WHEN THE FAMILY IS STRONG, WHEN THE FAMILY IS WEAK: A CRITICAL EVALUATION OF A CENTURY OF ITALIAN CAPITALISM

Andrea Colli, Bocconi University, Milan

Background: issues and framework

From an historian’s point of view, family firms are one intriguing topic. Far from being pure study and contemplation of the “past”, history as a cognitive discipline is concerned with continuity and change. Economic and social historians deal in general with continuity and change in society, in habits and institutions, in culture and behaviour, in economics at a macro level. In a micro perspective, at the single firm’s level, the business historian is as well concerned in continuity and change in the strategies, ownership structures and organizational forms, trying to link them in a more complex framework aimed at understanding the outcome of these dynamics in terms of performances. In their turn, performances (whichever their measure is – e.g. income, growth, survival) are the link between the micro and the macro level, i.e. between the level of the firm and that of the “wealth of the Nation”.

For these reasons, family firms represent one really interesting topic for historical research. As a form of ownership and management they show an outstanding degree of continuity and pervasiveness across space and time, and have represented, from the first wave of industrialization in the Western World, the most common and diffused form of ownership and management both in manufacturing and services. During the first stages of the industrialization process, given the firms’ dimension, their technological, financial, and managerial needs and the uncertain institutional environment, the family firm proved to be the most efficient way in which was possible for individual ventures to enlarge their dimensions and scale of activity. As the available (however, not overwhelming) comparative research shows quite clearly (Colli and Rose 2003; Colli, Perez and Rose 2003; Dritsas and Gourvish 1997), the dynamics of the family firm as the best growth-driving organizational device were more or less the same across the countries approaching the process of industrialization. More intriguing is, in this respect, the presence and diffusion of family firms in the industries transformed by the technological imperatives of the Second industrial revolution. The rise of capital intensive large firms and the progressive separation between ownership and control was not a general phenomenon, at least not as predicted by the dominant theory of the firm. The family firm persisted – even if transformed in many of its internal structures – in almost all the capital intensive industries and, to a different extent, in all the countries involved in the process of economic growth during the Twentieth century. As current research (in the fields of business history (Colli and Rose 2003), managerial disciplines (Whittington and Mayer 2000), and corporate governance and ownership studies (La Porta et al., 1998; Barontini and Caprio 2005)) shows, the family controlled and managed firm has been one of the most diffused ownership forms among the largest corporations of the advanced economies still well after the Second World War (Cassis 1997). This persistence was generally accompanied by not negligible performances in terms of survival and returns to such an extent that some studies contest the existence of a relationship between ownership structure and performances.
Another intriguing element for the historian is the variety of models of family firm in different contexts. In other words, the huge differentiation among ownership structures, and organizational settings characterising the family businesses around the World is the outcome of an unique mix of social, institutional and cultural factors which shape through a mainly historical process the environment in which the family firms operate. From an evolutionary point of view the nature, structure, diffusion and survival perspectives of the family firm are a function of its adaptation to the context surrounding it. The different patterns of adaptation explain as well the different characteristics in terms of organization, ownership and performances of the family business models across different countries, while the failure in this adaptation process explains – alongside more “internal” elements as succession patterns or the decline of entrepreneurial spirit which are in general common to different periods and places – the fall or at least the difficulties of many maybe well established family businesses.

Continuity in diffusion and persistence, differentiation and adaptation are three dynamic concepts which has to be placed in an articulated framework as well. The framework I suggest (Colli 2003) to interpret the evolution and adaptation patterns is multidimensional: the degree of continuity and the differentiation among family firms in different contexts are a function of the stage in the process of industrialization and of the legal/institutional framework. The nature and structure of the financial system plays an important role, while the dominant specialization of the national economic system (defined as the more dynamic industries in terms of income, value added, employment and exports) is relevant as well. Another not secondary element, at least as far as the largest family firms are considered, is the nature, strength and direction of the relationships with the political power. In general, the educational and training systems are important in explaining diffusion and also persistence, even if, especially in historical perspective, very few evidence is available in this respect. All these elements exert an important influence on the nature, structure, persistence and pervasiveness of family firms inside a national system; last, but not least it has to be mentioned culture (intended as a system of shared values), but separately, since it does not affect simply the degree of social acceptation of the family firm as a form of organization of the economic activity but also shapes many of the aforementioned variables – e.g. the legal and institutional framework, the educational system, the financial system and the embeddedness of family firms with the political power.

The available research does not provide a unique interpretative model for the diffusion of the family firm across space and also time. On the contrary, it is frequently stressed the difficulty to provide a clear and comprehensive profile of this so diffused and relevant form of ownership, control, organization of the firm. More chances would come from the formulation of a dynamic model in which the different variables are put into an historical/comparative framework. In the following paragraphs I will try to find out an acceptable interpretative framework through the analysis of the Italian case.

**Family Business: the Italian Story**

The Italian economic history is beyond any doubt a privileged point of view for the analysis of the contribution given by family capitalism to the development of a latecomer country. In this case, the context (as detailed above) has a considerable influence over the nature of the family firm (especially of
the largest ones), and upon their strengths and weaknesses. Last but not least, the Italian case exemplifies quite well the relationship between the pervasiveness of a certain kind of ownership structure among the largest firms and the dynamic efficiency of a national economy and its competitive capabilities.

**Facts and figures**

According to the data published by the Family Firm Institute ([www.ffi.org](http://www.ffi.org)) on its website, Italy is today one of the countries in which highest is the diffusion of family firms. Crude estimates place the ratio of family firms on the total of registered firms well above the 90%. Such pervasiveness is obviously natural in a country in which in 2003, according to the data provided by the National Census Organization (Istat – [www.istat.it](http://www.istat.it)), the registered firms in manufacturing and services were 4.16 millions with an average dimension of 3.8 employees. Among them, those with less than 50 employees were the 99.5% of the total, employing nearly the 55% of the country's total workforce (the EU-15 average is 34.5%) and producing one third of the total of the manufacturing sector production. The number of the large (by European standards, i.e. with more 250 employees) firms is on the contrary extremely reduced, slightly more than 3,100. Among them, 791 count more than 500 employees, and 548 more than 1000, even if the latter category contributes for nearly the 20% to the total employment (in any case the lowest among the EU-15, except Portugal). More interesting is the fact that the family firm is the dominant form among the largest corporations as well. An analysis of the data provided by Mediobanca, a well respected Italian merchant bank with a long-standing tradition of reliable research, shows that at the eve of the new millennium the dominant ownership form among the top Italian corporations was the family-controlled firm.

**Table 1. Ownership structure among the Italian top 50 corporations, selected years***

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual/family**</td>
<td>83.73</td>
<td>83.34</td>
<td>79.60</td>
<td>81.64</td>
</tr>
<tr>
<td>State</td>
<td>11.63</td>
<td>12.50</td>
<td>10.20</td>
<td>12.24</td>
</tr>
<tr>
<td>Bank/insurance</td>
<td>2.32</td>
<td>0</td>
<td>2.04</td>
<td>4.08</td>
</tr>
<tr>
<td>Other</td>
<td>2.32</td>
<td>4.16</td>
<td>8.16</td>
<td>2.04</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Mediobanca, *Le principali società italiane*, selected years; R&S-Mediobanca, *Annuario*, selected years; Mediobanca, *Il Calepino dell’Azionista*, selected years

(*) In the sample FDIs in Italy are not considered.

