EDITORIAL

SPECIAL ISSUE ON CORPORATE GOVERNANCE IN NETWORK INDUSTRIES

This special issue gathers four papers from the first international conference on corporate governance in the network industries, which was held on October 30th and 31st 2013 at the WU Vienna University of Economics and Business (Wirtschaftsuniversität Wien), Austria, including the two keynote addresses by Prof. Dennis Müller (University of Vienna) and Prof. Jean-Michel Glachant (European University Institute). The conference was jointly organized by the Institute for Corporate Governance (WU), the Chair Management of Network Industries (Ecole Polytechnique Fédérale, Lausanne), and the Florence School of Regulation (European University Institute) and supported by the WU Research Institute of Regulatory Economics.

The conference explored a new topic at the interface of network industries and their regulation on the one hand and the question of corporate governance in these network industries. On the other hand, network industries indeed offer a highly interesting research area, as business operations generally need to account for both competition and regulation. Adequate performance is only reached by balancing economic efficiency and reasonable profits with public interests and investment needs. Especially the relationship between liberalization and regulation of monopolies or monopolistic bottlenecks dealing with public needs creates multi-disciplinary research questions related to corporate governance. In particular, market-orientated corporate governance mechanisms might not perfectly work in partly monopolistic and in any case highly regulated environments. In particular, the conference explored the following topics: corporate governance mechanisms in infrastructure and network industries, economic regulation of infrastructure industries (including electricity, telecoms, gas, water and other infrastructure industries such as airports, postal services, etc.) and its relation to corporate governance, boundaries and overlaps between regulation and corporate governance for utilities and networks, the processes of de- and re-regulation, as well as privatization, and their implications on the corporate governance of the involved firms, corporate governance of state-owned infrastructure firms and others more.

The four papers that we have selected for this special issue shed each a unique light on this new topic:

Anne d'Arcy (WU Vienna University of Economics and Business) and Matthias Finger (Ecole Polytechnique Fédérale Lausanne) develop a framework for analyzing the effects of imperfect ownership unbundling and the effectiveness of related corporate governance mechanisms as well as regulatory actions to mitigate against such effects in the case of operators of an electricity transmission grid, i.e., so-called Transmission System Operators (TSOs). They propose a matrix analysis that considers three main tasks of a TSO (as one dimension) for different unbundling scenarios (as the other dimension). They apply the matrix for analyzing the case of the Swiss TSO Swissgrid as a special form of imperfect unbundling. Based on a task-based welfare analysis, they argue that full ownership unbundling is optimal for certain strategic decisions such as the transfer of the grid from old to new owners. In some cases, corporate governance mechanisms, no matter how sophisticated, will not solve conflicts of interest within an imperfectly unbundled electricity firm. Also, in some cases, regulatory action cannot mitigate such imperfection. In contrast, they find no evidence that operations suffer from this lack in corporate governance. Insofar, trade-offs arise between different degrees of unbundling.

Cecilia Manzo (University of Florence), Marco Di Giulio (University of Bologna), Maria Tullia Galanti (University of Florence) and Francesco N. Moro (University of Florence) analyse the boards of Italian listed companies and apply Social Network Analysis (SNA) to the members of board of directors of the former public enterprises in the Italian stock market. Their description of these networks offers a useful tool to envisage what relational resources public enterprises hold through their members, compare them within-country and cross-sector, assess individual resources, and describe the differences between companies owned by local and national governments. The paper provides a comprehensive picture of the patterns of state intervention in the economy and to develop measures and hypothesis for future studies.

Jean-Michel Glachant (European University Institute) offers a personal account of his experience as the director of the Florence School of Regulation and especially of his understanding of the "*Governance in Network Industries*". He does so by referring to the theoretical foundations of such governance in new institutional economics, also called "economics of governance". Institutional economics broadly deals with organizations and institutions and has evolved over the past years to become the most appropriate theoretical framework for the governance of network industries. Glachant's considerations, while solidly rooted in theory, are nevertheless grounded in his concrete and practical experiences, especially in the electricity sector and offer a unique account of the governance challenges in the network industries.

Dennis Müller (University of Vienna) analyses economic theory to explain the relation of corporate governance and the state. The existence of a separation of ownership from control potentially gives rise to a host of principal/agent problems, which go beyond managers simply stealing from shareholders. He begins by discussing some of these as they manifest themselves in the private sector, turn after that to state-controlled companies, and end with a discussion of corporate governance problems in regulated industries. He finds considerable evidence that serious agency problems exist in many private sector companies in both the United States and Europe. For state-controlled companies operating inefficiency rather than overinvestment seems to be the most serious problem. For regulation, rational ignorance on the part of most voters allows their elected agents in the national legislature and executive branches much discretion to pursue their own interests. The severance between principals and agents is complete. He provides examples for the US and the EU and concludes with some policy implications and suggestions for reform.

Together these four papers offer two solid theoretical perspectives on this new and interdisciplinary topic, one from the perspective of corporate governance theory (Müller) and one from the perspective of new institutional economics (Glachant). On the empirical side, they present both a case study (the Swissgrid case) and quantitative data on Italian former public enterprises. By exploring this new topic, we hope to encourage researchers to contribute to it and to refine it in the future.

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