

CHAPTER V.5

CULTURE AND MANAGEMENT IN ITALY: TRADITION, MODERNIZATION, NEW CHALLENGES

GIOVANNI MASINO¹

Abstract. The relationship between culture and management in Italy is quite complex. The main reason for this is the complexity of Italian culture itself. Italian society is characterized by an extremely high degree of diversity, in terms of local traditions, resources, languages, attitudes, values. In many ways, Italy looks more like a “community of communities”, than like a homogeneous culture. In this chapter, however, we try to identify some of those social and cultural elements that, more than others, seem to have significantly influenced the way Italian companies are organized and managed. Specifically, we focus on three important aspects: the role of the central State in the historical development of the Italian economy, the wide diffusion of family-owned and family-managed enterprises, and the economic relevance of the “territory”, that is, the geographical proximity of firms and their reference to local communities.

1. Giovanni Masino has a Ph.D. in Business Organization from the University of Bologna (Italy). He is Associate Professor of Organization Theory at the Faculty of Economics, University of Ferrara (Italy). His research interests include topics in the fields of organizational behavior, organizational and technological change, and organization theory.

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INTRODUCTION

Is there an unique “Italian way” of business organization and management? Is it possible to identify specific modalities by which the national culture influences how Italian companies are organized and managed?

Complete and detailed answers to these questions would imply an effort of remarkable range and magnitude, a work well beyond the scope of any single chapter or article. This is above all true for the Italian case. Indeed, the Italian economic scenario appears to be particularly complex and articulated, and a wide variety of aspects (including historical and social ones) should be taken into consideration in order to provide a comprehensive account of the “Italian way(s)” of business organization and management. Thus, the goal of this chapter is not to provide an extensive, detailed picture of the organizational context of the Italian business community, but to offer some interpretative keys and concrete examples as starting points for those interested in studying and understanding the Italian context. We will provide concepts and interpretative criteria. The main spotlight of our narrative, however, will remain on actual organizational practices and case studies, since we believe that an intricate and multifaceted milieu such as the Italian business context is better understood through the description, although necessarily brief and not fully representative, of actual organizational stories and experiences.

This chapter is structured in the following way. In the first section, we will summarize some of the main aspects of the history of Italian industry. While there is no room here for a detailed chronicle, we believe that, in order to comprehend the present, it is very important to understand the main historical reference points. It is crucial to grasp a sense of continuity, and to develop an understanding of how events and facts are connected and related to each other in time. We will see how the Italian economy has been characterized for many years (and still is, in many cases) by a sort “family capitalism”, where the State, together with a small number of “key” entrepreneurs and families, had a major role. This is not characteristic of just small and medium companies, but of large ones as well, which is a peculiar trait of the Italian economy. Another major feature of the Italian economic scenario is represented by the evolution and the success of the “industrial districts”, where small and medium enterprises have a foremost relevance, and where social and cultural elements are deeply and inextricably connected with the history of business and industry.

In the second and third sections we will describe and comment on a case study in which a relevant organizational change process generated a

completely new industrial situation, involving not just a single company, but also a network of other economic actors and the greater local community. We believe that this case study is useful because it can be interpreted and utilized in several different ways. First, it can be seen as a description of some of the main, typical dynamics characterizing a local community-based economy, such as the Italian industrial districts. Also, it represents an example of how some of the weaknesses of the industrial districts, now becoming more relevant vis-à-vis the new globalized economy, could be worked out through organizational arrangements that re-interpret the social and cultural assets of local communities. Finally, the case study shows how the relationship between culture and organizational choices is better conceived as bi-directional. Not only does the external culture (the culture of the socio-economic environment) influence the company's internal culture and its organizational choices, but also the firm's choices can contribute to create a certain kind of cultural setting in the local environment, an influence that extends well beyond its formal boundaries and the span of its direct relationships.

In the remaining sections we will describe and comment on two case studies concerning large Italian companies. We will focus on issues such as internationalization and growth through mergers, acquisitions and alliances, which is a very hot topic in the current Italian scenario. As we will see, the issue of integrating different organizational cultures is very relevant, not just because the integration between companies requires, to some extent, the homogenization of values, attitudes and behaviors, but also because relevant organizational choices need to be made: coordination and control arrangements, work procedures, information systems and so forth. Sometimes the resulting organization is a combination of the two merged companies, other times a certain organizational model is considered superior, and then imposed on the resultant company. As we will see, when these choices are made without careful consideration of their coherence with the underlying national culture, the chance of success for any merger and acquisition tends to decrease.

We will also discuss a case where an Italian company had to face a relevant transition dilemma. The passage from an entrepreneur-centered governance to a professional management-based governance is often a very delicate one, especially in a country with a strong family-centered culture such as Italy, which is characterized by a large number of family enterprises. We will show also that such transitions can have relevant implications for the organizational culture of the enterprises.

In the last section, we will offer some final reflections that attempt to summarize and generalize the concepts and the interpretative keys that seem to emerge from the description of the case studies and from the organizational literature about Italian companies as well.

ITALIAN INDUSTRY: A LITTLE HISTORY

In the second half of the 19th century, while other European countries were already experiencing the industrial revolution, Italian industry was still significantly sparse and immature. Italy, before its political unification, was fragmented into several small regional states, and the economy was deeply affected by many trading fees and tariffs as well as numerous commercial barriers between the local governments. The internal markets of the regional states, on the other side, were not large enough to sustain the growth of the existing small companies. However, some new general patterns were already emerging. In a few regions of the north (mostly Lombardia and Veneto) the economy was already more active and lively than in other regions, especially those in the south.

This situation did not change in a significant way until the end of the century. Political unification (in 1861) did not provide any relevant momentum to economic and industrial development. On the contrary, many of the biggest Italian banks failed during the 1887-1894 recession, increasing the economic gap between Italy and the other European countries. This crisis served as an opportunity to reform the entire banking and financial system. These reforms created the right context for an Italian industrial revolution and, in the years that followed, it finally began to take off. The “Banca d’Italia” (the Italian central bank) was founded in 1894, and the rapid growth of the international economy in the following years favored the industrial development of newly industrialized countries, like Italy was at that time (Bianchi 2002).

The beginning of large scale production of electric power, in particular, is one of the most important factors in explaining the rapid growth of Italian industry at the beginning of the 20th century. Several of the most significant technology-oriented firms were founded: Olivetti in 1896, Fiat and Sip both in 1899. A number of dynamic, innovative entrepreneurs and families started to establish themselves as the leading Italian industrial group. Italian capitalism was already taking shape as a sort of “family capitalism”, where a relatively small number of family-owned and family-managed enterprises had a major, vital role in the whole economy, and where the fate of such enterprises was inextricably connected to the choices of the families and of single, relevant individuals.

At that time the crucial role of the State was already emerging as another key characteristic of the Italian economy, a trait that became very important for many decades to come. The State's role in Italian industrial history can be viewed as the combination of three different aspects of Government economic policies: tight protectionism, high public spending, and direct ownership and control of major companies. Also, the State engaged several times in major rescue operations of troubled enterprises, especially in the heavy industries and in the banking sector. Again, this is a pattern that continued for several decades. In difficult times especially, like the period immediately after World War I, the 1929-1933 crisis, as well as after World War II, the State acquired a central, multi-faceted role in the Italian economic scenario. An increasingly relevant role was also played, as pointed out above, by a number of large companies whose property was concentrated in the hands of a small, influential group of entrepreneurs and families.

Thus, in the years immediately following World War II, the Italian industrial scenario can be described, according to Bianchi (2002), in terms of the following elements: a rapid increase in the number of transactions between the Italian economy and those of other western countries; a very strong presence of the State, especially in the banking sector and in the heavy industry; a low degree of technical and organizational efficiency in comparison to other European industries; a very low cost of labour, and widespread unemployment, especially in the south.

In the 1950s, however, Italy experienced a period of exceptional expansion. The mechanical industry (with firms like Fiat, Alfa Romeo, Olivetti, etc.) grew and developed extremely fast, and its growth had a strong positive influence on the entire Italian economy. In particular, the production of automobiles had a major impact. Fiat was the main player in what we could call a "mass motorization" phenomenon. Also, the mechanization of agriculture and the production of home appliances had a relevant influence on the expansion of the mechanical sector. Thus, the so-called "economic miracle" that Italy experienced in those years was mostly based on the success of in particular the mechanical industry, but also the chemical, food and textile sectors as well. These industries were characterized by relatively simple technologies, thanks to an internal demand that literally boomed, and to the labor cost advantage that the Italian enterprises enjoyed over foreign competition. At the same time, however, the electronics industry struggled, because it could not keep up with the competition of foreign multinational companies, which were in much better shape in terms of research investments and technological innovation.

