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The Divergence of the Italian and Japanese Corporate Governance Models: The Role of Institutional Shocks

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Abstract

The paper first considers a number of theoretical aspects surrounding the ambiguity of the legal framework defining the modern corporation and the two-way relation between technology and property rights. It then looks at the evolution of corporate governance through time, paying particular attention to the different roles played by the American occupation in the two countries - in Italy this involved the reinforcement of the state-owned corporations and family controlled pyramidal groups that had emerged during the fascist period, whereas in Japan the occupation forces destroyed the power of the great zaibatsu *families. The analysis shows how inter-firm share holding can promote (Japan) or inhibit (Italy) the expansion of large corporations and discusses the mechanisms that have made each model self-sustaining after the initial institutional shocks.* (*JEL*: L20, N80, P12)

1. INTRODUCTION

This article looks at the evolution of the Italian and Japanese corporate governance systems and, in particular, at how a form of capitalism that was rather similar before World War II has sharply diverged in the postwar period. In our opinion, this divergence can be traced to the very different consequences that defeat in the war and the policies of the winning powers had on the two countries' economic institutions. In pre-war times both Italy and Japan had shared a system of family control in their large private firms. In the immediate post-war years, American (and British) policies reinforced the ownership structures that had emerged during the fascist period in Italy. By contrast, in Japan, the American occupation ended the power of the *zaibatsu* families that had dominated the Japanese economy since the Meiji restoration. We argue that these policies have had lasting results - Italy's large firm sector is, still, stuck with the contradictions of family capitalism, while Japan has produced a new organisational form, the 'Japanese company', that has occupied a rising share of world markets and, after some time, an increasing share of economic books trying to explain its success.

The paper's main purpose is thus to compare the patterns of development induced by institutional changes. The next section puts forward a theoretical framework for analysing these issues - in particular, we try to explain why institutional shocks can produce such lasting systemic divergence in corporate governance in economies that are organised according to a very similar legal framework. Sections 3 to 6 provide a comparative account of recent Italian and Japanese histories. We argue in particular that American (and, in the case of Italy, also British) policies had a decisive role in determining the different destinies of Italian and Japanese family capitalism. We also discuss the view that inter-firm share holding can either promote (Japan) or inhibit (Italy) the expansion of large corporations and we try to spell out other mechanisms that have made each model self-sustaining after the initial institutional shock.

2. THE DIVERSITY OF BUSINESS ORGANISATIONS: A THEORY OF THE RELEVANCE OF INSTITUTIONAL SHOCKS

Among the many institutions of today's capitalism nothing has contributed more to its history of colossal expansion than the public corporation or joint-stock company. Yet, its ownership structures and control mechanisms vary widely both over time and across countries. As was reported in Berle and Means' (1933) classical work on corporate governance, America's typical large corporation had (at least until recently) fragmented shareholders with small holdings and little voice in management. Italy's family empires, on the other hand, have developed a pyramidal ownership structure that enables a family, or a tight-knit group of people at the top, to exercise monolithic control over a large number of firms through a hierarchical chain of corporate shareholdings. *Zaibatsu* groups in pre-war Japan had a similar pyramidal ownership structure, but their post-war successors, *keiretsu* groups, give us yet another model of ownership and control - a set of corporations is connected through an intricate network of cross-shareholdings which effectively shields it from outside take-overs. Further varieties of ownership structures and control mechanisms can, no doubt, be found elsewhere.

This leads us to pose the following questions as to the diversity of the corporation's ownership and control systems. Why is such diversity possible ? How does it emerge ? Why does it persist ? Why does it matter ?

How is it then possible that the public corporation, the most capitalistic among the supposedly universal capitalistic institutions, is capable of developing a wide variety of ownership and control systems ? Our answer to this question is straightforward.[1] We claim that it is the very legal nature of the 'corporation' that is responsible for this diversity. The law speaks of the corporation as a 'legal person' - a subject of rights and duties, capable of owning property, entering into contracts, and suing and being sued in its own name, separate and distinct from its constituent shareholders. For many centuries, philosophers, political scientists, sociologists, economists, and above all jurists and judges have debated heatedly as to what constitutes the 'essence' of this bodiless 'person'. It is not our purpose to review this 'corporate personality controversy'. All we would like to do here is to work out the implications of the fact that a corporation, which is not naturally a person, is nevertheless legally treated as one.

Our starting point is one of the most elementary facts in corporate law. If you take away a gadget from the factory of the company of which you are a shareholder, you will be considered a thief. Why ? Because a corporate shareholder is not, in fact, the legal owner of the corporate assets. It is the corporation itself, as a 'legal person', that owns these. A shareholder only owns a share of the corporation - a fraction of the company as a 'thing', separate and distinct from the underlying assets. This observation leads us immediately to the most crucial characterisation of a corporation. In contrast to sole ownerships or partnership firms, an incorporated firm is composed of not one but of *two* ownership relations - the shareholders own the corporation and the corporation, in turn, owns the corporate assets. In this two-tier structure the corporation is playing a *dual* role of a 'person' and a 'thing'. In regard to corporate assets it acts legally as a person, as a subject of property rights; in regard to the shareholders it is acted on legally as a thing, as an object of property rights. Though it is neither a person nor a thing, legally it is endowed with both personality and 'thingness'. It is this duality that lies at the root of the existing diversity in ownership structures and control mechanisms.

As we have seen, a corporation as a legal person can own things and a corporation as a legal thing can be owned by persons. This, in turn, allows a corporation as a person to own other corporations as things, in other words to become a 'holding company', opening the way to an important organisational innovation - the pyramidal system of ownership and control. At the top is a natural person who owns a corporation as a thing. But, being also a legal person, that corporation can own another corporation as a thing, which again, as a legal person, can own another corporation as a thing, and so on. This is, however, not the whole picture given that a public company can be controlled without the need to own all its shares. As long as there is a sufficiently large number of small passive investors, share ownership just slightly above 50 per cent is sufficient for control. This implies that one unit of capital can in principle control almost two units of capital, if each half buys a bare majority of the shares of a corporation with a capital close to one unit. It then follows that, as more and more layers are added to the ownership hierarchy, a capitalist at the top can multiply the controlling power of his capital by an order close to 2^n, where n is the number of lower hierarchical layers.[2] Moreover, as the footnote below indicates, if this hierarchical structure is combined with cross-shareholdings at each hierarchical

layer, the capitalist at the top can further enhance the leverage of his own capital.[3] The pyramidal system of ownership and control of present-day Italian family empires and of pre-war Japanese *zaibatsu* fits in with this picture.

