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Italy: The tormented rise of organizational capabilities between government and families

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THE ADVANCE OF INDUSTRIALIZATION

Italy was the first country in southern Europe to have reached a stable stage of industrialization, a remarkable outcome given the false leaps and the failures of other Mediterranean nations.[1] Italy started to go further than what a historian defined as "a first coat of industrial paint" in the 1880s.[2] In that decade, in addition to the traditional industries such as food and textiles, others such as metallurgy and chemical and mechanical productions become "visible." Alexander Gerschenkron has calculated that by 1887, starting from a base of 100 in 1881, the production of the textile sector is equal to 136, food equal to 106, metallurgy is 414, mechanics equals 185, and chemicals have reached 267.[3]

But for Italy we can really only talk of an "industrial revolution" when we reach the period that goes from 1896 through 1914, with the period from 1896 until 1908 having particular relevance. Again, Alexander Gerschenkron calculates for those years an annual rate of increase in industrial production of 6.7 percent but another reliable economic historian, Stefano Fenoaltea, writes of a 7.6 percent increase for those same years.[4]

This phase is characterized by the following elements:

A change in the industrial structure so that heavy sectors (metallurgy, mechanics, mining) – which counted for 19.8 percent of the value of industrial production in 1895 – have reached 30.6 percent by 1914

[1] See the classic study of J. Nadal, *El fracaso de la revolución industrial en España, 1814–1913*, Ariel, Barcelona, 1975.

[2] L. Cafagna, "Profilo della storia industriale italiana", in L. Cafagna, *Dualismo e sviluppo nella storia d'Italia*, Marsilio, Venice, 1989, p. 293.

[3] Quoted from R. Romeo, *Breve storia della grande industria in Italia*, Mondadori, Milan, 1988, p. 38.

[4] V. Zamagni, *Dalla periferia al centro*, Il Mulino, Bologna, 1990, p. 106.

A change in the structure of foreign trade with an increase of imports of raw materials while exports of finished products grow

An original solution to the problem of energy sources, given the lack of coal – the application of so-called white coal, hydroelectric energy

Another original solution to another serious problem created by the first intense industrialization, the disequilibrium in the balance of payments, given the need for imports – a solution this time found in the financial flow provoked by the remittances of millions of Italian emigrants

Even in this phase it is not possible to speak of a "big spurt," especially if we compare Italy with other "latecomers" such as Russia or Japan. In this respect, it is interesting to consider the fact that in Italy in 1914 the simple production of raw silk was almost equal to the value of all steel products and that in the Italian industrial apparatus there were serious absences such as the electromechanical and the organic chemical sectors. The industrial development was very much characterized by territories. A real industrialization took place in the northwest area of the country, the so-called "industrial triangle" (Milan-Turin-Genoa), while there was an industrialization more superficial in the northeast and central regions and even weaker in the South.[5]

It is with World War I that industrialization appears to be on a road with no return (as can be seen in Table 8.1). Thanks to orders from the Ministry of Arms and Munitions for the "industrial mobilization," we see a boom. At the end of the conflict, if we take a series of products considered of fundamental importance at the time (such as steel, cement, electrical energy, automobiles, sulfuric acid, superphosphates, and artificial textile fibers), Italy can be considered the eighth most important producer in the world.[6] The war also reconfirmed the gap between North and South.

When the inevitable postwar crisis ends in the 1920s, industrial growth is rather substantive, with an annual average increase of 6.6 percent in the years between 1921 and 1929, which actually reached 9.5 percent in the period between 1921 and 1926.[7]

The tremendous world crisis of the 1930s did not sweep away much of the solid foundation of Italian industry. On the contrary, the rebuilding of a military apparatus in the years preceding World War II emphasized

[5] L. Cafagna, "Profilo", pp. 297–303, and Romeo, *Breve storia*, pp. 51–54, 67–74.

[6] V. Castronovo, *L'industria italiana dall'Ottocento ad oggi*, Mondadori, Milan, 1980, p. 150.

[7] Ibid., p. 167.

Table 8.1. *GNP disaggregation for activity sectors 1861–1981 (constant prices 1938)*

	1861	1913	1938	1963	1981
Agriculture	46.1	37.6	26.6	16.5	6.1
Industry	18.4	24.9	30.3	49.5	37.1
Services	30.4	32.0	31.7	26.0	44.8
Public administration	5.1	5.5	11.4	8.0	12.0
Total	100%	100%	100%	100%	100%

Source: V. Zamagni, *Dalla periferia al centro*, Il Mulino, Bologna, 1990.

again the role of heavy industry. In the same period, the government's policy of "autarky" and the fragmentation of world markets did little to help Italian attempts to catch up with countries in the forefront: between 1929 and the beginning of World War II, Italian industrial production had an increase of 15 percent, for the first time since 1900, a rate which was inferior to the other nations of Western Europe.[8]

But a real takeoff happens after 1950. In the succeeding twenty years, GNP grows at a rate of almost 6 percent (5.8 in the 1950s, 5.7 in the following decade).[9] The industrial structure becomes much stronger in basic sectors such as oil and steel, and the production of durable consumer goods starts to solidify, while "light" sectors such as apparel, shoe manufacturing, and household furnishings move from their roots as "craftsmen" to true industries.

Italy enjoys a golden period in the years following the birth of the European Economic Community (1958–1962). In 1961 GNP's rate of growth reaches a record 8.6 percent. It continues on a similar path, at least during the first part of the 1960s. Italy accrues its industrial production, of which exports are an important part, and in this way the country can cover the costs of necessary imports. Notwithstanding this impressive industrial development, debt with foreign countries does not grow because of the low salaries paid. These, in addition to rendering Italian products more competitive in international markets, limit (given low consumption levels) the necessity for imports.

Even Italy was forced to suffer during the turbulent 1970s with the end of international monetary stability and the two oil shocks, a difficult

[8] Romeo, *Breve storia*, p. 152. [9] Zamagni, *Dalla periferia*, pp. 423–424.

situation made more serious for Italy by strong social and trade union conflicts. In 1975 the country experienced negative economic growth. Nevertheless, between 1973 and 1980 the average annual rate of growth of GNP was 3.7 percent, superior to that of other European nations and the United States and equal to Japan's. Following three years of stagnation in the early 1980s, GNP proceeded to grow at an annual rate of approximately 3 percent for the remainder of the decade, among the highest in an international comparison.[10] Italy was by now a member of the "G-7", the club of the most industrialized Western nations whose policies affect the entire world economy. Nevertheless, even with such prestigious standing, the economic problems of Italy are far from being resolved. The South is still lagging far behind, serious gaps remain in the country's industrial apparatus – for instance the chemical and electronic sectors – and public spending which exceeds 50 percent of the GNP is a serious brake for general economic development.[11]

THE ACTORS

The student of Italian industry is immediately impressed by the permanent importance in the system of small businesses. In 1981 59 percent of the total labor force is employed in factories with less than 100 workers. As indicated in Table 8.2, this percentage is similar to that of Japan in approximately the same period while the same value for the United States was 23 percent, for the United Kingdom it was 25 percent, for France it was 29 percent, and for Germany it was 30 percent.[12] On the other hand, recent research on all the Italian industrial corporations in existence between 1907 and 1940 emphasized the scarce concentration of Italian industry when considered as a whole,[13] although by the 1970s the significance of the largest industrial enterprises reached an internationally comparable level (see Table 8.3).

The small dimension characterized Italian industrial structure even in

[10] Ibid., p. 425.
[11] For a "critique" of the Italian economy's performance in the past century, see N. Rossi and G. Toniolo, "Un secolo di sviluppo economico", in P. L. Ciocca, ed., *Il progresso economico dell'Italia*, Il Mulino, Bologna, 1994.
[12] Zamagni, *Dalla periferia*, p. 438.
[13] R. Giannetti, G. Federico, and P. A. Toninelli, "Size and Strategies of Italian Industrial Enterprises (1907–1940): Empirical Evidence and Some Conjectures", *Industrial and Corporate Change*, no. 2, 1994.