In the mid-1960s, the so-called Italian “economic miracle” quickly faded away. Just a few years later, the international oil crises of the 1970s and their consequences, shed light on the structural weaknesses of Italian industry. In particular, elements like the lack of high tech and research specialization, and the excessive centralization of control in the hands of a small number of interlocking directorates composed of private actors and public institutions delayed innovation and severely limited the degree of competition in the national market.

However, during the same period, a very interesting and extremely important process began to take shape. In many regions, mostly in the north, a phenomenon now we call “industrial districts” began to be established and developed. A large number of small and medium enterprises originated both from outsourcing strategies increasingly adopted by large companies, and from spontaneous initiatives by single entrepreneurs. A widespread variety of local industrial specializations emerged, where a mix of social, cultural, technical and economic elements interacted in a very unusual way. This interaction eventually generated a milieu where entrepreneurship blossomed and where the relevance of the “territory” and the “community” – and all the cultural and social aspects that are inextricably connected with the geographical proximity – was absolutely crucial. It was the beginning of what Piore and Sabel (1980) called the “second industrial divide”, that is, the transition from a long era of mass production and rigid Fordist firms, to a new Post-Fordist epoch characterized by the accelerating quest for flexibility and innovation. While there may be disagreement about the widespread over-use of the distinction between Fordism and Post-Fordism as different (or even opposite) approaches to business organization, it is important to recognize that, in the 1980s, some important transformations began to happen, particularly in Italy.

With the birth and development of industrial districts, the whole Italian economic system started to rely more and more on the ability of local clusters of small and medium enterprises to meet the challenges of modernity, and less on large companies’ capability to effectively adapt and change. As Poma (2003) points out, industrial districts coped with the problem of uncertainty in a way that differs significantly from the traditional Fordist solution typically adopted in large, mass production companies. Through standardization, internalization and mechanization, the Fordist hierarchies reduced organizational complexity by controlling, in a strict, formal and direct way, all the processes that could generate a relevant degree of uncertainty: the supply chain, the production process, and industrial relations. Large companies and oligopolies exercised control over the demand side of

the market as well (Galbraith, 1952), for example, by creating and imposing needs on the consumers through sophisticated marketing techniques. Thus, the reduction of uncertainty was obtained by means of a strong organizational focus on direct control activities, exercised on both the internal and the external relevant processes.

On the other side, industrial districts reduced uncertainty by focusing mainly on internal processes, that is, internal to the district (Poma, 2003). On one hand, both the existence of shared, common values, and the established and enduring social relationships between local actors, provide a cultural, stable foundation for all the economic transactions and initiatives within the local community (Beccattini, 1998). On the other, the technological dynamics are mostly characterized by incremental innovation and changes; the new technical knowledge is spread and shared through the social medium, stimulating new ideas and improvements, and becoming a context-specific intellectual asset, embedded in the local culture. Such a process of knowledge creation and sharing becomes a crucial competitive advantage: the district's is able to react promptly, and respond ingenuously, to the market's demand for flexibility, quality, and continuous improvement.

The industrial districts – and, more generally, the success of innovative small and medium enterprises – have deeply characterized the Italian economy in the last couple of decades, while most large industrial companies never fully succeeded in adapting to the new internationalized, increasingly competitive, global scenario. In the last few years, however, several commentators have observed that issues such as the rapidly increasing degree of economic and technological complexity, as well as the further opening of the international markets, could lead the traditional industrial district approach to become obsolete and ineffective. Two different factors seem to work, at the same time, against the traditional industrial districts model. First, the incremental innovation process, typical of the industrial districts, could become too slow to keep the pace with the rate of change required by the new kind of high-speed, innovation-based competition. Second, new international competitors, based in countries in which wages are very low, are quickly gaining ground in those mature industries characterized by cost-based competition. Thus, the Italian economy is now facing a very critical period. While it is obviously beyond the scope of this work to further explore the issue, the debate about the path Italian capitalism could (or should) take is quite interesting and the connection between organizational (and strategic) choices and culture lies at its very heart. Bonomi and Rullani (2005), for example, suggest that Italy's best bet for the future is to encourage the development of what the authors call “personal capitalism”, where

small and medium enterprises would still have a major role, although within cultural, economic and organizational arrangements that would be significantly different from the present ones. A key point of the authors' argument for a new kind of Italian capitalism is the increasing relevance of individuals: their creativity, their entrepreneurship spirit, and their willingness to invest, to take chances, and to supply ingenuity.

For our present goals, it is important to notice that not all the small and medium Italian enterprises can be categorized as being strictly the outcome of the traditional industrial district approach, environment and culture. An enormous variety of different entrepreneurship experiences and stories could be told. However, a common feature of the vast majority of Italian firms, especially medium-sized ones, seems to be the heavy reliance on processes of externalization and outsourcing. Medium-sized Italian firms outsource, on average, about 82% of their production costs, and lately this percentage seems to be increasing even more (Bonomi and Rullani, 2005). Another common feature is the relevance of the local, economic and cultural environment, even in contexts where an actual industrial district, in a strict sense, cannot be identified. Also, the relevance of the family aspect should be emphasized. Not only because some crucial organizational choices often reflects the personal story of single individuals and their families, but also because small and medium Italian enterprises (and several large ones too) are often confronted with issues like the transition from one entrepreneurial generation to the next one, and with strategic and organizational problems like growth and "managerialization" needs.

In the next section we will describe a case study where several of the above elements interact in interesting ways.

THE BORRI CASE²

Borri S.p.A. is a medium-sized manufacturing company located in Bibbiena (Tuscany, Italy). Borri designs and manufactures UPS systems (Uninterruptable Power Systems). UPSs are electronic devices for power continuity and stability. They come in very different sizes and features. On the lower end, there are very small, standardized UPS for private or small business users – it is becoming more common for private users to purchase small, inexpensive UPS devices in order to protect their home computers from power surges and interruptions. On the highest end, there are massive, very powerful UPS systems for corporate users, for example, manufacturing

2. More detailed information about the Borri case can be found in Masino and Felicori (2001).

firms that need to ensure power continuity to their machineries and production processes. In this case, the UPS system is usually customized according to the needs of the customer company; the related investment, for the customer, can be quite valuable.

Borri, founded in 1932 by the Borri family, was acquired in 1991 by the American multinational company General Signal (GSX); at the time of our research (1997-1999) Borri was a division of the Best Power Group, located in Necedah, Wisconsin, USA, which was a branch of GSX.

In the 1980s Borri was the Italian leader in the market of customized, high power, massive UPS systems. Its customers were important public organizations and large private companies like Enel, Trenitalia, and several engineering societies. The company did not manufacture small, low power, consumer UPS devices.

During these years, and until the early 1990s, Borri was characterized by an artisan-like profile in many aspects of production and management. Borri was a typical, family-owned business, managed mostly through informal relationships at all levels. The workers were highly skilled and qualified, and their skills allowed them to provide relevant contributions in terms of product development. They were well paid, and the company could afford the high cost of skilled labor thanks to the high margins granted by the customized UPS market.

In 1991, the integration of Borri within the GSX group dramatically changed the history of the firm. A strong necessity of a deep cultural and managerial change emerged. GSX had planned to partially reconvert Borri's production to small, low power, standardized UPS devices for the mass market, mostly small businesses and private users. However, as we already mentioned, the commercial and productive structure of Borri had always been focused on large, high power, customized products for corporate customers, and soon proved to be inadequate for small, standard products. But the problems were not just of technical nature, because a mass market oriented firm required a more professional approach to management, with much more emphasis on marketing, production efficiency, streamlined organization and cost reduction.

At the same time, the public spending of the Italian central and local administrations, and of all the public companies as well, slowed down abruptly, because of a well known, nation-wide investigation into corruption in public contracts, which led to dramatic changes on the national political system. Thus, the UPS system market for public companies and institutions suddenly and severely decelerated. This market had always

represented a major percentage of Borri's total sales, so the company, in a very short time, had to face two very serious difficulties. First, the custom UPS market suddenly and radically changed: from a well protected, high-margin niche, it became an arena with very few current opportunities and many uncertainties for the future. Second, the firm was not technologically, commercially and organizationally ready to convert to the standard UPS sector.

