FAMILY FIRMS FROM LOCAL DISTRICTS TO THE WORLD MARKET (ITALY, 1980-2005)

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Introduction. Entrepreneurial models during the Economic Miracle.

During the two decades following the Second World War, Italy profoundly transformed its economic and social structure. Thanks to a period of steady and outstanding growth, the country finally got the chance to become a stable partner of other industrialized nations in the most advanced sectors of the economy. The “Economic Miracle” was visible first and foremost in the capital intensive industries typical of the Second Industrial Revolution, which during the Fascist period as well were hardly struggling to find enough opportunities of expansion in a country whose internal consumption capacity was extremely low. Despite many limits (mainly under the managerial point of view), the mechanic (heavy and light), automotive, chemical and rubber, energy and oil, and cement industries, along with the food and beverages industry, modernized, reaching levels of growth never attained before in the country. The basis on which these industries built their outstanding success was undoubtedly an expansion of private consumption (even if the workers’ salary was among the lowest in Europe, a virtuous mechanism linked high-scale production, low prices and increasing demand) and public investments (through the creation of infrastructures such as the whole network of motorways as well as a developmental policy aimed at fostering the economic growth of the Southern regions). Aided by a favorable fiscal policy, the promising market expansion attracted a flow of foreign direct investments in many of these industries where the foreign (mainly US) firms had superior competitive advantages over the national firms. In turn, however, the national firms benefited from the foreign presence in terms of knowledge diffusion under both the technical and managerial point of view. Given all this, the decade going from the mid-Fifties to the mid-Sixties marked a sharp
discontinuity in the history of Italian capitalism. In 1961, one hundred years after its political unification, the country registered an outstanding rate of GNP growth (above 6% per year) and a degree of modernization in its economic and social structures which could hardly have been imagined during the interwar years\(^1\). As far as the ownership structures and the entrepreneurial leadership are considered, however, continuity prevailed with the old patterns.

**The State Entrepreneur**

First of all, the State – through holdings such as IRI and ENI – was a direct owner of huge industrial concerns in steel (Finsider), shipbuilding (Fincantieri), mechanics (Finmeccanica, to which Alfa Romeo belonged for instance), infrastructures, transportation and communications (Società Autostrade in motorways, Alitalia, the telecommunications company, Stet, the broadcasting sector through RAI), oil and (petro) chemicals (ENI), the electricity industry (ENEL, after the nationalization of the sector in 1962), as well as a considerable portion of the banking system. The origins of this enormous State involvement date back at least to the beginning of the Thirties when the Italian government was compelled to rescue the three largest banks of the country (Banca Commerciale Italia, Credito Italiano and Banco di Roma) which were heavily involved in the crisis of the private manufacturing industry. The solution was found in the direct intervention of the State which literally bought out nearly one quarter of the whole share capital existing in the country becoming *de facto* the most important owner of manufacturing corporations in the country. At the beginning and during the Economic Miracle period of growth, the management of the State-owned corporations was carried out by skilled and capable managers who were in general able to act relatively outside of strong political influence, achieving in this way a high degree of efficiency for the businesses they were in charge of.

\(^{1}\) See Balcet, G. *L'economia italiana. Evoluzione, problemi e paradossi* (Milan: Feltrinelli, 1997)
Families
Alongside the State, families running some of the largest and dynamic corporations of the country were the other main actor during the Economic Miracle. Fiat (the Agnelli family, even if the company was in these years managed by Vittorio Valletta), Pirelli, Olivetti, La Rinascente in distribution (the Brustio and Borletti family), Buitoni, Barilla, Motta and Alemagna in the food sector, the Pesenti family in cement, Falck in the steel industry, and a cohort of “new” entrepreneurs in the fast-growing household appliances sector (washing machines, refrigerators, TVs) were the backbone of private capitalism in this period. Often in conflict, both the State and families functioned together, however, for the country’s economic development of these years. Taking as an example the small car produced by Fiat, the half-liter “Cinquecento” – one of the Miracle’s symbols – it is easy to see how close the interdependencies were between the private and publicly-controlled sections of the economy: Fiat small cars were built with the steel produced by Finsider, equipped with Pirelli tires, fuelled by ENI’s gasoline and could run on the motorways built by the State-owned Società Autostrade.

