

Trapped in the local path? The internationalisation strategies of French and German operators in the water sector.

The aim of this paper is to understand under the lens of the path dependence theory, why German water operators has been coming across difficulties to develop a strategy of internationalisation. In contrast to French operators, leader on the international market, German operators have been largely criticised to have been absent at the international level. After having compared the constitution of the French and German water sectors, in order to explain the divergence in their internationalisation strategies, I focus on two internationalisation attempts of German operators and show, how path dependence mechanisms can influence this development but also how local actors try to overcome these mechanisms. We conclude, that if path dependence is very useful to explain the constitution of a process leading to inertia, it largely neglects the dynamic of changes triggered by actors.

Introduction

The aim of this paper is to understand under the lens of the path dependence theory, why the German water sector by contrast to the French one, has come across difficulties to extend its activity at the international level. Since a couple of decade, the water management issue has become more crucial. In the context of the Dublin conference (1992), solutions had to be found in order to improve the water management in various countries. Supported by international bodies, such as the World Bank, some developed countries have been encouraged to export their know-how outside their national borders. In this context, French operators have developed their activities in a large number of countries, leading this to be called by some observers the “French model of water management”. In contrast, German operators, despite their high-standard technologies, have been largely criticized for being largely under-represented on the international market. Why, by contrast to France, German operators have been meeting some difficulties to internationalize their activity in the water management?

To answer this question, I suggest that the path dependence framework can be very useful, since it represents an interesting alternative to conceptualize the stability of a technology, an institution, an organization or a strategy. I argue therefore that this approach can bring interesting insight on the difficulties of the German operators to internationalize their activities. However, if path dependence represents a powerful tool to explain persistence, discussions on the possibilities of rupture have till now been mainly underestimated. Hence, this study aims to analyse the influence of external and endogenous factors on the possibility of change.

In the first part, I briefly explain the choice of the theoretical framework, how it can be applied to my research object, and in what extend the empirical study can contribute to extend this theory. The second part deals with the description of the methodology used to analyse the object and to answer my research question. In the third part, I compare the path of water management in France and Germany and the context of creation of the international water market. In the last part, while focusing on two local cases in Germany, I strive to show under what conditions those operators are trying to internationalise their water management practices and what kind of difficulties they met. Even if my focus is on the German water management, it seems to be necessary to conduct first a comparison with France for two reasons: First, the cross national comparison seems to be a good way of showing the historical character of each national path and therefore better explain the reasons of these divergences. Then, as French operators are considered as leader in this business, the comparison will make clearer what strategy German operators attempt to reach.

The contributions of this paper are threefold: At the theoretical level, this paper aims to discuss the possibility of change under path dependence influence. The results shows that the influence of

external shocks and endogenous work on a possibility of change are not so strong as it could be argued. At the methodological level, we aim to compare the formation of two paths in order to emphasise the particularity of each national development. If the comparison seems to be of great value for the path dependence analysis ((Vergne & Durand, 2010: 744), empirical application are so far not really widespread. Finally, If the attempt of bringing urban services and path dependence has already been conducted, the different scholars seems to have neglected the key concept of the path dependence, namely, the positive-feedback mechanisms. In addition, this stream of research has exclusively analysed paths at the national level. In this paper, I also aim to extend the analysis to the local level.

1) Theoretical framework and its application to the water management framework

a) Definition of the Path dependence:

If the concept of path dependence appeared for the first time in the field of economy (David, 1985), it has now been largely used in the social sciences, encompassing the analysis of technologies, institutions, organisations, and strategies. Path dependence can be defined as “a property of a stochastic process which obtains under two conditions (i.e., contingency and self-reinforcement) and causes lock-in in the absence of exogenous shock” (Vergne & Durand, 2010: 737). With contingency, it is meant that, at the beginning of the process, the outcome is unpredictable. Through mechanisms called "increasing returns", the variety of alternatives will be reduced reaching a state of "lock- in" (Arthur, 1989).

