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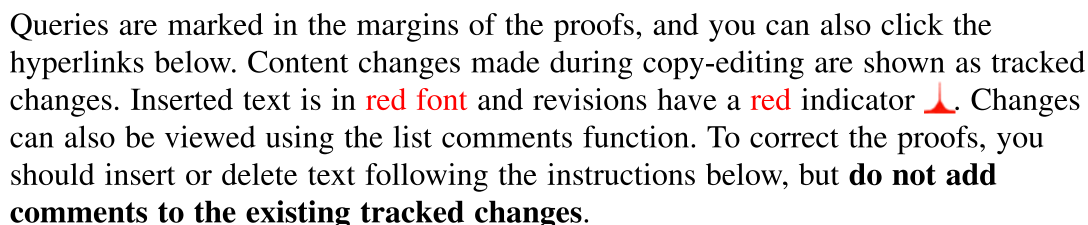
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European market integration and the political economy of corporate adjustment: OTE and Telecom Italia, 1949–2009

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Despite the common challenges posed by European market integration and liberalisation, the behaviour of telecommunications operators across Europe suggests a variety of modes of adjustment and paths to privatisation. The article examines the puzzle of divergent responses to liberalisation by OTE and Telecom Italia (TI), casting light on their distinct paths to privatisation and internationalisation. The cases are considered in the context of the Varieties of Capitalism frame, which challenges the perspective that global market integration will lead to convergence in strategies and structures. Thus, the article suggests that the observed differences are largely explained by the domestic actors' preferences, and to a much lesser extent attributed to the globalising forces of technological change and competition.

Keywords: European Union (EU); liberalisation; telecommunications; privatisation; Varieties of Capitalism

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Introduction

The telecommunications sector in Europe is an excellent test case for arguments pertaining to convergence and divergence in comparative capitalism. The sector exemplifies the simultaneous operation of several of the relevant processes that are associated with globalisation. Telecommunications operators across the globe transformed due to rapid technological change and this drove reform in the sector.[1] The European Union's (EU) plan for liberalisation facilitated the exposure of incumbent operators to intense global competition.[2] Although the EU did not require privatisation, several governments sought to privatise the incumbents to prepare the firms for the new business environment.[3] Despite the convergent pressures coming from global technological change and EU-wide liberalisation, the privatisation paths and the incumbents' internationalisation strategies across Europe differed sharply.[4] This divergence presents us with an intriguing empirical puzzle that deserves further analysis and explanation.

The case studies presented here cast some light on this puzzle. The liberalisation appeared as a common stimulus for both the Greek and the Italian incumbent operators, however, there were also substantial differences in the mode of the privatisation process, and the enterprises' internationalisation strategies. The cases of OTE and Telecom Italia (TI) are not only relevant to examine the broader question of enterprises' reactions to European integration;[5] they are also likely to fill a gap in the underdeveloped literature of firm-level studies from 'peripheral' national contexts.[6] The research design is comparative

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and historical[7] and traces the process of change in the regulation, ownership and strategy of those enterprises. This responds to calls for research that 'embraces more than one company/country simultaneously'.[8]

The rest of the article proceeds as follows. The next section presents an overview of the convergence/divergence debate in the Varieties of Capitalism framework, and pins down its relevance by showing how the two country-contexts and company-cases fit into this frame. The following section elaborates on the particular operation of 'convergence pressures' in the European telecoms industry due to global technological change and EU regulatory change. Next, the focus shifts towards examining the historical trajectories of change in the two enterprises: OTE and TI. The historical background matters, because it allows us to identify path dependencies and explain the enterprises' behaviour and reactions to liberalisation through privatisation and internationalisation. The case studies suggest the plausibility of the argument, that the observed differences in privatisation paths and internationalisation strategies are attributed to the choices of domestic political-economic actors.

Varieties of capitalism: between convergence and divergence

The global market integration, fuelled by technological change and intensification of competition was widely considered as the unstoppable force that could lead to convergence in institutional structures[9] and enterprise strategies.[10] The nationally specific institutional arrangements were expected to converge to the Liberal or Anglo-Saxon model of capitalism, usually exemplified either by the UK or the US.[11] The distinct features of this model entail the wide application of liberal principles in the organisation of markets coupled with a reduced role of the state, in terms of ownership and regulation. Simultaneously, multinational companies were expected to be the main carriers of change, by adopting similar 'best practices' across institutional contexts via their internationalisation strategies.[12]

Despite ongoing pressures from globalisation and liberalisation, the comparative capitalism literature suggested that cross-national institutional diversity persists.[13] This literature brought back a basic insight from Karl Polanyi that all markets are themselves socially and culturally embedded.[14] More particularly, the literature emphasised that trajectories of change are 'historically rooted'.[15] It also emphasised the role of collective actors operating within the 'beneficial constraints'[16] of the domestic model of capitalism, largely held responsible for path-dependent responses to globalisation.[17] Thus, these insights qualified the all-powerful role of structural shifts, including marketisation and technological change. Instead, the literature claimed that the interplay between agents and capitalist models mediates common pressures, and shapes institutional structures and business strategies.[18]

