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New forms of industrial policy in the age of regulation: A comparison of electricity and telecommunications in Italy and Spain

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Relying on insights from the comparative capitalism debate, this article compares the industrial policy strategies implemented by the Italian and Spanish governments to favor the internationalization of domestic electricity and telecommunications incumbents. It is shown how the cross-sectoral and cross-country variation in the outcome of their industrial policy efforts—that is, successful or unsuccessful internationalization—is explained by the reciprocal power relationship between governments and domestic large shareholders ("blockholders"). Successful internationalization is conditional on the availability of two power resources the government can use to influence blockholders' behavior: ownership power and regulatory power. When these resources were available, governments were able to impose a stable ownership structure on national champions, leading to successful internationalization. When they were not available, ownership instability led to failure. The findings presented here contribute to the debate on new forms of state involvement in the economy in the neoliberal era.

1 | INTRODUCTION

In tandem with the global spread of neoliberal ideas and the push toward liberalization, privatization, and delegation to (unelected) national regulatory agencies, the cross-border integration of high value-added services has altered the institutional structure of the capitalist order (Guidi, Guardiancich, & Levi-Faur, 2020; Levi-Faur, 2006a). The consequent shift from a positive state toward a regulatory state has decisively limited the scope for implementing traditional measures of activist industrial policy (Guidi et al., 2020; Majone, 1997; Thatcher, 2014b). Although until the 1980s, elected governments were more or less free to regulate their domestic market and support strategic firms through the awarding of subsidies and public procurement, the spread of the regulatory state paradigm has

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imposed the implementation of liberalizing measures aimed at creating a level playing field between domestic and foreign firms (Thatcher, 2014b).

Nevertheless, the rise of the regulatory state has not led to the abandonment of all industrial policy efforts (Di Giulio, 2018; Prontera, 2017; Thatcher, 2014b). In fact, the supranational integration of formerly protected sectors, such as telecommunications and electricity, opens up new avenues of foreign investment for the most competitive national champions (Clifton, Diaz-Fuentes, & Revuelta, 2010; Jordana, Levi-Faur, & Puig, 2006). Through innovative industrial policy strategies, governments can play a key role in helping the foreign expansion of strategic firms (Clift & Woll, 2012). The European Union (EU) provides a particularly interesting angle from which to study the emergence of these new forms of industrial policy, as it has experienced a process of market integration of high value-added services. The European Commission has encouraged this development as part of an effort to encourage the emergence of globally competitive European champions (Thatcher, 2014a).

Not all EU electricity and telecommunications incumbents have graduated to the rank of European champions, however. Some have taken advantage of market integration by expanding abroad to become global leaders in their sector; others have either been confined to a marginal role in the EU market or taken over by foreign competitors (Clifton et al., 2010; Clifton, Comin, & Diaz-Fuentes, 2011). As Tables 1 and 2 show, today's European champions were not necessarily the largest and most efficient firms when market integration was launched in the mid-1980s. This article contributes to the growing literature analyzing the factors behind successful internationalization (Clifton et al., 2010; Colli, Mariotti, & Piscitello, 2014; Di Giulio, 2018), comparing the efforts of the Italian and Spanish

TABLE 1 Performance indicators of selected European electricity incumbents

		Revenue (€ million)		Internationalization		
Company	**Country**	**1999**	**2017**	**1999**	**2006**	**Employees 2012**
ENEL	Italy	20,933	74,639	0	14[a]	74,610
EDF	France	32,057	69,632	18	47	154,730
Engie[b]	France	n.a.	65,029	n.a.	n.a.	236,156
RWE	Germany	45,671	44,585	23	48	71,419
E.ON	Germany	52,016	37,965	48	47	74,811
Endesa	Spain	13,495	20,057[c]	31	48	22,995

Note. Author's elaboration based on Clifton et al. (2010), Chari (2015), and companies' annual reports.
[a]Internationalization data before the Endesa takeover.
[b]Formerly GDF-Suez.
[c]Currently controlled by ENEL at 70%.

TABLE 2 Performance indicators of selected EU telecommunications incumbent

		Revenue (€ million)		Internationalization		
Company	**Country**	**1999**	**2017**	**1999**	**2006**	**Employees 2006**
Deutsche Telekom	Germany	35,325	74,900	8	47	248,480
Telefonica	Spain	24,458	52,008	58	62	232,996
France Telecom (Orange)	France	29,014	41,096	13	47	191,036
British Telecom	UK	35,438	26,620	7	15	106,204
Telecom Italia	Italy	29,425	19,800	6	26	83,209
Telenor	Norway	4,291	12,890	17	64	35,600
KPN	Netherlands	9,729	6,497	9	29	26,287

Note. Author's elaboration based on Clifton et al. (2010) and companies' annual reports.

governments to favor the internationalization of their domestic electricity and telecommunications incumbents.

The rest of the article is organized as follows. Section 2 presents the theoretical framework. In line with the "political economy of regulation" approach presented in the introduction to this special issue (Guidi et al., 2020), this work distinguishes between the inputs, outputs, and outcomes of the "industrial policy cycle." Section 3 describes the research design and rationale for case study selection. Sections 4 and 5 compare the industrial policy efforts of the Italian and Spanish governments in electricity and telecommunications. A more detailed analysis of the successful cases (Telefonica and ENEL) features along with shorter, shadow cases describing the unsuccessful internationalization of Telecom Italia (TI) and Endesa. Finally, the two concluding sections summarize the cross-country and cross-sectoral findings and discuss the external validity of this inquiry.

