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**SMALL AND MEDIUM-SIZED COMPANIES  
IN ITALY**

*the Breakfast Meeting at the Ecole de Paris  
Thursday 07 March 1995*

**Stefano Zan**

Lecturer in Comparative Analysis of Organizations  
Political Sciences Faculty, University of Bologna

*Report by*

*Mathieu Dunant and Vincent Schächter*

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© École de Paris du management - 94 bd du Montparnasse - 75014 Paris  
tel : 01 42 79 40 80 - fax : 01 43 21 56 84 - email : [ecopar@paris.ensmp.fr](mailto:ecopar@paris.ensmp.fr) - <http://www.ecole.org>

## **PRESENTATION BY STEFANO ZAN**

Alongside my university work, I chair an association called “AROC” which is similar to the Ecole de Paris in the sense that it brings together academics, businessmen and association leaders to carry out organisational research. For ten years now, we’ve been studying small and medium-sized companies in just about every sector of activity. I should explain that the Bologna economy is exceptionally rich in small and medium-sized companies.

Even though the role of small and medium-sized companies in Italy is notorious, it’s not easy to give an accurate idea of them in the space of thirty minutes. So I’m just going to try to paint a general picture. I’ll start with a few anecdotes to illustrate the spirit of Italian companies. Then I’ll try to explain the role of small and medium-sized company associations and how these cornerstones of the system function.

### **Giuseppe**

A friend of mine, Giuseppe, was born in Catolica on the Romagnola Riviera, which is a very touristy area. He didn’t take his studies very far, but worked in the hotel industry, like many other locals. At the end of the sixties he became director of a project to set up the region’s first hotel co-operative. Of course the members of the hotel co-operative were left-wing (remember, they were from the Emilia-Romana region) and Giuseppe was no exception. Following the co-operative’s success, Giuseppe became the national director of the association of tourist co-operatives. After three years and certain political problems, he became director of the fishing co-operative. Then he returned to Catolica to become secretary general of the local communist party.

Three years ago, he decided to start a new life, end his political career and start a roadsign company. At the same time, he rented a small hotel, which he ran with the help of his brother. After two years, he bought the hotel, along with another for his daughter and her fiancé. He’s ended up owning three hotels. What’s more, he uses money from his own pocket to finance a small tourist train in Catolica, a project which had been abandoned due to lack of funds at the time when he was secretary general of the communist party. It has turned out to be a very lucrative business.

This is how one man, with some political experience under his belt, has taken three years to become the chief of what we might call a small holding company.

### **The Goldsmith**

My next story is of a goldsmith with a great many rare technical and manual skills, who was well-respected and earning a good living in Bologna. One day, in his country house, he started to cut out platinum wire for pacemakers with the help of machines that he had built himself. He quickly became one of sector’s leaders, generating a turnover of 7 million francs by himself alone. Some years later, he bought a public engineering company that had gone bankrupt. Nowadays he is both owner-director of this company and director of a research project in the sector with the University of Leningrad. Of course he still makes his platinum wire!

### **Roberto and Giorgio**

Roberto and Giorgio are two important union directors in the Venice region, that I used to see from time to time in my lessons on organisational theory. A few months after

our first meeting, they came to ask my advice: they wanted to change careers, after having faced a political defeat. I didn't know what to say: theirs was not an easy case since they didn't have any specific skills. They went away and it was several months before I had any news from them. One of them had taken the opportunity to finish a master's degree and became the director of a small-medium sized company, while the other had found another union job.

However, they gave all this up six months ago and are now spending most of their time exporting and importing, the one in Russia and the other in China. In fact, I don't know exactly what they sell, but I do know that they make a very tidy living for themselves.

### **...and the School Kids**

Now for a very different case, concerning a consultancy in organisation set up four years ago by some of my old students. They all used to work for different companies and wanted to recreate the atmosphere of university. The company currently employs about ten people - all former students - and is doing very well.

I could give many other examples of small Italian businesses: one of my old projects, which I hope to carry off next year, is to publish a book of these stories. But instead, let's go on and analyse some of the cogs and wheels.

### **There's Strength in Numbers**

I feel that you need to know about the role of business associations in Italy in order to fully understand the development of small and medium-sized companies in Italy.

I'm actually going to concentrate mainly on craftsmen's associations. In Italy, crafts often go hand in hand with small and medium-sized companies. What's more, the craftsmen's associations in the Bologna region can boast more small and medium-sized companies than the associations strictly intended for companies of this size.