The article employs the Varieties of Capitalism frame as a heuristic device to shed light on the differences and commonalities in the two cases. This frame is quite suitable to make sense of the institutional context in Greece and Italy. Both countries are generally held to belong to the same model of capitalism dubbed either as 'State-enhanced capitalism',[19] 'Mixed market economies'[20] or 'Mediterranean capitalism'.[21] This model differs from both Liberal Market economies (e.g. the UK) and Coordinated Market economies (e.g. Germany).[22] The corporate actors in state capitalism have an incentive to invest in 'political power' because clientelistic relationships are pervasive.[23] Firms generally follow low-cost strategies, operating in regulated product markets with low competition; access to funding is bank-based; industry-bank relations are relatively stable,

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while financial markets are underdeveloped.[24] Additionally, the role of the state is historically important and intervenes in all spheres of economic activity,[25] whereas it regularly acts as a 'compensator of first resort', while the process of adjustment to globalisation is dependent on the gate-keeping role of the state.[26]

The framework suggests that the historical trajectory matters not only for the evolution of the national institutional context, but also for the firms that operate in those contexts. As we shall see in the case studies, those general characteristics broadly fit with the historical background of TI and OTE. Both companies were state-owned, and operated as monopolies, thus, facing no competition in their domestic markets. Additionally, state intervention has been significant in shaping their business strategy in the past. The enterprises' response to the external shock of liberalisation was path-dependent, circumscribed into domestic actors' preferences (namely, government and managers). Before examining these divergent responses in more detail, the next section turns to the convergence pressures stemming from the global technological change and EU-wide liberalisation.

Convergence in EU Telecoms: technological change and liberalisation

The rate of technological change accelerated over the 1980s and 1990s with the advent of microprocessors. This allowed the application of computing to telecommunications services, such as the digitisation of switching and transmission of calls. The new methods of transmission through optical fibre cables and satellites enabled the provision of quicker and cheaper fixed telephony as well as the provision of new value-added services.[27] Additionally, rapid technological change was observed in the mobile telephony networks with a gradual upgrading from analogical signal (1G), to GSM or DCS (2G) in the 1990s, and finally to 3G in the 2000s. In both fixed telephony and mobile telephony segments the new technologies afforded higher capacities, necessary to accommodate an increasing demand for services.[28] In parallel, the 1990s marked the expansion of the Internet to constantly higher speeds and bandwidths (from PSTN to ISDN and finally xDSL technologies). This in turn allowed the parallel transmission of voice and data over broadband, and the trend towards industry convergence.[29] These technological advancements led to the 'combined business model' and specifically, the bundling of telephony with broadband services (double-play) and also cable TV (triple-play).[30]

Technological change was considered as one of the primary factors that drove liberalisation of the telecommunications sector, in addition to the shift in ideologies and the tighter budgetary constraints.[31] More specifically, the ideological shifts since the 1980s altered the traditional conception that telecommunications were a natural monopoly.[32] The first mover was the US, with a speedily reformed telecommunications market. The US Federal government abolished AT&T's monopoly and this paved the way for new entrants such as Sprint. Similarly, the monopoly of British Telecom in Britain ended in 1984, after the Conservative government gave to Mercury a licence as a public operator, creating a duopoly.[33] The reforms in the US and Britain unleashed a global dynamic of international 'regulatory competition' and 'competitive emulation' and the Europeans decided that liberalisation was unavoidable if they were to retain their international competitiveness.[34]

After overcoming disagreements between member-states in the late 1980s, the European Commission accelerated the implementation of its liberalisation agenda particularly targeted to dissolving national telecom monopolies.[35] A series of Commission Directives required the abolition of monopolies by 1 January 1998. The opening up of the

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148 European telecom market was gradual, first targeting specific segments, such as satellite
149 communications and mobile telephony, until the launch of a full-scale liberalisation in all
150 telecommunications services.[36] Overall, the European telecoms sector was widely
151 considered as the 'success story' of the EU liberalisation programme. The relaxation of
152 regulation in a wide range of 'network services' sectors in Greece and Italy is partly
153 reflected on the OECD indicator[37] that measures product market regulation of non-
[AQ27] 154 manufacturing industries, including telecoms (see Figure 1).
155 As a consequence of the European liberalisation programme, dozens of incumbent
156 telecom operators rapidly transformed into world class multinational corporations.[38] The
157 following sections delve deeper into the commonalities and differences between OTE and
158 TI by examining their responses to liberalisation and their paths towards privatisation and
159 internationalisation.
160
161
162

