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THE ITALIAN WAY TO FINANCIAL ACCUMULATION. PERSONAL NETWORKS AND INFORMAL PRACTICES OF THE ITALIAN ECONOMIC ELITES

Italijanski način finansijske akumulacije. Lične mreže i neformalne prakse italijanskih elita

ABSTRACT: This paper challenges the belief that Italian capitalism is a static and unchanging one. Italian capitalism has retained some unique characteristics: an elitist structure, close personal relationships, a high degree of informality. However, far from being just the characteristics of an unchanging capitalism, these peculiarities were the resources that Italian capitalism exploited to change its mode of action. First, we identify the network of interlocking actors in the Italian stock market and their set of informal practices, illustrating the paramount role of families and informal relationships. Second, we show why these characteristics did not prevent Italian capitalists to enter an era of financial accumulation. Resilience is the keyword, understood both as adaptation to changing conditions and as active reaction, a proper transformation. As an example of adaptation, we analyse how Italian capitalism has faced some institutional changes preserving its traditional power structure. As an example of transformation, we show how Italian capitalism adopted patterns of financial accumulation and maximization of shareholder value. Finally, we argue that informality and the dissemination of personal relationships are not impediment to change: in the practical logic of social and economic actors they are rather resources to be exploited when it comes to make changes without sacrificing the status quo.

KEY WORDS: Capitalism, Italy, Informality, Financialization, Elites, Resilience.

APSTRAKT: Ovaj rad osporava uverenje da je italijanski kapitalizam statičan i nepromenljiv. Italijanski kapitalizam je zadržao neke jedinstvene karakteristike: elitističku strukturu, bliske lične odnose, visok stepen neformalnosti. Međutim, daleko od toga da se ove karakteristike odnose samo na nepromenljivost kapitalizma; te

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specifičnosti su i sredstva koja je italijanski kapitalizam iskoristio kako bi promenio svoj način delovanja. Na prvom mestu, identifikovaćemo mrežu povezanih aktera na italijanskoj berzi i set njihovih neformalnih praksi, ilustrujući ogromnu ulogu porodice i neformalnih odnosa. Zatim ćemo pokazati zašto ove karakterisitke nisu sprečile italijanske kapitaliste da pristupe eri finansijske akumulacije. Ključna reč je otpornost, shvaćena i kao prilagođavanje promenljivim uslovima, i kao aktivna reakcija, odgovarajuća transformacija. Kao primer adaptacije, analiziraćemo kako se italijanski kapitalizam suočio sa nekim institucionalnim promenama, čuvajući svoju tradicionalnu strukturu moći. Kao primer transformacije, pokazaćemo kako je italijanski kapitalizam usvojio obrazac finansijske akumulacije i maksimizacije akcionarskih vrednosti. Na kraju ćemo tvrditi da stepen neformalnosti i širenje ličnih odnosa nisu prepreka za promenu: u praktičnoj logici društvenih odnosa i ekonomskih aktera, to su radije resursi koji se koriste kada se prave promene bez dovođenja u pitanje statusa quo.

KLJUČNE REČI: kapitalizam, Italija, neformalnost, finansijalizacija, otpornost.

1. Introduction

A cliché about the Italian capitalism is that it is a static and unchanging one, ruled by elites apparently giving the impression of profound changes, in order to maintain their closure and their privileges. This paper will challenge this simplistic belief. Italian capitalism certainly has retained some characteristics closely dependent on its cultural and historical development (Scott 1991): it has preserved an elitist structure, with close personal relationships and a high degree of informality. However, far from being just the characteristics of an unchanging capitalism, these peculiarities were the resources that Italian capitalism exploited to profoundly change its mode of action.

The existence of informal and personal networks in the Italian economy is so widespread and deeply-rooted that the Italian economic model is usually defined as a *relational* capitalism. Elements favouring the emergence and persistence of these structures are, among others: the late industrial and financial development of the country; the role played by a few and powerful family dynasties of entrepreneurs and by individuals associated with them; the lack of external capital diluting family ownership; the public control of the banking institutions, and more generally, the close interdependence between the economic and political sphere, which led to patronage relationships; an ambiguous institutional context rewarding the consolidated positions of power (cf., among others, Zamagni 1993, Barca 1997, Amatori and Colli 1999, Rossi 2005).

As a crucial first step we will identify the network of interlocking actors existing in the Italian stock market and the set of informal practices taking place in it (par. 2). We will try to trace the fundamental, traditional characteristics of Italian capitalism: basically, the primacy of families and the paramount role of informal links and relationships. Through a mixed-method approach –

combining the analysis of official documents, quantitative analysis (i.e. social network techniques), and qualitative interviews – the structure of personal relations among firms and directors will be described and some particularistic mechanisms will be showed

Specifically, we will identify, on the one hand, the peculiar mix of formal and informal practices adopted by the actors in order to ensure the social reproduction of the existing structure and maintain their balance of power. On the other hand, we will show why these characteristics have not impeded, for Italian capitalists, entering an era prevalently based on financial accumulation, where productive investments are secondary compared to financial assets.

The keyword we use is *resilience* (par. 3), understood in two different meanings: resilience is an *adaptation* to changing conditions, that is an action of preservation; but it can also be an active reaction, a proper *transformation*.

As an example of adaptation, we'll analyse the way Italian capitalism has coped with some institutional changes in order to preserve its traditional power structure (par. 4). While a formal compliance to new legislation is unavoidable, implementing informal practices and personal relationships is an effective remedy to ensure the preservation of established interests and rights. We'll offer two different examples, referring to two major legislative changes occurred, respectively, at the end of the Twentieth century (the establishment of compulsory introduction of independent directors on corporate boards) and in the current decade (the introduction of gender quotas in the boards of listed companies).