2 | THEORETICAL FRAMEWORK: THE INDUSTRIAL POLICY CYCLE

The existing literature highlights the important role played by the state in favoring the foreign expansion of former monopolists active in public service sectors (Clifton et al., 2011; Colli et al., 2014; Di Giulio, 2018; Kornelakis, 2015; Prontera, 2017). Focusing in particular on electricity and telecommunications and relying on insights from the "varieties of capitalism" debate, Colli et al. (2014) find that successful internationalization is conditional on close and efficient coordination between elected governments and the management of domestic incumbents. This coordination is easier to achieve in coordinated market economies, such as Germany, or in state-led market economies, such as France. By contrast, because of the distant relationship between the state and domestic firms that has come to prevail there, the United Kingdom has failed to achieve effective coordination, as a consequence of which its electricity and telecommunications incumbents have underperformed. A similar conclusion is reached by Clifton et al. (2011) and by Thatcher (2007), who observes that in the reregulation of telecommunications and electricity, the United Kingdom has pursued internationally competitive markets, while the other large continental economies have attempted to create internationally competitive firms (Thatcher, 2007, p. 1037). According to Colli et al., Italy and Spain are intermediate cases between France and Germany, and the United Kingdom, in that while they always achieve close coordination between the government and domestic firms, at times their industrial policy effort fails to bring about successful internationalization because of "government misdirection" (Colli et al., 2014, p. 505).

Despite its many merits, Colli et al.'s (2014) work attempts to trace the trajectory of 10 firms active in two sectors in a single paper. Consequently, key details are sometimes left out due to lack of space (Colli et al., 2014, p. 488). Instead, in this article I respond to Clifton et al.'s (2010, 2011) call for detailed case studies of individual firms by analyzing the trajectory of four incumbents active in two sectors. Particular attention is devoted to the study of "critical junctures" (Beach & Pedersen, 2016), in other words, events that were decisive in influencing the ownership structure of national champions, such as privatizations, merger attempts, and takeover battles. Only by playing an activist role at critical junctures was the state able to protect the managerial teams of the incumbents, allowing them to implement long-term investment strategies. Failure to do so led instead to ownership instability, frequent managerial turnovers, and, consequently, unsuccessful internationalization. We shall argue that the capacity of the state to play an active role during "critical junctures" is in turn conditional on the availability of two power resources over the national champions and their private shareholders: ownership power and regulatory power.

The state can exert ownership power over domestic firms (potential European champions) through two mechanisms: the direct ownership of a controlling stake or "golden share" rights. The state has

regulatory power over domestic firms when they depend upon regulatory protection from the state in their sector (Culpepper & Reinke, 2014). This regulatory dependence is in turn conditional on two factors: the geographical distribution of a firm's revenue and a sector's level of supranational market integration. Concerning the geographical distribution of revenue, state regulatory power will be stronger when a firm makes most of its revenue in the domestic market, while globally successful multinationals will be less dependent upon regulatory protection from the state (Culpepper & Reinke, 2014). Concerning a sector's degree of supranational market integration, firms depend less upon the state's regulatory protection when their main sector has already been liberalized at the supranational (i.e., EU) level, thus leaving less scope for state regulation (Bulfone, 2019).

For industrial restructuring to succeed, governments should fully privatize domestic firms only when they have regulatory power over the new private blockholders. In the absence of such power, the state can partially privatize a national champion, thereby ensuring the necessary ownership and managerial stability through the direct ownership of a controlling stake. Lacking either of the two power resources, the state might lose control of the restructuring process, leading to ownership instability and industrial failures. This latter point allows us to identify a further contribution of this article. In fact, so far, the state's capacity to influence the outcome of mergers and takeover battles has received little attention in industrial policy studies. This is unfortunate as mergers and acquisitions are the main avenues for internationalization in network industries with high fixed costs (Colli et al., 2014).

Bridging comparative political economy and the study of regulation, this article adapts the "regulatory policy cycle" presented in this special issue's introduction to the study of industrial policy (Guidi et al., 2020). Like the editors, we give due attention to the three steps of the regulatory process: *inputs*, *outputs,* and *outcomes.* Inputs are defined as the preexisting structures and agency influencing policymakers. These institutional features include administrative and legal traditions, political institutions, but also economic factors such as the interests and modes of coordination of relevant business groups. Policymakers will be influenced by these preexisting characteristics when formulating their industrial policy strategies (outputs). Only if they succeed in balancing the existing inputs will their industrial policy strategy (output) lead to an outcome in line with their preferences. The microlevel outcome (Guidi et al., 2020) of interest for the present analysis is the successful internationalization of the Italian and Spanish incumbents. It will be shown that there is cross-sectoral and cross-country variation in their success. This variation in the outcome of the industrial policy effort is explained by looking at a preexisting difference in the power relationship between the Italian and Spanish government and large private blockholders: the existence or lack of state ownership and regulatory power, which is the key input of this analysis. This factor affects both the choice of industrial policy strategy and its outcome in terms of successful internationalization (see Table 3). When ownership and regulatory power resources