Mechanisms, core concept of the path dependence approach, can be defined as a „sequences of causally linked events that occur repeatedly in reality if certain conditions are given” (Mayntz, 2004: 241). In the path dependence literature, these mechanisms are considered as self-reinforcing, that is, that casual relation between the two states will become always stronger (Masuch, 1985: 16). They are drivers which lead from a state of contingency to a lock-in. Emerging progressively, they influence the process in the phase of path formation. The self-reinforcing mechanisms underlying the path dependent process can have different natures. An overview of the literature classifies the main mechanisms as following: High fixed costs, learning effects, adaptive expectations or coordination effects (Arthur, 1994: 112). We also can find complementarity effects, which result from the synergy of different activities (Sydow, Schreyögg, & Koch, 2009: 699-700). Some scholars also broaden mechanisms category to power, conformity or legitimacy (Beyer, 2010: 9).

According to Beyer, the nature of a path dependence process and its susceptibility to change depends largely on its underlying mechanisms.

Powerful tool to explain persistence, the possibilities of change in the path dependence framework have though been mainly underestimated. This deterministic conception has been largely criticized by different scholars (Kay, 2005). If some scholars have already attempted to discuss the possibility of path change (Crouch & Farrell, 2004), we still have few informations about the conditions leading to that change. More generally, scholars seem to agree on the fact that a change can occur following an exogenous shocks (Sydow et al., 2009: 702). Second, the analysis of ruptures also call for conception of actors and their role in the endogenous change process. If some studies have already presented interesting pieces of advice concerning the role of actors in path breaking situation (Djelic & Quack, 2007), a conceptualization of actors dealing with external shocks has been underestimated. In other words: In what extend do external shock affect stability? How do actors react to these shocks? Are they able to cope with it?

b) Path dependence in the water management

Some scholars already linked the debate of the privatization of public organizations with the path dependence argument, at the local level (Dormois, Pinson, & Reigner, 2005) or at the national level ((Midttun, Micola, & Omland, 2003) (Sehring, 2009). Lorrain also has pointed out that the urban services sector seems to be sensitive to path dependence (Lorrain, 2005). The same author described quite precisely this process in the French water industry by demonstrating how local authorities become progressively relinquished the governing of public water and has become therefore dependent on various sorts of experts (Lorrain, 2004). Though they have opened a very interesting research area, these scholars have used the concept of path dependence only in a loose manner, rather referring to the notion of “history matters”. Therefore, the use of the path dependent argument seems to be well suited for the analysis of the water sector for at least two reasons. First, water management is the result of a long tradition which differs within each country so, making the significance of history in this domain irrefutable. However, history matters isn’t a sufficient condition to explain this stability and a focus on its underlying mechanisms will be a necessarily step to analyse this stability.

Using the path dependence analysis implies therefore first the identification of the path and then the analysis of the underlying mechanisms. In my case, the path can be identified as the strategy of operators to develop their activity at the international level. According to Koch, “a strategic lock-in means that a system is not able to overcome the established strategic pattern, and so must follow the already established path by acting within it and reproducing the strategic pattern that is already in

place” (Koch, 2008: 56). In my case, the German water sector has had some difficulties to develop an international strategy, since the strategical pattern has always been oriented toward local development. The emergence of an international strategy seems to cause some conflict with the local strategy in the German case, while doesn't seem to be a problem in the French case. Each strategy is largely influenced by different institutions developed in each national framework.

2) Methodology: case study analysis

In this study, I compare the selected water utilities by focusing not only on their organizational levels, but also on their institutional branch level. The German branch level will be compared to the French one in order to better understand the specific mechanisms working in each context. In other words, if I focus on the German water operators, the comparison with the French ones will enable me to show, first that the difficulties of internationalisation of the German operators is the product of the history. Second, as French operators are considering as the leader in the internationalisation of the water activity, this comparison will make clearer what kind of strategies German operators attempt to follow and why they come across some difficulty to conduct them.

The first step of my analysis is based on a comparative institutional framework of the French and German water sector. This comparison will permit me to show the specificity of each path followed by the different operators in each country. This step is a necessary prerequisite to understand why French operators are leader in the international water market and why German operators meet some difficulties to internationalise their activities. “Crossnational comparison in a given industry often provides interesting clues. (...) when we observe outcome diversity *despite* similar initial conditions, path dependence is a serious candidate to account for differential evolutionary paths. (Vergne & Durand, 2010: 744). Taking stock on the path dependence literature, this sector analysis enables to identify the key mechanisms affecting the institutional stability in each countries and therefore explain the constitution of two different paths which will have an major impact on the activity differentiation of the water operators in the international water market.

