Between Size and Profitability: The Privatization of Italian Telecom (1980-2010)

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OBJECTIVE

How does privatization impact the performance of a public utility?

The history of Italian public TLC is a valuable **business case** study to assess the consequences of privatization for a strategic **public utility**. Through the 1980s and early 1990s, Italian state-owned telecom achieved **restructuring**, improving profitability but preserving its **size and scope**. Once **privatized** in 1997, for **fiscal** rather than industrial motives, the new ownership increased **returns,** eroding its **critical mass** and broader performance.

STARTING POINT

In the mid-1980s, Italian public Telecom operated as a **fragmented** conglomerate, **shielded** by national **monopolies and protectionism**, which hindered innovation and competitiveness.

These challenges were not limited to Italy but common to many **European** public and private companies.

All had to face:

- Need for rapid technological **innovation**
- Quickly **integrating** industry
- Increasing competition from the **US and Japan**

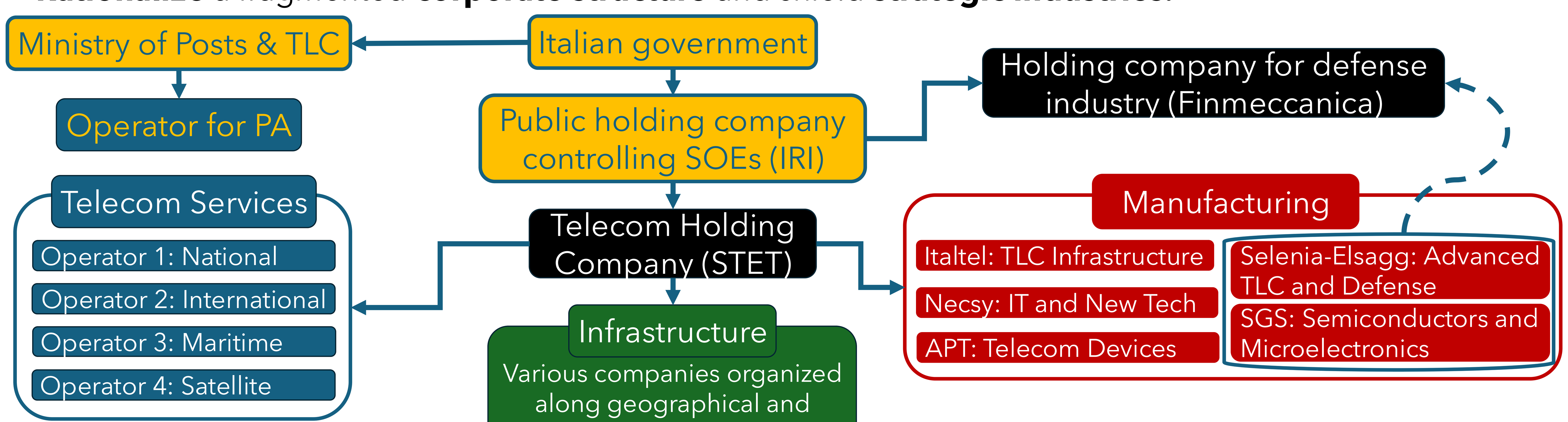
THE EUROPEAN RESPONSE

The EEC Commission reacted by first promoting **R&D** (ESPRIT & RACE) before shifting to the acceleration of **market integration**. This phased strategy—starting with tech manufacturing, then services, and full **liberalization** in 1998—aimed to create **European champions** to compete with US and Japanese **giants**.

