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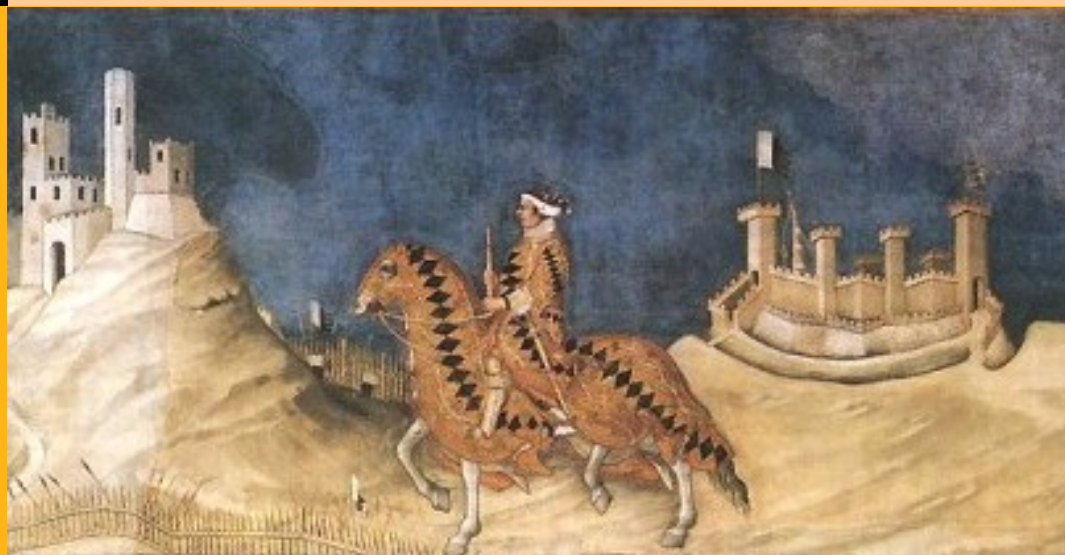


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Institutions, Politics and the Corporate Economy

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**Abstract:** Over the century and a half since its unification, Italy caught up with the most advanced economies. Such a result was achieved in the presence of an industrial structure which is in many respects unique in international perspective and characterized by a dominance of small firms and a marginal role of large firms. In the last twenty years, however, this pattern seems to have come to a halt. In this paper we explore the determinants of such a dynamic in the long run. The focus will be on the role played by institutions in forging an array of industrial policies in place over the last 150 years which determined the process of convergence and, more recently, of divergence in big business, and the outstanding, constant presence of a small business sector far beyond the average of the most advanced countries among which Italy is still considered to be.

**Keywords:** Italy; big business; small firms; industrial policy; institutions

**JEL Codes:** L11; L52; L53; N8

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## 1. Introduction

Over the century and a half since its unification in 1861, Italy caught up with the most advanced economies. Long-run economic growth was in line with that of the top performers.<sup>1</sup> Such a result was achieved in the presence of an industrial structure which is in many respects unique in international perspective, as it is characterized by a dominance of small firms and a marginal role of large firms with no comparisons in the other major industrial nations.<sup>2</sup>

However, in the last twenty years this pattern seems to have come to a halt and some scholars wondered if Italy's poor economic performance since the 1990s was a consequence of her industrial structure that, in the face of the challenge of globalization and the advent of the new technological regime based on ICT, was no longer able to regenerate a competitive advantage at the international level.<sup>3</sup> Some authors pushed their criticism further and argued that over the whole of her post-unitary history Italy was confined along a sub-optimal development path of firm small size, family control and specialization in traditional sectors, which prevented it from achieving an effective capacity to innovate and converge towards the technological frontier.<sup>4</sup>

The reasons of Italy's peculiar industrial structure have been widely debated by historians and economists.<sup>5</sup>

Historiography focused on the macroeconomic determinants of the corporate system by stressing that the advent of big business was curbed by some "originary traits", among which the limited size of the domestic market, the general shortage of capital and the lack of natural resources stood out. As a consequence, only a few big companies could thrive in the country; these were often protected by the state and enjoyed a large market power in the industries in which they

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<sup>1</sup> Emanuele Felice and Giovanni Vecchi, *Italy's Modern Economic Growth, 1861-2011*, Quaderni del Dipartimento di Economia Politica e Statistica, Università di Siena, no. 663 (Siena, 2012).

<sup>2</sup> Fabrizio Onida, *Se il piccolo non cresce. Piccole e medie imprese italiane in affanno* (Bologna, 2004).

<sup>3</sup> Onida, *Se il piccolo non cresce*; Vincenzo Visco *et al.*, *Il declino economico dell'Italia. Cause e rimedi* (Milano, 2004); Franco Amatori, Matteo Bugamelli and Andrea Colli, "Technology, Firm Size and Entrepreneurship," in *Oxford Handbook of the Italian Economy 1861-2011*, ed. Gianni Toniolo (Oxford, 2012), 455-484.

<sup>4</sup> Pierluigi Ciocca, *Ricchi per sempre? Una storia economica d'Italia (1796-2005)* (Turin, 2007); Paolo Di Martino and Michelangelo Vasta, "Happy 150th Birthday Italy? Institutions and Economic Performance since 1861," Quaderni del Dipartimento di Economia Politica e Statistica, Università di Siena, no. 662 (Siena, 2012).

<sup>5</sup> For a recent overview of this debate, see Andrea Colli and Michelangelo Vasta, ed., *Forms of Enterprise in 20th Century Italy. Boundaries, Structures and Strategies* (Cheltenham-Northampton, MA, 2010).

operated.<sup>6</sup> State interventionism brought about a kind of “political capitalism” inside which entrepreneurs pursued growth not for economic reasons (i.e., to pursue economies of scale and scope to cut cost per unit and increase market shares) but to strengthen their bargaining power with political authorities.<sup>7</sup>

Most of historiography held that – in the face of such constraints – the creation in Italy of one of the largest state-owned sectors in the Western world turned out to be a way to provide those Gerschenkron-type “substitution factors” that were needed to catch up with more industrialized countries. The action of state-owned enterprises (SOEs) – which were among Italy’s largest companies – was restricted to those fields that the government considered strategic for the nation’s economic development and in which the private sector was reluctant to invest. This was particularly the case of such capital-intensive industries as steel, heavy engineering, energy, motor-ways and public utilities whose expansion provided the indispensable infrastructure for the growth of private initiative in related sectors.<sup>8</sup> Others argued that the presence of a large SOE sector might in some way have curbed the growth of the private enterprises by preventing them to enter in those industries that were already occupied by SOEs.<sup>9</sup> In particular, after the creation in 1956 of the Ministry for State Shareholding (with jurisdiction over SOEs) which operated side by side with the Ministry for Industry (with jurisdiction over private companies), Italy lacked a unified authority for industrial policy. Thus, the division between the two ministries made it impossible to carry out an industrial policy that prompted the restructuring of Italy’s strategic industries (such as energy, aerospace, railway stock) through mergers and acquisitions and the

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<sup>6</sup> Emilio Sereni, *Capitalismo e mercato nazionale* (Rome, 1966); Giorgio Mori, *Il capitalismo industriale in Italia. Processo d’industrializzazione e storia d’Italia* (Rome, 1977); Franco Bonelli, “Il capitalismo italiano: linee generali di interpretazione,” in *Storia d’Italia. Annali I. Dal feudalesimo al capitalismo*, ed. Ruggiero Romano and Corrado Vivanti (Turin, 1978), 1195-255; Franco Amatori and Andrea Colli, *Impresa e industria in Italia dall’Unità ad oggi* (Venice, 1999).

<sup>7</sup> Franco Amatori, “Entrepreneurial Typologies in the History of Industrial Italy: Reconsiderations,” *Business History Review*, 85 (2011): 151-180.

<sup>8</sup> Michael V. Posner and Stuart J. Woolf, *Italian Public Enterprise* (London, 1967); Franco Amatori, “Beyond State and Market: Italy’s Futile Search for a Third Way, in *The Rise and Fall of State-Owned Enterprises in the Western World*, ed. Pier Angelo Toninelli (Cambridge, 2000), 128-156; Pier Angelo Toninelli, “Between state and market. The parabola of Italian Public enterprise in the 20th century” *Entreprises et histoire*, 37 (2004): 53-74.

<sup>9</sup> Vera Zamagni, “Alcune tesi sull’intervento dello Stato in una prospettiva di lungo periodo”, in *Il progresso economico dell’Italia. Permanenze, discontinuità, limiti*, ed. Pierluigi Ciocca (Bologna, 1994), 151-160.

creation of national champions, in contrast to the experience of the other major European countries.<sup>10</sup>

The central role of the state in corporate ownership and, more generally, in shaping inter-firm relations makes Italy not to fit easily, in the literature on varieties of capitalism, with either of the models of the liberal market economies and the coordinated market economies.<sup>11</sup> Thus, Italy seems rather to constitute a third variety of capitalism, which has been defined “state influenced market economy”<sup>12</sup> or “dysfunctional state capitalism”, due to the fragmented nature of political authority and the state’s limited capacity to impose decisions on labor regulation.<sup>13</sup>

If historians dealt mainly with the macroeconomic determinants of Italy’s industrial structure, economists, particularly since the 1990s, focused on its microeconomic determinants. Following the “new theory of the property rights”,<sup>14</sup> a research group of the Bank of Italy, headed by Fabrizio Barca, shifted the analysis on the corporate governance system.<sup>15</sup> This approach explained the absence of widely-held corporations with the low level of shareholder protection and, more generally, with the absence of appropriate rules for corporate governance. The persistence of concentrated ownership, with a large diffusion of pyramidal groups, acted as a constraint to firm-size growth and was responsible for some of the main limits of Italian capitalism, among which the adoption of verticistic and backward organizational models,<sup>16</sup> conservative strategies and, above all, extremely poor corporate governance practices, which resulted in the massive exploitation of minority shareholders.<sup>17</sup>

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<sup>10</sup> Romano Prodi and Daniele De Giovanni, “Quarantacinque anni di politica industriale in Italia: protagonisti, obiettivi e strumenti”, in *La politica industriale in Italia dal '45 ad oggi. Fasi, intrecci, prospettive '90*, ed. Mario Baldassarri (Rome, 1990), 35-62.