A new, professional group of Italian managers was appointed to deal with all these issues, and to save the company. The new management was challenged to achieve multiple and different goals: to dramatically improve efficiency of production processes; to develop the standard production by taking advantage, wherever possible, of the synergies with the traditional customized production; to create new organizational units and to acquire new competencies in order to support the standard production (i.e. production planning, quality control, inventory management, etc.). The goals seemed extremely hard to achieve, especially vis-à-vis the urgency of the challenges. The new management found a solution to all these problems by deeply redesigning the firm's organization.

First, the management strongly encouraged several of the internal, highly skilled workers to leave the company and become entrepreneurs, by creating small spin-off companies dedicated to specific production phases and processes. It is important to consider that Borri, before this transformation, was a highly integrated company, since the vast majority of the production process was internally performed. Borri offered to the new spin-off companies significant financial and technical support, as well as some guarantees about minimum levels of sales as Borri's suppliers.

Also, some already existing local small companies (mostly in sectors that nothing had to do with the UPS industry) were involved, as Borri literally convinced them to convert their production, and become Borri's suppliers. For example, a small company producing metal fences decided to completely transform its business, and became Borri's main suppliers of metallic frames for the UPS devices.

Borri also encouraged some of the workers that were not adaptable to new jobs to retire; it implemented a plan of internal mobility as well as training and education programs for employees. For every decrease in personnel, the firm hired university graduates, especially for the design and R&D area, so that the total number of employees would remain about the same. The local unions agreed with Borri about the organizational change plan.

At the end of the whole process, a very relevant number of activities were completely outsourced, while others were still internally performed. It is worth noting that almost all design and engineering activities were *not* outsourced. The only exception concerns the engineering of simple components like transformers and inductances, but it must be emphasized that the engineers of the supplier companies design these components according to precise specifications directly provided by Borri's engineers. As we pointed out already, Borri significantly changed the mix of internal competencies by increasing the number of technicians dedicated to the design activities (the number of technicians quadrupled between 1993 and 1997, and the R&D expenses increased from 0.5% of total sales figures in 1993 to 6% in 1997).

The manufacture and assembly of components, instead, was largely outsourced. An important exception is represented by the wiring of custom UPS systems, which is performed internally by Borri. The quality and precision of wiring is a particularly critical element for custom UPS systems, not only because a bad wiring can compromise the proper functioning of the product, but also for safety reasons. Big, customized UPS machines, in fact, must deal with very high electrical voltages. Any malfunction of the electrical parts represents a major safety hazard, while malfunctions of magnetic, mechanical or electronic parts are not as critical. The situation appears to be completely different as far as the wiring of standard UPS is concerned: in this case, since the electrical voltage involved is much lower, the necessity to control the wiring can be adequately satisfied through normal, sample-based inspections of the devices wired and assembled by external suppliers.

The manufacture of all other components was outsourced as well. It is interesting to notice that, for every component, there are inspection procedures that vary, in terms of strictness and severity, depending on how crucial the component is considered for the final quality of the end product. For example, while there are many severe inspection procedures for electronic boards and panels, the procedures concerning inductors and transformers are only slightly less stringent, and those concerning the frames are definitely less so. For some of the most crucial productions, Borri's inspectors periodically visit their suppliers to directly verify the components and the production process.

The assembly of *standard* UPS devices was completely outsourced, including the wiring phase.

In order to better interpret such a radical organizational change, from a completely integrated organization to a highly outsourced one, we need

to consider four important elements. First, Borri decided to work with a number of different external assemblers. This creates a situation of asymmetrical dependence, that is, the dependence of every individual supplier on Borri is much higher than the dependence of Borri on the supplier itself. Second, assemblers work according to the strict procedures designed and formally defined by Borri.

At the time of this research, a third factor was the fact that the company was going to change the way procedures are communicated to the assemblers, by substituting the traditional paper-based procedures with computer-based procedures. The explicit goal was to increase the level of detail, formalization and controllability in the communication of assembly procedures.

The fourth aspect of outsourcing involves Borri's routine transfer of relevant knowledge to the assemblers by way of interpersonal, mostly informal, relationships. For example, training in the procedures of a new UPS device takes place over a period of time in which Borri's technicians work together with the assemblers' technicians, so that a rich, informal transfer of knowledge can occur. In this way, the shared knowledge ensures that the assemblers interpret the procedures correctly.

A very important aspect of the production process is the logistics of materials and components (planning, deliveries, etc). Borri decided not to outsource such activities. This allows the company to maintain the direct governance of all the activities performed by external partners (assemblers and other suppliers), in order to precisely define the timing of deliveries, the quality of incoming components, and general production planning.

Overall, the assembly activities of standard UPSs are mostly outsourced, so that the emerging organizational arrangement seems to have, in many respects, the characteristics of a network. However, the "organizational glue" that keeps these relationships together is represented by the capacity of control enacted by the "central" actor (Borri itself). This capacity is exercised through a number of different organizational modalities and solutions, ranging from informal relationships and knowledge transfers, to formalized communications using information technology tools and devices. The "cultural and social glue" is also extremely relevant. Coordination and control could not be so effective without a sense of identity, roots, values and goals that all the actors share (workers, suppliers, managers), since they all belong to the same local community.

The situation is quite different if we consider *custom* UPS devices rather than standard ones. For such products, Borri management decided to adopt a much lesser, although still significant, degree of outsourcing (the outsourced production of custom UPS falls between 30% and 40% of the total

custom production). In this case, it is interesting to note how different control modalities emerge, depending on different needs and organizational rationales.

Custom UPSs are high voltage products, designed for the specific needs of very important customers, such as large companies and public institutions. Thus, on one side, the uniqueness of each system makes the assembly activity quite important for the development of new knowledge and skills. This new knowledge is accessible by the firm only if it is produced internally. On the other hand, elements like quality and timing of delivery to the customer are absolutely crucial for Borri's reputation. In fact, the custom orders are usually outsourced only if they involve little in the way of technical novelty.

From an organizational point of view, it is worth noting that for every customized order, even the outsourced ones, a specific technician or *capo-commessa* ("chief of the custom order") is appointed with responsibility over the order itself. In the case of outsourced orders, every "chief" becomes a sort of extension of Borri's hierarchy, since he works alongside the assemblers and suppliers and has several important responsibilities: he ensures that the predetermined assembly procedures are followed by the assemblers, he checks the quality of materials and parts throughout the production processes (both the in-house and the outsourced ones), he supervises the entire production process and the various relationships between different actors involved in order to make sure that the time schedule is carried out as planned. So, the "chief" controls, coordinates and facilitates everything that concerns the specific order, both *inside and outside* the company, by closely interacting daily with the whole network of local suppliers and assemblers. In other words, he represents the link between the company and the local community of economic actors.

LESSONS FROM THE BORRI CASE

The Borri case shows how some of the problems related to a difficult transition, the same kind of transition that many Italian companies are facing nowadays, could be solved through organizational choices that leverage on some relevant characteristics of the local context and culture. There are two different aspects of this transition. The first aspect is the passage from a traditional family-owned and family-managed business, to a company directed by professional managers. In the present case, this change was demanded by the US-based multinational company that acquired Borri, but similar problems arise in many other cases, where the new market

conditions (or, more simply, the retirement of the entrepreneur) call for a rethinking of the managerial approach.

The second aspect is the sudden – and unexpected – change between a well-protected, high-margin, high-entry barriers business, to an extremely competitive, lower-margin market. In the Borri case, this was due to the national political turmoil that, in the early 90s, deeply affected public spending in Italy. However, in many other industrial sectors, small and medium Italian enterprises are facing similar problems because of current global phenomena like the internationalization and intensification of competition, and the increasingly fast technological dynamics.

Borri was able to tackle these difficult challenges by rearranging its organization in a very comprehensive way. The new managers realized that they could count on a number of intangible assets, both internal and external, that were not yet fully (or not at all) utilized: the specialized, high level skills of many of its workers; the entrepreneurial spirit or, in other words, the desire for autonomy and initiative that characterized several of its employees as well as many people in the local community; the shared sense of identity and trust that developed in the local community thanks to a dense web of informal relationships.