Hellenic Telecommunications Organisation (OTE), 1949–2009

163

Historical background

164 The internationalisation of telecommunications operators is known to have historical
165 precedents particularly before the interwar period.[39] In Greece, German and British
166 subsidiaries offered telephony and telegraphy services up until the late 1940s. AETE
167 (Greek Telephone Company), which was a Siemens subsidiary, provided telephony
168 services, whereas Eastern Telegraph, which was a subsidiary of the Cable & Wireless,
169 offered international telegraphy services.[40] After the end of the Second World War, the
170 national communications infrastructure was largely destroyed, and the costs of repairs
171 were borne out by the US Marshall Plan funds. In 1949, the Greek government decided to
172 nationalise the above enterprises, merging them into a single one (OTE) and granting
173 exclusive rights in the provision of telephony and telegraphy.[41]
174 In the following decades, the performance of OTE under public ownership was
175 ambivalent. The expansion of productive capacity was impressive, closely following
176 developments in technological change. It started with a very low telephone density, but
177 managed to attain very high rates; and by the end of the 1950s, there were 2.88 telephone
178 connections per 100 inhabitants, which was the tenth highest density rate in Europe at the
179 time.[42] Additionally, OTE was among the first European operators to automate the
180 intercity telephone calls in the 1960s, and was the sixth in Europe to launch an antenna of
181 satellite communications in 1970. The above achievements were due to a rapid expansion
182 of its network and substantial infrastructure investments stemming from government
183 funding. Although government funding was favourable on investments for the expansion
184 and upgrading of the network, there were several inefficiencies that persisted. In the 1990s
185 successive governments used those exact inefficiencies to make OTE's privatisation more
186 palatable.
187 OTE never fully met customer demand and customer service quality deteriorated as
188 demand for new telephone connections increased over time.[43] By the end of the 1980s, the
189 waiting time for a new telephone line installation was about 5.5 years.[44] The management
190 of the organisation suffered from excessive government interference and this mirrored the
191 prevalence of clientelistic practices and the statist character of the Greek model of
192 capitalism. For instance, on human resources, the personnel selection and recruitment
193 processes were, more often than not, based on political affiliation criteria, serving the
194 electoral interests of successive centre-right and socialist governments.[45] This led to
195 overstaffing in OTE reaching a peak of employment at about 30,000 employees in 1986.
196 On the side of operations management, special government committees in the Ministry of

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Telecommunications had to approve equipment procurement, adding layers of bureaucracy and exacerbating delays in the supply of equipment. Finally, on pricing strategy, the Ministry of Economy co-determined the tariffs jointly with management, serving the main aim to keep the costs for consumers as low as possible.[46]

As discussed in the previous section, the ideological shifts at the European level required the liberalisation of telecom markets. The European Commission's plans to open up the telecommunications sectors across Europe prompted the specification of a five-year development plan (1989–1993) for OTE. To assist the opening up of the sector, the European Commission, with the agreement of the Greek government, requested from the UK-based management consultancy, Coopers Lybrand & Deloitte, to conduct a study on the reform of the Greek telecommunications market.[47] The overall aim of the final plan was to upgrade the existing infrastructure and improve the quality of service by increasing the telephone density; reducing the waiting lists and waiting times; and increasing the digitisation of the network.[48] This EU impetus was bound to radically transform the Greek telecoms sector.

Liberalisation

The liberalisation of the sector started with the separation of telecoms' operation and regulation. In 1992, the centre-right government, under Prime Minister Konstantinos Mitsotakis, passed Law 2075/1992 to establish the first independent regulator, the National Telecommunications Commission. Its actual operation delayed until the summer of 1995, and even then, the regulatory authority was only focused on the mobile telephony segment of the market. The new socialist government, under Prime Minister Kostas Simitis, enacted Law 2668/1998 with the aim to reorganise the postal services sector and renamed the National Telecommunications Commission (EET) into the National Telecommunications and Post Commission (henceforth: EETT). A stream of EU Directives required the revision of the legal framework to achieve compliance. Most notably, Law 2867/2000 strengthened the supervisory, auditing and regulatory powers of EETT.

The intensification of competition in OTE's market appeared with a notable delay. Although most of the EU member states opened up their telecommunications' markets by 1st January 1998, the Greek government managed to negotiate with the European Commission a three-year extension, so that full liberalisation would take place in 2001.[49] As in other cases, this slow liberalisation aimed at giving breathing time to the 'national champion' to adjust to the changing circumstances.[50] But in the case of OTE, this delay also meant 'buying time' for the government to appease the opposition coming from within the party and the socialist trade unions. OTE needed the time to prepare for an environment with high competitive pressures, while the government bought time to slowly set up the framework and make the privatisation more acceptable.

Since 2001, the independent regulatory authority (EETT) assumed a more active role; it ensured that OTE did not take advantage of its dominant position. The new entrants either developed their own network infrastructures or offered services by leasing OTE's network.[51] OTE's first competitor was Tellas, which a joint venture between the Greek Public Power Corporation (DEH) and the Italian WIND. Tellas was able to take advantage of the electricity network infrastructure to offer fixed telephony services. Additionally, two major Internet service providers, Forthnet and Hellas On Line, took advantage of their network infrastructure to offer fixed telephony services. On the other hand, some of the new entrants included several start-up companies (e.g. Lannet, Telepassport, Teledome,

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Altec Telecoms, and Vivodi), which offered services using the 'last mile' of OTE's network. Nevertheless, few of them managed to survive the intensity of competition, and by the late 2000s most of them were either targets of acquisitions by larger players or were forced to shut down.[52]

More generally, the regulatory impact of EETT afforded the new players to erode OTE's monopoly position. As part of its policy to inject competition in the market, EETT took a number of measures, for example, introducing number portability to allow easy switching between providers. Additionally, the regulatory frame became stricter, when EETT made a significant reduction in OTE's wholesale charges and applied a price cap on OTE's retail tariffs. This led to a move towards cost-reflective pricing with a reduction in tariffs for international calls and increases in tariffs for local calls.[53] From EETT's standpoint, the policy sought to prevent OTE from applying price squeeze upon its competitors.[54] As a result, OTE suffered a steady decline in its market share (Figure 2).

