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Multinationals and Economic Development in Italy during the Twentieth Century

As a host country for foreign direct investment, conventional measures suggest that Italy is not a very attractive location. However, based upon a new database of the one hundred largest multinationals in the country, this article shows that foreign firms consistently played a crucial role in Italy's industrial activities throughout the twentieth century. A detailed analysis of investment patterns, distribution across industries, and entry modes reveals that they concentrated their investment in sectors of high technological and scale intensity, such as chemicals and pharmaceuticals, where domestic capabilities and competition remained weak during much of the period.

Within a few decades of its political unification in 1861, Italy achieved steady economic growth, unlike other southern European countries.[1] The process of convergence towards the economic standards of the most advanced European countries quickened during World War I and in the years immediately following. During the 1920s and 1930s, the capital- and technology-intensive industries of the Second Industrial Revolution (including chemicals, pharmaceuticals, energy, steel, and heavy mechanics) constituted an increasing portion of the country's industrial production. The late 1950s and the early 1960s saw the definitive modernization of the country's industry. In these years, big business in intensive industries accounted for a majority of national employment, adding value and

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[1] Franco Amatori and Andrea Colli, *Impresa e industria in Italia: Dall'Unità ad oggi* (Venice, 2000).

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production in line with other industrialized nations.[2] For most of its modern history, the country thus enjoyed a successful process of quantitative and qualitative economic convergence with industrial leaders that lasted until the 1980s, when Italian industry found it increasingly difficult to cope with the competitive challenges of the second globalization wave and the imperatives of the third technological revolution.[3]

Following Alexander Gerschenkron's interpretation of the Italian catching-up process, current historiography attributes these long trends in industrial development to the successful contribution of "substitutive factors"—namely, German universal banking inspired the financial system, and the Italian state intervened early in the economy.[4] Even in recent detailed assessments of Italian entrepreneurial history, the process of growth appears to depend on endogenous elements, in both successes and failures.[5]

In this framework, analysts place relatively little emphasis on the role of foreign capital, and, more precisely, of foreign direct investment (FDI) in promoting the modernization of Italian industry, its convergence towards the productive standards of the most advanced nations, and the involvement of the country's economy in the circuits of the global economy. This article explicitly challenges the endogenous interpretation, demonstrating instead that multinational firms played an important role throughout Italy's economic history, acting, in several cases, exactly as Gerschenkronian substitutes for weak, or even absent, domestic entrepreneurship.

When analysts use conventional measures to assess the importance of FDI, contemporary Italy comes up short in comparison with other advanced economies. For instance, in 2010, its share of FDI as a percentage of gross domestic product (GDP) was 16 percent, compared to 20 percent for Germany, 23 percent for the United States, 39 percent for France, 44 percent for Spain, and 48 percent for Great

[2] See chapters in part 1, "Big Business: Catching Up the Technological Frontier," in *Forms of Enterprise in Twentieth Century Italy: Boundaries, Structures and Strategies*, ed. Andrea Colli and Michelangelo Vasta (Cheltenham, 2010).

[3] Franco Amatori, Matteo Bugamelli, and Andrea Colli, "Italian Firms in History: Size, Technology and Entrepreneurship," *Quaderni di storia economica* [Economic History Working Papers] 13, Bank of Italy, Economic Research and International Relations Area, 2011; also published in *The Oxford Handbook of the Italian Economy since Unification*, ed. Gianni Toniolo (Oxford, 2013).

[4] Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (Cambridge, Mass., 1962); Amatori and Colli, *Impresa e industria in Italia*.

[5] Franco Amatori, "Entrepreneurial Typologies in the History of Industrial Italy: Reconsiderations," *Business History Review* 85, no. 1 (2011): 158 and "Entrepreneurial Typologies in the History of Industrial Italy (1880–1960): A Review Article," *Business History Review* 54 (1980): 359–86.

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Britain.[6] According to the bulk of empirical evidence, however, such a marginal position is relatively recent. Since the early 1980s, Italy progressively became less attractive as a destination for worldwide inward FDI, but only after a long phase of remarkable foreign ownership penetration.[7] As this article will show, based upon a new and original database of the largest one hundred joint stock companies under foreign control operating in Italy since 1861, this lack of attractiveness is only a recent phenomenon.[8] Instead, multinationals had a significant presence in the Italian economy throughout the twentieth century; the country consistently remained attractive for foreign investment despite two world wars and the fascist regime between 1922 and 1943. A more detailed analysis of home countries, sectors, and entry modes will reveal that companies from advanced economies made much of this investment, which was concentrated in capital- and technology-intensive industries.

In addition, the article enlarges the debate about the location choices of multinationals. Over the years the analysis of the interaction between multinational firms and the geographic context in which their investment takes place has varied. In economist and political scientist Raymond Vernon's "product cycle model," investment abroad is a function of the saturation of the internal market, of progressive product standardization, and of the threat to the status quo, for instance, of import-substitution policies. The conditions of the host countries in terms of per capita income levels or labor costs directly influence the decision to invest abroad, rather than to export.[9] In this framework, the relationship between multinationals and host economies is asymmetric, with the former playing the deciding role. By contrast, a large part of the subsequent literature, following economist John Dunning's Ownership-Location-Internalization (OLI) paradigm, considers host economies to be an important determinant of the investment decision, driven by the attractiveness of the host economy's physical and human resources, market dynamism and growth, and even industrial

[6] United Nations Conference on Trade and Development, "Foreign Direct Investment Flows and Stock," 2010, available at: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF_ActivePath=p,5&sRF_Expanded=,p,5.

[7] Fabrizio Onida, Sergio Mariotti, and Lucia Piscitello, "Foreign Ownership: The Case of Italy," CESPRI: Centro di Ricerca sui Processi di Innovazione e Internazionalizzazione, Working Paper 143, June 2003.

[8] The Database, named FOR_IMITA.DB has been built combining existent information on Italian joint-stock companies with extensive archival research. The result is a dataset containing information about the largest one hundred companies under foreign control for eight benchmarks during the twentieth century, with information concerning share capital, total assets, country of origin, sector of activity, year of entry, and entry strategy.

[9] Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics* 80 (May 1966): 190–207, in particular 196–98.

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policies.[10] The location issue has recently experienced a revival, since the interaction with different geographic contexts is seen as highly relevant in the learning process of international companies.[11]

Revisiting the broad concept of location advantage, Mira Wilkins has proposed a set of "parameters" upon which multinationals make their choices relative to the location of their activity.[12] The *opportunity* parameter concerns economic issues, related, for instance, to market prospects and dynamism, to the presence, or absence, of local incumbents, or of technical and organizational capabilities; the *political* parameter takes into account the political conditions and the government policies within the host nation; the *familiarity* parameter examines conditions that make the host environment accessible to multinationals, for instance, in terms of geographical proximity or cultural affinities. The conditions of a third country (or countries) close to the host determine location choices in the *third-country* parameter. The following analysis will use these four parameters to assess the changes in the attractiveness of Italy as a host country throughout the twentieth century and the related ability of multinationals to act as a Gerschenkronian substitutive factor in economic development.[13]

Italy as a Host Economy in the Long Run

Companies under foreign control have constantly ranked among the largest in Italy. The evidence examined in this article suggests a kind of U-shaped trend in the diffusion of multinationals among Italian big business. At the beginning of the twentieth century, at least eighty out of the largest two hundred companies of the country were under foreign control. Foreign presence declined during the interwar period,

[10] John Dunning, *Studies in International Investment* (London, 1970); James Vaupel and Joan P. Curhan, *The World's Multinational Enterprises: A Sourcebook of Tables Based on a Study of the Largest U.S. and Non-U.S. Manufacturing Corporations* (Geneva, 1974); John Dunning, "The Eclectic Paradigm of International Production: An Update and Possible Extensions," *Journal of International Business Studies* 19 (1988): 1–31.