As an example of transformation, we will show how Italian capitalism – although retaining its specificities in the structures of the firms and in the informality of relationships – followed the Anglo-Saxon capitalism in the adoption of financial patterns of accumulation (par. 5). Belying the belief that Italian companies have remained outside the process of financialization, our research confirms that even in Italy, particularly from the 1990s, the volume of financial assets and transactions has increased dramatically, and that non-financial companies tend to pursue financial accumulation rather than strategies based on production and sales. The preservation of a strong concentration of ownership and strong informal ties have not kept Italian capitalism far from financial, short-termist accumulation. Personal and relational ties have rather allowed Italian capitalism to maintain its structural characteristics while radically changing its value extracting approach.

In conclusion (par. 6), we therefore argue that informality and the dissemination of personal relationships should not be interpreted as indicators of immobility. The recent history of Italian capitalism demonstrates that they are not absolute impediment to the change; moreover, in the practical logic of social and economic actors, informality and relationships are important resources to be exploited when it comes to face changes without sacrificing consolidated interests and prerogatives.

2. The perimeter of Italian capitalism: families, power relations, and informal links

Italian capitalism can be mainly described as a closed circle, with monopolistic rents, high entry barriers, rigid power structures, and a strong internal opacity (Rossi 2005). Without trying to be exhaustive³, it is possible to note that when the industrialization process started in Italy, late compared to other Western European countries, a major role has been played by a small number of wealthy and powerful families and by individuals associated with them. These actors, over time, have originated outright entrepreneurial dynasties (Amatori and Brioschi 1997, Amatori and Colli 1999, Giannetti and Vasta 2006). Afterwards, their special economic position has been maintained thanks to the close interdependence between the economic and political sphere, which led to patronage relationships (Amatori e Brioschi 1997, Amatori 2011).

In fact, the seminal contribution by Hall and Soskice (2001) on the varieties of capitalism places Italy, along with some other Latin countries, in a sort of indefinite position, which differs from liberal market economies as well as from coordinated market economies. Focusing on the central role played by the state in coordinating inter-firm relations, Schmidt proposed the “state-influenced market economies” label (2002). Specifically, in the Italian case the public intervention took place by means of state-owned industrial companies and state-owned banks, directly controlling some strategic industrial sectors and indirectly providing credit to others. The result was a highly coordinated system of finance, where formal and informal links among actors were – and still are – crucial (Rinaldi and Vasta 2014).

Because of these consolidation dynamics, Italian capitalism and its elites have developed a cohesive structure, characterized by pervasive power relations affecting economic concentration and control. This structure stems from specific context factors, such as a bank-based financial system and a prominent role of state actors, which are shared also by countries like, for example, France, Germany and Spain (Cardenas 2012). Nevertheless, in the Italian case the corporate and individual networks seem to be particularly persistent over time and mainly ruled by informal practices and personal relationships (Rinaldi and Vasta 2005, David and Westerhuis 2014).

Aiming to analytically describe the Italian economic structure and its elites, we will focus on four main aspects: the concentration of ownership, the leading role of individuals, the cross-ownership and pyramidal ownership structure, the diffusion of interlocking directorates and directorships⁴ (cf. Deeg 2005). In the

3 For reasons of space, it is not possible within the confines of this paper to describe the development of Italian capitalism. For more details, see Zamagni 1993, Barca 1997, Amatori and Colli 1999.

4 In order to investigate these aspects, we use an original dataset, collecting information from the Italian Securities and Exchange Commission (Consob) about the relevant shareholders and the composition of the boards of directors for all the companies listed on the Italian stock exchange of Milan. We refer to the ownership situation and the board composition as of 31 December 2014. The focus on cross-ownership and interlocking directorates has been conducted using network analysis techniques. Starting from an affiliation matrix (rectangular matrix), with companies in the rows and respectively shareholders and directors in the columns, we derived two different adjacency matrices (square matrices) representing: a) the

following pages, a snapshot of the current situation referred to these traits will be provided, as well as some hints about their historical development and persistence. In order to do that, we will specifically observe the dynamics occurring to the Italian listed companies, which constitute a significant portion of the economic system and its actors, both for its economic and political relevance⁵.

2.1. *The concentration of ownership*

Despite the push towards the adoption of an Anglo-Saxon model of ownership and control – also promoted by legislation – the Italian companies’ ownership has always been and still is strongly concentrated (La Porta et al. 1999, Barca and Becht 2001, Deeg 2005). Figures in table 1 show the average size of shares held in listed companies by the largest shareholder, the other major investors⁶ and the market (e.g. minor shareholders). The left part of the table highlights that the average percentage of ownership held by the largest shareholder is slightly lower than 50%, while minor shareholders detain about 20% and minor investors slightly more than 35%. Distinguishing companies by activity sector, the majority shareholder appears prevalent in non-financial firms (47.9%), which are the most widespread; conversely, we observe a stronger tendency to the public company model, although imperfect, among the financial companies, and especially in banks (56.1%). Data weighted by market capitalization (see right part of table 1) substantially confirm the findings: although a greater presence of market actors emerges (with an average share above 50%), the role of the largest shareholder remains substantial (32.6%), especially among industrial, commercial and service companies.

Tab. 1. Ownership concentration in Italian listed companies. Average size of shares held by the largest shareholder, the other relevant shareholders and the market (arithmetic average and average weighted by market capitalization) – %, year 2014.

	Largest shareholder	Other relevant shareholders	Market	Largest shareholder	Other relevant shareholders	Market
	Arithmetic average			Weighted average		
Non-financial companies	47.9	17.4	34.7	40.7	9.1	50.2
Banks	30.3	13.6	56.1	13.5	14.6	71.8
Other financial companies	34.9	23.9	41.2	28.2	12.3	59.4
Total	44.9	17.7	37.4	32.6	10.8	56.6

Source: authors’ elaboration on Consob data.

relationships between pairs of companies given by the existence of one or more directors/shareholders in common; b) the relationships between pairs of directors/shareholders given by the existence of one or more companies in which they have the same stake.

5 At the end of 2014 – the period to which the data shown in the following pages refer – the market capitalization of Italian listed companies had reached 470.4 billion euro, equal to 29.1% of GDP (28.1% in 2013) (source: www.borsaitaliana.it).