Privatisation

The first attempt to privatise OTE took place in 1992. The centre-right government, under Prime Minister Konstantinos Mitsotakis, favoured a privatisation method that entailed a mix of asset sale and share issuing. The plan was to sell about 35% of OTE to a 'strategic investor' via auction; 10% to the public via share issuing; and another 4% was earmarked for OTE employees. Following a call for tenders, several global players expressed interest, including the Japanese NTT, the Spanish Telefónica, and France Telecom.[55] Despite the interest, the plan to privatise OTE backfired on the government, as it met fierce resistance not only from the socialist opposition and the socialist trade union, but also from within members of the centre-right party. The row over OTE's privatisation proved to be a political suicide; the Mitsotakis government lost the slim parliamentary majority and collapsed in 1993.

Following the October 1993 elections, the new socialist government, under Prime Minister Andreas Papandreou, abandoned the plans for finding a 'strategic investor' for OTE. Yet the government did not fully forsake the plans for privatisation. Fiscal consolidation for the entry to the Economic and Monetary Union was considered as completely unattainable without at least partial privatisations.[56] OTE was considered as one of the gems in the crown of public sector enterprises, and certainly, on the top of the privatisation list. The socialists followed a much different approach for the privatisation of OTE than the earlier centre-right government. Instead of asset-sale privatisation (i.e. transferring a block of shares to a strategic investor) they pursued a more 'gradualist' approach of shares issuing. Indeed, the first public offering of OTE shares (6%) took place in 1996 and the socialist government followed this approach up until 2004. This brought the state ownership of OTE from 100% in 1995 down to 33.4% in 2004.[57] This step-by-step privatisation reflected the politically contested process of privatisations, and contrasts sharply with the Italian case, whereby TI was privatised very quickly. The socialists managed to appease the tensions that the OTE sell-out provoked within the party and the trade unions in two ways. First, the state remained the 'controlling interest' and retained the 'golden share' via Law 2843/2000, which stipulated that state ownership should be no less than 33.4%. Second, OTE was protected by hostile takeovers via Law 2257/1994, which imposed a 5% cap on voting rights for private investors, even if they held more than 5% of OTE shares

In 2004 the government changed to the centre-right, under Prime Minister Costas Caramanlis. The government's stake increased temporarily to 48.6%, because it exercised

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an option to convert a bond into shares, and this was followed by public offering of OTE shares (10%), bringing state ownership again down to 38.7%.[58] The government's tight control over the company and the cap on minority shareholders' voting rights, made the acquisition of OTE by a strategic investor relatively unattractive. For this reason, the government enacted Law 3522/2006 in December 2006 abolishing the 5% cap on voting rights and the provision over a minimum level of state ownership, to pave the way for privatisation.[59] In January 2007 the government hired a group of international consultants, including UBS and Credit Suisse First Boston, to search for strategic investors for OTE. Despite the institutional changes, the search did not yield any results[60], and the government sold another 10.7% stake to institutional investors, bringing state ownership down to 28% in June 2007. In August 2007 the government also amended Law 2190/1920 on corporate governance of Public Limited Companies (*Société Anonyme)* by strengthening the rights of minority shareholders. In particular, the new Law 3604/2007 reduced the required percentage of shares for 'large' minority shareholders from 33% to 20% and granted them enhanced rights pertaining to information, auditing, and postponing or vetoing decisions of the Shareholders' Meetings.[61]

This sequence of institutional changes had unintended consequences, unforeseen by the government. The combination of these reforms gave increased powers to private investors holding 20% of OTE, and in conjunction with a high exposure of OTE shares in the stock market, increased OTE's vulnerability to a hostile takeover. Marfin Investment Group (MIG), a holdings company with investments in several sectors, seized this opportunity. MIG started silently buying out OTE shares from the stock market, reaching gradually a 19.9% of OTE.