[11] John Dunning, "Location and the Multinational Enterprise: A Neglected Factor?" *Journal of International Business Studies* 29, no. 1 (1998): 45–66, in particular 47*ff*.; John Cantwell, *Technological Innovation and Multinational Corporations* (Oxford, 1989); Sanjeev Agarwal and Sridhar N. Ramaswami, "Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalization Factors," *Journal of International Business Studies* 23, no. 1 (1992): 1–27; John Cantwell, "Location and the Multinational Enterprise," *Journal of International Business Studies* 40, no. 1 (2009): 35–41, esp. 36.

[12] Mira Wilkins, "Comparative Hosts," *Business History* 36, no. 1 (1994): 18–50, esp. 25–26.

[13] Ibid., 27. Wilkins proposed a fifth parameter, the "corporate," which frames the location decision in the context of the "factors distinctive to a particular enterprise." I excluded it from my analysis, because it does not address the interaction between the host economy and the investing company.

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when one out of five top companies was foreign-owned; that situation reversed again after World War II, when the number of incoming multinationals started to grow steadily. At the beginning of the new millennium, the incidence of foreign control among the largest Italian companies was the same as one hundred years before.

To understand this dynamic in depth, it is worth turning to Italian industrial history: In the period covered by this research, Italy evolved from a developing latecomer into one of the world's leaders. The consolidation of the country's industrial structure and the nature of its capitalistic model considerably affected the opportunities offered to foreign investors.

A dynamic picture of foreign investment activity emerges by breaking down the sample by entry year and grouping them into homogeneous periods coinciding with the main "turnpikes" in the country's economic history. From 1885 to 1914, 139 new investments from abroad took place out of a total of 422 entries up to 2001; this period largely coincides with the first acceleration of Italian economic growth in the two decades after the country's political unification in 1861. Another 109 new investments occurred during the interwar years, while in the third era, which includes the years of the post–World War II reconstruction and of the "economic miracle," there were 114 new entries. In the last period, from the crisis of the mid-1970s to the end of the century, including the liberalization and privatization phase of the 1990s, foreign companies made only sixty new investments.

On the eve of World War I, Italy had already achieved some degree of economic development, notwithstanding the serious divide between the wealthier northwest and the rest of the country. Thanks to the state's proactive policies and to vibrant entrepreneurship, particularly in the fast-urbanizing towns of Milan, Turin, and Genoa, a pervasive process of growth took place. However, a national system of innovation able to fill the gap in technology-intensive industries, such as organic chemicals and electromechanics, failed to materialize. At the same time, the huge investments needed both in infrastructure (railroads and tramways) and in utilities made the intervention of international finance and managerial competencies almost a necessity. The "opportunity parameter," in Wilkins's terminology, was fully at work in this phase.[14] Foreign intervention followed a market-seeking strategy, particularly where local entrepreneurship was weak, or failed to materialize.

Opportunities for international companies willing to invest in Italy increased once more with the maturation of Italian capitalism, both in the interwar years and during the economic miracle of the 1950s and

[14] Ibid., 25.

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1960s. One relevant factor was the low degree of technological advancement of Italian enterprises in important industries such as refining, mechanics (and basic electromechanics), aluminum, organic chemicals and pharmaceuticals. As a result, foreign capital was ready to intervene again, also establishing joint ventures with Italian firms.

As mentioned above, the number of foreign companies among the largest in the country dropped significantly in the interwar years. Almost everywhere, 1914 was the "beginning of the end" of the first global economy.[15] The interwar years, however, saw a number of new investments, which were close to those during the decades following World War II and only slightly inferior to numbers in the forty years preceding World War I.[16]

Various factors can explain such persistent FDI inflow, including a general increase in the level of protection, more accentuated in some industries such as chemicals and pharmaceuticals, accompanied by a period of intense economic growth and political stability. Moreover, the self-sufficient ideology of fascism was clearly selective. Mussolini's regime maintained good relations with several leading global companies—such as the German pharmaceutical and electromechanic companies IG Farben, Siemens, and Bosch; and the American firms IBM and General Electric—that brought forms of technology and capabilities not otherwise found among domestic companies. Conversely, when foreign investment threatened the interests of "national champions," as happened in the late 1920s when Ford attempted to establish a production facility in Italy, the fascist regime immediately established barriers.[17] In the interwar years, considerations relating to government policies and to the internal political conditions (the political parameter suggested by Wilkins) thus added to the opportunities of the period preceding World War I.

The reconstruction phase of the European Recovery Program (the Marshall Plan), accompanied by growing American influence in political and ideological terms, saw the advent of a modern consumerist society. The rise in public and private consumption meant further opportunities in sectors where local firms were lagging behind the technological frontier. During this period, international leaders either made their first entrance in the Italian market or further consolidated their presence.

[15] Geoffrey Jones, *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century* (Oxford, 2005), 27.

[16] U.S. Department of Commerce, Office of Business Economics, *U.S. Business Investments in Foreign Countries in 1936* (New York, 1936).

[17] See Pier Angelo Toninelli, "Between Agnelli and Mussolini: Ford's Unsuccessful Attempt to Penetrate the Italian Automobile Market in the Interwar Period," *Enterprise and Society* 10, no. 2 (2009): 335–75.

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French companies included Compagnie Française des Petroles, Alcatel, Pechiney, and Thomson; German companies were Hoechst, BASF, and Kugelfischer; Swiss were Oerlikon and Contraves; Belgian was Petrofina; and a multitude of U.S. global leaders included Sperry, General Telephone, Olin Matheson, Alsco, Wyeth, Getty, Grace, Pfizer, Procter & Gamble, and Union Carbide. All were active in capital-intensive industries such as refining, mechanics, electric machinery, chemicals and pharmaceuticals, and communication equipment.

For the first time, Italy put into place proactive policies aimed at attracting foreign investments, including both new favorable legislation and incentives for companies willing to open plants and facilities in less developed areas, mainly in the central and southern regions. The American companies American Cyanamid and Standard Oil opened facilities in Sicily and Alcoa and Gulf in Sardinia.[18] The geographic distribution of the top hundred foreign companies' headquarters reflects the influence of this policy. In 1960, only sixteen of the largest multinationals were located in the central and southern regions.[19] In 1972, there were twenty-four, and, in 1982, thirty-three. Finally, if the postwar decades did witness an increase in state ownership in almost all the industries of the Second Industrial Revolution, the consequences to foreign multinationals are not clear-cut.[20] In some cases, the state intervened to limit the presence of international companies in strategic industries like oil, to protect the Italian company Ente Nazionale Idrocarburi (ENI), created in 1953, or to limit foreign takeovers in food and beverages.[21] In other cases, large state-owned enterprises established alliances with high-technology foreign companies, such as in electronics and

[18] Decree 43, a law about foreign investments, was issued on February 7, 1956 after a first but less organic attempt in 1948 (Decree 211, March 2, 1948). The conditions for establishing a production facility in Italy were generally considered fully satisfactory, particularly for U.S. companies for which some archival evidence is available. See "Checklist for Investigating Foreign Operations," addendum to letter 21907, "Visita di industriali statunitensi," Historical Archives of the Istituto Mobiliare Italiano in Rome (AS IMI), International Investment Office (IIO), 91. See, also, the (more critical) "Memorandum. Business International. Riunioni esecutive Italo-Americane. Roma-Milano 14–18 ottobre 1957," AS IMI, IIO, 271. Other institutions, such as the Bank of Italy, shared the idea of providing stimuli for foreign investments. See "Investimenti di capitali esteri in Italia e loro incidenza sullo sviluppo economico del nostro Paese," Banca d'Italia, Ufficio Studi, 282, f. 2, sf. 1, Bank of Italy Historical Archives, Rome (ASBI). See also, "Questionario sugli investimenti internazionali," Carte Caffè, 1, f. 1, and "Investimenti stranieri in Italia ed Italiani all'Estero," Carte Caffè, 71, f. 6., ASBI.