Let us now turn to the analysis of another system of ownership and control. To this end we push the logic behind the holding company further and let it 'loop the loop'. If a corporation as a person can own other corporations as things, the same corporation as a person should be able to own *itself* as a thing by holding a majority of its own shares under its own name. That corporation will then be free from any control by real human beings and will become a kind of self-determining subject, at least in the realm of law. It would thus be able to grant *de facto* control rights to its managers and core employees. In reality, many countries forbid firms from repurchasing their own outstanding shares. Japan, for instance, used to prohibit share buybacks, though the ban was partially lifted in 1995. And even in countries (like America) which allow the practice, the repurchased shares generally lose their voting rights

There is, however, an important loophole. Suppose that two corporations, A and B, hold a majority of each other's shares. Corporation A as a person owns corporation B as a thing, and corporation B as a person simultaneously owns corporation A as a thing. Then, even though each corporation does not own itself directly, it does so indirectly. One might object to the practical relevancy of this by pointing to the fact that some countries impose legal limits on the extent of such cross-shareholdings. Japanese law, for instance, forbids banks and other financial institutions from owning more than 5 percent of the shares of any domestic firm. Yet, even these limits can be circumvented. If, for instance, twelve corporations get together and hold 5 percent of each others' shares (but their own), simple arithmetics [$(12 - 1) \times 0.05 = 55$ per cent] tells us that a majority block of each corporation's shares can be effectively insulated. These twelve corporations would indeed become their own owners, at least as a group, and be immune from any take-over attempts. If the group increased its members, the necessary ratio of mutual shareholdings would be further reduced.[4] It should be evident by now that the ownership structure of Japanese *keiretsu* groups fits in with this picture.

We have tried to show so far that the supposedly universal law of corporations is capable of generating (at least) two totally different systems of ownership and control. One of these allows a capitalist at the top of a pyramid to exercise control over a large amount of assets with a minimum of own capital; the other effectively shields a group of corporations from the control of any outside capitalist, thereby granting *de facto* control rights to its managers and core employees. What we have not shown yet is how such divergent organisational arrangements actually take form and, in particular, why institutional shocks can suddenly alter them.

Standard economic theory is of very little use in explaining both the birth of, and changes in, ownership or control systems. In the neoclassical framework this whole issue is ignored. In a world of perfect competition and zero transaction costs, complete contracts can be written which specify the conditions under which a coalition of agents will participate in the production of a certain good. In this framework, the assignment of control rights does not matter since the ex-ante contract leaves no room for ex-post decisions on the part of those who control the organisation.

In the 'New Institutional' (or 'New Property Rights') framework the assumption of costly and/or incomplete contracts implies that important ex-post decisions may be left to the holders of control rights. The assignment of such rights thus matters. It can be shown that the 'second best' solution is to assign them to those individual(s) whom it

would be most expensive to monitor since this minimises agency costs [Hart (1995)]. In a market characterised by zero transaction costs, this second best solution should always be attained. In this framework the re-assignment of ownership and control rights which occurred in Japan under the American occupation should not have mattered. If the new rights implied lower agency costs they would have occurred independently of U.S. policies, whereas if they implied higher costs they would have been undone by the market after the end of the occupation. In this instance too institutional shocks are irrelevant.

The relevance of institutional shocks becomes evident, however, if we move beyond these frameworks and acknowledge that, in a world in which the control of firms matters, it is inconsistent to assume the existence of a costless perfect market for control itself. Three distinct problems arise. While the first of these is relatively well known, the latter two merit a more detailed discussion.

i) Information problems. Due to asymmetric and imperfect information on who the highest-agency-costs individuals actually are, efficiency enhancing transfers of control may not take place. Indeed, the opposite could occur. Because of this market failure, institutional shocks that result in a forceful reallocation of control can make a difference;

ii) Multiplicity of organisational equilibria. The choice of 'technology' (i.e., the choice of the least-cost combination of specific physical and human capital, which are difficult and expensive to monitor) cannot be taken exogenously, but is influenced by the initial allocation of control rights. Institutional shocks, by transferring such control rights, can permanently shift the economy from one equilibrium to another.

iii) Separation between ownership and control. Since the allocation of wealth among members of a society does not necessarily coincide with that of the 'skills' needed to run an organisation, control must be separated from ownership and institutions are needed to sustain this separation. Alternative institutional arrangements (or corporate governance systems) are possible and these can achieve separation in different ways and with different effects on the allocation of rights and on the efficiency of the ultimate outcome.

2.1 Multiplicity of Organisational Equilibria

An 'organisational equilibrium' can be defined as any combination of property rights and 'technology' (in the sense given above) which has the following characteristics - with given property rights, the current technology is the most efficient available; conversely, with this technology, the current property rights are most efficient. Causation can flow from technology to property rights and from property rights to technology raising the possibility of multiple 'organisational equilibria'.[5] Thus, initial ownership conditions are likely to matter for the selection of a particular equilibrium. Owning factors will tend to choose the technology that is most likely to maintain and strengthen their control. Property rights and technology thus have a self-reinforcing character since changing one component at a time damages efficiency thereby reducing the total income available for distribution between the various parties.

Institutional shocks which change property rights, as the one that occurred in Japan after the war, can, however, move the economy from one 'organisational equilibrium' to another as the new 'ownership system' will alter the mix of agency costs. Substitution will occur towards the more intensive use of those inputs that have invested in firm-specific assets and will require little monitoring (such as, for instance,

'life-time employees'). Conversely, less intensive use will be made of inputs (such as, for instance, 'temporary workers or temporary managers') which hold no rights to the enterprise, have made little firm-specific investment, and whose efforts need to be constantly controlled. This complementarity between property rights and technology inhibits the possibility of a gradual evolution from one equilibrium to another. This, in turn, suggests that transitions are likely to be abrupt [see Pagano and Rowthorn (1995), Sect. 7].

A further crucial component of an 'organisational equilibrium' is the presence of what have been called 'network externalities'. These can be both technological and institutional. Technological network externalities [Arthur (1989)] arise from the standardisation of production processes – the more firms there are which use a particular production technique (e.g., the assembly-belt, 'just-in-time' manufacturing, or information technology) the more likely it is that the particular technique will become the dominant standard as supplying industries will concentrate their production and innovation efforts in that area. This homogenisation of technology can be paralleled by a homogenisation of institutional standards [see David (1994)]. Once a given property rights system exists, legislation, legal expertise, enforcement of contracts by courts, even customary rules of behaviour, can all be used repeatedly with little extra cost, thereby reinforcing the existing property rights system. And it is the presence of such network externalities that explains why not all the potentially efficient organisational models adopted by different firms survive – it is only those that at any time exist in sufficiently large numbers, and therefore benefit from the scale economies provided by network externalities, that will generate a coherent organisational equilibrium.