(**) Family corporations are those in which one single or a few families, linked by kinship-ties, as well as pacts and alliances control a share of the capital enough to censure them the control of the firm, undertaking the most relevant strategic decisions (Corbetta 1995)
The data available vary according to the universe considered and to the research and data analysis methodology. In 2004, according to the same source, the 38% of the top 50 manufacturing corporations (multinationals included) were family controlled, while taking into consideration only the top 50 Italian corporations this percentage scrambled up to around the 60%. A recent comparative research by Roberto Barontini and Lorenzo Caprio (Barontini and Caprio 2005: Table II), puts the 77% of the total capital of the Italian publicly traded corporations under family control (the highest in their European sample), a data which, if crossed with the findings of other research about the ownership patterns in the country (Bianchi, Bianco and Enriques 2001, Bianchi et al 2005), confirms a widespread family control exerted through relevant ownership stakes carrying high voting blocks, often belonging to pyramidal chains of control. Whichever the devices used to separate cash-flow and control rights (common to many advanced industrialized economies – Barca and Becht 2001), these data confirm in the end the pervasiveness of family control also among the country’s largest corporations and in capital intensive industries as well.

The specificity of the Italian case emerges clearly, however, when it is compared with other industrialized countries. The pervasiveness of the family firm and its relevance as a form of ownership when the top corporations are taken into account is considerably higher in Italy than in many other industrialized countries, as confirmed by recent comparative research (Barca and Becht 2001, Faccio and Lang 2007: Table 3). If a larger universe is considered, things do not change too much. According to Bianchi et al. (1998) in a sample of 1,000 manufacturing firms the largest immediate shareholder held, on average, a direct stake of 67.69 percent. Individuals/families held 48 percent of equity, non-financial firms 36.9, the State 4.6, financial firms 0.17, and foreign investors 8.

Contingence...

A puzzling question to answer is: where does this situation come from? An answer is possible putting emphasis on contingent explanations. During the Nineties, in fact, an aggressive privatization process meant for some private, family run groups a considerable chance for growth. For instance the well-known Benetton family succeeded in 1995 in acquiring control of two formerly State-controlled food and retailing distribution chains (Generale Supermercati and Autogrill) and at the beginning of 2000 that of Società Autostrade (the whole network of the national motorways). Another wealthy tycoon in steel, Emilio Riva, bought in 1995 through a private deal from the State Ilva, one of the largest State-owned groups in the steel sector merging it into his Riva Group. The Rocca family got in 1996 control of Dalmine (steel) through their Techint (now Tenaris) group. The Agnelli extended their influence on the Telecom Italia group when it was privatized in 1998, and before selling their control stake to the raider Roberto Colaninno and then to Marco Tronchetti Provera, already controlling the Pirelli group. The result has been a progressive reduction in the State presence as a relevant owner and the growth of the private (national and foreign) ownership of the largest groups, even if the empirical research supporting this analysis is surprisingly low. Many middle-size enterprises were able to take over bits of State-controlled huge groups as well, or took benefit from the crisis and fall of private but no more State-supported large conglomerates as happened to Montedison in the chemical sector. In this case,
for instance, Mapei (one fast growing, middle-size but very aggressive and internationalised specialised firm in adhesives and glues) bought Vinavil (the Montedison branch in glues) while the Orlandi family controlled textile group took over Montefibre (Montedison’s textile division).

Another contingent explanation for the growing influence of the family firm among the top Italian firms could be tracked in the strategic and competitive behaviour of some of these corporations. Following the increasing globalization of markets, many once mainly inward-oriented groups started from the beginning of the Nineties to enlarge their dimensions through a process of internationalization, pursued through exports and also foreign direct investments. These dynamics involved mainly family-controlled groups, sometimes in coincidence with a successfully managed generational transition. Among the largest groups this had been one relevant strategy of growth followed by the Benetton family, the Barilla Group, by Luxottica (del Vecchio family), by Buzzi Unicem (cement), by Ferrero (food) and others, but above all by a crowd of once small, and now medium-size specialized producers active on world-size production niches (see paragraph). The nature of these firms, their specialization and organizational structure is consistent with a model of ownership based upon an active role of the founder and of his family which has not been changing during the recent, sometimes very fast phase of growth.

...Or structure?

As often happens, even in front of a phenomenon which is so relevant and diffused, the quantitative evidence is relatively scarce, especially in an historical perspective. A few studies, even if reliable and accurate, go beyond a qualitative appraisal of the importance of the family firm in the process of Italian economic modernization. The reason is, obviously, of data availability. Only recently, i.e. during the Nineties, under the pressure of European directives, it has become possible to obtain reliable information upon the ultimate ownership stakes in large listed companies. Similar data were before almost impossible to obtain on a large scale, even if some financial yearbooks randomly reported details about ultimate ownership. On the other side, and for obvious reasons, accurate details are available for the largest corporations, generally for those listed, while much less information can be found for middle-size companies, or also for the large but not publicly traded ones. The data are even more rare, raw and discontinuous also for the largest groups moving away from the present to the past, and the diffused attitude towards the use of devices aimed at separating ownership from control rights (e.g. pyramids and cross-shareholdings) contributes in making things more confused.

As said above, our knowledge of the relevance of the family control among the largest corporations in the country has largely improved during the last fifteen years. Some weeks ago (Fall 2005) has been published a small book summarizing the results of a research undertaken by the Bank of Italy about ownership and control of the Italian firms (Bianchi et al 2005). The results of the research are more valuable if compared with an analogous research by the same Bank of Italy published ten years before (Barca 1994, voll. 1 and 2), and examine the ownership structures of listed and unlisted companies. As far as the largest, listed companies during the last 15 years a progressive transformation of the ownership structures seems to be under way, thanks above all to the privatization
process which progressively eliminated the State ownership re-allocating the control of the largest
groups among a small number of large investors (institutional but also private) exerting their control
through formal and informal agreements. This has meant however a progressive reduction in the
relevance of *direct* ultimate family control of the main corporations as well as in the use of pyramidal
structures, not its disappearance. In any case, in an international perspective, the weight of
individuals/families in the ultimate ownership of listed companies is the highest among the other most
industrialized European countries (26.6% of the total of ownership rights in 2003). According to the
same research, as far as the non listed, medium sized companies, things go quite differently. The
available data, referred to a sample of 500 medium-size, not listed companies confirm beyond any
doubt the relevance of family control, exerted also through the instrument of the group. In 2003 nearly
the 58% of the companies in the sample were under family control, direct or indirect (Bianchi et al.
research on the control of the European companies which basically confirmed the highly-concentrated
control of the Italian companies, in which the largest shareholder – in general a family or an individual -
is a able to exert a *de facto* control with an average stake of 65% for non listed companies and 45% for
listed ones (Barca and Becht 2001; Bianco 2003). Other research, both qualitative and quantitative,
during the Nineties had already stressed the persistence of concentration of control among the largest
corporations (Barca 1994). Also before, on the basis of data collected during the Eighties, other
research analysing the diffusion of pyramidal groups among the top national corporation labelled the
Italian one as “oligarchic family capitalism” (Brioschi, Buzzacchi, Colombo 1990). Ten years before,
during the Seventies, one of the main “deviations” from the US model of the large enterprise was,
according to the Harvard scholar Robert J. Pavan who undertook an extensive research on strategies
and structures of the Italian large enterprises, exactly their ownership structure. Examining the
ownership structure of the largest firms between 1950 and 1970 in order to assess its influence on the
adoption of diversification strategies, Pavan discovered an overwhelming and enduring presence of the
family control among the largest Italian corporations: in 1950 the family firms were 48 among the top-
hundred Italian corporations, 49 in 1960 and 44 in 1970. Pavan had very few evidence at his hands.
The sole, extensive study available after WWII on Italian corporations (Radar 1948) privileged the
analysis of monopolistic or oligopolistic aspects and of the level of ownership concentration more than a
systematic examination of the nature of ownership. In any case, from the qualitative evidence available
it emerges quite clearly the high degree of concentration of ownership and control in Italian largest
corporations immediately after the Second World War, a situation which was obviously inherited from
the interwar period.