<sup>11</sup> Peter A. Hall and David Soskice, “An Introduction to Varieties of Capitalism,” in *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*, edited Peter Hall and David Soskice (Oxford, 2001), 1-68.

<sup>12</sup> Vivien Schmidt, *The Future of European Capitalism* (Oxford, 2003).

<sup>13</sup> Vincent Della Sala, “The Italian model of capitalism: on the road between globalization and Europeanization?,” *Journal of European Public Policy*, 11 (2004): 1041-1057.

<sup>14</sup> Sanford J. Grossman and Oliver Hart, “The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration”, *The Journal of Political Economy*, 94 (4) (1986): 691-719; Oliver Hart, “An Economist’s Perspective on the Theory of the Firm”, *Columbia Law Review*, 89(7) (1989): 1757-74; Oliver Hart and John Moore, “Property Rights and the Nature of the Firm”, *Journal of Political Economy*, 98(6) (1990): 1119-58.

<sup>15</sup> Fabrizio Barca *et alii*, *Assesti proprietari e mercato delle imprese. Vol. I. Proprietà, modelli di controllo e riallocazione nelle imprese industriali* (Bologna, 1994).

<sup>16</sup> Robert J. Pavan, *Strutture e strategie delle imprese italiane* (Bologna, 1976).

<sup>17</sup> Marcello Bianchi, Magda Bianco, Silvia Giacomelli, Alessio M. Paces and Sandro Trento, *Proprietà e controllo delle imprese in Italia* (Bologna, 2005).

Historiography sought also the long-term roots of the predominance of small firms in Italy.<sup>18</sup> Some authors stressed the historically dualistic nature of Italian industry, emphasizing the dynamic role of small firms in traditional sectors, and their ability to exploit the comparative advantage of a country with very easy access to labor. These authors underscored the ability of small firms to maintain their competitive advantage without requiring any form of state intervention, whereas larger companies operating in capital intensive oligopolistic sectors were able to survive only thanks to the state subsidies.<sup>19</sup> Some long-term coincident factors were crucial to the success of Italian small firms: the Italian extended family; the preservation of aspects of the late medieval communal civilization in the Centre-North and in particular of craft skills and craft tradition; the existence of merchant traditions connecting the Italian provinces to the world markets; the sophisticated and fragmented distribution channels that represent a demanding intermediate buyer which prompts enormous variety for the “Made in Italy” products; their propensity to aggregate in industrial districts (IDs) – i.e., geographic clusters of small firms each specialized in one or a few phases of the same production process – and the willingness of local governments to create the infrastructure and services to support small firms’ development.<sup>20</sup> Moreover, since the 1970s Italian small firms and IDs benefited from a number of important trends in the world economy. One trend is the shift from standardized, mass-produced products toward more customized, higher-styled, higher quality goods. Another is the movement of production technology away from inflexible, scale-intensive processes towards those with more flexibility that are suitable for, and adaptable to, small production runs.<sup>21</sup>

However, a different strand of literature identifies the reasons for the dominance of small firms in Italy in the consequence of the strategy adopted by large firms to cope with the crisis of Fordism and mass production in the 1970s. In this view, the rise of small firms was due to the devaluation of the Lira and the difficult trade union relations in the large factories of the Northwest, which, in the years following the end of the “Golden Age”, prompted a radical organisational restructuring of Italian industry. This led to manufacturing decentralisation and

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<sup>18</sup> Andrea Colli, *I volti di Proteo: storia della piccola impresa in Italia nel Novecento* (Turin, 2002).

<sup>19</sup> Luciano Cafagna, *Dualismo e sviluppo nella storia d'Italia* (Venezia, 1989); Giovanni Federico, ed., *The Economic Development of Italy Since 1870* (Aldershot, 1994).

<sup>20</sup> Michael J. Piore and Charles F. Sabel, *The Second Industrial Divide. Possibilities for Prosperity* (New York, 1994), 227-229.

<sup>21</sup> Michael E. Porter, *The Competitive Advantage of Nations* (London-New York, 1998), 421-453.

the transfer of a large number of activities to small subcontractor firms located primarily in the Centre and Northeast.<sup>22</sup> This process was supported by the 1970 Charter of Workers' Rights which exempted firms with less than 16 employees from the ban on dismissals without just cause, and was also spurred by poor law enforcement which enabled small firm to resort to a large extent to tax evasion and the use of "black" labor.<sup>23</sup> As a result, Italy's industrial structure became progressively less similar to that of the most advanced economies. On the one hand, it showed an unparalleled dominance of small size; on the other hand, it lost its grip on high tech industries (such as ICT, chemicals and aerospace) and entrenched in traditional sectors (such as textiles, clothing, and footwear) becoming increasingly exposed to competition from low-wage economies.<sup>24</sup>

This paper analyzes the evolution of Italy's industrial structure in the long term and provides an interpretation of it based on the role of institutions. This paper argues that Italy's peculiar industrial structure, characterized by an overwhelming presence of small firms and, conversely, by a marginal role of large firms, is only in part the result of entrepreneurial failures of big business and of the dynamism of small firms clustered in industrial districts. Instead, it emphasizes the role that institutions played in determining the relative performances of both big business and small firms.

This paper is organized as follows: after this Introduction, Section 2 presents a picture of Italy's industrial structure at the beginning of the 21<sup>st</sup> century. Section 3 shows whether Italy's industrial structure has ever been different since her unification in 1861. Section 4 analyzes Italy's political and corporate elites and their interplay as a driver of institutional action towards the corporate economy. Sections 6 and 7 illustrate, respectively, the role of institutions in determining the performance of big business and of the small firm sector. Finally, Section 7 concludes.

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<sup>22</sup> Marcello De Cecco, *L'economia di Lucignolo. Opportunità e vincoli dello sviluppo italiano* (Rome, 2000).

<sup>23</sup> Paul Ginsborg, *L'Italia nel tempo presente. Famiglia, società civile, Stato. 1980-1996* (Turin, 2007).

<sup>24</sup> Di Martino and Vasta, "Happy 150th Birthday Italy?"



## 2. Italy's industrial structure on her 150<sup>th</sup> birthday

*A small business economy...*

The classification of Italian enterprises according to their structural characteristics at the beginning of the 21<sup>st</sup> century is relatively simple. First of all, the weight of small firms (up to 99 employees) appears to be overwhelming, well above all the other major industrialized nations (see Table 1).

Tab. 1. Workforce distribution per country and employment dimensional class, 2001 (employees per single production unit)

	1-9	10-99	100-499	500 or more
France	11.8	27.4	24.5	36.3
Germany	7.0	22.8	25.8	43.4
<i>Italy</i>	<i>25.1</i>	<i>41.1</i>	<i>17.4</i>	<i>16.4</i>
Japan	10.8	41.7	27.3	20.2
Spain	19.0	43.2	20.2	17.6
UK	10.1	29.2	28.1	32.6
US	11.0	25.7	14.5	48.8

Source: Oecd, *SME and Entrepreneurship Outlook* (Paris, 2005), Tab. A.2.

Small and medium-sized enterprises (SMEs) – i.e., firms with fewer than 500 employees – account also for the absolute majority of value-added of the industrial sector, around the 65 per cent.<sup>25</sup> Many factors account for the predominance of small firms in Italy. Among them, the legacy of the historical diffusion of artisanal competencies both in towns and the countryside, as well as the presence of a pervasive primary sector providing raw materials, an abundant supply of labor, and a profitable market for small specialized producers. The tendency of small firms to cluster in IDs, characterized by relevant agglomeration economies, further increases their flexibility and efficiency.<sup>26</sup>

<sup>25</sup> Mediobanca-Unioncamere 2009, [http://www.mbres.it/ita/download/mi\\_presentazione\\_MB09\\_n.pdf](http://www.mbres.it/ita/download/mi_presentazione_MB09_n.pdf)

<sup>26</sup> Colli, *I volti di Proteo*.