Table 8.2. *Features of the productive system for some countries (benchmark years)*

Year and country	Firm's average dimension (number of workers)	% of workers in firms with less than 100 employees
1961		
Italy	8.4	55.3
Germany	17.3	36.8
Great Britain	85.3	18.8
Japan	16.9	n.a.
1971		
Italy	10.0	52.3
Germany	22.8	33.5
Great Britain	60.7	24.7
Japan	16.8	53.6
1981		
Italy	9.3	59.3
Germany	28.4	29.9
Great Britain	56.8	24.6
Japan	14.9	50.0

Source: F. Onida (ed.), *L'industria italiana nella competizione internazionale*, INCE, Milan, 1988.

Table 8.3. *Big business in Italy (percentage of sales held by the top 100 companies)*

Year	Sales/total manufacturing (current prices; percentiles)
1971	43.3
1976	38.6
1981	49.2
1986	38.9
1991	40.1

Sources: Mediobanca, *Le principali società italiane*, Milan, various years; Centro Studi Confindustria, *Economia in cifre*, SIPI, Rome, 1985, 1986.

the golden years of the "economic miracle" between the 1950s and 1960s.[14] But the real moment of glory for small enterprise in Italy took place in the stormy 1970s when it appeared as a last resort for the nation's economy.[15] It was then that the country appeared to rediscover a form of industrial organization theorized by Alfred Marshall – the district, oriented toward the production of one single product, a goal often obtained through a division of labor (a deverticalization) among small companies.[16] To the researchers it was clear that small business and districts had a centennial history, a long learning process, and a slow strengthening with the passage from craftsmanship to industry.[17] The small Italian enterprise became a model of "flexible capitalism" at an international level.[18]

This glorification of small firms in Italy is anything but new. We had a glamorous example in this respect immediately after World War II in the debate of the Economic Committee during the Constitutional Assembly. Here prominent business leaders, among them the president of Confindustria (the Italian Confederation of Industry), insisted that Italy should carefully avoid the threat of big business. The most eloquent declaration during the debate came from the managing director of the automobile company Alfa Romeo, Pasquale Gallo, who proposed that the only viable strategy for the entire Italian automobile industry was that of "organized craftsmanship" based on the Swiss model. He is quoted as having said "we think of having with Fiat a 'large' corporation; instead Fiat is a small American enterprise. . . . Alfa Romeo has a classic, exceptional product. . . . Americans are not interested in small companies but in large ones. Alfa Romeo can be rescued."[19]

But Pasquale Gallo and the other industrialists who agreed with his vision of the economic future of Italy were wrong. Instead, the person

[14] In 1961, the average dimension of Italian works, in terms of employment, was 8.40 workers. See F. Onida, ed., *L'industria italiana nella competizione internazionale*, Istituto Nazionale Commercio Estero, Milan, 1988.

[15] See, for instance, N. Colajanni, *L'economia italiana dal dopoguerra ad oggi*, Sperling e Kupfer, Milan, 1990, pp. 230–233.

[16] See G. Beccatini, ed., *Mercato e forze locali: il distretto industriale*, Il Mulino, Bologna, 1987, and G. Fuà and C. Zacchia, eds., *Industrializzazione senza fratture*, Il Mulino, Bologna, 1983.

[17] See, e.g., F. Amatori, "Per un dizionario biografico degli imprenditori marchigiani," in S. Anselmi, ed., *Le Marche*, Einaudi, Turin, 1987.

[18] See M. J. Piore and C. F. Sabel, *The Second Industrial Divide*, Basic Books, New York, 1984, and M. E. Porter, *The Competitive Advantage of Nations*, Free Press, New York, 1990, pp. 421–453.

[19] Quoted from G. Sapelli, "L'organizzazione del lavoro all'Alfa Romeo, 1930–1951. Contraddizioni e superamento del 'modello svizzero,'" *Storia in Lombardia*, no. 2, 1987, p. 111.

who better foresaw the future was Fiat's president, Vittorio Valletta, who strongly believed in mass production.[20] In fact, Italy as a nation wishing to catch up with the center of world capitalism could not avoid the impact of the Second Industrial Revolution and of its logics in economic and organizational terms.[21] Steel, heavy machinery, transportation equipment, electric and chemical industries (and we can also add mass distribution) – that is, the core sectors – were as concentrated in Italy as in the world's leading nations. In addition, first movers, even if through changes provoked during the decades by the process of mergers and acquisitions, permanently dominated their sectors. The companies which are today considered to be the most important Italian corporations were all founded between the end of the nineteenth and the beginning of this century. As happened everywhere in the industrialized world, the first big businesses were the railway corporations (e.g., the Società Italiana per le Strade Ferrate Meridionali).[22] By 1905 the railways were nationalized and the indemnities to the companies were utilized, in a good-sized portion, to finance the growing electric industry. Not surprisingly, the electric companies from that time to the early 1960s, when in its turn the electric industry is nationalized, are the core of Italian economic power. Already in the 1920s, the electric industry had attained a nominal share of capital equal to 20 percent of the entire capital of Italian corporations and Edison, the largest electric company, controlled 56 of the 200 companies operating in the industry sector.[23] Eventually Edison gradually changed into a conglomerate and after World War II directed its investments toward the chemical industry. In fact, following the nationalization of the electric sectors between 1964 and 1966, of the two major electric enterprises, first SADE and then Edison itself merged with the most important Italian chemical company, Montecatini. In the end it appears to have become a sort of continuous chain: from railways to the electric industry and then to the chemical industry, even if the final passage proved to be rather unsuccessful, given the poor performance of Montedison, as the new giant in the chemical sector was named.

Montecatini had been founded in 1888 as a mining company.[24] As producer of pyrites, on the eve of World War I the company embarked on

[20] V. Castronovo, *L'industria italiana*, p. 280.
[21] In this case the compulsory reference is to the work of Alfred D. Chandler, Jr.
[22] See M. Merger, "Origini e sviluppo del management ferroviario italiano," *Annali di Storia dell'Impresa*, no. 8, 1992.
[23] On Edison, see B. Bezza, ed., *Energia e sviluppo*, Einaudi, Turin, 1986.
[24] On Montecatini, see F. Amatori and B. Bezza, eds., *Montecatini. Capitoli di storia di una grande impresa*, Il Mulino, Bologna, 1990.

a strategy of vertical integration to produce sulfuric acid. In 1920, thanks to the profits garnered during the war and to the support of Italy's major banks, Montecatini absorbed the two most important producers of fertilizers, Unione Concimi and Colla e Concimi. In the course of the 1920s the company acquired an unquestionable supremacy within the Italian chemical industry, thanks to the production of nitrogen fertilizers through the original Fauser electrolytic process.

The other important chemical company Snia Viscosa,[25] dominant in the field of rayon, attained momentum in the 1920s when it was one of the world leaders for this same product. Snia was the creation of a Piedmontese empire builder, Riccardo Gualino, who eventually succeeded in involving the company in his financial troubles. By 1930, control of Snia had passed to the British Courtaulds while management remained in Italian hands with Franco Marinotti leading the company. In recent years Snia, through complicated vicissitudes, has moved from being under the control of Montedison to that of Fiat.

The modern steel industry in Italy was started in 1884 with the birth of Terni,[26] the first Italian company to use the Martin-Siemens process. Terni failed to build an integrated steel cycle. In 1899 Elba, a producer of cast iron from blast furnaces, was founded. Shortly thereafter Terni and Elba were united together in the so-called steel trust, while in 1910 the Roman financier Max Bondi was able to build up the first integral cycle steelworks in the Tuscan town of Piombino. Bondi succeeded in doing something more. During World War I, in 1918, thanks to a series of financial alliances, he reached his goal of unifying under one corporation, Ilva, all the integrated cycle Italian steel plants. Three years later Bondi went bankrupt due to an unwise policy of diversification which revealed him to be more of a speculator than an industrial builder. Nevertheless, his enterprises became the core of what later would become under government control the Italian sector of large steel plants. Another player in the steel industry was Falck, a successful family-run company in the Milan area which produced steel from scrap iron and has permanently held since the 1920s a share of 10 to 15 percent of the Italian market.[27]

[25] For the SNIA case, see Romeo, *Breve storia*, and N. Colajanni, *Il capitalismo senza capitale*, Sperling e Kupfer, Milan, 1991, pp. 26, 166–168.
[26] For Terni, see F. Bonelli, *Lo sviluppo di una grande impresa in Italia*, Einaudi, Turin, 1975.
[27] On the Italian steel sector, AA. VV., *La siderurgia italiana dall'Unità ad oggi*, CLUSF, Florence, 1978; F. Bonelli, ed., *Acciaio per l'industrializzazione*, Einaudi, Turin, 1982; M. Balconi, *La siderurgia italiana 1945–1990*, Il Mulino, Bologna, 1991.