Taking into account this specific framework, I then focus on two German operators which have developed since a couple of years an international activity. The choice of the cases is not really difficult since, in the German water sector, only three operators have attempted to develop an activity on the international water market: Berlin Water Utility (BWB), Leipzig Water Utility (KWL) and Mannheim Distribution and Public Transportation Utility (MVG). I chose here to focus just on operators specialised in water management and therefore excluded the Mannheim Utility. More specifically, I aim to identify the following topics: The context of this strategical development, the trigger of this development, the evolution of this development, the nature of the

activity (differences of practices) at the international level and the factors impeding this development.

I choose a qualitative analysis because of the complexity of the water management and the multiplicity of actors involved in it. I opted for a case-study design for three reasons. First, “Case study analysis focuses on a small number of cases that are expected to provide insight into a causal relationship across a larger population of cases” (Gerring, 2007: 86). Second, I aimed to analyse a phenomenon in its real life context where the relationship between the context and the phenomenon under scrutiny is not so clear. Third I have no control on the investigation. Furthermore case studies seem to be well adapted to analyse path dependence phenomenon for several reasons, namely: they are well suited to describe how causal mechanisms operate in a particular context, to explain the occurrence of rare events and interactions in contingency periods and to discover omitted variables (Bennett & Elman, 2006).

The first and main case considered in this study is Berlin. As largest municipal water utility in Europe, Berlin Water Utility (or BWB) has also strived since the Reunification to develop an activity at the international level. Hence, a former director of the utility had already claimed in 1995, that "it is to expect that the BWB's position as a leading European company in the water and sanitation will be preserved and even developed” (Tessendorf, 1995: 563). Taking the exemple of the French operators, BWB has largely increased its activity on the international market since the middle of the 90's. This strategy has been though criticized by local politicians and has been undermined by different factors. In contrast, the second case, namely Leipzig, vary considerably in term of internationalisation strategy and practices, since it does not strive to become a global leader on the international water market.

The investigation of these two cases is based on expert interviews and a document analysis. In the case of Berlin, 14 interviews have been conducted with different actors: local politicians, member of the Berlin senate, former members of direction of the Berlin Water Utility, member of the Supervisory board, consultant during the privatisation process and private partner of the Berlin Water Utility. In Leipzig, 9 Interview have been conducted with representatives from the Leipzig Water utility, local politicians, member of the supervisory board. Other interviews have been conducted with members of professional associations and of private enterprises in order to get more general informations on the German Water sector. All in all 30 interviews have been conducted. The other part of the investigation have been conducted through a document analysis based on parliamentary debates within the Berlin senate and articles published in two different water magazines, namely, *Zeitschrift für Kommunale Wirtschaft* and *Gas und Wasserfach*. Since debates within the Leipzig city council are not public, I have collected other informations in the local newspaper (*Leipziger Volkszeitung*). Lastly, I have gathered some informations in the Annual

Report of both utilities.

3) Path dependence in the water sector: a comparison France – Germany

The French water sector is dominated by three private operators conducting concession contracts with various municipalities. Whereas, the German one is composed by more than 6000 municipal operators mostly under the direct control of the city council. The path dependence approach is well suited instrument not only to describe the divergence of path taken by France and Germany but also to bring some interesting insights on the contrasting internationalisation strategies.

a) Path dependence in the Water sector:

The model¹ of water services in Germany can be characterised as a strong public and local one. Based on a local monopoly, a strict control of the local government on the operator, a lack of competitiveness and an integrated organisation, this model has been considered as a close one. Whereas, the French model of water management is based on a competition between mainly three national operators, establishing contracts with municipalities (Dominique Lorrain, 2005). In order to better understand how these models have emerged, I rely on the path dependence model developed by Sydow & al., and describing the emergence of a dominant system or pattern of action through a three-step analysis.

– The pre-formation phase:

During this period, local municipalities do have a broad scope of action. From the middle of the 19th century, in a context of industrialization and urbanization, the problem of managing water for the population became always more important. This problem encompassed the financing of infrastructures and their management. During the first years, no dominant organization pattern of management had emerged neither in France nor in Germany, since the task of managing water was not constrained by institutional principles or by rules. This period was rather characterized by trial and errors from the local authorities.