One major reason of the overwhelming presence of small firms in the Italian industry is that most of them are specialized in the “made-in-Italy” industries – i.e., personal and household goods (such as textiles, clothing, leather, footwear, wood, tiles, furniture, jewelry, cosmetics, musical instruments, toys and sports items) – and the light engineering producing the machinery to make the former, that produce customized or short-run goods in which technical economies of scale are not relevant (see Table 2). Thus being small does not mean being inefficient. For example, in his seminal article on the economic success of the Emilia-Romagna region, Brusco showed that the Morini motorcycle plant in Bologna had 100 employees and produced 20 motorcycles per day. Most of the workers in the plant were engaged in assembly, on lines on which the tasks were not very subdivided. Except for the camshaft and the engine mounting, all of the components were put out: the frame, the tank, the shock absorbers, the handlebars, the brakes, the gears and the wheels were produced by subcontractors. They were produced with precisely the same techniques which would have been used had the firm decided to make them in-house.<sup>27</sup> That is, with the technologies of most of the industries in which Italian small firms are specialized, there is no advantage in producing all the components of a product under a single roof. Thus, for most aspects of production, small firms are not at a disadvantage because of their size; that is, in their industries economies of scale exist at the level of one or a very few machines, not of whole factories.<sup>28</sup>

Over the last forty years the “Made in Italy” industries, together with the food sector, constantly expanded and at the beginning of the 21st century accounted for about two-thirds of Italy’s total manufacturing workforce. The “Made in Italy” constitutes the clusters of products in which Italy

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<sup>27</sup> Sebastiano Brusco, “The Emilian Model: productive decentralisation and social integration,” *Cambridge Journal of Economics*, 6 (1982): 167-184.

<sup>28</sup> Charles F. Sabel, *Work and Politics* (Cambridge-New York, 1982), p. 226. If for many industries technical economies of scale are negligible, there might nonetheless be both indivisibilities in the administrative work of firms and significant pecuniary economies of scale. Small firms might experience difficulties in book keeping, in obtaining raw materials, and in having access to credit at the same price paid by larger firms. To overcome these difficulties, small firms in many Italian industrial districts have created associations that provide them with administrative services and coordinate purchasing and credit negotiations, thus establishing on a co-operative basis the conditions for achieving minimum economic scale of operation. These associations – among which the two largest confederations of artisan firms, the Cna and the Confartigianato, stand out – prepare the pay slips, keep the books, and pay the taxes of thousands of small firms, giving them the expertise of a large office in administration and accountancy at a minimal price. These associations also established technical consultancy offices, consortia for marketing and the purchase of raw and semi-fabricated materials and, most importantly, co-operatives which provide guarantees for bank loans which can thus be obtained at the lowest possible rate of interest (Michael H. Best, *The New Competition. Institutions of Industrial Restructuring* (Cambridge MA, 1990).

has gained an enduring competitive advantage in international markets, thanks to systematic, often informal, process and product innovation that has not been recorded in the international R&D statistics.<sup>29</sup> Conversely, Italy covers a minor share of the high-tech and large-scale sectors in comparison with the other advanced economies.<sup>30</sup>

Tab. 2. Workforce distribution per country and industry, 2001 (%)

Industry	Italy	France	Germany	UK	Japan	US
Food, beverage and tobacco	9.1	16.6	12.4	12.9	13.0	9.7
Textiles, garment, leather and footwear	18.6	6.5	3.1	6.5	8.0	6.3
Wood and furniture	3.8	2.4	2.2	2.1	2.2	4.8
Paper and printing	5.9	8.5	7.0	11.8	8.3	12.3
Chemicals, rubber and plastics	9.2	12.2	12.0	12.9	5.5	11.6
Non metal minerals	6.6	4.5	3.6	3.6	4.0	3.2
Metallurgy and mechanics	14.9	14.7	14.2	12.9	12.2	11.8
Machinery	20.4	19.5	28.6	21.4	29.1	25.0
Motor vehicles	5.5	10.1	13.2	10.2	8.8	9.8
Others	5.9	5.2	3.7	5.7	9.0	5.4
Total manufacturing	100.0	100.0	100.0	100.0	100.0	100.0

Source: Renato Giannetti and Michelangelo Vasta, *Storia dell'impresa industriale italiana* (Bologna, 2005), Table 2.7.

It should be noted, however, that IDs cannot thrive in those large-scale industries in which economies of scale are relevant. Moreover, small firms in IDs show also several weaknesses: they are not able to carry out massive R&D programs, often lack the resources to pursue internationalization, particularly through foreign direct investments and, above all, are

<sup>29</sup> This in part explains Italy's lower share of R&D expenditure on GDP with regard to the other advanced economies (Alessandro Nuvolari and Michelangelo Vasta, "The Ghost in the Attic? The Italian National Innovation System in Historical Perspective, 1861-2011," Quaderni del Dipartimento di Economia Politica e Statistica, Università di Siena, no. 665 (Siena, 2012).

<sup>30</sup> Porter, *The Competitive Advantage of Nations*, 421-453; Marco Fortis and Monica Carminati, "Sectors of excellence in the Italian industrial districts," in *Handbook of Industrial Districts*, ed. Giacomo Becattini, Marco Bellandi and Lisa De Propris (Cheltenham, UK-Northampton, MA, 2009), 417-428.

characterized by a strong inertia in the face of the opening of new markets and the advent of new technologies. In fact, the small-scale nature of their operations means that the direct collection of information is often too costly, and this makes the move towards new technology much more difficult.<sup>31</sup>

*...and a “weak” big business*

At the opposite, big business plays only a marginal role, in terms of both employment and value added. Among Fortune’s global list of the World’s largest 500 corporations ranked by revenues in 2011,<sup>32</sup> Italy has 10 entries, against 30 of the UK, 61 of China, 35 of France, 34 of Germany, 68 of Japan and more than 130 of the US. The largest Italian manufacturing company in the ranking is ENI (a State-controlled oil company, 23rd in the global ranking), followed by ENEL (electricity, 56<sup>th</sup> in the global ranking) and EXOR-Fiat (83). In terms of market value, Italian firms are even more marginal. In the FT 2008 ranking by market value of the largest 500 companies in the world, Italian companies were only eight, of which only Fiat in manufacturing, two banks and another five (Eni, Enel, Telecom Italia, Snam and Saipem) in energy and utilities<sup>33</sup>. Occurrences for other Western and Asian countries are much higher. As a result of the weakness of big business, in 2007 the average firm size in Italy amounted to only 4 employees, less than in Germany (13.3), the UK (11.1), France (5.8) and Spain (5.3). A shift-share analysis shows that the firm size gap between Italy and the EU-15 average is almost exclusively due to the within-sector component.<sup>34</sup> The average size of Italian firms is smaller than that of the other main European economies in all manufacturing sectors, and above all in capital intensive industries.<sup>35</sup>

The predominance of small firms and the smallness of the big business sector coincide with a peculiar range of ownership structures. Individual and family ownership dominates among the small and medium-size, while blockholding - that is the presence of dominant shareholders in a relevant controlling position - is the rule among the largest corporations, of which almost none

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<sup>31</sup> Sebastiano Brusco, “The idea of the Industrial District: Its genesis,” in *Industrial Districts and Inter-firm Cooperation in Italy*, ed. Frank Pyke, Giacomo Becattini and Werner Sengenberger (Geneva, 1990), 10-19.

<sup>32</sup> <http://money.cnn.com/magazines/fortune/global500/2008/index.html>

<sup>33</sup> <http://www.ft.com/intl/cms/33558890-98d4-11e0-bd66-00144feab49a.pdf>

<sup>34</sup> Banca d’Italia, *Relazione annuale sull’anno 2009* (Rome, 2010).

<sup>35</sup> Amatori, Bugamelli and Colli, “Technology, Firm Size and Entrepreneurship.”

can be labeled as public company. Out of the top one-hundred companies ranked by turnover in 2011, roughly one third was family-owned and managed.<sup>36</sup> A second third was under foreign control, while, despite a massive privatization process which took place in the 1990s, the government was still a relevant blockholder in capital intensive industries such as energy and utilities. This prevalence of blockholding is not peculiar of Italy: also in other advanced economies concentrated ownership is the rule and dispersed ownership is the exception. What is peculiar of Italy is the nature of owners: instead of other industrial companies and financial institutions, Italian large owners are, basically, families, individuals and the state.

### *Recent trends*

More recent trends in the structure of Italian corporate economy show the growing relevance of medium-sized enterprises (MSEs) and an increasing weight of foreign-owned firms.

Since the mid-1990s MSEs displayed outstanding results in terms of growth and profitability. By the beginning of the 21st century, more than 1,500 businesses with annual sales between 150 million and 1.5 billion euros were operative in Italy. MSEs often emerged from the entrepreneurial seedbed of industrial districts. Starting from the early 1990s, the increasing pressure of globalization determined a restructuring of many Italian industrial districts, with the rise of lead firms that pursued dimensional growth, invested substantially in R&D, and experienced accelerated internationalization with the establishment of trade and production subsidiaries abroad. Most of these MSEs are specialized in niches, often global. So they are defined as “pocket multinationals”. However, these MSEs went on sharing many of the features of the traditional small firm typical of industrial districts, i.e., family ownership, centralized management and specialization in the sectors of the “Made in Italy” and light engineering.<sup>37</sup>

The other major novelty in recent years is the increasing weight of foreign-owned firms. Actually, foreign capital has been constantly present in Italy’s industrialization since its inception before WW1. Foreign-controlled firms tend to cluster in industries in which the

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<sup>36</sup> The ranking is available at [www.mbres.it](http://www.mbres.it)

<sup>37</sup> Andrea Colli, *Il quarto capitalismo. Un profilo italiano* (Venezia, 2002); Andrea Colli, “‘Pocket Multinationals’: Some Reflections on ‘New’ Actors in Italian Industrial Capitalism,” in *Transnational Companies 19th-20th Centuries*, ed. Hubert Bonin et al. (Paris, 2002), 155-178; Fulvio Coltorti, “Medium-sized firms, groups and industrial districts: An Italian perspective,” in *Handbook of Industrial Districts*, ed. Becattini, Bellandi and De Propriis, 441-456; Mediobanca-Unioncamere, *Le medie imprese industriali italiane (1999-2008)* (Milan, 2011).

indigenous firms are weak or even absent, and where it is necessary to have a high technological expertise. In this sense, their role in the diffusion of a new technologies seems to have been crucial. The massive privatizations of the 1990s considerably increased the role of foreign capital, as several privatized firms were sold to foreign firms. In 2009, 2,226 Italian manufacturing companies were controlled by foreign firms, with 466,352 employees (12 per cent of total employees in manufacturing industry).<sup>38</sup>

### 3. Was Italy ever different?

Was there any moment in which Italy's industrial structure was different? To reply to this question Table 3 confronts the picture we have at the beginning of the 21<sup>st</sup> century with some other portraits, taken at the industrial censuses carried out at various times over the 20<sup>th</sup> century, starting from 1911.

