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Policy Brief

Strategic missions and policy opportunities for stateowned enterprises

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STRATEGIC MISSIONS AND POLICY OPPORTUNITIES FOR STATE-OWNED ENTERPRISES

A focus on the Italian case with lessons from the past

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Exhibition of the State-owned company Italsider at Fiera Campionaria Milano in 1963. The inscription states: "Italsider is today the first steelmaking company of western Europe".
Source: Fondazione Fiera Milano

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1. The relevance of State-owned enterprises in modern capitalism

The pervasive presence of State-owned enterprises (SOEs) is a defining feature of modern economic systems, despite the decades-long privatisation process that most developed and emerging economies underwent before the Great Financial Crisis of 2007.

The privatisation era was symbolically inaugurated by the listing of British Telecommunications on 28 November 1984[1], before gaining momentum in the second half of the 1980s and reaching its most intensive phase in the 1990s (Meggison, 2005). International organisations such as the World Bank (1995) were encouraging the disappearances of "*Bureaucrats in Business*", while academic scholars were celebrating "*The Rise and Fall of State-owned Enterprises*" (Toninelli, 2000).

Nevertheless, the hype for privatisation lasted only few decades. In 2012, The Economist was stating: "The rise of state capitalism constitutes one of the biggest changes in the world economy in recent years". Two complementary dynamics had taken place in the previous period.

First, the resilience of SOEs in Western economies, where key companies in the energy, defence, transport, telecommunications sectors endowed with high technological capabilities have been kept under State control. Second, the spectacular rise of SOEs in China and in other emerging economies.

Statistical evidence on these two tendencies is still scarce and periodic, but sufficient enough to capture their main essence. In 2018, the share of SOE assets among the world's 2,000 largest companies reached 20% of the total (IMF, 2020), largely driven by the growth of Chinese companies. SOEs are typically very large – often international – companies: UNCTAD (2019) lists around 1,500 State-owned multinational enterprises (SO-MNEs), 16 of which appear in the top 100 multinational enterprises ranking. Moreover, in the early 2010s, OECD Countries were recording more than 2,000 SOEs, with 9 million employees in total and an overall market value of more than 3,000 billion USD (OECD, 2014).

These figures highlight the necessity for more extensive and deeper empirical studies. At the same time, conventional economic thinking on the role of SOEs has shown several analytical limits. A more detailed knowledge of existing SOEs, combined with a different theoretical approach on the role of SOEs in modern economics, could lay the foundations for a rigorous exploitation of their unexplored policy potential.

2. Existing analytical approaches on SOEs

In recent years, State-owned enterprises have attracted increasing interest from international organisations such as UNCTAD (2011; 2017; 2019), the World Bank (2014) and the IMF (2020). Over the same period, the OECD has been producing a

[1] The British Government sold a 50.2% stake, raising £3.9 billion.

series of periodic statistics as well as reports on sectoral or national case studies (OECD, 2016; 2017; 2018). An updated version of the "*OECD Guidelines on the Corporate Governance of State-owned Enterprises*" was published in 2015.

Academic studies have also proliferated (Musacchio and Lazzarini, 2014; Cuervo-Cazurra, 2018; Bernier et al., 2020), moving away from the debates around privatisations that dominated the 1990s (Megginson and Netter, 2001).

Statistical empirical studies normally attempt to evaluate the relative performance of SOEs with respect to private companies. However, this often represents a misguiding approach, as it reduces the evaluation of SOEs to the analysis of their financial variables (i.e. profitability, debt ratios), which do not capture the existing productive capacities of such companies: their technological capabilities, let alone their contribution to the technological and industrial development of the national economy.

A different case-study approach would focus on a single State-owned company, analysing its shareholding composition, its organisational structure, its market strategies, and other business-related elements. This approach has the merit of introducing a deeper qualitative lens in understanding SOEs and evaluating their existing capabilities. At the same time, single case studies without a further analysis of the broad industrial context in which the SOEs operate cannot fully address the link between policy and State ownership.