The panorama of Italian big business cannot be considered complete without a few more names. First, Fiat,[28] the automobile manufacturer founded in 1899 in Turin. By the 1920s Fiat controlled almost 90 percent of the Italian automobile production and today the company is the center of the most important private industrial concern of the nation. Another company which must be mentioned is Pirelli,[29] the first producer of rubber in Italy. Founded in 1872, by the beginning of the new century the company progressively moved away from telegraph and submarine cables to tires. Olivetti,[30] founded in the Piedmont town of Ivrea at the beginning of the 1900s, acquired in a short time a clear predominance in the field of office machinery. Ansaldo[31] in Genoa and Breda[32] in Milan have become over the years leaders in the heavy machinery industry; Bocconi emerges as the first and most important department store in the country, a family enterprise which in 1917 was taken over by a group of businessmen from Lombardy and Piedmont who eventually changed the company's name to La Rinascente. At the beginning of the 1930s, a group of managers from within the company gave birth to another important mass retailer, Standa.[33]

By the eve of World War II, the scenario of big industry in Italy, that is the one that via mergers and acquisitions will bring us to the contemporary period, is almost complete. The only major player absent is Ente Nazionale Idrocarburi (ENI),[34] the petrochemical group founded at the beginning of the 1950s by the state-owned company entrepreneur, Enrico Mattei.

A "POLITICAL CAPITALISM"

In the end, the morphogenesis of Italy's industrial system does not appear to be very different from that of other advanced nations. As in the central

28 On Fiat, see V. Castronovo, *Agnelli*, UTET, Turin, 1971; P. Bairati, *Valletta*, UTET, Turin, 1983; Progetto Archivio Storico Fiat, *I primi quindici anni della Fiat*, 2 vols., Angeli, Milan, 1987; *Fiat 1915–1930. Verbali dei consigli di amministrazione*, 2 vols., Fabbri, Milan, 1991; and *Fiat 1899–1930. Storia e documenti*, Fabbri, Milan, 1991.

29 For more on Pirelli, AA. VV., *Dalla prima guerra mondiale all'autunno caldo*, Angeli, Milan, 1985, vol. 1, and P. Bolchini, *Il gruppo Pirelli-Dunlop: gli anni più lunghi*, Angeli, Milan, 1985, vol. 2; B. Bezza, "L'attività multinazionale della Pirelli," *Società e Storia*, no. 35, 1987.

30 On Olivetti, see B. Caizzi, *Camillo e Adriano Olivetti*, UTET, Turin, 1962.

31 On Ansaldo, see M. Doria, *Ansaldo. L'impresa e lo stato*, Angeli, Milan, 1989.

32 On Breda, see AA. VV., *Dalla Società italiana Ernesto Breda alla finanziaria Ernesto Breda, 1886–1986*, Pizzi, Milan, 1986.

33 On Bocconi, Rinascente e Standa, F. Amatori, *Proprietà e direzione. La Rinascente 1917–1969*, Angeli, Milan, 1989.

34 On ENI, M. Colitti, *Energia e sviluppo in Italia. La vicenda di Enrico Mattei*, De Donato, Bari, 1979, and G. Sapelli and F. Carnevali, *Uno sviluppo tra politica e strategia. ENI (1953–1985)*, Angeli, Milan, 1992.

nations of modern capitalism, there are core sectors and others which are considered peripheral, even if the latter often have more significance in Italy. What is different for Italy is the group of actors and their strategies. Given the timing of Italy's entry onto the scene of industrialization and its endowment of resources, the country appears an ideal ground for testing the theory of Alexander Gerschenkron who, in order to explain the development of latecomer countries, considers "substitutive factors" as compared with "entrepreneurs," the main characters of the classic British case.[35]

Gerschenkron's theory that "Bank" and "State" are protagonists for latecomers seems rather convincing for Italy if we can put emphasis on the role of the state. It is true that the so-called German model of the "mixed bank" was decisive between the beginning of the century and the great crisis of the 1930s in promoting and sustaining the most important industrial initiatives of the country. But it is also equally correct to state that the bank always had the economic policy of the government as its bottom line and, above all, the bank often saw its industrial initiatives rescued by the government.

The student of modern Italy's economic history who defined the Italian model as a "precocious State capitalism" was right.[36] De facto the government became the most important economic actor in the country immediately after Unification because of fiscal drag, the construction (in this way fiscal drag was utilized) of fundamental infrastructures such as railways, and the support of business through orders. In the 1880s it was the government which fostered a real infraction of the mechanisms of market economy so as to channel the country toward the industrialization process. Up to that point the Italian economy had been based on agriculture and its exports. Both were dramatically challenged during the 1880s by the flood of agricultural products from overseas made possible by the revolution in transportation. The substantial drop in the prices of agricultural products rendered obsolete a model of economic development which had been valid in Italy since the beginning of the eighteenth century. It was now possible to respond to the emerging challenge with consistent political choices intended to direct the country toward industrialization.

In this period the word "industrialization" was synonymous with the

35 A. Gerschenkron, *Economic Backwardness in Historical Perspective*, Harvard University Press, Cambridge, MA, 1962.

36 F. Bonelli, "Il capitalismo italiano. Linee generali di interpretazione," in AA. VV. *Storia d'Italia. Annali I. Dal feudalismo al capitalismo*, Einaudi, Turin, 1978, p. 1204.

word "steel" meaning that decisions had to be (1) protective tariffs in favor of cast iron and steel products; (2) convincing efforts so that national railways and shipyards would buy Italian made steel; and (3) privileges for Italian steel companies in the use of local iron ore. The government did this and something more. In 1884 it promoted the birth of an enterprise, Terni (taking its name from the town near Rome where it was located), to become Italy's largest steel producer. The government largely financed the purchase of the machinery and, as was mentioned previously, set up tariffs intended to discourage steel imports, and guaranteed orders from shipyards and railroads. The entrepreneur entrusted with the project was Vincenzo Stefano Breda (not by chance a businessman involved in major public works projects financed by the government), who envisioned an audacious plan to build up an integrated cycle steel production process, the only mass-producer of steel in Italy.

Breda, however, underestimated the technical, financial, and organizational complexity of his project. In addition, the entire affair was not lacking in speculative aspects. Thus the firm, unable to respect contracts signed with the navy for the supply of battleship armor, found itself on the brink of bankruptcy in 1887, only three years after its founding. The government, however, was committed to a policy aimed at self-sufficiency in steel production and, therefore, intervened and rescued the company. The navy paid in advance for 2,500 tons of battleship armor and the Banca Nazionale, through the distribution of new paper money, granted additional loans. This episode, not an isolated event, is critical to understanding the country as it demonstrated that in Italy a company considered strategic for the industrial national apparatus could enjoy a financial protective network.

In the decades between the beginning of the century and World War II, the government supported big business through orders. Excluding the obvious, such as the periods of the two wars, it is enough to remember that two enterprises such as Ansaldo and Breda (Ernesto Breda, not to be confused with Vincenzo Stefano, the founder of Terni) in the early years of the century owe their fortunes to the orders of the army and the nationalized railways.[37] In addition, the government created special institutions to finance the electric and chemical industries.[38] But the most typical Italian characteristic of government intervention was the use of

[37] D. Bigazzi, "Grandi imprese e concentrazioni finanziarie," in AA. VV., *Storia della società italiana. L'Italia di Giolitti*, vol. 20, Teti, Milan, 1981, pp. 102–103.