In summary, the equilibrium arises from the combination of various forces – a set of property rights, usually inherited from history, a combination of inputs with different agency costs (themselves often a function of existing property rights), and a technological and institutional framework, cemented by network externalities, that reinforces any existing set of property and production relations. Such equilibria tend to change only seldom, and then in discrete rather than continuous fashion, either because of institutional shocks that alter the legal framework or the system of property rights, or as a result of major changes in production technology (such as, for instance, the on-going switch from large- to small-scale production made possible by the application of numerically controlled machine tools). The multiple causation channels running between these different determinants, imply that once some shock occurs, it may have lasting consequences.

2.2 Separation of Ownership and Control

Arguably, it is the separation of enterprise ownership from control that has allowed the extraordinary economic development of this century. For this separation to work in practice, a solution must be found to the fundamental conflict of interest that arises between the investors who own the assets and the managers who exercise control. Mechanisms must exist that protect investors from failures on the part of managers such as the enhancement of the latters' own non-monetary benefits, their acting in the interest of their own assets, their embezzling funds, etc. In a world of uncertainty, these problems cannot be addressed by writing contracts where all wrongful doing is ruled out. Nor are mechanisms linking managerial income to the market value of the firm likely to be very effective [see Hart (1995)]. Investors must therefore be granted

monitoring powers. Since information, however, is inevitably incomplete, managers can be punished when no mistakes or abuses have been committed, or may, alternatively, go free when interference would have been justified.

A trade-off thus arises between certainty of control and the protection of investors. The harder it is for investors to monitor control, the more deterred they will be from providing finance. Conversely, the easier it is to interfere with control, the less effective control will be as a means to encourage profit-maximising behaviour by managers. Numerous alternative institutions have been developed to address this trade off – some rely on inside monitoring, some on ex-post outside monitoring, some on market pressures and some on political monitoring; some even on pure trust.

From the point of view of this paper, an interesting variant is provided by inter-firm share holdings, widespread in both Italy and Japan. In the case of pyramidal groups, controlling shareholders, by dispersing the voting rights of other shareholders, can expand their control well beyond their personal means. In Italy, where this system has been exploited furthest, for the average of existing pyramidal groups with at least one listed company and controlled by one set of family shareholders, controllers hold about 12-13 per cent of total group capital (about 5 per cent for Fiat). Alternatively, inter-firm shareholding, when it does not amount to the simple control of one firm by another, may help to consolidate managerial power – mutual corporate cross-shareholding as practiced in Japan, can allow managers with few or no shares of their own to support each other against stockholder interference.

Clearly, neither of these two systems is necessarily ideal. In the first (or 'Italian' system), managers may benefit from an internal promotion market, but their career prospects will be uncertain given the dominant role of the corporation's owners – the accumulation of firm-specific capital remains a risky undertaking. In the second (or 'Japanese' system), on the other hand, both managers and employees will invest in such firm-specific capital, but the provision of outside finance may be limited should it be felt, by banks for instance, that monitoring is insufficient. In the event, Japan was for a long time able to avoid problems of this nature and finance was forthcoming through the so-called 'main bank' system (discussed below).

3. CONTINUITY AND DISCONTINUITY IN JAPAN'S CORPORATE SYSTEM

In Japan today there are six large corporate groups, called *keiretsu* - Mitsubishi, Mitsui, Sumitomo, Fuyo, Sanwa, and Daiichi-Kangin. Though their weight has been declining in recent years, their core members still account for about 15 per cent of the assets, sales and profits of the economy's non-financial sector. Each *keiretsu* consists of a number of corporations, clustered around a main bank and connected through intricate cross-shareholdings. Table 1 shows the matrix of shareholdings among 20 core-member corporations of Sumitomo in 1995. The tightly-knit nature of the group is shown by the presence of very few vacant cells.

The three largest *keiretsu*, Mitsubishi, Mitsui and Sumitomo, are the descendants of the three largest *zaibatsu* of the pre-war period, and at least a part of the Fuyo group can also be traced back to the fourth largest *zaibatsu*, Yasuda. These four *zaibatsu* held 25 per cent of total paid-in capital of the entire corporate sector in 1946, right before their dissolution; if we include lesser ones, the *zaibatsu*'s share was as high as 35 per cent [Hadley (1970)]. In stark contrast to their post-war descendants, each

zaibatsu had a pyramidal ownership structure, with the founder family group at its top and a holding company functioning as its headquarter. The family members were in general the exclusive owners of the holding company, which in turn owned a large proportion of each of the dozen or so core corporations, distributed over a wide range of both financial and industrial sectors. The extent of ownership by Sumitomo insiders (i.e., the family, the holding company, its directors and the core corporations) is illustrated for five key companies in Table 2.

The *zaibatsu* and *keirestu* are two organisational species separated by a deep structural discontinuity. The next section will provide an account of the 'institutional shock' which destroyed the pre-war ownership structure in one stroke. What is interesting about this revolution imposed by the American occupation forces, is the divergence between intentions and consequences. It is true that the pre-war *zaibatsu* system was destroyed. But in spite of the attempt to 'Americanise' the economy, what emerged was not a Japanese copy of the American corporate system but a distinctively 'Japanese' organisation. The purpose of this section is to locate the underlying tendency in pre-war Japan that quietly swayed the course of this post-war revolution. We will see that the pre-war *zaibatsu* contained the germs of the post-war system.

The *zaibatsu* were formed and developed in Japan's early period of industrialisation. Their origins were diverse, but they all involved finance, shipping and mining. Their diversification from political merchants to industrialists began in the 1870s and 1880s. Their most notable feature around this period is their 'self-financing' nature thanks to the very lucrative activities of their core firms (usually those in banking, mining or foreign trade) [Morikawa (1992)]. This self-financing mechanism played a pivotal role in overcoming the insufficiency of primitive capital accumulation in Meiji Japan. But the transformation into real *zaibatsu* had to wait for the procurement boom of World War I during which Japan promoted its steel, shipbuilding, machinery and chemical industries. At that time, the *zaibatsu* relinquished a part of their self-financing mechanism and erected a pyramidal structure of ownership. Such a structure allowed them to control a large amount of assets with a minimum capital of their own and facilitated their entry into capital-intensive industry. Of course, the *zaibatsu*'s pyramidal structure was hardly special - it is a structure observed among family-owned conglomerates all over the world. Yet, the *zaibatsu* were *zaibatsu* because of a number of characteristics unique to them. [6]

The first and probably most important feature was the restricted nature of their family ownership. For instance, eleven Mitsui families formed a system called *Oomotokata* (meaning approximately 'the foundation') which pooled all their capital and placed it under their joint management. All investments were paid out from *Oomotokata* and all accrued profits were returned to it. In fact, the eleven families were bound by a constitution that stipulated that they should never divide the pooled capital among themselves and would only receive dividends in proportion to their fixed shares for their family expenses [Yasuda (1970) and (1982)].