Taken together, these intangible assets, closely related to the local culture, allowed Borri's managers to implement an organizational solution characterized by a network of autonomous entrepreneurs, each one specialized in a specific production phase, where the people are knowledgeable and skilled enough to guarantee the desired quality and the ability to constantly improve their products. Geographical proximity, shared culture, as well as informal social relationships, constituted the “glue” that allowed Borri not only to create and keep the network together, but also to exercise the necessary control of the network itself.

A careful choice of which activities to outsource, and which ones to maintain internally, allowed the company to dramatically reduce costs and to increase flexibility. More specifically, Borri decided to retain the following in-house activities: research and design (for both customized and standard UPSs); assembly of customized UPSs (but *not* the assembly of standard UPSs); logistics; marketing and commercial operations. On the other hand, the company outsourced most production phases (of both standard and customized UPSs) and all assembly phases of standard products.

How can we interpret these choices? What is their logic? We propose three main reasons that, combined, can help explain the overall logic behind the radical organizational changes that were implemented in this company.

First, by performing design and assembly activities of customized UPS directly, the company can exercise *control* over the *most critical technical knowledge* and the *quality* of customized products that are more relevant in terms of external reputation. Second, by undertaking logistics activities, the company can maintain *control* over the *network's main governance aspects* (timing, quality, procedures, deliveries, etc.). Third, by handling marketing and commercial operations, Borri can *control its relationships with its customers*, which is, of course, the ultimate source of feedback and information about market evolution. This is particularly relevant for the custom UPS.

The overall organizational outcome is quite interesting. In just a matter of a few years, Borri outsourced a great deal of its operations, and created a very effective, local territory-based network of suppliers. Originally a fully integrated company, most of Borri's internal activities are now concentrated on a specific range of tasks. The supplier network provides technical as well as cost flexibility, quality, and a certain degree of incremental improvement and innovation. At the same time, the company retains strong strategic (as well as operational) leadership within the network, since it is able to control (through formal and informal means) all the crucial aspects of the production process.

It is worth noting that Borri had to make significant investments in order to create the new organizational arrangements. The company encouraged skilled workers to take a chance, to become actual entrepreneurs. Borri helped several entrepreneurs start, or reconvert, their activities by loaning them tools and machinery, by assisting them through knowledge and expertise sharing, and even through financial aid. On the other hand, a significant investment was made by all those workers who decided to become entrepreneurs, and by those small enterprises that decided to completely change their existing business activities. In other words, the entire process required a significant risk-taking attitude by all the parties involved.

The Borri network is not an industrial district, in a traditional sense, although it does have some important features of a typical district. Rather, it can be interpreted as an example of an interesting organizational approach to the transition problems that many small to medium enterprises, even the ones that have always operated within industrial districts, are now facing in Italy. With the transition towards a more global economy the traditional competitive advantages of industrial districts are becoming more and more uncertain. This case study shows an approach to organizational change that is characterized by a combination of community identity, local assets, diffused entrepreneurship, shared expertise and knowledge, and by strategic

and organizational guidance, and careful exercise of control by a leading actor. While many of these cultural elements are typical of several Italian regions and contributed in a decisive way to the development of the Italian district-based economy, other aspects (such as organizational and strategic guidance by a leading company, or a small group of leading companies), seem to be less related to the local culture, and more to the specific histories of the individual companies. Borri was able to face the problem of dual transition (the transition between different entrepreneurial generations within the family, and the transition into a more competitive market) in a very effective way, leveraging both important local intangible assets and the willingness of the family to recognize the need of significant managerialization of the company, thus accepting the lead of external, non-familial managers.

However, the idea that setting aside a family-based managerial approach for a more professionalized one necessarily leads to improvements and greater competitiveness should not be generalized without very careful thought. The matter is really quite complex, especially in reference to the Italian context. At least two different considerations seem to be in conflict with each other.

On the one hand, the literature shows that the typical family business style of management can lead, in the long run, to inefficiencies and diseconomies. In fact, a family rationale can become sometimes quite contradictory to a business rationale. For example, the mechanism of internal succession, while being consistent with a typical goal of family continuity, does not guarantee that the entrepreneur's children have the necessary skills and motivation to manage the company effectively. Even first-generation entrepreneurs might not possess the right skills to lead the company when faced with the need of radical changes (such as in the Borri case, when the UPS market changed suddenly and dramatically). Also, the goal of keeping the company under direct family control sometimes conflicts with growth opportunities; in such cases, the entrepreneur might choose not to take advantage of those opportunities, and sacrifice growth, in order to maintain the company under familial control. In such cases, family goals could diverge from sound business practices and, in the long run, compromise the firm's competitiveness. According to Wiersema (1992), family members can become embedded in organizational inertia, while needed changes (in terms of managerial rationale) are more likely to occur when external, professional managers take over the lead of the company.

On the other hand, when applied to the Italian context of small and medium enterprises, especially those within a district-like economic environment, the above argument shows some serious weaknesses. In Italian industrial districts, the internal succession mechanism has a very relevant role in the process of continuously transferring and socializing tacit knowledge and skills, a process that is crucial for the success of the district model (Corbetta 1995). Thus, the internal succession itself, and the family nature of most small and medium Italian enterprises, should be considered not a limitation of, but a key success factor in the Italian industrial district model. As Colli, Perez and Rose (2003) suggested, skill and training become relevant externalities within industrial districts, while the knowledge of family members represent an important intangible asset of the companies.

The Borri case is also an example of how a dualistic approach to organizational culture fails to explain many interesting phenomena. Typically, the literature on organizational culture tends to categorize different cultural orientations of firms through simple, though evocative, dichotomies: participation *vs.* centralization, sharing of information *vs.* central control of information, customer orientation *vs.* product orientation, procedures *vs.* goals, cooperation *vs.* competition, innovation *vs.* imitation, and so forth (Gatti, 2004). While these dichotomies might be useful, at best, as general metaphors, their actual interpretative value is limited. The Borri case provides a good example of this. At first glance, it would seem that the organizational change that occurred in Borri might easily be interpreted as an attempt to completely change its culture. One could argue that one can observe a transformation from a centralized culture to a participative one, from highly centralized information management to a shared information and knowledge approach, from a competitive to a highly collaborative setting, and so forth. Is this really the case? Such a view would be an obvious over-simplification, so much to render the very idea of organizational culture almost useless.

Exploring this argument a little more, first, it does not seem true that, *prior to* the organizational change, the company was characterized by a highly centralized decision making process. The company's workforce was largely made up of highly skilled, highly waged workers. They were like artisans employed in the factory. The abilities of these highly skilled workers were the main reason Borri could produce a high quality, customized UPS devices. It is obvious that, in order to mobilize those skills, the employees had to be highly involved in (technical) decision making. There was continuous interaction between them and the design office, and the workers had a relevant role in the development of products – by offering suggestions, providing ideas, implementing improvements. So, the fact that Borri

was a highly integrated firm does not necessarily imply that there was a centralized cultural orientation. The presence of one of these elements does not necessarily presuppose that of the other.

Second, it seems questionable that, after the organizational change, the company became characterized by a totally different culture, describable in terms of participation, decentralization, collaboration, and so forth. In many respects, this study shows that at Borri the outsourcing and network-building processes are not to be interpreted in terms of a weakening of the control capacity of the firm. Instead, they can be interpreted as a change in the *way* the company controls the crucial processes. Before these changes, the company controlled its processes mostly through supervision and hierarchy, but after the creation of the supplier network those traditional means were no longer available.

As a result, of these changes the company's management decided to take action on two different levels. At the organizational design level, they carefully selected which activities to outsource and which activities to maintain in-house. The most critical processes and phases were *not* outsourced. But, at another level, even the outsourced processes remained under the firm's control – but through different means such as strategic guidance, informal relationships and market power. In fact, most of the suppliers in the network could hardly stay in business without Borri as a customer.

Furthermore, the company clearly used *knowledge and information sharing as a way to control the network*. This might seem odd because knowledge sharing is rarely seen as a control device. But, in this case (and, one could argue, in most cases), knowledge sharing serves not only the obvious, although relevant, purpose of improving quality and technical skills throughout the network, but also the goal of creating a common understanding, a shared way to interpret problems, procedures and solutions – in other words, a shared culture surrounding technical issues. As long as the leading actor (Borri, in this case) remains the main provider and distributor of shared knowledge, the interorganizational culture can be considered a way to influence, to guide and, ultimately, to control, the network of suppliers and the entire local business community involved in the production of UPS devices.