This scarcity of evidence is reflected in the available research on the history of corporate
ownership in Italy, which is highly non-homogeneous and mainly of qualitative nature. An effort in this
direction was made some years ago by Franco Amatori and Francesco Brioschi (Amatori and Brioschi
1997) who examined the economic and institutional framework in which it was possible for founding
families to keep the control of large groups with a relatively small financial direct involvement, through
devices aimed at separating ownership from control like pyramids and dual-class shares. More recently,
an article by Aganin and Volpin (Aganin and Volpin 2004), based upon an extensive database, provides
a more accurate quantitative measurement of the pervasiveness of family ownership and control among the corporations listed at the Milan Stock Exchange. According to them, control exerted by families (directly or through pyramidal structures) shows a non-monotonic trend, increasing during the first half of the century, reaching a peak during the Eighties, then decreasing again from the Nineties onwards. Some other data, referred to the main Italian industrial groups from 1975 to 1988 confirm this persistence, stressing the continuity in family control over time (Coltorti 1988).

Explaining the persistence.

The enduring presence of family control among the Italian largest corporations, as well as the diffusion of this kind of ownership structure at every dimensional level and across different industries is a structural distinguish feature of the Italian capitalism, persisting well after the initial stages of the industrialization process and adapting itself to the evolution in the external environment. The questions emerging from this particular situation concern basically the reasons at the origin of the persistence of this ownership form and the extent to which Italy is really divergent from the experience of other industrialized countries. As far as the first question is concerned, organizational and corporate governance theorists would explain this particular situation referring to the institutional settings characterizing the Italian financial market (i.e., low investor protection). This is for instance the point stressed by Aganin and Volpin in the above mentioned paper. Following the stream of thought (La Porta et al. 1998) which tends to connect the prevailing ownership structure and the degree of legal protection of minority shareholders and to the efficiency of the legal/institutional system in this perspective, the two authors blame “the absence of regulatory intervention and the abundance of government corruption” (Aganin and Volpin 2004: 26-7) which “preserved the right conditions for family capitalism over time”. A low degree of legal protection for minority shareholders, a low degree of transparency required in the financial market, the absence of regulation and enforcement allowed controlling shareholders to “enjoy large private benefits of control from generation to generation”. Barca, Iwai, Pagano and Trento (1998), in an intriguing paper comparing postwar Italy to Japan, show that a “shocking” change in the institutional setting should have a radical effect on the main corporations’ ownership structures, as happened in Japan, while in absence of legal and institutional changes the previously existing ownership structures tend to persist, as happened in Italy.

Notwithstanding the fact that the institutional determinants are surely a significant part of the overall explanation of the persistence of family capitalism, the historian would take a more articulated and complex perspective. A closer look to the country’s economic and business history would help to refine our understanding of the determinants of family firm persistence in Italy, providing also a general framework useful to evaluate the potential of family firms inside a developed economy.

In this perspective, the rate of diffusion, the persistence and performances (in terms of survival and/or returns) of family firms are the outcome of several elements which, singularly and collectively, contribute to shape the environment in which family firms operate. Probably, a single one of them is not enough to explain the pervasiveness of the family ownership inside a certain system. It is the combination of two or more of these elements which create the adequate environment in which the
family firms could prosper at each dimensional level and in different sectors. The following paragraphs will describe in depth the nature of these factors and their contribution to shape the structure of the family firms in Italy.

**Nature and structure of the financial system**

The nature and structure of the financial system has a great influence on family firm diffusion. When small and medium size enterprises are considered, a locally-based financial system is consistent with an ownership structure based upon the family. On a local basis, in fact, the reputation of the individual and much more of the family is an essential factor determining the banks’ decisions about the financing of the firm. In general, local banks give short-term loans on the basis of real guarantees, among which the family members’ individual income are a relevant part. Indeed, inside a local system the identification of the family with the firm has relevant effects on the patterns of financing and loans strategies of the banks, which are quite often based upon the personal knowledge of the entrepreneur and of the members of the family involved in the business itself. The family acts in this way as a device for reducing uncertainty and transaction costs, lowering the cost of credit for the firm itself, since, very often, the guarantees required by the banks (especially during the start-up phase) coincide with the personal belongings of the entrepreneur and of his family. The high fragmentation characterising the Italian financial system and the historical diffusion of locally-based banks contributes to emphasize the relevance of family ties and reputation in credit provision. A high amount of anecdotal evidence is available in this respect; a significant, non isolated example is provided by the story of the Luigi Fontana Group, today the largest Italian manufacturer of bolts and screws with a total turnover of about 600 billion dollars. The group was founded by Luigi Fontana, a blacksmith setting up a small workshop during the interwar period in the Brianza, not far from Lake Como. After WWII, when he asked for a bank loan to enlarge his activity, the local bank director conceded the loan on the basis of the fact that Luigi’s sons, Loris and Walter, were already engaged in the business and “were widely known as good guys full of enthusiasm for their work” (Colli and Merlo 2006). The relationship between a family’s reputation and patrimony and the entrepreneurial activity was close in the rural areas, where an high number of local production systems and industrial districts are deeply-rooted, and where many entrepreneurs have their origins among the local class of small landowners. The involvement of all the family members in the manufacturing activity was in this way one of the main conditions to obtain the support of local financial institutions. At this very local level, and when small and medium size firms are considered, the further financial needs are in general covered through self-financing, ploughed-back profits and retained earnings, all financing conditions which become possible in the presence of a close identification between the family and the firm itself. It has to be remembered – but we will come back later on this point when the cultural influences will be discussed – that the choice between self-financing and debt is only partially rational and can depend of other motivations and logics than the simple interest ratio.

The family as a way to reduce information and transaction costs plays a role also when the large firms are considered. In this case, another feature of the Italian banking and financial system as a
whole plays a relevant role. First of all, the way in which the Italian large firms historically financed their growth in capital intensive industries, both internal and external, was through ploughed-back profits and retained earnings. This self-financing potential was the consequence of many reasons, among which the high profitability of national (highly protected) markets and of the impressive rate of expansion of the economy in some crucial periods: the 20 years preceding the First World War (as well as the wartime accumulation) and the two decades following the second. In addition to this and to foster the industrialization process in strategic industries, the State (acting as a true Gerschenkronian “substitutive factor”) heavily sponsored private big business through a vast array of instruments among which orders and protective tariffs (Amatori 1997). Whichever the goals and the means adopted to reach them, one relevant consequence of this developmental policy was that the large groups manifested a reduced (for very long periods) need for external finance for their expansion strategies, which were in any case, as said, developed mainly on a national basis and avoiding the challenge of international competition.

Emblematic in this respect is the case of the largest Italian automotive group, Fiat, owned by the Agnelli family. Founded in 1899, quickly Fiat enlarged its dimensions. During the first World War, thanks to a policy of internal and external growth it jumped from the 30st to the 3rd place in the ranking of the country’s largest companies. Basically this expansion was pursued through retained earnings and with a low recourse to the capital market. During the interwar period, Fiat gained a nearly-monopolistic position on the national market thanks to the protection obtained by the Fascist government, while during the Fifties and the Sixties was an outstanding growth of the internal demand which allowed the group to recur only seldom to debt for its financing needs. Fiat experienced serious financial difficulties during the (generalized) crisis of the Seventies, while during the Eighties was able to collect relevant resources on the stock exchange listing some of the group’s most profitable divisions.