It was natural that under such restricted ownership the owner families were apt to dissociate themselves from active management. Indeed, this was the second distinctive feature of the *zaibatsu* – they allowed a certain autonomy to professional managers. Of course, this autonomy was limited in the sense that major decisions were strictly screened and performance was closely scrutinised. Yet, in comparison with the owners of non-*zaibatsu* corporations in the same period, *zaibatsu* headquarters seem to have had a much longer time-horizon in the control of their managers. It appears, for instance, that the dividend ratios of *zaibatsu* corporations were both lower and less

sensitive to the variations of profit rates than those of non-*zaibatsu* corporations,[7] suggesting the presence of more 'managerial' behaviour. As a result, the internal promotion system was developed first in *zaibatsu* corporations.[8] An increasingly large number of managers and workers were hired fresh out of colleges and schools, trained on the job and promoted internally. This prepared the *zaibatsu* for entry into the heavy and chemical industries that demanded skilled workers and professional managers. And as these managers and workers accumulated firm-specific skills and know-how, they began to identify themselves as 'insiders' of the corporation and take interest in its survival and growth.

This leads to the third and last peculiar feature of *zaibatsu* – they had a constant drive for diversification. In general, family-owned conglomerates are conservative in their business outlook and tend to concentrate on commerce and mining. Yet, despite their traditional origins, Mitsui, Mitsubishi and Sumitomo all tried to set foot in almost every heavy industrial sector (Yasuda, however, remained more traditional). It is not an exaggeration to say that the *zaibatsu* took the lead in the heavy and chemical industrialisation of pre-war Japan in the 1920s and greatly benefited from the second boom in these sectors that followed the depression of the early 1930s.

Such success was, however, not without costs. First, it incited fierce anti-*zaibatsu* campaigns both from the right and the left. Second, the unabated advance of heavy industrialisation required ever larger fixed investments. Partly to appease public opinion and partly to finance the increasing demand for capital, the *zaibatsu* began to offer the shares of their key corporations to outsiders. Indeed, the lack of funds became so acute in the early 1940s that most *zaibatsu* (with the exception of Yasuda) had to open up even their holding companies to the public. In spite of these difficulties, however, the 1930s did not mark any structural divide for the Japanese economy, unlike what happened in Italy.

World War II brought much greater government interference and, in particular, forced a separation between ownership and management. The wartime government also reorganised the financial market. It divided war-related corporations into a dozen or so groups and assigned to each a single bank as the main supplier of their loan demands. Such forced clustering of corporations around a government-designated bank is said to have paved the way for the post-war formation of non-*zaibatsu keiretsu*, such as Fuyo, Sanwa and Daiichi-Kangin.

By the time defeat came, a trend towards the separation of management from ownership had clearly set in and it was this undercurrent that would be tapped by the post-war economy. Yet, too much emphasis should not be put on the continuity between pre- and post-war Japan. The *zaibatsu* were still family-owned conglomerates *par excellence* and the families fought hard to preserve their closed ownership. The birth of the truly 'Japanese' corporate system needed a sudden and significant institutional shock that would destroy the old structure.

4. AMERICA'S 'ANTI-CAPITALIST' REVOLUTION IN JAPAN

The impact of the policies followed by the American authorities in the first two years of post-war occupation was truly revolutionary, especially when compared to the conservative approach followed in Italy during the same period.[9] U.S. policies were inspired by the idea that only a 'democratic' economy was compatible with the development of a peaceful and democratic society. The hierarchical *zaibatsu* structure

was considered to be the ultimate cause of Japanese militarism - an analysis that had no counterpart in the explanation of the causes of the rise (or, indeed, the 'invention') of fascism in Italy. The fear of a possible revival of this militarism was a major motivation behind the American reformist approach. This involved the dissolution of the *zaibatsu* and the dispersion of their stock so as to prevent any undesirable concentration of economic power.

The elimination of the *zaibatsu* and the personnel purge that went with it, created the conditions for a managerial revolution, with most new managers emerging from within their companies (often with the agreement of the labour unions). In one stroke, this revolution created a promotion mechanism that was isolated not only from the succession problems typical of 'family capitalism', but also from the interference of 'outside directors' who in the Anglo-American world represent the interests of large shareholders. What was missing in the new arrangements was a system by which internal promotions could be monitored, given the great dispersion of individual shareholding. According to the American authorities, this standard agency problem was to be solved by the 'classic' means of equity finance and the creation of a market for corporate control. Yet, in the event, a drastically different system of corporate governance emerged, made up of cross-shareholding, debt financing, and a main-bank-delegated monitoring system.

Much of this happened more by accident than by design. Cross-shareholding had been explicitly outlawed in 1947 and banks, along the lines of the U.S.'s Glass Seagall Act, had been prohibited from underwriting, holding and dealing in corporate securities. And the stock market collapse of 1949 clearly threatened insider control by making take-over bids both easier and cheaper. Yet, by then, rebuilding a stable anti-communist Japan had become far more important for the occupation authorities than the implementation of an ideal 'democratic economy'. Given that the Americans were at that time engaged in a 'macro confrontation' with the central trade unions, seen to be sympathetic to the Soviet Union, they were reluctant to also upset the stability of micro relations at the firm level. Here, 'insider' managers and workers could have faced large losses of much irreversible human capital had outsiders, not bound by any forms of 'implicit' contracts, been allowed to bid for take-overs.

America's turnaround maent that much of the legal framework introduced at the outset was made ineffective. Take-overs were resisted by share price manipulations not dissimilar to 'company buyouts', even though these were not allowed under Japanese law. The sale of the remaining *zaibatsu* assets was postponed and, in the process of maintaining stock prices, shareholding by institutions such as insurance companies and even banks was not only permitted but also encouraged. Cross-shareholding became possible and helped stabilise the power of top management against the risk of take-overs. While in Italy cross-shareholding had marked the extension of the hierarchical control on managers by family capitalism, in Japan it was to guarantee their autonomy from shareholders.