These associations have three main functions :

- Firstly, they play the traditional role of representation, lobbying, etc., which is still very important.
- Secondly, they play a more typically Italian role of providing services to companies, in terms of administrative, fiscal and legal back-up; here we can distinguish between:
  - "trade union services" that stem directly from the union's work as a representative (negotiating interest rates, drafting work contracts, etc.);
  - support services for the everyday running of the company (preparing pay slips, etc.);
  - and finally, more sophisticated support services for the growth and development of the company (professional training, computing, assistance with exports, etc.).
- Thirdly, the associations contribute to what I call the 'promotion of economic policies'. An association of small businesses is sometimes capable of pursuing unprecedented economic initiatives, if need be in partnership with other associations. The typical case is consortiums that are set up to help with marketing in specific countries or to organise collective purchases. There are also "pronto artigiano"<sup>1</sup>-type initiatives, whereby people can call a number at any time and the association will send them the craftsman that they need. Some new companies have even been set up

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<sup>1</sup> This translates roughly as "SOS craftsman"

through the association: for example, there's a "car hospital" which pools people's skills to enable broken-down cars to be put back on the road.

To give an idea of the size of these associations, in a town like Bologna with a population of 400,000, the association of small crafts businesses will have 500 employees, 50 area offices, a turnover of 140 million francs and 17,000 member companies. In Modena, the companies are divided between two associations, one of which was originally left-wing, and the other ex-Christian Democrat. Each craftsman gives on average 10,000 francs/month to their association.

This money is used in very different ways. For example, the association of craftsmen in Milan, owns a showroom, a recording studio for its members to make adverts and a research unit of five people. More adventurously, the Venice association has for several years owned twelve offices in various Eastern European countries.

You can therefore see that these associations play a role of paramount importance in Italy and that they offer much more than simple technical support to the special type of entrepreneur that I've tried to describe.

## DEBATE

### Spaghetti-Eating Nomads

**A participant:** *First of all, I have to say that I found your presentation extremely interesting. I love Italy, with the music of its language, the intelligence of its elite, and so on. One thing in particular grabbed my attention: the nomadic nature of the people you described. I attach a great deal of importance to the difference between settled people and nomads, both in business and in history. While settled people identify with a place, nomads are much more complicated. It's said that the good Sunni Muslim can feel at home anywhere, as long as he has his prayer mat and a copy of the Koran: his idea of permanence is portable! So what idea of permanence do the four companies and the five people that you mentioned have ?*

**Stefano Zen :** I don't know if they're nomads or simply reckless! They've uprooted to the farthest-flung corners of the world without knowing a word of the languages spoken there! To be serious, the answer might have something to do with the history and tradition of the regions in question, for example Venice. For a long time now, people have gone where the business is.

**The same participant:** *I'd like to make a comment that runs along the same lines. Italy is a fairly young nation, and is first and foremost a collection of towns. Everyone knows each other in the towns: people are protected by their families, their neighbours and the large number of*

*associations that they belong to. At the same time, the towns have exerted their influence further afield: for example, Florence gave its name to the old European Florin. Children are sent to the Mediterranean coast or to Amsterdam. But wherever they are, they have the comfort of knowing that if they have a problem, they can go always back to mamma, who'll have a bowl of spaghetti waiting on the table for them. I'm wondering whether the associations you mentioned also act as a safety-net ?*

**Another participant:** *I don't think that mamma and her spaghetti can explain everything: this is a different type of security. In my opinion, the first thing to consider*

*is the Italian reputation. Italians can look for entrepreneurial jobs anywhere: they have a natural advantage simply because people know that Italians do good business! My second idea might be a bit far-fetched, but instead of talking about the Italian nomad, isn't it more a case of all Europeans feeling at home in Italy? Aren't we all Italians deep down in the bottom of our hearts?*

**S.Z.:** I have trouble with over-generalisations, particularly where Italy is concerned. There are enormous differences between the North and the South, and most of the comments I could make only apply to certain provinces. Here, they apply mostly to Northern provinces such as Venice, which is exceptional, economically speaking. It would be very difficult to draw the same conclusions in Tuscany or Calabria.

### **The Trade Union: the Best Way?**

**A participant:** *Just a word from my own experience: I arrived in Italy in 1964, knowing not one word of the language, to set up a group of consultancies that I later expanded. Amongst other things, I did a lot of work with companies from Venice and Emilia-Romana. I also found out that being a graduate of the elite French Ecole polytechnique means nothing to an Italian: when I showed people my visiting card with the name of the school printed on it, people thought that I was still finishing my studies!*

*I think that the most interesting question is to know why things happen as you've described in Italy, but not in France, for example. I'd like to make a few observations of my own, in the hope that they confirm what you've seen. First of all, in the majority of Italian companies, engineers do not enjoy such an elite status as they do in France. Of course, people do respect the title 'ingegnere' but the various types of employees manage to live together much more harmoniously than they do in France, even though the context is similar.*

*The second comment I'd like to make concerns the way that the extraordinary individuality of these entrepreneurs doesn't stop them from readily joining forces. In fact, the economic threat that others can pose is felt much less sharply: people see others as allies as often as they see them as rivals.*

*Finally, one last remark: you didn't once mention share capital, which is a very French obsession. In fact, after twenty years in Italy, I can tell you that I've never heard anyone mention being worried about share capital issues: people always manage to find the money one way or another, often with the help of the precious 'fondo personale' system.<sup>2</sup>*

**S.Z.:** To go back to your first comment, I think you're right about there not being a professional elite, especially since the most important area of business is still sales. Sales come before anything else!