When however the need for additional resources compelled the Italian corporations to search for external finance, the main actor was, in this respect and up to the early Thirties, the universal bank shaped on the German model. This meant, during the early phases of development of the country’s capital intensive industries, a prevalence of the bank-based model of corporate financing (Amatori and Colli 2000). Universal banks provided a complete range of financial services to the firms, and, especially after the first World War increasingly associated the role of the lender to that of shareholder. Immediately before WWI, and above all after, the banks played the role of significant blockholders in the largest groups of the country together with the founding families, sometimes explicitly contrasting the overwhelming power of the family members. When the financial or technical imperatives pushed towards a steady growth of the companies – as happened in the case of the electric industry – the banks retained their role of blockholders and relevant stakeholders, able to control the company’s management, while the founding families progressively reduced their influence. What happened in most of the cases and in other industries, however, was that families continued to express the top management thanks to the banks’ support and control as relevant blockholders. The status of our knowledge about this issue is still relatively impressionistic; for instance there is no complete information about the main banks distribution of ownership stakes among the largest companies. From the existing evidence (Confalonieri 1994-1997), however, it is not difficult to argue that banks, individuals and families were able to exert a joint control over the firms. As widely recognized by the
literature on the relationship between corporate finance models and ownership structures, the banks as relevant stakeholders tend to associate other relevant blockholders to control, which allowed them to reduce transaction and monitoring costs. The historical evidence we have from the main banks’ archives is of a relevant role played by the *fiduciari*, i.e. officials salaried by the banks who had a permanent seat in the Board of the companies in which the bank itself had a relevant stake. According to recent research (Aganin and Volpin 2004; Siciliano 2001) the stock exchange was not the main way to channel finance into the largest companies, even if all them were generally listed. In any case, the data show that (up to the early Thirties) the stock market capitalization was permanently around the 20% of the GNP, while the number of companies listed to the Milan stock exchange was constantly over 250 (a level which has been reached again only today). The corporations collected primarily resources on the stock market through an extensive use of control-enhancing devices as for instance dual class-shares and pyramids, a feature which remained permanent in the story of corporate ownership in Italy. The outcome of this situation was a pattern of concentrated ownership among the largest companies; families and financial institutions – directly or through holdings and other non financial companies – acted as blockholders, maintaining high control rights. Cash flow rights were distributed among minority shareholders, also through the issuing of privileged shares. The quantitative evidence is scarce on this point; under the qualitative point of view large firms had a policy of constant dividend distribution, also to ordinary shares. Families gave up their cash flow rights in order to maintain the control over the corporation and the possibility to extract, to some extent, private benefits. Banks, on the other side, were able to monitor the companies in which they had heavily invested. Directors were either members of the founding families, relatives or people committed to the family itself. Families were, in this way, the main point of reference for other stakeholders, for the banks as well as for the minority shareholders, given also the very low level of disclosure and legal protection for this category of investors.

Little of this situation changed, at least formally, after WWII. The universal banking system disappeared during the great depression, and was replaced largely by State ownership in capital intensive industries. The stock exchange definitively stagnated: from the Fifties to the Nineties, on average, the total capitalization of Milan Stock Exchange did not exceed the 20% of the GNP. As far as private groups are considered, their ownership structure was based upon large blockholdings as before the war. Families were still controlling the largest stakes (directly or indirectly). The other, now missing, actor, the universal bank, was substituted by a dense web of cross-shareholdings among almost all the largest industrial groups coordinated, from the Seventies onwards, by Mediobanca (the most important and influential merchant bank headed by a respected and skilful banker, Enrico Cuccia, according to whom “only the owners had the right to manage”). In this way, during the whole post-war period and up to the Nineties, a large, informal *keiretsu*-style network of cross shareholdings preserved the family control over the largest Italian corporations, while the particular structure of the financial system (the largest banks were forbidden to provide long-term credits and to buy shares) let the families to control, alone, the corporations. This situation had basically one relevant outcome in terms of ownership structures: a sharp increase in the levels of pyramidal control and in the separation between ownership and control. Researchers examining the ownership structure of the largest groups during the Nineties
stressed the low level of integrated ownership (defined as the percentage of capital that has been provided by the controlling agent) and the high level of capital under control in proportion to owned (Bianchi, Bianco and Enriques 2001), as well as an high pyramidal level (Aganin and Volpin 2004). What these researches highlighted was, however, the result of a process started after the Second World War.

Summing up, the overall structure of the Italian financial system had at every dimensional level a relevant influence on the ownership structure of the firm. Families played, in very different situations, an important role in uncertainty, monitoring and information costs reduction, even if, as recognized by the existing literature, the outcome in terms of general efficiency is not so clear, especially when the largest groups are considered.

The legal and institutional framework

Has the legal and institutional framework had a role in the persisting diffusion of family capitalism in Italy? This is an apparently easy question to answer. Some comparative evidence (Colli, Perez and Rose 2003) shows that, for instance, the legislation on inheritance taxes and duties has probably had a certain effect on the degree of diffusion of family firms, or at least on their resilience. As the British case seems to confirm after the Fifties, in presence of high inheritance taxes firms tend to go public more easily, while in countries like Italy a passive legislation on this subject encouraged the perpetuation of family control. An econometric exercise should be to test the relationship between family control and the evolution in the legislation on inheritance duties, but at present there is no evidence available in this respect.

Inheritance taxes are only one example of the relationship between legislation and the persistence of family business culture. At least two other elements have to be mentioned. First is the way in which the role of the joint-stock company was interpreted from the beginning. At the outbreak of the industrialization process, incorporation was not interpreted as the primary mean to collect additional capital, but one way in which the heirs could manage the transfer of the ownership without excessive problems. From the beginning of the Nineteenth century the Napoleonic Code introduced the concept of partible inheritance and of equal treatment of the heirs, and in the case of commercial and manufacturing activities the joint-stock company was a good institutional solution to solve the problem of transmitting the ownership to the heirs without losing the unity of the business itself. The joint-stock company as an institution has its own story in the Italian case (Teti 1999, Ungari 19xx); what it is interesting to note is, however, the adaptation of this legal instrument to the purpose of preserving the identity between the firm and the family.

Second (and partially linked to the former one), the legal degree of protection for minority shareholders and the disclosure requirements was quite low in an international comparison, as recognized by the literature (Aganin and Volpin 2004). From the WWII onwards, the blockholders were probably able to influence in their advantage the legislation on transparency, in order to enhance their ability to control the companies themselves, but this did not happen during the first half of the century
(at least, there is a very limited evidence about this). Before the second world war the legislation was relatively permissive. For instance, up to the new commercial code of 1942 it was possible for joint stock companies to issue multiple-vote shares, which allowed the blockholders and mainly the founding families to keep the control with a limited financial effort, while also after the war it was possible to use cross-shareholdings inside the same group to prevent the risk of hostile takeovers and to preserve the control power of the leading groups (Teti 1999). The ambition of the 1942 Commercial Code was explicitly not the protection of the minorities, but to preserve the power of controlling shareholders. The outcome of the 1942 legislation was in this way to allow the founders and the families to control their corporations, through the instrument of the group and of cross-shareholdings (Teti 1999:1284). Basically, this situation lasted up to the Nineties with the introduction of new rules of transparency, disclosure and minorities protection with the Consolidated Act on Finance, issued in 1998.

