Utilities Policy xxx (2016) 1–10

Contents lists available at ScienceDirect

Utilities Policy

journal homepage: www.elsevier.com/locate/jup

The loss of public values when public shareholders go abroad

Judith Clifton [a, *], Daniel Diaz Fuentes [a], Mildred Warner [b]

[a] University of Cantabria, Spain
[b] Cornell University, United States

ARTICLE INFO

Article history:
Received 2 September 2015
Received in revised form
10 November 2015
Accepted 16 November 2015
Available online xxx

Keywords:
Utilities
Utility reform
Internationalization
Public values
Public shareholder

ABSTRACT

Governments emerged as “international public shareholders” when publicly-owned utilities developed into some of the world's largest multinationals. This article enquires whether these international public shareholders maintain their public values when operating abroad. Taking a public values approach, we assess whether public values were transferred across borders focusing on five core dimensions: financial, economic, social, technical and environmental. We analyze the internationalization activities of two large public utilities, Vattenfall and Endesa - strategically selected for representing strong and weak public values – in their major markets in Europe and Latin America. We find that, irrespective of the relative strength of the initial public values legacy of the public utility, the lure of financial success trumped other competing objectives associated with the public shareholder abroad.

1. Introduction

Policies of privatization, liberalization and deregulation dramatically reshaped the regulatory environment of public utilities in the Western world from the 1980s onwards (Clifton et al. 2003; Florio, 2013; McDonald, 2014). Early expectations were that an ensuing privatization “boom” into utilities would constitute some kind of panacea, resolving problems of under-investment, transferring know-how and de-politicizing public enterprise management by subjecting it to the disciplines of competition and financial markets (Clifton et al., 2006). These reforms, it was argued, would render utilities more efficient (Kessides, 2005). Final users – firms and citizens – would be beneficiaries of these reformed utilities, most obviously through price reductions but also through greater consumer choice, and improved social welfare.

In retrospect, even the World Bank and the Organization for Economic Cooperation and Development (OECD) have acknowledged that things did not go quite as planned, and that reforming utilities in these directions was much more complex than first anticipated (Estache, 2006; OECD, 2002). After three decades of utility reform, investment and know-how transfer around the world have been asymmetrical as cream-skimming predominated. Moreover, introducing competition into utilities has been notoriously complex (OECD, 2002). The original policy to introduce competition “in” the market was diluted to introducing competition “for” the market (Archibugi et al., 2003). Liberalization triggered a wave of Mergers and Acquisitions, which resulted in increased market concentration in energy markets in Europe (Thomas, 2003). Meanwhile, new evidence emerged that prices rose, citizen satisfaction was uneven: vulnerable consumers and those living in rural areas were often less satisfied with reformed utilities (Clifton et al. 2014; Florio, 2013). Additionally, citizens living in rural areas expressed lower satisfaction with some services when compared to their urban counterparts (Clifton et al., 2016). Meta-regression analysis of privatization and costs provided no statistical support for cost savings (Bel et al. 2010).

Despite these reforms, public ownership and involvement in utilities did not disappear. Even after the wave of privatization, instances of public ownership of utilities could still be found around the world. For example, some governments used public ownership to protect utilities from hostile takeovers, treating them as “national champions” (Clifton et al., 2010). Hence, when dozens of utility providers expanded their activities abroad from the 1990s, this meant that some of the world's largest multinational utility firms were still partly or fully publicly-owned. Indeed, utility privatization itself proved reversible when privatized utilities were taken over by partially publicly-owned ones (such as the case of Spanish Endesa's acquisition by Italian Enel, as we discuss). In Germany and France, a process of re-municipalization of utilities has begun, especially in water (Hall et al. 2013; Chong et al. 2012).

* Corresponding author.
E-mail address: judith.clifton@unican.es (J. Clifton).

http://dx.doi.org/10.1016/j.jup.2015.11.003
0957-1787/

Please cite this article in press as: Clifton, J., et al., The loss of public values when public shareholders go abroad, Utilities Policy (2016), http://dx.doi.org/10.1016/j.jup.2015.11.003

Even though austerity policies in Europe mean some governments are being forced to privatize assets, counter-movements are emerging against privatization, particularly in Cyprus, Greece and Spain (Warner and Clifton, 2014). UNCTAD (2013) data on conflict disputes shows renegotiations of foreign takeovers are on the rise. In Latin America, re-nationalization, particularly in the energy sector, has been led by countries such as Bolivia (Farthing and Kohl, 2014), while a process of re-municipalization is also occurring at the level of city utilities (Pigeon and McDonald, 2012). In the US, contracting back in previously privatized services is equal to levels of new contracting out (Warner and Hefetz, 2012) while inter-municipalization is rising (Warner and Bel, 2008, Bel and Warner, 2015). In sum, though there have been some apparently successful cases of utility privatization, their reform is surrounded by controversy and unresolved policy issues (Hefetz et al., 2014).