[38] Bonelli, "Il capitalismo italiano," pp. 1232, 1234.

"rescues." If in 1887 the State had arranged the rescue of a large corporation, by 1911, under the aegis of the Banca d'Italia (central bank), the entire steel sector (whose crisis risked ruining the major banks of the country) was the recipient of the same cure.[39] In 1922 it was the turn of the industrial firms controlled by a big bank, Banca Italiana di Sconto.[40] Among these firms was Ansaldo which had become with World War I the first industrial concern of the nation. A historically significant date in this long practice of rescuing can be considered June 24, 1937, when IRI (Istituto di Ricostruzione Industriale) was declared a permanent institution.

IRI was a public holding company formed four years earlier in order to free the Italian banking system from its close ties with the big industry, which threatened to sweep it away and to create economic chaos in the country. IRI had two major tasks: to grant long-term loans to the companies which had been affected by the Depression and to take over the industrial securities held by the country's three major banks (Banca Commerciale Italiana, Credito Italiano, and Banco di Roma) and eventually sell them to private buyers. It soon became apparent that it would be impossible to achieve the latter goal as there were not, in Italy, economic forces (with the exception of the government) which could not only purchase the banks' shareholdings in sectors such as steel, shipyards, and public utilities but could also finance the continual investments required by the same. Therefore, IRI had to be more than a temporary owner. It was forced, instead, to provide a unified management of a consistent segment of the national economy. On the eve of World War II, IRI controlled 80 percent of the production in shipbuilding, 45 percent in steel, 39 percent in the electrical mechanical industry, and 23 percent in the mechanical industry.[41]

But the importance of the government's economic behavior goes beyond its quantative weight. It deeply influenced entrepreneurial choices and actions. While in the Chandlerian model regarding the most advanced countries a firm grows primarily for economic reasons (i.e., to cut costs per unit), in the Italian experience we often encounter firms which grew for strategic reasons (i.e., to find themselves in a better position to bargain with the political powers). At the beginning of the century the leaders of the steel trust (which included Terni and Elba) and Max Bondi knew

[39] F. Bonelli, *La crisi del 1907*, Fondazione Einaudi, Turin, 1971, and Bigazzi, "Grandi imprese," pp. 98–99.

[40] E. Cianci, *Nascita dello Stato Imprenditore in Italia*, Mursia, Milan, 1977, pp. 43–58.

[41] Romeo, *Breve storia*, p. 135.

perfectly well that their intention of enlarging production capacity was economically irrational but they also realized that greater growth would guarantee preferable treatment from the government for their own companies.[42] Pio and Mario Perrone, leaders of Ansaldo, wanted to create (both before as well as after World War I) a giant vertically integrated enterprise that could serve the country in times of war as well as peace and which would be able "to produce and to sell the finished products of a powerful industrial nation: electric systems from telephones to streetcars and electrified railways; vehicles from automobiles to trucks and airplanes; ships of every dimension and category for the high seas."[43] Since the government was its principal customer, and Ansaldo embodied a lasting national interest, the Perrones and their technocrats considered it acceptable to make long-range plans that the state would then be obliged to protect from eventual market fluctuations.

In the 1920s Terni pursued a strategy of diversification, becoming the most important producer of electric power in central Italy and also expanding its activities into the electrochemical sector. Even then the link with the government remained essential for the company's welfare. There was a sort of negotiation: Terni would continue to sustain the burden of military steel production, even in very difficult times, but the government was forced to promise profitable conditions for the development of Terni's new activities, setting up a favorable regulation for the use of public waters and assigning to Terni an adequate position in the national chemical cartels. Montecatini had to undertake huge investments (hydroelectric plants) in the 1920s to develop the Fauser method in order to produce nitrogen fertilizers. To justify the investment, Montecatini had to have the full domain of the domestic market. Also in this case there was a *do ut des*: the fascist government issued a strong protective tariff in 1931 but at the same time, shortly after, "invited" the company to rescue numerous chemical and mining firms with consequences for Montecatini that in the new climate of the 1950s would be fatal. In the end, if American capitalism can be defined as "managerial," the British version as "personal," and German as "cooperative," it does not seem excessive to term Italian capitalism as "political."[44] Incidentally it is interesting to note that the

[42] Bigazzi, "Grandi imprese," pp. 87–98.

[43] R. Webster, "La tecnocrazia italiana e i sistemi industriali verticali: il caso dell'Ansaldo (1914–1921)," *Storia Contemporanea*, no. 2, 1978, p. 227.

[44] A. D. Chandler, Jr., with T. Hikino, *Scale and Scope: The Dynamics of Industrial Capitalism*, Harvard University Press, Cambridge, MA, 1990.

Italian interventionist government forgot some tasks that should belong to it: no form of antitrust regulation whatsoever and very little fostering of research for industry.[45]

GOVERNMENT INTERVENTION: SUCCESSES

The birth of the "state entrepreneur" was probably inevitable since Italy had to resolve a crucial point as it was the only industrialized European nation where, from the beginning of its economic development, the industrial investments far exceeded private savings power as reflected in the issuing of securities. This lag had to be filled in some way. Private capitalism was unquestionably a fundamental component of the national economy, but it also proved to be unable to bear by itself the cost of sectors considered essential for an industrial nation. Furthermore, the worldwide economic depression of the 1930s was unable to make up for the lack of private initiative with the intervention of international capital. No other alternative remained but the direct action of the government.

But if state intervention was a necessity, it was also possible to say that, especially in the period after World War II, in some circumstances there were good results. Intervention was not limited to the administration of what already existed, but it was also deeply innovative. The two most significant cases in this respect were the steel and petrochemicals sectors. In the first half of the century, steel was probably Italy's most serious industrial problem. After Terni's failure to build up its integrated cycle plant that was intended to be Italy's only mass-producer, there was a proliferation of steelworks absolutely disproportionate to the limited domestic market. The crisis of the sector, especially for Ilva, its most important player, was particularly apparent in the 1930s. At the beginning of this period in Sofindit (the holding company which oversaw the industrial shareholdings of the Banca Commerciale Italiana, the bank which controlled Ilva), there was a group of managers firmly intent on creating a modern steel industry in Italy. Their leader, Oscar Sinigaglia, conceived a plan based on three points: (1) the creation of a new, large, complete-cycle plant in Genoa able to supply the most industrialized area of the country, (2) rigorous productive specializations of all the other factories and modernization of techniques and organization, and (3) a shut down of the

[45] In this respect, see as an example, V. Zamagni, "L'industria chimica in Italia dalle origini agli anni '50," in Amatori and Bezza, *Montecatini*.

old and inefficient plants and dismissal of unnecessary personnel. Sinigaglia anticipated that the workers laid off would be absorbed by the growing machinery industry, which at that point enjoyed the supply of cheaper steel. His central idea was that a large steel sector in Italy could justify its existence only by being competitive at the international level. Sinigaglia tried to rationalize the sector in 1933 when he was named president of Ilva. But he was soon forced to resign due to a conflict with the old company's management which strongly believed in protectionism, cartels, and orders from the government. Sinigaglia's struggle was taken over by his pupil, Agostino Rocca, who in 1937 was elected chief executive officer of Finsider, IRI's steel holding company. In fact, after serious battles with the old management and with some of the private steel companies such as Falck and Fiat, Rocca was able to build a complete-cycle plant at Cornegliano near Genoa. Nevertheless, the project had some technical flaws and perished in 1943 when the German army completely dismantled the works. Sinigaglia returned at the end of the war as the president of Finsider, intent on materializing his own plan (notwithstanding strong opposition by the leftist parties and unions) which would utilize ERP funds. In 1953, the year of Sinigaglia's death, the Cornigliano plant was fully operative. Italy, which had never exceeded an output of 3 million tons of steel, reached by 1960 an annual output of 8.2 million tons, moving from ninth to the sixth position in the world. Especially important was that under Sinigaglia a cohesive, competent, agressive managerial team (which was also familiar with American industrial practices) emerged. Cornigliano's inner organization was designed by the American consultancy, Booz-Allen and Hamilton, and hundreds of workers and engineers received their training at ARMCO's plant in Middletown, Ohio.[46]

