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The Eurozone crisis and Italian corporate governance: the end of blockholding?

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This article explains the process of change in domestic corporate governance. An actor-centred coalitional approach is applied to the Italian case to show how the main features of domestic corporate governance are a product of behavioural patterns (i.e. informal institutions), rather than formal legislation. Leveraging their superior financial means, business elites act as institutional incumbents shaping these informal institutions according to their preferences. It is argued that a change in corporate practices is more likely to be triggered by a socio-economic crisis, which weakens the domestic elite's influence, rather than a legal reform. These findings call into question the excessively formalistic approach of many corporate governance scholars, and are confirmed by the Italian trajectory. After having resisted 20 years of liberalising legal reforms aimed at eroding their power, Italian blockholders are now being forced, as a consequence of the Eurozone sovereign debt crisis, to dismantle their cross-shareholding networks.

Keywords: Italy; corporate governance; legal reforms; power resources; interest coalitions

1. Introduction

In June 2013 Alberto Nagel, CEO of the bank Mediobanca, made an announcement that marked the end of an era for Italian capitalism. While presenting the 2014–2016 Business Plan, Nagel stated that Mediobanca's main objective for the years ahead is to grow the core banking business, selling all other strategic holdings (Reuters 2013). Nagel's announcement was a bolt from the blue because Mediobanca has historically been the centrepiece of the *salotto buono*, the cross-shareholding system that dominated Italian capitalism. Although Nagel's rhetoric has incomparable symbolic value, he was not alone in denouncing the blockholders' system. The wave of anti cross-shareholding announcements was initiated in April 2013 by Mario Greco, CEO of Assicurazioni Generali, the largest insurance company in Italy, soon followed by Gian Maria Gros-Pietro, board member of Intesa Sanpaolo, the largest domestic bank in Italy (Pica 2013; Vanuzzo 2013).

These declarations are a sign that something is changing in Italian corporate governance, and this is remarkable given the immutable stability of Italian capitalism (Culpepper 2007; Deeg 2005; Della Sala 2004; McCann 2000). In fact, prior to 2013, a restricted group of blockholders was able to resist two decades of liberalising reforms aimed at eroding its power, instead maintaining, when not strengthening, a firm grasp

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over Italian capitalism. Since the early 1990s, pressed by EU legislation, Italian policy-makers rushed to implement a reformist package aimed at moving their corporate governance structure closer to the Anglo-Saxon model. This Anglo-Saxon medicine was based on privatisation, enhancement of minority shareholders' rights and banking liberalisation. All these reforms radically altered Italy's corporate law and were intended to dismantle the dense cross-shareholding network linking all the main blockholders, forcing them to dilute their shareholdings. But they failed to do so.

Why did the most radical reform of corporate laws in continental Europe fail to bring about any change in the ownership structure of Italian capitalism? How is it possible that the same cross-shareholding edifice that survived such an impressive reformist-wave is suddenly crumbling away? In order to answer such puzzling questions this paper adopts the coalitional approach to the study of corporate governance (Cioffi and Hoepner 2006; Gourevitch and Shinn 2005). It is argued that the failure of the reforms of the 1990s and the current crumbling of the cross-shareholding edifice are both the result of the changing balance of power between domestic coalitions. In fact, until the late 2000s, family blockholders remained dominant in Italian capitalism, and deployed two main power resources for hijacking the liberalising reforms: superior financial means and dense networks of alliances. However, by eroding the value of the assets owned by the blockholding families, the sovereign debt crisis triggered by the US-subprime meltdown that hit the Eurozone periphery from late 2009 is challenging their dominant position, thus paving the way for a reshuffle in Italian corporate governance.

The rest of the paper is organised as follows. In the second section the actor-centred coalitional approach is presented as the theoretical foundation of this inquiry. The third section is devoted to a historical account of the liberalising reforms implemented in Italy over the last two decades, and their impact. The fourth section deals with an analysis of the *nature* of blockholders' power. Concrete instances are presented to show that the business elites employed two weapons to prevent the implementation of the reforms: their unparalleled financial resources and the capacity to form shareholders' alliances. Lastly, section five shows how the Eurozone crisis is altering the balance of power between domestic actors by depriving the blockholding families of these two weapons.