In the German case, some municipalities developed cooperation with private operators, above all private enterprises from England. In other cases, they managed this task alone, developing then an

¹ The definition of a model in urban services can be defined on three levels: the institutional architectures (division of labour between the actors), the policy principles (types of contract, modes of financing, methods of fixing a scale of prices etc.), political cultures and collective mentalities (Lorrain, 2005: 237)

economic activity in other sectors in order to compensate the investment in the infrastructures. Other ones tried to develop a cooperation with private operator, but because of some interest conflicts broke up the contract (Wessel, 1995). In the French case, municipalities established cooperation with special water supply corporations whose primary focus was on local activities. Due to financial problems, these companies have not managed to meet the needs of local authorities which also tried to manage this alone (Jacquot, 2002: 33). In 1852, Henri Simeon decided to create the *Compagnie Générale des Eaux* in order to manage the water for Paris. By contrast to the other water enterprise, this enterprise was supposed to act at the national level. Supported by Napoleon III, the enterprise was officially created in December 1853. Even in this period of contingency, history affected the constitution of the future path. Thus, reluctance of the State to develop any form of local government in turn effected the development of the municipal services (Petitet, 2002: 27). In maintaining the local government's weak position, the centralized state at the same time encouraged the development of big national players. The opposite influence occurred in Germany, since, through the subsidiarity principle, the decentralised state granted the municipalities a large autonomy. This enabled the development of strong municipalities at the political, financial or technical levels.

– the formation phase:

From the end of the 19th Century until the beginning of the 20th Century, distinct models of water management progressively emerged in both country, reducing therefore the scope of action of the municipality in conducting this task. During this period, various mechanisms emerged and shaped the formation of distinct paths.

In the beginning of the 20th Century, German municipalities had developed their activities in various economic sectors (Ambrosius, 1995: 23). However, due to the principle of *Daseinsvorsorge*², local authorities scope of action became more limited (Braun & Jacobi, 1990: 19). In order to delimit the activity of the cities and restrain the risks, a legal framework emerged. The activity of municipal enterprises were first forbidden outside its local frontiers (“locality principle³” from the *Deutscher Gemeinde Ordnung*). Second, the integration of the different services into one utility, which would be controlled by the municipality was highly recommended (Ambrosius, 1995: 29). Through these different regulations, local municipalities were supposed to secure its local population with all the

² The principle of *Daseinsvorsorge* defines the activity that the state has to fulfil in order to ensure the well being of its population. This is of the responsibility of each municipalities to deliver these services to the population.

³ Locality principle: the activity of the water utility has to take place within the local boundaries since its goal is to fulfill the *Daseinsvorsorge* principle. Each activity outside the local territory has to fulfil the goal of the local public interest.

goods necessary for their well-being. The adoption of a rule guided behaviour lead local municipalities and their municipal enterprises to manage the water in a specific area and under specific conditions, what led to the diminution of uncertainties. This coordination effect has been reinforced by the complementarity of the different rules: For instance, the integration of the different services led to cross-subsidies, which would bring profit to the municipality. Lastly, the municipality learned progressively to perform this model focusing at the local level, what excluded alternative models of water management.

In France, instead of having created municipal-owned public companies regulated by legal principles, such as in Germany, municipalities have “succeed(ed) in co-operating, delegating and adjusting their actions by enlisting the aid of other partners” (Lorrain, 1992: 80). This cooperation culture has been forced by a particular legal framework. For instance, French municipalities were not allowed to create their own-municipal enterprises. They also were not allowed to integrate the different urban services into one organisation, in order to balance the profit and deficit of them. Each urban service had to be independent. If they wanted to create a municipal enterprise, they had to include other partners as shareholder. Two main options remained, namely, to keep the management in the hand of the municipality without the possibility to create a private enterprise, or the delegation of the services through a contract with the private operator. Due to the financial difficulty, one alternative came to dominate: the cooperation with a private enterprise. This alternative was reinforced by the decision of the Conseil d'Etat (supreme administrative court) which “ruled that public provision of services could occur only if no private enterprise could be found to operate them” (Barraqué, 1992: 18). In the case of France, the complementarity of the rules and the adoption of it by the municipalities led them to establish a cooperation with private operators, which became always more powerful. This kind of cooperation led to a spiral where the municipality lose all the know-how necessary to manage the water at the local level, which made always more difficult to become independent again.

