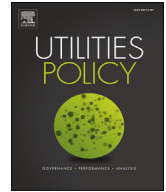




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The loss of public values when public shareholders go abroad

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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.

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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).

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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.

Table 2
The largest electricity multinationals: the European “Seven Brothers” 1999–2012.

Company	Country	Revenues (000 euros)							Employees (000)							Internationalization (% sales)						
		1999	2003	2006	2008	2010	2012	1999	2003	2006	2008	2010	2012	1999	2003	2006	2008	2010	2012			
E.ON AG	Germany	52,016	47,616	72,408	86,296	92,779	132,133	132,930	64,969	80,453	93,538	85,105	72,083	48	41	47	42	46	70			
GDF Suez*	France	5859	10,988	14,051	67,566	84,402	97066	16439	17360	16585	196,592	211,413	n.a.	n.a.	28	40	69	63	n.a.			
Electrabel†	Belgium	20,933	30,345	38,513	59,577	71,878	84,914	78511	64770	60085	75981	78,313	73,702	0	5	14	34	n.a.	n.a.			
Enel SpA +	Italy	13,495	16,644	20,774	22,836	31,177	33,933	34930	26600	26948	27581	25,579	22,995	31	39	48	47	57	61			
Endesa +	Spain	32,057	44,919	60,493	63,941	65,106	72,751	135,448	163,694	156,524	160,913	15,8842	154,730	18	29	47	47	39	42			
EDF SA	France	45,671	47,470	43,076	48,692	50,676	50,786	15,5697	139,535	65,910	65,908	70,856	70,208	23	44	48	37	46	46			
RWE AG	Germany	7504	10,903	11,253	25,063	30,404	34,212	12,653	13,042	16,969	32,993	28,519	31,338	0	12	18	54	52	52			
Iberdrola*	Spain	3268	12,538	16,153	16,965	22,352	19,233	7991	35,296	32,308	32,801	40,363	32,794	6	64	60	64	76	78			
Vattenfall	Sweden																					

References: * **Electrabel**, a Belgium private utility, was taken over by France’s state owned GDF-Suez from 2006; + **Endesa**, a Spanish privatized utility, was taken over by Italian state owned Enel from 2008. Sources: Adapted from UNCTAD (2000–2014).

economists as diverse as Adam Smith and Karl Marx, markets privilege exchange value, whereas public goods privilege use values for citizens and society. Scholars have observed that greater private involvement weakens the public planning function around public utilities, which are so important for societal functioning (del Bo and Florio, 2012; Sclar, 2014). Private finance and management have led to a segmentation process that has led to uneven levels of infrastructure provision (Graham and Marvin, 2001; Warner, 2011) and the undermining of the universal infrastructure ideal (O’Neill, 2010). It has also led to infrastructure as a new financial asset class (O’Neill, 2013). This has made privately-owned utilities especially hard to manage and regulate. Clark and Bradshaw (2004), writing after the implosion of Enron in California, argued for the need for a civic core in public utility regulatory networks. This civic core would not only reduce information asymmetries, it would also make it easier to instill broader public objectives such as long term sustainability (eg conservation), new technology exploration and enhanced access into publicly regulated electric utilities.

If privately-owned utilities are complex to regulate, the challenges of regulation are made more difficult when utilities internationalize over borders. Who has regulatory authority over an international firm? While domestic regulation should still have some authority, the new free trade agreements emerging since the North American Free Trade Agreement (NAFTA) in the US undermine subnational regulatory authority and give nation status to foreign investors. Regulations are being subject to standards requiring they be “least restrictive” to trade rather than the “rational relation” standard previously applied to public regulation (Gerbas and Warner, 2007). Similar clauses to protect foreign investors exist in the Energy Charter Treaty signed in 1994, which constitutes a legally binding multilateral agreement to govern international energy investment across its 54 signatories, including the EU. NAFTA and Energy Charter-like investment protection are being inserted as the governance protocols in the General Agreement on Trade in Services currently under negotiation, were included in the Comprehensive Economic and Trade Agreement signed between the EU and Canada, and are to be included in future trade negotiations between the EU and the US.

To sum up, many predominantly publicly-owned utilities have become at least partly privately-owned while all utilities that go abroad are governed by different regulatory structures than those applied at home. This poses a challenge to the state as regards its transfer of public values, as we now analyze.