#### *Small firms: a long-term and increasing presence*

The presence of a large small-firm sector and the clustering of a sizeable part of Italian small firms in industrial districts represent a long-term trait of the Italian economy, dating back well before Italy's unification.<sup>39</sup> So, for example, the textile districts of Schio, Biella and Prato went through a remarkable expansion since the late 18<sup>th</sup> century.<sup>40</sup> The post-unification years gave a further boost to the growth of several industrial districts through the creation of a national market and to the setting-up of technical schools that played an important part in training skilled workers.<sup>41</sup> However, comprehensive data about the size of the small firm sector in Italy are available only from the beginning of the 20<sup>th</sup> century. The first industrial census in 1911 showed that micro-firms with fewer than 10 employees accounted for a staggering 40 per cent of Italy's

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<sup>38</sup> Andrea Colli, "Foreign enterprises (1913-1972)," in *Forms of Enterprise in 20th Century Italy. Boundaries, Structures and Strategies*, ed. Andrea Colli and Michelangelo Vasta (Cheltenham, UK-Northampton, MA, 2010), 87-111; Sergio Mariotti and Marco Mutinelli, *Italia multinazionale 2010. Le partecipazioni italiane all'estero ed estere in Italia. Rapporto predisposto per ICE da Politecnico di Milano e R&P* (Soveria Mannelli, 2010). Andrea Colli, "Host Country Attractiveness and Economic Development: Multinationals in Italy in the Twentieth Century", *Business History Review*, forthcoming.

<sup>39</sup> Colli, *I volti di Proteo*.

<sup>40</sup> Corine Maitte, "Flexibility and adaptation in the formation of three Italian industrial districts," in *Handbook of Industrial Districts*, ed. Becattini, Bellandi and De Propriis, 18-31.

<sup>41</sup> Elisabetta Merlo, "Apprenticeship and technical schools in the formation of industrial districts," in *Handbook of Industrial Districts*, ed. Becattini, Bellandi and De Propriis, 32-42.

manufacturing workforce. In the following decades their share progressively diminished as a result of the disappearance of many marginal firms and dropped a 23.4 per cent minimum in 1981, but then the trend was reversed and in 2001 micro-firms rose again to 25.9 per cent of total employees. The immediately upper class (small firms from 10 to 50 employees) fell from 14.4 to 12.3 per cent between 1927 and 1937; however, since then it showed a constant surge up to 33.4 per cent in 2001. MSEs from 51 to 500 employees remained pretty stable around 30 per cent throughout the 20th century, whereas large firms with more than 500 employees showed a dynamics opposite to that of small firms: after reaching a 25.6 per cent peak in 1951, their share remained stable during the “Golden Age” (1951-1971), but then it decreased. The decline was at first slight but became massive after 1981, spurred by the crisis and downsizing of fordist big businesses.

Tab. 3. Percentage share of employees by firm size in manufacturing

Employees	1911	1927	1937	1951	1961	1971	1981	1991	2001
<10	40.0	35.7	35.2	31.9	28.0	23.5	23.4	26.2	25.9
10-50	60.0	14.4	12.3	14.1	19.0	21.2	26.0	31.7	33.4
51-100		7.5	8.1	8.0	10.1	10.3	10.0	10.0	11.3
101-500		22.0	20.8	20.5	21.5	22.3	21.0	19.2	19.9
>500		20.4	23.5	25.6	21.4	22.7	19.5	12.9	9.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Renato Giannetti and Michelangelo Vasta, *Storia dell'impresa industriale*, Table 2.9.

With the crisis of large firms, since the 1970s small firms organized in IDs became the driving force of the whole Italian economy. It has been estimated that in 1951 there were 149 IDs in Italy; their number rose to 166 in 1971 and to 199 in 1991, when they accounted for 42.5 per cent on the nation's manufacturing employees. In 2001, IDs had fallen to 156, but their share of total manufacturing employees had further risen to 43 per cent.<sup>42</sup>

<sup>42</sup> Sebastiano Brusco and Sergio Paba, “Per una storia dei distretti industriali italiani dal secondo dopoguerra agli anni novanta,” in *Storia del capitalismo italiano dal dopoguerra a oggi*, ed. Fabrizio Barca (Rome, 1997), 265-333; Andrea Colli, “La piccola impresa nello sviluppo economico italiano,” in *Libertà e benessere in Italia. 150 anni di storia unitaria e i traguardi del futuro*, ed. Luca Paolazzi (Rome-Bari, 2011), 169-211; Fabio Sforzi, “The empirical evidence of industrial districts in Italy,” *Handbook of Industrial Districts*, ed. Becattini, Bellandi and De Propris, 327-342.

*Big business: convergence (1880s-1960s)...*

The transformation of Italy from a rural, backward and peripheral economy as it was at the eve of her Unification in 1861 took place quickly from the last two decades of the 19<sup>th</sup> century, when the country joined the club of the most advanced nations. Starting from the 1880s, in fact, investments (largely of foreign capital) in transport (railways and tramways) and utilities (gas, light and water supply) sustained a progressive process of urbanization in the largest centers of the peninsula, as Milan, Genoa, Turin, and Naples. At the same time, both domestic and foreign entrepreneurs started successful ventures in industries closely connected to the technological wave of cotton, metallurgy, electricity and mechanics<sup>43</sup>, while the state - together with a banking system modeled on the German-style universal bank - created not only a favorable framework for entrepreneurial action, but also provided the main business opportunities to private entrepreneurs. This happened for instance in the case of steel in which the procurement necessities of the Navy drove to the establishment of the first modern steelworks of the country in Terni. The state was also an important buffer in periods of crisis. In the case of the steel sector, for instance, the state, through the Bank of Italy, provided the financial resources for a massive rescue of the entire sector in 1911. So, in the twenty years or so prior to WW1, companies like Fiat (automobiles), Pirelli (cautchouc), Ansaldo (shipbuilding), and Falck, Terni and Piombino (mass-produced steel) established themselves as “first movers” in their respective industries.

The WW1 effort provided sound opportunities for existing leaders which consolidated in their respective sectors, expanded their dimensions and their degree of vertical integration. Examples range from Montecatini, a mining company, which undertook an ambitious expansion strategy of downward integration, becoming the leader in fertilizers, to Fiat which became a powerfully integrated engineering and motor-vehicles company and in 1923 inaugurated Lingotto, an exceptionally modern automobile plant endowed with the most advanced production technologies. The interwar period saw thus Italy in a contradictory situation: on the one hand, some leaders had now emerged in modern industries characterized by a level of industrial concentration in line with what was happening in other advanced nations. On the other hand the domestic market was small, by no means comparable to the continental-size one enjoyed by US

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<sup>43</sup> Vera Zamagni, *Industrializzazione e squilibri regionali in Italia* (Bologna, 1978).



firms or the captive Central and Southern European ones which German companies had before the war. The result was that mass production remained almost unattainable.

In the 25 years following WW2, the Italian economy enjoyed extremely high rates of growth, both in GDP and manufacturing output, due to both endogenous forces and external elements among which the creation of the European Common Market, which opened as a market of continental dimensions to Italian enterprises, and a consistent inflow of international direct investments that filled technological gaps in industries such as pharmaceuticals, communication equipment, electronics and petrochemicals. This was the “Golden Age” also of big business. A large share of manufacturing employment was concentrated in capital-intensive industries (mainly automotives, chemicals, rubber, heavy mechanics, steel and shipbuilding): their share over the total number of manufacturing employees increased from less than 40 per cent in the interwar period to 60 per cent in 1971.

The total assets of the top 200 manufacturing companies accounted for about 26 per cent of GDP in 1952 and rose to 34 per cent in 1960 and to 38.5 per cent in 1971.<sup>44</sup> All this coincided with a never attained before convergence of income levels towards US standards: in 1950 Italian GDP per capita was 37 per cent of the US’s, 52 per cent in 1960, 65 per cent in 1970.<sup>45</sup>

Such a convergence in terms of weight of big business was not mirrored in the ownership models and organizational structures. As to ownership and corporate governance, the Italian capitalism was characterized - as far as big business was concerned - by strong concentrated ownership in the hands of few blockholders. At the apex of the economic miracle, Italian big business was basically a three-players affair: families, the state and foreign multinationals. Entrepreneurial dynasties, the majority of which started at the beginning of the 20<sup>th</sup> century and consolidated under Fascism, were controlling the majority of the largest companies. Another relevant blockholder, at least in terms of relevance of capital under control, was the state, as a result of a massive bailout of the banking sector, which brought in the hands of a state agency (the Istituto per la Ricostruzione Industriale, or Iri) all the shareholdings of the former universal banks. After WW2, Iri was thus in control of around one quarter of all the share capital of Italian joint stock

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<sup>44</sup> Renato Giannetti and Michelangelo Vasta, “Big business (1913-2001),” in *Forms of Enterprise in 20th century Italy*, ed. Colli and Vasta, 25-51.