[19] Central Italy includes Tuscany, Umbria, the Marshes, Latium, and Abruzzi; Southern Italy includes Campania, Calabria, Puglia/Apulia, Molise, Basilicata, Sicily, and Sardinia.

[20] The Second Industrial Revolution here is meant as the wave of technological innovations in the fields of energy, chemicals, oil refining, food processing, and metallurgy based upon energy- and scale-intensive processes that diffused among industrialized countries starting in the last two decades of the nineteenth century.

[21] Daniele Pozzi, "Entrepreneurship and Capabilities in a 'Beginner' Oil Multinational: The Case of ENI," *Business History Review* 84 (2010): 253–74.

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communications, or with high-research companies in fibers and petrochemicals, among other sectors.

Obviously, besides opportunity considerations and political motives, other reasons positively influenced Italy's status as a host country. First, the expansion in consumption, as well as important transformations in Italian society, increased its degree of openness. In the years of the economic miracle, the evolution of Italian society removed barriers to foreign, especially American, presence.[22] An "open" society meant an increasing "familiarity" (Wilkins's third parameter) with foreign investors.[23] A further incentive for foreign investment came from the creation of the European Common Market in 1957, the key event "in the establishment of a liberal and open international economy."[24] James Vaupel and Joan Curhan have thoroughly investigated the effects of economic integration on international business and on FDI inflows to (and among) European nations.[25] American firms considerably increased their presence everywhere across Europe, in order to avoid protective tariffs and to benefit from the elimination of internal trade barriers.[26] Italy was geographically well placed. Good location was evident, for instance, in the case of oil refining and petrochemicals. To benefit from their location in the Mediterranean and from settlement incentives, foreign companies (often in joint venture with Italian partners) established in southern regions; these operations served as "platforms" for the European market. In sum, in this phase, Wilkins's "third country" effect was also at work.[27]

This phase of enduring growth came to a standstill in the 1970s, coinciding with the global economic slowdown. In the Italian case, however, some internal factors were also pertinent, including deterioration of the labor market and in the system of industrial relations, which led to an explosion of strikes widespread in factories. The unstable political scenario, exacerbated by years of political terrorism, in principle

[22] Victoria De Grazia, *Irresistible Empire: America's Advance through Twentieth Century Europe* (Cambridge, Mass., 2005).

[23] Wilkins, "Comparative Hosts," 26.

[24] Geoffrey Jones, *The Evolution of International Business: An Introduction* (London, 1996), 51.

[25] Vaupel and Curhan, *The World's Multinational Enterprises*; Lawrence Franko, *The European Multinationals: A Renewed Challenge to American and British Multinationals* (Greylock, 1976).

[26] Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, Mass., 1974); Hubert Bonin and Ferry de Goey, eds., *American Firms in Europe, 1880–1980: Strategy, Identity, Perception and Performance* (Geneva, 2009).

[27] Wilkins, *The Maturing of Multinational Enterprise*, 318*ff*.; U.S. Senate, Special Committee Investigating Petroleum Resources, *American Petroleum Interests in Foreign Countries* (New York, 1976), 392–93.

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could also have deterred investment decisions. At the same time, society's favorable attitude towards foreign investment turned increasingly hostile, often due to a mixture of political and ideological reasons blaming foreign direct investors, particularly from the United States, as agents of exploitation and dependence with anticommunist purposes. This hostility explains the (small) decrease in the number of the large foreign multinationals among the top two hundred Italian firms, as well as the decreasing number of new entries during the 1970s.

Italy nonetheless remained attractive to foreign investors.[28] One relevant explanation lies in the fate of domestic entrepreneurship. During the 1970s, a number of promising local initiatives in nuclear energy, electronics, and computer technology aborted, leaving foreign investors basically unchallenged. Italian companies achieved only a marginal position in the international telecommunications and aerospace markets, a situation that paved the way for foreign-investor activity in industries belonging to the so-called Third Industrial Revolution.[29]

Additional opportunities for cross-border acquisitions came from domestic food and beverages or household appliances firms, many of which were still under the control of their founders.[30] In both cases, foreign investments did not rise from technological backwardness, but resulted from entrepreneurial weaknesses or problems in leadership succession in target companies—all family or entrepreneurial firms—as in the case of Ignis, the leading national producer of refrigerators (taken over by Philips in 1969) or of Barilla, Italy's most important producer of pasta, biscuits, and baked products (acquired by Grace & Co. in 1970).

Starting in the early 1990s and coinciding with the new wave of globalization, the structure of the Italian industrial system underwent radical transformations. A first component of the process was a vast program of privatization of the largely inefficient public sector that lasted for almost a decade and took place under "technical governments" and both center-right and center-left administrations, with the explicit purpose of creating modern public companies as well as of attracting foreign investors. The second component was deregulation and liberalization, mainly in public utilities. As had occurred a century earlier,

[28] Servizio Studi del Senato della Repubblica, Ufficio di documentazione e ricerche, *Gli investimenti esteri diretti in Italia* (Rome, 1978).

[29] Amatori, "Entrepreneurial Typologies in the History of Industrial Italy: Reconsiderations," 167–71; Camillo Bussolati, Franco Malerba, and Salvatore Torrisi, *L'evoluzione delle industrie ad alta tecnologia in Italia: Entrata tempestiva, decline e opportunità di recupero* (Bologna, 1996).

[30] Amatori, "Entrepreneurial Typologies in the History of Industrial Italy: Reconsiderations," 166.

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this provided sound opportunities for foreign investments.[31] The sample has an average of two acquisitions per year between 1990 and 2000, against a total average of one. Half of them were related to the liberalization and privatization policies. In the case of utilities, foreign investors quickly took advantage of liberalization in order to enter a market in expansion where they had clear advantages. We find examples above all in energy production and distribution and in mobile communications, where Mannesmann (later, Vodafone) entered Italy in the early 1990s. At the end of the 1990s, Spain's electric utility company Endesa invested in Italy, acquiring one of the three Generation Companies (Genco) created to liberalize the energy market; a few years later, Electricité de France acquired a substantial stake in Edison.

In the same industries, global leaders made investments in privatized companies with the intention of expanding productive capacity, adding new competencies, or gaining access to new markets.[32] A good example is Pilkington's acquisition of Società Italiana Vetro (SIV), a glass producer, in 1994. SIV had been part of the ENI group until the mid-1980s, when it came under the control of another state agency, Ente per il Finanziamento dell'Industria Meccanica (EFIM). Its privatization allowed Pilkington to enter the Italian market, expand its productive capacity, and serve the European market for specialized products.[33] General Electric followed a similar strategy when it bought Nuovo Pignone (a producer of equipment and machinery for the oil and gas industry) from ENI; in steel, Krupp acquired Acciai Speciali Terni in 1994; Techint-Tenaris also bought a steel plant (Dalmine) in 1994; and, in 1996, Alcoa took over all the activities in aluminum previously controlled by the state. In chemicals, the privatization of companies belonging to the ENI group gave major global players an opportunity to strengthen their presence in Italy. In 1994 and 1995, Union Carbide, Dow, Ciba-Geigy, and Bayer took over ENI's activities in specialized chemicals.[34]

The result of this process was that, at the beginning of the year 2000, the presence of foreign companies among the largest companies in Italy was not very different from the eve of World War I, when the first global economy was in full swing (see Table 1).