2.1. A framework to evaluate the public shareholder abroad

Despite waves of utility privatization, corporatization and deregulation, public ownership and/or involvement in utilities did not disappear. When partially or wholly publicly-owned utilities commenced providing services abroad, states emerged as international public shareholders. This development presents a new, and largely unexplored, challenge for governments. Traditionally, governments are responsible for the provision of safe, working and reasonably priced services to their citizens within a delimited territory. Publicly-owned utilities abroad unsettle this simplicity. As “home” of the multinational, the sending government becomes a service provider to citizens of another government. As “host” of the multinational, the receiving government is bound to act as being *ultimately responsible* for providing citizens with safe, functioning and reasonable quality services. This situation creates new opportunities for business, as well as new needs for diplomacy, and may even become a source of political tension.

While substantial literature exists on the expected behavior of private shareholders, we know much less about what might be expected of a public shareholder. We set out a framework designed

to evaluate the consequences of the internationalization of public utilities combining the literature on public values and utility reform. To do so, we mobilize and extend discussions which evaluate public value preservation as derived from Beck Jørgensen and Bozeman (2007) and works which assess the preservation of public values under public utility corporatization and internationalization, principally, McDonald (2014) and Furlong (2013).

Beck Jørgensen and Bozeman (2007) argue that public value preservation should be assessed in a nested ecological framework that addresses *actors* - both inside and outside public administration and the firm, *processes* - both internal to the firm and in relationship to government, citizens and society, and *outcomes*. However, missing from their schema are two processes key to this study: corporatization and internationalization. These two processes elevate the multinational utility as an actor over the host country and can bypass host country goals regarding outcomes. See Fig. 1. The fundamental way in which these processes shift the nested ecological framework was not considered by Beck Jørgensen and Bozeman (2007), but is our primary focus here.

Corporatization allows private financial stakeholders to assume a much more influential role in the public values creation process. Increasingly, scholars are raising concerns about the financialization of public services, which can elevate financial objectives over social ones (O'Neill, 2010; McDonald, 2014; Ashton et al. 2012; Sclar, 2014; Warner, 2013; Hodge and Greeve, 2005). While economic efficiency can lead to expanded service quality and access, and this is indeed one of the promises of corporatization (McDonald, 2014), it must be balanced with the broader set of public objectives at the core of public utility provision.

Nor do Beck Jørgensen and Bozeman (2007) envisage internationalization, and thus do not deal with the issues raised when a publicly-owned utility goes abroad. Once abroad, the public shareholder faces a different regulatory regime, in which they become entitled to resolve differences in an international, rather than a domestic, sphere (Spronk and Flores, 2008; Gerbasi and Warner, 2007). The public shareholder, embedded domestically, forges new relationships with foreign governments, users and citizens. The distance from domestic leadership may prevent the entity from seeing inter-sectionalities that might benefit society.

One of the concerns McDonald (2014) raises is the problem of cross-sectoral coordination or cross subsidization. On the one hand, states have been accused historically of over-meddling in utilities. However, while some political distance/independence is valuable for management efficiency, too much risks losing the ability to instill broader public objectives and accountability. This is a concern Furlong (2016) has raised her study of Ontario corporatization schemes in the water sector. For example, cuts to maintenance budgets to bolster short term profit are less likely to be pursued when the managers also are beneficiaries of the service.

In their inventory of public values, Beck Jørgensen and Bozeman (2007) identify 72 items associated with public value. McDonald (2014) also identifies a broad range of criteria when evaluating public service preservation during public utility corporatization, including: equity, efficiency, service quality, workplace quality, sustainability, solidarity and public ethos. Like Beck Jørgensen and Bozeman (2007), McDonald (2014) emphasizes that outcomes need to be understood in a holistic context, so that the internationalization of public utilities should be analyzed according to how this affects society as a whole.

We combine, simplify and adapt these works for our specific purpose of analyzing public shareholder internationalization and present this in a Weberian "ideal-type", stylized framework in Table 1. Our analysis is inspired by cost-benefit comparative analysis of private and public actors, as we assume resources are scarce and actors must weigh up the costs and benefits of each strand of activity before they pursue it. We categorize and collapse key values associated with public values into five core dimensions, each of which is then associated with what we assess to be a core public value according to the studies previously discussed. Following Wilner and Parker (2007), we assume the private shareholder is only mildly interested in four categories and largely interested in one (it is predominantly profit-oriented), whereas the public shareholder is motivated to deliver across all five dimensions. That is, the public shareholder takes the interests of other stakeholders into account, it is not just profit-oriented (Wilner and Parker, 2007). On this basis, we set out the five dimensions in the left hand column, our expectations about how a utility would behave abroad as a public shareholder in the middle column and as a private shareholder on the right column. Taking public value as the independent variable, we then use this as a framework to compare the behavior of two of Europe's largest public utility multinationals: Vattenfall and Endesa.