The oil problem is a more recent issue for Italy, when compared with the steel industry. In 1926 the government founded AGIP (Azienda Generale Italiana Petroli), a company intended to research, process, and sell oil. AGIP had the merit of forming a group of highly specialized technicians but business-wise it was not a great success. By the end of World War II the government decided to liquidate the company as a residue of the fascist regime. But the decision was completely overthrown by Enrico Mattei, the executive in charge of closing down the company. From the

[46] See F. Amatori, "Cicli produttivi, tecnologie, organizzazione del lavoro. La siderurgia a ciclo integrale dal piano autarchico alla creazione dell'Italsider (1937–1961)," *Ricerche Storiche*, no. 3, 1980, and the more recent G. L. Osti with R. Ranieri, *L'industria di Stato dall'ascesa al degrado*, Il Mulino, Bologna, 1993, chs. 2 and 4.

experiences Mattei had acquired prior to entering public life, he held the strong conviction that there was a need for an active role of the government in the economy. Mattei had experienced the life of the emigrant when the 1929 Depression compelled him to move from a small town in central Italy (where he had become the general manager of its largest factory, a tannery, by his early twenties) to Milan. In the Lombard metropolis he soon developed a successful chemical firm which was nevertheless affected by the difficulties (typical of other Italian companies in the field) of its supplies of raw materials, controlled by multinationals. Thus, he was attracted by the theories of economic nationalism but, at the same time, adverse to the fascist use of nationalistic concepts aimed more toward achieving a superficial grandeur than at creating consistent national prosperity. Familiarity with the progressive Lombard Catholicism formed his cultural and political ideas based on social justice, ideals that were strengthened by his struggle during the Resistance as a leader of the Christian Democrat partisans.

From these influences and experiences, Mattei drew a conception of the government undertaking broad economic action to overcome Italy's historical backwardness, that is, its inferiority in comparison with the big industrialized countries and the poor living conditions of a large segment of the population. Such an action had to be free from any bureaucratic burdens. It would utilize the most advanced techniques, the finest managerial skills, and, above all, the most talented entrepreneurs available. To this it was necessary to assure the required flexibility: the economic risks and even the aggressive lobby toward political power inevitably connected with the entrepreneurial activity were justified in Mattei's mind by the interest of the majority of the people and the consent of a wide range of political forces.

It is not feasible in the limits of this chapter to follow the complicated story of Enrico Mattei from his appointment as "commissary" at AGIP in 1945 to his death in a plane crash in 1962 at the peak of his career. I will, rather, deal with some of the crucial aspects of Mattei's strategy. After having greatly increased AGIP's capacity in mining research and distribution of natural gas in the Po Valley, following a tough political battle, Mattei obtained from the government the monopoly on these activities. Consistent with his concept of public interest, Mattei did not take advantage of this situation by raising prices but was still able to guarantee financial independence to the company. Starting from this basis, when AGIP became part of the larger holding ENI, he attempted to build up a vertically integrated oil company. ENI already owned an oil distribution network which drew its supply from American and British multinationals. Mattei looked for new suppliers and started new ventures with the producing nations for oil mining in order to overcome the initially inferior position and reach a backward integration. The limits of the Italian oil market and the political issue of increasing employment in southern Italy pushed ENI into the chemical sector. Here, starting from the basis of natural gas, Mattei attained a major success by building up a petrochemical plant in Ravenna to an adequate scale dimension which, de facto, was able to put an end to the quasi monopoly previously enjoyed by Montecatini in the field of nitrogen fertilizers. Mattei, however, was not interested in pursuing diversification beyond a certain point, recognizing that it could become a serious source of weakness for his creation. By the beginning of the 1960s the image of ENI was that of a pivotal element of the "Italian economic miracle," a company run in the best interest of the nation.

GOVERNMENT INTERVENTION: FAILURES

The positive results of government intervention cannot be denied and they form an integral part of the very successful performance of the Italian economy in the 1950s and 1960s. It is also clear that we have often seen good results which are due to the "private initiatives" of "public entrepreneurs." There was not much coordination within the system of state-owned enterprises. For example, at the end of an intense decade, Mattei's goal was to integrate within one corporation the nation's public energy policy, including electric and nuclear energy. Such an ambitious project was defeated on the one side by the opposition of leftist parties which feared an excessive concentration of power and, on the other side, by the lobby of the electric industry which fought to avoid expropriation. It is interesting to consider the fact that the latter group also included IRI's electric holding company. Discussing the Italian government's policy of intervention, the scholar Franco Bonelli rightfully talked of "capitalisms of state,"[47] while to express the same concept Giuliano Amato (a former Italian prime minister but also an excellent academic interested in relations between business and government) used the expression "liberal protectionism," meaning that government intervention in Italy's economy was hardly coordinated and harmonized in a plan of economic development for the country.[48]

[47] Bonelli, "Il capitalismo italiano," p. 1251.
[48] G. Amato, ed., *Il governo dell'industria in Italia*, Il Mulino, Bologna, 1972, pp. 15–17.

In any event, the government was not an absent shareholder. It is true that Alberto Beneduce, the economic advisor of Mussolini who designed IRI's structure, had no desire of nationalizing the entire economy but was intent on creating a system of enterprises able to survive successfully in a competitive environment. Nevertheless, there was a chain of command and the politicians were on top. After World War II, with the end of fascism, IRI was on the verge of being dismantled. But since its existence was solidly rooted in Italian economic history, it was preserved and, with the arrival of Mattei's ENI, in 1956 the Ministry of State Shareholdings was created. The ministry fully controlled public holdings such as IRI and ENI and in the following years added others including EFIM (primarily heavy machinery) and EGAM (mining). In turn, the public holdings controlled partially (but always for more than 50 percent) their sector holdings, which in turn controlled the operating companies, all of whom eventually referred to the holding's management and the ministry in the final analysis. This pyramidlike system reconfirmed the role of command of the politicians – something especially dangerous in a political system such as Italy's, in which an American-style change in the "spoil system" was impossible since the leading opposition force (the Communist Party) was permanently excluded from the government. At a point in the mid-1950s, the secretary-general of the Christian Democrats, the leading political party, even theorized the necessity for his party to glean resources from state-owned enterprises so that it could be independent from the support of private business.[49] The commands of political power – for example, a famous legislative bill in 1957 which obliged state-owned companies to set up 40 percent of their new investments in the southern part of the country – provoked the so-called "improper financial burdens" for which the parliament had to compensate with an endowment fund (i.e., government financing outside the normal channels of the financial market). In spite of the existence of this additional funding, it was very difficult for management to operate in a situation dominated by external constraints, and in the end it proved impossible to distinguish management inefficiency from objective difficulties.[50]

In this way, even what seemed a consolidated success turned into a failure. After the excellent results of the "Sinigaglia plan," the leading group of Finsider, instead of reinforcing and modernizing its existing

[49] N. Kogan, *L'Italia del dopoguerra*, Laterza, Bari, 1969, pp. 166–167.
[50] See P. Saraceno, *Il sistema delle imprese a partecipazione statale nell'esperienza italiana*, Giuffrè, Milan, 1975, pp. 58–70.

plants (which would have been the most logical choice in economic terms), chose at the beginning of the 1960s to build up a new complete cycle plant in the southern city of Taranto which would become the largest Italian steel plant. The reasoning behind the choice to expand production capacities is found in the research of political consensus, which, in its turn, is bound to an increase in employment levels. To reach this goal, Taranto expanded essentially cheap mass production, when the international situation of the steel sector in the 1970s and 1980s would have required a contraction in production capacities and the production of specialized steel characterized by high added value. In her study of the Italian steel industry between 1945 and 1990, Margherita Balconi writes of an "occult" and "superior" board of directors at Finsider composed of the representatives of political parties.[51] This "hidden" board of directors in the second half of the 1960s found a link to the management with a group led by Alberto Capanna who defeated the old group formed by Sinigaglia. The outcome was a disaster. By the mid-1970s, under the pressure of unions and political parties, Finsider even accepted the prospect of initiating construction of another complete-cycle plant in Gioia Tauro, near Reggio Calabria. Reality was stronger than politics and the plant was never finished and never produced even a pound of steel but the waste of monies was substantial. In 1988 Finsider was de facto bankrupt and IRI's steel activities had been put under the old name of Ilva. Today for the Italian steel sector there is a new key decision maker – the European Economic Community – which imposes precise limits to national production capacities.