TABLE 3 The industrial policy cycle

Input	Output	Outcome	Circularity through policy learning
Reciprocal power relationship between: • government and • business actors Existence /lack of: • ownership power or • regulatory power Strategic interest of supranational actors • Commission pushing for cross-border consolidation	Industrial policy strategy, main pillars: • choice between full or partial privatization • combination of selective liberalization (stick) and protective measures (carrot) • marginalization of National Regulatory Authorities (NRAs) • use of diplomatic channels to favor internationalization	Successful internationalization or Foreign takeover/marginalization of the incumbent	Successful internationalization in a sector → government replicates industrial policy *output* for other sectors Lack of success in a sector → government chooses another industrial policy *output* for other sectors

were available and the state used them strategically, the industrial policy effort led to success; when at key junctures the state lacked them, the industrial policy effort led to failure. Along with the balance of power between the state and domestic blockholders, industrial restructuring was also influenced by another input: the strategic interest of supranational actors. This is particularly true for the Commission, which, in its effort to favor the emergence of European champions, encouraged the foreign expansion of competitive national champions by challenging the defensive measures taken by protectionist governments (Thatcher, 2014a). The industrial policy output is also influenced by the timing of market integration in the two sectors (i.e., there is circularity in the regulatory process as outcomes in a sector can influence outputs in another sector opened to competition at a later stage, as posited in Guidi et al. 2020).

3 | RESEARCH DESIGN AND CASE SELECTION

Relying on official documents, secondary sources, and 14 articles from Italian, Spanish, and Anglo-American newspapers,[1] this study employs a compound research design, combining the national patterns and policy sector approaches. This allows us to increase the validity of the generalizations made as they are tested against different kinds of cases (Levi-Faur, 2006b). In fact, sectors and nations "supply two different dimensions in which observations regarding agency and causality can be examined" (Levi-Faur, 2006b, p. 374).

The two sectors telecommunications and electricity were chosen following the "most similar" research design, as they are both heavily regulated industries constructed around expensive grids (Jordana et al., 2006). Crucially, they have both undergone a process of EU-led market integration that triggered a wave of cross-border mergers and acquisitions among formerly inward-looking national champions (Clifton et al., 2010). Despite this similarity, however, the timing of market integration was different, as the process was completed in telecommunications nearly a decade earlier than in electricity. In fact, while market integration of the telecommunication industry was achieved by 1998, in electricity it came about only in 2007 with the implementation of the Second Electricity Directive (Jordana et al., 2006). Consequently, the wave of cross-border consolidation among telecommunications firms started earlier than in electricity (1998–1999 as opposed to 2006–2007). For this reason, the electricity case studies cover a longer time span than those focusing on telecommunications. Telecommunications and electricity also constitute two "crucial cases" as they are sectors of strategic national interest that have been at the heart of industrial policy in most European countries (Clifton et al., 2010; Thatcher, 2007). Adopting a microlevel approach (Guidi et al., 2020) this work studies one firm per sector, focusing on the formerly state-owned incumbent: Endesa and Telefonica for Spain and Telecom Italia (TI) and Ente nazionale per l'energia elettrica (ENEL) for Italy. While the trajectory of the two successful incumbents (Telefonica and ENEL) is presented in more detail to display the functioning of the explanatory factors, shorter shadow cases show how the lack of power resources at crucial junctures ultimately led to the failed internationalization of TI and Endesa.

Italy and Spain were also chosen following the "most similar" research design as they are both hybrid models of capitalism characterized by strong state involvement in the economy, in which industrial policy objectives historically took precedence over competitiveness concerns (Schmidt, 2002). Furthermore, Italy and Spain historically share a similar continental corporate governance model, characterized by narrow stock markets, bank-dominated financial system, widespread state ownership, and the prominent role of a restricted group of private blockholders (Deeg & Perez, 2000). The identity and sectors of these private blockholders are different: large banks in Spain and manufacturing families in Italy. This difference is not trivial, as this study identifies the reciprocal

power relationship between governments and blockholders as the decisive factor in influencing industrial policy outcomes. In fact, while the governments of the two countries were responsible for carrying out the industrial policy effort aimed at turning their domestic incumbents into European champions, the success of this strategy was conditional on the involvement of large private blockholders. For instance, when the government opted for the full privatization of the domestic incumbent, it needed to convince private blockholders to invest as passive and patient investors. The government's capacity to get private blockholders involved in the restructuring was in turn conditional on the existence of regulatory power over them. While the Italian government could exert no regulatory power over manufacturing family blockholders, as they owned global firms active in liberalized sectors, the Spanish government had strong regulatory power over domestic banks, as they operated mainly domestically in a sector still largely shaped by state regulation (Bulfone, 2019).

4 | INDUSTRIAL POLICY IN THE TELECOMMUNICATIONS SECTOR

4.1 | Spain: Telefonica's successful internationalization

Established in 1924 as a private monopolist owned by the U.S. multinational ITT, in the 1940s Telefonica was partially nationalized by the Franco dictatorship. With the advent of democratization, successive Spanish governments embarked on a process of industrial restructuring aimed at making Telefonica the leader of a group of new Spanish service multinationals (Etchemendy, 2004). In 1990 the Spanish Socialist Party (PSOE) supported Telefonica's entry into the Latin American market with the acquisition of a controlling stake in the Argentinian monopolist Entel. The PSOE played a decisive role in favoring the deal, with Prime Minister Felipe Gonzalez engaging in bilateral talks with the Peronist leader Carlos Menem (El Pais, 1988). The concrete prospect of a future integration of the EU telecommunications market accelerated the pace of Telefonica's internationalization, with multiple acquisitions in Latin America and Europe throughout the 1990s.