Firstly, as regards the financial dimension, the private shareholder, with its focus on profits, prioritizes this above any other dimensions, and indeed may subordinate financial sub-dimensions concerning accountability and transparency to the profit imperative (Wilner and Parker, 2007). In contrast, though the public shareholder may also be expected to seek out profit for its shareholders, this should not be its only objective (Florio, 2014). Moreover, the public shareholder is expected to present its financial activities in a more transparent and comprehensive way (Greiling and Grüb, 2014). Public shareholder utilities will be expected to provide the core infrastructure for economic development and social wellbeing (Millward, 2005). As such, long-term sustainability and planning goals must be given priority over shorter term financial objectives (Sclar, 2014; del Bo and Florio, 2013; Clark and Bradshaw, 2004). Profit-maximization will be tempered with other desirable objectives; moreover, the approach to profit-making is longer-term. The public shareholder should be more concerned about sub-dimensions in this category, particularly, ensuring it is accountable and transparent, and that prices and profits closely reflect information in the markets (Fama, 1970).

Second, as regards economic efficiency - referring to market structure - the private shareholder may seek monopoly privileges

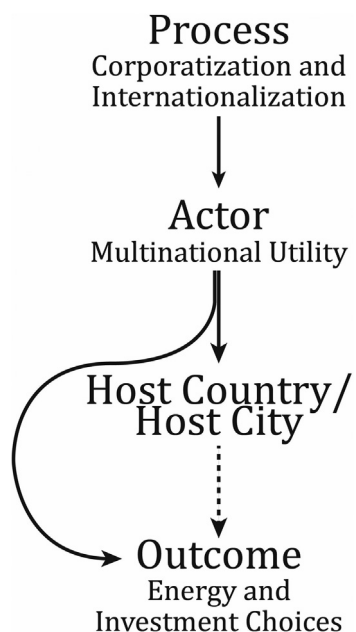


Fig. 1. A schema of public utility internationalization.

and have incentives to hide information from regulators. This could facilitate reducing service standards when possible without facing consumer complaints (Hart et al., 1997). The public shareholder would be expected to play fairly, satisfactorily meeting regulatory challenges, such as competition (Florio, 2013). Where markets are imperfect, a government regulated monopoly may be acceptable, though governments will need to “see inside” the utility to access information on prices, service quality and quantity (Clark and Bradshaw, 2004).

The final three dimensions, technical, social and environmental, can be expected to be subordinated by the private shareholder to the financial dimension: its concern is profit-maximization (Fama, 1970). However, the public shareholder is expected to take these concerns seriously. We might expect it to be more concerned about the technically efficient use of natural resources, often achieving various aims, such as creating employment or promoting environmental sustainability (Wilner and Parker, 2007). We would also expect it to pursue social efficiency including policies to actively redistribute wealth, ensuring the neediest receive the required services (Lerner, 1944). Finally, public shareholding will be expected to address environmental efficiency by considering long-term inter-generational planning objectives at the expense of short-term gain (Homsy, 2015).

3. Public shareholder internationalization and public values: empirical evidence

Before proceeding to analyze the paths to internationalization taken by Vattenfall and Endesa, and their transfer of public values, we briefly put their evolution in comparative context. The promoters of liberalization and privatization from the 1980s onwards claimed these policies would transform the organization of electricity from one characterized by monopoly to competition, and from publicly-owned entities to private ones. However, Thomas (2003) predicted that these processes would actually result in industrial concentration, leading to the consolidation of only a few actors, which he called the “Seven Brothers”. His predictions turned out to be correct; today, the energy market is dominated by a small number of utilities. Moreover, public ownership did not disappear, as observed by Florio (2014). Table 2 shows Europe’s seven leading electricity utilities after ownership concentration through Mergers and Acquisitions.

Utility internationalization was rapid and, by 2012, these seven players derived at least half of their total sales from abroad, except for *Électricité de France* (EDF), which gained 42%. Vattenfall was, in comparison to Endesa, a late-comer to internationalization; however, by 2010, it had emerged as by far the most international of the seven players, with most of its activities abroad in the rest of Europe. Endesa, in contrast, was a first mover, being nearly one third international as early as 1999, thanks to its expansion in Latin America (Casanova, 2003). After acquisition by Enel, Endesa once more returned to public ownership, though partial.