2. Theoretical framework: coalitions, power and informal institutions

The study of comparative corporate governance has been heavily influenced by the path-breaking contribution of La Porta et al. (1998) who identify the level of legal protection of minority shareholders as the decisive element in determining a country's ownership structure. Although highly influential, this thesis came under attack when it was observed that the adoption of shareholder-friendly legislation in many European countries failed to bring about ownership diffusion. A less formalistic approach was pioneered by Roe (2003), and later refined with the coalitional model developed by Gourevitch and Shinn (2005). According to Gourevitch and Shinn corporate governance outcomes are the result of a struggle between three categories of actors: managers, shareholders and workers.

Gourevitch and Shinn have the great merit of placing actors, coalitions and power at the centre of their model. However, still influenced by La Porta's legacy, they focus solely on the impact that the power struggle between opposing coalitions has on formal rules. Managers, shareholders and workers fight over the adoption of a corporate

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governance legislation that matches their preferences. The choice of a specific set of formal rules leads in turn to two opposite outcomes: ownership diffusion or blockholders' domination. However, the Italian trajectory shows that the implementation of shareholder-friendly legislation is not sufficient to bring about ownership diffusion. Building on these assumptions, Culpepper (2007, 2010) reorients the debate stating that the decisive locus of the power struggle between opposing coalitions is not inside, but outside the Parliament. Accordingly, what triggers a modification in domestic ownership structures is not a reform of the formal legislation, but rather a change of the *informal* institutions – i.e. long-term behavioural patterns agreed on by domestic actors outside the official policy-making channels (Helmke and Levitsky 2004, 727). These informal rules have a more profound impact on domestic corporate practices than formal legislation, constraining the behaviour of blockholders, managers and small shareholders. Among these corporate actors, those who, for historical reasons, occupy a prominent position in domestic capitalism can act as institutional incumbents, having a final say in the definition of informal institutions (Culpepper 2010, 11).

Typically, the institutional incumbents are corporate insiders – either managers or large blockholders – who leverage a wide array of power resources to shape the informal rules of corporate governance. Such resources include superior technical expertise, unparalleled financial means, or preferential access to policy-makers. For instance, large blockholders can use their superior financial means to form a dense cross-shareholding network, allowing them to protect their core assets from hostile takeovers. If power resources are decisive in shaping informal institutions, a change in corporate practices can only result from a shift in the balance of power among domestic actors, leading to the emergence of new institutional incumbents. The determinants of the balance of power among domestic actors are thus the crucial factor to understand corporate governance outcomes. Any meaningful analysis of corporate governance should specifically focus on the *nature* of the power resources of the domestic coalitions, which in turn determines the identity of the institutional incumbents. In such a model, legal reforms should be studied not in virtue of their formal content, but in terms of the impact they have on the power resources of domestic coalitions. A legal reform has an impact on informal institutions only when it erodes the power resources of the institutional incumbent opposing change, or strengthens the coalition favouring it.

However, legal reforms are not the only factor potentially affecting the balance of power among domestic coalitions, and they should be studied along with other vectors of change like the increasing activism of Anglo-Saxon institutional investors in continental markets (Culpepper 2007, 797), or the occurrence of socio-economic crises challenging the legitimacy and the power resources of business leaders. This second factor is particularly salient for Italy, as over the last 20 years the country has experienced two socio-economic crises that had a profound impact on the balance of power among domestic actors: the *Tangentopoli* investigation of the early 1990s and the ongoing Eurozone crisis.

The Italian trajectory confirms the saliency of informal institutions, as the legal reforms aimed at weakening the large blockholders failed to erode their power resources, being instead exploited by the business elites to strengthen their dominant position. In particular, family blockholders managed to win the corporate battle leveraging two main weapons: superior financial means and the capacity to form a dense network of alliances. This inquiry on the nature of blockholders' power also helps in making sense of the current crumbling of the cross-shareholding edifice. In fact, the Eurozone crisis acted as an exogenous shock depriving the blockholders of these two

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weapons, shifting the domestic balance of power, and paving the way for a change in the informal institutions of Italian capitalism.

3. 1992–2011: two decades of corporate governance reforms in Italy and their failure

Italian capitalism has been historically characterised by an extreme degree of ownership concentration, the dominant actor being a restricted elite of family blockholders – part of what was called the *salotto buono* of Italy. The overwhelming domination of families like the Agnellis and the Pirellis was maintained through a pervasive network of cross-shareholding agreements (Barca 1997). The main architect of this system was Enrico Cuccia, patron of Mediobanca, Italy's largest merchant bank (Zamagni 2009, 49). The Mediobanca system linked all main Italian firms in a complex web of cross-shareholding and pyramids that allowed a small group of families to act as institutional incumbents, to the detriment of minority shareholders, who could not benefit from any legal protection (Mengoli, Pazzaglia, and Sapienza 2009, 630).