The findings of this section are quite consistent with the literature on the legal influence on national corporate governance patterns (La Porta et al. 1998), at length discussed, as far as the Italian case is considered – in Aganin and Volpin (2004). What it is not really clear is if the “political economy” thesis - i.e. the idea that families may have lobbied the government to keep financial markets underdeveloped to preserve their power (see e.g. Perotti and Volpin 2004; Perotti 2005) – can be confirmed also in the Italian case. This is one relevant argument advanced to explain the inertia of Italian legislation on financial markets also during the second half of the Twentieth century (Barca 1997). It should be interesting to test also if there has been an explicit political protection of families provided by governments (both before and after the Second World War) in order to have a stable and easy-to-interact-with nucleus of subjects to be involved in developmental policies. To put it in another way, in order to actuate do ut des policies, is better for politicians to deal with stable and committed owners as families than with other subjects (e.g. managers). This is a quite diffused behaviour in the case of economic policies of dictatorships, as for instance the Korean case efficaciously demonstrates.

Patterns in the process of industrialization and manufacturing specialization

A further explanation of family firms’ persistence (rarely advanced by the literature on corporate ownership theory) refers to manufacturing specialization. In brief, family ownership, as is well known, puts obstacles to growth which are higher and more threatening when competition is at the level of economies of scale and capital intensity. Even if far from being automatic, the separation between ownership and control of the corporation is more likely to take place in capital intensive industries. From an institutional point of view, the separation between ownership and control would require adequate conditions, among which an effective legal framework, as the US. case demonstrates. The Italian case is partially divergent in this respect. From a certain point onwards, the State took directly care of the majority of capital intensive industries. The “private section” of the Italian capitalism was, in general and with a few exceptions, well represented in low and mid-tech industries (e.g. textiles, food and beverages, distribution), in specialized industries (e.g. machine tools, appliances), or in well defined and specialized niches of capital intensive industries (e.g. chemicals and pharmaceuticals). That is to say where growth could still be sustained, financed and governed by the controlling families. Simply, a
legislative effort aimed at fostering the separation of ownership and control and the protection of minority shareholders was not necessary for a large section of the Italian capitalism. This is to a certain extent a reversed-causality explanation of the relationship between ownership structures and productive specialization from the one usually advanced by the literature on the institutional structuring of innovation strategies (e.g. Whitley 2000) which sees the prevailing model of productive specialization as the consequence of a given structure of the business system also in terms of ownership structure.

The Italian economic and business history is an interesting example of a fast modernization of a latecomer country. As stressed by the literature in the field Italy has been the sole Mediterranean country to follow the path of industrialization (Amatori 2000). As a latecomer country Italy had to foster the process of modernization through a pervasive State intervention (indirect and then through a direct involvement) in capital intensive and technologically advanced industries. Italy succeeded in having an adequate industrial endowment in this field from WWI onwards, even if with serious limits given by a structurally scarcely dynamic internal market. However, the largest section of the country’s industrial basis remained in labour intensive, low and mid-tech industries. Textiles, food and beverages, scrap iron smelting and refining, furniture, shoemaking gave from the beginning a considerable and determinant contribution to the manufacturing industry and (differently from capital intensive ones) to the country’s trade balance. As a matter of fact one could quote the fact that at the eve of the First World War the total value of iron production in the country equalled that of the silk industry, at that time a still relevant but declining branch of textiles. The high relevance of labour intensive, low tech industries on the whole manufacturing sector is a common situation among countries at the beginning of the industrialization process, as demonstrated by the story of many East Asian recent industrializers. The divergence of the Italian case in this respect is given by the persistence of this kind of specialization over time and in the long-run (Colli 2002). The main explanation for this enduring presence of labour intensive industries is to be found in a mix of factors which are at the origin of their superior efficiency. First of all, this kind of specialization was an important historical heritage from medieval and modern times (Malanima 1998) and was perpetuated also by the highly fragmented and regionally differentiated structure of the national consumption markets. A pervasive primary sector contributed to provide cheap but committed labour force, raw materials and entrepreneurship for this kind of industries, while local banks (as said above) were extremely active in financing. The main factor enhancing the efficiency of labour intensive and specialized final consumption goods industries in the Italian economy was however their internal organization, based upon the fragmentation of the production process among locally based small firms which resulted in an increasing flexibility. Industrial districts, diffused almost everywhere in the Northern and Central areas of the Peninsula, worked as “dispersed factories” thanks to low transaction costs among entrepreneurs sharing common values, culture and cooperative behaviour. The pervasiveness of low and mid-tech industries in the Italian industrialization pattern was however detectable also when the largest firms are considered: according to the already mentioned research by Robert J. Pavan at the beginning of the 1970s out of the top-hundred Italian manufacturing corporations, 3 were State-owned, 39 foreign-owned, and 58 private. Among them, 32 were not listed: among them 12 in food and beverages, 4 in household appliances (an industry which expanded considerably during the Sixties), 8 in mechanics and specialized metals, the
rest in cement and distribution. Out of these 32, 29 were considered under family control. Nor very different the situation among the private, listed ones: out of 26, 17 were under family control, the majority of which in textiles, food and beverages, specialized metals and mechanics. According however to other recent research (Giannetti and Vasta 2005) based on an extensive dataset, the distribution by industry of the top 200 firms during the entire 20th century seems to show a certain degree of convergence between Italy and the other industrialized countries, even if with a persisting relevance of traditional, labour intensive industries. This study, however, does not distinguish among State, private and foreign ownership related to the dominant productive specialization of the firm itself. In any case, the real divergence of the Italian case is probably to be detected in terms of average dimensions of the firm, and of value-added composition.

The top Italian firms are historically relatively small in an international comparison (Table 2):

<table>
<thead>
<tr>
<th>Tab. 3: Size of European and US top-100 Firms in 1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>Million of US $</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Germany</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>England</td>
</tr>
<tr>
<td>Italy</td>
</tr>
<tr>
<td>US (Fortune 500)</td>
</tr>
</tbody>
</table>

The composition of the value added of the manufacturing industry at the eve of the new millennium reflects this structural feature of the Italian economic specialization (Table 3).

Table 3. Some industries’ contribution to the total value added of the manufacturing sector (1999)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Italy</th>
<th>Germany</th>
<th>UK</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and Beverages</td>
<td>10,6</td>
<td>9,0</td>
<td>13,2</td>
<td>9,8</td>
</tr>
<tr>
<td>Textiles, leather, footwear</td>
<td>13,3</td>
<td>2,6</td>
<td>5,2</td>
<td>3,9</td>
</tr>
<tr>
<td>Automotive</td>
<td>5,9</td>
<td>14,6</td>
<td>10,6</td>
<td>11,5</td>
</tr>
<tr>
<td>Machinery</td>
<td>20,8</td>
<td>28,0</td>
<td>22,2</td>
<td>26,6</td>
</tr>
<tr>
<td>Chemicals</td>
<td>13,9</td>
<td>15,9</td>
<td>16,9</td>
<td>17,0</td>
</tr>
</tbody>
</table>

Source: Bianco 2003, p. 68.
This pattern of industrial specialization was reflected obviously by the trade balance, which has been structurally and increasingly (from the Seventies onwards) active in the labour-intensive, low-tech industries. At the beginning of the new millennium, Italy had a share of total World’s export over 10% only in footwear, ceramics, household appliances and furniture. In a long-term perspective (Colli 2002) this situation is not very different from the one prevailing during the interwar period.

This particular kind of productive specialization had an obvious consequence over the evolutionary patterns of ownership structure, also when the largest firms are considered. Families could, all things being equal, easily control (in terms of ownership rights) and, if necessary, manage the top corporations, without an excess of delegation and, in any case, not being compelled to go excessively public to gather the resources necessary to sustain the process of growth.