Finally, the fact that the company directly performs all network logistics activities can also be seen as a way to maintain a high level of control over the network, even though there is no longer a formal, hierarchical authority within the company.

Overall, therefore, it appears that simple dichotomies, like the ones outlined above, are not distinct enough to interpret organizational changes in a satisfactory way, even when confronted with radical transformations, such as in the Borri case. The company changed the coordination choices, the articulated set of *modalities* through which the processes are controlled (Maggi 2003, Masino 2005). But that does not mean that the organizational culture simply shifted from a centralized, proceduralized, competitive culture, to a participative, cooperative, goal-oriented one.

A further point to be noted concerns another typical dichotomy, commonly found in the organizational culture literature, that between internal and external culture. This distinction usually refers to the notion that some cultural elements should be understood as external factors (social, economic, institutional, etc.) influencing the firm's behavior and performance, while others should be understood as internally originated factors that, through repetition of successful actions, become taken-for-granted behavior and, ultimately, characterize the organizational culture and its performance.

Again, it is not difficult to see how such a dichotomy is not so clearly defined as to fully register the complexity of most organizational contexts. First, because even if one considers that external cultural factors influence the internal organizational culture of a firm, the opposite is also true, that is, that firms can influence, in cultural terms, their local environments. There are many examples. Indeed, the birth and evolution of many Italian industrial districts can be seen as just that: the influence of a few successful companies that had a strong influence on the local community in terms of becoming entrepreneurs and running businesses. In Puglia and Basilicata (southern regions of Italy), for instance, the "couch district" was born as a diffused, imitation of the success of Natuzzi, a leading couch manufacturer based in the same area. Similarly, the success and the specific initiatives of ST Microelectronics generated a number of successful small technology companies in the Etna Valley (in Sicily). Clearly the Borri case is not the only example of how a single company can have a strong influence on the local business environment, by encouraging entrepreneurship and by spreading technical knowledge – or simply by triggering imitative processes.

On the other side, it is rather difficult to detect where and how internal organizational culture ends, and where external culture begins. While it is true that Borri deeply influenced the local business community through its initiative, it is also true that the company significantly leveraged several intangible, cultural assets that were already specific features of the local community. The boundaries between internal and external culture become

even less clear when, as in the Borri case, the organizational arrangement implies frequent close interactions among different economic actors. While the organizational boundaries become blurred, the same happens to the cultural boundaries. This does not mean, of course, that culture does not matter. It matters a lot, and in many Italian contexts, it may well matter even more than in other countries. However, it does not seem that a simplified, dichotomist approach can satisfactorily explain the complex relationships between organizational changes and cultural influence.

THE PROBLEM OF CULTURE IN LARGE ITALIAN COMPANIES

Just like most small and medium companies, many Italian large companies have faced transition problems as well. In the last few years, some have had to deal with the challenge of a newly liberalized, competitive market. Telecom Italia, for example, for decades had been the only player in the protected Italian telecommunication sector; it is quite obvious that now, in an open market, competition implies a completely different approach to the market, but also to the internal processes, both in strategic and in organizational terms.

Other companies, rather than dealing with new kinds of market regulations, are dealing with the increased complexity of the existing markets in terms of, for example, internationalization of competition and technological and social dynamics. In most cases, connections with international actors (both partners and competitors) are becoming vital. Several firms have to make crucial decisions about whether, and how, to internationalize their business, for example by means of agreements with foreign companies, by acquiring them or merging with them. At the same time, foreign companies are trying to expand their business by penetrating the Italian market.

In many cases, the complexity of these managerial and organizational phenomena is even higher because, as indicated above, for many years (and still today, in several cases) Italian capitalism could be described as a family capitalism. This means that companies have been, sometimes for decades, a family property, both formally and in a more substantial, managerial way. The stories, choices, and managerial changes of these companies, have reflected the personal stories of the entrepreneurs, which are, in turn, embedded in the stories of their families. So, for example, aspects like the strategic and organizational decisions concerning continuity of the firm, investments to be made, risks to be taken, and the identity of the firm, can hardly be understood without considering the company as a family asset. While today

this element is, in many cases, not as relevant as it was not so many years ago, it still represents something that has left a significant mark on Italian business culture.

It is particularly in the case of mergers and acquisitions or alliances between companies from different countries that the problem of cultural difference between management styles and approaches become more relevant, explicit and interesting. This is why the following paragraph mainly focuses on a significant acquisition and alliance case – between an Italian and a French company. The presentation of another case involving an important Italian company, where the problem of transition from a family-oriented, entrepreneur-centered management style to a more professional management approach will shed light on the significance of the national culture in business management.

THE ALLIANCE BETWEEN RINASCENTE AND AUCHAN³

With about L7 200 billion in total sales (about €3 600 million), 21 000 employees, several brand names (Rinascente, Upim, SMA, Città Mercato, Bricocenter), the Rinascente Group was, in 1997, a major player in the Italian retail industry, both in the food and non-food divisions. Auchan, on the other side, was one the world retail leaders, mostly in the food sector. Founded in 1961 by Gerard Mulliez in Roubaix (France), in the 1980s the company started its international expansion throughout Europe: Spain, Italy, Portugal and most other European countries. In the 1990s the company continued its expansion strategy in Africa and Asia. Today, Auchan holds more than 1 000 hypermarkets and supermarkets worldwide, with total sales of about €40 billion.

In 1996, however, Auchan's presence in Italy was still quite limited: four hypermarkets, 2 500 employees and €400 million in total sales. The strategic complementarity between Auchan and Rinascente seemed clear. Both companies sought a rapid solution to their growth needs. Rinascente was trying to increase the scale of its operations in order to defend its market share from the threats of much larger, foreign competitors. The Italian company also needed increased resources and competences in order to expand to the hypermarket formula. Auchan, on the other hand, wanted to increase its presence in southern Europe, leveraging its specialized skills

3. The study of the Rinascente-Auchan alliance was conducted between 1999 and 2002. All the information reported here refers to that period. More detailed accounts of the study can be found in Gubitta and Nessi (2001) and Masino, Squarzanti and Chironi (2004). Other information about Rinascente's organizational choices and history can be found in Manaresi and Nessi (1998) and Masino and Nessi (2001).

and competences in the management of large, food-oriented hypermarkets. The French company also wanted to develop its presence and increase its abilities in the management of mid-sized supermarkets, where Rinascente's abilities were highly regarded. Thus, in strategic terms, but also in financial and economic terms, it seemed like a perfect marriage.

After detailed analysis, a 42-month-long plan was defined in order to integrate the two companies. The main goal was to implement Auchan's very successful hypermarket management model to all Rinascente stores in Italy. The plan identified four major steps:

- staff training and operations systems integration in preparation of change
- implementation of the Auchan model on a small number of hypermarkets and performance monitoring
- implementation of the Auchan model on all remaining hypermarkets
- implementation of the Auchan model on all remaining stores, including small- and mid-sized ones.

It is important to notice that the two companies were characterized by very relevant organizational and cultural differences. Auchan was a very customer- and service-oriented company. Decision making was highly decentralized. Local stores, in fact, were widely responsible for their performance; they were pushed to act almost as actual, independent entrepreneurs. At the same time, powerful and sophisticated analysis tools were widely available to local store managers in order to help them to make their business decisions.

Rinascente, in contrast, was a much more centralized company. Most of crucial decision making and responsibility was the prerogative of the head office. Local store managers, in this respect, could almost be considered to be mere executors. Where Auchan's business model was characterized by food hypermarkets, Rinascente included a wider variety of formulas: not only large hypermarkets, but also, if not mostly, mid-sized supermarkets, and small neighborhood stores in both the food and non-food segment. Rinascente had a greater knowledge of the Italian market and of Italian customer needs and habits, not only for the obvious reason that, as an Italian company, it had better knowledge of the national market, but also because of its commercial structure.

After eighteen months, the main milestones (in terms of efficiency, effectiveness and so forth) could not be reached as expected. As a result, the original plan was completely revised. The problem, of course, was not of

strategic nature, but of organization. By adopting a top-down approach, that is, imposing the Auchan model over a context that was completely unprepared for such an extreme transformation, the original plan neglected the relevance of cultural difference. With the new plan, the management tried to put into practice the lessons learned from the initial difficulties. A new approach to this change management problem was formulated.