<sup>45</sup> Felice and Vecchi, “Italy’s Modern Economic Growth.”

companies. To this, other SOEs were added in control of other agencies, such as Eni, created in 1953 as the national champion in the energy industry.<sup>46</sup>

*... and divergence (1970s onwards)*

Recent research focusing on the role of large firms in the long-term development of the Italian economy clearly stresses the presence of an inversely U-shaped trend in the relevance of big business contribution to the country's economic development.<sup>47</sup> The successful process of convergence mentioned above in terms of industries, dimensions and, in part, technology with the most advanced countries came to an end starting with the 1980s, almost one-hundred years after its beginning.

Evidence in this respect is straightforward. Giannetti and Vasta point out how the total assets of the top 200 manufacturing companies fell from 38.5 per cent of the Italian GDP in 1971 to 27.5 per cent in 1981, 24.1 per cent in 1991 and to 16.3 per cent in 2001.<sup>48</sup> Deriving data on employment, Amatori, Bugamelli and Colli show that the weight of large firms (those exceeding 500 employees) decreased in all sectors, reaching in 2007 3 percent in textiles, 7 percent in rubber and plastics, and 45 percent in office machinery. The downsizing of big business was more accentuated in Italy than in other advanced countries.<sup>49</sup>

A second relevant area of divergence concerns the sectorial distribution of large firms. As said above, the process of convergence was, up to the 1970s, not only dimensional, but also “qualitative”, that is in terms of the industrial composition of big business. During the following 40 years, however, Italian big business started a process of divergence. As clearly stressed by Amatori, Bugamelli and Colli,

“At the beginning of the last century Italy had large players operating in sectors of the first and second industrial revolutions. The importance of the latter kept growing until the end of 1970s, whereas the former began contracting after World War I. Among this sample of big businesses,

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<sup>46</sup> Francesca Carnevali, “State Enterprise and Italy’s “Economic Miracle”: The Ente Nazionale Idrocarburi, 1945-1962,” *Enterprise & Society*, 1 (2000): 249-278.

<sup>47</sup> Andrea Colli and Michelangelo Vasta, “Introduction: Forms of enterprise in 20th century Italy,” in *Forms of Enterprise in 20th century Italy*, ed. Colli and Vasta, 1-21; Amatori, Bugamelli and Colli, “Technology, Firm Size and Entrepreneurship,” 467 ff.

<sup>48</sup> Renato Giannetti and Michelangelo Vasta, “Big business (1913-2001),” in *Forms of Enterprise in 20th century Italy*, ed. Colli and Vasta, 25-51.

<sup>49</sup> Amatori, Bugamelli and Colli, “Technology, Firm Size and Entrepreneurship,” 470-4.

the relevance of firms in ICT-related sectors has always been limited. In other terms, if we look at largest manufacturing firms Italy today resembles the structure it had at the beginning of the 1980s.”<sup>50</sup>

Commentators have suggested various explanations of this divergence, not mutually excluding. We will assess in depth the institutional determinants of big business weakness in Italy in the fifth paragraph. To this another two factors must be added: entrepreneurship and the “national innovation system”. About the former, recent research in Italian business history shows clearly declining entrepreneurial drive in big business related to the technological regime of the third industrial revolution.<sup>51</sup> Entrepreneurial failures in the fields of energy, ICT and electronics have punctuated the history of Italian industry since the 1960s. In its turn, the Italian national innovation system proved to be extremely weak and ineffective in sustaining the technological convergence process of Italian large firms.<sup>52</sup>

Notwithstanding diffuse expectations, the privatizations of the 1990s did not change much in the national corporate structures. Fully privatized companies became under control of powerful families and of foreign multinationals, while the state has maintained the position of majority shareholder in some strategic (and profitable) companies such as Eni, Enel and Finmeccanica. This process did not (or only randomly, as in the case of Finmeccanica) result in the emergence of global technological leaders enjoying dominant positions, eventually supported by the state in the process of their international expansion.<sup>53</sup>

#### **4. Political elites and corporate elites in Italy**

The fact that since the outset big business in Italy grew highly protected by the state had the consequence that industrialists did not propose themselves as an alternative to the political elites that had led the unification of the country. Thus the corporate elite did not try to become also political elite but preferred to bargain sectoral benefits from a state controlled by another elite.

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<sup>50</sup> Ibid., 472.

<sup>51</sup> Amatori, “Entrepreneurial Typologies in the History of Industrial Italy: Reconsiderations.”

<sup>52</sup> Franco Malerba, “The national system of innovation: Italy”, in *National Innovation Systems. A comparative analysis*, ed. Richard R. Nelson (Oxford, 1993); Alessandro Nuvolari and Michelangelo Vasta, “The Ghost in the Attic? The Italian National Innovation System in Historical Perspective, 1861-2011,” mimeo 2012.

<sup>53</sup> Andrea Colli, Sergio Mariotti and Lucia Piscitello, “Governments as Strategists in Designing Global Players”, unpublished manuscript, 2012.

As a matter of fact, the corporate elite failed to pursue an ideological and moral hegemonic grip on the Italian society; that is, to work out a project for the development and modernization of the whole Italian society which would legitimize it as the leading force of the nation and reshape institutions according to bourgeois and corporate values.<sup>54</sup>

As a result, the consensus for the corporate elite in the Italian society remained weak. Thus, the events that led to the creation of Terni in 1884 and gave Italy her first large-scale iron and steel company showed the commitment to industrial scale of the newborn Italian state. However, the dangers inherent in the link between state, army, and heavy industry were identified in the 1880s by many illustrious commentators, such as the economist Wilfrid Pareto. At the same time industrialists, academics, and journalists were warning against the dangers of big business and highlighting the merits of a system based on SMEs as this held together industry and agriculture, and prompted a seamless transition into industrialization, without social and environmental fractures.<sup>55</sup>

At the beginning of the 20<sup>th</sup> century, Giovanni Giolitti, the dominant figure in Italian politics at that time, pursued a policy that coupled fast economic growth led by big business in the sectors of the second industrial revolution with a modernization of the Italian society through the creation of a state-funded welfare system and a more advanced labor relations with the recognition of the role of trade unions. The acceptance by the corporate elite of Giolitti's project would have enabled it to play a leading role in the modernization of the whole Italian society. Instead, most industrialists joined the ranks of the those who opposed Giolitti as in their narrow-minded conception of the role of the corporate elite in an industrial society, they refused to pay the cost (higher taxes) for the enlarged welfare system and did not recognize the role of trade unions as a co-determinant of income distribution.<sup>56</sup>

So, the way was paved for the authoritarian turn that after WW1 led to the advent of the fascist dictatorship. But also in this case its weak hegemonic grip on the Italian society made it necessary for the corporate elite to rely on a actor on which it had little control and which was in many respects foreign to private big business and corporate values. Thus, on the one hand, the fascist government freed industrialists from independent trade unions and allowed them to

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<sup>54</sup> Guido Baglioni, *L'ideologia della borghesia industriale nell'Italia liberale* (Turin, 1974).

<sup>55</sup> Francesca Carnevali, *Europe's Advantage. Banks and Small Firms in Britain, France, Germany, and Italy since 1918* (Oxford, 2005), 78.

<sup>56</sup> Baglioni, *L'ideologia della borghesia industriale*.

consolidate their positions in a protected domestic market, but on the other hand it extended the state's presence in the economy to an extent that had no comparisons in the other advanced nations of the West.<sup>57</sup>

After WW2, the Confindustria – the Italian industrialists' association – supported the pro-free market Liberal Party, with the hope that this could play a central role in the nation's political arena. However, the results of 1946 elections for the Constituent Assembly showed that after the fall of Fascism the only mass-based center- or right-wing party were the Christian Democrats (Dc). Thus, in order to tackle the left-wing parties, since then the Confindustria supported also the Dc, despite the ideology and political program of this party were in many respects foreign and even hostile to those of big business.<sup>58</sup>

In fact, the Dc had a social project that awarded positive value to the *petite bourgeoisie*, seeking to swell their ranks and thereby extend the ideals of economic independence – small firms, skilled craftsmen – throughout society. In emphasizing the role of small firms, the Dc was heir to the very problem that had eventually urged Catholics into the political arena: the struggle to deflect the proletariat from the attractions of socialism. This “great labor question”, as Leo XIII defined it in the *Rerum Novarum* of 1891, “cannot be solved save by assuming as a principle that private ownership must be held sacred and inviolable. The law should therefore promote ownership, and its policy should be to induce as many people as possible to become owners”.<sup>59</sup>

Thus, at the heart of the Dc's analysis, the solution to the labor problem centred on the diffusion of property. In the view of the Dc, the small producer was the symbol of integral society: he was both employer and laborer; he worked alongside his workers and related to them in a highly personal way. Consequently, in the small firm, the organisation of work was “more human,” the worker's dignity “better protected, the sense of responsibility and collaboration more keenly developed.” If large firms engendered class struggle, smaller units fostered interclass solidarism and social cohesion, thus transcending the capital-labor divide.<sup>60</sup>

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<sup>57</sup> Amatori and Colli, *Impresa e industria in Italia*, 171-192.