In fact, most countries tend to have a variable number of State-owned companies, in many different sectors. Even if they are not all consolidated under a single corporate entity, the common denominator of State ownership invokes a unifying analytical approach, focused on the role of SOEs in their respective national economies. A system approach is able to look at the portfolio of all national SOEs through their relations within the broader industrial system and with existing national policy objectives.

This policy brief provides a synthetic analysis, with some policy suggestions, over Italy's current system of State ownership.

3. A paradigmatic case: the trajectory of State-owned enterprises in Italy

In the post-war period, Italy's economy embraced a "modern capitalism" model characterised by the significant role of State-owned enterprises (Shonfield, 1965). As in other countries, Italy presented all the different forms of State ownership: fiscal monopolies (e.g. salt and tobacco), ministerial State companies (e.g. postal services and railways), public corporations (e.g. electric energy, banks), commercial yet State-owned companies (e.g. large manufacturing companies in shipbuilding, aerospace, steelmaking and electronics).

The latter category was configured in such a peculiar way that it attracted the attention of several foreign scholars (Lutz, 1962; Posner and Wolf, 1964; Holland, 1972). It was constituted by companies, formally operating under commercial law rules, which were fully, or only partially owned by the State. The State was the controlling shareholder of a variegated system of mixed public-private companies.

It exercised its ownership duty through State-holding companies, public law bodies entrusted with ownership rights and a coordinating role over the controlled companies. The State-holding formula was imitated in other national contexts[2] and it still constitutes a diffused institutional option for the portfolio of national State-owned enterprises (e.g. China's SASAC, France's *Agence des participations de l'État*, Singapore's Temasek, etc.), even though the more active role it played in the past is currently less pervasive and diffused.

In Italy, the two most significant State-holding companies were the *Istituto per la Ricostruzione Industriale* or "IRI" ("Institute for the Industrial Reconstruction") established in 1933 and the vertically-integrated oil and gas company *Ente Nazionale Idrocarburi* or "ENI" ("National Hydrocarbons Authority"), founded in 1953. Both were huge industrial conglomerates, ranking among the top 20 largest companies by revenues in the 1980s on the global scale, and among the top 5 in the European category[3].

IRI and ENI played a major role during the years of the so-called "economic miracle" (1954-1963), investing in the crucial capital-intensive sectors of steelmaking and energy (Amatori, 2013; Carnevali and Sapelli, 1992). High-quality and low-price steel products constituted the essential backward linkage of an expanding mechanical sector (e.g. automotive, heavy mechanics and domestic electrical appliances). The availability of cheap energy sources (i.e. oil and gas) boosted the cost competitiveness of the entire industrial system.

IRI and ENI were also primarily engaged in building national and international infrastructures such as: telephone networks, motorways, high-speed railways, air and maritime transport, Radio and TV, petrol stations and gas pipelines (Marsan, 1992). At the same time, the nationalisation of the electric energy sector in 1962 – with the establishment of ENEL, who later became the largest electric utility in Europe – was instrumental in providing a safe and reliable source of electric energy for business and households in all parts of the Country (Castronovo and Paoloni, 2013).

Italy's SOEs assumed a prime responsibility in long-term investments and technological development with deferred returns, through diversification and new business ventures, particularly in research intensive and high-tech sectors where private initiative was timid or absent: aerospace, semiconductors, industrial automation, nuclear energy (fuel and plant), chemical processes, etc (IRI, 1992). The R&D effort of public enterprises in Italy reached a growing dimension in the 1980s, averaging 35.6% of total business R&D spending, up from 13.7% in 1963 (Istat, 2011).

[2] Among the most notable cases: CORFO (1939) in Chile, INI (1941) in Spain, ÖIAG (1970) in Austria, Statsföretag (1970) in Sweden, Canada Development Corporation (1971) and the British National Enterprise Board (1975).

[3] Fortune 500 International, 19 August 1985.