First, a number of specific key processes were identified as ones that should be changed within a short period of time. Second, a set of different priorities were evaluated, according to criteria like the complexity of the required changes, and their impact on other existing processes. As a consequence, the information system was identified as the most complex and most influential process. Thus, transforming the information system (and managing it with care and caution) was seen by the company as a crucial step, something that should be prioritized above all else. The new information system would provide a new, shared and more solid foundation for implementing further changes later on.

Moreover, a new progressive, step-by-step approach to the whole change process was used. Instead of just one, large scale plan, imposed to the whole company, the management decided to adopt a project-based method for implementing the Auchan business model. Over 110 different sets or groups of activities were identified as areas subject to change, but every single change project took into careful consideration the geographical specificities, such as the socio-economic characteristics of the local market, as well as the internal resources (especially the personnel) of each hypermarket. So, for example, the timing and operational modalities of every project could vary, to some extent, depending on the local context. The whole change process can be summarized in the following way:

- every Rinascente hypermarket (mostly Città Mercato) was assigned to specific activities that would be subject to a change project;
- every hypermarket was associated with an Auchan store to support their defined change plan;
- specific project managers for every hypermarket were identified;
- every project manager was supported by head office with methodological assistance;
- formalization and approval of the project plans; and
- identification of minimum standards for certification purposes.

Thus, the idea that inspired the new plan was not to replace Rinascente's knowledge, culture and style with Auchan's, but to create an interesting hybrid,

something that could help retain the best of both cultures. Two different needs had to be combined. On one hand, there was the need to transfer Auchan's successful business experience into the Italian context. On the other, there was the need to leverage Rinascente's specific contextual knowledge, in both organizational and socio-economic terms. Ignoring the latter led to significant difficulties and disappointments; combining the two generated the desired outcomes. In this respect, this case is a clear example of the problems that frequently occur in merger and acquisitions situations.

LESSONS FROM THE RINASCENTE-AUCHAN CASE

It is often the case that successful organizational solutions, with all their complexities, subtleties, intangible and informal aspects, are considered models; that is, as codified recipes or schemes that can be precisely described in detail and then successfully transferred to other contexts and companies. The assumption that organizational processes can be modeled very often leads to unexpected difficulties and consequences. This becomes particularly evident when mergers, acquisitions and alliances involve companies from different countries and cultures. The effectiveness of organizational arrangement is never independent from its context or, to put it another way, from the people that are involved, their attitudes, values, habits, priorities, abilities, and goals. Any change management process that does not carefully consider those aspects, is bound to encounter difficulties and, in the worst cases, fail.

In the case of the Rinascente-Auchan alliance, the management, after the initial setbacks, found that a more progressive, project-based, bottom-up approach led to much better results. This seems to be particularly true in cases involving Italian enterprises that operate in sectors, such as retail, in which direct contact with consumer is crucial. In fact, the remarkable variety within the Italian context, in social and cultural terms, demands greater attention to local specificities, which should be reflected in organizational choices.

This is probably the most important lesson to be learned from this case, insofar as it focuses on the relationship between management and national culture. Italy, in this respect, is characterized by an amazing variety of local cultures. While this is probably true for many countries, in Italy such a phenomenon is potentially much more relevant and has much greater consequences than in other countries. Each region of Italy, and in some cases each province, has its own history, with very different influences from foreign cultures and dominations, its own traditions, even its own language

– not merely differences in dialect – to the point that people from different regions can hardly understand each other. As shown in the first section, even more recent economic history is characterized by significant differences between regions in the economic development process – not just between the north and the south, which is the most obvious and large-scale example of such differentiation, but also between more local areas and communities.

The process leading to the explosion of industrial districts can be seen as the most successful expression of such variety. Industrial districts leveraged on both diversity and enclosure of local communities for their own success. However, at the same time, cultural diversity can lead to difficulties and problems, as we have seen in the Rinascente–Auchan case. Certainly, many processes of cultural homogenization have reduced variety in the last century. However, the case study shows how Auchan, in order to perform a successful merger with Rinascente, was obliged to adopt an approach in which Rinascente’s specific knowledge of the Italian context, with its relevant multiplicity in terms of consumer habits and attitudes, had to be taken into very careful consideration. The consequences, in managerial terms, were very significant: Auchan had to completely redesign its managerial model for the Italian market, a model that, in other countries where Auchan has a presence, proved to be very successful.

ORGANIZATIONAL CULTURE AND THE TRANSITION PROBLEM: THE MEDIASET CASE⁴

It is safe to say that television had, and still has, a major role in the homogenization and de-localization of Italian culture. It seems interesting and even somewhat paradoxical, therefore, to use the commercial television sector to show how a very crucial element of Italian business culture (the family nature of many Italian companies) can deeply affect the managerial history of a company that has had a key role in that homogenization process.

Until the 1980s Italy had no national, private television network; it had one large public network (RAI) and a number of very small, regional companies. Fininvest Group dramatically changed that scenario. At that time, Fininvest was diversified in several business sectors, including commercial television. Following its creation and separation from Fininvest in the mid-1990s, Mediaset is now one of the two major players in the Italian

4. Detailed information about the Mediaset case can be found in Masino, Cardella, and Colombo (1998), Manaresi, Masino, Guastone and Cardella (1998), Bogarelli and Cardella (2001).

television sector (the other one is publicly held RAI), broadcasting over three national networks (Canale 5, Italia 1 and Rete 4).

The history of Fininvest is tightly bounded with the personal saga of its founder Silvio Berlusconi⁵. This is key because it must be taken into account that (like in many other family-controlled companies) Fininvest's organizational arrangements were greatly influenced by the charismatic presence of its founder. Berlusconi was directly involved in many daily decision making processes, not only at a strategic level, but even at operational levels. His degree of involvement was such that all working methods and procedures were highly influenced by his intervention or, at least, by his personal characteristics. In other words, Fininvest was Berlusconi's brainchild and its organizational culture clearly reflected his personality, goals and attitudes. In many respects, such a strong linkage to Berlusconi has been one of the company's greatest assets, especially during the early years. Like in many family companies, such an asset worked as a strong glue that kept the people together, focused them on the goals through a shared, unifying vision. However, in 1994, Fininvest had to face new events that triggered the necessity of some important organizational changes.

First, Berlusconi decided to abandon his managerial activity in order to enter the political arena, running for Prime Minister. The company was going to lose its most crucial reference point. Thus, an immediate rethinking not only of specific managerial choices, but also of overall the company's organizational logic was required.

Second, the competitive scenario of the television sector was rapidly changing. The market was saturating rapidly. In fact, while in the 1980s the growth rate of the company had been literally exponential, in the 1990s it slowed down significantly. This led to some key strategic consequences. The company decided to give much more autonomy to its individual diverse business areas, not just the television sector, but also sectors like consumer retail, insurance and financial products, cinema, publishing, advertising. A better strategic and operational focus on the specific business activities, in particular the television sector, was clearly needed. In the early pioneering phase, a period of exponential growth of the commercial television business, efficiency was never a real problem at Fininvest. The top priority was business growth itself. Resources were plentiful and nobody really cared (understandably) about efficiency, given the amazing growth rates. In the 1990s, however, when the sector matured and growth rates inevitably slowed down,

5. Berlusconi's decision, in the mid-1990s, to leave the television business to run for Prime Minister (an office he held 1994-1995 and 2001-2006) triggered, among other issues, the need for organizational changes in Fininvest and Mediaset.

efficiency and cost reduction started to become a real priority. A more careful, business-specific management style was needed.

Thus, the decision taken by the management was to transform Fininvest Group into a financial holding, to give more autonomy to the business areas, and to detach the television business by creating Mediaset (which had to be listed on the stock market). It is worth noting that listing Mediaset on the stock market had relevant implications: the new company had to be perceived by the financial market as a transparent, accountable one, a company where strategies, business responsibilities and practices were well established and defined.

In 1996, most of the formal steps for the creation of Mediaset were already in place. However, two more issues were still to be resolved. On the one hand, when Berlusconi left, new corporate governance roles had to be established. Three options were considered. The first one was to appoint a strong professional manager, someone who could step into Berlusconi's shoes in terms of centralization of charisma and decision making power. That, of course, would have probably implied significant resistance from the existing management. The second solution was to pass the governance of the company on to Berlusconi's children. While this was considered as the best choice in the long term, it was not feasible in the short term, since the children, at that time, were not mature enough to take over their father's role. The third option was to establish something like a collective governance by a committee of existing managers. The latter was the chosen solution, albeit clearly and necessarily a temporary one, while waiting for Berlusconi's children to develop the necessary skills and competencies for taking over the corporation's governance.