This section has tried to link the persistence of family control in general, and among the largest firms to the prevailing specialization in manufacturing, considered as able to influence the historical pattern in ownership structure. Even if the pattern of specialization and the relevance of large firms in capital intensive industries show a certain degree of convergence with other industrialized countries, things go differently when private (listed or not) corporations are considered. Companies not belonging to the State or to foreign capital, even if of large dimensions, tend to cluster in traditional, mid- and low tech industries, showing a relatively small dimension than their international counterparts and a steady identification between family ownership and control.

Cultural determinants of family firms’ persistence

Commenting a recently published research on the ownership and control of the Italian corporations (Bianchi et al. 2005: 35 ff.), the researchers of the Bank of Italy stressed the negative relationship among the persistent family control, the reluctance to grow and to invest of the firms, and the overall efficiency of the national economy. Among the different explanations for the reluctance of entrepreneurs and families to separate ownership from control (even if not the most important, in their view) culture is considered as particularly relevant.

In this view – they suggest – firms tend to remain small since there is a diffuse diffidence for the large organization. At the origin of such an explanation it could be the "sense of the family" which is in the entrepreneurs’ DNA.

Bianchi et al. 2005: 36

Culture is difficult to measure and test. It is not easy to make regressions with cultural variables, so it is often mentioned, but rarely analysed in depth. If not measured, culture can be partially explained in its origins and analysed in its consequences. Italian entrepreneurs – a large section of them, and mainly those of the first entrepreneurial wave – shared a common background. Many of them came from agriculture, as well as from trade, often associating landowning to entrepreneurship. The relationship with land and landowning was extremely strong, during the XIX and even if partially during the first half of the following century, among bankers, big merchants, traders and entrepreneurs. And this was not only a relevant and fruitful investment, but a kind of cultural point of reference and
continuity. Business culture was greatly influenced by this pluri-generational background, and the behaviour of entrepreneurs heavily affected by this context (Colli 2001). Agriculture played an important role, imprinting at each level the entrepreneurial behaviour. The following profile of an “ideal” entrepreneur of the “take-off” phase is evocative:

The typical pioneer was a serious and realistic man, growing up his children as employees in order to make them collaborators before, then followers. He reinvested profits not in opulence, but in the firm, seen as a lineage to ameliorate; in other words, an aspect of his family. Sometimes the entrepreneur could not say if he was building the firm around his kin, or the kin around the firm. This emphasis on the family, make it difficult to enlarge and concentrate the activity.

Frumento 1960: 241

Entrepreneurship – and the relationships between the entrepreneur and his firm – is historically different in Italy from other contexts in which it is less conditioned by a heavy cultural heritage. As well recognized by the literature on the topic, in industrial districts, the entrepreneurial behaviour, the strategies as well as the structures of the firms are strongly influenced by the agricultural origins of the entrepreneurs, at least in terms of general system of values and vision of the World. Prudence and risk-aversion, for instance, and tendency to low-indebtedness are two diffused features. A third is the involvement of all the family members in the activity, according to their competencies and abilities. One relevant part of the sociologic literature on Industrial districts has for a long time insisted on the transfer, after the WWII, of entrepreneurial attitudes from the sharecroppers’ families into manufacturing, especially in the Northern and Central areas of the country (Cento Bull and Corner 1993). In the Brianza, a region close to the Northern periphery of Milan, among many other manufacturing activities also the furniture-making is diffused, probably from the XVIII century. During the whole XIX and for a large part of the XX century, peasant families integrated their total income mixing different activities of their members. One description of this entrepreneurial model sounds like that:

As they are used to do, young males [of the family] engage themselves in furniture-making; females have their job in weaving factories, while parents dedicate to peasantry, helped from time to time to the other members of the family who occasionally interrupt their primary activity.

Quoted in Colli 2002, 113

As far as entrepreneurial origins in trade are considered, the attitude to recur to family as a device to reduce transaction and information costs has to be taken into consideration. As the available literature on the topic also stresses, merchants tended to rely on family members when engaging in trading activities on distant markets, when the flow of information was low and uncertain.

All these characteristics were not probably without a certain influence over the cultural attitudes of the entrepreneurial class, also when the transition to the larger dimension, also in capital intensive industries. And the translation of values into a persistent cultural attitude has a lot to do with the continuity – at the general level and at the level of the single firm – of family control, based, as stressed
by David Landes – on identity and self-consciousness (Landes 1975). The ultimate outcome of this was an entrepreneurial attitude which materialized a persistent behaviour characterized by familism and family ownership of the factors of production.

A test of this is, as far as the large firms are considered, the evolution of managerial culture and profession. The research on management schools and on the managerial profession in the Italian case confirms the late and slow diffusion of managerial culture. In the already mentioned study by Robert J. Pavan at the beginning of the Seventies the lack of managerial competencies (and the following tendency of top managers to concentrate on day-by-day management, on production and on marketing more than on strategies and planning) is considered the outcome of a mix of interrelated factor, among which the almost absence of business schools and the pervasive “familistic” attitude of Italian business culture. It was in fact not a case that the sole cases mentioned of planned and effective managerial training was given by the two major State-owned holdings, IRI and ENI. In a conclusive, very interesting paragraph the American scholar suggests an improvement of the teaching of “business administration” in the graduate studies’ curricula, blaming the fact that the Italian managers’ training was privileging theoretical economics, engineering and law and that the attitude of academics was to transmit only “theories”, as “talking encyclopaedias” instead of training executives to problem solving (Pavan 1973: 311 of the Italian edition - 1977). In sum, managerial culture has been difficult to introduce in Italy. As Pavan itself admits, managers were often evaluated on the basis of their personal commitment and fidelity to ownership more than on the basis of their abilities, and in any case had a professional background based on technical experience more than on general problem solving. Culture matters.

Another interesting test of the pervasiveness of family culture in the Italian industry is provided by the concept itself of “business administration”, and by the way in which it was formalized and taught in the country’s mostly respected universities in Economics. Just to give an example, the textbook adopted for undergraduate course in Business Administration at Bocconi University was Lavoro e Risparmio, by Carlo Masini, one influential academic and pioneer of one of the most important and influential Italian schools of thought in the field. The book was an huge and comprehensive text; the introductory chapter is fully dedicated to discuss the principles of economic life. According to Masini, the basic building block of economic life, the link between the individual and the community is the family, which is the most important institution in which production and consumption take place (Masini 1970: Ch. 1). The book was clearly the synthesis of a diffused culture emphasizing the role of the family at each level of social life, as well as one influential reading on which generations of undergraduate students trained themselves, perpetuating the idea of a strict relationship between the family and the firm.

* * *

This long paragraph has tried to describe at length the role of the environment (institutional, financial, and cultural) on the enduring persistence of the family firm in Italy at each dimensional level and in almost every branch of manufacturing. For obvious reasons, the determinants have been considered separately but it is clear that their effectiveness has to be seen as a joint effect. In this particular setting, evolutionists should say, the family firm was selected as one of the best forms of
ownership and management of the economic activity, and this situation perpetuated itself at least for all the 20th century.