This system lasted until 1992, the formal beginning of the privatisation phase[4]. During the 1990s, Italy was the country that privatised most on a global scale. Between 1992 and 2007, the total value of receipts from privatisation amounted to more than 160 billion USD in current values[5].

Privatisation implied two different processes. A first one was represented by the entire divestment of assets in favour of existing private companies. The second one entailed the partial privatisation of SOEs via listing on the stock market, with the State retaining a controlling stake. At the same time, previous public corporations and ministerial State companies were transformed into joint-stock companies, subject to commercial law rules, often in increasingly liberalised markets.

4. The competitive role and strategic dimension of Italy's SOEs

Despite a substantial divestment of public industrial assets, to this date Italy's portfolio of State-controlled companies remains quite consistent.

A research performed between the end of 2019 and the beginning of 2020 has sought to assess the quantitative extent of Italian SOEs, as well as their governance structure, through a series of 12 interviews[6] with their top managers (CEOs and Chairpersons).

The results of this study have been published in the report *Missioni Strategiche per le Imprese Pubbliche Italiane*[7]("Strategic Missions for Italian State-owned Enterprises"). The analysis of SOEs' Financial Statements has revealed the pervasiveness and relative magnitude of Italy's State ownership in industry.

Italian SOEs are leading players in various sectors, primarily: energy, gas, aerospace, transport and distribution, heavy engineering, shipbuilding, semiconductors, digital services.

	Total	**Relative to the business enterprise sector**
Revenues (Billion of euros)	255,123	8.1%
Fixed investments (Billion of euros)	17,613	17.2%

[4] With Decree no. 33 of 11 July 1992, IRI, ENI, ENEL and other public bodies were transformed into joint-stock companies, whose capital was immediately transferred to the Treasury. ENI and ENEL were later listed on the stock exchange and only partly privatised, with the State still retaining a stake of 30.1% and 23.6% respectively. IRI was instead put into liquidation in 2002 after most of its controlled companies had been sold or transferred to the Treasury. At that point, the net receipts for the Italian State amounted to approximately 20 billion euros (Mucchetti, 2013).

[5] Authors' elaboration based on Privatization Barometer.

[6] The list of SOEs interviews is the following: Leonardo (16 October 2019), GSE (24 October 2019), Saipem (6 November 2019 and 16 January 2020), Fincantieri (21 November 2019), Snam (6 February 2020), Enel (18 February 2020), Ferrovie dello Stato (24 February 2020), PagoPA (10 March 2020), CDP (20 March 2020), Terna (7 April 2020), Poste Italiane (9 April 2020).

[7] The Report has been prepared by a commission of economic and legal experts "Commissione Imprese e Sviluppo", established within the civil society association *Forum Disuguaglianze Diversità*. The Report was officially presented on 1st July 2020, at the presence of the Italian Minister of the Economy and Finance.

R&D expenditure (Billion of euros)	2,947	18.5 %
Employees in Italian companies	353,340 (503,784 overall)	2.9%

Table 1. Main economic figures for the 20 largest Italian SOEs. *Source*: Authors' elaboration based on Financial Reports and Istat data.

All the 20 largest industrial SOEs – controlled by the central Government – have a turnover of more than 50 million euros and over 250 employees. In fact, the distribution is skewed towards very large companies: on average their turnover is 12.8 billion euros and the average number of employees is more than 25,000. They are among the largest companies in the Country also in terms of total revenues. With this respect, 6 out of the 10 largest companies in Italy are SOEs.

As Table 1 reports, Italy's SOEs employ 2.9% of the total workforce in Italian companies, but they represent 8.1% of overall business revenues, 17.2% of total business investments and 18.5% of total business R&D spending. These figures shows that Italian SOEs operate in highly capital- and research-intensive activities.

As for their financial performance, described in Table 2, only two companies[8] were showing net losses in 2018. The consolidated amount of net profits of these 20 SOEs is estimated to be well above 14 billion euros, 58.9% of which is distributed in dividends to all their shareholders, which results in 2,7 billion euros dividend payments for the public shareholder. Finally, Italian SOEs dominate the Milan stock exchange, representing almost 29% of its total market capitalisation.