– The “lock-in” phase

In the last phase of the path dependence process, a dominant pattern has been established making therefore the adoption of an alternative difficult or even almost impossible. As described above, we can find here two different institutional paths, that lock the municipalities in a dominant way of managing the water. In other words, through the apparition of mechanisms, a dominant solution in each national context have emerged and let more difficult the adoption of an alternative solution. This historical evolution explain the specific setting of each national water management system and

the difference in the organisational population in France and Germany. This process has then led municipal enterprise in Germany to own a large amount of resources (know-how, competencies, financial resources). These enterprises are largely controlled by the city council under a specific geographical area. In France, private operators (the Compagnie Générale des Eaux and the Société Lyonnaise des Eaux et de l'Eclairage) have become increasingly larger and more powerful, regrouping all competencies necessary to offer turnkey contracts, meaning “with architectural and technical design, realization of secured performance, operational experience and sometimes funding” (Camilleri, 2006: 30). Thus co-operation between municipalities, having simply a role of organizing authorities, and private operators became the rule. Progressively “a pattern of multiple partnership emerged” in order to cope with various local situations (Lorrain, 1992: 84). In contrast to Germany, “regulation operates in this sector more through contracts between the two major actors – communes and private groups – than through legal measures” (Lorrain, 1992: 83). The lock-in seems in both cases to have a strong cognitive and social dimension, since in order to manage a similar problem, municipal authorities have developed a particular way of solving it, and have therefore excluded other alternatives. Moreover, they apparently don't want to put under question a traditional way of managing water. This lock-in can explain for example, the difficult development of private participation in the water sector in Germany or even the difficult internationalisation of the German operators by contrast to the French ones.

b) The context since the 90's: a rationality shift?

From the 80's, a change of paradigm has taken place in the water sector. On the one hand, the water resources and its management have become an always more important topic at the international level, leading international bodies to encourage some countries to internationalise their activities at the international level. On the other hand, this period has also been characterised by a reconsideration of the public sector activity, in particular through the introduction of the New Public Management Programme claiming that private actors could be more efficient than public (Bogumil & Holtkamp, 2002 ; Sack, 2006: 30).

This change also coincides with a period of saturation of the national market and the willingness of French private companies to develop an international activity. “After a century of development in France and the French colonies—development that was not as smooth as it has been believed—the French groups were now moving over seas, toward territories it was much less familiar with”(D. Lorrain, 2005: 93). The French water industry has therefore developed its activity in a large number of countries leading this to be called by some observers the “French model” of water management.

This development has been supported by the World Bank which saw in it the only chance for some countries to get a normal access to drinkable water. Relying on their large experience of cooperation and bargaining with local authorities in France and on the accumulation of resources (financial, technical, operational), French water operators could cover the whole value chain of the water management. Therefore they developed an international activity based on a variety of cooperation contracts (Nickson, 1997).

In the same time, the German model of water management has largely been criticized by different actors, since, despite its high-standard technical know-how in this field, it hasn't been really active on the international water market (Briscoe, 1995).. Indeed, if Germany is one of the leader in the export of water and waste water technologies, this part of the sector is composed of specialized small and medium business. These businesses are not service oriented such as the French operators, which concentrate not only the technology export but also on the management of the assets. In contrast, the German water sector is strictly decoupled between the management at the local level ,and under a strict control of the local authorities, and the technology export. That's why despite a high export volume in this domain, the German water sector is still considered as under-represented at the international level. These criticisms have been relayed at the national level (BMBF, 1999; (Ewers, Botzenhart, Jekel, Salzwedel, & Kraemer, 2001). In 2006, the German government established a report on the modernisation need of the German water sector and on its necessarily commitment at the international level. This change would imply for instance a loosening of the locality principle (Deutsche Bundestag, 2004: 27). To sum up, the internationalisation of the German water sector seems till now to have been unsuccessful. The main factor is the decentralised structure: each water operator is under the control of the municipal authorities. This utility is an instrument of the city to fulfill the public task of delivering the water resource to the local population. This fulfilment of this task is reinforced though the application of institutional framework described above, leading to a cognitive lock-in.