3.1. Vattenfall

Vattenfall represents a legacy of strong public values as seen through the quality and quantity of state involvement in the utility. Vattenfall was subject to long-term public ownership and involvement from its origins, and remains 100% publicly-owned today. Vattenfall also emerged as a major utility multinational, ranking at number 11 of the world’s largest utility multinationals. Around three quarters of Vattenfall’s total sales were derived from abroad in 2012. When Vattenfall went abroad, this rendered the Swedish state a major international public shareholder. As a public shareholder characterized by long-term strong public values, did

these public values prove resilient when it when abroad? We apply our framework as an organizing device to explore Vattenfall’s internationalization, highlighting its activities in its major markets, particularly, in Germany, where much of its activities are concentrated.

Vattenfall (Swedish for “waterfall”) was originally established in 1909 as a government agency to exploit large-scale hydropower to ensure cheap energy in the face of growing demand (Vattenfall, 2015a). Vattenfall operated in co-existence with other private regional energy utilities in Sweden, following a strategy of “coordinated production”. It saw its market share rise from one third of the electricity generation market in the 1930s to one half by 1980 (Vattenfall, 2015b). During this period, Vattenfall was instrumental to constraining domestic prices for Swedish citizens. The state used it as a means of seeing “inside” prices and service quality in Vattenfall as well as the other private competitors, through its “price leader” role (Högselius, 2009). Using Vattenfall as a price leader made it more difficult for private producers to abuse their monopoly positions, which had been granted through concessions (Vattenfall, 2015b). This in turn restrained domestic private enterprise behavior and helped to maintain price accessibility across the country. In addition to playing a nation-wide role in providing affordable prices to society, Vattenfall earned an excellent reputation through its participation in technical activities with international organizations. It prided itself above all on having state-of-the-art expertise in water and energy (Vattenfall, 2015c). Evaluating its role domestically, Vattenfall was used by the state to accomplish all five dimensions under consideration. Profit-making efforts were subordinated to ensuring financial transparency and it was instrumental in ensuring competition in the Swedish market; moreover, its important role promoting social, technical and environmental standards make Vattenfall a case *par excellence* of strong public values.

Change occurred gradually, from the end of the 1980s. Domestic demand for electricity leveled off sharply. After the nuclear accident at Three Mile Island in the US, a referendum was held and it was decided to phase out future nuclear construction (Vattenfall, 2015d). Sweden’s last two nuclear reactors went online in 1985 and the government decided to phase out nuclear power by 2010. Meanwhile, in the EU, policies to deregulate and liberalize electricity were gathering pace. Management faced decline at home, as construction and demand withered, and saw their major options as being expansion through diversification or expansion abroad (Högselius, 2009). Meanwhile, other EU utilities were consolidating their position as leading multinational utilities around the world.

Seeing this, Vattenfall’s management decided to internationalize, but perceived the utility’s public ownership as a constraint for future action (Högselius, 2009). Following international trends, management successfully lobbied for Vattenfall’s corporatization, which occurred in 1992, though initial discussions about privatization were rejected (Vattenfall, 2015e). Simultaneously, management was renewed; a previous generation of engineers was replaced by a new generation of staff with backgrounds in law, marketing and hands-on multinational management. This renewal would alter Vattenfall personnel’s public values outlook: traditional bonds with the world of utilities were weakened as business perspectives emerged. This could affect fulfilling environmental expectations: while previous management had proved hesitant to invest in brown-field energy, this was less of a dilemma for the new management (Högselius, 2009). This new team led Vattenfall into an aggressive internationalization strategy from the late 1990s, including into major markets including: Germany, where it became the country’s third largest electricity producer; the Netherlands, where it is the largest electricity producer; the Nordic Countries; and the UK (Vattenfall, 2015f). However, Vattenfall’s activities in

Germany presented particular challenges for public value transfer to which we now turn.

Vattenfall's first attempt to enter Germany initially failed, when its bid in 1996 to acquire HEW, a Hamburg-based municipal electricity utility collapsed. When a second chance occurred, in 1999, Vattenfall management took a more aggressive acquisition tack. Högselius (2009) argues Vattenfall made a confidential deal which guaranteed it would use HEW as a base for expansion across Germany. HEW management was riled with this acquisition, and complained the terms of the acquisition had not been negotiated transparently. On the other hand, HEW management stated if takeover was inevitable, Vattenfall was preferred to E.ON. E.ON, one of Germany's leading energy multinationals, had been founded through the merger of PreussenElektra and Bayernwerk in 1999. It was feared that liberalization would allow E.ON to dominate the entire German market: Vattenfall was seen as a means of restricting this. So, E.ON's potential threat of market domination played to Vattenfall's favor, opening the door to Vattenfall's emergence as one of the largest energy multinationals in the world.