The stability of Italian corporate governance came under attack in the early 1990s when Italy plunged into a profound socio-economic crisis. In February, Milan's public prosecutors unveiled the existence of a massive kickback system involving all main political parties. The consequent *Tangentopoli* investigation was a major setback for the blockholders as they were closely linked to the two main political parties involved in the bribe system, the Christian Democrats and the Socialists (Cioffi and Hoepner 2006, 472). To make matters worse, in September 1992 a wave of financial speculation triggered by the structural weakness of the Italian economy forced the Lira out of the European Monetary System (Deeg 2005). Such a profound socio-economic crisis shifted the balance of power among domestic actors, depriving the blockholders of their main political liaisons and opening a decisive window of opportunity for the macroeconomic reforms of the later 1990s. In fact, weakened in their legitimacy, the parties decided to appoint a partially technocratic government guided by the Socialist Giuliano Amato. Many members of the Amato cabinet were part of Italy's technocratic elite, a small group of technocrats employed at the Bank of Italy and the Treasury (Dyson and Featherstone 1996). Often sharing an Anglo-Saxon university background, they wanted to replace the dominant blockholders with a diffused shareholding model of Anglo-Saxon inspiration (Amatori and Colli 2000, 24).

Given the temporary weakening of the institutional incumbents of Italian capitalism – the family blockholders – and the deep crisis of the Italian economy, the technocratic elite benefited from a decade-long window of opportunity, and held power in association with the Centre-Left from 1992 to 2001. Eager to move Italian capitalism closer to the Anglo-Saxon model, they implemented a series of reforms centred on three objectives: privatisation; banking liberalisation; and enhancement of minority shareholders' protection (Cioffi and Hoepner 2006; Goldstein 2003). The most important step in the direction of an Anglo-Saxon model of corporate governance was the adoption of the Draghi law, the most far-reaching corporate governance reform in post-war Italy (Deeg 2005, 534). The objective of the Draghi law was to increase the virtually non-existent legal protection of minority shareholders, giving them all the legal tools necessary to play a more active role in the governance of listed firms (Mengoli, Pazzaglia, and Sapienza 2009, 630). In order to attack the stability of blockholders' power, the Draghi law increased the scope for hostile takeover by restraining the use of anti-takeover defences (Deeg 2005, 534–535).

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Nearly two decades of liberalising reforms gave Italy a corporate legislation largely in line with Anglo-Saxon standards (Deeg 2005, 536). However, when looking at the impact these legal reforms had on the informal practices of Italian capitalism, the picture appears much less rosy. The stated objective of the reformers was to open up Italy's corporate governance, moving it closer to a shareholding model of Anglo-Saxon inspiration. The crucial feature of Anglo-Saxon corporate models is diffused shareholding, the ownership of listed firms being split between a myriad of small shareholders. Lacking large blockholders, managers occupy a very powerful position because they possess asymmetric information. In order to avoid management misbehaviour, accountants scrutinise listed firms, and stock prices provide a fundamental assessment of managerial performance. An active market for corporate control, with frequent hostile takeovers, is the ultimate tool for punishing managerial incompetence (Gourevitch and Shinn 2005). Hence, frequent hostile takeovers are the second hallmark of the Anglo-Saxon corporate model.

Italian corporate governance has historically been at odds with the Anglo-Saxon corporate model due to an extreme degree of ownership concentration and a languishing market for corporate control – no hostile takeover was completed until the late 1990s (McCann 2000). Despite the remarkable reformist effort of the technocratic elite, the corporate governance reforms of the 1990s failed to trigger any relevant change in these two respects. Ownership concentration is still among the highest in the world. In 2004 the median largest voting block among Italian blue-chip firms was 31.9%, a figure considerably higher than in the UK – 9.5% – and the US – 10.9% – two countries considered as the best approximation of the Anglo-Saxon corporate model (Culpepper 2010, 31). In 1997 only 20% of Italian firms were widely held at a 20% threshold – i.e. with no shareholder whose direct and indirect voting rights exceed 20% of the shares – the same percentage being 80% in the US and 100% in the UK (Enriques and Volpin 2007, 119). In addition, the reforms failed to revive Italy's languishing market for corporate control. Between 1990 and 2007 only four hostile takeovers were completed in Italy, a figure that pales when compared with the 55 hostile takeovers completed in the US, and the 45 in the UK (Culpepper 2010, 33). These figures signal that radical reform of the formal rules of corporate governance failed to translate into a corresponding change in the informal institutions of Italian capitalism. Cross-shareholding remains the main informal institution and ownership is still concentrated in the hands of few blockholders (Enriques and Volpin 2007, 118). If the main objective of the reform was to open up Italy's corporate governance, promoting diffused shareholding and ending the domination of large blockholders, '*The most important result is that the effort failed*' (Culpepper 2007, 799; emphasis original). Italian capitalism is still distant from the Anglo-Saxon model, being dominated by the same restricted elite of blockholders whose behaviour was only marginally constrained by the reforms (Deeg 2005, 542).