6 According to Consob (the Italian Securities and Exchange Commission), relevant shareholders hold not less than 2% of shares in a listed companies, while minor shareholders are below this threshold.

Even if an exhaustive comparison with other countries is not available, also because of the difference in the definitions and thresholds adopted, some partial data reveal that in Italy the role of relevant shareholders is particularly relevant. A joint investigation conducted by Banca d'Italia and Consob points out for example that in 2008 the average percentage of ownership held by controlling shareholders in Italy was 45.2%, while in Spain was 28.3%, in Germany 14.0, in France 11.1 and in UK 6.8. Similarly, the total percentage owned by significant shareholders – whose threshold in this case is set at 3% or more of capital – was 52.2% in Italy, 47.8% in Spain, 22.4% in Germany, 19.7% in France and 18.4% in UK (Bianchi and Bianco 2008).

Further data available from previous researches highlight that the dominance of a single shareholder is a consistent feature at least since the Second World War, with only slight changes over time. In 1947, for example, the average amount of votes owned by the largest shareholder was equal to 45%, and in the following decades it has even grown, reaching approximately 55% at the end of the Eighties (Aganin and Volpin 2003). Subsequently, some main dynamics of ownership reallocation took place in the Nineties, along with an important period of legislative reform (Giacomelli and Trento 2005). At that time, actually, a partial reduction in the width of the average share held by the largest investor has been observed (from 55% in 1990 to 47% in 1998), while a parallel expansion in the role of small shareholders was carried out (from about 28.5% in 1990 to 38.5% in 1998) (Bianco and Bianchi 2005). Subsequently, however, the process of rebalancing seems to have worn off: since the beginning of the Twenty-first century, there is a substantial stability in the concentration of ownership, which remains up to now, ensuring the primacy of major shareholders on the public company model.

2.2. The leading role of individuals

As already mentioned, a further mark derived from the past is the prominent role of individuals and families in the economic sphere (cf. Consob 2014). In fact, even if systematic long-term data are difficult to collect, literature points out the personal and family-based essence of Italian capitalism. On the one hand, the punctual description of several case studies about family-owned firms is available (Barca 1997, Aganin and Volpin 2003). On the other hand, some data about the persistent stake that individuals and families have in corporate shareholding are provided, showing for example that the average percentage of shares owned by individuals in listed companies has not significantly changed in the last three decades (Mallin 2011). Table 2 shows the type of shareholders who own relevant companies' shares (exceeding 2%). We first notice that owners are, for more than one third, individuals (one quarter if we weight data for market capitalization). Secondly, we can observe that also financial companies play an important role in the ownership: however, if we look more closely to the data, we highlight that many of these financial companies are indeed financial holding companies controlled by families (as, for example, Exor for the Agnelli family, Fininvest for Berlusconi, and so forth).

Tab. 2. Ownership distribution in Italian listed companies. Shares held by relevant shareholders by type (arithmetic average and average weighted by market capitalization) – %, year 2014.

	All listed companies	
	Arithmetic average	Weighted average
Individuals	23.8	10.6
Non-financial companies	8.9	2.1
Financial companies:	24.8	16.5
Banks	3.0	2.5
Other institutional investors	5.9	4.3
Financial holding companies	15.9	9.6
Bank foundations	0.8	2.5
Public actor	3.7	11.6
Others (cooperatives, non-profit organizations)	0.6	0.1
Total shares held by relevant shareholders	62.6	43.4
Dispersed ownership*	37.4	56.6
TOTAL	100.0	100.0

*Sum of shares lower than 2%.
 Source: authors' elaboration on Consob data.

The available data on the ownership structure in some other European countries confirm that in the Italian case usuallycf. also Observing the relevant shareholders of the 80 largest listed companies in 2006, for example, Bianchi and Bianco (2008) notice that the weighted average of shares owned by individuals in Italy (5.2%) is slightly higher than in Germany (5.0%) and substantially higher than in France (2.0%), while Spain show a similar ownership distribution.

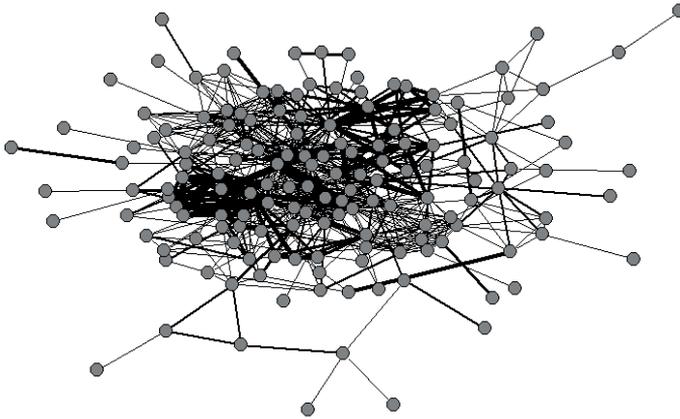
2.3. The cross-ownership and pyramidal ownership structure

At least partially as a consequence of the widespread presence of individuals and families as owners, cross-ownership and pyramidal ownership are really common in Italy. Specifically, pyramidal ownership is the situation in which a company holds a relevant share in another company and, through this, displays a top-down chain of control. Cross-ownership is, instead, the situation in which two companies hold shares in each other. Through these structures, shareholders are able to impose coordinated action strategies that reproduce, over time, the existing power relations.

Consob data about the ownership structure in the Italian stock market reveal that cross-ownership and pyramidal ownership involve about 70% of the companies. In fact, in 2014 160 out of a total of 242 listed firms have a direct or indirect ownership stake in another listed company. Through ownership relations, the great majority of these companies (153 firms, equal to 63.5%)

are directly or indirectly linked with any other, in a unique and completely connected network. In this network, which is graphically displayed in fig. 1, nodes indeed consist of firms and ties indicate the existence of an ownership stake between two linked companies: in total there are 724 different ties, about a third of them is a multiple tie, i.e. indicating the sharing of two or more relevant shareholders between the companies involved (bolder lines in fig. 1). Overall, within the network displayed in figure 1, each company is, on average, directly linked to nine other actors in the stock market.