The revelation of this slow acquisition led to a public outcry for the government, and media blamed the government for 'being caught while sleeping'.[62] MIG requested a seat in the board of directors and expressed an interest in taking over full control of OTE. It assured OTE employees and the government that its intention was to make a long-term investment and develop OTE as a 'national champion', rather than liquidate it or sell off some parts.[63] Still, the government did not favour such an acquisition. The right-wing government considered MIG's interest as highly opportunistic.[64]

To avoid this hostile takeover, the Minister of Economy, George Alogoskoufis, passed quickly in December 2007 a law that set an upper 20% limit for the participation of individual investors in companies of 'strategic importance' such as OTE.[65] It was clear that this law was against European competition rules, and could be challenged by the European Commission. In practice, this bought some time for the government to find a 'white knight' and achieve a friendly takeover, and specifically Deutsche Telekom (DT). Following consultations, the three parties (the government, DT, and MIG) reached a deal. The deal provided that DT would buy MIG's 20% stake plus another 3% stake from the government and 2% from the stock market. DT bought MIG's 20% stake at 26 euros per share, which entailed a 36% premium above the market price of 19.14 euros, which was quoted on the stock exchange at the time.[66] By November 2008, DT and the Greek state each held 25% of the company. DT agreed in this deal under the specific condition that it would eventually purchase an additional 5% from the government, which would give full control of OTE and a total of 30% ownership. In July 2009 DT increased the stake to 30% and state ownership reduced to 20%. This made DT the largest shareholder with rights to appoint the Chief Executive and to have a majority of seats on the company's Board.[67] DT was also granted with a 'right of first refusal', that is, the contractual right to acquire the remaining state shares before they can be offered to anyone else. DT exercised this right

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and by the end of March 2012 DT held 40% of OTE. The Greek state's ownership fell to 10%, retaining some 'golden share' veto rights in areas such as national security.

Internationalisation

OTE's revenues from international sales stood at 0.5% of total sales in 1999, but increased rapidly to the level of 26% by 2007.[68] Although the level of OTE's internationalisation was similar to the levels of TI, the path was substantially different. The internationalisation strategy of OTE focused on becoming one of the major regional players. As OTE came in rather late in the liberalisation phase, it sought to take advantage of opportunities to expand its market in the neighbouring countries of South-eastern Europe (the Balkans). This market-seeking strategy was a critical part of the overall business strategy of OTE in the post liberalisation era. It is reflected on the statement by the Managing Director of OTE, Lefteris Antonacopoulos, who insisted that the expected strong performance of OTE was based on OTE's entry into 'South-Eastern Europe, a telecommunication market of 60 million customers' that provided 'significant prospects for the development of its customer base'.[69] This suggests the importance of managers' role in engaging in the internationalisation strategy that will help to appease shareholders.[70] As the main shareholder of OTE was the state, the strategic focus on the wider region was thought to maintain Greece as a force of stability that promotes regional economic development, while at the same time building a 'national champion'. The internationalisation process appears to have followed loosely the so-called 'Uppsala model' that emphasises the role of geographical proximity, incremental decision-making, and learning.[71] As the Greek managers were more familiar with the political and economic context of the neighbouring countries, the expansion of operations in the immediate region was preferable as a location choice.

Indeed, by 2002, OTE expanded its operations to the emerging markets of South-Eastern Europe either directly, setting-up subsidiaries, or indirectly, via acquisitions. This expansion was either in the mobile or fixed telephony segments. OTE's internationalisation strategy included the following countries (companies): Albania (Cosmo-holding), Bulgaria (Globul), Former Yugoslavic Republic of Macedonia (Cosmofon), Romania (Cosmorom, Romtelecom), Serbia (Telekom Srbija), and Armenia (Armentel).[72] This expansive strategy enhanced the position of OTE as a major player in the region and made it attractive for the DT acquisition. As we shall see below it proved to be much more cautious than TI's strategy. By the end of 2009 the Group's maintained a balanced presence in the Balkans, divesting only from Armenia and FYROM.[73]

Telecom Italia 1960–2009

Historical background

The different concession agreements that were granted to private telephone operators in the early twentieth century segmented the Italian telecommunications across different regions. In the 1960s the concession agreements expired, and the telecoms branch (IRI-STET) of the state-owned IRI holding company (*Istituto per la Ricostruzione Industriale*) purchased shares of the regional operators. Thus, the government created a public monopoly under the name of SIP (*Società Italiana per l'Esercizio Telefonico*).[74] Nevertheless, the nationalised company retained a divided organisational structure and the national territory was divided into the five zones in which the previous five regional companies operated. This structure contributed to the persistence of inefficiencies, for

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example, bureaucratic relationships within and across management levels; duplicated tasks and responsibilities; and wasteful human resource practices.[75] These organisational inefficiencies persisted, since there were still different companies in charge of different parts of the communications infrastructure leading to an excessive institutional fragmentation.[76] Although SIP was mainly responsible for the provision of telecoms services to households and businesses, Telespazio was responsible for satellite communications, SIRM for maritime communications, Iritel for public telephone services, Italcable handled international calls, and ASST dealt with long-distance (intercity) calls.[77] Unlike other telecommunications operators, the nationalisation in Italy did not lead to a unification of the system's subsets.