<sup>58</sup> Liborio Mattina, *Gli industriali e la democrazia. La Confindustria nella formazione dell'Italia repubblicana* (Bologna, 1991).

<sup>59</sup> Cited in Richard L. Camp, *The Papal Ideology of Social Reform* (Leiden, 1969), 84.

<sup>60</sup> Dc (Democrazia Cristiana), *Atti e documenti (1943-67)*, 2 vols (Rome, 1968), 246.

Moreover, the analysis of the Dc was influenced by the views of the Catholic economists of the early 20<sup>th</sup> century, who stressed the economic rationality of small firms.<sup>61</sup> The Dc never regarded technological progress as a prerogative of the large factory, but maintained that also small firms could exploit its benefit. Thus, small enterprise was considered not as an inferior proxy to large companies, but as an essential and socially preferable instruments for economic development.<sup>62</sup> So, in the Dc's view the state had to promote small undertakings and, at the same time, combat the "parasitic" and "antisocial" forms of property: from the latifundia to the large capitalistic or monopolistic concentrations. This anti-monopoly-orientation was not based on any objective assessment of the Italian market structure, but on the assumed attributes of scale. The Dc tended to identify big business *tout court* with the monopolies: in fact, the significance given to this term was explicitly political, referring to "an economic overlord capable of subverting government policy and the democratic process."<sup>63</sup>

Thus, identified as the "healthy" free and dynamic element of the economy, private SMEs figured as the natural beneficiary of state support. By contrast, private big business was cast as monopolistic in tendency, lacking in social responsibility and potentially subversive of freedom. Therefore, the concentration of private capital had to be discouraged. This left the room for the expansion of the SOE sector: in order to meet those problems normally requiring large-scale undertakings and huge injections of capital, the state itself will had to step in to fill that gap.<sup>64</sup>

In the mid-1950s the expansion of the SOE area worried the Confindustria to such an extent that in 1956 this promoted a pact with the Confagricoltura (the Italian landlords' association) and the Confcommercio (the Italian tradesmen's association) for the creation of the Confintesa. The latter was a coordination committee between the three associations to mobilize their membership in favour of the Liberal Party and the right-wing candidates of the Dc at the 1956 local elections and 1958 parliamentary elections. The Confintesa aimed to weaken the Dc's pro-SOE leadership (Italy's political elite at that time) by not just lobbying the party from the outside but also by acting from the inside of it. However, such an initiative turned out to be a big failure: the Liberal Party eroded only marginally the electorate of the Dc and only a few Christian Democratic

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<sup>61</sup> Giuseppe Toniolo, *Osservazioni e discussioni durante le Giornate sociali di Milano. Resoconto delle Giornate sociali di Milano (7-9 febbraio 1907)* (Città del Vaticano, 1951).

<sup>62</sup> Linda Weiss, *Creating Capitalism. The State and Small Business since 1945* (Oxford, 1988), 83.

<sup>63</sup> Piero Barucci, *Ricostruzione, pianificazione, Mezzogiorno* (Bologna, 1978), 682-3.

<sup>64</sup> Weiss, *Creating Capitalism*, 140-8.

candidates supported by the Confindesa were elected. The main reason for the failure was the lack of a mass-support by the Confindesa, i.e., the campaign of the Confindesa against the expansion of the SOE sector and the anti-private big business stance of the Dc was not of interest to the mass of SMEs that constituted the bulk of its membership. Contrary to the leadership of the Confindesa (Italy's corporate elite at that time), most of Italian SMEs were not worried about the SOE expansion and, on the contrary, appreciated the Dc's policy in favour of small private undertakings of which they were the main beneficiary.<sup>65</sup>

Another exemplary episode that confirmed the separation between political elite and corporate elite in Italy occurred in 1976, when the Dc's leader, Amintore Fanfani, asked Fiat's managing director Umberto Agnelli to run for the Senate (Italy's upper house of Parliament) for the Dc in an effort to make the party more appealing to the business community. However, such a proposal found the opposition of the Dc's leadership of the Piedmont region, from which Agnelli was native and in which Fiat had its headquarters. Piedmont's Christian Democratic leadership belonged to the party's left-wing linked to the Catholic union Cisl and feared that if Agnelli had been elected in the Senate in Piedmont Fiat would increase its power in the region to the detriment of the Dc itself and trade unions. Thus the local Dc vetoed Agnelli's candidacy in any constituency in Piedmont and, as a result, he had to run in a constituency in Rome which had been made available by one of the party's right-wing factions. Once elected, Agnelli thought it was possible to rally the Dc's group in the Senate around his pro-market stance aimed at re-affirming the leading role private big business in the nation's economy and reducing the area of state-subsidized SOEs. However, he soon found himself isolated within the party. At the following election in 1979 he eventually decided not to run again and left the Parliament.<sup>66</sup>

Thus, the weak hegemonic grip of the corporate elite on the Italian society and its disconnection from the political elite throughout most – if not all – of the post-unification history ended up emphasizing the role of the political elite in mediating the relationship between the society and the state. Political parties became prominent actors, able to profoundly condition the institutional building. In particular, this widespread political culture made almost impossible the diffusion in Italy of constituencies alternative, or potentially in competition, with powerful mass-based political parties. Powerful big business independent from politics could play this role of

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<sup>65</sup> Mattina, *Gli industriali e la democrazia*, 302-6.

<sup>66</sup> Valerio Castronovo, *Fiat 1899-1999. Un secolo di storia italiana* (Milano, 1999), 1380-3 and 1427-30.

alternative constituency. Politics thus pursued institutional building in order to limit the relevance of big business, creating a favorable context for non-competing constituencies as small firms or family firms. The sole big business allowed to exist could be that in some way under political control, that is SOEs.

## **5. Institutions and weak big business**

As suggested above, a number of structural elements can be put forward in order to explain the relative inefficiency of Italian big business. Undoubtedly, the scarce availability of primary inputs and energy played a non-negligible role as well as the limited size and dynamism of the domestic market. To these structural elements, one may add a number of entrepreneurial failures which heavily undermined the nation's competitive capabilities in some capital and technology intensive industries, such as chemicals, electronics and nuclear energy.<sup>67</sup> It is, however, true that many other advanced countries – i.e., Switzerland and Japan – that share with Italy the same geographic limitations and suffered of many entrepreneurial failures, show a much higher weight and efficiency of their big business.

To blame structural and entrepreneurial failures for the poor performance of the Italian big business is just a partial interpretation of historical evidence. To these we must add the role of the institutional factors, that is, those elements which frame the way in which actors (entrepreneurs and business organizations) make their choices and design their strategies. Institutions are both of formal/legal and informal nature, and range from unwritten rules of the game to laws and codes of conduct, to legal bodies put in place in order to enforce them, regulate and foster business activity. Of course, institutional settings are only partially to be considered as fully exogenous. To a large extent, business organizations and economic actors are able to condition and drive the institutional building.

It is possible to individuate several (necessary, even though not sufficient) conditions which can allow an economy characterized by a small and not particularly dynamic domestic market to develop a bulk of large companies in leading positions in their respective industries, both at home and abroad. A first one, quite obvious, is that large firms can successfully develop

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<sup>67</sup> Amatori and Colli, *Impresa e industria in Italia dall'Unità ad oggi*; Amatori, Bugamelli and Colli, "Technology, Firm Size and Entrepreneurship."



internationally instead of relying on a small domestic market. A quite trivial precondition for this is a strong market leadership, which is normally (even if not always) of technological nature. The history of the Swiss chemical and pharmaceutical industry is particularly significant in this respect, combining strong technological leadership with precocious strategies of internationalization. A second important factor for big business expansion pertains to economic and industrial policies aiming at fostering international competitiveness and at the same time preserving control over the domestic market. Even not always so, the successful catching-up of Asian latecomers demonstrates how aggressive policies for competitiveness can play a key role in the growth of domestic companies.<sup>68</sup> A third factor which is indispensable for the growth and consolidation of domestic big business has to do with the availability of adequate human capital, both of a technical and managerial nature. Nurturing technical and managerial capabilities has been a key element of Japan's successful development since the late 19<sup>th</sup> century.<sup>69</sup> Technical training is considered the main asset in the affirmation of German big business, while the rise of big business in the US was accompanied by the rise of powerful business and technical schools.<sup>70</sup> A fourth prerequisite for the affirmation of big business is a financial sector able to channel adequate resources to sustain the required investments. When based upon stock markets, transparency is the fundamental prerequisite. When based upon the banking system, a virtuous relationship between the lender and the financed firm has to be established, based upon basically long term perspectives in the use of the resources themselves. Institutional failures in providing these four relevant elements ended in a suboptimal development pattern for big business. Italian large companies could have leveraged on international expansion to break the constraint of a small domestic market. What happened was just the opposite: big businesses enjoyed consolidated, often monopolistic positions on the domestic market in front of a limited international expansion. They pursued dimensional growth until the point in which the marginal benefits deriving by a better bargaining position with the political power were superior to the marginal cost of the investment.<sup>71</sup> In steel, mechanics, automotives as well as in chemicals,

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<sup>68</sup> Alice Amsden and Takashi Hikino, *Staying behind, stumbling back, sneaking up, soaring ahead: late industrialization in historical perspective*, Graduate Faculty, New School of Social Research, (New York, 1992).

