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# National Monopoly to Successful Multinational

Massimo Bergami
Pier Luigi Celli
and
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## The Case of Enel

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Massimo Bergami
*University of Bologna, Italy*

Pier Luigi Celli
*LUISS Guido Carli University, Italy*

and

Giuseppe Soda
*Bocconi University, Italy*

Translated by Peter D. Hunt

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# Contents

# List of Tables

# List of Figures

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This book is a translation of the Italian book *Enel: Da monopolista nazionale a leader globale* by M. Bergami, P. Celli, G. Soda, 2011. Of course, any errors, omissions and inaccuracies that might have occurred are entirely our responsibility.

# Introduction

Looking back over the course of events involving Enel during the period 1996 to 2011, there are five moments, like five key frames in a film, covering a story that certainly deserves to be told.

First frame: Palazzo Chigi, 1996. The Prime Minister and Minister of the Treasury meet with Enel's newly appointed Chairman and CEO. Discussions concern new scenarios for energy production and distribution on the wave of forthcoming deregulation. Of all public bodies Enel is possibly the one that has the greatest impact on the lives of Italians as it supplies power to homes, schools and factories. But from this moment on it will never be the same again.

Second frame: Rome, press conference, 1999. The same CEO in the previous frame outlines the new multi-business strategy: not only energy but also water, gas and telecommunications. Enel will become an enterprise.

Third frame: Enel boardroom, 2002. The new Chairman introduces the newly hired CEO who presents the divestment plan. Board members listen as he describes a strategy that will see the company make an about-turn by getting rid of all investments not strictly related to its core business, which is energy.

Fourth frame: City of London, 2007. The Chairman is the same but the CEO is the ex-CFO: addressing the international financial community they illustrate one of the most significant acquisitions ever seen in the global energy market and the largest international acquisition ever made by an Italian company.

Fifth frame: Rome, Palazzo della Musica, 2010. The same CEO who three years earlier had spoken to investors now illustrates the new vision to management: to become the global leader in the energy sector. The Chairman nods in agreement from the speaker's table.

The above stages are emblematic moments and narrate a course of events that, in hindsight, would seem to reflect both a rational and successful plot. Examining these events in detail, highlighting their complexity and the alternatives that were gradually discarded, is the key to understanding the value Enel has managed to create in conditions that, objectively, were by no means stable and often ambivalent. As a result due prominence can be given to top management's insights and to both the instrumental and conceptual choices that ensured the involvement, even emotional, of the entire workforce. Naturally, during the course of these developments there were some less noteworthy or even controversial moments or phases; however, it would seem more important to trace the continuity of Enel's vision. A vision that broadened as individual strategic goals were consolidated, legitimizing both the soundness of prior decisions and support for a project that progressed with satisfactory results.

The period between the first and fifth frame spans less than fifteen years, while the name has remained the same – Ente Nazionale Energia Elettrica – Enel is no longer a public body and also its identity has also changed. The faces, investments, technologies and events seen during these years have contributed to transform a structured public body into a global company and leader in the energy sector. There was no way of knowing beforehand if Enel would be able to make such an extraordinary evolutionary leap, by no means could the outcome be taken for granted. The history of denationalization and large-scale industrial transformation in Italy and worldwide is full of instances where the results were negative or transitions were never completed.

From the outset this book was intended to be a historical and management case study that tells a story we believe can be instructive for many people. In any event it provides the stimulus to consider Italy's industrial and managerial culture and the fact that significant changes can be made and these can in turn produce positive forces and help a production system and community to grow more and better.

The book is structured around crucial transformations and managerial decisions that in a relatively short time brought about a strategic change of vast proportions without interrupting continuity of services. A change that has steered Enel in its metamorphosis from monopolistic public body to leading player in the global energy sector.

The approach adopted was to focus on reconstructing events and roles of key players that have shaped the history of Enel from 1996 to the present day, with particular emphasis on factors that have encouraged cultural transformation and international growth. The underlying belief was that Enel today is the result of managerial ingredients and decisions that have managed to build a new identity by exploiting opportunities and constraints generated by the regulatory and market context.