Hidden problems
In a broader perspective, the Miracle’s outstanding growth hid (and maybe hindered the resolution of) structural problems affecting the capital intensive industries. Three main weaknesses can be mentioned here

conflict physiological\textsuperscript{3}. The large firms were competitive in the national market, while no efforts were made to stimulate their competitiveness on the foreign markets.

b) Soon the political pressure on the State-owned enterprises became more pronounced. In 1956 the Ministry of State Shareholdings (Ministero delle Partecipazioni Statali) was created to coordinate the public ownership holdings but \textit{de facto} submitted them to political, and non-economic, imperatives. Quickly, the Italian experiment of a “third way” between State and Market\textsuperscript{4} degenerated due to overwhelming political demands and constraints, epitomized by the bankruptcy of Finsider under the burden of 25,000 billion lire of debt in 1988, resulting in the dispersion of entrepreneurial and organizational capabilities.

c) The years of the Miracle were characterized by a plethora of entrepreneurial successes, in both the fields of private and public enterprises, but also by many failures in advanced industries such as electronics, nuclear energy, advanced chemicals\textsuperscript{5}. Sometimes the fault was political, i.e. there was not enough commitment by the State to pursue and foster projects in advanced sectors. Quite often, the reason of the failures was to be found in the inadequacy of family capitalism to sustain ambitious projects of growth and expansion in “new” industries (as in the case of Olivetti’s attempt at diversification in the electronics and computer industry). The lack of consolidated routines for appropriate

\textsuperscript{3} Barca, F. \textit{Compromesso senza riforme nel capitalismo italiano}, in Id., \textit{Storia del capitalismo italiano} (Rome: Donzelli, 1997)


\textsuperscript{5} About Olivetti and the nuclear program, see Soria, L. \textit{Informatica: un’occasione perduta. La divisione elettronica dell’Olivetti nei primi anni del centro-sinistra} (Turin: Einaudi, 1979); Curli, B. \textit{Il progetto nucleare italiano (1952-1964)} (Soveria Mannelli: Rubettino, 2000)
substitutions of corporations’ leadership and also of an adequate supply of managerial skills was at the origin of many failures in industries (as in distribution – La Rinascente; household appliances – Ignis and Zanussi; food – Buitoni) in which family capitalism was traditionally quite strong⁶.

Entrepreneurship in a period of crisis

After two decades of steady growth, Italy found itself on the verge of total collapse in the Seventies; post oil shock inflation approached 20 percent, official unemployment 8 percent, and public debt consumed 60 percent of GNP. Big business – private or State-owned – was performing very poorly.

Mysterious growth?

Notwithstanding all this, the growth of GNP was marching around 4 per cent per annum, second only to Japan, thanks mainly to the performance of small and medium-sized firms. In 1971, about 50 percent of the total workforce was employed in factories with fewer than 99 employees. A decade later this percentage had grown to nearly 59 percent. In 1978 a seminal book entitled “Tre Italie” (Three Italies), written by the sociologist Arnaldo Bagnasco, was published in which the “old” view of Italy’s industrial and social structure based on the dualism between the developed and rich Northwestern regions with capital intensive, large firms and a backward South was subject to revision for the first time; a new perspective stressing the dynamism of entrepreneurship with peasant origins, especially diffused in the Northeastern and Central regions of the country, was advanced⁷.