Ownership, strategies, structures and performances

The determinants at a macro-institutional level of the survival of the family firm are to be analysed together with a mix of other elements, active at the single firm level, which can help to explain the reasons of the success – or at least of the resilience of this particular kind of business organization in the Italian case. Literature has variously addressed this point, also on an international and comparative basis (Neubauer and Lank 1998: 13 ff.). Among the main strengths, great social responsibility and positive relationships with the context, commitment to the business and flexibility are seen among the most important factors of success. As far as these characteristics are considered, Italian family firms tend to conform to the general pattern. The relationships between the family firm and the external environment (in general the society and its “stakeholders”) are historically determined by the entrepreneurial philosophy defined as “paternalism”, which characterised the early phase of the industrialization of the country and went on up to the 1950s, the 1960s and to some extent also to today. This was a particular and original character of the modernization process, based upon the reproduction of social relationships characterising the countryside, based upon power relations on a personal basis, resembling those between the landowner and his farmers. The rapidity of the industrialization process and the necessity of controlling the social impact of the modernization brought many entrepreneurs to adopt a model of industrial relationships based upon the idea of “extended family”. Workers were in some sense part of the entrepreneurial family, which was in its turn committed to their welfare, from education to mutualism, from house building to the sponsorship of sporting activities, etcetera. The close relationship with the local society has been one relevant characteristic of the Italian family business, historically explaining its generally good performances in terms, for instance, of labour productivity and commitment characterising especially locally-based production systems.

On a theoretical basis, again, the weaknesses of family firms are to be found under the financial point of view (the inability or unwillingness to find enough resources to sustain the activity), under the managerial point of view (the inability to find and retain capable managers), and under the perspective of entrepreneurial succession (transmission of power and responsibilities from the older to the new generation, ability of the new generation to play an autonomous entrepreneurial role). Also in this case, Italian family firms show, in many cases, a striking conformity to these stylized behaviour. The unwillingness to grow it has been discussed at length in the previous paragraphs, as well as the possibility (and willingness) to recur to salaried managers to improve the overall efficiency of the business. As far as the management of succession and the transmission of entrepreneurial competencies and sensibility to the new generations, the Italian family capitalism shows in a long-term perspective a generalised and structural weakness. The impression is that, at the basis of this weakness, there has been (and largely there is) first of all the training policies of young successors. Historically, and when it was planned in some way, the training process of new generations inside the Italian family firm has been generally based upon on-the-job training and on technical education,
considered as the most important managerial competitive advantage. This kind of entrepreneurial training was (and is) perfectly understandable when the labour intensive, or specialized industries are considered, where productive aspects are largely emphasized as in the Italian specialization. This kind of entrepreneurial education proved however to be less efficient when large or quickly-growing organizations are considered, as happened, for instance, during the fast period of growth experienced of the Fifties and the Sixties, when a high number of medium and large, even promising family firms (for instance in household appliances – e.g. Ignis and Zanussi -, in the food and beverages industry – e.g. Motta and Buitoni -, in distribution – La Rinascente - in mechanics – Lancia and Olivetti – and many others) were sold after serious difficulties partially deriving from their nature of family firms. In a high number of other cases, however, and in similar businesses (e.g. Merloni and Candy in household appliances, Ferrero, Barilla and Star in food and beverages), the succession process went on quite well and without problems, so that it is difficult to draw sharp generalizations from these cases, at least as far as the medium and large family firms are considered.

Another intriguing point at the micro level is the relationship between ownership structure and performances. A large number of studies testing (through econometric techniques as well as by means of qualitative analysis) the correlation between family ownership and various measures of performances, e.g. returns or simply survival are available. The current research stresses as well, however, that it is almost impossible to find a undisputable evidence in this direction, also when Italy is considered. According to the already mentioned research by Barontini and Caprio (2005), large family firms tend systematically to outperform their managerial counterparts. Comparing the profitability of middle-sized specialized and generally family-owned companies with that of larger corporations Mediobanca (2005) concluded that the performances of the former category are significantly higher than those of the latter.

In any case, the impression is that it is very difficult to distinguish between the effect on performances provided by the nature of the ownership and the effect on performances deriving from organizational structures and, above all, from productive specialization. In this respect, it is worth analysing the case of the Italian mittelstand, an emerging phenomenon during the last few years.

The Italian mittelstand as another “model” of family entrepreneurship?

The rise of this entrepreneurial model is not easy to define and to describe. It is however possible to outline some of its basic characteristics. During the last ten-fifteen years, under the pressure of increased foreign competition, some of the firms of the industrial districts started to move on to the upper level of the market, adding much more value in terms of quality and design to their products. This dynamic was accompanied by a process of integration, both backward and forward, which explains the progressive diffusion of hierarchical structures (holdings, groups, formalized networks) inside the previously fragmented framework of local systems of production (Bonomi, 1997). The result of this process was a consolidation of the intermediate dimensional class, i.e. of medium sized enterprises.
Origins and relationships with the context

The origins of many of these medium-sized enterprises are to be found inside industrial districts’ production organization which provides a network of small subcontractors (artisans and craft skilled producers) supplying variable quotas of the whole production. In the case of the silk district of Como some of the local converters – like the Mantero group, today world leader in silk production -- invested and integrated both backward and forward, growing considerably while always maintaining a close connection with local small firms. Not very different is the story of Della Valle group with its close ties with the Marches shoemaking district, as well as the one of Benetton and Luxottica, rooted respectively in the textile production area around Treviso, and in the Cadore, both in the Venetian region. This highlights the issue of relationships between these middle-sized corporations and their surroundings, especially, even if not exclusively, that of local production systems as the industrial districts.

The relationship between medium-sized corporations and local production systems is in general close in terms of labor and know-how, flexibility, innovation and also of market demand. One example is SCM, a machine tool company located in Rimini, a small Adriatic town in Emilia Romagna, whose expansion started during the fifties thanks to the orders coming from the small firms producing furniture in the neighboring area of Pesaro, and which now exports 70 per cent of its annual production valued at 450 million euro. Anyway, this kind of medium sized, internationalized enterprises are not only to be found in the favorable and dynamic environment of the industrial districts but are also the outcome of the growth and expansion of specialized producers who began – as in the case of machine tools makers in Bologna and Modena – to sell their products abroad once internal market had been saturated.

Genetics and industries

Specialization and the ability to individuate new markets were the driving forces also in the classic “made in Italy” industries, such as knitwear and clothing. This is the case for current world leaders such as Benetton and Stefanel which transformed themselves in the sixties from small workshops into integrated enterprises selling contemporary design garments through a worldwide distribution network of franchised shops.

It is worth stressing the fact that some of these corporations experienced their growth and consolidation from the late eighties onwards, quickly transforming from small specialized firms or subcontracting workshops into leading actors on the world market. It has been not, in sum, the dramatic changes at the turn of the millennium to create the basis of this mittelstand. At least, not only: in many cases the story is a bit older. In any case, the ingredients of the success seem not to differ significantly from those discussed above. Telling is the case of Diesel brand in casual clothing which is based near the Venetian town of Vicenza. Founded in the eighties by a group of local entrepreneurs, it experienced an impressive and steady growth from the second half of the nineties becoming one of the world leaders in its field with yearly sales of about 560 million euro in 2001. Behind these noticeable results, however, has for a long time been the fruitful relationship with the local system providing Diesel with an
efficient and flexible network of subcontractors, combined with an aggressive commercial strategy based upon the presence of Diesel shops all over the world – a path traced decades before by Benetton.

Competitive strategies, organizational structures

The growth and the dynamism experienced by these enterprises during the last fifteen years has also stimulated their organizational evolution towards a not negligible degree of vertical integration. Usually a family holding controls a large number of internationally scattered, independent productive units (frequently run through joint ventures with local entrepreneurs). The birth of these “pocket multinationals” is a consequence of a rational strategy aimed at the minimization of administrative and co-ordination costs, and is also the result of the path of growth followed by these enterprises, typically pursued by means of the acquisition of existing smaller companies which maintained their independence and commitment to specialized production.