4) The internationalisation strategies of two German operators

Taking stock of this historical development and the constraints and opportunities created by each path, I will now analyse more precisely two cases of internationalisation strategies of German operators. Indeed, if the path dependence approach is of great value to analysis the origin and the consequences of the stability at the sector level, it underestimates the possibility that actors have to rely on alternative patterns of action. In describing the internationalisation strategies of Berlin water Utility and Leipzig Water Utility, I aim to show how under particular conditions, actors can attempt

to break the path of local water management. This comparison also aims to illustrate local variations within a same institutional framework.

a) The internationalisation context

Two external shocks seems to have had an impact on the local strategy of water management in these two cities: the impact of the Reunification and the liberalisation pressures coming from the European Union. For several reasons, Reunification has had an impact on the internationalisation strategies of the KWL and the BWB. Indeed, local authorities had to cope with several difficulties following Reunification. At the organisational and management level, they had to reorganise the water management from a regional operator (VEB WAB) to a local one (local water utility). In parallel, they had to deal with the management and the rehabilitation of infrastructures, a decrease of the population, and a managing affordable prices. These endeavours had been supported by different institutions from the West Germany, but local water works also developed a specific technical and managerial know-how in order to adapt this new environment. The development of this specific know how could be then be exported to other cities of the former East Block which had to cope with similar problems.

The particularity of Berlin was its division into two parts, leading to the take over of the east water utility by the west one. Besides, during these years, an important work in different technical associations at the national and international levels has been conducted by the members of the water utility in order to compensate for the isolation of the company. The experience developed by BWB during its period of isolation has also led it after Reunification to extend its activity in the former East-Block. Besides, the 40 years of isolation led the organization to learn how to manage water under difficult conditions and then developed some technologies and processes, that could be brought to the market after Reunification. The aim was to bring its know-how in order to support the development of the water management in different cities. Lastly, in this period, most of the water utilities such as in Berlin or Leipzig, have taken another form than the west ones, since they have integrated waste water and water supply in one organisation. This organisational form has not only brought synergies at the local level but also has facilitated the development of an activity encompassing the whole local water circle.

The liberalisation of the energy market and the heated debate at the European level concerning the possibility of a liberalisation of the water sector also have affected the strategies of the local operators. Thus, since the during the 90's, both operators already perceived the threat of the water market liberalisation pressures and have tried to get prepared to it by becoming more active.

Already at the beginning of the 90's, the BWB direction claimed: "In the region but also in Berlin,

private enterprises are active. These companies are called: Gelsenwasser, Générale des Eaux, Lyonnaise des Eaux Dumez, Preussenelektra, Ruhrgas and Gas de France. That means economic power and corporate autonomy are at the boarder of our enterprise” (BWB, 1992: 13). Even before debates on liberalisation, the threat of competition leading these enterprise to be active were present. This threat has been reinforced by the liberalisation of the energy market and the possibility of the opening of the water one: "In a time of heated discussion on the liberalisation and privatisation of the water economy, the corporate strategy of the Water Utility Leipzig is oriented toward being active in this process and developing a modern, economic and competitive distribution utility" (KWL, 2001: 6).

b) The attempt to change: the internationalisation strategy of the Berlin Water Utility

Despite similar conditions of development, both operators have followed two distinct internationalisation ways, which has been largely influenced by local conditions. Probably because of the situation of isolation described above, once Reunification occurred, one of the main goals of the BWB became to develop an activity outside its local borderlines. The topic of the first years was the east-west integration: BWB thus started with the development of collaboration with the region Brandenburg and some cities of the former east Germany. BWB also strived using its contacts with cities of the former East block to expand its activity: Budapest, Prague, Warsaw, Moscow. These cooperation was mostly conducted through workshops and management consulting, since the legal form of the BWB limited its international activity.

A new legal form adopted by the senate in 1993 gave more scope of action to the BWB and above all more financial independence from the administration. BWB could extend its scope of action in creating subsidiaries and developing its activity at the regional, national, and international levels. In other words, the aim of the BWB to commercialise its know how at the regional and international level has been made easier. Consequently its international commitment not only increased but the nature of the cooperation could be extended from consulting to participation in the shareholder structure of other utilities. This commercialisation of BWB know-how at the international level should be a new source of income for the city.

“ With the transformation of the BWB into an Anstalt des öffentlichen Rechts, the utility got the possibility – beyond the city partnership as municipal-owned company- to become active on the international water market. The particular position and strength of the BWB for the international business rely on the management and technical services both in the water supply and waste water treatment, that can be commercialised. The link between management and operating control offers further advantages in comparison to the other competitors. Lastly BWB have its particular strength because of the experience of the economic, technical and social reorganisation of the East

German water management and its position as municipal enterprise” (BWB, 1996: 20).