⁶ Amatori, F. and Colli, A. Impresa e industria in Italia dall’Unità ad oggi (Venice: Marsilio, 1999)
To be precise, however, the relevance of small firms in Italian economic history has been considerable from the very beginning of the industrialization process. Notwithstanding the fact that traditional business history tends to concentrate on the research efforts of big business, it is beyond any doubt that labor intensive, craft-based sectors typical of the first industrial revolution persisted and prospered. The low-cost workforce, the overwhelming primary sector together with the diffusion of the putting out system among peasant families, and a tradition of urban craftsmanship along with the fragmentation of the domestic market concur in explaining the persistence of small scale production in the face of many difficulties such as those created by the Fascist economic and monetary policies, for instance, which were strongly oriented to favor large corporations.

The relevance of the “traditional” sectors crowded by small and very small companies was confirmed during the Economic Miracle when it became possible for labor intensive industries in Italy to reinforce their standing on international markets, thanks also to the birth of the European Community. To use a comparable simile to the one above, the other “symbol” of the Economic Miracle for the Italian society is the house. Millions of new flats were built – thanks also to generous public spending – soon after the war, and in this case the interdependencies played a relevant role as well. The housing policy meant a growing demand for tiles and ceramics, carpets and textiles, furniture, marble, dishes and other cooking devices, all items which were produced basically by small entrepreneurial firms scattered all over the country. In fact, it was soon clear that the strength of Italian small business was largely due to the fact that individual production units were grouped in geographically concentrated clusters spread out all over the Peninsula which were defined by the British economist, Alfred Marshall, as “Industrial Districts”. According to Giacomo Becattini, the economist who first built a theoretical framework to describe the phenomenon, the

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industrial district is essentially a territorial system of basically small firms producing a group of commodities whose manufacturing processes can be split into different phases. In its simplest and most stylized form the industrial district is populated by single-phase enterprises linked to one another, with backward and forward connections, by agreements and contracts which can also be informal and on a personal basis. These features (geographical clustering and production process fragmentation) are embedded in a complex social structure largely dependent on local traditions in which the historical dimension involving manufacturing and trading practices and traditions is not insignificant. Just to give an example, starting from the late 19th century, some “virtual enterprises” (the so-called converters) in the silk area of Como (Lombardy), were able to manage the production cycle by means of small artisan shops each performing a part of the production process, from weaving to dyeing. In Prato (Tuscany) the same role was played in the production of wool textiles by the so-called impannatore. A similar model can also be found in the furniture industry.

Successful entrepreneurship between the Eighties and the Nineties

This typology of production organization is characterized by a specific form of entrepreneurship, sharing some general features across time and space. The artisan background is diffused, while the cases of former employees who decide to become independent occur rather frequently. The shoemakers of the Marches region (Central Italy), for instance, share a longstanding tradition of craftsmanship dating back to the early nineteenth century, giving rise to one of the most important districts of the country. The same can be said for the clusters in some pre-Alpine zones which are active in specialized productions in metalworking from Lecco (light mechanics) to Premana (cutlery), Lumezzane and Brescia (specialized steel).

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The origins of this diffuse entrepreneurship are frequently found in peasantry. A pervasive primary sector was traditionally linked to manufacturing as the source of cheap labor and raw materials, financing and market demand. For instance, the diffusion – especially in the Northeastern and Central regions – of a form of sharecropping, which stimulated the farmers’ ability through an “autarchic” philosophy and continuous confrontation with the owner, has been considered an important premise for the further development of independent initiatives in manufacturing.

The peasants’ strategy of augmenting their income was among the most important determinants of this kind of diffuse entrepreneurship, as seen in the furniture districts in Northern Italy; in the Brianza area, a relatively small territory situated between Milan and Lake Como, starting in the late 18th century, peasants were able to integrate their income deriving from the cultivation of cereals and mulberries with the production of low-quality, inexpensive furniture by acting as subcontractors for Milanese merchants-entrepreneurs10. This entrepreneurship is able to combine different kinds of resources (both in terms of labor and capital) in a very efficient way and focus on narrow but profitable niches of production. Flexibility, or being able to rapidly shift from one production to another, proved to be an important resource.