The organizational complexity responds also to a competitive strategy which is often - especially when intermediate goods (e.g. machine tools) manufacturers are considered – based upon a relatively articulated concept what is to be intended as a “product”. New products are often generated mixing well-established techniques with other, additional elements as, for instance, services. “Service” is, in its turn, a very broad conceptual category, which includes elements like quickness in delivering, flexibility in producing, the capability to design, develop, and adapt customer-oriented specific solutions (generally starting from general-purpose technologies), to maintain “in stock” a wide range of specific-purpose products ready-for-use, as well as to be able to provide the customer itself with the technologies and the knowledge necessary to utilize the products they need (e.g. machine tools). Service component(s) can be expected to include a relevant, and growing, proportion of the “new” product value added; this explains why increasingly the most dynamic and “innovative” firms are moving towards the inclusion of services contents into their products, and consequently to a growing organizational complexity based, to some extent, upon strategies of vertical integration. The service content, as a relevant proportion of the added value and a key asset in the market strategy of the firm, is in fact a very specific resource that (as stressed by transaction cost theory) has to be kept strictly under control (i.e. appropriated) by the firm itself. In other words, the production and development of the services contents attached to the product are firm-specific, are not easily (both for the customer, but also for the supplier itself) available on the market and have to be developed internally through an appropriate investment policy. Moreover very often the service content is also customer specific, and this implies for the customer the necessity to establish and maintain very close and stable relationships with the producer, giving it a secure competitive advantage.

A new model of entrepreneurship?

The affirmation of the medium-sized corporations meant also a transformation of the entrepreneurial role, although the continuities with the model of small entrepreneurship are not
negligible. The transition from the small workshop to a proper enterprise has been carried on by the second, and sometimes third, generation, showing in general a better cultural level than that of the founders who were characterized by a combination of little formal schooling and a high commitment to productive tasks. The enlargement of the firm’s boundaries and the adoption of a relatively complex organizational structure brought to a transformation of the decision process which, even if still a family affair, seems to be much more participative than in the past involving co-opted managers or professionals. The family however remains, as in the past, still at the top, influencing the succession strategies. Familism (that is the identification between the family and the enterprise and the consequent adaptation of the company’s goals and strategies to the family’s benefit) is, however, still a dominating feature also among these companies, especially when succession strategies are considered.

The (on average) extremely good performances of these firms meant that adequate internal funds to sustain expansion have been available. According to recent research in the field, these medium-sized firms perform definitely better than the large ones in terms of return on investment and on equity (Mediobanca-Unioncamere 2005: XXIX). The fact that they are not dependent on financial markets to gather additional resources contributes to the maintenance of the symbiotic relationship between ownership and control. In this respect, however, it is a matter of fact that what changed is the quality of the human capital available, which now has fewer specific and product-related skills, and is more oriented to general problem solving. On the other side, frequent contacts with the international financial community bring foreign institutional investors close to these medium sized corporations which are in some cases listed. In turn, this gives rise to a number of problems related to corporate governance which are completely new for boards traditionally dominated by family representatives.

The impression is that, in this case, the model of entrepreneurship based upon family ownership is consistent with the size of the companies, with their strategies – based upon specialization, niche production and internationalization – as well as their organizational structures which are still relatively flat and quite easy to keep under control and supervision by the founders and their relatives.

Concludine remarks. Italian anomaly?

A shared tendency among Italian commentators today is to blame the small dimension of firms as the main cause of the present difficulties of the Italian economy (Onida 2004; Bianchi et al. 2005). According to this perspective, firms would be, at every level and in each sector, too small, especially in an international comparison. They are not only small but, according to the same studies, not at all or only partially committed to growth, with obvious effects on their productive specialization. Among the different explanations for this dimensional bias, the most important is considered the ownership structure which is explicitly considered as the main obstacle for growth and modernization (Bianchi et al 2005: 31-2). The relationship between family ownership and the wealth of the nation would be, in this way and in this particular case, negative. The main solution suggested for this problem would consequently be a transformation in the corporate governance and ownership patterns of the enterprises, which in its turn has to be provoked by serious institutional reforms, both in corporate legislation and in capital market regulation.
However, this paper suggests a more articulated and complex perspective of analysis. Given the historical pattern of evolution of the Italian capitalism, family firms developed a particularly efficient relationship with the context itself, resulting, to some extent, functional to the development of the whole economy. Families contributed to reduce information and transaction costs enhancing the efficiency of the system as a whole. This was true not only during the first phases of the industrialization process, but also later, in correspondence with the particular evolution of the internal financial market and of the legislative framework. Nor has to be undervalued a persisting culture emphasizing the role of the family in every day life and also in its economic aspects. This particular mix of institutional and cultural factors was able to sustain the diffusion and persistence of family firms at every level, perpetuating this particular model of management and translating it into a prevailing pattern of ownership.

Also at the “micro” level, the Italian family firms how some peculiar historically determined advantages and disadvantages, contributing to influence their persistence over time. The recent affirmation of middle-size companies seems to confirm the adaptability of the family firm model to specific conditions in terms of technology, strategies and markets. The whole story of family ownership in Italy, however, suggests that the persistence of this particular form of management cannot be simply explained by economic determinants or by contingent factors, but has to be located in a more complex framework in which culture and history play a relevant role.

BIBLIOGRAPHY


Barca and Becht 2001: Fabrizio Barca and Marco Becht, The Control of Corporate Europe, Oxford U.P.


Bianchi, Bianco and Enriques 2001

Bianchi et al. 2005 : ricerca di trento


Bianco 2003: Magda Bianco, L’industria italiana, Il Mulino, Bologna

Brioschi, Buzzacchi, Colomba 1990: Francesco Brioschi, Luigi Buzzacchi, Massimo Colomba, Gruppi di imprese e mercato finanziario. La struttura di potere dell’industria italiana, NIS, Roma

Cassis 1997: Youssef Cassis, Big Business. The European Experience, Oxford, OUP
Session 6: Beyond Chandler. The Survival of Family Firms in Europe, Asia and North America in the XIXth. and XXth. centuries.

Cento Bull and Corner 1993: Anna Cento Bull and Paul Corner, From Peasant to Entrepreneur. The Survival of the Family Economy in Italy, Berg, Oxford


Colli and Rose 2003: Andrea Colli and Mary Rose, “Family Firms in Comparative Perspective” in Franco Amatori and Geoffrey Jones (eds.) Business History Around the World (Cambridge University Press

Colli, Andrea, Paloma Fernandez Perez, and Mary Rose, 2003, “National Determinants of Family Firm Development? Family Firms in Britain, Spain, and Italy in the Nineteenth and Twentieth Century,” Enterprise and Society 4, 28-64.


Giannetti and Vasta 2005: Renato Giannetti, Michelangelo Vasta, Storia dell’impresa industriale italiana, Il Mulino, Bologna


Malanima 1998: Paolo Malanima, La fine del primato. Crisi e riconversione nell’Italia del Seicento, Bruno Mondatori

Masini 1970: Carlo Masini, Lavoro e Risparmio, UTET


Radar 1948: Radar (pseud.), L’organizzazione del capitale finanziario italiano, Edizioni Italiane, Roma

Siciliano 2001: Giovanni Siciliano, Cento anni di Borsa in Italia, Il Mulino, Bologna
Session 6: Beyond Chandler. The Survival of Family Firms in Europe, Asia and North America in the XIXth. and XXth. centuries.

**Teti 1999**

**Ungari 19??**