During the period studied the ex-state monopoly was faced with many important challenges, among which were deregulation, privatization, changing scenarios in energy production, distribution and consumption models, geopolitical tensions linked to energy sources and globalization of the energy market, the launch of significant technological developments and an increasing emphasis on environmental sustainability.

While Enel's growth and results from 2000 until today are common knowledge, much less is known about the conditions, managerial decisions and leadership that contributed significantly to achieve this. Of all Italian companies that have been faced with the challenges of deregulation and privatization, Enel stands out as one that has managed to modify its identity significantly and become a leading player in a global market. This strategic, organizational and cultural metamorphosis is a result of innovative steps taken by management, steps that the entire organization then accepted and implemented. It is this very determination and capacity for transformation when faced with complex challenges that makes this an almost unique story of management, especially in a country where inertia and difficulties associated with change really put a brake on growth.

As we shall see later, it could be said that the trend in an industrial system towards better approaches to service, the market and innovation has produced a model action plan reflecting strategic far-sightedness. A plan capable of governing the transformation of an entire economic sector, adapting when indispensable and anticipating when possible, to the point of defining a development path that, for those willing to study it, may well produce spin-offs benefiting much wider fields.

What seems amazing is that this drive, and the creation of a feasible and successful transformation format, originated in a company that for over thirty years had made its diversity, plus proud isolation, one of its reasons to be and, in any event, one that reflected the role assigned to it by the authorities when it was founded.

Clearly the quality and intensity of the change was made feasible by a mix of conditions, players and economic and social pressures. A change in which management played a decisive role in terms of its active interpretation of the stimuli, preparation of responses and courage to implement the choices concerned. However, ideas obtainable from this case study need to be interpreted in the light of organizational and management theory, based on which an interesting 'basic manual' can be outlined of what managing a company undergoing transformation really means. And this, without losing its roots in the process, but also without remaining the victim of what initially had seemed to be its destiny, namely, to downsize and become insignificant internationally.

## A snapshot at the start of 2011

As an introduction to this case study, it would seem useful to first give the reader an overview of results of the transformation process, given that this is the focal point of the book. Then we will move on to investigate the causes, factors and managerial processes that facilitated it.

We see 1996 as the year marking the start of the transformation process. At that time Enel was formally a joint-stock company although in effect it still seemed like a public and essentially monopolistic entity governing the entire value chain of power generation, transmission and distribution.

Today Enel Group is an integrated, global company in the energy sector that sells electricity and gas to over 61 million customers, with operations in 40 countries and a net installed capacity of about 95.3 gigawatts (GW).

Enel is still Italy's largest power company and Europe's number two listed public utility in terms of installed capacity and operating results.

During the period 2008–2010 Enel Group posted an increase in profitability and showed a 22 per cent growth in EBITDA in the face of stagnant demand (there was an average reduction of 0.2 per cent during the three-year period).

In a world market that in recent years has seen an acceleration in globalization, today Italy's ex-public body has a solid and sustainable competitive edge as a result of five factors:

1. its leadership in core markets;
2. a balanced mix of technologies and platforms;
3. a significant presence in key growth areas (Latin America, Russia and eastern Europe);
4. its recognized operational and industrial excellence;
5. a significant focus on technological innovation.

The Group has a workforce of about 80,000 worldwide, it uses all major technologies for generating and distributing power and thanks to its approximately 500 renewable source plants (hydroelectric, geothermal, wind, solar and biomass) it is a leader in this rapidly expanding sector. Through Enel Green Power (EGP) it manages a significant power generation capacity from hydroelectric, wind, geothermal, photovoltaic, biomass and cogeneration plants in Europe and the Americas.

Mention should also be made of special efforts in research and development of new technologies, with significant investments in renewable sources and projects aimed at improving combustion efficiency and reduction of emissions from plants using fossil fuels. Furthermore, today Enel represents a benchmark for utilities worldwide in the field of smart grids, intelligent power networks that can create interaction between producers and consumers, forecast demand for consumption and adapt production flexibly.

In Italy, in what is a unique case worldwide, Enel has installed digital meters for all its customers (32 million) that enable it to monitor consumption in real time and manage contracts remotely. Currently the project has also been launched in Spain and is being extended to Latin America.