The paradox of individualists joining associations is very interesting. This is what's responsible for the organisational weakness of Confindustria<sup>3</sup>, which can't really provide services to companies because people refuse to let them encroach upon their liberty. By contrast, the small business or craftsmen associations have managed to

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<sup>2</sup> Differed savings accumulated by all companies in their balance sheets, intended for the employees. Payments are made when an employee is dismissed or leaves the company.

<sup>3</sup> Italian employers' organisation

establish co-operative relationships in areas which seemed to be purely competitive. I believe that this is a true characteristic of the Italian way of working.

How can we explain this? I didn't chose Giuseppe's or Roberto and Giorgio's story by chance. Another case which springs to mind involves one of the richest men I've ever met, who works in the ceramics industry and owns three companies. He himself told me, "You'd never guess how much I earn..." and it's true that I have no idea, except that it must be a lot! At the moment he is chairman of the Modena association of craftsmen. He didn't need any qualifications to get where he is today, but he did lead a trade union for several years.

Co-operation is above all a political idea, which came to these people before they'd become entrepreneurs, back in the days when they held political or union responsibilities. In general, I found that there was a much richer political culture among the small businessmen than in the more traditional circles, like Confindustria. This is where we should be looking for an explanation.

**A participant:** *To go back to the issue of share capital, it's often said that the Italian tax system favours small businesses. So why do people talk much less about share capital in Italy than in France? Does this difference have anything to do with the French banks and the French lack of enterprising spirit, amongst other things? More simply, where do people find the money to start up new companies in Italy?*

**S.Z.:** The same place as in France! The only difference is that everywhere in Italy you'll find co-operatives that offer fiscal guarantees and help entrepreneurs to obtain credit. The associations act as go-betweens for their members and financial institutions.

**A participant** *(a specialist in small companies who works at Danone): Public help is also available. We're currently trying to work with M. Borgomeo, who's launched the "Sportello 44". This is a system set up by the state to fund under-30s who want to start their own business.*

**Another participant:** *The idea of asking the state for money to start a business isn't very Italian...*

**S.Z.:** There are many ways of getting financial backing, but the real problem isn't how to get started, it's how to carry on! The small-business entrepreneur works hard, succeeds and then sends his son abroad to study. The son goes on to become a university lecturer and that's the end of the company. What's more, many young people could become entrepreneurs if they only had enough money to get a business off the ground. This is a complex problem, and people haven't yet mastered its economic and social aspects. However, people are trying to find solutions, such as encouraging other businesses to sponsor their ventures. But how can a company avoid losing some of its most valuable assets - its founder's complete network of contacts - when that person leaves?

**A participant:** *Working in product development, I've noticed another Italian characteristic: the way that they give real priority to creation and renewal. In France, if you want to design a new saucepan, you wait until the current models have sold well. In Italy, a saucepan is considered old as soon as it has been designed!*

## The Reign of Confidence

**Another participant:** *I recently made a study of the labour pool in the Mauriana Valley, and it appears that the situation with associations is much less idyllic there than it is in the Bologna area. For example, in the metal industry, the association was made up of two chiefs and their secretary, trying desperately to construct high-quality groups from a pool of sub-contractors. They would also try to regroup sub-contractors, who could then pay for a sales representative and start up in the Italian market. But every time the economic climate took a down-turn, people would systematically question any previous agreements and start to fight amongst themselves.*

*To take another example: a Fiat factory in the south of France told its local sub-contractors that they would be cut by three the following year. The French reaction was to start back-stabbing, although all Fiat wanted was to get the subcontractors to join forces in a network. This shows a serious problem of trust between companies in the same sector.*

**A participant:** *Are there any rules for co-operation within the associations and consortiums in a given sector? When I travelled to Bologna, I met someone who was preparing a thesis on packaging in Emilia-Romana. The story he told me is symbolic: three hundred people left a big company, each started their own business of ten or twenty people and they now all work together. Altogether, I believe they're world leaders in the packaging industry. The key word is confidence. Whenever a market opportunity comes up, it's shared out among friends: there's no question of dirty rivalry.*