Families again

Given the nature and the structure of the production unit inside the industrial district, the family has historically been the backbone of this model of development. First of all, the family was (and still is) the most important source of labor and financing. Moreover, there is typically a close identification between the family and the business, run by the founder-entrepreneur and a few close relatives working basically without a salary, plus a very few employees or none at all.

10 Corner, P. Contadini e industrializzazione. Società rurale e impresa in Italia dal 1840 al 1940 (Bari: Latenza, 1993)
The family provides a buffer against uncertainty, since the entrepreneurial initiatives generally take place in a framework in which the fixed income of other family members contributes to lower uncertainty and risk. The individual entrepreneur’s actions take place within the more complex and general context of local society, with its rules and “norms”. Since the costs deriving from imperfect information are high, being part of the local society is an essential asset for the survival of the enterprise. The industrial district’s entrepreneur needs to combine not only physical resources and human capital but also has to manage his relationships with local networks of interests: workers, banks and other financial institutions, local customers and suppliers and the local community overall\(^{11}\). In general, however, all these relationships take place within a framework in which the family clearly has the role of social capital and recourse for individuals to foster their entrepreneurial activities.

**Which model of entrepreneurship?**

As stressed above, this successful model of entrepreneurship and this particular identification between the family and the firm sustained the Italian economy during the Seventies and the Eighties. Despite the fact that during this decade some of the largest groups – both private and State-owned – proved able to partially overcome the difficulties of the previous decade thanks to a policy of restructuring, it became clear at the beginning of the Nineties that the decline of the large firm in Italy could no longer be avoided. Due to budget reasons and the desire to both eliminate inefficiencies and losses and shake up the national financial market, the State started a massive policy of privatizations which culminated in 2003 with the dismantling of the largest State-holding, IRI. At the same time, “old”, private, large firms progressively lost market share and competitive strength. This was the case of Olivetti and Falck, for instance. Pirelli,

\(^{11}\) Colli, A. ‘Networking the Market. Evidence and Conjectures from the History of Italian Industrial Districts’, *European Yearbook of Business History*, 1 (1998)
too, had serious problems which led to a change in ownership, while Fiat also started to progressively decline. Montedison, the largest chemical group in the country, left in very bad shape after Raul Gardini’s financial hazards, was progressively downsized and dismantled. One can say that, during the second half of the Nineties, Italian big business lost many positions, especially in an international perspective, as the following table efficaciously shows.

### Italian large firms among the Fortune 200

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<tr>
<th>1989</th>
<th>Rank</th>
<th>1999</th>
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<tbody>
<tr>
<td>IRI (financial holding)</td>
<td>11</td>
<td>Fiat (automobiles)</td>
<td>40</td>
</tr>
<tr>
<td>Fiat (automobiles)</td>
<td>15</td>
<td>ENI (oil and natural gas)</td>
<td>89</td>
</tr>
<tr>
<td>ENI (oil and natural gas)</td>
<td>28</td>
<td>Olivetti-Telecom (telecommunications)</td>
<td>112</td>
</tr>
<tr>
<td>Ferfin-Montedison (holding; mainly chemicals and food)</td>
<td>85</td>
<td>IRI (financial holding)</td>
<td>172</td>
</tr>
<tr>
<td>Enimont (oil refining and petrochemicals)</td>
<td>100</td>
<td>ENEL (electricity)</td>
<td>186</td>
</tr>
<tr>
<td>Pirelli (rubber)</td>
<td>170</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Olivetti (telecommunications)</td>
<td>196</td>
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A highly undervalued currency (especially during the first half of the Nineties) and a steady expansion of international demand allowed the specialized producers of the industrial districts to increase their markets shares all over the world. The “Made in Italy economy” quickly became a highly respected, studied and imitated model. The formula seemed to be really successful, as did its ingredients such as Italian creativity and flexibility, a diffuse entrepreneurial attitude and the role of the family, which was now considered one of the most important strengths of this “deviant” model of industrialization. Notwithstanding the fall of big business and the absence of relevant initiatives in high-tech industries, Italy seemed to be able to maintain its position among the most industrialized and developed countries in the world.