Fig. 1. Network of listed firms connected by ownership relations (153/242 listed companies, 724 ties), 2014.



Source: authors' elaboration on Consob data.

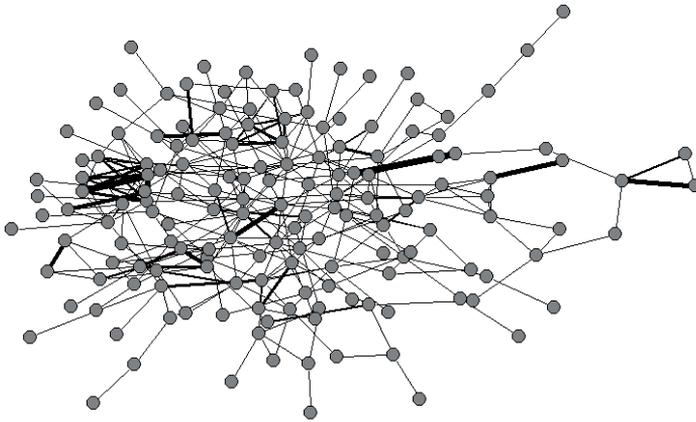
The cross-ownership and pyramidal ownership structure, leading to a complex chain of control (frequently exercised within family groups directly by individuals or indirectly through family holding companies) has always been very common in Italy (Di Donato and Tiscini 2009). Aganin and Volpin (2003) show for example that between the Fifties and the Eighties family-owned groups involved each year not less than 40% of all listed companies, representing at least about 30% of market capitalization.

2.4. The diffusion of interlocking directorates and directorships

In order to analyse the power structures hidden in the Italian system, alongside the presence of ownership configuration, it is also relevant to investigate informal coalitions. These kind of partnerships are obviously more difficult to detect; in accordance with the academic literature, we will explore this aspect observing the links occurring when a member of the board of directors of one company also serves in another company's board, thus creating a link between the two corporations (i.e. interlocking directorates). These ties can be considered as a good proxy of social relationships between companies and, more generally, as a useful element for defining the existence of a personal network within the financial community (Mizruchi 1996).

As in the case of ownerships described in the previous paragraph, in 2014 about 70% of the Italian listed companies are involved in such ties, sharing one or more members of their boards. Even if the total number of informal links between firms is lower than the one detected observing the ownership ties, also in this case a completely connected network of firms emerges. The network, graphically represented in fig. 2, links together two third of the firms, equal to 160 companies connected through 326 ties (about 15% of them are multiple ties, i.e. firms share two or more members of their board; multiple ties are represented with bolder lines in fig. 2). On average, every listed firm is directly involved with four other companies.

Fig. 2. Networks of listed firms connected by interlocking directorates (160/242 listed companies, 326 ties), 2014.



Source: authors' elaboration on Consob data.

It is even more interesting that a minority of multiple directors, equal to less than the 12% of the entire population, creates all the ties in the interlocking network. Among these individuals, a large proportion (8.9%) is directly involved in the management of two different listed companies. Only a small minority of directors – just 58 individuals, equal to 2.8% of all the boards' members – has a very central position, holding three or more board seats (and so being “busy directors”, as in the definition proposed by Fich and Shivdasani 2004). These are the key players of the Italian financial community. By operating in different companies and institutions – which often are formally competitors (Dagnes 2013, 2014) – they are able to influence competitive dynamics and, to a certain extent, the overall structure of the economic system (Santella et al. 2009). Scrolling the list, we can find among these key players recurring names of the main families of the Italian capitalism.

Even if a comparison with other countries is different to make, due to the different corporate governance system (including differences in the size of the boards and in the number of firms), we can notice that within the 500 US companies with the highest capitalization⁷ directors holding three or more seats are 13.4%⁸. Similar

7 Companies in the Standard & Poor's 500 American stock market index.

8 cf. <http://www.wsj.com/articles/three-four-five-how-many-board-seats-are-too-many-1453342763>.

percentages of busy directors can be observed within samples of firms in Germany (Andres et al. 2013) and in the United Kingdom (Tarkovska 2012).

3. Resilience in a changing context: the adaptability of the Italian capitalism

The structure we have described is particularly proficient in reproducing over time and adapt to changing conditions. In fact, thanks to the existence of a strong connection within a small elite, it is easy to quickly develop forms of informal coordination when changes occur, in order to guarantee the social reproduction of the existing organism.

In this sense, we are observing a resilient system, in a double meaning. On the one hand, a resilient system is a system able to return to its original shape or position after an exogenous impact; on the other hand, it is a system able to become stronger or more successful after something bad or unexpected happens.

Thus, resilience has both a conservative and a reactive meaning: Italian capitalism and its elites show both these aptitudes. Specifically, we can analytically distinguish between two different situations. First, we observe a conservative adaptation when the system copes with the institutional change. In this case, an external threat to the existing power structures requires formal compliance, in order to respect legislation, but at the same time the ability to quickly implement informal practices aiming to preserve advantageous positions and privileges. Second, a reactive adaptation can occur to deal with the economic change, adopting innovative paradigms of action in order to seize new revenue opportunities provided by the changing international economic framework, e.g. following the Anglo-Saxon capitalism in the adoption of financial patterns of accumulation.

In the following sections we will analyse these two adaptation strategies put in place by the Italian economic elites, proposing specific examples and highlighting some emerging trends in the Italian economic sphere.