	Total	**Key ratios**
Net profits (Billion of euros)	14,277	5.6% Consolidated profit margin
Total dividends (Billion of euros)	8,414	58.9% Consolidated payout ratio
Total dividends to the public shareholder (Billion of euros)	2,761	0.34% Share of the overall receipts from the State budget
Payout ratio	NA	48.4% Unweighted average value
Dividend yield	NA	3.5 % Unweighted average value
Market capitalisation (Billion of euros)	157,809	29.1% Share of total market capitalisation (end of 2018)

Table 2. Main economic figures for the 20 largest Italian SOEs. *Source*: Authors' elaboration based on Financial Reports and Istat data.

5. The limitations and opportunities of Italian SOEs

The 12 interviews with the CEOs and other top managers of Italy's SOEs have confirmed the existence of significant technological capabilities and competitive

[8] Saipem and Ansaldo Energia, with net losses of 410 and 232 million euros respectively.

advantages in their respective sectors. At the same time, some critical elements seem to emerge.

First, those companies have become largely independent from the public shareholder. The latter abstains from discussing and assigning explicit long-term strategic missions to the various SOEs, delegating this to the internal decision-making process of each company.

Second and relatedly, the existing pressure for short-term financial gains which affects investment decisions in certain areas where returns might be deferred and lower. This is particularly clear for the listed SOEs – especially those that operate in regulated markets – whose generous dividend policies satisfy the public shareholder and third-party investors, while reducing the availability of internal resources needed for extra capital investments or R&D projects.

Third, the frequency and intensity of interactions among the various companies – even when they operate in similar sectors (e.g. energy, complex engineering, electronics, etc.) – is sporadic and unsystematic. A formal coordination of investment programmes and other industrial initiatives is almost absent.

In short, the Italian State behaves as a “passive shareholder”, making its appearance almost exclusively at the time of the shareholders’ meeting for the executive board’s appointments. From this perspective, SOEs are essentially considered as profitable financial assets, with little or no policy instrumentality.

As such, their systemic potential within the industrial sector remains underutilised. All this considered, SOEs could play a more powerful role in in mission-oriented national programmes aimed at decarbonising the economy, which require building symbiotic partnership between public and private actors over time (Mazzucato, 2018; Mazzucato and Dibb, 2019). A non-intrusive and long-term focused coordination of a wide and differentiated range of SOEs provides interesting policy opportunities for exploiting technological spillovers, sectoral complementarities, economies of scale and scope and the establishment of joint initiatives.

6. The proposal for a mission-oriented system of SOEs

The proposal presented in the report *Missioni Strategiche per le Imprese Pubbliche Italiane* attempts to address the relatively passive approach of the Italian State towards its SOEs, reverting it to a more active role.

The proposal is based on three elements:

1. *The definition and attribution of long-term missions to the SOEs*. The State ought to interfere as little as possible in the operating decisions of its SOEs. However, when it comes to defining their long-term industrial strategies, the public shareholder should be more involved. The definition of long-term missions and industrial strategies should not come as a top-down decision imposed by the public shareholder to its SOEs. Rather, it should appear as a dialectical process where the management and other representatives of the

State agree on the company's mission, its long-term industrial objectives and the strategies for how to achieve them.

2. *The establishment of a Council of Experts of the public shareholder*. When the State appoints its representatives in the Board of Executives of its SOEs, they assume this role in the interest of the company. The Italian State lacks a technical structure that can operate as a bridge with the SOEs, to facilitate a system approach to its broad portfolio of controlled companies. The proposal for establishing a Council of Experts would remedy the information vacuum, establishing a channel of technical discussion, which is essential for the definition of long-term missions (Figure 1). Members of the Council should be appointed on the basis of their expertise over the various SOEs and on their knowledge of sectoral characteristics in which they operate (e.g. markets dynamics, relevant technologies, legal features). They could come from outside the public administration (business, academia, third sector, etc.) and from within the ministerial departments (e.g. industry, energy, environment, etc.).