In the early 1980s, two initiatives stood out as responses to the challenge of persisting inefficiencies. The first was related to intra-firm reorganisation, whereas the second was oriented to the restructuring of the whole industry. Intra-firm reorganisation in SIP involved inter alia: abolition of old geographical divisions that corresponded to different entrepreneurial and technical cultures; changes in work organisation away from bureaucratic and repetitive jobs towards enlarged job tasks; annualised working hours; and incentive pay systems for sales staff.[78]

Additionally, the coalition government under Prime Minister Giovanni Spadolini, formed by the Christian Democrats, the Socialist Party and three minor coalition partners, attempted the restructuring of the whole sector in the early 1980s. To this end, it established an expert commission directed by Franco Morganti, an Olivetti engineer and consultant, to develop recommendations for action.[79] The recommendations of the Committee included the complete liberalisation of the terminal market as well as new telematic services, but, unlike developments in Britain at the time, the experts defended the preservation of the public monopoly in the fixed telephony network. The Committee aimed at ending the fragmentation in the industry, and proposed the consolidation of the various telecoms organisations (SIP, Telespazio, Italcable, SIRM, Iritel described above) and integrating them into a single public monopoly, labelled as '*monopolio intelligente*'.[80] Notwithstanding, a series of upheavals in Italian politics did not allow the implementation of any of these proposals.

Liberalisation

The inertia persisted until 1987, when the government established a five-year plan (*Piano Europa*) in order to boost competitiveness in the sector and reduce the technological gap with other European nations.[81] In addition to technological developments abroad, the completion of the Single European Market in 1992 was a recurrent theme that the governments and managers used to justify the urgent need for institutional reform.[82] The Piano Europa was consistent with earlier proposals of the Morganti Committee, suggesting the integration of the traditionally fragmented system into a 'super-SIP' (or 'super-STET'). The consolidation was thought to be important for two reasons: first, it would allow the privatisation of the company in the near future; and second, it would establish a powerful Italian telecoms group, able to compete with other 'national champions' such as British Telecom, DT and France Telecom.[83] In 1992 a new law reorganised SIP through the creation of 'STET-Telecom Italia' and a merger between the different companies followed.[84] The single 'Telecom Italia' was finally born in 1994.

Following the transposition of the Directives for the opening up of the mobile and fixed-telephony markets, new players appeared. Starting with mobile telephony, the Olivetti manufacturing group acquired the first licence and established the Omnitel

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subsidiary in 1995, which began competing with the incumbent's subsidiary in mobile telephony (TI Mobile/TIM). The Italian electricity company (ENEL) established *WIND Telecommunicazioni* in the late 1990s, while Blu and the Chinese '3' entered the market soon after. By the early 2000s competitive pressures in the mobile phone segment appeared strong. The first company to compete with TI in the fixed network was Albacom, which was established in 1995 and was later acquired by BT Italia. In 1997, the Olivetti Group established the Infostrada subsidiary, which was later acquired by WIND. In 1999, Teletu started offering telephony services, until its acquisition by Vodafone in 2010.

AGCOM (*Autorità per le Garanzie nelle Comunicazioni*) was the sector's independent regulator authority established by Law 249 in 1997. AGCOM in Italy steered the competition in the market, just as EETT in Greece. It followed a rather restrictive tariff policy for TI, allowing new entrants to compete for services using the 'last mile' of the fixed network infrastructure and preventing TI from 'abusing' its dominant position.[85] Similarly to OTE, TI had to engage into a rebalancing of tariffs between local, intercity and international calls, so that it complies with the price cap applied by AGCOM.[86]

Figure 3 presents the rapid decline in the market share of the TI from 100% (monopoly) in late 1990s to 65% in the late 2000s and sketches the picture of intensified competition in the Italian market. [AQ29]

Privatisation

Although the liberalisation was largely guided by the European Commission's agenda, the privatisation of TI was on the agenda of successive Italian governments. Both centre-right and centre-left parties shared the common goal of raising funds so as to reduce the national debt and eventually join the Economic and Monetary Union.[87] For the privatisation of TI, the centre-left coalition, under Prime Minister Romano Prodi, favoured a mix of asset-sale and share issuing. In particular, the preferred formula entailed a 'stable core' of large shareholders having an 18% stake, while another 35% was sold via public offering to the stock exchange.[88] Indeed, 35 years after the nationalisation of the 1960s, the state ownership of TI ended on 20 October 1997, but the government retained some 'golden share' powers. Nonetheless, the shareholders' core proved to be rather weak and unstable, since it owned only a 6.62% stake, and this opened the way to the subsequent takeovers.

The first takeover was an initiative led by the Olivetti Group. Although the CEO of TI at the time, Franco Bernabè, tried to erect defences against the hostile takeover, these did not work, partly because the government did not whole-heartedly embrace them. The most important one was the search for a 'white knight'; finding a friendly bidder who would offer a higher bid than the hostile bid led by Olivetti. DT was the main candidate as a friendly bidder, which was allegedly a 'problematic' white knight for the Italian government, because the German state owned a 72% of DT. The acquisition by DT would have led to a foreign renationalisation of Italy's biggest listed company, and this prospect 'was too much for the Italian government to stomach'.[89]

Massimo D'Alema, who had become Prime Minister of the centre-left coalition government in the meantime, entered into negotiations with the German Chancellor Gerhard Schröder. Despite this, the negotiations failed, since Germany was not willing to privatise DT in the near future, and Massimo D'Alema eventually favoured the Olivetti solution.[90] The government's preference was that TI would be better to fall onto Italian hands, rather than the German state. Thus, the hostile takeover of TI by Olivetti was completed by the end of May 1999.