Now, just at the moment Vattenfall acquired HEW, HEW in turn was finalizing the acquisition of BEWAG, a large municipal energy company in Berlin, in good financial shape, its sister company, VEAG, which was in poor financial shape, had a near monopoly in the former German Democratic Republic, and was involved in brown coal-based electricity, and LAUBAG, a company which operated in east German brown coalmines. With newly acquired HEW, BEWAG, VEAG and LAUBAG, Vattenfall held more assets in Germany than Sweden (Högselius, 2009, Vattenfall, 2015g).

With this acquisition, Vattenfall's profile changed overnight as its assets and sales were greater in Germany than in Sweden. How would public values be transferred across borders? Financially, Vattenfall was adopting a high-risk strategy as regards assets/equity ratio (Högselius, 2009), while the terms of its acquisition were criticized as not being transparent. Thus, Vattenfall was already starting to behave more as a private than a public shareholder. As regards the environmental question, at home, Vattenfall had a solid reputation, having been associated with hydro and nuclear power. However, its work abroad, including mining brown coalfields in Lausitz, a town in east Germany, as well as running out-dated nuclear power plants in cities in West Germany, represented a major challenge to the utility (Vattenfall, 2015f). Indeed, the Multinational's *Corporate Social Responsibility Report* (Vattenfall, 2002:13) showed how its environmental profile worsened sharply after internationalization. While carbon dioxide emissions from Sweden and Finland were minimal, Vattenfall admitted they were "substantial" in Germany and Poland. Indeed, emissions of carbon dioxide from VEAG were greater than Sweden's national emissions (Vattenfall, 2002).

These risks to its environmental record came to a head during confrontations between the multinational and the German government. With multinational status, Vattenfall had the right to resort to international agencies such as the International Centre for Settlement of Investment Disputes (ICSID). Tensions between Vattenfall's environmental record at home and its activities abroad widened when the multinational filed a complaint to ICSID against the German government in 2009, after the government passed environmental requirements on water quality which Vattenfall claimed made its planned construction of coal-fired power plants unviable. At stake in particular was that Hamburg's general public was opposed to Vattenfall's planned construction of a coal-fired power plant along the River Elbe. Vattenfall was able to use the Energy Charter Treaty to take the German government to court, claiming that the environmental demands made by Hamburg's citizens were more exacting than those provided for in the Energy Charter Treaty (Bernasconi, 2009). Citizens and interest groups in

Hamburg claimed their demands on water quality were to comply with EU law on water regulation. Arbitration was held secretly: the outcome was that the German government had to dilute its environmental demands for water quality. Again, when the German government opted for a no-nuclear policy from 2011, in the aftermath of the Fukushima disaster, Vattenfall filed for arbitration against Germany at the ICSID to demand compensation for losses caused by forced closure of its two nuclear power plants. This was controversial given Sweden had phased out nuclear power years before for similar reasons.

Vattenfall's work abroad undermined its reputation at home. This was particularly significant for the environmental dimension. For instance, the multinational was active in supporting calls to fight climate change globally, but accused by Greenpeace of running some of Europe's "irtiest" coalmines, particularly in Lausitz, east Germany (Greenpeace, 2010). The Reputation Institute published a report on its findings that Vattenfall received less trust, admiration, good feeling and esteem from Swedish consumers than 91 other brands. Its' only well performing dimension was financial, while innovation, citizenship, governance and leadership were low (Reputation Institute, 2010). So, while the public was positive about Vattenfall's financial dimension, it was failing on the other dimensions of public value. More recently, Greenpeace (2014:1) argued Vattenfall had become divided into two parts: "an almost carbon-free Scandinavia" and a "CO₂-intensive, lignite-based" Germany.

Eventually, Vattenfall suffered something of a popular backlash. In Germany, a wave of re-municipalization occurred (Hall et al. 2013). During this process, Vattenfall was ousted from Hamburg in 2013 when a citizen-led coalition voted to repurchase the power grid. Afterwards, another referendum was held in Berlin and, though 80% voted to oust Vattenfall, an insufficient number of voters meant quorum was missed by 1% (*Financial Times*, 3 November). According to Berliner Energietisch (2014), the grass-roots movement promoting the referendum, the reason to buy-back grids is that citizens wanted a more participatory and democratic management of power grids, in particular, to promote affordable prices, especially for vulnerable consumers, and renewable energy. Electricity prices in Germany in 2013 were the second highest in the EU-27, after Denmark.