[31] Organisation for Economic Cooperation and Development (OECD), *Reviews of Foreign Investments: Italy* (Paris, 1994), 26*ff*. and 36*ff*.

[32] Consiglio Nazionale dell'Economia e del Lavoro, "Italia Multinazionale 2000," Rome, April 2002, 133; Massimiliano Affinito, Marcello De Cecco, and Angelo Dringoli, *Le privatizzazioni nell'industria italiana* (Rome, 2000).

[33] Laura Solimene, "La SIV e l'industria del vetro piano: Strategie di entrata e controllo della tecnologia," *Annali di Storia dell'Impresa* 11 (2000): 475–526.

[34] La Ricerche e Studi (R&S), "Le privatizzazioni in Italia dal 1992," Milan, undated. Available at: http://www.mbres.it/sites/default/files/resources/download_it/rs_priv_testo.pdf.

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Table 1
Distribution of the Top 100 Foreign-Controlled Companies by Industry, 1913–2001

Industry	*ISIC* Code*	*1913*	*1921*	*1936*	*1952*	*1960*	*1972*	*1982*	*2001*
Mining	10, 11, 13, 14	6	4	1	3	2	1	0	0
Food and Beverages	15, 16	2	5	5	4	4	5	8	9
Textiles and Apparel	17, 18, 19	6	12	12	6	8	4	2	1
Pulp and Paper; Publishing	21, 22	1	1	1	2	1	3	3	2
Coke and Refined Petroleum	23	0	1	5	13	15	19	14	6
Chemicals and Pharmaceuticals	24	8	14	27	17	24	20	21	29
Rubber and Plastics	25	0	1	3	1	1	3	3	2
Non-Metallic Minerals	26	0	4	9	9	8	6	5	5
Basic Metals	27	3	2	7	6	5	7	7	3
Fabricated Metals	28	1	1	2	3	4	2	2	1
Machinery and Equipment	29, 38	1	5	4	5	4	9	7	12
Office Machinery	30	0	0	0	2	2	3	4	4
Electrical Machinery	31	5	7	7	9	7	7	6	7
Communication Equipment	32	0	1	2	7	8	6	9	6
Precision Instruments	33	0	0	5	3	1	0	4	0
Motor Vehicles and Other Transport Equipment	34, 35	1	2	2	1	1	3	4	8
Other Manufacturing	36	1	2	1	1	0	0	0	0
Electricity, Gas, and Water Production and Distribution	40, 41	36	18	4	4	3	0	0	3
Building	45	0	0	1	1	1	0	1	0
Transport	60, 61	29	20	0	0	0	1	0	0
Telecom	64	0	0	2	3	1	1	0	2
Total		100	100	100	100	100	100	100	100

Source: own data.
* International Standard Industrial Classification

From this analysis of the largest multinationals, we can see that Italy managed to remain attractive as a host economy for over ninety years. However, the focus on attractiveness parameters provides only a partial account of the incentives for foreign investors. Further clarification will come from a meso-analysis of sectors targeted by FDI.

Sectoral Attractiveness: A Dynamic Analysis

Table 1 gives a synthetic overview of the distribution of the largest foreign-controlled companies, by industry, across eight benchmark years. The data highlight main trends in the distribution of foreign subsidiaries. These trends coincide significantly with dominant technological waves. In the first two benchmark years, 1913 and 1921, foreign-controlled companies were mainly present in industries typical of the first technological wave, such as mining and textiles, which maintained relevance in the interwar period also.[35] The most represented sectors were transport and utilities—gas and water distribution and electricity—clearly due to the rising demand for infrastructure that followed the urbanization process begun in the last decade of the nineteenth century.

Two concurring, albeit very different, phenomena explained the sudden drop after World War I in transport and utilities' presence among the largest companies in terms of assets. The first is that many foreign companies became Italian. In the case of those under German control, this shift was a consequence of war expropriations, but, more frequently, municipalities directly took over the management of urban services.[36] The second is that other industries became increasingly attractive for foreign capital. This is particularly evident in the case of chemicals and pharmaceuticals, oil, minerals (basically aluminum), machinery, communication equipment, and electrical machinery. Foreign firms targeted fewer sectors that belonged to the same technological wave, such as motor vehicles. Here, the presence of strong domestic competitors, both private, such as Fiat, and, after World War II, state-owned, such as Alfa Romeo, may explain this divergence, which reflects the relatively small size of the internal car market, at least until the beginning of the 1960s.

Sectors targeted by FDIs continued to change after World War II. At the beginning of the 1970s, thirty-nine of the one hundred companies

[35] Investments in mining were mainly concentrated in minerals such as bauxite, mercury, sulfur, or fossil fuels such as lignite.

[36] Simone Fari and Andrea Giuntini, "Public Utilities in the Twentieth Century," in *Forms of Enterprise in Twentieth Century Italy: Boundaries, Structures and Strategies*, ed. Andrea Colli and Michelangelo Vasta (Cheltenham, 2010), 185–203, esp. 191.

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under foreign control were clustered in chemicals and pharmaceuticals and oil refining (particularly U.S. companies).[37]

In the case of chemicals, investments before World War II were concentrated in artificial fibers and coatings. After the war, investments increasingly shifted towards petrochemicals, advanced chemicals, and pharmaceuticals, reflecting another transition toward a new technological paradigm. Chemicals provide an interesting case for another reason. As in the case of automotive manufacturers, a powerful "national champion"—Montecatini (Montedison after 1968)—was present. Here, however, a kind of "division of the market" was in place. Before the war, Montecatini was dominant mainly in fertilizers, which foreign capital did not target; after the war, the company shifted towards petrochemicals, collaborating largely with foreign companies and leaving advanced chemicals to foreign investors.[38]

Table 1 demonstrates the increasing relevance of International Standard Industrial Classification (ISIC) sections 30, 31, and 32 (office machinery, electric machinery, and communication equipment), which account for 15 to 20 percent of companies present after World War II. All these industries are representative of opportunities offered to foreign investors by the structural weakness of domestic entrepreneurship. In the case of communication equipment, the available research confirms the heavy dependence on foreign technology and the strong presence of foreign firms.[39]

In 2001, the last benchmark year examined, the distribution of foreign investments clearly reflected the weaknesses of domestic entrepreneurship in energy, advanced chemicals and pharmaceuticals, and other high-technology and research-intensive industries.

From the evidence in the sample, foreign investments always privilege medium- and high-tech industries. The distribution of companies according to their technological intensity clearly shows that in all

[37] Wilkins, *The Maturing of Multinational Enterprise*, 318*ff*. According to Wilkins, both in 1929 and in 1940, the book value of U.S. foreign investments in refining, drilling, and extraction in Europe was one-third of the world total. The data of the survey in Robert L. Sammons and Milton Abelson, *American Direct Investments in Foreign Countries: 1940* (Washington, D.C., 1942), show that at the beginning of World War II, the highest number of U.S. direct investments in Europe could be found in chemicals, oil, and machinery (pp. 21, 130, 117, 87). The database on which this research is based takes into account only investments in manufacturing and not those in marketing and distribution.