One of the most intriguing and under-explored consequences of utility reform is associated with the trend whereby the new regulation enabled formerly nationally-based utilities to go abroad in search of new business. In just a few years - through an accelerated process of Mergers and Acquisitions - a number of utilities emerged as some of the world's largest multinationals. While some of these are fully privately-owned, others are still partly or wholly in public hands. Scholars have paid attention to the determinants and patterns of utility internationalization. Little attention, however, has been paid to the fact that this development implies new roles, risks and opportunities for governments as final owners of these multinationals. Governments, in other words, emerged as international public shareholders, shouldering new responsibilities abroad, for foreign citizens, organizations, firms and ultimately other governments, which depend on the services they provide.

Core questions arise as to the risks incurred to government as utilities characterized by public ownership offer services abroad. This paper maps out some of the major consequences of this development through the lens of the international public shareholder. By international public shareholder, we refer to the fact that the government owns an activity which is providing services abroad: here, the (partially or wholly) publicly-owned utility. We examine the consequences of public shareholder internationalization through a public values perspective drawing on and adapting Beck Jørgensen and Bozeman (2007) and McDonald (2014).

Public utility multinationals are located in many countries around the world in sectors including energy, water, infrastructure, communications and so forth. However, the bulk of large, public utility multinationals is based in large European countries (UNCTAD, 2011). This paper focuses on public utility multinationals in Europe in the electricity sector. The EU's top seven public utility electricity multinationals are presented in Table 2.

Following Birch and Siemiatycki (2015), the introduction of private forces into a public entity is complex, leading to different configurations, and may cause differentiated outcomes. To explore this potential diversity, we apply strategic case selection theory (Flyvbjerg, 2006), and analyze two major European electricity companies which are among the largest utility multinationals in the world: Vattenfall and Endesa. These utilities are selected as they represent "maximum variation" in that they are similar in all except the independent variable, where they are most different. The independent variable we examine is the quality and quantity of state involvement in the utility, or, its public values.

The most strongly public of large European-based utility multinationals, we argue, is Vattenfall. Vattenfall remains today fully publicly-owned, and has been subject to long-term, intimate state involvement from its origins to the present. The largest European-based utility multinational with the weakest set of public values, we argue, is Spanish Endesa. This utility was organized as a public limited company under the Franco dictatorship, after which it was fully privatized during the 1990s, and only more recently brought under partial public ownership after being acquired by Enel, one quarter of which is currently owned by the Italian government (Enel, 2015). We develop and test a framework for assessing public values as public utilities internationalize. Our framework draws on Beck Jørgensen and Bozeman's (2007) public values inventory which explores how public values may be maintained among actors, processes and outcomes in hybrid schemes, and from McDonald's (2014) criteria for assessing corporatization and internationalization. We operationalize our concept of public value using five core dimensions: financial, economic, technical, social and environmental.

The rest of our paper is organized in the following way. In Section 2 we explore the challenges of public utility reform for continued public value delivery and mobilize the public value literature to identify five core dimensions to shape our exploration of how public shareholders behave abroad. In Section 3 we apply our framework to empirically analyze the extent to which two large public utilities behaved as regards public values transfer when they moved to major new markets abroad. Section 4 concludes.

2. Publicly-owned utilities abroad: challenges for public values

Before reflecting on the challenges for the international public shareholder as guarantor of public values when utilities go abroad, we need to define what we understand as "public" and why the loss of public matters. Bozeman (2007) has argued all institutions are public by virtue of receiving government funds, however, we believe this view is too simplistic. While it is certainly true that government funding and government regulation can insert public values into private institutions, the process can also work the other way around. Private engagement in public goods can fundamentally alter the way we conceive of those goods, what is considered public, who has access, how they are priced and who has control (Dahl and Soss, 2014; Sclar, 2014; Siemiatycki and Farooqi, 2012).

The loss of public involvement in utilities matters. As noted by

Table 1
An ideal-type stylized framework of five core dimensions to predict and assess expected behavior from the public and private shareholder.

Dimension	Public shareholder	Private shareholder
Financial	Profit-motivated but not only so; tempered by other key public and social objectives (taking into consideration a short and long term approach).	Predominantly motivated by short-term profit maximizing, financial costs and benefits, at the expense of concerns about accountability and transparency.
Economic	Assumes regulation to reduce or eliminate monopolistic rents.	Seeks to avoid competition when perceived as an impediment to profit (rent-seeking motivation).
Technical	Technically efficient and innovation-seeking (long- term optimal allocation of resources).	Technical efficiency is subordinated to profit and rent-seeking.
Social	Promotion of social development (external effects are accounted for and services are provided according to who needs them most).	Social efficiency is subordinated to profit seeking (external effects are not taken in consideration and services are provided according to willingness to pay).
Environmental	Promotion of environmental sustainability (takes into account ecosystem change).	Environmental efficiency is subordinated to profit and rent seeking.

Please cite this article in press as: Clifton, J., et al., The loss of public values when public shareholders go abroad, Utilities Policy (2016), http://dx.doi.org/10.1016/j.jup.2015.11.003