<sup>69</sup> Hakira Goto and Hiroyuki Odagiri (eds), *Innovation in Japan* (Oxford, 1997).

<sup>70</sup> David Noble, *America by Design. Science, Technology and the Rise of Corporate Capitalism* (Oxford, 1979).

<sup>71</sup> Franco Amatori, "Growth via politics: business groups Italian style," in *Beyond the Firm. Business Groups in International and Historical Perspective*, ed. Takeo Shiba and Masahiro Shimotani (Oxford 1997), 109-134.

national leaders, both privately and state-owned, were able to establish a very limited international leadership. This was also due to the fact that their degree of technological competitiveness remained, with very few exceptions, limited across the various technological waves. As a result, the Italian market became quickly populated by foreign leaders in advanced technologies, such as German companies in electro-mechanics at the end of the 19<sup>th</sup> century, Swiss (pharmaceuticals and chemicals) and French (glass and aluminum) companies in the interwar period, and then American companies in refining and petrochemicals after WW2.<sup>72</sup>

This lack of international “push” was also of institutional nature. In other words, Italian firms were not incentivized in pursuing internationalization strategies. The formation of an adequate pool of human (technical and managerial) resources was seriously lacking.<sup>73</sup> A second, serious institutional failure, in some sense complementary to the first, was the unwillingness (or inability) by the national government to foster the internationalization of domestic companies to an extent at least comparable to that of another latecomer nation such as Japan in the 1950s and the 1960s. Undoubtedly, the Italian industry benefited quite substantially from the creation of the European Common Market in 1958 which added its beneficial contribution to an already fast-growing domestic demand. Recent research on Italian foreign trade,<sup>74</sup> however, suggests that the most relevant effect of this enlargement in terms of exports were felt in low and medium tech industries, and largely in activities carried on in SMEs. As suggested above, even under the perspective of human resources and particularly of organizational capabilities Italy suffered of a serious delay relatively to other advanced nations, which was structurally reflected in the efficiency of the country’s large firms. As far as managerial resources are considered, it is worth recalling what Robert J. Pavan, an Harvard Business School researcher, concluded in a comprehensive survey of Italian big business.<sup>75</sup> According to him, Italian large firms were not only smaller than their European counterparts, but also less modern in their organizational and ownership structures: their management was rarely carried on by professionals, for the training of whom no institutions comparable to those present in other advanced countries existed. Managers were mainly of technical extraction, came from the low ranks of the company through

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<sup>72</sup> Colli, “Foreign Enterprises.”

<sup>73</sup> Michelangelo Vasta, *Innovazione tecnologica e capitale umano in Italia (1880-1914). Le traiettorie tecnologiche della seconda rivoluzione industriale* (Bologna 1999).

<sup>74</sup> Federico and Wolf, “Comparative Advantages in Italy.”

<sup>75</sup> Pavan, *Strutture e strategie delle imprese italiane*.

a process of bottom-up appointment, and were judged and remunerated on the basis of their loyalty to the ownership, and not of results.<sup>76</sup> Just to give an example, exactly in the same years Pavan was writing his report, an US conglomerate, Grace and Co., took over the most famous Italian producer of baked products and pasta: Barilla, a family company, then in its third generation. The Americans completely transformed Barilla: they divisionalized the company, introduced managerial accounting, modern management techniques and put the basis for a further expansion of the company itself. When it was re-sold to the Barilla family, in 1977, Barilla was a very different firm from what it was when it was bought, seven years before, and characterized now by a much higher competitiveness and push towards internationalization.

Moreover, the Italian corporate finance system has also been historically unable to channel adequate resources to sustain big business growth.<sup>77</sup> This is the outcome of a combination of historical events and institutional failures which undermined in the long run both the efficiency of stock markets and that of the banking system, leaving, as an alternative to large firms, only short-term credit and – but limitedly to some phases – self financing. The weakness of the banking system has its roots in the events which accompanied the growth strategies of Italian large firms during WW1, when large companies established close equity links with the main universal banks. This situation resulted in a dense web of cross-shareholdings between the banks and the country's big business. In principle, this closeness between the lender and the debtor could have resulted in a virtuous process of credit provision. The reality was often, however, a capture of the creditor by the debtor-shareholder, as it was the case for the Banca Italiana di Sconto, closely linked to Ansaldo, a huge vertically integrated *konzern* in steel and heavy mechanics. At the end of the war, the group was so heavily indebted with the bank, that this brought its *Hausbank* to bankruptcy. The worse came however in the early 1930s, when the whole Italian big business was tremendously hit by the great depression, and the largest universal banks found their balance sheets heavily burdened by toxic assets: credits towards the distressed industrial systems, plus the shares of failing big business.<sup>78</sup> The solution, a giant bailout of the nation's three largest banks, brought in the hand of a state agency, the Iri, around one-fifth of the whole share capital of Italian stock companies, included the shares of the banks in the portfolio

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<sup>76</sup> Ibid.

<sup>77</sup> Napoleone Colajanni, *Il capitalismo senza capitale* (Milano 1991).

<sup>78</sup> Amatori and Colli, *Impresa e industria in Italia dall'Unità ad oggi*.

of these companies. At the end of the rescue, in 1937, the Italian state was the most important blockholder of the country, as well as the owner of the three largest domestic banks. This put, in theory, at disposal of the state a powerful instrument to pursue effective industrial policies. The effect was, however, extremely different from that of other experiences, for instance Korea – where the government used bank ownership and credit selection as an incentive for the international growth of domestic companies, or, more recently, China, where the state ownership of the financial sector is a powerful instrument for influencing the strategies of state-owned and private big business. Instead, Italian SOEs pursued a policy of growth and expansion mainly in the domestic market (in this behaving similarly to the private ones) to prompt the development of capital intensive industries (steel, heavy engineering, energy motorways, public utilities) in which the private sector was reluctant to invest and to pursue industrial policies aiming at reducing the economic divide across Italian regions.<sup>79</sup>

Additionally, the 1936 Banking Law allowed banks to provide only short term credit to the industrial sector, explicitly prohibiting them to act as shareholders and to provide long and medium term credit to industrial firms, which was left to State-owned agencies set up with this explicit purpose. At the same time, also the other source of corporate finance, the stock exchange, was since the beginning seriously weak and not attractive for both companies and investors.<sup>80</sup> On the one hand, the Italian stock exchange was structurally lacking of any form of regulation and protection of minority shareholders. On the other hand, the weak regulatory framework allowed the main blockholders (the state, individuals and families) to leverage on control-enhancing mechanisms and low transparency in order to keep high control levels with limited investment.<sup>81</sup> An opportunity to create a financial institution which could boost the growth of big business was missed in 1962, when the Bank of Italy rejected the proposal by Mediobanca – Italy’s only merchant bank at that time – to set up a big investment trust to manage the sums the state would pay in compensation for the nationalization of the electricity

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<sup>79</sup> Amatori, “Beyond State and Market,”; Toninelli, “Between state and market.”

<sup>80</sup> Giovanni Siciliano, *Cento anni di Borsa in Italia. Mercato, imprese e rendimenti azionari nel ventesimo secolo* (Bologna 2001)

<sup>81</sup> Rafael La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer, “Law and Finance,” *Journal of Political Economy* 106, no. 6 (1998): 1113-55.

industry. Instead, the compensations were given directly to the former electrical companies that scattered them in a range of unrelated and often unprofitable investments.<sup>82</sup>

Thus, If institutions matter, and make the difference, the case of Italian big business is particularly significant in this respect. Institutional failures took place in almost all the areas in which big business in a small peripheral country could be supported (internationalization, human capital and technological leadership, the corporate finance system). As a result, Italian large firms grew protected on the internal market, strong and in a monopolistic position at home but relatively small, and weak, in an international comparison.

## **6. Institutions and the expansion of the small firm sector**

If the weakness of big business is to a large extent consequent of a failure of the institution that should have supported its growth, it is also possible to find a number of institutional determinants of the expansion of the small firm sector in Italy.

This can be in part explained with the history of the local territories in which small firms and IDs thrive: the heritage of the guild system, an enterprising attitude, a strong work ethic, and a wealth of manual skills found in the sharecropping system and other forms of land tenancy that in Northern and Central Italy survived until the post WW2 years.<sup>83</sup>

Another push to firms to the small firm economy came – at least after WW2 – from the state. It is true that for a long period (from Italy's unification to the end of WW2) measures in support of small and medium-sized firms were very scant.<sup>84</sup> However, the post-WW2 years marked a discontinuity in Italy's industrial policy. In fact, since the late 1940s the Italian state put into effect a set of measures which not only promoted small undertakings, but positively discriminated in their favor. One of them was the 1956 Artisan Act, that defined the boundaries of artisanship. Unlike the German and French systems, where the artisan qualification was defined on the basis of professional lists of activities, the Italian artisan firm was defined on the

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<sup>82</sup> Giovanni Bruno and Luciano Segreto, "Finanza e industria in Italia (1963-1995)," in *Storia dell'Italia repubblicana, Vol. 3: L'Italia nella crisi mondiale, t. 1: Economia e società*, ed. Francesco Barbagallo (Turin, 1996), 497-694.

<sup>83</sup> Amatori, Bugamelli and Colli, "Technology, Firm Size and Entrepreneurship."