The story of the past thirty years of ENI has many similarities with that of Finsider. Because ENI was more involved in the chemical sector and also in this field there was a disproportion between production capacities and market necessities in the 1960s, ENI decided to take control of the "sick giant" of the chemical industry, Montedison, in 1968. The government soon intervened and put a halt to the operation because the common political judgment was that in this way the balance between public and private capitalism would have been altered. It was decided to create a syndicate for the control of Montedison but a good part of ENI's shareholdings were kept out of the syndicate. In this way the rationalization of the sector was impossible. At the end of the 1970s another political

[51] Balconi, *La siderurgia italiana*, p. 17. The most important pages on this topic can be found in G. L. Osti, *L'industria di Stato*, chs. 5 and 7.

command imposed that ENI take over all the "smoking ruins" of the Italian chemical industry, the result of the failure of companies such as Societá Italiana Resine (SIR), Liquigas, and parts of Montedison itself: in their strategies of expanding plants, the behavior of these companies was quite similar to that of the steel tycoons at the beginning of the century.[52] But the government did not impose on ENI only the chemical "ruins." In 1962 ENI was forced to take over an old textile company, Lanerossi, for "social" reasons. Lanerossi was, in its turn, the leader of another group of inefficient companies. As the industry was completely unrelated to ENI's traditional interests, Mattei's creation had become more a "public holding for economic development" than a true corporation.[53]

Nowadays, the crisis "formula" of government intervention begun in the early 1930s has an element of common sense. The Ministry of State Shareholdings has been dismantled, public holdings such as EGAM and EFIM have been liquidated, a process of privatizing IRI's companies has been initiated (an example is Alfa Romeo, bought out by Fiat), and the same IRI and ENI have been transformed into common corporations eventually open to private shareholders. The government has abolished the executive committees of the boards of directors of ENI and IRI which had been filled with representatives of the various political parties. Decisions such as these have been welcomed by commentators and public opinion in general. But no one can deny that it will be difficult to find private shareholders interested in debt-ridden corporations such as IRI and ENI. It will be equally difficult, after years of a less than correct relationship between politics and management, to render the latter competitive in an unprotected market.[54]

PRIVATE BIG BUSINESS AND ITS LIMITS

It would be misleading to think that the entire system of Italian big business is strictly dependent on the government. Certainly public policy is important for any large enterprise that will always search out protective tariffs, orders, and public financing. Nevertheless, a good portion of large

[52] See G. F. Lepore Dubois and C. Sonzogno, *L'impero della chimica*, Newton Compton, Rome, 1990, and A. Marchi and R. Marchionatti, *Montedison (1966–1989)*, Angeli, Milan, 1992.

[53] F. Carnevali, "Il gruppo ENI dalle origini al 1985," in Sapelli and Carnevali, *Uno sviluppo tra politica e strategia. ENI (1953–1985)*, p. 100.

[54] See as an example the article of B. Visentini, "L'oscuro futuro degli enti di stato," *La Repubblica*, August 12, 1992, p. 1.

Table 8.4. *Distribution of the top 100 companies by industry sectors, 1966–1990 (percentage)*

	1966	1970	1975	1980	1984	1990
Trade	7	13	13	15	4	9
Foods	11	9	10	9	7	7
Chemicals, rubber, pharmaceuticals	11	12	13	10	17	15
Mechanicals, machinery, vehicles	21	13	13	13	18	18
Metals	9	8	7	10	8	7
Oil	15	14	13	12	17	15
Textiles	5	5	3	3	—	1
Electrical machinery, electronics, & similar	—	10	11	10	9	10
Others	21	16	17	18	20	18
Total	100	100	100	100	100	100

Source: Mediobanca, *Le principali società italiane*, Milan, various years.

Italian firms – and many of those large enterprises are concentrated in capital-intensive industries as is the case in many other industrialized nations (see Table 8.4) – owes its existence to the continuous engagement in the three-pronged investments in production, in the integration of production and distribution, and in the enrollment and promotion of good management. In the final analysis, this is what is behind the capacity to cope with the challenges of the market.

In this respect, the most significant case is that of Fiat, today Italy's largest private corporation (see Table 8.5). When the company was founded in 1899, it was well endowed with capital and also supported by the finest members of Turin's aristocracy and business community, but it was not superior to firms such as Itala, SPA, and Isotta Fraschini, which, like Fiat, were eager to assume supremacy in the Italian automobile industry. The key to Fiat's success was the ability of its management group and, especially, its central figure, Giovanni Agnelli, to understand the significance of the urgent necessity to integrate vertically both in range of production (from foundries to chassis manufacturing) as well as that of production with distribution and also the investment of managerial resources in technical, financial, and commercial areas. It is the higher degree of integration,

Table 8.5. *Italian big business in an international perspective (ranking of the major Italian corporations vis-à-vis the world's 200 largest corporations) (benchmark years)*

Year and companies	Sales (in US$ 000s)	Ranking
1959		
Fiat	700,800	74
Montecatini	471,513	133
Pirelli	411,200	173
1969		
Montedison	2,483,200	42
Fiat	2,280,002	50
ENI	1,616,800	92
Pirelli	1,067,100	165
Italsider	972,160	185
1979		
ENI	18,984,960	14
Fiat	18,300,000	16
Montedison	8,199,258	62
Pirelli-Dunlop	5,982,611	105
Italsider	3,743,941	187
1989		
IRI	49,077,200	11
Fiat	36,740,800	15
ENI	27,119,300	28
Ferfin[a]	12,046,900	85
Enimont[b]	11,191,500	100
Pirelli	7,541,500	170
Olivetti	6,585,800	196

[a] The holding which controlled Montedison.
[b] A joint venture between ENI and Montedison.
Source: *Fortune* magazine's listing of the corporate 200.

as compared with other companies, that explains a good deal why Fiat counted for 50 percent of the Italian auto market by the eve of World War I. But integration is especially useful in explaining the dramatic growth which Fiat had during the war when producing trucks, airplane engines, arms, and munitions moved it from the position of thirtieth to that of third in the hierarchy of Italian corporations. One of the greatest moments of Giovanni Agnelli's career, at this point Fiat's owner, was to have avoided the conglomerate dispersion phenomenon. A good part of the war's profits was reinvested in the construction of the new, most up-to-date vertical plant of Lingotto in Turin. In any case, in Italy even the most modern enterprises must face the hard reality of the poor domestic market. In 1921, if Italian GNP per capita is equal to 1, the French enjoy a 1.7, the British a 1.9, the Netherlands a 2, and the United States a full 3.6.[55] It is true that at the same time the system for selling Italian corporations' products abroad was fully operative. In 1922, 70 percent of the country's automobile production was sent abroad. But exports are always risky. When in the second part of 1926 Mussolini decided to pursue a strong deflationary policy to respond to the needs of his domestic constituency as well as those of his American creditors, Italian car exports dropped dramatically. If to monetary policy we add the consequences of the Great Depression, we can easily understand why the number of automobiles exported fell from 34,141 units in 1926 to 11,940 cars five years later.[56] In the end, for the entire period between the two world wars there is a big gap between Italy and the other advanced nations. In 1939 there were 25 million vehicles circulating on the roads in the United States, 2 million in Great Britain and just slightly less in France, 1.3 million in Germany, and less than 300,000 in Italy. In 1938 there were only 7 vehicles for every 1,000 inhabitants in Italy, while Germany was able to boast 18, France 43, Great Britain 44, and the United States a full 114 vehicles for every 1,000 inhabitants.[57] When Fiat's engineers went to study Ford's Detroit plant in 1926 they wrote home in a report that the comparison between American and Italian assembly processes is like comparing a mountain torrent with a stagnant rivulet in the plains.[58] The maximum of Fordism which Fiat could ask for is the proposal in the 1930s by managing director Vittorio Valletta recommending that Fiat workers group themselves into partnerships of four to purchase a Balilla (then the cheapest car manufactured by Fiat) to use for going to work each day and which each of the partners could enjoy for one Sunday every month![59]