While favoring Telefonica's foreign expansion, the PSOE fought hard to delay the opening up of the Spanish market to competition. For instance, Telefonica was allowed to operate as a monopolist in the mobile phone segment until 1995 (Garcia Calvo, 2013). Furthermore, when in 1995 the PSOE government awarded the second license, the winning group Airtel had to pay €510 million for it, while the first license had been awarded to Telefonica for free (Sancho, 2000). Before losing the elections to the right-wing Partido Popular (PP), the PSOE partially privatized Telefonica, selling large stakes to a group of domestic banks, and established a 10-year golden share over the firm that allowed the government to veto any purchase of more than 10% of the shares (Garcia Calvo, 2013). Like the PSOE, the PP also implemented an activist industrial policy aimed at making Telefonica a global leader in its sector. In order to strengthen the government's control over Telefonica, the PP appointed a politically close investment banker, Juan Villalonga, as the head of the firm and confirmed the 10-year golden share established by the PSOE (Trillas, 2002).

These measures were aimed at maintaining a firm grasp on Telefonica even after its full privatization. In February 1997 the PP sold off the 21% controlling stake the state still held in Telefonica, combining a public offering to attract small investors with a private auction in which large stakes were offered to the main domestic banks (Etchemendy, 2004). The PP strengthened the hard core previously set up by the PSOE, with three banks (BBV, Argentaria, and La Caixa) each owning a 5% stake in Telefonica. Large domestic banks played a decisive role in favoring Telefonica's upgrade into a European champion as they gave ownership stability to the firm even after privatization. They

agreed to invest in a firm to which the PP government had previously appointed key managerial figures and a large part of the board of directors, and had golden-share powers because the state had regulatory sway over them. In fact, in the early 1990s Spanish banks were undergoing a process of domestic consolidation whose outcome could be decisively influenced by the Spanish government and the Bank of Spain. Consequently, they were heavily dependent on regulatory protection by the government (Bulfone, 2019).

The PP also protected Telefonica's dominant position in the Spanish market by slowing down the pace of domestic liberalization. To this end, the PP placed the domestic telecommunications regulator (CMT), created in 1996, under ministerial control, thus limiting its capacity to stimulate competition (Jordana et al., 2006). The PP also gave generous monetary compensation to Telefonica, including $1 billion financing for the costs of transition to competition (Toral, 2008, p. 524). Acting in close coordination with the government and the banking blockholders, Villalonga reinvested this monetary compensation to finance a campaign of foreign takeovers that made Telefonica the main player in the Latin American market (Garcia Calvo, 2013).

Willing to turn Telefonica into a global leader, in April 2000 Villalonga entered into merger talks with the management of the Dutch incumbent KPN. The merger would have led to the creation of one of the 10 largest telecommunications firms worldwide, sheltering Telefonica and KPN from any future hostile takeover attempt. But the Spanish government opposed the deal, threatening to use its golden-share powers because the Dutch government, still the controlling shareholder of KPN, would have become the largest shareholder in the firm resulting from the merger with a 17% stake (El Pais, 2000a; Sunday Business, 2000; New York Times, 2000).

The KPN–Telefonica merger plan caused a clash between Villalonga and the government that had appointed him. As Telefonica's largest private shareholders, the banks BBVA[2] and La Caixa could play a decisive role in determining the outcome of the confrontation. The banks sided with the government, voting against the merger and putting Villalonga in the minority within the board. Despite having given preliminary approval to the merger at a board meeting in April 2000 (El Pais, 2000b), the banks later vetoed it because they were unwilling to trigger an open confrontation with the executive (Cinco Dias, 2000). BBVA and La Caixa also took a passive stance because the Spanish state still had regulatory power over them as they both retained a strong domestic focus: La Caixa had 93% of its branches in the domestic market and BBVA 68% of its revenue, thus leaving them dependent on regulatory protection from the PP government (Bulfone, 2019, p. 13). In addition, BBVA had a manager close to the PP, Francisco Gonzalez, as copresident.

The Spanish government used its regulatory power over domestic banks to act as Telefonica's de facto blockholder, imposing the removal of the rebellious manager who threatened Telefonica's status as a Spanish champion (Trillas, 2002). This confirms the tendency of successive Spanish governments to defend the independence of their "national champions." Shortly after the derailment of the merger plan, the PP put pressure on the market watchdog (CNMV) to investigate Villalonga for insider trading related to a minor stock options operation of 1998 (Bel & Trillas, 2005). Having understood that he had lost the support of the government and the banks that were part of the hard core, in July 2000 Villalonga stepped down, to be replaced by Cesar Alierta, another manager close to the PP (Mota, 1998). Shortly after Villalonga had stepped down, CNMV closed the investigation for insider trading without bringing any charges.

From the early 2000s, Telefonica started targeting the European market, with important acquisitions such as Britain's O2 in 2006 and the Czech incumbent Cesky Telekom, while retaining its dominant position in Latin America (Clifton et al., 2011). When Alierta stepped down in 2016, Telefonica had 322 million clients in 20 countries, making 74% of its revenue outside the Spanish market (El Pais, 2016).