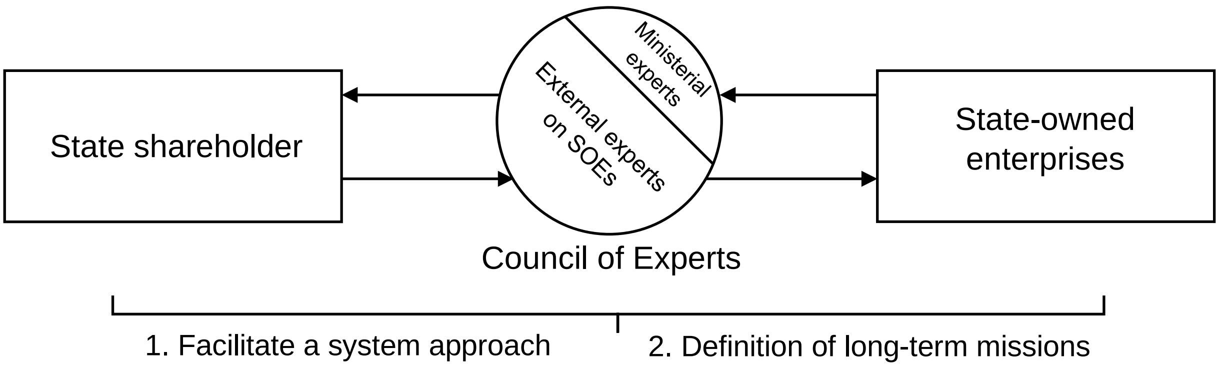

Figure 1. Scheme of the proposal: the bridging role of the Council of Experts

3. *The centralisation of all the SOEs into a single ownership entity*. This would also reflect the recommendations from the 2015 OECD Guidelines on Corporate Governance of State-Owned Enterprises (Article II, D). In the Italian context, the portfolio of SOEs, is divided between the Ministry of the Economy and Finance and *Cassa Depositi e Prestiti* (CDP), a State-controlled bank. Three options could be considered: *a*) the centralisation of all SOEs within the Ministry; *b*) the centralisation of all SOEs within CDP; *c*) the centralisation of all SOEs within a separate State-holding company. In each of these cases, the Council of Experts would operate as the central body of the single ownership entity, intermediating the public shareholders with the single SOEs.

7. Conclusions

State-owned enterprises display a huge unexplored potential for economic transformation. In developing economies, they can provide a long-term commitment for expensive and risky capital investments, focusing on the development of national technological capabilities, within the SOEs themselves and through their supply-chain relations with the rest of the economy (especially SMEs). The same role can be played in developed Countries, where they could be instrumental players for the green transition and for the digital transformation of the economy.

The Italian case is illustrative on several different grounds. First, it signals the resilience of SOEs compared to other large private companies, including those that have been privatised during the past 30 years. Second, the Italian system of State-ownership has demonstrated a paradigmatic shift from an active entrepreneurial role of the public shareholder, to a quite passive approach that is more typical of financial investors. Third, as a consequence of the above, Italian SOEs have partially lost the propulsive power they previously had in diversifying into new activities, presiding over strategic sectors and technologies, as well as investing with a long-term orientation in crucial infrastructures and R&D projects.

Figure 2. On the left, the report *Missioni strategiche per le imprese pubbliche*, which underlies the content of this brief. On the right, the report *Missioni Italia* (“Missions Italia”), an application of the mission-oriented approach to policymaking written by Mariana Mazzucato in her role as economic adviser to Italy’s Prime Minister.

A lesson for Italy, but also for other advanced economies with a wide portfolio of SOEs, is the following: State-owned enterprises can become a very effective industrial policy tool, depending on the governance that regulates the national system of State-ownership. An active and technically informed involvement of the public shareholder together with the attribution of coordinated and strategic long-term policy missions, could transform SOEs into a powerful ammunition for the industrial development and technological progress of a nation.

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