In the Iberian peninsula, Enel has a 92.06 per cent stake in Endesa (leader in Spain and major private operator in Latin America), while through EGP it manages power generation plants using renewables in both Spain and Portugal. Again through EGP, the Group manages hydroelectric, geothermal, wind and biomass plants in North America and wind and hydroelectric plants in Latin America. Overall the Group is leader in Latin America with a total installed capacity of about 16 GW in Argentina, Brazil, Chile and Peru.

In France, Enel operates in the nuclear sector (with a 12.5 per cent stake in the Evolutionary Pressurized Reactor project for which an initial plant is under construction in Flamanville), in the renewable energy sector and in energy trading (with a 5 per cent stake in Powernext, France's power exchange).

In Slovakia, the Group controls Slovenské Elektrárne, the country's leading power producer and number two in central-eastern Europe thanks to its nuclear, thermoelectric and hydroelectric plants.

In Romania, the Group supplies 2.6 million customers, while in Russia it is a vertically integrated operator from upstream gas to generation and sale of electricity. Enel also controls certain strategic assets in Russia in the gas sector, it manages thermoelectric plants and has a 49.5 per cent stake in RusEnergoSbyt, one of the leading electricity traders.

Listed on the Milan Stock Exchange since 1999, Enel was admitted in 2003 to the prestigious FTSE4Good Europe 50, which lists the leading fifty European companies that combine economic activity with elements of social and environmental sustainability. From 2004 Enel has been listed in the Dow Jones STOXX Sustainability Index, which includes companies that have achieved excellence based on their responsible and sustainable behaviour, not only from the financial-economic standpoint but also as regards respect for the environment and society. Enel is also listed in the selective Dow Jones World Index that includes only those 10 per cent of leading companies worldwide considered as top performers in terms of sustainability.

## The case study, methodology, key players

This book is the result of a long, in-depth research project involving the participation and efforts of many individuals. Three important universities and research units – Bologna University Alma Graduate School, LUISS and Bocconi University's SDA Bocconi School of Management – joined forces for this project providing an account of an industrial and managerial experience of great interest for a very wide target, which includes university students, those studying for an MBA, the economic and managerial community, the financial press and Enel stakeholders.

The aim of the project was to investigate and propose an accurate reconstruction of factors that led to the successful transformation of Enel within radically changing competitive, institutional and technological contexts.

The analysis focuses on events and key people in the history of Enel from 1996 to the present day, with a particular emphasis on factors that fostered international growth and cultural transformation. Several sources were used by the research team during its task to reconstruct a longitudinal interpretative model of Enel's history.

*Primary sources*. Over a seven-month period 28 semi-structured interviews were conducted with people who played a leading role and key informants, gathering their reconstructions, interpretations and explanations of a transformation that took place over a period of fifteen years. On average each interview lasted one and a half hours. Those interviewed hold or have held positions of considerable responsibility in Enel as part of its management team or as members of the board of directors.

The people interviewed are shown in the list below, with indications of the position they held in Enel at the time of the interview, or the last position held for those who were no longer with the Company.

- Fabrizio Allegra, CEO Office Director
- Marco Arcelli, Manager of Upstream Gas
- Giulio Ballio, Board Member
- Francesco Bertoli, Manager of Fusina Thermal Business Unit
- Fabrizio Bonemazzi, Enel.si Operations Manager
- Roberta Bonomi, Head of Enel University
- Carlo Bozzoli, Manager of Electricity and Gas Network Commercial Services
- Andrea Brentan, Manager of Iberia and Latin America
- Alessandro Canta, Head of Group Finance
- Massimo Cioffi, Manager of Human Resources and Organization
- Lorenzo Codogno, Board Member
- Gianluca Comin, Manager of External Relations
- Fulvio Conti, CEO and General Manager
- Renzo Costi, Board Member