Through its subsidiary UCB, BWB intensified its activity on the international market. It reinforced the cooperation with some cities, where contacts had already been taken (water utility Lituaens for instance), but also developed its activity to new countries. For instance, in 1994 it attempted to commercialise the technique of the sewage work of Ruhleben, one of the most effective in Europe, to cities like, Mexico city or Buenosaires. These cooperation went first through technical exchanges or workshops. In 1995, BWB established a cooperation with Severn Trent, which led to gain a management project supported by the world Bank in Baku in 1996. From 1997, BWB started to conduct joint-venture and take participation in different water utilities worldwide, such as the sewage company of Budapest in consortium with Veolia or in Xian (China), where BWB obtained 35% of the shares. During the same year, BWB created representative offices in various countries and also in Brussels in order to defend its interests. At the dawn of the privatisation, BWB had already changed its behaviour and tended to act like a real private enterprise, using strategies and practices similar to transnational corporations.

One of the conditions of the privatisation was the contribution of the BWB development as competitive actors at the national and international level. The cooperation with two global water operators, namely, Veolia and RWE, should bring BWB new opportunities to conclude business at the international level. During this process, the international activity of BWB has been regrouped under the roof of the Berlin Wasser Holding AG. In 2002, this international business had been transformed into a shareholder utilities (AG) in order to obtain more independence. The holding was still owning all the shares of the utility.

b) The resistance to change: what undermined the internationalisation of BWB?

The internationalisation strategy of BWB has come through a number of difficulties: first, the investment problems. Investments conducted at the international level led to less investment for the local level. Then the international activity of BWB was considered as risky. Moreover, it is not its main goal to conduct such businesses but rather to fulfil the principle of *Daseinsvorsorge*. Lastly, the internationalisation strategy has been undermined by conflicts of interest with private partners. First of all, the local companies didn't have the financial resources to compete with transnational enterprises at the international level. The shift from a management and technical consulting activity to an operator which strives to participate in the shareholding of other companies led to some financial difficulties. Indeed, the profit made through such activities is very slow and the starting cost are very high. For instance, in order to develop its strategy in China the Berlin Water

International invested much more than necessary in order to obtain the contract with the sewage utility of Heifei. Despite the attempts of return on the long term, the BWI has made a deficit of around 7 million Euros during the first years of 2002 and 2003. In 2004, the shareholders decided to sell the BWI because it couldn't afford further investments in international businesses. Finally, in 2006, the Berlin Water Holding attempted to sell 80% of the BWI shares to Maru Beni. However, it didn't work. The consequences was that BWI could not pursue its internationalisation strategy and should switch back to an international no-investment business (consulting, management contract)⁴. Indeed, in order to follow its strategy, BWI needed double-digit million financial support, which could not be provided by the shareholders.

More generally, this international activity raised the questions of the necessity for Berlin to keep BWH because of the financial risks of the foreign investment for the land. These investments created by the internationalisation strategy of BWB led to heated debates inside the parliament. Some local politicians claimed that the core business of BWB was efficient and the citizen didn't have to pay for the competitive business of the Berlin Wasser AG. All what belongs to the Daseinsvorsorge should be under the hand of the city and the rest should be privatized⁵. Therefore in period of crisis, it seems that the activity of the BWB focus back at the local level, impeding the development of an international strategy.

Lastly, some conflict has occurred, because the Berlin Water Utility aimed to gain new contracts, for which Veolia for instance also had interest. In other words, if both companies were cooperating at the local level, they also were competing at the regional and international levels, leading to some tensions between them. According to a member of the senate for economy, some conflicts occurred with Veolia when BWB aimed to establish a partnership with Metito in order to pursue a development of its activity in China. "And they (Veolia) have tried during a supervisory board meeting to undermine the project. But a lot of people found this was a good idea. For RWE, it wasn't that important, like I said, it is for them just a financial participation. But Veolia, it was at this time still Mr. H., was vehement against it. But it hadn't obtained the majority of voices within the supervisory board".

c) A contrasting strategy: the internationalisation strategy of the KWL

In contrast to Berlin Water Utility, the Leipzig Water Utility focused essentially the first years on the local development and didn't aim to become a global actor like it was the case in Berlin. The KWL just started to be active at the international level following the liberalisation of the energy market. In this time, the goal of the KWL was to cope with the new environment by becoming more efficient

⁴Abgeordnetehaus Berlin, Drucksache 16/10 111, 21.12.2006

⁵Abgeordnetehaus Berlin, Plenarprotokoll, 15/37, 30.10.2003, 2986.

and to become more active at the international level.

