestiture are constantly announced. In October 2015, POSTE has been partially privatized, with a 40% stakes listed on the stock market, and a similar operation has been announced as imminent also for state divestments nonetheless, does not mean per se a retreat of public ownership but rather its restructuring within the broader context of Italian capitalism. In this perspective could be interpreted, for instance, the emergence of CDP, which absorbed some of the most strategic assets previously controlled by the Treasury. This financial body is increasingly active in PPP investment projects in which, nonetheless the public stake often outnumbers the involvement of private partners.

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Appendix

Table A.1. List of private and state-owned industry peers

	Country	Sector of activity	State-owned*
Enel	Italy	Energy	1
E.On	Germany		0
EdF	France		1
ENI	Italy	Oil and gas	1
Total	France		0
GDF Suez	France		1
Snam	Italy	Transport via pipeline	1
National Grid GAS	UK		0
Grtgaz	France		1
Terna	Italy	Transmission of electricity	1
Red Electrica De Espana	Spain		0
Alliander	Netherlands		1
FS	Italy	Rail transport	1
Network Rail	UK		0
Deutsche Bahn	Germany		1
Soc. Nat. des Chemins De Fer	France		1
Poste Italiane	Italy	Postal activities	1
Die Schweizerische Post	Switzerland		1
Deutsche Post	Germany		1
LA Poste	France		1
RAI	Italy	Broadcasting activities	1
Mediaset	Italy		0
France Televisions	France		1
Finmeccanica	Italy	Manufacture of air and spacecraft	1
BAE Systems	United Kingdom		0
Thales	France		1
Fincantieri	Italy	Building of ships and floating structures	1
Azimut - Benetti.	Italy		0
Navantia SA	Spain		1
D C N S	France		1
Stmicroelectronics	Italy	R&D natural sciences and engineering	1
Infineon Technologies Bipolar	Germany		0
NXP Semiconductors	France		0

Source: own elaboration on Amadeus *The value equals 1 when the firm is state-owned and zero otherwise; **The value equals 1 when the firm is listed, and 0 otherwise.

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