3.2. Endesa

Endesa is selected as exhibiting weak public values as regards the quality and quantity of public involvement in its evolution. What happens when a publicly-owned utility with a legacy of weak public values goes abroad as regards public values transfer? Like Vattenfall, Endesa was subject to long-term public involvement, but in this case the government was not a democracy but a dictatorship. Endesa had been established during the Franco dictatorship in 1944 as a public limited company, with headquarters in Madrid, and fell under the ownership of *Instituto Nacional de Industria* (INI), a holding of publicly-owned manufacturing enterprises, created in 1941, after the Spanish Civil War (Comín and Díaz-Fuentes, 2004). From the outset, Endesa's corporate model was more privately-oriented than the typical centralized, public administration model of Central Electricity Boards and Post, Telephone and Telegraph agencies established in other Western European nations (Millward, 2005). As a public limited company, Endesa was ostensibly to focus on profit-making; however, the dictatorship distorted its activities by forcing it to undertake many unprofitable ventures. Used as an instrument of the dictatorship's industrial policy, Endesa was neither financially accountable nor transparent to public shareholders. The utility was often used as an "electricity enterprise by default". This meant it was used to undertake specific jobs which

resolved market failures, errors or incapacities that the oligopoly of private enterprises would or could not resolve. Tasks assigned to Endesa included building new coal-fired plants in order to reduce Spain's dependence on hydro-power; this helped contribute to its poor environmental record at home. Endesa was charged to supply electricity to urban populations in order to politically neutralize regions where opposition to Franco was strongest, by providing local employment based on coal production. As such, socio-economic tasks were infused with politics. Technically, Endesa was mediocre: for three decades, until the mid-1970s, technical policy was deferred to inward-looking industrial policy. As an instrument of industrial policy, Endesa was weak, its role being limited to supporting autarchic (mainly protectionist and military-strategic industrialization) policies (Comín and Díaz-Fuentes, 2004). In sum, Endesa can be characterized as demonstrating weak public values at home: while it contributed somewhat to the financial dimension of public values, this came at the expense of broader economic, technical, social and environmental aspects.

After democratic transition, during the 1980s, the Socialist government, *Partido Socialista Obrero Español* (PSOE), rather than infusing weakly public firms with greater public content, chose privatization, which had become fashionable in the UK, as a means of eliminating the dictatorship legacy of Spain's inward-looking industrial state. The Socialists sought to promote national champions to facilitate the internationalization of Spanish business (Casanova, 2003). Endesa was a prime candidate. It was reorganized from 1983 and given managerial and financial autonomy. Management, free from the government, could pursue the business strategies it saw fit. Management pursued from early on an aggressive corporate strategy with the aim of maximizing profits for its private shareholders. At home, they sought to consolidate Endesa, by acquiring other local electricity companies, such as Enher, Gesa, Unelco and Encasur, and ERZ. Much earlier than Vattenfall, Endesa started its path to financial internationalization, from 1988, when it was listed on the New York Stock Exchange via an initial public offering (IPO). Government shares in the utility fell to around 75% at the time, and again to 67% after the second public offering in 1994 (Clifton et al., 2007).

Endesa used this early financial internationalization to leverage corporate expansion into Latin America and Portugal. For Endesa, financial expansion was a means of avoiding takeover at home by a rival operator. Endesa's strategy consisted of increasing asset and market size at home, and transferring its cost-cutting model abroad. In Latin America, post-crisis Washington consensus policies often made bailouts conditional with implementing privatization. Endesa's major internationalization acquisitions included Argentine *Edenor* and *Yacylec* (1992), the Portuguese *Tejo Energia* (1993) and *Compañía Peruana de Electricidad* and *DistriLima* (1994). Next, Endesa consolidated its presence across Latin America, with its acquisition in 1997 of 29.06% of *Enersis* (Rozas, 2001). *Enersis* was a Chilean financial holding company which owned a utility incumbent called *Endesa de Chile* (previously unrelated despite the name), and its multiple major stakes in utilities across Argentina, Brazil, Chile, Colombia and Peru (del Sol, 2002).