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Still, the Olivetti control of TI was not bound to last. The second hostile takeover was largely a consequence of the first one. The main problem was that Olivetti effectively bought a company that was five times larger than it was; and achieved this by financing the acquisition via debt.[91] Nonetheless, servicing the debt was not easy and the performance of TI's stocks remained unimpressive in the following two years. An alliance between Pirelli and Benetton seized the opportunity and offered a very lucrative bid for the holding company (Bell) that controlled TI. Marco Tronchetti Provera, CEO of Pirelli, orchestrated the hostile takeover and eventually took control of Bell through an elaborate mechanism of 'Chinese boxes'.[92] On 28 July 2001 Pirelli and Benetton acquired Bell and gained the control of TI [93] and Tronchetti Provera became the CEO of TI up until 2006. Nevertheless, the huge debt that the holding company incurred made it vulnerable to yet another takeover. In 2007, a consortium of Italian banks together with the Spanish Telefónica, acquired the holding company through which Pirelli and Benetton retained control of TI. The Prime Minister Romano Prodi accepted the deal under the condition that 'Spanish Telefónica will only be a minority shareholder, and the majority of control will remain in Italian hands'.[94] Overall, the government was involved in each occasion, but each hostile takeover had different implications for shareholders. In 1999 Olivetti acquired TI by launching a tender offer, which benefited all shareholders, whereas the subsequent takeovers took place outside of the stock market, by paying a premium only to a small core of shareholders.[95]

Internationalisation

The internationalisation strategy that TI followed initially focused on becoming one of the major global players. TI sought to take advantage of opportunities both in Europe and overseas. In Europe, the opportunities appeared out of the EU liberalisation programme with the privatisation of incumbents or opening up of national markets to competition. The share of TI's international sales as a percentage of total shares increased from 6% in 1999 to 29% in 2007.[96] Apart from Europe, TI seized opportunities in the emerging markets of Latin America, which offered fertile ground for market-seeking investments. Indeed, in 2000 the CEO of TI, Roberto Colannino, outlined the Group's internationalisation strategy as follows: 'The expansion of international business is a key element of our strategic plan. The Group aims to become a global operator in the wireline, wireless and Internet sectors, in particular in Latin America, Southern Europe and the Mediterranean Basin'.[97]

In other words, TI's internationalisation strategy was much more ambitious in scale than OTE's, seeking to tap opportunities not only in European markets, but also expand to Latin America. The difference in ambition is partly explained by the different size of the economies and in which the two companies were embedded.[98] As TI could rely on a larger domestic market, this could give potentially better ground to compete with the major players in the European market such as DT, France Telecom and the Spanish Telefónica. In 2000, TI held stakes in various European countries such as France (9 Telecom Group, Bouygues Decaux Telecom), San Marino (Intelcom RSM), the Netherlands (BBNeD), Greece (Stet Hellas), Austria (Telekom Austria Group, Mobilkom Austria), Spain (Auna Group), Czech Republic (Radiomobil) and Serbia (Telekom Srbija).[99] Its overseas operations were strategically focused on Latin America, holding stakes of companies in Argentina (Telecom Argentina), Brazil (Brasil Telecom, Maxitel, Tele Nordeste Celular, Tele Celular Sul), Bolivia (Entel Bolivia Group), Chile (Entel Chile Group), Peru (TIM Peru), Venezuela (Digitel) and Cuba (Etec S.A.).[100]

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Since then, the Group's strategy shifted towards de-internationalisation. Indeed, the 2006 Annual Report already stated that 'We may not achieve the expected return on our significant investments and capital expenditures made in our international activities due to the competitive environments in these markets' and highlighted the intense competition both in European and Latin American countries.[101] By the end of 2009, TI had sold off stakes in all European operations (except BBNEd in the Netherlands) and most Latin American (except for TIM Brasil Group and Telecom Argentina).[102] The huge debt that the company had incurred and the growing competition meant that TI could not keep up with substantial investments required to expand capacity abroad. TI managers were compelled to divest most its international operations and focus instead on less capital-intensive segments such as wireless Internet and mobile telephony. TI also increased domestic productive capacity, diversified with financial participations in other sectors and paid higher dividends to its shareholders.[103] Finally, the entry of Spanish Telefónica meant that the group's international strategy had to be realigned so that it does not compete with one of its major shareholders, as Telefónica had also substantial stakes in Latin America.

Discussion and conclusion

The case studies presented here suggested that the convergence pressures from global technological change and the European market integration were mediated differently in TI and OTE. These patterns broadly corroborate other works in the literature, which found that the institutional convergence in regulatory frameworks and technological change, did not necessarily lead to convergence in business strategies and outcomes.[104] Yet the cases also suggest the specificity of the statist model of capitalism[105] in shaping those paths of adjustment. In a nutshell, the factors that appear to explain the divergent outcomes include the domestic actors' interests and preferences, and especially governments and managers.