4. Who calls the shots in Italian capitalism? The nature of blockholders' power

Throughout the 1990s, the technocratic elite was able to effectively exploit the weakening of the traditional blockholders, passing a series of liberalising reforms that could have represented a serious challenge to the blockholders' domination. However, this remarkable effort had no impact on the informal corporate practices of Italy. Hence, an exclusive focus on formal legislation falls short of explaining the failure of the most radical reform of corporate governance in continental Europe. In order to understand

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this failure it is necessary to carefully investigate the *nature* of blockholders' power, identifying the weapons deployed by the families to hijack the reforms (Culpepper 2007, 797). This will be done in this section by looking at concrete instances in which the blockholders managed to reverse the effects of measures explicitly aimed at reducing their power.

Many concrete examples of the strategy employed by the large blockholders to maintain their control over Italian capitalism can be drawn from the privatisation process. Privatisations represented a fundamental threat to blockholders' power as they could open domestic corporate governance to new competitors (McCann 2000, 52). In addition, blockholders were also threatened by the *method* chosen to conduct the sell-offs of state-owned firms, as the framework law passed in the early 1990s by the Amato executive made explicit preference for public offers in order to ensure better representation of small shareholders (Goldstein 2003, 9). And still, against all odds, family blockholders managed to win control of many privatised firms.

Three concrete cases are presented to show how the blockholders succeeded in acquiring strategic firms in sectors as diverse as banking (Comit and Credit), the motorways (Autostrade) and telecommunications (Telecom). According to McCann (2000, 54), the privatisation of the two banks Comit and Credit was crucial because of two factors: their size, which placed them among the largest banks in the country; and the strong ties they historically had with Mediobanca. In fact, the generous lending of Comit and Credit was vital for Enrico Cuccia to orchestrate his cross-shareholding networks. Thus, the privatisation of the two banks, and the possible appointment of less friendly board members, could represent a major setback for Mediobanca. Aware of the strategic importance of the two banks, and willing to challenge blockholders' power, the Prime Minister Carlo Azeglio Ciampi and Romano Prodi, then-President of the Istituto per la Ricostruzione Industriale (IRI), the largest state-owned industrial conglomerate in Europe, rejected the idea of selling the banks to a restricted nucleus of large investors. Instead, in 1994 they offered the large majority of the shares to small investors through public offers:

> However … within a few weeks of their sale it became apparent that Mediobanca had gained control of both. Through determined, coordinated action between Mediobanca and its allies, a sufficient number of shares were bought from (mostly) small investors in the weeks following the privatizations to gain collectively a dominant holding of approximately 15 per cent. (McCann 2000, 55)

The trajectory of Comit and Credit clearly shows how blockholders' power was essentially based on two interrelated weapons: a dense network of alliances and the availability of superior financial means.

With a net worth of 14,000 billion Lira the motorway monopolist Autostrade was the second largest privatised firm in Italy, after Telecom (Tamburello 2000). In 2000 the Benetton family, owner of a successful clothing multinational enterprise, bought a 30% controlling share of Autostrade through a holding company that featured other traditional blockholders (Tamburello 2000). In pure *salotto buono* fashion, in 2003 Benetton hired Mediobanca as its main adviser for the operation that allowed the family to acquire an additional 54% of Autostrade's shares (De Rosa 2003). Here again blockholders' domination was based on two weapons: superior financial means and the dense network of alliances between its members. The peculiar trajectory of Telecom Italia is perhaps the most blatant example of the distorting power of family blockholders. The public sale of Telecom, Italy's telecommunication utility, was the most

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crucial moment of the privatisation process. Telecom was the fourth largest company in Italy in terms of turnover and the first for value added (Onado 2013). Initially controlled by a group of core shareholders close to the Agnelli family, in 1999 it was acquired by Olivetti, an IT company, through the first hostile takeover ever completed in Italy. At first glance, this appeared as a watershed moment in Italian capitalism (McCann 2000, 57). However, the takeover occurred in a 'thoroughly Italian fashion' (Deeg 2005, 537), as Olivetti gained control of Telecom, a considerably larger firm, through a complex pyramidal structure while owning just 3.2% of the shares (Amatori and Colli 2000, 49). Tellingly, Olivetti was able to complete the operation thanks to the financial support of the ubiquitous Mediobanca (Oddo and Pons 2006). The Olivetti takeover shows how even the Draghi law provisions that increased the scope for hostile takeovers, meant to be a direct attack on blockholders' power, were instead exploited by Mediobanca to favour byzantine cross-shareholding operations.