4.2 | Italy: TI's failed upgrade

In 1997 the center-left government fully privatized TI, partly through a public offering, partly through a private auction in which large stakes were offered to selected domestic investors. As in the case of Telefonica, the hard core was meant to give TI ownership stability and help the management carry out the restructuring necessary to turn the firm into a European champion (President of the Italian Council, 1997). In addition, the center-left had established golden-share powers over TI that allowed the government to have a say over key decisions such as selling off the firm or merger with other entities (Florio, 2007). While the public offer was very successful, the government failed to form a strong hard core, as only 6.6% of the shares were sold through the private auction (Florio, 2007, p. 3). The hard core was weak because the government failed to convince large manufacturing families, the dominant blockholders of Italian capitalism, to invest in TI. Only the Agnelli family, owners of the carmaker FIAT, bought a tiny 0.6 stake.

As in Spain, the Italian government asked manufacturing families to invest as passive blockholders in a firm guided by state-appointed managers and over which the state retained golden-share powers (Bulfone, 2019). But the two manufacturing families approached by the government, Benetton and Del Vecchio (owners of the glass maker Luxottica), turned down the offer as they agreed to invest in privatized firms only if by doing so they would become controlling shareholders (La Repubblica, 1997). Manufacturing families could easily turn down the offer to join TI's hard core because the Italian government lacked regulatory power over them, as they operated in clothing and eyewear, liberalized sectors in which domestic legislation played a marginal role. They also owned globally successful firms with relatively weak ties to the domestic market (Bulfone, 2019).

Owning just 6.6% of the shares, the hard core was too weak to defend TI from a hostile takeover, thus ushering in a phase of ownership and managerial instability that decisively weakened the firm (Florio, 2007). In April 1999 the Italian IT group Olivetti took advantage of this ownership instability to complete a leveraged buyout of TI. The center-left government played a key role in favoring the Olivetti takeover by pressuring the domestic market watchdog Consob to clear the bid and threatening to use its golden-share powers to block a defensive merger between TI and Deutsche Telekom. The Olivetti takeover is decisive in explaining TI's failed upgrade into a European champion as it left the firm with a high debt burden and an inefficient ownership structure (Colli et al., 2014; Fransman, 2003). This in turn meant that in order to reduce its debt burden, TI had to progressively scale down its internationalization plans. While until the early 2000s TI had managed to gain a prominent position in both Latin America and Europe, later the firm embarked on a deinternationalization campaign as a result of which the group is currently present only in Italy and Brazil (Oddo & Pons, 2006). The frequent changes of ownership, with Pirelli and Benetton, Telefonica, and Vivendi acquiring control of the firm, have done little to change TI's fortunes. Recently, the state-owned development bank Cassa Depositi e Prestiti increased its stake in TI, putting Vivendi in a minority in the board of directors and signaling renewed state involvement in the firm. TI's ownership and managerial instability was ultimately caused by the weakness of the hard core of domestic investors created after privatization. And this weakness was in turn due to the government's lack of regulatory power vis-à-vis family blockholders. This is in marked contrast to Telefonica's trajectory, in which large domestic banks agreed to act as passive and stable investors because they depended on regulatory protection from the state.

5 | INDUSTRIAL POLICY IN THE ELECTRICITY SECTOR

5.1 | Italy: The successful internationalization of ENEL

ENEL was created in 1962 following the government's decision to nationalize the Italian power system. Owing to its monopolistic position in the domestic market, by 1986 ENEL had grown to become

the second largest electricity utility in the world (Brunetti, 2012, p. 64). Lacking competition in the domestic market, however, ENEL was inefficient and overstaffed, plagued by high operational costs. Consequently, a radical process of internal reorganization was needed to prepare the firm for competition in a liberalized European market (Bergami, Celli, & Soda, 2013). To favor this process of internal reorganization, in 1992 ENEL was transformed into a joint-stock company, paving the way for its future privatization. Faced with the EU-led liberalization of electricity, governments of both persuasions prioritized the protection of ENEL's position in the domestic market over the achievement of a competitive market, deeming it vital for Italy to have a strong "national champion" in a strategic sector (Silva, 2004). Evidence of this attitude is provided by the slow and patchy implementation of the EU electricity directives and the progressive capture of the energy regulator *Autorità per l'energia elettrica e il gas* (AEEG) by the government (Rangoni, 2011).

The transformation of ENEL into a joint-stock company was the necessary prelude for its privatization. Initially, the center-left government that won the 1996 elections favored the full privatization of ENEL with the formation of a hard core of domestic investors on the TI model (Oddo & Pons, 2006). TI's ownership instability, however, which ultimately led to the Olivetti takeover, made the government realize that a privatization strategy based on a hard core of domestic investors was not an option in Italy (La Repubblica, 1998a). Given the impossibility of forming a strong hard core of domestic investors, from the late 1990s governments of both colors abandoned the plan to fully privatize ENEL, choosing instead the line of partial privatization (Financial Times, 2005). By keeping a controlling stake in ENEL, the state could act as reference shareholder giving ownership and managerial stability to the firm (La Repubblica, 1998b). The partial privatization strategy of the center-left government nevertheless involved ENEL's flotation and a reduction of the stake directly owned by the state.