To fulfil this goals, Sachsen Wasser, has been created in 2000 in order to develop an activity through technical and management consulting outside Leipzig and therefore to export the know-how that KWL had developed directly after Reunification. Since its inception, Sachsen Wasser has promoted different projects around the world, as it is the case in Macedonien, where the enterprise, supported by the Kredit anstalt für Finanzaufbau, has developed a cooperation in order to improve the water management (diminution of water leaks, creation of an efficient administration, development of a pricing system and support in a business plan conception). According to the director of Sachsen Wasser, the traditional activities are not sufficient enough to survive the market laws, it is necessary to become active by being independent of the state intervention and constraints.

Through Sachsen Wasser, KWL has in fact developed an international activity, which is though limited to consulting, competence transfer and training, like in Kabul or Macedonien. According to a representative of the company, the goal is rather to help some municipalities to develop a solution to their water problems through the expertise of some engineers from Leipzig. There is no intention to expend an activity on the international water-market like the Berlinerwasser Betriebe has done, namely through joint ventures. Indeed, if the KWL strived to export the know-how it has developed during the post Reunification period, the organisation is still focusing on the region and the cooperation at the local level. First of all, the participation of the association of surrounding cities play an important role in the direction of the Leipzig Water Utility, since it owns 25% of the shares and can therefore use a blocking minority against the strategical development of the Leipzig Water Utility at the international level. Hence the strategy of the Leipzig Water Utility is rather to establish cooperation at the regional level, by including new surrounding cities inside its shareholder structure. More generally, there is an important control of the city on the activity of the Leipzig Water Utility and consequently on the international strategy. Each move on the international level should be accepted by the city council. Another barrier is the coordination with the regulation of the region of Saxony, since the Leipzig Water Utility has to respect different rules (described above), namely the water law, the communal law and the company law. If the Berlin Water Utility also had to respect the law of the Berlin region, these can be modified quite easily since the city is at the same time the Region.

Despite a softer internationalisation strategy, Sachsen Wasser like other subsidiaries of the Leipzig utilities, has been put under critics by some local politicians. Like in Berlin, for some observers, the utility has not to expand its activity outside its own borderlines. If there is less risk than in Berlin, some politicians claim that the international business and the competitive business are for private enterprises and not public ones, which have focus on the well-being of the local population. This

discussion came up in 2004, while the subsidiaries were making profit but the water prices were hiking. Some politicians suggested to sell the subsidiaries to the private. One other reason was the difficulty for the local authorities to govern so much subsidiaries.

Conclusion: a partnership to by pass the path?

In this paper I aimed to show how path dependence could be applied to the internationalisation strategies of the water operators. By taking the cases of France and Germany, I showed which mechanisms were at work and why these countries followed different paths of internationalisation. After having described the context in which French operators developed an international activity, I focused on the attempt of the German ones to overcome the weight of their local structures and develop an international activity like the French ones. The two local cases developed in this paper, show what kind of difficulties local operators are coming across in order to develop an international activity. Due to the local structure of the local management, the development of an internationalisation strategy does get in conflict with the traditional strategy of ensuring the well-being of the local population. More precisely, the pressure of the local authorities, who have an important control on the local water operations, the necessity to deal with the legal barriers of the region, and the investment problems, seems to undermine the international development of German water operators, and above all in cases of crises. In addition, these two cases illustrate local variations in the internationalisation strategies despite a path dependent influence. They also show, that despite this influence, attempts to change are possible and also vary depending on the local context.

In 2008, the German water sector developed a new internationalisation strategy. In order to cope with the problem of internationalisation, German local operators have decided to create a network regrouping, technical businesses, research centres, water utilities and government agencies in order to bundle the resources of the German water sector and export it. According to a representative of this network: “ But we have a lot of competencies and businesses, which are active at the international level, but every business is competing alone and by contrast to French operators, we were not able to cover all the value chain in one business. This is the goal of GWP, to reach this effect, but not through one business but through a platform, where interested enterprises can meet and develop competencies for the international market“. If this new attempt seems to be a good step toward the internationalisation of the German water business, since it would by pass the local path of water management, it seems though to be too early to know if this network will work. For some observers, this kind of networks will represent a serious competition for the French operators since the demand is more and more oriented toward technical services. For other observers, this kind of

project will probably remain unsuccessful because of the influence of the path.

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