4. Adaptation to institutional change: the preservation of the existing power structure

As we have already mentioned, when a change in regulation occurs, the elite needs to cope with it in order to ensure the preservation and reproduction of the existing structure of power⁹. To achieve this purpose, while a formal compliance to new legislation is needed, at the same time some informal practices addressed

9 Despite the strong interconnection between the highest economic echelons and the state, starting from the Nineties a period of major institutional reforms started. These reforms, potentially undermining the interests of the elites, took place mainly because of pressure from the European Union to comply with EU legislation. As observed in other countries like Germany and France, also in Italy the reforming work neo-liberal oriented was carried out by left wing political forces, willing to establish themselves as modernizing movements capable of undermining the consolidated elites (Cioffi and Höpner 2006, Salento and Masino 2013).

by personal relationships are implemented. To illustrate how this adaptation actually take place, we present here two different examples about two major legislative changes introduced in recent years referring to the corporation governance regulation.

First, we will briefly analyse the case of the introduction of independent directors in corporate boards. The independence requirement aims to guarantee an adequate monitoring over the action of managers and shareholders, especially in fields of potential conflicts between these two types of actors, such as the choice of the management, the executive's pay, and the auditing of the company's performance (Scarabotti 2009). To prevent conflicts and ensure an efficient monitoring, the legislation of corporate governance in different countries has introduced indications concerning the characteristics of independence that a certain number of directors are required to have or it is desirable that they have. In general terms, independence requires that individuals have neither personal nor professional nor financial relations with the company, its ownership and its management. Depending on the legislation, both personal, professional and financial relationships may be intended in a more or less extensive way, including for example in the first case various forms of kinship; in the second case employees, consultants and/or other providers of work or services; in the third case, direct or indirect ownership the single company's and/or other companies of the same group's shares. In addition to differences in the definition of independence, also the level of compliance required may differ from country to country. In fact, while in U.S. the appointment of independent directors is compulsory, in the European Union not mandatory self-regulation is promoted. This is also the case in Italy, where legislation is complex and multi-layered. By simplifying, we can say that the Legislative Decree 58/1998 (Consolidated Law on Finance) indicates the rules referring to the number of independent directors for listed companies¹⁰, while the definition of independence standards is provided by the Italian corporate governance Code of Conduct, first implemented in 1999 and subsequently updated several times. The code's guidelines call for a "comply-or-explain" principle, asking companies to provide a yearly report illustrating the level of application of the recommended best practices and, if it is the case, why these practices are not implemented. With specific reference to independent directors, the code contains general recommendations and shows some exemplifying cases. Nevertheless, a case-by-case approach is promoted: therefore, each board has the chance to make an autonomous evaluation of the independence requirements, taking into account the characteristics of the single company and directors.

10 Non-listed companies have no obligation to appoint independent directors. Listed companies, instead, have different obligations depending on the system adopted. In the traditional governance system, the board must include at least one independent director if it is up to seven members and at least two if it is composed of eight or more members. In the monistic model (where administration is exercised by the board of directors, who also appoints an internal auditing council) the board must include at least one independent director. In the two-tier dualistic system (where functions of administration and control are exercised by an executive council and a supervisory council strictly cooperating) the board must include an independent director only if five or more members compose it.

Despite the autonomy granted to the board in evaluating the fulfilment of the code's recommendations, Italian listed companies show a very high degree of compliance. If at first sight this trait may seem a positive sign, a deeper consideration allows hypothesizing a more critical interpretation. In fact, as explained by a director during an interview¹¹:

In the UK 30% of listed companies adheres to the Code of Conduct, in Italy it's 90%. This looks like a good sign? It is not. If you take seriously the recommendations, not all will go well for you. Saying that you comply with everything is like saying you do not comply with nothing (Director n. 8).

The very high degree of compliance may therefore hide on the one hand the existence of a formal acquiescence to the new regulation, on the other hand the presence of informal practices aiming to preserve the previous power balance.

In the specific case of independent director, the simultaneous the practical implementation of the legal rule can coexist with the selection through personal relations of individuals who are sympathetic to the owner, as declared by a director we interviewed:

"With the new legislation, a certain number of independent directors is needed in the board. As an independent director, you can't have professional or economic relations with the company or its owner. [...] Formally I am an independent director, but obviously the company's owner is a friend of mine, we were in school together" (Director n. 11).

The second case we present in this section relates to the recent introduction of gender quotas in the boards of listed companies. The so-called Golfo-Mosca law (n. 120/2011), enacted from August 2012, provides in fact a quota of minimum representation for the under-represented gender equal to one fifth during the first mandate of the board and one third during the remaining two mandates (the obligation remains in force for three mandates, after which it becomes void). In this case also, we can observe a very high degree of formal compliance,

11 The fragments of interviews presented here and in the next sections derived from fifteen in-depth interviews gathered in 2012 and 2013 with directors who stand out because they sit on the boards of several listed companies. The selection of the interviewees was made from an initial list including 104 board directors, 99 men and 5 women, who were chosen because in the period 2006–2011 they sat on the boards of multiple companies: in detail, each director on the list has served on no less than 3 boards per year. We have chosen to focus on these subjects, who can be considered the big players of the Italian corporate boards, because they have greater experience of the different boards, being aware of the formal and informal mechanisms that regulate them. In addition, they all have a strong and independent positions, so they do not feel their job threatened due to the prompt implementation of the new directives. Fourteen male directors and one female director were interviewed. We have also carried out five additional qualitative interviews with key informers, including an economist, a jurist, a financial journalist, an official at Consob, and a representative of a professional association. All the interviews were conducted in Italian. The extracts quoted in the paper have been translated by the authors as closely as possible to the original text.

mainly determined by the mandatory nature of the norm¹². Specifically, data show that the proportion of women who are members of the boards of directors progressively increases over time. In the period between 2010 and 2012, when the enactment of the law took place, we witness a significant progress, from 7.2 to 11.9%. In 2014, the last year for which data are available, the share of women serving in boards has exceeded the required quota of one fifth, reaching 21.7%¹³.

Nevertheless, adaptive strategies aimed at maintaining the same individuals in a position of decision-making power also emerge. These strategies essentially consist in two points: the appointment of “silent” or “little cumbersome” women, using the words of a big player (Director n. 1); and the preservation of those who hold positions of greater power in the companies.