This happened for two main reasons. First, ENEL's privatization was an important source of revenue earmarked to reduce Italy's public debt and deficit.[3] Second, by floating ENEL's shares, the government increased market scrutiny over the firm, thus reducing the scope for political interference in its management. This way the government was forced to choose ENEL's managers in virtue of their expertise and professional background rather than their political affiliation (Bergami et al., 2013). A similar scheme was adopted for other strategic firms such as the oil and gas conglomerate ENI and the defense multinational Leonardo in which the state still retains a 25%–30% controlling stake. Like the previous center-left government, the center-right government that won the 2001 elections also prioritized the protection of ENEL's dominant position in the domestic market. This pro-ENEL bias caused frequent tensions between the government and the electricity regulator AEEG. For instance, in 2002 AEEG criticized the government for imposing a high level of tariffs to defend ENEL's margins to the detriment of consumers (La Repubblica, 2002).

In 2003 the EU adopted the Second Electricity Directive, which opened up the market to competition. The liberalizing push of the Commission came as a further challenge to ENEL, which had already lost ground vis-à-vis its main competitors in the domestic market. The managerial team, acting in close coordination with the executive, elaborated a new strategy based on two pillars to respond to this challenge: a refocus on the core energy business—electricity and gas—and a push toward internationalization (ENEL, 2002, p. 4). From the early 2000s, ENEL started to expand in Latin America and Eastern Europe, entering Bulgaria, Romania, and most crucially Russia, where ENEL was a prime mover among European electricity utilities (Bergami et al., 2013).

In 2005 the center-right government appointed Fulvio Conti as ENEL's CEO. According to Conti, in order to match the size of the European leaders E.ON and Edf, ENEL needed to take over a large European competitor, a "big fish" (p. 125). In fact, Conti was well aware that only four or five European champions would survive the wave of mergers and acquisitions triggered by the Second Electricity Directive, and both he and the government wanted ENEL to be among them. After an

attempt to acquire the French Suez, which failed because of the firm opposition of the French government, ENEL intervened in the takeover battle between Gas Natural and Endesa of Spain and Germany's E.ON (see following section). ENEL seized the opportunity created by the stalemate among the three contenders to form a joint venture with the Spanish infrastructure builder Acciona and launch a bid for Endesa. Learning from the failure of the Suez deal, ENEL's management tried to build a cooperative relationship with the PSOE government, helped in this by the diplomatic efforts of the center-left government and the support of the Commission, eager to promote a large cross-border deal. In February 2007, center-left Prime Minister Romano Prodi engaged in a bilateral meeting with his Spanish counterpart José Zapatero, managing to secure the Spanish government's approval for ENEL's bid (Chari, 2015). Having obtained the backing of the PSOE government, in October 2007 Acciona and ENEL completed Endesa's takeover for €43 billion.

As a result of the deal, ENEL became the main player both in Spain and in the Latin American market and more than doubled its revenue from €21 to €52 billion (Brunetti, 2012, p. 30). It is worth highlighting that ENEL's elevation to a European champion was by no means inevitable, in particular after the failed attempt to take over Suez. In an interview, a senior ENEL executive recognized that Endesa could easily have taken over ENEL rather than the other way around (Bergami et al., 2013, p. 128). But Conti's managerial skills and the decisive diplomatic support from the center-left government allowed ENEL to emerge victorious (Financial Times, 2007). ENEL's success was also decisively helped by the state's controlling stake. This was also recognized by the Italian press, which after the Endesa takeover compared ENEL's success to the difficulties experienced by the fully privatized TI (La Repubblica, 2007). The failure of TI's privatization made Italian executives of both colors aware of the fact that the lack of regulatory power over domestic family blockholders ruled out the possibility of forming strong hard cores of private investors. To compensate for this weakness, the Italian state retained a key ownership power resource that allowed them to influence ENEL's trajectory.

5.2 | Spain: The foreign takeover of Endesa

Bolstered by the success of Telefonica's privatization, between 1997 and 1998 the PP executive sold 64% of its stake in the electricity incumbent Endesa through two POs, keeping only a tiny 3% share (Trillas, 2001, p. 27). Between the late 1990s and the early 2000s, the savings banks La Caixa and Caja Madrid became Endesa's largest shareholders (Valdivielso Del Real & Goyer, 2012, p. 88). The statutes of savings banks and their eminently regional focus made them dependent upon the regulatory protection of their local government, similar to the way in which large national banks are dependent upon the national regulator. Because the Madrid local government is an electoral stronghold of the PP, the strengthening of Caja Madrid allowed the PP to exert even closer control over Endesa.

Although a successful internationalization campaign had made Endesa one of the largest electricity utilities in the EU, from the early 2000s the firm started to suffer a number of seatbacks, mainly due to the Latin American crisis (Chari, 2015). Endesa's low stock value attracted the attention of the smaller Catalan-based energy group Gas Natural. Endesa's acquisition by Gas Natural would have allowed the creation of a diversified “national champion” active both in electricity and in oil and gas (Marcos, 2012). The newly elected PSOE executive immediately expressed its support for the deal, while Endesa's chairman and board of directors, all close to the PP, opposed it, considering Gas Natural's offer “grossly inadequate” (Cabral, 2009, p. 2).