In addition to cross-shareholding, a crucial role in this reconstruction of a managerial version of the *zaibatsu* was played by the banks. The system that emerged, known as the 'main bank system', involved the delegation of monitoring to a single bank. This provided a way of solving the problems arising from the separation between ownership and control – it safeguarded the interests of the individuals providing finance, yet did not upset the internal promotion governance system and its great potential for accumulating firm-specific human capital. The implicit contracts, so prevalent at least in the large Japanese firm, imply, however, a 'truncation' of

shareholder rights. Job security means that owners cannot employ a firm's assets without at the same time employing the firm's managers and workers. In other words, the Japanese blend of capitalism has involved the 'unbundling' and redistribution of the right to dispose of physical assets that belong exclusively to shareholders in family or securities based governance systems. The interaction between employee rights and the accumulation of their 'high agency cost' human capital has produced one of those multiple self-reinforcing organisational equilibria discussed in Section 2 above. Banks have been an essential ingredient in this mechanism – they provided the ex-ante, interim and ex-post monitoring that are performed by different agents in securities based markets, they did not in general interfere with the internal promotion system and they intervened directly only in cases of financial distress.

Of late, the system has come under attack as initiative has passed from the providers of funds (the banks) to borrowers (the firms) who have taken the formers' willingness to lend for granted. As most dramatically shown in the bubble of the late 1980s and its aftermath "the main bank system as a social device for corporate monitoring appears to be under severe test" [Aoki (1994), p.137]. Despite these difficulties, however, any reversal to a more Anglo-American system of governance seems very unlikely because "a quantum leap to the securities-based decentralised financial system, particularly the establishment of an active market for control, may be incompatible with other institutional features of the Japanese economy" [*ibid.*, p.138], in particular the implicit contracts between workers and managers that involve job security and internal promotion in exchange for significant investment in highly specific human capital and for effort that is difficult to monitor.

5. CHANGES IN ITALIAN CORPORATE GOVERNANCE BETWEEN THE WARS

Italy was a typical late comer, industrialising only at the end of the 19th century. The country was traditionally marked by shortage of capital, scarcity of raw materials and the lack of a large market (due to the historical division into small, independent states).[10] The model of development that emerged after unification was centred on heavy industries, sustained by public procurements, protected by high tariff barriers,[11] and financed by so-called 'mixed banks' (some founded with German capital). These institutions operated through a *mix* of short-term credit and equity subscription. In the framework proposed by Gerschenkron (1962), Italy's mixed banks acted, at first, as a *substitute agent* to overcome the scanty primitive accumulation of capital, and later as the channel by which diffuse, fragmented savings that the holders had no intention of putting into illiquid form could be funnelled into equity that would otherwise have had great difficulty in finding buyers.

The natural corollary to the prevalence of debt capital was the failure of the stock market to take off. Following the turn of the century it was the mixed banks themselves that sponsored its development, with a view to making their equity shares more liquid and more easily disposable. With an inadequate stock market and stable, non-competitive relations between banks and industry, the groundwork was laid, between 1900 and 1913, for an intensive concentration of control and the formation of corporate family-based pyramidal groups. Two major changes intervened as a consequence of the large profits made from military procurements during World War I. First, the main banks acquired significant equity stakes in many industrial sectors and

so from a 'German-style' moved toward a 'Japanese-style' of banking. Second, healthier corporate finances powerfully spurred further concentration, especially by mergers and buyouts. In these years, the power relations between banks and industrial corporations were inverted, and pyramidal groups now made take-over bids for the leading banks, although unsuccessfully.

The 1929 stock market crash thus hit the economy at a time of pronounced industrial and financial concentration. The intermingling of credit and industrial capital, the underdevelopment of the stock market, but above all the creation of corporate groups based on cross-shareholdings, made the crisis particularly acute, hindering adjustment and fostering domino effects. A tight monetary policy and the decision to defend the lira's external value amplified the destructive nature of the shock. The leading banks found it simply impossible to liquidate their assets, which consisted primarily of equity holdings in the crisis-torn industrial groups. This paved the way for the most sweeping reallocation of ownership in the history of Italy as the government simply took over large segments of the private sector.

The refinancing of the troubled banks was accomplished by a buy-out of their industrial holdings which were transferred to a new agency created especially for this purpose in 1933 - the Institute for Industrial Reconstruction (IRI). IRI took over the entire equity capital of the mixed banks (or more than 21 per cent of all the equity capital of limited companies existing in Italy at the time).[12] The decision not to reprivatise reflected in part the fascist regime's desire to use public corporations as an instrument of industrial policy, but was primarily due to difficulty in finding private buyers for so many public firms [Cianci (1977)]. Meanwhile, industrial concentration in the rest of the private sector had increased notably - by 1936 fewer than 1 per cent of all Italian companies accounted for half the total share capital [Aleotti (1990)].

The creation of IRI was accompanied in 1936 by a banking reform which prohibited banks from holding equity participations in industrial companies and required maturity specialisation in their lending activities, assigning short-term credit business to ordinary banks and medium- and long-term credit to special institutions. Thus, the German-style mixed bank vanished from the scene. But the Italian solution, unlike the American case, was not intended to relaunch the stock market as a means for attaining a broader ownership base; the dominant logic continued to see the banks as the linchpin of industrial finance.

For Italy, the crisis of the 1930s thus represents a truly structural divide, with an outright transformation of the previous model of corporate governance. With the massive intervention of the state, Italy moved from an ownership pattern based on the corporate family group and mixed banks (similar in some ways to the German model) to one centred on the corporate group but subdivided into state-owned and private groups controlled by families. A characteristic feature of the Anglo-American model of corporate control was introduced, namely separation of banking and industry. The bank as a controller, mandated to oversee the rehabilitation and restructuring of firms in crisis, disappeared. The resulting vacuum was partly filled by the state holding company, which was repeatedly required to take over firms in financial distress. Japan's experience was very different. The negative impact of the crash was reduced by a devaluation of the exchange rate and the Japanese *zaibatsu* were powerful enough to prevent any major state encroachment on their power

6. CONTINUITY AND CHANGE IN ITALIAN CORPORATE GOVERNANCE IN THE POST-WAR PERIOD

The Italian model of corporate governance that followed the restructuring of 1933-36 was based on two major actors - family-controlled pyramidal groups and state-owned pyramidal groups. The end of the war, the liberation from fascism, the institution of a republic, and the drafting of a democratic Constitution did little to alter the institutional structure of Italian capitalism. Most of its negative aspects were perceived by the Economic Committee of the Constitutional Assembly, but no reforms were implemented [Barca (1994), Ch.VIII].

Between 1943 and 1947 the Anglo-American armies were a powerful actor on the Italian political scene. Churchill wanted to preserve the traditional ownership relationships in Italy, was not interested in purging the country from fascist influences, and considered the monarchy as the preferred institutional solution for the future Italian state. The American point of view was initially quite different. The necessity of accelerating the process of reconstruction and the emergence of the cold war induced, however, the Allies to support a quick return to the traditional system. Two other factors on the Italian side militated in the same direction - the Communist Party, felt that existing institutions should at first be retained in order to allow rapid reconstruction; and a similar position was held by a small group of managers who emerged into positions of power in state-owned companies and enjoyed preferential links with the Americans [Barca (1997)].