A first strategy is to expand the number of board members in order to not have to substitute some of the previous directors to make room for women who guarantee the respect of gender quotas. Instead, an additional quota of female directors is added to the board: in this way the boardroom increases its size, and therefore the representation of women increases in absolute numbers, but the power positions are preserved:

“I would hate to do without some directors, some people we are used to. However, we have the possibility of expanding the board in order to avoid this situation” (Director n. 13).

A second strategy concerns the preservation of the de facto role of the most relevant directors: some of them, in fact, may formally give up their place on the board, while maintaining nearly the same decision-making power and influence:

“Even before the entry into force of the new legislation, I asked to resign from the board of which I was part. I wanted to make room for female directors, as a sign of support for this law. Indeed, I assumed the role of secretary of the board. In fact, substantially not much has changed in my role, except that I am no longer a director and now in the board we have all the women we need” (Director n. 15).

Given this scenario, we can expect a redistribution of roles and responsibilities – both formally and substantively – completely internal to a privileged part of the population. In fact, on the one hand the “old boys network” (Useem 1984) can renounce to have an official role in some decision-making centres, nevertheless preserving control. On the other hand, women that are fully-fledged members of the elite, since they belong to relevant entrepreneurial families, can lend their face to assure continuity to a traditionally male-dominated leadership. All these dynamics occur without affecting the power relations currently existing.

12 Planned sanctions exist in case of non-compliance with the law, in order: an initial warning to comply, administrative penalties of up to one million euros for the board of directors and of up to two hundred thousand euros for the control bodies, and eventually the removal of the elected bodies.

13 The figures derived from authors’ elaboration on Italian Stock Exchange Commission CONSOB data.

5. The transformative adaptation to economic change: the financialization of Italian large firms

An example of transformative adaptation is the process of financialisation of Italian firms. The financialisation of firms in Italy has been almost ignored by socio-economic literature, due to the belief that the concentration of ownership and the low presence of “short-termist” institutional investors has prevented Italian firms from adopting the logic of financial accumulation, or at least from its most recent and extreme form, which is the drive to “maximize shareholder value”. Such a belief is based on the Anglo-Saxon pattern of understanding the financialization of firms, which in turn is based on the experience of Anglo-Saxon countries. Although it does not neglect the political and cultural conditions underlying the financialization of companies, the Anglo-Saxon literature on the subject focuses on the close connection between institutional investor activism and the pursuit of financial accumulation: pressure from “impatient” institutional investors, more interested in short-term returns than the business performance of companies, is considered the main driver of the tendency to seek maximum financial return on invested capital, thus favouring the maximization of shareholder value. This setup has been called *investor capitalism* (Useem 1996) or *fiduciary capitalism* (Hawley, Williams 1997). The connection between company structure and what Fligstein calls “conceptions of control”¹⁴ is also acknowledged in studies of European firms. In both Germany (Höpner 2001) and France (Morin 2000), links between the entry of institutional investors (albeit more limited than in Anglo-Saxon contexts) and the tendency to financial accumulation have been noted.

On these premises, one could not even hypothesize that Italian companies are fully involved in the financialisation of business, since a blockholders’ capitalism is supposed to tend towards a long-termist, productive-rather-than-financial strategy. The non-anonymity of shareholders, the prevalence of individuals among those holding a controlling interest, the continuing popularity of the “family” and pyramid models and the pattern of interlocking directorates mean that large Italian companies remain under the control of blockholders and restricted coalitions (Melis 2000), thus preventing the development of a market for corporate control (Rossi 2003; Barca 1997). As a result, the penetration of inherently “short-termist” institutional investors – pension funds and hedge funds in particular – has not reached the levels it has in other countries¹⁵, where it has substantially altered the conceptions of control of large firms.

In contrast to what may be expected on the basis of share ownership structure, the major Italian companies are in fact fully involved in the process of financialization and are deeply affected by the principle of “maximizing shareholder value”. This can be proved through a brief review of some empirical

14 Fligstein defines conceptions of control as “forms of analysis used by actors to find solutions to the current problems of the organization. At the center of conceptions of control are simplifying assumptions about how the world is to be analyzed”. The concept of *conception of control* is analogous to that of ideology: It “refers to a totalizing world view of managers or entrepreneurs that causes them to filter the problems of the world in a certain way” (Fligstein 1990, p. 10).

15 According to OECD data in 2007, fi, in Italy the assets of mutual funds amounted to 36% of GDP, while in Germany and France amounted respectively to 56% and 88%.

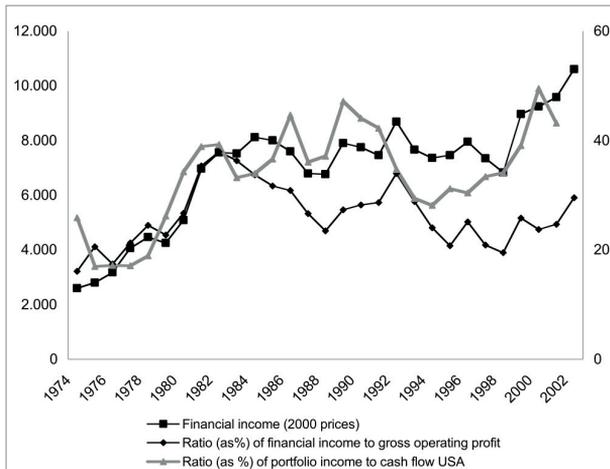
indicators of company financialization in Italy. Aggregate data based on the balance-sheets of Italian large and medium-sized companies show the following:

- a) Since the early 1970s, blockholders of large Italian companies have systematically and increasingly pursued financial accumulation;
- b) Since the mid 1990s, this tendency has become even more acute, and the canon of shareholder value maximization has taken root in Italy as well.

Both these two “waves” of financialisation have been marked by a steep reduction in labour costs and employment. Compared to the first stage, the second is quantitatively and also qualitatively different, since it is supported by the privatisation of public enterprises, by the reconfiguration of the banking and financial system, by the increasing deregulation of the labour market, and by a decisive opening up of Italian corporate culture towards Anglo-Saxon canons of management and accounting.