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The ongoing transformation in the country’s industrial demography would imply an obvious change in the policies supporting the manufacturing sector. It is not easy to typify the debate taking place in Italy starting from the second half of the Nineties. According to many commentators, the policy of privatizations was considered a big opportunity for achieving the modernization of the country’s traditionally closed and backward financial markets, similar to what was happening elsewhere in Europe, even if the widespread impression in the Italian case was that the reforms were introduced too late and when the “golden era” of the large corporations was over. The other big debate was about to what extent the economic and industrial policies should turn towards supporting small firms and industrial districts instead of continuing to sustain large, scarcely efficient, corrupt and non-profitable large firms. The winning model of entrepreneurship was undoubtedly, during the second half of the decade, represented by the small firm economy typical of the industrial districts.

There was scarce criticism of the model of growth that advocated labor intensive, undervalued currency-based industries characterized by a very low degree of innovation and technological intensity. The majority of the commentators were loudly celebrating the virtues of a model able to keep the country’s trade balance highly positive together with a non-negligible rate of GNP growth. In this perspective, *product innovation* and technology intensity were almost unnecessary for a competitive advantage based upon flexibility and *process innovation*, which could also be achieved in the absence of high R&D expenditures. According to existing research, however, the innovation rate was rather low in an international comparison when *non-formalized innovation* was taken into account as well.

According to Eurostat data in the mid-Nineties the percentage of innovative enterprises in Italy was around 48% of the total against an EU-15 average of 51.5%.\(^{13}\) As far as the small dimension is concerned (up to 50 employees) the

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\(^{13}\) Quoted in Onida, F. *Se il piccolo non cresce. Piccole e medie imprese italiane in affanno* (Bologna: Il Mulino, 2004), pp. 159-60 and table 6.8
number of enterprises making innovative activities was 44 out of 100, while the
EU-15 average was more or less the same (43.6).
In any case, the success of this entrepreneurial model was undeniable. At the
beginning of the new millennium, the Bank of Italy undertook a systematic study
based on extensive quantitative research which emphasized the superiority of the
small firm over the largest corporations in terms of performance and propensity to
export\textsuperscript{14}. Among the small firms, those active \textit{inside} the local production systems
and industrial districts were performing better than the others. Italy ranked first, in
terms of share of total world exports in ceramic and tiles (30\%), jewelry (27\%),
footwear and clothing accessories (nearly 22\%), but also in furniture, leather
goods, and machinery.
In summation, by complementing diffuse entrepreneurship with the strength of
local ties and the central role played by kinship relations, this model left very little
room for critiques. The success and notoriety of the small-firm economy of the
industrial districts reached its peak in the mid-Nineties when the US president,
Bill Clinton, famously defined the Italian model of entrepreneurship one of the
best in the world, able to link high standards of living with international
competitiveness.

**Patterns of evolution? Pocket Multinationals, New Capitalists**

Notwithstanding this outstanding success, this entrepreneurial model was not
without serious weaknesses. And, similarly to what had happened in the small
firm economy more or less two decades earlier, the emphasis on the successes of
the industrial districts obscured other relevant dynamics which were taking place
at the firm level and marking a further discontinuity in the evolution of Italian
capitalism.