As was shown in Section 4, the American attitude in Japan had clearly been one of *zaibatsu*-busting. The different approach followed by the Americans in Italy can be explained by taking into account two major factors - the much lower perceived risk of a future revival of militarism in Italy (a risk that was reckoned to be relatively high in Japan and Germany) and the need to put in place a robust economic recovery in order to avoid a possible coming to power of the communists (a threat strongly feared in Europe but absent in Japan).

As a result of these various factors state-owned companies were not dismantled, the structure of family corporate groups was not changed and no major reform was devised. Following a very short phase of coalition government that included the Communist Party, from 1947 to 1962 Italy was ruled by a series of of governments run by the Christian Democrats and by a few small centre parties. During this 'liberal' phase, Italy signed the Bretton Woods agreements (1947), received financial transfers under the European Recovery Program (1948),[13] and joined the NATO alliance (1949), but little was done in terms of traditionally liberal reforms - no antitrust laws, no reform of the commercial code, no steps toward a more developed financial market. On the other hand, the clear choice in favour of European integration and free trade permitted the full unfolding of the development potential inherent in the model of corporate governance installed between 1933 and 1936.

Indeed, it can be argued that in the first 10 to 15 years after the end of the war some features of that governance framework suited very rapid development. State control gave a new generation of managers, broadly untainted by involvement with the fascist regime (and, in some cases, known opponents of it), the chance to acquire control of large enterprises; a sense of mission, linked to the post-war reconstruction climate, helped to make up for the monitoring failures of the model; while many of the strategic choices were clear-cut (providing the country with an adequate and stable supply of energy, developing and modernising the steel industry, building a highway

system, etc.). Though there had been a debate on whether or not to maintain state-owned enterprises in the late 1940s, the position that won the day considered them as an effective tool for speeding up reconstruction [Bottiglieri (1984)]. They were also seen as a means to ensure a proper separation between ownership and control, probably one of the few available in a fast developing country without a real financial market. The structure of corporate governance in this sector became one in which management had effective control, while the oversight exercised by the political power structure was lax. It was management, not the political tutors, who took the decision to rebuild and renovate the industrial apparatus in steel, shipbuilding and engineering, and to create a modern infrastructure.

Two major factors explain the satisfactory performance of the state-owned groups in the years going from 1945 to the late 1950s – the public managers' targets were relatively simple (reconstruct the economy and foster growth, build the basic transport and energy infrastructure, and establish an engineering sector based on home steel production), and the ruling centre-right parties were strongly competing with the left to prove that capitalism was capable of bringing about fast development [Barca and Trento (1997)]. Both these conditions disappeared at the end of the 1950s. An attempt to introduce some tighter monitoring led to the creation of a Ministry for State Shareholding. This imposed multiple targets (e.g., contest monopolies, promote new industrial relations, sustain employment, foster Southern economic development) many of which could not be simultaneously fulfilled. And the market for political control failed, as the Socialists joined the government, while the politicians increasingly saw state-owned firms as a source of funds for their parties and of jobs for themselves or their acolytes.

Despite these later problems, state-ownership had enabled some separation between ownership and control unlike what happened in private large firms. Fluidity in the former sector contrasted with immobility in the latter. Extraordinarily high profits (made possible by real wage rising more slowly than productivity, by the weak state of unions and by relatively high unemployment) provided the finance for very rapid growth. But this anomalous state of affairs came slowly to an end at the turn of the 1950s. Tensions arose in the labour market, wages rose very quickly and, by 1962-63, the share of self-financing had sharply declined; after a brief period of truce, labour market conflict resurfaced from the late 1960s onwards and profits were kept relatively low until the early 1980s. A growing need arose therefore for external capital and that, in turn, strengthened the pressures for a much more intense use of pyramidal groups. A growing role came to be played by Mediobanca, a merchant bank founded in 1946,[14] which, by holding strategic shares in private companies, on many occasions allowed founding families to maintain control. It could be argued that Mediobanca had come to play a role not dissimilar to that of Japan's main banks, though it mostly specialised in ex-post monitoring, i.e., in devising rescue and restructuring plans once incumbent entrepreneurs had failed to deliver satisfactory economic results.

How intensely pyramidal groups have been used as a means to separate ownership from control comes out clearly from Table 3 which reports data for three major corporations, Fiat, Pirelli and Falck in 1993 (and 1947). At a more aggregate level, recent research on the current ownership structure of Italian industry shows that in 1993 the average degree of leverage was about 8 for private non-banking holders of control [See Barca (1995) and Barca *et al.* (1994)].

This substantial increase in leverage has been achieved by expanding the group structure and by diluting the capital held by the family or by companies in the higher

ranks of the group. Dilution has undoubtedly led to some weakening of family control, especially in those group companies which, by being closer to the core business, are clearly preferred by external shareholders. Table 4 illustrates this weakening. In 1947 the Agnelli and Falck families held an extraordinarily high proportion of the group's shares; only the Pirelli family had no majority of votes in the key company Pirelli Spa, but control was then exerted through the support of a set of well-established households, mostly from the same town (Milan) and cultural roots. In 1993 the founding families still held large blocks of shares but these were certainly not sufficient to exert stable control, nor was financial support any longer provided by wealthy rentier-households.

A new ownership structure has thus arisen, at least in these companies, made up of founding families, financial and industrial firms. The latter play a role in Pirelli and Falck through cross-shareholdings, in a way reminiscent of the Japanese case. In Fiat the supporting role is played only by banks and insurance companies via shareholding and through the threat of 'white knight' action in case of take-overs. This suggests the presence of a tripolar equilibrium in which control is exerted through some agreement or compromise between the founding family, the top manager and the leading financial institution (namely Mediobanca). The instability of such arrangements might well explain the strong pressures arising today for a reform of Italian corporate governance.

A further, and very important, feature of Italy's industrial structure is the presence of a vast network of small-scale firms whose growth was powerfully reinforced by the crisis that hit the larger corporations from the 1960s onwards. In many areas of Central and Northern Italy so called 'potential industrial districts' were slowly emerging in the 1950s and 1960s [Brusco and Paba (1997)] sustained by informal financing channels (especially family savings) and by technology and human capital accumulation. In addition, Central and Northern Italy also enjoyed a tradition of civic culture conducive to micro-industry development. However, it was only with the 1960s crisis of governance in large firms, that these 'potential districts' developed into fully-fledged ones. The 'institutional shock' provided, in particular, by the labour conflicts of the decade and by the adoption, in 1970, of a very binding Workers' Statute, led large companies to decentralise some of their activities. Skilled workers were encouraged to set up their own firms since these, because of their small size, could be isolated from the conflicts impairing productivity in the larger corporations.