THE NATIONAL RESPONSE

In 1988, Italy launched the **Plan of Alignment to** Europe for public TLC, seeking **efficiency and modernization** while preserving the **comprehensive scope** of a large state-owned conglomerate:

- **Investments** to foster technological innovation (roughly **14% of GDP** over 10 years).
- **Rationalize** a fragmented **corporate structure** and shield **strategic industries.**



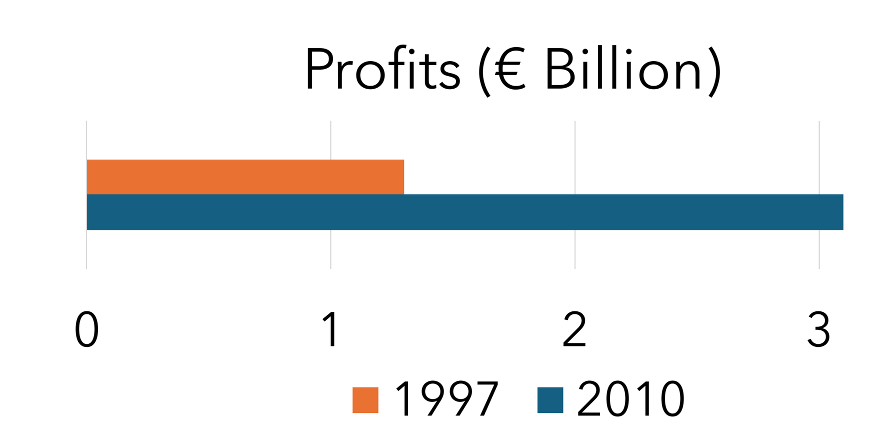
Source: Central State Archives, Rome, Italy

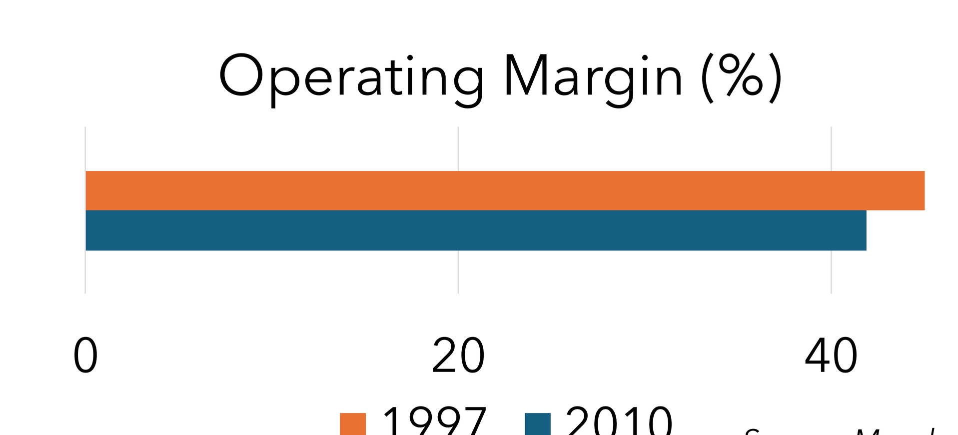
1997: PRIVATIZATION

The decision to privatize – to achieve **fiscal** adjustment – accelerated the reorganization. To maximize the **revenue of privatization** and ensure **attractivity** for private shareholders public TLC were merged in a **single company: Telecom Italia**.

MORE PROFITABLE…

The new ownerships maximized the **profitability** of the company:

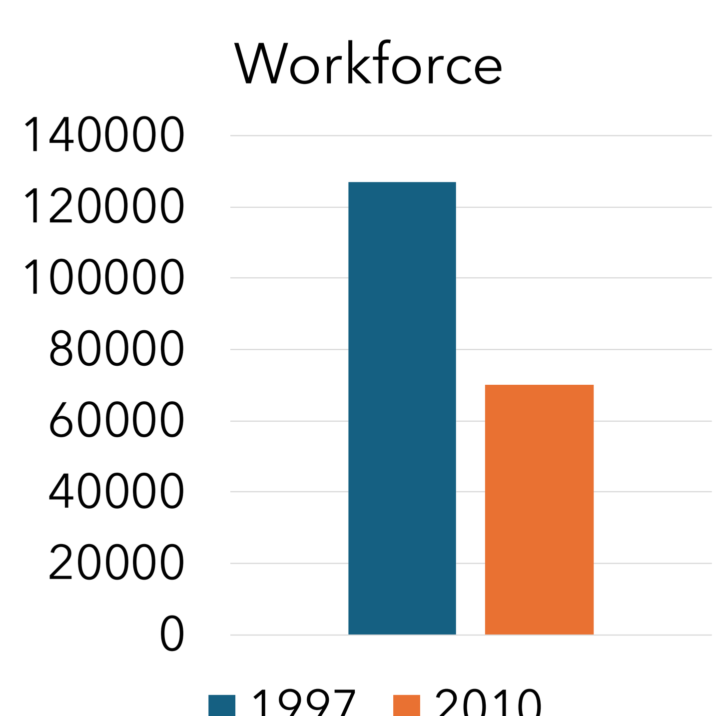


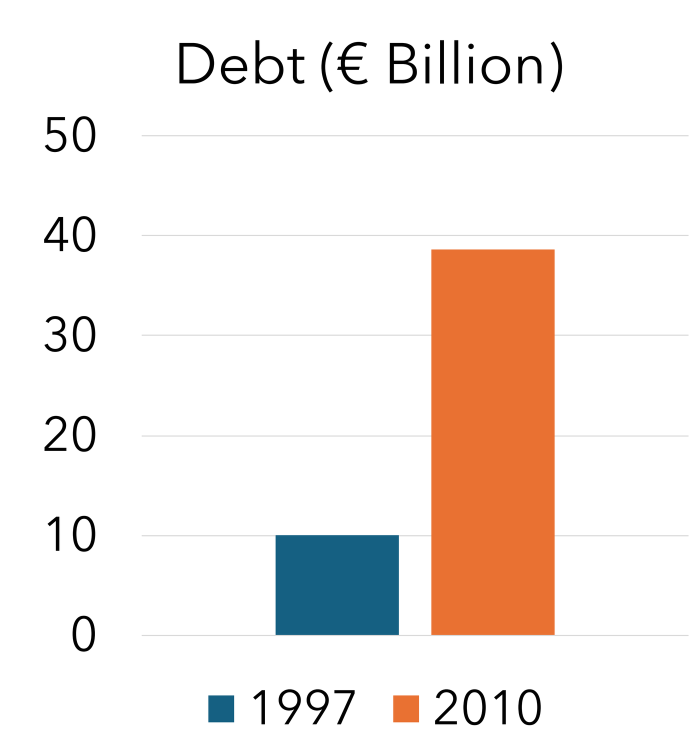


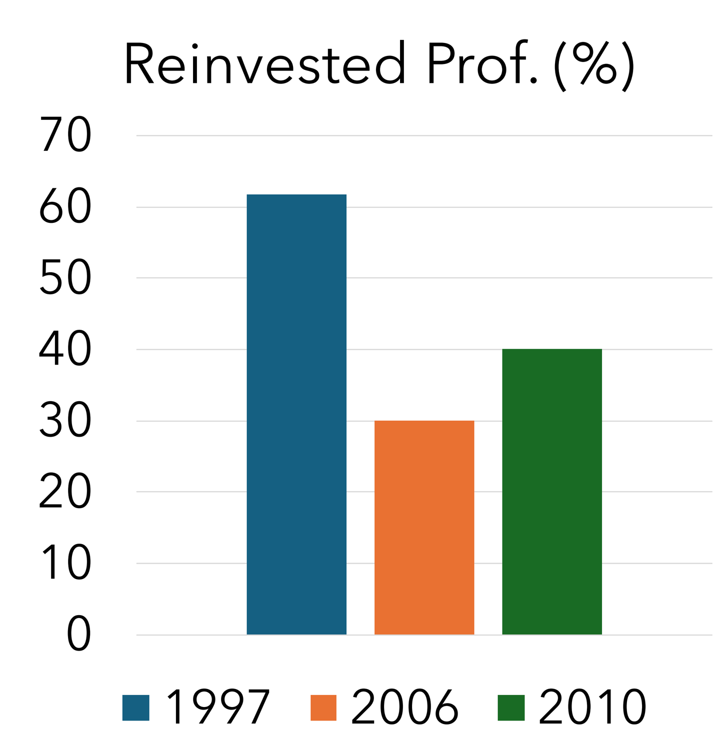
Source: Mucchetti 2014

…BUT WEAKER?