*But how exactly are the markets divided up? Do the associations have any rules, codes of conduct or arbitration boards? Surely there must be some conflicts of interest?*

**S.Z.:** *An association may have some specific regulations at the outset. I'm thinking of, for example, one of the largest associations in Bologna, the "Taxis Bleus". Originally, the independent taxi-drivers had trouble making ends meet: they weren't allowed to pick up clients in the street but had to wait for people to phone up. Then someone had the idea of creating a co-operative. To start off with, the taxi drivers kept to strict rules for rotating clients and sharing the profits. Then the initiative took off and there was soon enough work for everyone. Nowadays, the co-operative owns two tourist villages, two aircraft, a fleet of buses, and more. The founders are still around, but they don't really need rules any more!*

**A participant:** *I'd like to ask you two things. The first concerns your research. I don't know of any equivalent of your department at the University of Bologna. In France, it's possible in theory to work on small and medium-sized businesses, but in practise, the subject's completely inaccessible to researchers and management. There is no organisation that represents the small and medium-sized businesses in front of an unofficial audience. I think that this is linked to France's deeply monarchic nature: nobody assembles unless it's for the Prince. In other words, a chamber of commerce knows its local Prefect but few of its members. There are some small groups of craftsmen but they're local, long-standing affairs that are restricted to one trade only. Are there any other pioneering research departments like yours in Italy?*

*My second question concerns Mr. Benetton, who a few months ago told Usine Nouvelle, "I make 50,000 people work, but I only employ 5,000. The other 45,000 are employed by companies of around fifty to a hundred people, although they work for me."*

*Are these people slaves to Mr. Benetton, or proud and free craftsmen like the people you described to us?*

**S.Z.:** There are some similar departments to mine in Italy, for example at Modena, but I'm in Paris to develop networks and co-operation with France! Say no more!

To answer your second question on whether Benetton franchisees are slaves or not, I'd say yes and no. Perhaps at the beginning, yes, but someone who earns as good a living as his master isn't really a slave! What's more, I found out something interesting this summer: the franchising contract is completely verbal.

**A participant:** *I can back this up. The wool association entrusted me with a study of small textile manufacturers in Italy, who are reputedly more successful than the French. The first question concerned the nature of the contract, which linked the person who gave the orders to the sub-contractor. The answer was that there wasn't a contract. The second question was to do with the computer system that calculated the cost prices. In reality, you could work these out in a few minutes, since all the companies in the sector worked with subcontractors paid by the item. The answer was that there was no need for computers!*

**Another participant:** *Still on the subject of the problems of researching small and medium-sized companies, how do you manage to find work placements for your students? This is often very difficult in France. I myself have been able to work with the Sentier textile companies, thanks to my own contacts. I'm therefore in a position to say that it's a very closed circle for anyone on the outside.*

**S.Z. :** As far as we're concerned, this has never been a problem!

### **Children of Disorder**

**A participant:** *To come back to the Italian specificity, I believe that the key ingredient in a company's success is its ability to understand its environment and then adapt to it. An understanding of the market is important company property, and in my opinion, Italians make the best organisers. They've understood, for example, that the big companies are badly organised.*

*While we're on the subject, here's an important question to do with semantics: what's more important these days, talking about management or talking about organisation?*

**Another participant:** *I'd just like to add that the Italians are remarkably well-organised in the event of an emergency. Their relationships based on the spoken word, the neighbourhood and trust allow them to react very quickly. Italians simply make a phone call in situations where the French would use a rigid network of contacts (possibly organised around institutions) and the Americans would write a contract.*

**S.Z.:** You're right: they use the phone far too much!



**A participant:** *You said that the son of an entrepreneur tends to become a university lecturer or a doctor, but not an entrepreneur. Why is this? Is it because the role of entrepreneur is not actually rated very highly in Italian society?*

**S.Z.:** The entrepreneur's biggest concern is that his children do well at school. Once this actually happens, it's often too late... Last year I interviewed a number of people who had started their own businesses in the Venice region and I asked some of them if they thought studies were useful preparation for becoming an entrepreneur. Their answer was, "It's very dangerous..." I've got this on tape to prove it!

Conversely, the most intelligent class of students I ever taught were a group of craftsmen. I taught them Organisation and Management from 8pm, after their sandwich dinner, until midnight, and they were bright, interested and creative.

**A participant:** *Do you think that the ability to self-teach is characteristic of these circles?*

**S.Z.:** Of course. When you're forced to manage by yourself, you end up acquiring talent! But more generally, Italian universities educate their students, thanks to (!) their deplorable organisation: they create generations of young people who are talented in understanding and adapting to an uncertain environment. Obviously, some don't make it through the system: it's estimated that approximately 20% of students fail to make it past enrolment. But the rest leave university well-equipped to confront the big, wide world.