Even though the method used to acquire Telecom was quite 'Italian', the takeover by Olivetti sparked a glimpse of hope for Italian capitalism. Olivetti, a firm with well-trained managers and solid technical know-how, managed to acquire the control of one of the largest companies in Italy against the will of the all-powerful Agnellis. However, all these hopes vanished in 2001 when the Benettons and the Pirellis backed the acquisition of Telecom by Marco Tronchetti Provera, himself a prominent *salotto buono* insider. Due to the complex pyramidal system set-up by Olivetti it was sufficient for Tronchetti Provera to buy a controlling share of 30% of Bell, the holding company that owned Olivetti, to control Telecom (Onado 2013). Thanks to this operation Tronchetti Provera became the largest shareholder – and CEO – of Telecom with an 18% voting share, while holding just 0.7% of the cash flows rights (Enriques and Volpin 2007, 119). Although promising an ambitious industrial plan, Tronchetti Provera used Telecom as a cash cow to cover the debts piled up to gain control of the company (Onado 2013).

The Telecom trajectory shows that, notwithstanding the radical reform of the legislation, the informal rules of Italian capitalism were still dictated by a closed group of blockholders. The liberalising reforms failed to erode the dominant position of the families and were instead exploited by the blockholders to gain the control of profitable firms operating in sheltered sectors. Instead of selling their shares to the market, the blockholders retained all their strategic assets and formed new networks to gain control of the privatised firms. Typically, the blockholders' operations were conducted through an alliance built around a cash-rich company, either a bank or an insurance company (McCann 2000, 52). In this regard, the third great reform implemented by the technocratic elite, the liberalisation of the banking system, was a panacea for the blockholders (De Cecco 2007). In fact, liberalisation prompted a process of mergers and acquisition that led to the emergence of two very large banks: Unicredit and Intesa Sanpaolo, both considered European players (De Cecco 2007, 779). The emergence of large banks was definitely consonant with the objectives of the technocratic elite as they could favour the adoption of Anglo-Saxon corporate governance standards at the domestic level. However, although publicly dismissing the old habits of Italian capitalism, Unicredit and Intesa Sanpaolo have often engaged in operations similar in style to those of the family blockholders, including participation in many cross-shareholding networks (Deeg 2005, 540).

All these examples show how a change in formal rules was not mirrored by a change in the behaviour of the most powerful actors, the blockholders, who maintained a firm grasp over Italian capitalism by deploying their superior financial means and

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their networks of alliances. The persistence of a dense network of shareholders' agreements is confirmed by a recent network analysis of interlocking directorates in Italy (Gambini, Sarno, and Zazzaro 2012). It emerges that, even as late as 2009 – well after the liberalising reforms and on the eve of the Eurozone crisis – corporate networks were particularly dense among Italy's blue chip companies, with 67 out of 70 listed firms being directly or indirectly linked together (Gambini, Sarno, and Zazzaro 2012, 14), and in the banking sector. Unsurprisingly, these networks centred on a restricted number of traditional blockholders – Mediobanca, Pirelli, Fiat, Benetton – along with the new banking giants Unicredit and Intesa Sanpaolo.