At the time of privatization, Telecom Italia was a **competitive multinational**, integrating services and manufacturing. However, a decade of **unstable ownership** – four changes since 1997, including two leveraged buyouts – left it **smaller** and **less innovative**. To maximize returns, successive shareholders **sold key assets**, withdrew from **international markets**, and **divested** entire **segments**, notably manufacturing, transforming it from a **diversified** conglomerate into a lean **service provider**.







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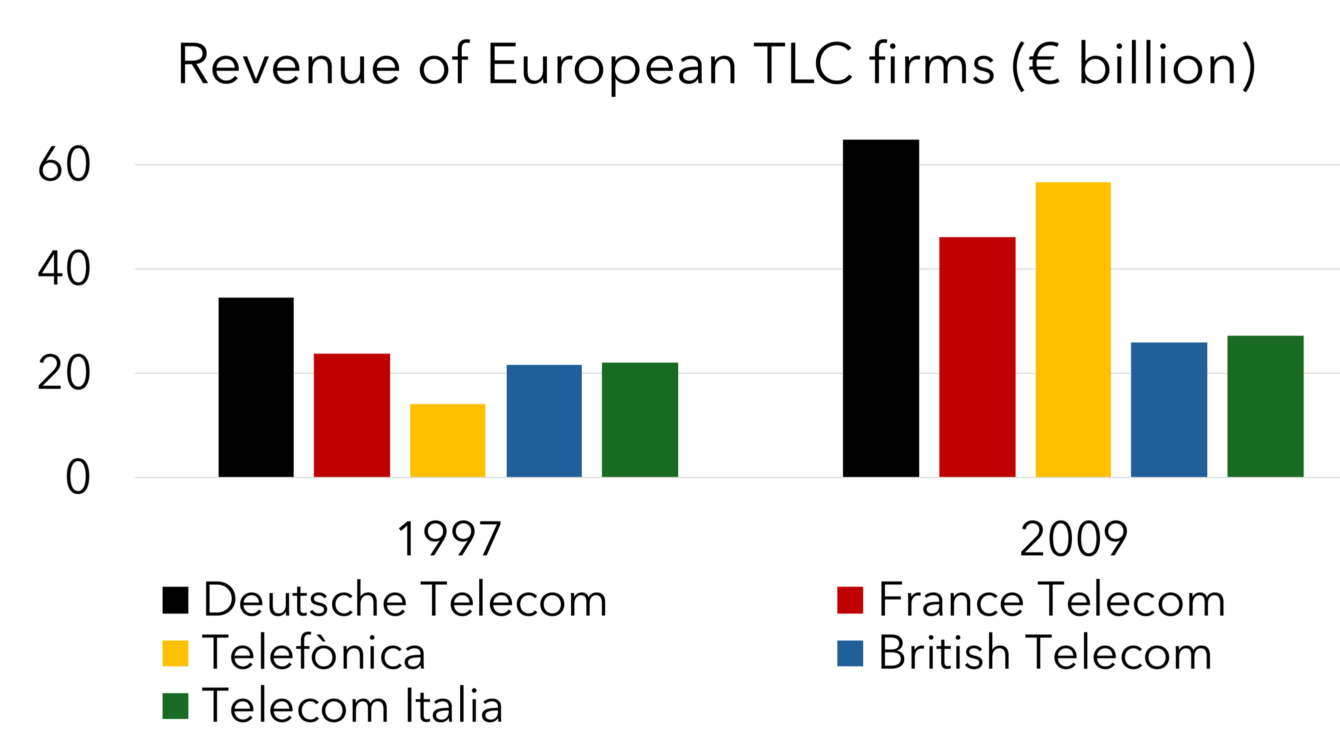

Source: Mariotti 2014

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