\textit{Sudden decline...}

\textsuperscript{14} Signorini Luigi F (ed.), \textit{Lo sviluppo locale. Un’indagine della Banca d’Italia sui distretti industriali} (Rome: Donzelli 2000)
During the second half of the Nineties, and especially at the turn of the millennium, some of the favorable conditions which, in the past, had allowed entrepreneurs of the Italian industrial districts to overcome foreign producers in less developed countries could no longer be exploited. The competitive advantage of the Italian industrial districts was quickly under attack, given the ability of international competitors to imitate Italian products and their quality standards. According to many commentators, in fact, the so-called “Euro-effect” (i.e. the loss of competitiveness due to the currency reevaluation) was only partially responsible for this decline. Whichever the reason, in a few years and with only a few exceptions, the successful entrepreneurial formula that dominated the late Eighties and Nineties was dramatically challenged, while the “external economies” typical of the industrial district appeared unable to compensate for the competitive pressures coming from abroad. The data available on the fast decline of Italian competitiveness in the industries dominated by the small, family firm are abundant and shocking. From 1996 to 2002 the world’s global trade experienced 20% growth. During the same period, the EU-15’s market share had an average decline of 5%. The Italian performance was the worst with minus 17% in its share of world trade. Just to give an idea, from 2001 to 2002 the exports from Italian industrial districts decreased by 3.5% in furniture, 4.5% in mechanics, 6.5% in footwear, 7.5% in textiles, nearly 8% in jewelry and 12% in leather.

This sudden downturn in the country’s competitiveness in the small, family firm sectors characteristic of the industrial districts was accompanied, at the beginning of the new millennium, by an acceleration in the decline of the large firms as symbolized by the shocking agony of the emblem of Italian capitalism, Fiat, which was on the verge of collapse at the end of 2004. The atmosphere was so dark that some commentators started to talk openly of “decline”. For instance, a well-respected sociologist, Luciano Gallino, published a small but very influential pamphlet in 2003 titled La scomparsa dell’Italia industriale (The vanishing industrial Italy, Turin: Einaudi) which not only stressed the failure of the entrepreneurial models that had characterized Italian industrial history after the
Second World War but also openly criticized the idea of a pattern of modernization based exclusively on the small family firms in the Made in Italy sectors.

...or metamorphosis?

According to very recent data published by Istat on its website (www.istat.it), the National Institute for Statistics, there were 199 industrial districts recorded in the 1991 census and 156 ten years later. These data seem to confirm beyond any doubt the crisis of the entrepreneurial model based on the small, specialized firm typical of the industrial district. The comments attached to the data, however, suggest a different, more intriguing scenario:

The cause of this reduction must be looked for in the patterns of organizational change in some of the local systems which had been classified as industrial districts [by the National Statistics Institute] in 1991. This re-organization has been characterized by a growth in the dimension of the production units.

The phenomenon is not easy to define and describe. It is however possible to outline some of its basic characteristics. First of all, 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 to react to the greater foreign competition. 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\textsuperscript{15}

The result of this process was a consolidation of the intermediate dimensional class, i.e. medium-sized enterprises which are now considered the most promising characters of the Italian economy.

The challenge for the researcher is to understand the real nature of this phenomenon. Is it really recent? Where does this \textit{Italian mittelstand} come from?

\textsuperscript{15} Bonomi, A. \textit{Il capitalismo molecolare. La società al lavoro nel Nord Italia} (Turin: Einaudi, 1997)
Is this simply the outcome of a transformation of the industrial districts’ inner structure under the pressure of foreign competition, or is this another entrepreneurial model in the tormented economic history of Italy? And if it is so, what are the similarities and what are the differences with the national patterns of entrepreneurship?

What is possible at this stage is to try to identify the main features of the phenomenon to develop a (very descriptive) interpretative framework.

**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’s world leader in silk production – invested and integrated both backward and forward, growing considerably while always maintaining a close connection with local small firms. The story of Della Valle group with its close ties to the Marches shoemaking district is not very different, and neither are the Benetton and Luxottica cases, rooted respectively in the textile production area around Treviso and in the Cadore, both in the Venetian region. This highlights the issue of the relationship between these middle-sized corporations and their surroundings, especially, even if not exclusively, local production systems and industrial districts.

In general, the relationship between medium-sized corporations and local production systems is close in terms of labor and know-how, flexibility, innovation and also 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 now exports 70 percent of its annual production valued at 450 million euro. Anyway, these

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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 the internal market had been saturated.