5. The Eurozone crisis: the end of blockholders' domination?

The analysis of blockholders' power provided in the previous section corroborates the idea that even the determined action of a reformist executive is not sufficient to bring about concrete changes in a country's corporate governance when the legal reforms are not backed by the dominant actors, or fail to erode their power (Culpepper 2007). If legal reforms alone cannot trigger a radical change of domestic corporate practices, it is necessary to broaden the research scope to include other potential vectors of change: for instance, the occurrence of a socio-economic crisis eroding the financial resources of domestic blockholders. By worsening the borrowing conditions of the main Italian firms, the Eurozone crisis had precisely this effect. When in 2009 the global financial crisis reached the Eurozone periphery, hitting Greece, Portugal and Spain, Italy seemed in a better position due to the comparatively low level of household debt, and the rigorous fiscal stance of the executive. However, by mid-2011 the enormous size of the public debt, the anaemic growth of the Italian economy and the weakness of the Berlusconi cabinet made Italy the main target of market operators (Hopkin 2012, 43–44). In late 2011 the FTSE MIB blue chip index had lost six billion euros since its peak in 2007, and the four financial powerhouses Mediobanca, Unicredit, Intesa Sanpaolo and Assicurazioni Generali were hit particularly hard (Sanderson 2013). Mediobanca's share price hit a low of €2.64 in July 2012 – while their value was €9.56 in September 2009; Unicredit dropped from €17.1 in October 2009 to €2.42 in January 2012; the value of Assicurazioni Generali shares more than halved between January 2010 – €18.87 – and May 2012 – €8.49. Finally, Intesa Sanpaolo shares dropped from nearly €3 in late 2009 to under €1 in September 2012.[1] The severe crisis of these four actors is crucial because of the pivotal role they had in the blockholders' system: Mediobanca was the main architect, while Unicredit, Intesa Sanpaolo and Assicurazioni Generali were the three largest cash-rich companies, stepping stones of any shareholder agreement. The erosion of their financial means altered the balance of power among domestic actors, forcing the blockholders to reconsider the existence of the cross-shareholding pacts and calling into question their role as institutional incumbents.

The anti cross-shareholding wave was inaugurated by Mario Greco, CEO of Assicurazioni Generali, who affirmed that the main strategic objective of his firm was to exit all shareholding agreements unrelated to the core business of insurance (Vanuzzo 2013). Greco's plan was followed by an even more striking announcement from the old centrepiece of the blockholding system, Mediobanca. In June 2013 CEO Alberto Nagel presented the bank's 2014–2016 business plan. According to the plan, Mediobanca would seek to sell nearly all its strategic holdings (Reuters 2013). Gian Maria Gros-Pietro, a member of Intesa Sanpaolo's board, followed suit stating that the

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objective of the bank was to focus on its core business (Pica 2013). This domino effect is similar to the process that in the late 1990s led to the end of the so-called *noyaux durs*, the cross-shareholding networks linking all the largest French firms. In January 1997 Claude Bébéar, CEO of the insurance giant AXA, stated his intention to sell all shares unrelated to the core business of insurances, sparking a wave of similar announcements by other key members of the shareholders' pacts and the consequent end of the *noyaux durs* (Culpepper 2005, 195). The same close ties that are crucial in protecting the cross-shareholding stability in good times, magnify the effects of a defection in bad times.

The anti cross-shareholding announcements were followed by concrete events signalling a profound crisis of the old system. In October 2013, the shareholders' pact controlling the tyre maker Pirelli, which featured many traditional blockholders such as the Pirelli family, Tronchetti Provera, Assicurazioni Generali, Intesa Sanpaolo, Mediobanca, and the Ligresti family, was dissolved (Pirelli 2013). A few months later, in March 2014, the Russian oil company Rosneft bought 13% of Pirelli, becoming the largest shareholder (De Rosa 2014). Foreign ownership in the firm is set to increase further. In fact, in March 2015 Tronchetti Provera, CEO and shareholder of Pirelli, and the Chinese chemical firm China National Chemical Corporation (ChemChina) made a deal that could be a watershed moment in the history of the Italian tyre maker. According to the agreement, by 2018 ChemChina will acquire the control of Pirelli with a disbursement of €7.4 billion (Ebhardt 2015). Although the deal with ChemChina is still in the making, and needs the approval of at least 90% of the shareholders, its likely occurrence, the previous involvement of the Russian Rosneft and the dissolution of the shareholders' agreement signal a progressive disengagement of the traditional blockholders. This is particularly remarkable because the firm, founded in 1872, is the core business of the Pirellis, one of the most powerful families of Italian capitalism.

The latest developments concerning Telecom Italia point in a similar direction. As seen in the early 2000s, Telecom had fallen under the control of Tronchetti Provera, the Benettons, and the Pirellis. Telecom's ownership structure had changed again in 2007, when the firm came under the control of a new shareholders' pact featuring Mediobanca, Intesa Sanpaolo, the Benetton family, and Assicurazioni Generali, along with the Spanish telecommunications giant Telefonica (De Rosa 2007). Although this was the first sign of an opening to foreign investors, the domestic blockholders were given the upper hand over Telefonica via the award of preferential voting rights (De Rosa 2007). However, when in late 2013 Intesa Sanpaolo, Mediobanca and Assicurazioni Generali, weakened by the Eurozone crisis, decided to dissolve the shareholders' pact, and announced their intention to sell their holdings, Telefonica became Telecom's largest shareholder with a 15% share (Sideri 2014). Although Telefonica has recently stated the intention to dilute its share ownership in Telecom, none of the domestic blockholders seems to have sufficient resources to regain control of the firm. Instead, Telecom is likely to form an international alliance with the French telecommunications firm Vivendi (Sideri 2014). Hence, 15 years after its controversial privatisation Telecom, considerably weakened by a protracted period of financial distress, is finally escaping from the sphere of influence of family blockholders.