It was fortunate for the Italian economy that this was happening at a time when the world was beginning to face the consequences of the advent of information technology and programmable machines. These 'technological shocks' made small firms based on 'flexible specialisation' competitive on world markets. The rapid growth of this small firm sector created conditions under which individuals could enjoy the rights related to ownership of their firms, had the incentives to develop the specific skills that were necessary for their development and, having developed these skills, often became very efficient owners. The institutional shock of the 1960s had an important role in bringing about the virtuous circle characterising this self-reinforcing organisational equilibrium. Technological changes were allowing large sectors of industry to produce economically on a small scale and Italy was one of the few countries that fully exploited this opportunity. While (or, perhaps, because) the organisation of governance in the larger firms was stuck in a form of family capitalism characterised by social immobility and class conflict, the governance system characterising small firms became a 'model' to be studied and imitated in other parts of the world.

7. CONCLUSIONS

The crucial years after World War II led to a parting of the way between Japanese and Italian experience. Family control over pyramidal groups was eliminated in Japan, and cross-shareholding adopted as a tool to isolate management from owner control. External supervision by the main bank aimed to prevent possible abuses by the managers themselves. In Italy, by contrast, there was no 'managerial revolution'. If anything, family control over pyramidal groups was strengthened. State ownership was also largely used and financial crises were often resolved with injections of public funds or nationalisation.

Seen from a Japanese perspective, the Italian experience shows that creating a managerial form of capitalism out of the pre-war *zaibatsu* was by no means inevitable. The new organisational equilibrium of the corporate sector that emerged after the war in Japan clearly needed an institutional shock that was absent in Italy at the time. Seen from an Italian perspective, the Japanese post-war settlement shows that an alternative model of corporate governance could have been pursued by the Allies. Unfortunately, perhaps, this was not to be and Italy's large private firms even today still look like an almost stronger version of Japan's pre-war *zaibatsu*.

More generally, comparing the Japanese and Italian models shows that within the same legal framework characterising corporate capitalism it is possible to have very different 'organisational equilibria' which, in turn, depend on the 'institutional shocks' characterising the histories of the two countries. The very same institutions, such as inter-firm shareholding and main banking (if one wants to classify Mediobanca as a 'main bank' serving the corporate sector)[15] assumed a very different meaning in the two countries. In Japan they were the means by which 'managerial capitalism' could organise itself and managers could achieve their autonomy. By contrast, in Italy the same institutions contributed to the stability of 'family capitalism' beyond the limits of the capitals of the family and helped the local *zaibatsu* to strengthen their control.

Post-war Italy and Japan may be interpreted as two extreme cases defining an interval within which other corporate governance models are likely to fall. In this way, analysing these two countries' experiences may help us understand the many forms under which the same legal genus of capitalism manifests itself.

FOOTNOTES

- Part of this paper was written while the second author visited the Dipartimento di Economia Politica of the University of Siena under a JSPS scholarship. He is grateful to the first institution for its hospitality and to the second for its financial support. The usual disclaimers apply. The authors would like to thank Andrea Boltho for many valuable comments and suggestions.

1. The following discussion on the diversity of corporate structures draws heavily on Iwai (forthcoming). The discussion of the Italian pyramidal ownership structure is, however, new.

2. For the sake of simplicity we are assuming that all corporations, except those on the bottom layer, function only as holding companies. If they also engage in real economic activities, using part of their capital as a productive asset, then this 'multiplier' has to be adjusted downwards.

3. Let M be the number of corporations each holding company controls and let s be the ratio of the shares mutually held by corporations controlled by the same holding company. If we assume that all corporations are of equal size and ignore mutual shareholdings between firms controlled by different holding companies, then the upper bound of M can be calculated as: $1 = [\frac{1}{2} - (M-1)s]M$, or $M = \frac{1}{2} + \frac{1}{4} + (\frac{1}{4} - \frac{3}{4}s + 1/16s^2)^{\frac{1}{2}}$, as long as $(M-1)s < \frac{1}{2}$ (for the sake of simplicity we assume M to be continuous). The upper bound of the control/ownership leverage ratio of the top shareholder can then be calculated as M^n. Note that when $s = 0$, or there is no cross-shareholding, M becomes equal to 2.

4. If we use the same notation as in footnote 3, the lower bound of the number of corporations, M, which can insulate a group from outside take-overs by cross-shareholding, is given by the formula: $(M - 1)s = \frac{1}{2}$, or $M = 1 + \frac{1}{2}s$.

5. The formal properties of organisational equilibria are examined in Pagano (1993) and in Pagano and Rowthorn (1994) and (1995).

6. The following characterisation of *zaibatsu* owes much to Morikawa (1992).

7. According to Table 9 of Okazaki (forthcoming). Miyajima (1995) also reported that the turnover rates of *zaibatsu* managers appeared to be less sensitive to short-run business fluctuations than that of non-*zaibatsu* managers.

8. As a matter of fact, even during the Tokugawa period, many merchant families, including Mitsui and Sumitomo, had developed a mixture of a family-based and managerial system (the so-called *banto* system). *Banto* were experienced and loyal managers who began their careers as living-in employees at an early age, climbed up the internal promotion ladder and were treated as quasi-members of the family. Indeed, the authority of *banto* could be such that improvident family heads could be forced into retirement by them and substituted with the bright son of a distant relative or, more often, by a promising young employee who, even without blood ties, would be adopted as family head.

9. Indeed, the radical nature of these reforms was vividly described by U.S. Senator Knowland in a end-1947 speech to Congress: "If some of the doctrine [applied in Japan] had been proposed by the government of the U.S.S.R. or even by the Labour government of Great Britain, I could have understood it" [quoted in Livingstone *et al.* (1976), p.113]. Similar dismay at these "revolutionary" policies was at the time being expressed in the December 1947 issue of the magazine *Newsweek* [ibid.].

10. In the words of a great Italian thinker of this century: "The Italian economy was very weak [and] there was no large and powerful economic bourgeoisie; instead there was a great number of intellectuals and petty bourgeois, etc. The problem was not so much to free already developed economic forces from antiquated legal and political fetters as to bring into being the general conditions for these economic forces to develop along the same lines as in other countries" [Gramsci (1975), p.57].

11. As Gerschenkron (1962) noted, and as has been confirmed by more recent studies [Federico and Toniolo (1991)], protectionism was, in fact, misdirected, favouring wheat production and basic industries with strong lobbying powers but poor long-term prospects.