[38] Franco Amatori and Bruno Bezza, eds., *Montecatini, 1888–1966: Capitoli di storia di una grande impresa* (Bologna, 1990); Vera Zamagni, "The Rise and Fall of the Italian Chemical Industry (1950s–1990s)," in *The Global Chemical Industry in the Age of the Petrochemical Revolution*, ed. Lou Galambos, Takashi Hikino, and Vera Zamagni (Cambridge, U.K., 2007).

[39] Paola Garrone, Sergio Mariotti, and Francesca Sgobbi, "Technological Innovation in Telecommunications: An Empirical Analysis of Specialisation Paths," *Economics of Innovation and New Technology* 11 (2002): 1–23.

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the benchmark years foreign capital constantly targeted high-tech (45 percent of the companies on average), and to a lesser extent, mid-tech industries (41 percent).

The empirical evidence suggests that Italy's experience, as a host country, in the long run was similar to that of the leading economies in the world, such as the United States and Britain.[40] Foreign investments in Italy, as elsewhere but perhaps more so, were mainly concentrated in technologically-advanced manufacturing industries.[41] In the decision set driving the choice to invest in Italy, the weakness or even the total absence of domestic competitors undoubtedly played a key role, especially when associated with superior technological capability.

The geographic origin of foreign investors in Italy thus coincides with shifts in global technological leadership across sectors, even if, logically, geographic proximity also played a relevant role in investment decisions. Germany up to World War I and Switzerland and France until the end of World War II were the prevailing sources of investments.[42] Even though more distant, Belgium was also widely present until the interwar period because several holdings and free-standing firms in utilities and the transport sector—the dominant destinations of foreign investments in 1913 and 1921, the first and second benchmark years—were incorporated in Belgium, thanks to a favorable commercial code and company legislation.[43] Geographic proximity started to lose its relevance in the interwar period, when more distant European countries (such as Sweden, the Netherlands, and Britain) and above all North America also strengthened their presence among the largest

[40] Mira Wilkins, *The History of Foreign Investments in the United States to 1914* (Cambridge, Mass., 1989); John Dunning, *American Investments in British Manufacturing Industry* (revised and updated edition) (London, 1998); Frances Bostock and Geoffrey Jones, "Foreign Multinationals in British Manufacturing, 1850–1962," *Business History* 36, no. 1 (1994): 84–126.

[41] Geoffrey Jones and Frances Bostock, "U.S. Multinationals in British Manufacturing before 1962," *Business History Review* 70, no. 2 (1996): 207–56.

[42] Harm Schröter, "Continuity and Change: German Multinationals since 1850," in *The Rise of Multinationals in Continental Europe*, ed. Geoffrey Jones and Harm Schröter (Cheltenham, 1993), 28–48; Anne von Oswald, "L'industria tedesca in Italia dall'età giolittiana alla seconda guerra mondiale," *Archivi e Imprese* 10 (1994): 34–72. The figures for Italy are strikingly homogeneous with those provided for Britain by Bostock and Jones, "Foreign Multinationals." Apart from the British figures, those for other countries of origin coincide perfectly with those mentioned in Francesco Saverio Nitti, *Il capitale straniero in Italia* (Naples, 1915) and with those provided by Bonaldo Stringher, "Su la bilancia dei pagamenti fra l'Italia e l'estero," *Riforma Sociale* 1 and 2 (1912), mentioned in Vera Zamagni, *Industrializzazione e squilibri regionali in Italia* (Bologna, 1978), 145.

[43] Michael Dumoulin, "Les contradictions de l'espansion à la 'Belle Epoque,'" in *Présences Belges dans le monde a l'aube du XXe siècle*, ed. Michael Dumoulin (Louvain-la-Neuve-Bruxelles, 1989), 14–15. See also Greta Devos, "Agfa-Gevaert and Belgian Multinational Enterprise," in *The Rise of Multinationals in Continental Europe*, ed. Jones and Schröter, 201–12.

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multinationals in Italy.[44] Technological leadership was becoming the main driver of investment decisions. For instance, the U.S. led in refining, advanced chemicals, and machinery; Switzerland in chemicals, pharmaceuticals, and electromechanics; and Germany in advanced chemicals.[45]

In the decades following World War II, the American presence skyrocketed. In 1952, there were thirty subsidiaries of North American companies among the largest multinationals in Italy; thirty-six in 1960; and fifty in 1972, when they became the majority of the companies in the sample. Almost all of them were clustered in ISIC sections 27 to 32, capital- and technology-intensive industries.[46] U.S. domination started to crumble after the 1970s. In 1982, there were forty-two American companies, and in 2001, there were only thirty-nine, when a much more variegated constituency of investors was present in Italy.

Entry Strategies

Sections 2 and 3 of this article have shown the evolving role of context in providing opportunities for international investments. A second relevant area of interaction between a host economy and foreign investors concerns the entry mode, that is, the way the investment is effectively carried out.[47]

Table 2 summarizes the entry strategies of the foreign companies present in at least one benchmark year of the database. Greenfield investments proved to be the most frequent entry strategy followed by the foreign companies in the sample, albeit with a declining trend over time, in contrast to acquisitions and joint ventures, which steadily increase in number into the 1970s.[48]

[44] U.S. Department of Commerce, *American Direct Investments in Foreign Countries* (Washington, D.C., 1930), 39 and Table 7, 40. According to the U.S. Department of Commerce survey, U.S. capital was largely present in manufacturing, oil, and electricity.

[45] Geoffrey Jones and Harm Schröter, eds., *The Rise of Multinationals in Continental Europe* (Cheltenham, 1993), 13*ff*.; Paz Estrella Tolentino, *Multinational Corporations: Emergence and Evolution* (London, 2000), ch. 1; 330. Schröter, "Continuity and Change"; Harm Schröter, "Swiss Multinational Enterprise in Historical Perspective," in *The Rise of Multinationals*, ed. Jones and Schröter, 49–65.

[46] See U.S. Department of Commerce, Office in Business Economics, *U.S. Business Investments in Foreign Countries* (New York, 1976); U.S. Department of Commerce, *American Direct Investments*, 9. On American investments in Italy after 1945, see Luciano Segreto, "Gli investimenti americani in Italia (1945–1963)," *Studi Storici* 37 (1996): 273–316. A similar dynamic is reported for Britain. See Jones and Bostock, "U.S. Multinationals in British Manufacturing." "Dato da Morgante il 2.6.61," AS IMI IIO, 271.

[47] Dunning, "Location and the Multinational Enterprise," 51*ff*.

[48] This is true also for other peripheral European countries. See, for example, Peter Sorensen and Kenn Tarbensen, "U.S. Investments in Denmark, 1945–1972: An Overview with Focus on Motives and Attitudes," in *American Firms*, ed. Bonin and de Goey, 229–82.

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Table 2
Entry Strategies

	*1885–1914**	*1915–1945*	*1946–1975*	*1976–2001*	*Total*
Greenfield **	102	53	53	16	224
Acquisition	27	37	42	36	142
Joint venture	10	19	19	8	56
Total	139	109	114	60	422

Source: own data.
* Includes 32 investments done before 1885.
** Greenfield investments include freestanding companies.

International business strategy literature suggests that a high rate of greenfield investments may result from strong technological advantages.[49] Greenfield investments in the sample largely cluster in high-tech industries, such as refining, mechanics and, above all, chemicals and pharmaceuticals. In contrast, domestic acquisitions target mainly mid-tech sectors, such as mining, food and beverages, and textiles, in order to strengthen the position of the investor in the market or to push forward integration.

Data in Table 2 suggest another (complementary) explanation of the trends in entry modes. Acquisitions of existing facilities increase proportionally over time and become the majority of the operations in the last two decades of the century due to the maturation of Italian capitalism in the decades following World War II, thus confirming the role of host-country conditions in influencing the entry strategy itself.[50] As suggested above, privatization in the 1990s added further opportunities for the takeover of consolidated domestic players.