<sup>84</sup> Giovanni Federico and Renato Giannetti, "Italy: Stalling and Surpassing", in *European Industrial Policy. The Twentieth Century Experience*, ed. James Foreman-Peck and Giovanni Federico (Oxford-New York, 1999), 124-151.

basis of the number of employees.<sup>85</sup> Not a professional category, then, but a legal regime, membership of which entitled the owner to a wide variety of benefits, including soft loans, loan guarantees, lower tax and employers' contributions, welfare benefits at reduced premiums, exemptions from keeping accounts and from bankruptcy proceedings. Thus, contrary to other European countries, Italian artisanship policy did not foster the growth of artisan firms, but, instead, provided incentives to remain small, since it was a condition in order to qualify for such a wide array of benefits not to exceed the size-limits established by the Artisan Act.<sup>86</sup>

A policy was conceived also to support SMEs, defined as the companies sized 11-500 employees. As these firms were considered to be at a disadvantage in terms of access to market finance, financial subsidies in favor of SMEs were introduced from 1952 within the framework of national industrial policy, and from 1957 through the regional policy, the so-called "Extraordinary Intervention for the South". SMEs could receive soft loans through the network of the Regional Medium-Term Credit Institutions (Mediocrediti Regionali), which were able to extend loans at lower interest rates because they could refinance themselves under favorable terms at the Central Medium-Term Credit Institution (Mediocredito Centrale). Further prominence to the SMEs financial requirements was granted through a far more generous soft loan scheme launched in 1959. In subsequent years, further schemes were introduced through both the national and regional policies.<sup>87</sup>

After WW2 the whole banking system was restructured to create a decentralized system to strengthen the local banks that funded the local systems of small firms. By providing small firms with their own financial channels the ruling Christian-Democratic Party aimed to create a sort of "decentralized capitalism" which would act as a counterbalance to the power of the large private business groups, which the Dc wanted to avoid being too reliant upon. Thus, there was a connection between the growth of local banks and of small firms clustered in IDs. Throughout

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<sup>85</sup> The Artisan Act established a maximum of 10 persons employed (or 20 including apprentices), with exceptions for cooperatives, artistic trades (e.g. ceramics, fashion, etc.), limited companies and partnerships, "as long as members are personally involved in the work, and as long as such work has a pre-eminent role on capital."

<sup>86</sup> Linda Weiss, *Creating Capitalism*; Giuseppe M. Longoni and Alberto Rinaldi, "Industrial policy and artisan firms (1930s-1970s)," in *Forms of Enterprise in 20th Century Italy. Boundaries, Structures and Strategies*, ed. Colli and Vasta, 204-224.

<sup>87</sup> Weiss, *Creating Capitalism*; Anna Spadavecchia, "Financing Industrial Districts in Italy, 1971-91: A Private Venture?", *Business History*, 47(4) (2005): 569-593; Anna Spadavecchia, "Regional and National Industrial Policies in Italy, 1950s-1993. Where Did the Subsidies Flow?," Henley Business School, University of Reading, Discussion Paper No. 48, 2007.

the post-war period the national banks within IDs had a much lower share of the local market than in other areas. Lower assessment, monitoring, and enforcement costs and economic and political connections between bank managers and local entrepreneurs gave local banks a competitive edge within IDs. The Bank of Italy played a decisive role in this respect: bank competition was restricted to prevent an increase banking concentration since it was felt that if the small firms were deprived of necessary credit they would be forced to merge with the larger firms.<sup>88</sup>

Also labor market regulation provides incentives to remain small. In fact, Law 300, 1970 (known as *Statuto dei Lavoratori*), which protects individual workers against unjustified firing and other abuses and gives trade unions a legal right to discuss with entrepreneurs any issue concerning the workers' well-being (safety standards, intensity of work, hierarchies, etc.), including wages, applies only to firms with more than 15 employees<sup>89</sup>.

To this we must add the shortcomings of the insolvency legislation which, by not providing efficient instruments alternative to bankruptcy to guarantee still potentially vital companies' continuity, also contributed to high company turnover and keep company size small<sup>90</sup>.

Finally, an important contribution to the development of IDs came from local institutions. Especially in the North and the Center, these provided services and infrastructure – i.e., technical and vocational schools, estates for SME settling, innovation centers – that effectively supported SME development.<sup>91</sup>

In recent years the growth strategies of the “fourth capitalism” MSEs seem to have relied less on domestic industrial policy, as they appear principally a corporate response to the new challenges (and opportunities) of globalization and the ICT revolution. Nonetheless, some of these companies took advantage of the massive privatizations of the 1990s to re-orient their business

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<sup>88</sup> Giuseppe Conti and Giovanni Ferri, “Banche locali e sviluppo economico decentrato,” in *Storia del capitalismo italiano*, ed. Barca, 429-465; Carnevali, *Europe's Advantage*, 177-191.

<sup>89</sup> Giovanni Federico, “Harmful or Irrelevant? Italian Industrial Policy, 1945-1973”, in *Policies for Competitiveness. Comparing Business-Government Relationships in the 'Golden Age of Capitalism'*, ed. Hidetaki Miyajima, Takeo Kikkawa, and Takashi Hikino (Oxford, 1999), pp. 309-335.

<sup>90</sup> Paolo Di Martino and Michelangelo Vasta, “Companies Insolvency and ‘the nature of the firm’ in Italy, 1920s-1970s,” *Economic History Review*, 63 (2010): 137-164.

<sup>91</sup> Piore and Sabel, *The Second Industrial Divide*, 29-30, 227-29; Alessandro Arrighetti and Gilberto Seravalli, “Istituzioni e dualismo dimensionale nell'industria italiana”, in *Storia del capitalismo italiano*, ed. Barca, 335-88.

towards the domestic market. This was, for example, the case of Benetton that acquired Società Autostrade, Italy's largest highway company.<sup>92</sup>

However, insofar as these MSEs are rooted in their industrial districts of origin, their surge did not undermined the need for collective local institutions within the IDs, even though it altered the functioning of those institution. A good case in point is that of Emilia-Romagna, where Confindustria – the association mainly representing the region's "fourth capitalism" – lobbied the regional government to establish the "Regional System of Industrial Research, Technology Transfer and Innovation". This was aimed at establishing a bridge between research institutions and the business community and was principally targeted at the demands of MSEs.<sup>93</sup>

There are also some cases in which the local institutional founts of external economies have been transposed beyond the local level. In fact, these actions did not merely give support to the fast-growing MSEs in the implementation of their de-localisation strategies. They also aimed to encourage the development of long-term relations and commercial, socio-cultural and institutional exchange between production systems that are located in different national contexts but that are of similar or complementary profile in terms of production activities and processes of innovations.<sup>94</sup> Amongst the more promising examples are the union of industrialists of Treviso, which opened an office in Timisoara, Romania, and the Italian Association of Tilemaking Machinery Producers (mainly clustered in the ID of Sassuolo) which maintains a presence in the tile-making district of Castellon, Spain.<sup>95</sup>

## 7. Conclusions

This paper has shown that Italy's industrial structure in international comparison is characterized by an overwhelming presence of small firm and, conversely, by a marginal role of large firms. Moreover, Italian big business presents several anomalies: absence of widely-held corporations,

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<sup>92</sup> Marcello De Cecco, "La politica italiana delle privatizzazioni," in *Le privatizzazioni nell'industria manifatturiera italiana*, ed. Massimiliano Affinito, Marcello De Cecco and Angelo Dringoli (Rome, 2000), xv-xxxvii.

<sup>93</sup> Alberto Rinaldi, "The Emilian Model Revisited: Twenty Years After," *Business History*, 47 (2005), 244-266.

<sup>94</sup> Marco Bellandi and Annalisa Caloffi, "Distretti industriali italiani e internazionalizzazione fra gli anni novanta e la prima metà del nuovo decennio," in *L'Italia nell'economia internazionale: rapporto ICE 2005-2006*, ed. Istituto Nazionale per il Commercio con l'Estero (Rome, 2006), 466-482.

<sup>95</sup> Jorg Mayer-Stamer, Claudio Maggi and Silene Seibel, "Upgrading in the tile industry of Italy, Spain and Brazil: insights from cluster and value chain analysis," in *Local Enterprises in the Global Economy*, ed. Hubert Schmitz (Cheltenham, 2004), 174-199.



prevalence of blockholders (families, the state and, increasingly growing in recent years, foreign firms), absence of bank control and institutional investors.

This seems the outcome of a long-term evolution of Italian capitalism, which has been only partially modified by two changes occurred in recent years, the emergence of an Italian-style “Mittelstand” of dynamic and highly internationalized MSE and the increased weight of foreign-owned firms.

This paper argues that such a structure of Italian industry is only in part the result of entrepreneurial failures of big business and of the dynamism of a small entrepreneurship specialized in the “Made in Italy” industries.

This paper instead emphasizes the role that institutional factors played in determining the relative performances of both big business and small firms. We have shown that institutional failures took place in all the areas in which big business could be supported: internationalization, human capital and technological leadership, the corporate finance system. As a result, Italian large firms grew protected on the internal market, strong and in a monopolistic position at home but relatively small, and weak, in an international comparison. Conversely, starting in particular in the late 1940s, the Italian State put into effect a set of measures which not only promoted but positively discriminated in favor of small undertakings. These ranged from artisanship policy, to the soft loan schemes for SMEs, to labor market regulation, and to the insolvency legislation.

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