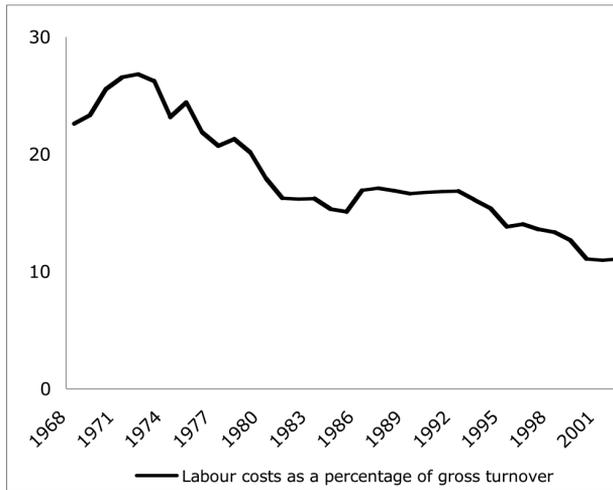
Aggregate Mediobanca data illustrate the trend towards financial accumulation: between 1974 and 1985, the total financial income (dividends, coupons and interests) of a sample of about 1,000 companies went from EUR 2.6 billion to EUR 10.6 billion at constant prices (fig. 3). In the mid-1980s this process was hailed as a necessary “financial restructuring” of Italian companies, but it soon proved to be a long-term trend: a deep transformation of accumulation strategies. At the end of the ‘80s it was clear that major economic players got addicted to financial accumulation and short-term dynamics (Coltorti 1988, p. 617 ff.). Industrial companies became increasingly involved in financial intermediation: on the one hand via the growth of direct financing relationships between enterprises (by virtue of the greater integration allowed by group configurations), on the other by implementing certain services (leasing, factoring, franchising) entailing activities that are clearly financial as well as productive (Zanetti 1987). The functional distinction between industry and banks thus began to erode.

Figure 3: Financial income 1974–2002 (sample of 980 companies, in thousands of euros at 2000 prices); financial income as a percentage of gross operating profit, same sample (right axis); portfolio income as a percentage of cash flow, United States (right axis). Sources: our presentation of Mediobanca data, (cumulative data, historic series); Krippner 2011, Fig. 4.



The quest for financial accumulation was also supported by recurring cycles of corporate restructuring from the 1970s onwards, with a corresponding increase in productivity. In the same sample of 980 companies, the ratio of labour costs to gross sales fell between 1971 and 1985 from 0.26 to 0.15 (Fig. 4). The shifting strategies of Italian blockholders therefore already foreshadowed what the sociologist Luciano Gallino (2003) would later call “the demise of industrial Italy”.

Figure 4: Labour costs as a percentage of gross turnover 1968–2002 (sample of 980 companies). Source: our presentation of Mediobanca data (cumulative data, historic series).



After a brief slowdown in the late 1980s, financial accumulation resumed at full pace in the 1990s, accelerating in the second half of the decade. In the same sample of companies just mentioned, between 1990 and 2002, financial income increased from 7.7 billion to over 10.6 billion euro (fig. 3). In parallel, the revenues allocated to labour continued to decline: in the same period (and in the same sample), the proportion of gross turnover accounted for by labour costs fell further to 11% (fig. 4).

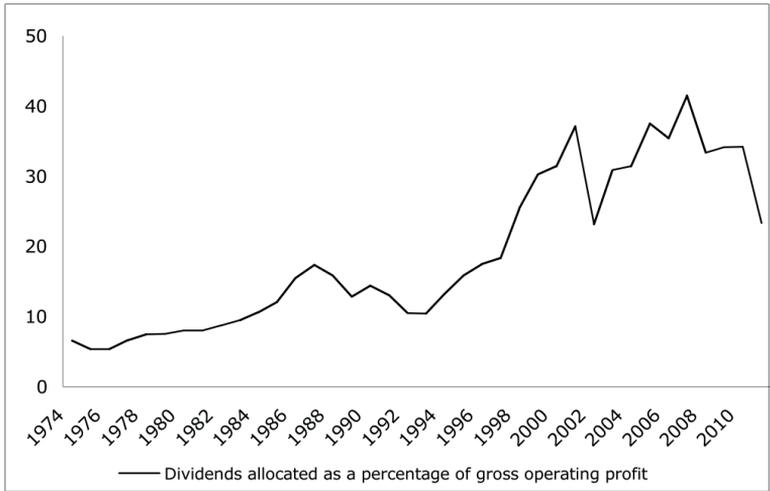
More recent data referring to a wider sample of 2.000 companies provide further evidence of the progress of financialisation during the last twenty years: The ratio of financial investments to capital expenditure, amounting to about 0.3 in 1992, reached 0.6 in 1999 and leapt to 1.8 in 2000, declining again thereafter to about 0.6 in 2006 and rising to 1.38 in 2007 before declining with the onset of the banking crisis. The peaks in financial investment coincide with periods of strong speculation in the financial markets, but the five-year averages and the overall trend for the whole period show the growth of financial investments.

Equally clear since the mid-1990s is the involvement of large Italian companies in the spread of an Anglo-Saxon conception of control, geared to the maximisation of shareholder value.

First, changes in dividend policy show increasing emphasis on the interests of shareholders. Between 1993 and 2001, in the Mediobanca sample approved

dividends increased from 10% to 37% of gross operating profit (fig. 5), while the number of employees fell by about 20% and labour costs fell from 16 to 10% of gross sales. This trend continued in the new century: between 2002 and 2010 dividends increased from 28% to 34% of gross operating profit, with a peak of 41% in 2007. The number of employees fell by about 6%.

Figure 5: Dividends allocated as a percentage of gross operating profit 1974–2011. Source: our presentation of Mediobanca data, cumulative data: historic series (1974–91); annual reports 1999 (1992–98), 2004 (1999–2002), 2012 (2003–11).