**Genetics and industries**

The steady and noticeable growth during the economic miracle of consumer goods production related to the household (electric appliances, ceramic and tile production, furniture and apparel) boosted the growth and the staying power of many of these “new” actors. The case of consumer goods enterprises (packaged food, health care goods and clothing) which began their story thanks to the radical changes in Italian society and consumption habits during the Fifties and Sixties is particularly significant. Artsana was founded in 1946 in Como (north of Milan), quickly specialized in the production of over-the-counter healthcare and cosmetic goods and enjoyed considerable market expansion during the sixties. Immediately after the war, the food industry also saw the affirmation of specialized enterprises which expanded quickly as an efficient reaction to consumer demand. This is the case of Star, one of the most important companies in the food and beverages industry, founded in 1948 near Milan for the manufacture of dried and canned food. In a few years Star was able to build up a country-wide distribution network, similar to other companies in the same industry such as Ferrero, Barilla (and – before its fall – Parmalat) which are excellent international competitors in their field today.

Specialization and the ability to identify new markets were the driving forces in the classic “made in Italy” industries as well, 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. The dramatic changes at the turn of the millennium, in summation, have not created the basis for this *mittelstand*. At least, not only – in many cases the story is a bit older. In any case, the ingredients of such success do not seem to differ significantly from those discussed above. The case of the Diesel brand in casual clothing, which is based near the Venetian town of Vicenza, is quite telling. Founded in the Eighties by a group of local entrepreneurs, Diesel experienced impressive, steady growth in 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, lies the fruitful relationship with the local system providing Diesel with an efficient and flexible network of subcontractors combined with an aggressive commercial strategy based on the presence of Diesel shops all over the world – a path already traced decades before by Benetton.

*Competitive strategies, organizational structures*

During the Sixties, the evolution of the most important industries such as automobiles and automotive components, housing construction and consumer goods fueled the growth of specialized producers who consolidated themselves on the domestic market and then quickly expanded abroad to fill worldwide market niches. This is, for instance, the case of ceramic tile manufacturers in Emilia Romagna located in the Sassuolo area (such as Marazzi-Ragno). They, in turn, stimulated other, very specific production such as the industrial glues made by Mapei, a Milan-based family company founded in the late Thirties and now a successful multinational company in chemical products for the construction sector. Quite similarly – even though in a completely different field – certain specialized enterprises, such as car-frame makers like Pininfarina and Bertone, grew to international dimensions following the evolution of the automotive industry. But in this area there are also enterprises which on the basis of great
technical experience positioned themselves as unchallenged suppliers of components, expanding their activity on an international level. This is the story of Brembo which started at the beginning of the Sixties near Bergamo (Lombardy) as a small mechanic shop working as a subcontractor for the most important national car makers. Following the requirements of its most important customer, Alfa Romeo, Brembo began producing disk brakes in 1965 and progressively specialized in this activity to become a world leader in braking systems now selling abroad almost two thirds of its sales of 630 million euro.

The growth and the dynamism experienced by these enterprises during the last fifteen years have also stimulated their organizational evolution towards a non-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; it is also the result of the growth path of growth followed by these enterprises, typically pursued by the acquisition of existing smaller companies which maintained their independence and commitment to specialized production.