In late February 2006, Germany's electricity incumbent E.ON presented a rival bid for Endesa, offering better conditions than Gas Natural. The offer led to a reversal of the two camps, with Endesa's board, the PP, and Caja Madrid in favor of the bid, and the PSOE executive refusing to agree to a strategic firm falling into the hands of a foreign competitor (Marcos, 2012). The attitude of

the PSOE government is reminiscent of that of the PP in 2000 when Villalonga tried to merge Telefonica with the Dutch KPN. The PP ultimately succeeded in derailing the Telefonica–KPN deal by leveraging its golden-share powers and regulatory power over Telefonica's banking shareholders. The PSOE lacked either of these power resources, however, as the only bank that held a relevant stake in Endesa was the savings bank Caja Madrid, dominated by the PP local government of Madrid, which favored the E.ON deal. In addition, the PSOE could not use its golden-share powers as, in compliance with a ruling from the European Court of Justice, the government had agreed to give them up (European Court of Justice, 2003).

Lacking regulatory and ownership power resources over Endesa, the Spanish government attempted to slow down the E.ON deal by passing a decree that increased the supervisory power of the domestic energy regulator (NEC) in case of acquisitions of a 10% stake in a domestic firm operating in a regulated sector. Because E.ON made less than two-thirds of its revenue on Spanish territory, however, the Commission had exclusive competence to assess the merger under the EU Merger Regulation framework. While the Commission approved the E.ON deal without conditions, the Spanish NEC imposed 19 conditions, among other things concerning the obligation to keep the structure of the Endesa group unchanged for a period of time. But the Commission deemed the NEC conditions unlawful, asking the PSOE government to withdraw them and opening an infringement procedure against Spain (Marcos, 2012). These delaying tactics allowed the PSOE to find a third firm willing to bid for Endesa, the infrastructure builder Acciona. Acciona immediately appeared as a Trojan horse of the PSOE executive, as most of the group's revenue depended upon government procurement (Chari, 2015). Despite having decisively slowed down the E.ON takeover, Acciona lacked sufficient financial resources to take over Endesa alone. ENEL seized the opportunity, stepping in and forming an alliance with Acciona. In 2009, however, Acciona's financial struggles forced the Spanish group to sell its stake to ENEL, which thus became Endesa's sole controlling shareholder with a 92% stake (Marcos, 2012). The 2009 operation led to the failure of the PSOE's plan to maintain Endesa in Spanish hands, as the firm became a subsidiary of ENEL.

6 | DISCUSSION

Tables 4–7 apply the “industrial policy cycle” framework to the case studies presented here, allowing us to identify similarities and differences across countries and sectors. The regulatory power relationship between the state and domestic blockholders was the key policy input determining the cross-sectoral and cross-country variation in the outcome of the industrial policy effort. While the Spanish state leveraged its strong regulatory power over domestic banks to influence the industrial restructuring of Telefonica, leading to success, the lack of regulatory power over the private blockholders of TI and Endesa led to their unsuccessful restructuring, with the state failing to get the preferred outcome at two

TABLE 4 The industrial policy cycle in Spanish telecommunications

Input	Output	Examples of industrial policy instruments	Outcome
State power resources: • strong regulatory power vis-à-vis domestic banks • golden-share ownership power	Industrial policy strategy: • full privatization • combination of stick and carrot • interference with NRAs • use of the diplomatic channel to favor internationalization	• carried out in 1997 • $1 billion handout for cost of transition to competition • pressure on CNMV to investigate Villalonga • PSOE and PP support investment in Latin America	Successful internationalization

TABLE 5 The industrial policy cycle in Italian telecommunications

Input	Output	Examples of industrial policy instruments	Outcome
State power resources: • no regulatory power over domestic blockholders • no direct ownership due to full privatization • golden-share ownership power	Industrial policy strategy: • full privatization • combination of stick and carrot • interference with NRAs • use of the diplomatic channel to favor internationalization	• carried out in 1997 • privatization before setting up of regulatory authority • pressure on competition watchdog to clear the Olivetti deal • support for investment in Latin America and Europe since the 1980s	Failed internationalization with TI confined to a marginal role in the EU telecoms market

TABLE 6 The industrial policy cycle in Italian electricity

Input	Output	Examples of industrial policy instruments	Outcome	Circularity in the policy cycle
State power resources: • strong ownership power through the direct ownership of a controlling share Strategic interest of supranational actors: • Commission supporting ENEL's bid for ENDESA	Industrial policy strategy: • partial privatization • combination of stick and carrot • interference with NRAs • use of diplomatic channels to promote internationalization	• carried out in different rounds but keeping a 25% controlling stake • forced divestment of part of the production capacity of ENEL to increase competition; awarding of generous tariffs • progressive capture of electricity regulator AEEG • active government role during the Endesa takeover	Successful internationalization	Due to failure to form a strong hard core in TI the state kept a controlling stake in ENEL