[55] G. Fuà, *Lavoro e reddito*, Angeli, Milan, 1981, p. 245.
[56] F. Amatori, "Impresa e mercato. Lancia 1906–1969," in AA. VV., *Storia della Lancia. Impresa, tecnologie, mercati*, Fabbri, Milan, 1992, p. 14.
[57] Ibid., pp. 41–42.
[58] D. Bigazzi, "Gli operai della catena di montaggio: la Fiat 1922–1943," in AA. VV., *La classe operaia durante il fascismo*, Feltrinelli, Milan, 1980, p. 918.
[59] Bairati, *Valletta*, p. 69.

This is the same Italy in which the mass retailer, La Rinascente, had good success with "five and ten" shops rather than department stores and where the major chemical company's major business comes from the agricultural market. In this kind of economic environment, the ownership of large private companies does not need extended managerial hierarchies. In Italy, in fact, in the 1920s and 1930s there was a good knowledge of what happened in the United States and Germany in the organizational field at both the workshop level and that of the general organizational design of a corporation.[60] The problem was that there was not enough pressure to apply this knowledge, as the example of Montecatini demonstrates.

No one can deny that at the end of the 1930s Montecatini was the giant of the Italian economy. It had 60,000 employees, consumed one-tenth of Italian electric power, and its shares were considered equal to government bonds. But in an international comparison, all of Montecatini's weaknesses appeared. It was far behind in the production of industrial chemistry and its organizational design was rather primitive. Until 1920 the enterprise was controlled by the Donegani family of Leghorn, which had a history of maritime activities and trade. Following the previously mentioned acquisitions of 1920, the company was taken over by the large banks. Gradually, the shareholders became more and more scattered so that by the 1930s the major shareholder was IRI with 8 percent of the company's stock. But between 1910 and 1945 Montecatini's control and management was strictly in the hands of one person, Guido Donegani, so, notwithstanding the structure of the property, Montecatini can very well be defined as an "entrepreneurial company." From the mid-1920s the firm followed a strategy of diversification, starting from the production of sulfuric acid and nitrogen. The instrument to organize this kind of policy was to create subsidiary companies all closely watched by Donegani and a few personal collaborators. In the years between the two wars, there is no trace at Montecatini of an organizational debate such as that at IG Farben or ICI.[61] Only in 1962, when Montecatini was on the verge of a catastrophe, did the top management propose to adopt a multidivisional structure. This history matches perfectly with the image of a "limited suffrage" capitalism. At the end of the 1930s, Ettore Conti, a leading figure of the Italian electric industry, wrote in his journal "In this period in which we say daily that we want to go toward the people, in reality a financial oligarchy has

[60] G. Sapelli, *Organizzazione, lavoro, e innovazione industriale in Italia fra le due guerre*, Rosemberg e Sellier, Turin, 1978.
[61] Chandler, *Scale and Scope*, pp. 358–366, 564–584.

been formed which resembles in the industrial field the old feudalism. The production is greatly controlled by a few groups who in turn are controlled by a single man. Agnelli, Cini, Volpi, Pirelli, Donegani, Falck, and a few others literally dominate the various branches of industry."[62]

A NEGATIVE PORTRAIT AT THE END OF THE 1960S

The idea that a company is a personal or family domain seems to materialize as a persistent culture. It survives even when the evolution of the socioeconomic environment puts an end to the constraints to growth caused by scarcity. Family enterprise appears to be dominant in a systematic research undertaken by the American scholar Robert J. Pavan on the 100 major Italian firms (by sales revenue) between 1950 and 1970.[63] Pavan observes that for the entire period consistently almost half of these companies were family-controlled (forty-eight in 1950, forty-nine ten years later, and forty-four in 1970). Their dimensions are various and, at the time, rather different: there is a spectrum that goes in 1970 from Martini and Rossi, a family business ranked last in the hierarchy of 100, to the second-place Fiat, which is also a family concern. Pavan finds a clear correlation between family control, scarce diversification, limited expansion abroad, and a kind of fear of multidivisional structures. "These companies" he writes "have seldom adopted multidivisional structures even if they are the first to experience it. This is the proof that family control and divisional structures do not exclude each other but rather that a delay in the introduction of this kind of organizational design can be attributed to ignorance, fear of losing control or privacy, or to weak external pressure to act according to economic principles. Families have always been helped in taking care of their priorities by managers and divisionalization is nothing more than the use of managers engaged in complex problems that exceed the knowledge and the capacities of the family."[64] A corollary to this quotation is the rarity of advanced systems of planning and control and the nonexistence of a system of rewards and penalties for managers related to performance. But clearly in Pavan's book the dominance of familism creates a national climate. Montedison in 1970 is the number one Italian corporation and its control appears to be managerial. In addition, it is essentially a diversified chemical firm. Still, at the top control is in

[62] Quoted from Romeo, *Breve storia*, p. 152.
[63] R. Pavan, *Strutture e strategie delle imprese italiane*, Il Mulino, Bologna, 1976.
[64] Ibid., p. 100.

the hands of a few – a president assisted by a secretary-general and by "services" for the functions of finance, sales, and production. Pavan does not seem to be very surprised by this organizational structure in the most important Italian firm. In fact, Montedison is the merger of two companies, Montecatini and Edison, that, according to Pavan, combines the worse of certain elements. In fact the two merge into a new corporation that is structured as a holding company with a small headquarters staff which leads the complex by guidelines that combine the worse aspects of an autonomy at the peripheral stage, similar to anarchy, with autocratic decisions by the central layers, taken without adequate knowledge of the problems.

FAMILY VERSUS MANAGEMENT

The negative influence of the "families" outlined in Pavan's portrait seems confirmed by an examination of four important cases.

1. The story of La Rinascente can be in large part identified with that of two families – Brustio and Borletti. The two were relatives but also had two distinct roles in the company, the first representing management (and in control of a small amount of the shares) and the second acting as owners. In forty years (1920–1960) of management the Brustio family created one of the best managerial groups in the world in the retailing industry, as was recognized by a 1967 report of the American consulting firm, Cresap, McCormick and Paget. The relationship between the Brustios and the Borlettis was good during the first generation when ownership guaranteed freedom and safety for the management. The troubles started with the second generation when Borletti, in addition to being president of the firm, wanted to be part of the management without having the necessary skills. In this way La Rinascente, which up to that point had been by far the leading company of mass retailing in Italy, lost its supremacy in the field. The struggle between management and ownerships became uncontrollable up to the point that the company, weakened by internal fighting, was taken over in 1969 by IFI, the financial holdings of the Agnelli family. IFI gave control to a new CEO with no experience in retailing. The result was that in 1975 the company suffered a loss as had never before been experienced, and the situation improved only when a management team formed during the Brustio years was brought back to manage the company.

2. At the end of the 1950s, Olivetti was at the peak of its success. Predominance in the Italian market of office machinery was absolute but the company was also very effective on the international scene; in 1959, it bought out the old, prestigious American firm, Underwood. Also noticeable was the fact that in those years Olivetti created an electronic division with a very advanced laboratory for research connected with the University of Pisa, and started a joint venture with the Italian corporation Telettra and with the American Fairchild Semiconductor to produce semiconductors.