On the other hand, it was clear that Mediaset needed not just a new formal structure, but also a new direction in terms of general managerial logic and philosophy, a new organizational culture. In the very revealing words of Mediaset management, the goal was to transform the old "Fininvest *entrepreneurial* model" into a new "Mediaset *managerial* model".

For the managers, the Fininvest entrepreneurial model denoted the general organizational culture that characterized Fininvest during its early years. It can be described by the following aspects.

- *A clear distinction between the strategic and the operational decision making level.* The strategic decision making prerogative was mostly concentrated at the very top level of the company, especially in the hands of Berlusconi. The divisional managers were only held responsible for operations level business matters.

- *Tasks and responsibilities were assigned according to trust and reliability criteria.* Competence and knowledge were not the main criteria by which people were selected and assessed. Instead, trust, reliability and dependability were the main criteria. It is necessary to consider that the private television sector was in a pioneering phase, especially in Italy, so it was hard to find managers with sector-specific skills and experience. Thus, it seemed more important to consider their personal qualities, their motivation, their willingness to accept and adapt to the very specific organizational environment that characterized Fininvest in the early years.
- *Effectiveness (business growth) as the top priority.* As stated above, during the early years growth was extremely fast, resources were plentiful, so efficiency was not a concern.
- *Berlusconi had extensive coordination prerogatives.* He was not only in charge of strategic decisions, but also was highly involved in business activities. He interacted on a daily basis with the business divisions, ensuring coordination among them and acting as strong unifying agent.
- *The relevance of informal relationships.* In Fininvest, a strong emphasis was put on informality, on personal relationships, on reciprocity as the main coordination devices.
- *The relevance of identity and identification.* Together with informality, the sense of corporate identity worked like a very strong glue that kept people together. The very rapid growth of the company provided excellent career opportunity for most people. Also, Berlusconi's charisma, as well as the novelty and the appeal of the business, created relevant identification processes throughout the company.
- *The most important competences were not technical, but context-specific and organizational.* The company basically invented, from scratch, a business that was completely new in the Italian context. So it was crucial that people had a clear understanding of the values, of the informal organizational arrangements, of the sense of identity that characterized the company. In that respect, the company was a pretty unique entity, so much so that those organizational, context-specific competencies and attitudes were considered far more important for the company's success than technical skills and abilities. It is very interesting to notice that several people who joined Fininvest from other companies failed to integrate within Fininvest, not because of a lack of technical competence, but because of their inability to adapt to Fininvest's specific culture.

If the Fininvest entrepreneurial model was the starting point, a new Mediaset managerial model was the desired target. The strategic change, the creation of a business specific company, and the stock market listing required that the organizational emphasis had to be at least shifted and in some cases completely changed. The company's managers identified four poles of such a transformation.

First, the focus on people, that characterized Fininvest, was changed in Mediaset to a focus on roles. Where in Fininvest tasks and activities were largely left to staff initiatives and autonomy, it seemed necessary to clearly (and formally) identify roles and tasks in Mediaset, so that activities could be planned and managed in a much more orderly and traditional fashion. The almost chaotic, but highly creative Fininvest environment had to be shifted to a much more tidy, systematic and formally defined way of managing and organizing.

Second, the emphasis on trust and reliability had to be transformed into responsibility. People, once assigned with formal roles and tasks, should be held responsible for their actions and the results they achieve. Fininvest's focus on reliability and trust, that helped to create a shared sense of informal responsibility, was no longer sufficient. In Mediaset, the goal of role definition was not just to plan activities in more scientific fashion, but also to assess individual performance in a much more accurate and precise way.

Third, while informal relationships were the main coordination device in Fininvest, authority had to become the way to coordinate and control activities in Mediaset. Just as individual activities and responsibilities had to be formally defined, coordination between individuals and activities had to be changed dramatically. According to the classic organizational literature, formal responsibility requires a certain degree of formal authority, otherwise conflicts and contradictions are usually generated.

Fourth, while a focus on identification was considered the most important means by which people could be integrated and assessed, competencies had to become the main integration and assessment device. Once the pioneering phase was over, a certain amount of experience and knowledge about the business became available, so the company acquired a better idea about which technical competencies were present, and which ones were necessary. Also, when efficiency became a priority, the company realized that boosting the organizational focus on technical competencies was the best way to decrease costs and increase efficiency. In this way, Mediaset had to make a significant effort to define crucial competencies and to assess people accordingly.

The four “poles” outlined above represented a sort of general guideline for Mediaset’s organizational changes in the years that followed. Changes concerned various aspects such as organizational charts (particularly the articulation between line and staff units), corporate governance, human resources management, and so on. It is worth stressing that such a major, long-term organizational transformation plan was originally based on a careful analysis by the company’s managers of their organizational culture. They realized that Fininvest was characterized by a culture that, while being highly successful during the early years, was no longer going to be effective after the creation of Mediaset, that is, once the business matured and Berlusconi (and family) abandoned the corporate governance.

LESSONS FROM THE MEDIASET CASE

The Mediaset case can be useful in clarifying two issues that are very important in the Italian context. The first issue to be addressed is the managerial relevance of organizational culture and the second is the managerial meaning of a family controlled company. These two elements are closely connected, especially in transition phases, when radical changes are needed and important decisions have to be made.

The connection between these two aspects can be better understood if we consider that, in order to understand the organizational culture of a company, it is crucial to study the actions and decisions of individuals and to identify the linkages between those actions and their personal values and goals. This is easier to see when the presence of a strong, charismatic leadership deeply influences the whole organization. However, this is true even when a less captivating leadership is at work. Specific choices about organizational arrangements and procedures could (and should) be analyzed in order to reveal their general logic, goals, and effects on the information, values and perceptions that people rely upon for their judgments and behaviors. In this sense, the Mediaset case shows how organizational culture is not just something that emerges spontaneously, but that it is also something that, at least in part, can be guided and oriented towards a desired goal.

It is becoming more and more common for top management to explicitly consider organizational culture as a crucial concern, especially when major governance or organizational changes are to be carried out. The Mediaset case is an example of that explicit consideration. While this is true in most countries, in Italy the issue of organizational culture is very often tightly bound with the family nature of the company, especially when a transition from one entrepreneurial generation to another occurs, or when

a shift from an entrepreneur-centered organization to a more formal approach to management and organization is needed or demanded by circumstances.

In Italy, over 90% of all the registered Italian companies are family firms⁶, and it is worth noting that this concerns not just small and medium enterprises, but also large companies. According to Colli (2006, p. 3), over 80% of the fifty largest Italian companies can be considered individual or family firms, where individual or family firms are defined as the ones in which “one single or a few families, linked by kinship ties, as well as pacts and alliances, control a share of the capital enough to ensure them the control of the firm, undertaking the most relevant strategic decisions” (Corbetta, 1995, quoted in Colli, 2006, p. 3). While other definitions or research methodologies can lead to slightly different figures, the main point is that the Italian economy is essentially characterized by family firms, significantly more than other countries’ economies (Barca and Becht, 2001).

The Italian scenario does not seem to have changed much in recent years. In the 1990s, a rapid privatization process within the Italian industry and a parallel reduction of the State’s presence offered significant opportunities to grow through acquisitions for several large family companies (for example, Benetton, Riva, and several others), as well as for mid-sized ones. Several studies show that the relevance of family control in Italy is still very strong, when compared with both past Italian data and other countries’ figures⁷.