Greenfield Investments. Before the end of the nineteenth century, freestanding companies largely undertook the first bulk of greenfield investments, almost exclusively in urban transport, railways, and water and gas distribution; these companies were mainly incorporated in Belgium, followed by France, while the British presence seems almost negligible.[51] In this case, the main driver of investment, often

[49] Jean-Francois Hennart and Young-Ryeol Park, "Greenfield vs. Acquisition: The Strategy of Japanese Investors in the United States," *Management Science* 39 (1993): 1054–70. Jones and Bostock, "U.S. Multinationals in British Manufacturing," 229.

[50] OECD, *Reviews of Foreign Investments: Italy*, 14.

[51] Freestanding companies include those running direct investments only outside the country of incorporation, which was basically acting as a source of capital for the investments. Thus, an existing, consolidated presence in the country of origin did not precede their international activity, contrary to the dominant model of the modern multinational corporation. See Mira Wilkins and Harm Schröter, eds., *The Free-Standing Company in the World*

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undertaken due to the logic of vertical integration, was the weakness of domestic competitors, as well as rising demand due to urbanization in many areas and technological competences. For instance, Société Financière de Transports et d'Entreprises Industrielles (Sofina), under German control until World War I, was intensely active in Italy both on its own or in association with other investors in building local-transport infrastructure.[52] The form of the freestanding company allowed access to another critical resource in asset-intensive investments, namely, capital, which was relatively abundant in the financial centers of continental European countries, but relatively scarce in Italy. By the end of World War I, as the creation of the national infrastructure progressed, the relevance of investments connected to utilities and infrastructure had declined to a negligible level (Table 1), while the relevance of home countries, such as Belgium, which had once been dominant, had become marginal.

A second consistent wave of greenfield investments took place in the period preceding World War II, mainly clustered in chemicals and pharmaceuticals, electric appliances, and machinery. Even before World War I, global leaders in electric appliances and machinery had started to invest in Italy and became dominant players in an industry that was quickly expanding, thanks to the diffusion of hydroelectricity as one of the main energy sources in Italy. In 1903, Siemens incorporated the Società Italiana Siemens Shuckert, followed by Allgemeine Elektricitäts-Gesellschaft (AEG) one year later; then Accumulatorenfabrik AG came in 1907 and Western Electric in 1909, which incorporated Western Electric Italiana.[53]

Another field where Italian competitors were virtually absent was communication equipment. After World War I, companies that were already active internationally undertook greenfield investments in communication technology. Immediately after World War I, Ericsson invested in Italy, incorporating Fabbrica Apparecchi Telefonici e

Economy (Oxford, 1998); Peter Hertner, "Free Standing Companies in Italy, 1883–1912," in *The Free-Standing Company*, ed. Wilkins and Schröter, 151–60.

[52] Under the control of Union Elektrizitäts Gesellschaft (UEG) from its foundation in 1898. See Anne De Boeck, "La Sofina (Société financière de transports et d'entreprises industrielles), 1898–1914," in *Présences Belges dans le monde a l'aube du XXe siècle*, ed. Dumoulin, 21–40. German global leaders in the electromechanical industry incorporated share ownership in infrastructure-building companies in Belgium because the logic of vertical integration was a diffuse practice. See Peter Hertner, "German Multinational Enterprise before 1914: Some Case Studies," in *Multinationals: Theory and History*, ed. Peter Hertner and Geoffrey Jones (Aldershot, 1986), 113–34, and Dumoulin, "Les contradictions de l'espansion à la 'Belle Epoque,'" 16; Michael Dumoulin, *Les relations économiques italo-belges (1861–1914)* (Brussels, 1990).

[53] International Western Electric became International Standard Electric after its acquisition by ITT in 1925. Wilkins, *The Maturing of Multinational Enterprise*, 70, 71, and 147.

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Materiale Elettrico Brevetti Ericsson (FATME).[54] American leaders in communication materials followed in the 1930s: Automatic Electric founded Autelco Mediterranea Satap S.A., and Standard Electric founded Telefoni e Apparecchi di Precisione and Fabbrica Apparecchiature per Comunicazioni Elettriche (FACE). A similar combination of technological leadership and expanding market formed the basis of greenfield investments in office machinery, where IBM and Underwood were present from the interwar period, followed by other global leaders such as Honeywell, Remington-Rand, and Rank Xerox after World War II.[55]

Greenfield penetration was almost compulsory in pharmaceuticals, given the high research intensity of the production process.[56] Many foreign producers had already been present in Italy even before World War I, mainly through commercial branches. After the war, the steady expansion of internal demand led them to establish production facilities. Sandoz opened a plant in 1922, and Bayer founded its subsidiary, CO-FA, in 1926. The following year, Hoffmann-La Roche opened a branch in Italy (Prodotti Roche), while Glaxo has been running a facility in Verona, the Laboratori Glaxo, since 1932. All these companies were struggling to establish themselves as leaders in the global pharmaceutical industry; they clustered their investments due to the competitive weakness of domestic players and also as a strategy of imitating their main competitors.

Acquisitions. In other industries, foreign investors found the opportunity to exploit their technological leadership, building on, or using as a basis, existing competences. These investors benefited from their integration into a generally more efficient structure, characterized by superior technological and organizational capabilities. Initially, investors acquired efficient and competitive domestic companies randomly, but they also targeted companies with some degree of technical expertise when market penetration became increasingly feasible, due to Italian companies' progress catching up technologically starting in the interwar period.[57]

[54] Ulf Olsson, "Securing the Markets: Swedish Multinationals in Historical Perspective," in *The Rise of Multinationals*, ed. Jones and Schröter, 99–127, esp. 103*ff*.; Tolentino, *Multinational Corporations*, 80*ff*. See also Artur Attman and Ulf Olsson, *L. M. Ericsson: One Hundred Years*, vol. 2, *Rescue, Reconstruction, Worldwide Enterprise, 1932–1976* (Orebro, 1977).

[55] Wilkins, *The Maturing of Multinational Enterprise*, 77.

[56] Hennart and Park, "Greenfield vs. Acquisition," 1055–56; Jones and Bostock, "U.S. Multinationals in British Manufacturing," 229.

[57] As in the case of Tecnomasio Italiano, an electromechanic firm acquired by the Swiss Brown Boveri in 1898, three decades after its foundation in 1871. Brown Boveri took over the company in order to enter the Italian market as a supplier of railway electric engines before the nationalization of the network in 1905 to meet the future orders from the state

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Clearly, acquisitions responded to a wide array of competitive strategies. A telling example is General Electric. In the interwar period, GE invested intensely in Italy via its U.K.-based subsidiary, International General Electric, or through its main Italian subsidiary, Compagnia Generale di Elettricità. To establish direct control in the expanding market of electric light bulbs, in 1919, GE took over a licensee, the Milan-based Società Edison per la Fabbricazione delle Lampade Ing. C. Clerici & C. Ten years later, vertical integration was behind GE's acquisition of Scotti & Brioschi, a producer of radio components, founded at the beginning of the century.[58] GE justified this backward integration not only by the good technical level of Scotti & Brioschi, but also by the autarky laws and the protection policies, which practically forced industries to control a domestic producer instead of importing components from abroad. The attractive market for Italian military procurement lay behind General Electric's acquisition of the Società Anonima Fabbrica Apparecchi Radio (SAFAR) (components and earphones) in 1941, which had been founded two decades earlier. GE continued acquiring specialized producers with superior technology and leaders in strategic market niches after World War II, when it bought Fabbrica Italiana Valvole Radio-elettriche (FIVRE), which produced vacuum tubes, valves, kinescopes, and other television components.