The organizational complexity also responds to a competitive strategy which is often based on a relatively articulated concept of what is to be understood as a “product”, especially when intermediate goods (e.g. machine tools) manufacturers are considered. New products are often generated by mixing well-established techniques with other, additional elements such as services. “Service” is, in turn, a very broad conceptual category which includes elements like quick delivery, production flexibility, the capability to design, develop, and adapt customer-oriented specific solutions (generally starting from general-purpose technologies), the ability to maintain “in stock” a wide range of specific-purpose products ready-for-use, as well being able to provide the customer himself with the necessary technologies and knowledge 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 the most dynamic
and “innovative” firms are increasingly moving towards the inclusion of service content in their products, and, consequently, towards a growing organizational complexity based, to some extent, on vertical integration strategies. 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 service content attached to the product is firm-specific, not easily available on the market (both for the customer as well as the supplier) and must be developed internally through an appropriate investment policy. Moreover, the service content is also very often customer specific, and this implies the necessity for the customer 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 also meant 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 a better cultural level in general than 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 led 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 at the top, as in the past, influencing the succession strategies. Also, familialism (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 still a dominating
feature among these companies, especially when succession strategies are considered.
The (on average) extremely good performance of these firms means that adequate internal funds to sustain expansion have been available. According to recent research in the field, these medium-sized firms perform definitively better than large ones in terms of return on investment and on equity\textsuperscript{17}. The fact that they are not dependent on financial markets for the gathering of additional resources contributes to maintaining the symbiotic relationship between ownership and control. In this respect, however, it is a matter of fact that the quality of the human capital available has changed; it now has fewer specific and product-related skills and is more oriented to general problem solving. On the other hand, frequent contacts with the international financial community bring foreign institutional investors close to these medium-sized corporations which are now frequently 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.

\textbf{Concluding remarks}

As emphasized in the first part of this paper, Italian big business has suffered serious defeats after the years of the “economic miracle”. The State as Entrepreneur \textit{de facto} disappeared and (from an industrial point of view) so have large corporations such as Olivetti and Montedison while historical actors in Italian industry like Fiat and Pirelli show serious weaknesses. Italy is, however, still among the wealthiest countries in the world, and this positive result has been achieved mainly thanks to diffused entrepreneurship in small and medium-sized companies that originates from refined craftsmanship, a tradition of cosmopolitan trade and an ethic of hard work in the countryside\textsuperscript{18}. The model of growth based on the small firm economy, however, has proved to be only partially successful,


revealing its structural weakness in the face of the globalization process and, to a degree, the loss of the implicit protection given by a weak currency. The present outcome of this process seems to be, luckily for the Italian economy, an additional entrepreneurial model combining, to some extent, the virtues of specialized and flexible niche production, which characterize many industrial districts, with a more complex and articulated organizational structure and stronger commercial and strategic autonomy along with the ability to generate financial resources to sustain the process of growth and consolidation. Strategies and structures in this relatively new pattern of entrepreneurship are corroborated by a dynamic of innovation which is not only imitative and limited to the process of production, but which, differently from the past, is based to a large extent on product innovation carried out thanks to non-negligible investments in R&D. Again, as shown above, these middle-sized enterprises quite often base their competitive strength on a concept of product which is somewhat different from the traditional one and increasingly involves one or many components of service for the customer.

From another point of view, however, this entrepreneurial pattern shows impressive continuities with the models which have historically characterized the Italian economic history as a whole. The middle-sized, dynamic pocket multinationals are, without exception, family controlled and family managed, with all the problems this ownership form implies. Quite often, this is a second, or also a third-generation leadership. This has probably had a positive effect on top management selection (putting the most capable among the heirs in charge of heading the firm), even if it has not completely solved the problems of dynastic management. What is to be verified in the near future is if, for probably the first time in the history of Italian industry, the strategies and structures of the most dynamic section of the economy will be consistent with a pattern of ownership and management enjoying the virtues while not falling into the typical traps of family capitalism: limits to growth, undercapitalization, scarce commitment to innovation and competitive dynamism.
The limit of this successful entrepreneurial model is that, as in the past, it does not operate in the fields which grant a country a stable presence in the world economic frontier. In order to reach this goal, in addition to the undoubtedly flourishing entrepreneurial resources of the last two decades, it would have been necessary to push in the direction of an appropriate industrial policy directed to greater competitiveness, a tight link between companies and science institutions and a legal framework that permits the mobilization of all the financial resources available. All these goals are inconceivable without the affirmation of large enterprises. It may be that Italy, now fully integrated into the European Economic Community, will leave specialization in these frontier sectors to other countries inside a continental division of labor.
REFERENCES


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