TI was privatised through one-off sale, whereas the Greek governments followed a gradualist approach, selling chunks of government shares in the stock market through public offerings. In both cases, governments retained golden share powers, but the revenues from the sales were expected to improve the fiscal consolidation process for entry in the Economic and Monetary Union.[106] Furthermore, the regulatory framework allowed successive hostile takeovers in Italy, however, tempered by the preferences of the government. The role of the government was even more pronounced in Greece, acting as a gatekeeper and blocking similar attempts for hostile takeovers. Despite the liberalisation and privatisation, political intervention continued in both sectors. The two governments expressed their divergent preferences over the bidder. In Italy, the domestic consortium with Spanish Telefónica was preferred over DT. In Greece, DT was preferred over the MIG consortium.

Both incumbents reacted to liberalisation with internationalisation that reached similar levels in international sales, and both governments sought to groom their telecom operators as 'national champions'. Yet the strategies and preferences of managers and governments towards foreign acquisitions differed sharply. In Greece, the government-appointed managers favoured OTE's expansion in the neighbouring Balkans, which was thought to strengthen the political role of Greece as a force of stability in the region. The historical ties and cultural links with South-eastern Europe also helped to facilitate such a 'regional' internationalisation strategy. By contrast, TI appeared more ambitious and eager to become a global player with operations across Europe (Spain, France, the Netherlands, Austria) and Latin America (Brazil, Chile, Argentina). But TI's strategy soon run out of steam as the political instability in Latin America (e.g. Bolivia's renationalis-

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ation of Entel) and the fierce competition in European markets threated the expansion of domestic productive capacity. By contrast, OTE's strategy proved to be more sustainable and by the end of the decade, OTE still held most of its international operations in Bulgaria, Romania, Albania, and Serbia.

Overall, domestic actors' interests and preferences largely explain the divergent paths and strategies. Rather than a monolithic trend guided by competition and technological change, the governments' preference over privatisation and the managers' choices over internationalisation strategy shaped the corporate adjustment of the two incumbents in the post-liberalisation era. Fligstein and Merand suggested that the role of the state is still important in shaping the direction of change in contemporary capitalism while 'constructing markets'.[107] There is evidence for this in both cases. The influence of the government was either direct, through government intervention in critical junctures, or indirect, through changes in the regulatory framework regarding hostile takeovers and preference over the favoured bidder.

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Notes

1. John, "Telecommunications"; Millward, *Private and Public Enterprise*.
2. Clifton, Díaz-Fuentes, and Revuelta, "The Political Economy"; Schneider, "Institutional Reform in Telecommunications."
3. Clifton, Comín, and Díaz-Fuentes, "Privatizing Public Enterprises"; Millward, *Private and Public Enterprise*.
4. see Alonso, Clifton, Diaz-Fuentes, Fernandez-Gutierrez, "The Race."
5. Jones and Miskell, "European Integration," 114.
6. Binda and Colli, "Changing Big Business," 14.
7. Mahoney, "Comparative-Historical Methodology."
8. Millward, "Business and the State," 550.
9. Jacoby, *The Embedded Corporation*; Strange, "The Future."
10. Dore, Lazonick, and O'Sullivan, "Varieties of Capitalism"; Rinaldi and Vasta, "The Italian Corporate Network," 380.
11. King and Wood, "The Political Economy"; Rubery, "The British Production Regime"; Whitley, "US Capitalism."
12. Sluyterman and Wubs, "Multinationals"; Wilkins, "Multinational Enterprises."
13. Hall and Soskice, "An Introduction"; Herrigel and Zeitlin, "Alternatives to Varieties."
14. Polanyi, *The Great Transformation*.
15. Zysman, "How Institutions Create."
16. Streeck, "Beneficial Constraints."
17. Hall and Soskice, "An Introduction."
18. Börsch, "What Happens after Privatization?"; Thatcher, *Internationalisation and Economic Institutions*.
19. Schmidt, "European Political Economy."
20. Molina and Rhodes, "The Political Economy."
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22. Hall and Soskice, "An Introduction."
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27. Humphreys and Simpson, “Globalization,” 851; Thatcher, *Internationalisation and Economic Institutions*, 765.
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33. Thatcher, *Internationalisation and Economic Institutions*, 169.
34. Humphreys and Simpson, “Globalization,” 851.
35. Schneider, “Institutional Reform in Telecommunications.”
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71. Forsgren, “The Concept of Learning.”
72. OTE, *Annual Report,* 2001, 56-59.
73. OTE, *Annual Report,* 2009, 9.
74. In fact, SIP stands for *Società Idroelettrica Piemontese*, the name of the company before becoming *Società Italiana per l’Esercizio Telefonico*.

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75. Negrelli, “Italy,” 296–297.
76. Schneider, “Institutional Reform in Telecommunications,” 68.
77. Ibid.
78. Negrelli, “Italy,” 297–299.
79. Schneider, “Institutional Reform in Telecommunications,” 297–299.
80. Ibid., 69.
81. Graziosi, “Telecommunications in Italy,” 308.
82. Ibid., 302; Thatcher, *Internationalisation and Economic Institutions*, 193.
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84. Baroncelli, “Telecom Italia.”
85. Sacripanti, “Liberalizing Telecommunications.”
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88. Florio, “Telecom Italia,” 3.
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