The presence of efficient domestic producers allowed foreign investors to exploit their coordination capabilities, particularly in the case of multiple acquisitions, when they assembled existing facilities into a single unique organization. Saint-Gobain, a French glassmaker, is probably the best example of a company with a policy aiming to establish an oligopolistic position through multiple acquisitions. During the last decade of the nineteenth century, the firm had established its presence in the Italian glass market with a greenfield investment in Pisa, where it built Fabbrica Pisana di Specchi e Lastre Colate di Vetro to gain access to a promising market free of competition. After this initial investment, Saint-Gobain's number of acquisitions in Italy rose at an impressive rate immediately after World War I.[59] In 1920, it bought out Manifattura Isolatori e Vetri d'Acqui, an acquisition that turned out to be strategic because it strengthened the company's ties with the Fascist government. In 1928, as a joint venture, Saint-Gobain founded

railways. Stefania Licini, "Ercole Marelli e Tecnomasio italiano, dalle origini agli anni Trenta: Un tentativo di comparazione," in *Annali di storia dell'impresa* 5–6 (1989–90).

[58] Alberto Cova, *Economia, lavoro e istituzioni nell'Italia del Novecento* (Milan, 2002), 531; on International General Electric in the interwar years, see Wilkins, *The Maturing of Multinational Enterprise*, 65*ff*.

[59] Marco Bertilorenzi, "La méthode Saint Gobain: Strategia di un'impresa multinazionale in Italia, 1887–1939," M.Sc. thesis, University of Florence, 2006.

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Vetro Italiano di Sicurezza with another Italian glassmaker, Manifattura Specchi e Vetri Felice Quentin. In the following year, the French company took over a significant stake in one of its main domestic partners, Vetreria Milanese Lucchini e Perego. In 1930, Vetreria Meccanica & C. Ricciardi was incorporated, in which Saint-Gobain had a 54 percent stake. In 1932, another partner of Saint-Gobain, the Leghorn-based Vetreria Italiana Balzaretti e Modigliani, came under its control together with another producer based in Rome, Vetrerie Riunite Angelo Bordoni e di San Paolo.

Thus, after an initial greenfield investment, Saint-Gobain found the progressive acquisition of local producers to be more convenient. However, the mother company not only integrated the acquired companies into a more efficient organization, but also provided them with all the advanced techniques it had developed. By the late 1930s, Saint-Gobain had become the main glass producer in Italy, a position that would last for a long time after World War II. The French glassmaker replicated its technique of progressive expansion in Italy in other European countries, such as Spain.[60]

Joint Ventures. Fifty-six out of the 422 companies present in at least one benchmark year entered the Italian market by establishing a joint venture. Clearly, as in the case of acquisitions, some partnerships between foreign and Italian firms occurred before World War I, even though the majority of these agreements took place in the interwar years and after World War II. As strategic responses to particular situations, joint ventures took different forms. They normally involved a domestic partner holding the majority of the shares (at least 50 percent), plus the foreign investor. Normally, the foreign company contributed to the partnership through patents and technical knowledge, not just capital, while the domestic partner, frequently the originator of the initiative, provided the physical assets and facilities. Domestic partners also provided intangible resources, such as the credibility for dealing with local municipal administrations. Notwithstanding its short life (it ended abruptly at the outbreak of World War I), a good example is Società Tubi Mannesmann, founded in 1908 by the German company Mannesmann in a joint venture with a domestic competitor, the Orlando family's Società Metallurgica Italiana. The agreement established a plant to produce vacuum steel pipes, a technology developed by the Germans years before but not yet in use in Italy; the market for steel pipes was extremely promising, given the increasing use of steel pipes in gas and water utilities networks. Mannesmann thus provided

[60] Esther Sánchez, "Un siglo de vidrio francés: Saint Gobain en España, de 1905 a la actualidad," *Investigaciones de Historia Económica* 7 (2011): 395–407.

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both the technology and a portion of the original investment, while the Italian company granted it privileged access to the market, thanks to its connections with local administrations and municipalized companies.[61]

In other cases, such as advanced chemicals and oil refining (50 percent of all the joint-venture initiatives in the sample), the presence of a strong and established domestic partner shaped things differently. For instance, it was almost impossible for foreign companies to avoid some relationship with the most powerful national player, Montecatini; the Italian company was well connected with the political regime, especially during the interwar years, and seized opportunities to diversify from its main and most profitable business (chemicals for agriculture, in which it had become the undisputed leader after World War I).[62] Montecatini and Rhône Poulenc joined together in Rhodiaseta, producing artificial fibers (rayon). The joint venture was based upon French technology and on Montecatini's intermediate materials, produced by the Società Elettrochimica del Toce, a firm that it controlled. When incorporated in 1928, the majority of Rhodiaseta's directors were from Rhône Poulenc. On the eve of World War II, it was the fourth-largest domestic producer of artificial fibers in Italy in terms of assets. A few years after its incorporation, in 1935, the two companies launched another joint initiative in pharmaceuticals, Farmaceutici Italia Farmitalia.[63]

In a similar way, Montecatini had been a partner with IG Farben, one of the main global companies in the chemical industry during the interwar period. In 1930, the two companies jointly bought out a chemical company, Società Chimica Lombarda Bianchi e C., which specialized in artificial dyestuffs. Immediately afterwards, in 1931, the two companies jointly acquired Aziende Colori Nazionali e Affini (ACNA). In both cases, the technology was of German origin, while Montecatini provided access to the domestic market together with its extremely good relationship with Mussolini's regime.

In the field of coatings, Montecatini also shared initiatives with DuPont, incorporating another joint venture, DUCO, in 1928. Brokerage also played a relevant role in future years. In 1966, Montecatini merged with Edison to become Montedison; during the 1970s, Montedison helped industrialize Sardinia, one of Italy's poorest areas. Foreign investors could establish operations on the island through Montedison, benefiting from government incentives. Eurallumina is a good example.

[61] Hertner, "German Multinational Enterprise before 1914," 122–23.

[62] Franco Amatori, "Montecatini: Un profilo storico," in *Montecatini, 1888–1966*, ed. Amatori and Bezza, 19–68.

[63] Vera Zamagni, "L'industria chimica italiana dalle origini agli anni '50," in *Montecatini, 1888–1966*, ed. Amatori and Bezza, 69–149.

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The firm was a joint venture in aluminum established in 1968 with four partners—Alsar (in its turn, a joint venture between Montedison and Alcoa, which had begun two years before); Montedison; the Australian Comalco (Rio Tinto); and the German conglomerate Metallgesellschaft AG.[64] Alcoa provided the necessary technology; the other foreign partners, the raw materials (the plant was built to transform Australian bauxite into aluminum oxide); and Montedison, access to the system of incentives set up in order to attract investments in the area.[65]

A similar framework behind the agreements linked other national leaders, such as the private companies Fiat, the automotive producer, and Edison, the leader in the electric industry, and the state-owned ENI, the leading Italian oil and gas company. Understandably, refining was an activity in which foreign companies had to deal with the domestic leader.[66] In 1947, Azienda Generale Italiana Petroli (AGIP), which had embodied the Italian interests in oil and gas refining and distribution before the creation of ENI, created a joint venture with British Petroleum, the Industria Raffinazione Oli Minerali (IROM), in order to rebuild a refinery in the industrial area of Porto Marghera, near Venice, with the best technology available. In 1949, a future division of ENI, Azienda Nazionale Idrogenazione Combustibili (ANIC), had started a 50:50 partnership, Stanic, with Standard Oil of New Jersey. With American technology, Stanic ran the refineries of Leghorn and Bari. ANIC and its parent company ENI later associated with BASF in the company Chimica Ravenna to obtain access to technology in the field of chemicals and polymers.