Endesa's acquisitions in Latin America reveal its clear prioritization of the financial imperative. This was reflected in its acquisition of the financial holding *Enersis* (Rozas, 2008). Despite the fact this marked a financial success for Endesa, owning a significant proportion of shares did not automatically mean it gained effective control over the holding. The context into which Endesa had invested mattered. Experiments in electricity privatization and financialization had been pioneered by the Pinochet dictatorship. Electricity privatization in Chile had started in 1981 and lasted until 1987: the dictatorship created pension fund management companies (AFPs) which became the main shareholders of these newly

privatized companies. So, utilities were owned by financial holdings whose shareholders were AFPs. Once these holdings were consolidated at home, they started to buy other utility companies abroad. On the board of directors of the *Enersis* financial holding were prominent members of Pinochet's dictatorship. As privatization and liberalization policies were implemented across other Latin American countries, *Enersis* expanded abroad, acquiring some of the most important electricity companies in Latin America (Rozas, 2008). Even after acquiring *Enersis*, Endesa experienced complex and problematic financial negotiations with the holding, both politically and as regards business strategies. In an attempt to gain control, Endesa increased its capital stake of *Enersis* to over 60% in 1999, which forced a renewal of the Board of Directors. Even so, Endesa failed to establish control over the holding: for example, Endesa Spain could not stop *Enersis*' selling of 25% of its shares in Endesa Chile (Casanova, 2003). Thus internationalization only meant partial control by Endesa over its affiliates.

As regards the economic dimension, Endesa behaved abroad more like a private shareholder and pursued rent-seeking strategies, prioritizing the acquisition of existing utilities with strong market power in capitals and large cities, rather than investing in new long-term power projects. For example, Endesa bought *Edenor*, one of the two companies responsible for distribution in the north of Buenos Aires (Rozas, 2008). Buenos Aires constitutes 40% of all Argentina's energy requirements. Next, it went upstream by acquiring a thermal power station in the same city (Central Dock Sur) in 1996. In addition, by taking over *Enersis* from 1997, it indirectly acquired part of the other company responsible for distribution in Buenos Aires, *Edesur*. In buying *Enersis*, Endesa simultaneously acquired the main thermal power generator in Buenos Aires, *Endesa Costanera*, the largest hydropower generator in the whole country, *Hidroeléctrica el Chocón*, as well as the electricity trader company, *CEMSA*. Endesa had overstretched itself; it was forced to withdraw from *Edenor* due to Argentinian market regulation. It followed similar strategies in Lima in Peru, Rio de Janeiro and Fortaleza in Brazil, Santiago in Chile and Bogotá, Colombia, putting financial expansion over any environmental objectives regarding energy production (Rozas, 2001).

Historically, many Latin American cities were served by energy sourced from hydropower projects, developed by governments with the support of international financial institutions such as the World Bank (CEPAL, 2003). On average, two thirds of electricity generated in Latin America is derived from hydropower, way above the world average of around 16% (International Hydropower Association, 2014). Through its investments in Latin America (Endesa, 2008b, 2011 and 2012), Endesa's installed capacity and output in Latin America is higher in hydropower than thermal: for example, in Argentina, the ratio is 28.8% (1300: 4500); Brazil, 67.4% (665: 987); Chile 58.33% (3500: 6000); Colombia 84.8% (2482: 2925) and Peru, 38.7% (750: 1940). However, Endesa does not hold a strong hydropower record at home (Endesa, 2011, 2012), generating only 18.7% (4754: 25,433), and this expansion into hydropower was not driven by environmental objectives, nor was it maintained.

Despite the legacy of hydropower in Latin America, the participation of foreign Multinationals in the region, including Endesa, has been accompanied by a rise in the proportion of investment and output using thermal power to serve increasing demand across Latin American major cities. For example, Endesa has opted to invest in thermal energy around Buenos Aires through *Endesa Costanera*, at the expense of continuing to promote the tradition of supporting large-scale hydropower projects in the Patagonia through *Endesa Hidroeléctrica El Chocon*. Investment in thermal power is more concentrated in urban areas, and is perceived to avoid risks associated with long-term investment in large-scale

hydro-power projects in more remote locations. In this way, the historical promotion of hydropower in remote regions for development is gradually being sidelined for easier investment in thermal energy near cities.

Endesa had used financial internationalization to avoid being taken over at home. However, it ultimately proved unable to prevent this. By 1998, Endesa was almost completely privatized (97%), controlled over half of Spain's electricity generating market, and was one of Europe's most active energy multinationals. When the German utility multinational E.ON attempted to take over Endesa in 2004, the Spanish socialist government used its "golden share" to ward off the German utility. The government was reprimanded by the European Commission for blocking a merger with EU dimensions. Eventually, the Socialists negotiated with Italian publicly-owned Enel, which, in October 2007, together with Acciona, a Spanish company, took over Endesa (Endesa, 2008a, 2009). Finally, in 2009, Enel acquired Acciona's stake, making the Italian public utility the ultimate owner of Endesa. Paradoxically, after years of private management, Endesa returned to its public ownership roots, albeit this time, by a foreign state.