There are several possible explanations for the persistence of the high percentage of family companies in Italy. An institutional explanation refers to the low degree of minority shareholders protection granted by the Italian financial market. Colli (2006) provides a more extensive account, showing the relevance of a number of other elements. First, a locally based banking system favored family companies as family ties and patrimony provided better guarantees and reputation for credit provision, and also reduced transaction and information costs. Second, the legislation on inheritance taxes, as well as other legislation elements, had a significant effect on the diffusion and persistence of family firms. Third, as outlined in the first section, the State had a major role in capital-intensive industrial sectors, that is, in those sectors where separation between ownership and control is more likely to happen, while privately owned Italian companies developed mostly

6. Data published by the Family Firm Institute (www.ffi.org).

7. For a detailed review of these studies, see Colli (2006).

in those sectors where a family approach could finance growth more easily than in capital-intensive industries. Finally, and most importantly for the goals of this chapter, a cultural explanation can be provided. Several authors emphasize the relevance of the specific Italian culture in order to explain the large presence of family controlled companies in Italy. An important feature of the origins of many Italian entrepreneurs is the link with agriculture and land-owning (Colli 2006). Frumento (1960), in his analysis of Italian entrepreneurial pioneers, states that

“the typical pioneer was a serious and realistic man, raising his children and employees in order to make them collaborators, first, and eventually followers. He reinvested profits not in opulence, but in the firm, seen as a means for personal improvement; in other words, an aspect of his family. Sometimes the entrepreneur could not tell if he was building the firm around his kin, or his kin around the firm.” (Frumento, 1960, p. 241)

Risk-aversion, preference for low-indebtedness, involvement of the whole family, these were the typical features of the early entrepreneurs, inherited from an agriculturally based economy and society.

The problem of entrepreneurial succession in family firms was analyzed by Kroeger (1974), who proposed a life-cycle framework for the role of the entrepreneur. During the early stages of a company's life, the entrepreneur acts as a founder and as an inventor, that is, someone who puts into practice his business idea. In the mature stages, the entrepreneur acts as an organizer and as an administrator, that is, someone who uses his leadership in order to improve efficiency and rationality. In the declining stages the entrepreneur acts as a re-organizer, that is, someone who stimulates a learning process in order to innovate the business idea and re-enact the development of the company towards new directions.

It is worth noting that, in a family company, it is very important whether the entrepreneurial transition occurs during the first, the second or the third stage. In the Mediaset case, the transition occurred at the very end of the early stage, when the company was just exiting the pioneering, high-growth years, and entering a new phase when consolidation and efficiency was needed. That, of course, emphasized that a change of corporate governance was not a fully satisfactory answer to the problem: a wider organizational culture change problem had to be solved as well. In the Borri case, the company lost its family business character (as a result of its acquisition by the American multinational company) during a later stage, close to (or well within) the decline stage. The new management abandoned the family business approach; however, for the necessary transition they decided to

leverage a number of important cultural, intangible assets, both internal and external to the company.

To summarize, the Mediaset case illustrates a typical situation that is found quite often in the Italian business community. A situation where not just small or medium companies, but also large ones (like Mediaset), are characterized by a managerial approach deeply influenced by the family nature of its governance. The typical Italian family company enjoys some competitive advantages: positive relationships with the local context, commitment to the business, flexibility, reduced transaction and information costs, easy transfer of tacit knowledge and skills, strong sense of unity and identity provided by charismatic leadership. At the same time, however, there are some typical weaknesses: inability or unwillingness to find resources for growth, inability to ensure managerial capability and skills through a family succession mechanism. The Mediaset case provides a well known example of some of the advantages, but also serves as an illustration of the growth and succession problem. It also offers a clear picture of the tight connection between the growth and the cultural change issues. Colli (2006) argues that the problem of succession is closely related to the practices surrounding the training of the younger generations, which is contingent upon national culture. In Italy, preparation of the children of entrepreneurs for succession of the family business generally happens through on-the-job training and technical education, and that is more effective in a context of highly specialized or small sized contexts, but its effectiveness is doubtful in less specialized, or less technical-oriented, larger contexts.

CONCLUSIONS

Three elements seem to represent the most relevant interpretive keys to understanding the relationship between national culture and management in Italy and, more generally, to identify the crucial challenges that the Italian economy faces today.

First, the State held a prominent position for many decades, not only in terms of its protectionist economic policies, but also as an actor directly involved in several industrial sectors, particularly in capital-intensive ones. As a consequence, the protected environment in which most large companies evolved over time kept them away from actual competition with international companies, and from growing as much as comparable companies did in other countries. This (together with other legal, financial and cultural elements) favoured the diffusion and persistence of family companies, both small and large ones. In the last several years, globalization of the international markets found many Italian companies unprepared for new

and more intense forms of competition. This totally new situation has shed much light on the weaknesses of many Italian enterprises, forcing them to institute some important strategic and organizational changes.

The second crucial element of the Italian business scenario is the family character of many enterprises. This is true not only for small and medium firms, but also for many large ones. It is crucial to consider the wide diffusion of the family business approach in order to interpret and understand the peculiar traits of Italian management. In the Mediaset case, for example, this study shows the tight connection between the entrepreneur's persona, his values and attitudes, and the organizational arrangements of the company. In fact, when Berlusconi decided to leave company, the entire organizational culture had to be re-evaluated, analyzed, changed and adapted to the new situation. In more general terms, the family character of many Italian companies is important since it enables a better understanding of the structural features of the Italian economy, as well as the specific strategic and organizational choices of individual companies: the peculiar traits of the organizational culture of many companies, the priority given to continuity over change and growth, the focus on incremental innovation vs. radical innovation processes, the problems related to transition phases from one entrepreneurial generation to the next, as well as the difficulties related to the globalization of competition.

The third important aspect of the Italian economic scenario is the relevance of the territory, in other words, all those social and cultural elements that characterize Italy as a community of communities, the aggregate of a number of different specific local (and very diverse) environments, each with its own context-specific history, traditions, social arrangements, and language. It is this closed nature, this specificity and proximity that provided the necessary social and cultural background for the birth and development of the industrial districts. Elements like sharing of information and knowledge, trust and informal ties, mutual learning and imitation, diffused entrepreneurship, served as fundamental coordination devices, and as the catalysts for the development of a strongly territorialized economy. In this context, the culture of the entire territory is, and is embedded in, the culture of business enterprises within the territory. At the same time, as seen in the Borri case, the leading role of individual firms can trigger a socialization process of entrepreneurship and technical knowledge. The leading company, while using the local cultural assets in order to re-invent its organization, contributes to change, or at least to influence, the local culture. It is a process of cross-fertilization, of mutual enrichment. It is, in many ways, a social

process, where the business actors (or the district) could not exist without the territory, and the territory could not exist without the business actors.

These three elements – the State's influence, the family nature and origin of the company, and the relevance of the local community – interact with each other in different ways. For example, the transition problem of a family-owned company like Borri could be solved thanks to the significant involvement of the local community. In most cases, the family structure of the governance of the company has a major role in the diffusion of knowledge and in the strengthening of informal ties in the local communities. In the past, the State's intervention in several cases enabled the continuity of troubled family enterprises.

However, the interaction of these elements can also create difficulties and problems. Italian managers, now and in the near future, have to deal with important challenges, requiring careful consideration of the possible benefits, but also the constraints associated with the three elements of the Italian scenario outlined above.

On one hand, the transition to a highly competitive and international market requires the company's organizational culture to be adjusted accordingly, that is, to a culture oriented toward innovation, competition, and efficiency. On the other hand, growth and competitiveness can also be achieved through mergers, acquisitions and alliances with international partners. However, these strategic moves generate other important problems in terms of organizational culture as well: mergers of companies that originate from different countries require integration not only in strategic and financial terms, but also in organizational terms, as evidenced in the case of the Rinascente-Auchan alliance.

Thus, for different reasons, the problem of culture seems to be a major issue for most Italian companies. Of course, this does not mean that the cultural heritage of Italian companies is useless or should be completely abandoned. For example, in the Rinascente-Auchan case, the alliance became successful only when a more balanced approach to organizational integration was adopted, instead of simply imposing the Auchan model on the Italian market. In the Fininvest/Mediaset case, a very important aspect of cultural change, although necessary, could lead the company to dissipate relevant assets, such as attitude, creativity, openness, and initiative, that are related to the very peculiar organizational arrangements that characterized the company in the early years. In the Borri case, a managerialization process and extreme organizational change of a traditional, middle-sized family firm, successfully leveraged a number of community-based, cultural and social assets.

Thus, Italian companies, in an increasingly globalized economy, are confronted with a problem of internationalization, modernization and managerialization, but at the same time they need to be careful to avoid wasting an important heritage, a legacy of entrepreneurship, creativity, and positive cultural and social values. More generally, the crucial relationships that characterize the Italian economy need to be carefully reinterpreted, at different levels: the relationship between internationalization and regionalism, the relationship between State and private initiatives, the relationship between family business and professional management. These are the key issues that the Italian economy needs to urgently face and solve in the near future.

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