All of Olivetti's problems arose with the death of its leader, Adriano Olivetti. He had been an extraordinary entrepreneur, as talented in business as he was sensible to the problems of the relationship between the company and the surrounding social environment. Adriano's only fault was his centralized style of leadership. With his death harsh fighting started within the Olivetti family, as it tried to find a new leader but with no results. This happened when the competitive environment, especially in electronics with the presence of IBM, had become very tough. Olivetti was in serious financial problems in 1964 when it was taken over by a group of banks and industrial companies, among which was Fiat. The new leadership immediately decided to liquidate the electronic division, selling it to General Electric. In this case the government did not intervene to rescue a precious investment.[65] Olivetti went back into electronics in the 1970s but in very different conditions, which compelled it to start partnerships with American giants such as AT&T and Digital. Claudio Ciborra, who has studied the first of these agreements, rightly defines it as reflecting "asymmetric affinities."[66]

3. At the end of the 1970s, in the middle of the crisis of state shareholdings, ENI retreated from Montedison, which was subsequently taken over by a financial block, Gemina, controlled by some of the finest names of the Italian capitalist establishment, including Agnelli, Pirelli, Orlando, and Bonomi. This group handed over leadership of the company to an experienced manager, Mario Schimberni, who worked out a strategy to make Montedison finally into a profitable company, namely, by abandoning mass production and specializing in fine chemicals and pharmaceuticals. To get the necessary financial resources, Schimberni, who was surrounded by a competent and aggressive cohort of managers, took over a holding company, BI-Invest, and an insurance company, Fondiaria, respectively controlled by two members of the new "ownership" of Gemina

[65] See L. Soria, *Informatica: un'occasione perduta*, Einaudi, Turin, 1979.
[66] C. Ciborra, *Le affinità asimmetriche*, Angeli, Milan, 1986.

– Carlo Bonomi and the powerful Mediobanca, an investment bank. These actions put Schimberni in sharp conflict with Gemina, which eventually withdrew from Montedison. Schimberni wanted to make Montedison a public company. De facto, Montedison was taken over in 1986 by the Ferruzzi family, which had accumulated an outstanding fortune in the trade of grain. Schimberni went straight on his way to forming a public company and in 1987 proposed a substantial increase of capital that the American investment bank, Wertheim Schroeder, agreed to finance. But the Ferruzzis, aware of the strength of their majority shares, opposed this operation and Schimberni was dismissed. His industrial strategy was continued even if new struggles with ENI and fighting within the Ferruzzi family made its full success uncertain. Perhaps the most glamorous episode of the battles between the Montedison controlled by the Ferruzzi family and ENI is illustrated in the 1988 creation of a joint venture between the two – ENIMONT. Its stated goal was to rationalize the basic productions of the Italian chemical industry but it soon became apparent that the Ferruzzis' intentions were strictly speculative and the joint venture broke up two years later.[67]

4. Even at Fiat, notwithstanding the long industrial experience of the Agnelli family, everything has proceeded less than smoothly. After the death of the senior Giovanni Agnelli in 1945, and with his grandson Gianni too young at the time (Giovanni's son, and Gianni's father, Edoardo, had died ten years earlier), control of the firm was handed over to longtime collaborator Vittorio Valletta. This great manager, governing Fiat as a vicar of the "family," brought the company to a level of success never previously attained (it is with Valletta that the lag between the number of automobiles in Italy and that in other countries disappeared). At the beginning of the 1970s – Valletta had retired in 1966 – the old management knew a phase of stagnation that, coupled with the difficult times created by the oil shock, put Fiat into a crisis. To revitalize the company, in 1976 the Agnellis (Gianni and his brother Umberto), now full leaders, nominated a young, combative manager by the name of Carlo De Benedetti for the position of chief executive. De Benedetti lasted only 100 days as he soon started fighting with the family regarding Fiat's strategy. The Agnellis believed that the automobile was a mature product to be progressively abandoned while De Benedetti held the opposite view and asked for massive new investments in the corporation's core sector. In fact, the

[67] M. Borsa with L. De Biase, *Capitani di sventura*, Mondadori, Milan, 1992, pp. 137–145, 151–161.

following years confirmed De Benedetti's ideas and under the able guidance of two managers, Cesare Romiti and Vittorio Ghidella, Fiat found itself in the 1980s fighting for first position in the European market against Volkswagen. Once again, however, in 1988 the head of Fiat Auto (the core company of the group), Vittorio Ghidella, was forced to leave the company for advancing a conflicting strategy, a situation that greatly resembled that experienced by De Benedetti more than a decade earlier. In the mid-1980s Ghidella supported the idea of merging Fiat and Ford Europe to create a very competitive giant, which would also have effectively weakened the Agnelli family's ownership position.[68]

CONCLUSIONS

Looking back at Italian economic development in the past century, we can say that it would probably have been impossible for Italy to acquire a modern industrial apparatus without a strong government intervention. But Italy is not the only nation where government, in order to overcome an initial backwardness, is very active. There is clearly a Far East–Asiatic model of public intervention (as shown with Japan and South Korea) where the government does not own businesses but, instead, compels the enterprises which it supports to be competitive on a global basis. In Italy the state wanted to be owner and so ended up pursuing a kind of "command economy" which more closely resembled that of socialist Eastern Europe or Franco's Spain. It is very important to note that the most significant decisions on public intervention in the economy (during the entire course of the period considered) were undertaken at the *maximum* political level: by Giovanni Giolitti at the beginning of the century, by Benito Mussolini in the interwar years, and by the leaders of the Christian Democratic party in the 1950s. But there is a difference between the years preceding 1950 and those which followed. In the first part of the century, these decisions were implemented by professional civil servants and experienced managers, while after World War II the presure of politicians on management was much stronger. The goal of obtaining political consensus clearly prevailed on the market result.

Government action of course affected that of private big business. For instance, in the 1980s when a policy of "privatization" of state-owned enterprises was begun, the policy materialized more on the basis of the

[68] G. Turani, "Gli immortali di Torino," *Uomini e Business*, May 1989.

weight of the various lobbies (or according to political – i.e., discretionary – criteria) than according to the objective interests of the national industrial apparatus. Much more influential on private big business was the enormous expansion of public debt in order to finance the welfare system and a disproportionate public administration, from the second half of the 1970s onwards. Interest rates on government bonds and securities were so high as to discourage a diffuse investment in industrial securities and hence the full coming of a modern public company. It is true that the government tried to balance this heavy disadvantage for firms with orders, tax breaks, and social "shock absorbers" (the "cassa integrazione" unemployment program), but all these are old tools that often favored inefficiency and corruption. Government was not too concerned in creating the legal framework where modern business could develop and prosper. Only very recently has there been the creation of an antitrust authority, the signing of a bill outlawing insider trading, and moves toward the creation of industrial investments favored by mutual and pension funds.

All this (in addition to a national culture which at every level privileges familism rather than universalistic relationships) favored the permanence of a "limited suffrage" form of capitalism. To explain the end of the 1980s, we can paraphrase Ettore Conti's earlier quoted remark by adding the names of De Benedetti (who now controls Olivetti), Gardini (leader of the Ferruzzi Group), and Berlusconi (a tycoon in the broadcasting industry) to those of Agnelli and Pirelli.

The evolution of the banking system after the 1936 bill which inhibited banks from owning industrial shares certainly did not contribute to reducing the power of the "families." It has been impossible in Italy to have a strong investor similar to the German model, while the high level of debt made possible by bank loans facilitated the control by very few hands of the major Italian private corporations. In 1946 the state created a merchant bank, Mediobanca, to support the rebirth of industry. But its aged and prestigious leader, Enrico Cuccia, strongly believed in the role of families, thinking that only those who own can stay adequately on top of management. In favor of the families, Cuccia tended to "freeze" large quotas of a company's shares and organized syndicates of control.[69]

[69] See Colajanni, *Il Capitalismo senza capitale*, and F. Tamburini, *Un siciliano a Milano*, Longanesi, Milan, 1992.

The importance of family control in large Italian firms has recently been reaffirmed in research promoted by the Bank of Italy. See F. Barca et al., *Assetti proprietari e mercato delle imprese*, vols. 1–3, Mulino, Bologna, 1994.