4. Conclusions

This paper explored whether public values could be transferred abroad when public utilities internationalized. Regarding the independent variable, public value, we selected two "most different" cases studies exhibiting strong and weak public values: Vattenfall and Endesa. Taking a public values approach, we identified five major dimensions upon which the behavior of international public and private shareholders could be analyzed.

We found, first, that a public shareholder in practice can reflect more strongly or weakly public values. Vattenfall is a prime example of a public utility with strong public values. The entity was publicly-owned from its origins and used by the state over the long term as an instrument to accomplish domestic policies concerning social redistribution, the environment, and so forth. Endesa, in contrast, was a prime example of a public utility with weak public values: it has a history of some public ownership but was largely organized according to private criteria, or, by political criteria under dictatorship. Using our framework of expected behavior, we found that, while Vattenfall's initial behavior at home conformed largely to the model expected of a public shareholder, Endesa was far removed from reflecting public values, as it was constrained under dictatorship. In democratic Sweden, Vattenfall played a strong public function: in fascist Spain, Endesa's public function was rigid, hierarchical and weak.

Both Vattenfall and Endesa were exposed to similar regulatory change in the EU context. While the Swedish government opted not to privatize Vattenfall, Endesa was privatized by the first democratic government in order to eliminate the Franco legacy. Endesa, with an increasingly private shareholder character, was a first-mover to exploit the possibilities opened up by liberalization abroad. Leveraging its early financialization, it took advantage of the Washington Consensus-imposed privatization of utilities in Latin America from the early 1990s, before the Spanish government had implemented similar liberalization policies at home. Vattenfall, in contrast, went abroad only after liberalization had started to challenge its home market, and then, only in order not to fall behind its European peers. After trial and error, Vattenfall became gradually more aggressive in its moves abroad.

Both Vattenfall and Endesa were ultimately driven by profit in their ventures abroad. In both cases, other objectives aligned with public values were subordinated to the financial imperative. For example, Vattenfall managers' initial reluctance to expand into coal-fired or nuclear energy was overcome by a new generation of

private sector managers. So, while its environmental record at home was solid, its record abroad, particularly in the east German city of Lausitz, was criticized. Endesa, without strongly entrenched public values at home, unambiguously prioritized financial expansion from the outset. Even so, Endesa found that taking over a company financially did not necessarily mean it could effectively control those entities therein. Neither company prioritized the transfer of their best practice energy technologies abroad, even after substantial changes in national and EU policies and the introduction of incentives to renewable energy in the 1990s and 2000s. Strelzel and Frenzel (2008) found that a similar pattern occurred when all other European electricity utilities went abroad, due firstly to contextual factors such as the availability of resources (coal, gas, wind, water or sun), but also to the lack of an innovative strategy to diversify or change. Finally, and perhaps, paradoxically, Vattenfall is now one of the most important utility multinationals in the world, while Endesa, aggressive first-mover in financialization, privatization and internationalization, fell victim to its own success and was acquired not by a private firm but by a foreign government. The story on how Italian control will affect public values in Spain or Latin America is yet to unfold.

A core question of our analysis was whether public values persist in public utilities when they travel abroad. We find the insertion of private values in terms of profit objectives (even if just in the portion of the firm active abroad) brings with it a privileging of financial over other broader public concerns. Expansion abroad, as we have shown, is driven primarily by concern with market expansion and profits. While these exchange values take precedence abroad, they also have the potential to reorient the broader set of use value-oriented public objectives at home. This may fundamentally undermine the public character of the public utility. For the host, this means a number of new challenges. When the financial imperative drives investment, a remote owner is disciplined by profit-making outcome, at the expense of consideration of location-based needs. Endesa's prioritizing of thermal investment as opposed to longer-term hydropower investment has important consequences on the future environmental features of Latin American cities. Vattenfall's seeming disregard for Hamburg's citizens concerns about water quality only added to citizen perception that basic utilities require careful management that respect citizens' preferences.

What lessons do these cases offer for future policy on utilities? Policy must not only consider the firm, but also the state and the citizens – the public shareholders. Our analysis of environmental outcomes suggests public firms will seek weaker environmental regulation abroad and pursue investment in less sustainable technologies when profitable. Could that affect the utility's performance at home? As regards political outcomes, how can the citizen, as public shareholder, be heard in these processes – either in the home country or the host country? Where is accountability and transparency? In a private publicly traded firm, a private shareholder could at least attend a shareholder meeting. Where is that voice for citizens either at home or abroad in the public utility? These are questions future research will need to explore, but our initial analysis suggests reason for concern.

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