TABLE 7 The industrial policy cycle in Spanish electricity

Input	Output	Examples of industrial policy instruments	Outcome
State power resources: • erosion of regulatory power over savings banks • no ownership power due to full privatization and suspension of golden-share powers Strategic interest of supranational actors: • Commission and European Court of Justice opposing protectionist measures by the Spanish government	Industrial policy strategy: • full privatization • combination of stick and carrot • interference with NRAs • use of diplomatic channels to promote internationalization	• carried out by 1998 • \$13 billion refunding for costs of transition to competition • pressure on NEC to clear Gas Natural's bid and block E.ON • support for Latin American acquisitions	Failed internationalization, Endesa taken over by ENEL

critical junctures: TI's privatization and the takeover battle involving Endesa (see Tables 4, 5, and 7). There is cross-sectoral variation in the industrial policy strategy chosen by the Italian government. In fact, after the failure of TI's full privatization, the government decided to keep a controlling stake in ENEL, which was decisive in favoring its successful internationalization (see Table 6). Hence, the industrial policy cycle is circular (Guidi et al., 2020), as an unintended policy outcome in the telecommunications sector led to a change in the policy output in the electricity sector. In the Spanish case, a similar industrial policy strategy led to opposite outcomes in the two sectors due to the progressive erosion of the Spanish government's regulatory power over Endesa's private blockholders. The lack of this power resource explains the failure of the PSOE's plan to merge Endesa with Gas Natural and create a

diversified Spanish champion. In other words, a change in the input conditions determined an opposite outcome, despite a similar industrial policy strategy (output). The cross-country variation in the industrial policy outcome and output between two "most similar" models of capitalism, Italy and Spain (Schmidt, 2002), corroborates Levi-Faur's claim that rather than leading to convergence, the diffusion of regulatory capitalism increases heterogeneity between similar countries (Levi-Faur, 2006a, p. 521). The cross-country and cross-sectoral variation in the industrial policy outcome and output disconfirms the predictions from the policy sector and national pattern hypotheses, which calls for a more fine-grained approach relying on insights from the comparative capitalism debate.

7 | CONCLUSION

This article compared the industrial policy effort of the Italian and Spanish governments to promote the internationalization of domestic firms in two strategic sectors: electricity and telecommunications. The first and most important finding of this analysis is that despite the rise of the regulatory state paradigm, an activist industrial policy strategy is still an important ingredient of industrial success. This calls for a revival of the "statist" political economy literature that, in the 1970s and 1980s, reflected on the conditions allowing for successful state intervention in the economy (Evans, Rueschemeyer, & Skoclpol, 1985; Katzenstein, 1978). Since then, the global spread of neoliberal ideas and the deepening of the process of EU market integration has led to the partial or total erosion of many instruments of intervention such as direct state ownership, subsidies, and merger controls. As a result, given their desire to influence industrial outcomes, the governments of Italy and Spain had to experiment with new forms of industrial policy. They tackled this challenging issue by combining "stick" (selective liberalizing measures to improve the performance of their national champions) and "carrot," in the form of measures aimed at slowing the pace of domestic liberalization, such as awarding monetary compensation to incumbents for the cost of transition to competition, and the use of diplomatic channels to favor their internationalization (Toral, 2008). The success of this effort hinges on the state's capacity to give strategic national champions a stable ownership structure by leveraging existing ownership and regulatory power resources. The fact that this analysis emphasizes the importance of stable ownership structures does not imply that other factors, such as managerial agency, are irrelevant in explaining successful internationalization. In fact, the case studies have shown how both Villalonga and Conti played a decisive role in helping Telefonica and ENEL's internationalization. Their stints at the head of the firms were so successful, however, because they had strong and stable shareholders protecting them and allowing them to develop long-term industrial plans.

The evidence provided here opens up at least three promising avenues for future research. First, scholars should apply the "industrial policy cycle" to study state agency in influencing takeover battles in other strategic industries, such as banking, air transports, railways, and oil and gas (Chari, 2015; Di Giulio, 2018; Prontera, 2017). A second line of research should focus more systematically on the role of the Commission as an agent of cross-border consolidation. In fact, rather than being an impartial arbiter, the Commission takes the side of outward-looking firms against resistance from takeover targets and their home governments (Thatcher, 2014a). This attitude was evident during the Endesa takeover saga, when the Commission first brought action against Spain to limit the use of the government's golden-share powers and later initiated an infringement procedure to quell the protectionist resistance from the Spanish energy regulator NEC. Future studies should attempt to identify the instruments the Commission and the European Court of Justice have at their disposal to promote cross-border consolidation. This could be done by engaging in detailed qualitative case studies of the most relevant cross-border takeover battles, thus complementing the quantitative evidence provided by Thatcher (2014a).

Finally, this work calls for a more nuanced interpretation of the postprivatization relationship between governments and strategic firms. While scholars often rely on a binary distinction between privatized and state-owned firms, thereby implicitly accepting the assumption that privatization entails the surrender of all means of influence over strategic firms, the Spanish trajectory has shown how governments can still influence national champions' managerial strategies by exercising regulatory power over their blockholders. Further research is needed to explore whether this is a unique feature of the Spanish case, a result of the historically tight relationship between the state and a powerful private financial elite (Bulfone, 2017; Etchemendy, 2004; Garcia Calvo, 2013; Perez, 1997), and of specific sectors in the Spanish economy, or whether this regulatory power relationship is to be found in other national and sectoral settings.

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ENDNOTES

[1]The Spanish newspapers are *Cinco Dias* and *El Pais*, the Italian *La Repubblica*, and the Anglo-American the *New York Times*, the *Financial Times*, and *Sunday Business.*

[2]BBVA was the bank resulting from the merger between BBV and Argentaria. At that time it was Telefonica's largest shareholder with a 10% stake.

[3]The partial privatization of ENEL was officially launched in November 1999 when the Treasury sold a 32.4% stake in the largest public offering in Italian history, which generated over US$17 billion (Chari, 2015, p. 180).

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