The flagship company Alitalia followed a similar trajectory. In 2008 the company was saved from bankruptcy by then Prime Minister Silvio Berlusconi, whose sympathy for domestic blockholders is no secret (Cioffi and Hoepner 2006). Back then Berlusconi blocked an offer from the Franco-Dutch air carrier Air France-KLM, encouraging instead the formation of an alliance of Italian investors dubbed the 'courageous

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captains'. The alliance featured many traditional blockholders lacking any experience in aviation, such as Roberto Colaninno, the manager who had engineered the Olivetti-Telecom takeover, the Benetton, Ligresti and Pirelli families, and Intesa Sanpaolo (Ricciardi 2014). In order to promote the deal, the Berlusconi executive accepted to take over Alitalia's debt, with an operation that cost Italian taxpayers more than €3 billion (Ricciardi 2014). When in 2014, after five consecutive years of large losses, Alitalia was again on the brink of bankruptcy, no domestic blockholder stepped in. Instead, the second-largest airline of the Arab Emirates, Etihad, bought a 49% controlling share of the firm, being enthusiastically welcomed by the Italian executive, now under Matteo Renzi, and business leaders alike (Dinmore 2014).

Although involving a firm considerably smaller than the heavyweights Alitalia, Pirelli and Telecom, the dissolution of the shareholders' pact that controlled the publisher RCS MediaGroup also signals a crisis of the old system. The control of RCS MediaGroup is a source of great prestige and influence, as the firm publishes the *Corriere della Sera*, the most prominent Italian newspaper, as well as the Spanish *El Mundo*. During a shareholders' meeting in October 2013 FIAT, Mediobanca, the Ligresti and Pirelli families, Intesa Sanpaolo and the other main investors announced the dissolution of the shareholders' pact (*Corriere della Sera* 2013). In the following months, all the main shareholders diluted their share ownership.

Along with the dissolution of many shareholders' pacts, another event signals the crumbling of the old blockholding system: the arrest of prominent members of the Ligresti family, one of the most powerful in Italian capitalism. The trajectory of the patriarch, Salvatore Ligresti, perfectly epitomises the functioning of the old blockholding system. Starting in the 1960s from a small construction business in Milan, Salvatore Ligresti managed to build a dense network of alliances including Enrico Cuccia, patron of Mediobanca, the Socialist Prime Minister of the 1980s Bettino Craxi and Silvio Berlusconi (Di Vico 2013). Ligresti's main asset was his loyalty to large blockholders, which made him the ideal member of any shareholders' alliance. At the peak of its influence Ligresti's holdings spanned Alitalia, Mediobanca, Unicredit, Pirelli and RCS MediaGroup to mention but a few (Sanderson 2013). His ubiquitous presence in the most prominent shareholders' pacts, always with small shares, earned him the nickname 'Mr Five Per Cent' (Sanderson 2013). Along with these participations, and thanks to Mediobanca's support, in 2002 the Ligresti family managed to gain control of Fondiaria-SAI, one of the largest domestic insurance groups (Massaro 2013). It was the mismanagement of Fondiaria-SAI that triggered the fall of the Ligrestis, as in August 2013 Salvatore Ligresti and his son and daughters were charged for allegedly not disclosing a €600 million hole in the group's claim reserve, as well as for the misappropriation of company funds (Sanderson 2013). While Salvatore Ligresti, aged 81, was detained at home, his two daughters Giulia and Jonella were sent to prison, while his son Paolo fled to Switzerland to avoid arrest. As the Ligresti family was perhaps the most blatant example of the Italian 'anomaly' (Di Vico 2013), namely the existence of a corporate system in which loyalty to a restricted group of blockholders mattered more than entrepreneurial capacities, the fact that their fall did not spark any reaction from its many protectors might be the clearest sign that the old system is finally coming to an end.