Another indicator of the orientation to shareholder value maximisation is the practice of share buybacks: These are transactions by which companies seek to increase the value of their securities by increasing demand and sending “signals of optimism” to players in the financial market. Permitted by the Italian law up to 10% of company capital, these operations have become increasingly frequent. Buyback announcements grew from about 50 per year in 1990 to about 70 in 2003, while the number of companies announcing their intention to repurchase their own shares grew by about 65%.

The orientation to maximise shareholder value is also reflected in the substantially collusive relationship between firms and financial analysts. Since the latter “are mostly employed at banks that sell securities” (Coltorti 2011, p. 97), there is a high risk that financial reporting will move away from its officially pursued objective of transparency and seek to “talk up” securities, increasing their market value, instead. This risk is confirmed by the CONSOB report of 2003 (Consob 2004, p. 227), according to which financial analysts’ surveys on listed companies more than doubled between 1998 and 2003 (from 2,288 to 5,141, with a leap in 2001); crucially, the operational advice provided in most cases urged investors to *buy* (48%–59%) rather than *hold* (25–36%) or *sell* (5–12%).

In short, in spite of what may be expected on the basis of share ownership structure, the major Italian companies are in fact fully involved in the process

of financialisation and are deeply affected by the principle of “maximizing shareholder value”. Since this cannot be ascribed to the significant presence and activism of institutional investors, how can such a definite drift of Italian firms towards financialisation be explained?

We should recognise that the acquisition of this financial conception of company control has been driven by legal, institutional, as well as by cultural changes (for a wide analysis, see Salento, Masino 2013). Since the early 1980s, a series of legislative measures – including the privatisation of state-owned companies, the liberalisation of financial markets, the deregulation of labour market – have brought the Italian economy closer to a transnational, finance-oriented regulatory framework.

It should be also added that the penetration of finance-oriented management practices in Italy cannot be understood without considering the spread of new ideas about auditing and accounting. All of these ideas were first conceived and developed among consultants and academics, and then adopted as standards in national and international codes and regulations.

6. Conclusions

As we have seen in the previous paragraphs, Italian capitalism shows at the same time a wide series of local specificities and a tendency to follow the global logic of financialization. On the one hand, in fact, Italian capitalist system has maintained over time its peculiar characteristics based on individual control, informality and personal relationships (cf. section 2). On the other hand, well-established trends highlight that the Italian economy, as well as that of other developed countries, is convincingly moving towards a pattern of accumulation centred of the relevance of financial markets and the value extracting approach (section 5).

The mere juxtaposition of these two aspects, empirically proved, show that the informal and family-based structure of Italian capitalism has not prevented the financialization of firms. The traditional Italian industrial capitalism has been able to maintain its closure and informality, but at the same time they have profoundly transformed their habitus, their very conception of the enterprise, their patterns of accumulation. As Sergio Marchionne declared in an interview just before the financial crash in 2008, also for Italian companies “the financial market is the only gauge of value, determined by the balance between buyers and sellers. The rest are worthless” (Marchionne 2008, pp. 107 ff.).

Moreover, some traditional features of Italian capitalism have proved useful in this transformation. For example, the “pyramid” control system is a powerful means to exercise a financial control with a relatively limited amount of shares. Actually, the importance of pyramid structures for financial strategies was recognised in Italy since the end of 1940s (Grifone 1945).

In addition, the trust between shareholder families and managing directors – that is a traditional feature of Italian capitalism – helps a lot when it comes to ensuring that the CEO is acting in the interests of shareholders. As a matter of fact, in Italy the compensation of CEOs has increased a lot in recent years. It tends to

follow Anglo-Saxon patterns (which are recommended, moreover, by the Code of Conduct for listed companies)¹⁶. At the apex of this process, between 2004 and 2007, the median bonus paid in Italian “blue chip” companies increased by 71%. In mid-capitalisation companies the increase was as much as 230% (Catani, 2010 p. 193). But the increase is not even comparable to that of the Anglo-Saxon contexts, in which the loyalty of directors to shareholders is not guaranteed by personal relationships, and therefore it must be paid with extraordinary fees. When a blockholder controls the firm, and when its relationship with the CEO is based on an informal trust, the so-called agency costs are much lower than in a public company. In Italy, the pursuit of performance objectives is ensured primarily by the relationship of trust between top managers and blockholders. As told by one of the director we interviewed:

I am CEO of a company with a board of fifteen members. There's me and there's the board's president, who is the leader of the owning family. People look at us, and usually we both say the same thing, we are not fools... We agree before. Of course, if we want to congratulate the management, for example, the president does it, right? Because it is the owner who should congratulate the management, not me, even if everything goes through me. But in fact it's just rituals, in essence it's the same (Director n. 2).

A survey of 164 stock option plans approved by non-financial corporations between 2004 and 2006 (Melis et al., 2012) shows that less than one third of them gave options to managers who were not either related to blockholders or blockholders themselves. The structure of senior management compensation confirms the double connotation of the large Italian company, in which shareholder value maximisation is associated with the special power of blockholders. In such a context, rather than seeking to align the interests of managers and shareholders (already in the “natural order of things”), stock option plans are used to strengthen this already existing relationship of trust, as well as to distribute a large income to very powerful managers.

As we have shown in the previous pages, unlike Anglo-Saxon contexts, the financialization of firms in Italy is not characterized by the prominence of short-termist institutional investors. Rather, the “traditional” twentieth-century class of Italian entrepreneurs, entering a different task-environment, has learnt a new, finance-oriented style of control, with significant implications for industrial relations and organisational action. Paradoxically, the informal relationships of Italian capitalism have been a source of competitive advantage when seeking financial accumulation.

This is the Italian way to financial accumulation, in which, once again, the ambivalence is at work, or – we could say – the dialectic is at work between informality as a problem and informality as a resource.

16 The “Americanization” of management compensation practices is a transnational phenomenon, which can also be observed in other non-Anglo-Saxon contexts, such as Germany (see Bermhardt 1999), Spain (see Alvarez Perez, Neira Fontela 2005) and Japan (see Nagaoka 2005).

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