Conclusion

Based upon new and original data, this article has made two contributions to the existing research. On a general level, it has looked at multinationals' location choices, which have recently received a renewed interest in international business literature. It has examined the structural conditions that made Italy an attractive host economy in the long run. Various and changing factors gave foreign companies incentives to establish themselves in Italy. Foreign investors always relied on technological ownership advantages and found further incentive in the

[64] Maurizio Rispoli, "L'industria dell'alluminio in Italia nella fase di introduzione: 1907–1929," *Annali di Storia dell'Impresa* 3 (1987): 279–322. Senato della Repubblica, V Legislatura, 32esima seduta pubblica. Resoconto Stenografico, 11 Oct. 1968, 1799.

[65] This is in some ways similar to the concept of "political" international investment activity suggested for the Spanish case by Núria Puig and Rafael Castro, "Patterns of International Investment in Spain, 1850–2005," *Business History Review* 83, no. 3 (2005): 505–37.

[66] Pozzi, "Entrepreneurship and Capabilities in a 'Beginner' Oil Multinational," 253–74.

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structural weakness of domestic players. Since the investments generally sought markets, the dynamics of the internal market explain the country's attractiveness before World War I, in the interwar period (particularly in the 1920s), and during the "economic miracle" of the 1950s and 1960s, when Italy joined the club of the most advanced nations in the world. Mira Wilkins's concept of an "opportunity parameter" based upon the increase in the size of the domestic market and the dynamism driving foreign investors' investment decisions proved useful.

Alongside the domestic market's dynamism, the article also demonstrates how institutional elements, such as legislation, political stability, and favorable cultural attitudes, were at work, even though further investigation at the individual company level should assess their exact impact. To varying degrees, the "political" and "familiarity" parameters were always an influence. These parameters explain both the increase in the incentives for foreign investors to seek opportunities in a developing economy, as well as its decreasing attractiveness since the mid-1970s, when the political and social climate started to deteriorate. Italy's evolution from a peripheral economy to one of the most advanced countries in the world heavily influenced entry strategies of foreign investors. Even though greenfield investments prevailed, acquisitions and joint ventures gained increasing relevance, which testifies to the opportunities provided to international investment in a maturing economy.[67]

Some research has recently become available comparing Italy as host nation with other Continental European economies. The general trends in foreign investment activity are, in part, similar to those common to other advanced countries. As in Spain and France, for example, joint ventures with local enterprises (both private and state-owned) were the gateway for foreign firms to enter the Italian market, often protected in favor of the domestic incumbents.[68] Italian governments' favorable attitude toward foreign investments, particularly after World War II, can be seen in other European countries, such as Denmark, in which incentives played a relevant role in enhancing the country's attractiveness for foreign investors.[69] As in other cases,

[67] The Investment Development Path theory provides a formalization of this process, linking the nature of foreign investment activity (inward, and also outward) to the stage of development of a country's economy. See John H. Dunning and Rajneesh Narula, "The Investment Development Path Revisited: Some Emerging Issues," in *Foreign Direct Investments and Governments: Catalysts for Economic Restructuring*, ed. John H. Dunning and Rajneesh Narula (London, 1996), 1–40.

[68] Hubert Bonin, "First American Firms Coming to France (from the 1900s to the 1930s)," in *American Firms*, ed. Bonin and de Goey, 71–103, esp. 102; Adoración Álvaro-Moya, "Foreign Direct Investment, Economic Aid and Modernization: U.S. Firms in Spain (1920–1975)," in *American Firms*, ed. Bonin and de Goey, 209–28, esp. 227.

[69] See Sorensen and Tarbensen, "U.S. Investments in Denmark," 229–79.

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convergence in Italian per-capita income levels and labor-productivity standards explains the waves of incoming direct investments to a great extent. Furthermore, the liberalization policies of the late 1980s and 1990s had an impact on Italy's attractiveness, even in the presence of low growth rates, as also occurred in Spain, France, and the Netherlands.

While sharing commonalities with other European countries, Italy's development of technological and organizational capabilities was also individual. This second, more specific contribution of this article calls into question economic and business historians' frequent depiction of the Italian case as an example of successful development of a latecomer country. Italy succeeded as a latecomer, thanks to the virtuous intervention of "substitutive factors," as Alexander Gerschenkron defined the contribution of universal banks, and, above all, of state action in fostering the initiatives of domestic entrepreneurship.[70] What this article makes clear is that another powerful substitutive factor, undervalued by researchers, was at work in the long run, allowing the Italian economy to join the most advanced nations despite weak or absent local capabilities in the industries typical of an advanced country. In this respect, Italy has been (and still is) characterized by an apparent contradiction. On the one hand, it is structurally characterized by an extremely low level of inward foreign activity, measured in percentage of GDP, in comparison with other developed economies. On the other hand, the data presented in this article show a remarkable concentration of foreign control among the largest corporations of the country and in a vast array of sectors. This concentration happened particularly in technologically intensive industries, such as chemicals and pharmaceuticals, glass and nonferrous metals, or utilities, when these sectors were liberalized before and immediately after World War I. In other sectors, such as refining, cement, heavy mechanics, and machinery, foreign-controlled companies shared the market with domestic players, both private, and increasingly, state-owned. Foreign multinationals constantly penetrated the Italian market, frequently establishing collaborative initiatives with local companies and competitors, as providers of superior technology and, in some cases, of organizational and managerial competencies.

The structural features of the Italian entrepreneurial model, characterized by a prevalence of small and medium firms under individual or family control, and by a marked orientation towards labor-intensive, traditional industries, ended in a sort of division of labor between domestic and foreign companies. Foreign initiative systematically replaced the persistent incapacity of indigenous entrepreneurship in establishing

[70] Gerschenkron, *Economic Backwardness*; Amatori and Colli, *Impresa e industria in Italia*.

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successful initiatives during the various technological waves of the three industrial revolutions. Perhaps as a consequence of this incapacity, Italy has constantly demonstrated a remarkably high degree of openness towards foreign intervention in advanced industries. As an exception, Italy did exclude or discourage foreign investment during some periods, due to mounting nationalism immediately before World War I, or during the 1970s. Italy's far left regarded foreign multinationals as agents of exploitation, and the far right thought them agents of expropriation. The exclusion of foreign investors was far less than expected during the "autarchic" climate of the fascist dictatorship. The reality was the absence of entry barriers even in strategic industries, with the exception of those few in which "national champions" were able to obtain protection from the political power, as in the case of Fiat. These conditions were clearly pushing toward increasing the relevance of the "familiarity" parameter and was further confirmed during the privatization wave of the 1990s, when Italy made no serious attempts to block any foreign acquisitions of the companies put up for sale.

Another important finding is that the number of foreign investments increases during the phases in which the Italian economy shows higher dynamism, when these investments converge on that of other developed economies. To establish a causal relationship between inward investments in technologically-advanced industries and convergence in development levels is beyond the scope of this article, although the evidence points clearly in this direction. Italy thus can be viewed as a precursor to more recent host economies, such as China. In the initial phases of China's economic resurgence, it attracted market-seeking multinationals, and it leveraged the foreign presence in advanced industries to enter into the global economy.[71]

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[71] Robert Pearce, "China and the Multinationals," in *China and the Multinationals: International Business and the Entry of China into the Global Economy*, ed. Robert Pearce (Cheltenham, 2011), 1–23.

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