Although it is still too early to talk about the definitive end of blockholders' domination, recent events clearly show that the old system is undergoing a profound crisis. In the brief period of less than two years the blockholding alliance lost control of three among the largest domestic firms – Alitalia, Pirelli and Telecom – and of the main

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publishing company – RCS MediaGroup – and witnessed the fall of one of its most prominent members – the Ligresti family. It seems that, by eroding the financial means of the blockholders, the Eurozone crisis is bringing about what the reformers of the 1990s aimed for and failed to achieve: a change in the informal rules of Italian capitalism. The crisis shifted the balance of power of Italian capitalism, making the preservation of the shareholders' agreements unsustainable for many blockholders, above all for the cash-rich firms. Faced with the financial struggles of the old blockholders, two actors aspire to replace them as the new institutional incumbents: the traditionally weak Italian CEOs, and foreign blockholders.

6. Conclusion

The present inquiry into blockholders' power has many important implications for the study of Italian capitalism. It has shown how the liberalising reforms of the 1990s failed because the blockholding families managed to hijack them by deploying their superior financial means and their dense network of alliances. Not only did the blockholders retain a firm grasp over Italian capitalism, but they also managed to acquire the control of the most profitable privatised firms such as Telecom Italia and Autostrade. However, the Eurozone crisis is challenging the hegemony of the blockholders by eroding their financial means, forcing them to dismantle their cross-shareholding networks. As a result, the blockholding cartel had to give up the control over such strategic firms as Alitalia, Pirelli, RCS MediaGroup and Telecom. Moreover, the sudden fall of the Ligresti family also signals the fact that the old system is changing.

At this juncture it appears that the Eurozone crisis could jeopardise the dominant position of the blockholders considerably more than the *Tangentopoli* investigation of the early 1990s. In fact, even though *Tangentopoli* dismantled the main political liaisons of the blockholders, their financial means and alliance networks remained intact. By depriving the blockholders precisely of these two weapons the Eurozone crisis represents a more vital threat and paves the way for a radical change in Italian capitalism. Nevertheless, while it is unquestionable that Italian capitalism is changing, it remains to be seen what it will become. The chance of seeing a return of the old system is slim as its main protagonists lack the resources – or the willingness – to revive it. The Pirellis and Mediobanca are now confined to a more marginal role, while the Ligrestis fell into disgrace. The banking giants Unicredit and Intesa-Sanpaolo are still powerful, but the Eurozone crisis has forced them to sell many of their holdings. Similarly, Assicurazioni Generali and the Agnelli group have refocused on their core business, and are thus unlikely to participate in new shareholders' pacts. As a consequence, even though domestic blockholders will still play a relevant role in Italian capitalism by virtue of their important holdings, they will have to share power with new corporate insiders. The identity of these insiders will in turn determine whether Italy moves closer to either of the other two Latin corporate models: Spain and France. Under the Spanish scenario, foreign blockholders would acquire important stakes in the industrial sector, dominating Italian corporate governance along with large domestic financial groups – e.g. Unicredit, Intesa Sanpaolo and Assicurazioni Generali. Alternatively, Italy could witness the same managerial revolution that has occurred in France since the late 1990s, with the dismantling of many shareholders' agreements, an increased involvement of Anglo-Saxon institutional investors, and an enhanced role of the CEOs. For the moment, the first scenario seems the most plausible, as foreign blockholders have acquired controlling shares in Alitalia, Pirelli and Telecom.

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Apart from these implications strictly related to Italian corporate governance, this study provides some general hints for the investigation of the political economy of corporate governance at large. It has shown how informal behavioural patterns can be considerably more important than legal regulations. Those informal institutions are largely defined outside the law-making process, being instead determined by the balance of power between domestic actors. As a consequence, a meaningful analysis of corporate governance issues should go beyond the study of the letter of the law, dealing instead with the law in action. A liberalising legal reform affects informal institutions only if it alters the balance of power between domestic coalitions, favouring the emergence of new institutional incumbents. In addition, crucial changes in a country's ownership structure can occur as a consequence of exogenous shocks, such as the Eurozone crisis, and in absence of any radical reform of the legal rules. All these elements require a reorientation of the debate on corporate governance, shifting attention from formal institutions to the determinants of the balance of power among domestic actors. Laws and legal reforms should be studied as one of many potential vectors of change, not in virtue of their formal content, but by tracing their impact on the balance of power among domestic actors.

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No potential conflict of interest was reported by the author.

Note

1. Stock data obtained from *Borsa Italiana*, http://www.borsaitaliana.it/azioni/azioni/azioni.htm. Accessed 17 September 2015.

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