- Gennaro De Michele, Head of Research
- Maurizio Di Fonzo, Head of Human Resources Planning, Development and Enel University
- Augusto Fantozzi, Board Member
- Luigi Ferraris, Chief Financial Officer
- Livio Gallo, Manager of Infrastructures and Networks Division
- Piero Gnudi, Chairman (in Spring 2010 Piero Gnudi left his position as Chairman, Paolo Andrea Colombo was appointed as his successor)
- Fabrizio Lapira, in 2011 Head of Enel.si Planning & Program Management
- Alessandro Luciano, Board Member
- Gianfilippo Mancini, Manager of Generation and Energy Management Division and Market Division
- Fernando Napolitano, Board Member
- Paolo Pallotti, Head of Strategic Planning and M&A
- Roberto Renon, Head of Generation Italy
- Claudio Sartorelli, Manager of Company Secretariat
- Francesco Starace, CEO of Enel Green Power
- Carlo Tamburi, Manager of International Division
- Gianfranco Tosi, Board Member

*Internal survey*. A questionnaire-based survey was conducted covering a large group of Enel managers so as to increase the range of information and data required to develop the interpretative model. The sample included 156 managers who either report directly to the CEO (n-1) or second-level managers (n-2) and covered all Group companies. The response rate for this survey, which was conducted using the SDA Bocconi School of Management technological platform, was 73 per cent.

*Secondary sources*. Research was also based on the analysis of a considerable number of documents from Enel archives and other sources.

About 510 files and various printed materials were catalogued and analysed according to subject area and subcategory: history; financial reports; sustainability reports; financial analyst reports and documents; presentations to analysts; news about Enel; newspaper and magazine articles; organization charts; documents covering HRM policies and practices; knowledge management system documents, climate analyses; social network analysis; documents concerning integration and coordination; Group company developments; technological innovation; institutional sites; institutional announcements and presentations. Then, key events that had emerged during interviews were mapped and a storyboard of the case was prepared covering about fifteen years, without overlooking major events that occurred prior to 1996.

Simultaneously a comparative review was performed involving evidence that had emerged in the Enel case and over 100 studies and projects published during the past twenty years in major international management magazines offering explanations for determinants of its competitive edge.

## Structure of the book

As the book is aimed at a wide target audience it has been given a modular three-part structure to cater to differing reader interests.

The first part is for readers who know little or nothing about the flow of events and milestones in Enel's development. It consists of a series of chapters giving a chronological account of crucial moments and events in Enel's history. As this section is essentially descriptive the authors merely lay out the facts that emerged from their analysis of documentary sources and interviews with key figures, but without attempting to interpret them. It summarizes much more involved and complex events and changes that directly affected Enel, which on many occasions also reflect the force and contradictions of modernization and growth in Italy during the forty years beginning with nationalization of the power industry in 1962.

The second part of the book has a radically different structure. The descriptive approach gives way to an interpretative model of crucial events and managerial processes that contributed to shaping Enel's history and results. Organizational and managerial theory and research form the background for a model proposing a set of causal factors and processes that explain how a large organization managed to achieve a successful transformation, even in such a difficult and uncertain situation.

The third and final part covers two issues. First it looks at future scenarios and challenges posed by global developments in the energy sector. In response to this Enel management came out with an ambitious new vision in 2010 that caught the eye of management experts and sector operators. But the question is, can an Italian company aspire to be a leader in a strategic sector that will be the scene of many economic and geopolitical issues in coming years? And second, it outlines the geopolitical and technological scenarios in which Enel will attempt to rise to challenges engendered by its new vision.

While this book is the result of a joint effort, given the approach adopted for the project and specific interests of individual researchers, chapters can be attributed in the following manner.

Part I: Chapters 1, 2 and 3, Giuseppe Soda and Alessandra Carlone; Chapter 4, Giuseppe Soda and Enrico Forti; Chapter 5, Emanuele Bajo and Massimo Barbi.

Part II: Chapter 6, Giuseppe Soda and Piero Celli; Chapter 7, Massimo Bergami, Alberto Monti and Gabriele Morandin; Chapter 8, Giuseppe Soda.

Part III: Chapter 9, Massimo Bergami and Giuseppe Cucchi; Chapter 10, Giuseppe Soda and Enrico Forti; Chapter 11, Massimo Bergami and Giuseppe Soda.