12. 100 per cent of Italy's defence-related steel and coal-mining, 90 per cent of its shipbuilding, 80 per cent of shipping and of locomotive manufacture, 30 per cent of electricity generation, etc. In addition, IRI also controlled the three largest commercial banks, etc. [Castronovo (1995)].

13. Between 1948 and 1952 Italy received transfers of almost $ 1½ billion, equivalent to 11 per cent of total Marshall Plan aid to Western Europe [Romeo (1991)].

14. The 1936 reform had produced a banking system in which commercial banks were barred from medium- and long-term lending. At the end of the war Mattioli, the chairman of Banca Commerciale, sponsored the formation of a new institute mandated to offer five-year credit to firms. By 1946, this project led to the creation of Mediobanca, an institution originally intended to sustain the development of small firms, but which, over the years, transformed itself into a true investment bank for the country's leading private enterprises.

15. This similarity should not, however, be carried too far [see De Cecco and Ferri (1996)].

TABLE 1

Cross-Shareholdings among 20 Core Corporations of the Sumitomo Group, 1993
(percentages)

HOLDER / ISSUER		S. Trst Bnk	S. Life	S. Mar Insr	S. Corp	S. Coal Ming	S. Cons	S. Fore	S. Che	S. Bake	Jap Glas	S. Cem	S. Met	S. Met Minng	S. Ligh Metals	S. Elect	S. Heav Ind	NEC	S. Real Estte	S. Stor	TOTAL
S. Bank	----	2.8	6.1	1.8	1.7	0.0	0.0	0.1	1.1	0.2	1.1	0.2	1.3	0.4	----	0.9	0.2	1.1	0.1	0.2	19.3
S. Trust Bank	3.3	----	4.2	1.5	2.5	0.0	0.0	0.2	1.2	0.5	1.4	0.5	2.3	1.2	0.0	1.7	0.4	2.8	----	1.5	25.3
S. Life	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----
S. Marine Insr	4.4	6.3	4.6	----	2.3	0.1	0.1	0.1	1.2	0.3	1.2	0.3	1.0	1.0	----	0.9	0.6	1.8	0.1	0.8	27.1
S. Corporation	4.8	5.8	5.1	2.9	----	0.1	0.0	0.3	1.6	0.3	1.0	0.4	2.7	1.7	----	1.0	0.8	3.7	0.1	0.4	32.8
S. Coal Ming	4.8	4.0	2.5	2.4	3.4	----	0.8	----	2.5	----	0.4	1.0	4.9	2.1	----	----	1.7	4.2	----	0.2	34.8
S. Construct	4.4	2.9	5.8	1.4	----	3.1	----	0.6	1.1	----	0.6	2.3	----	3.3	----	1.0	----	----	0.4	0.2	27.0
S. Forestry	4.3	7.0	7.2	----	2.6	0.1	0.4	----	----	0.4	----	0.3	----	7.3	----	----	0.2	1.4	----	----	31.1
S. Chemical	4.7	5.3	8.9	1.4	1.3	0.0	0.1	0.1	----	0.1	0.4	0.3	----	0.2	----	0.3	0.2	0.5	0.0	0.2	23.9
S. Bakelite	4.8	7.1	5.9	1.3	2.1	----	0.3	0.4	21.6	----	0.3	0.5	0.9	----	----	0.3	----	1.3	0.4	0.1	48.2
Japan Glass	5.0	6.8	5.5	2.3	1.6	----	0.1	0.1	1.2	0.5	----	0.8	----	0.3	----	----	0.6	----	0.5	0.2	25.6
S. Cement	4.6	5.4	8.5	1.0	2.3	1.9	0.6	0.4	1.1	0.4	0.8	----	1.0	1.1	----	0.3	2.2	0.8	0.2	----	32.8
S. Metals	4.0	6.2	5.5	----	1.6	0.1	0.0	----	----	0.1	0.1	0.1	----	0.5	----	0.3	0.2	0.6	0.0	0.1	19.2
S. Metal Ming	4.6	10.0	4.8	1.5	2.5	0.1	0.2	0.3	----	----	0.3	0.7	0.8	----	----	1.0	0.3	2.4	0.1	0.1	29.6
S. Light Metals	4.7	5.8	4.0	1.4	4.0	----	----	----	1.3	----	----	0.4	23.3	0.9	----	0.8	0.6	0.8	----	0.2	48.2
S. Electric	3.8	5.4	7.0	----	0.8	0.0	0.0	----	----	----	----	0.1	----	0.8	----	----	0.1	2.4	----	0.1	20.6
S. Heavy Ind.	4.6	6.4	7.8	2.5	3.0	0.1	0.1	0.1	----	----	0.5	1.3	----	0.7	----	0.7	----	----	----	0.3	27.9
NEC	5.0	4.8	6.8	2.6	2.2	0.0	0.0	0.1	0.4	0.1	0.2	0.1	0.7	1.0	----	2.2	0.1	----	0.0	0.2	26.4
S. Real Estate	3.4	5.1	2.3	1.6	0.5	0.0	0.2	----	0.4	0.2	0.7	0.1	0.5	0.3	----	0.5	----	0.7	----	0.5	17.2
S. Storage	4.7	6.7	8.4	5.4	2.4	----	0.3	----	1.5	0.1	0.8	----	2.2	----	----	0.9	0.9	3.9	0.3	----	38.5

Note: 0.0 means a very small percentage, and ---- means no holding or not available.

Source: Toyo Keizai, *Kigyo Keiretsu Soran 1995 (Survey on Corporate Groups, 1995)*, Toyo Keizai Shinposha, Tokyo1995.

TABLE 2

Composition of Insider Ownership for Five Key Corporations of the Sumitomo *Zaibatsu*, 1937
(percentages)

Owner:	Sumitomo family	Sumitomo Holding Co.	Directors of Holding Co.	Group companies	Total insiders
Ownee:					
Sumitomo Bank	20	35			55
Sumitomo Trust Bank	2			37	39
Sumitomo Life Insur.	70	26	4		100
Sumitomo Chem.Eng.	10	23		5	38
Sumitomo Metal Eng.	12	27		9	49

Source: Y.Sakudo, *Sumitomo Zaibatsu Shi (History of Sumitomo Zaibatsu*), Kyoiku Sha, Tokyo 1979.

TABLE 3

Control-Ownership Leverage in Three Major Italian Groups[a]

	Fiat	Pirelli	Falck
1947	1.9	8.9	2.5
1993	17.9	52.6	4.4

a. Ratio between group's net share capital and share capital held by founding family.

Source: Barca *et al*., (1997).

TABLE 4

Main Shareholders of 'Key Companies' of Three Major Italian Groups, 1947 and 1993
(per cent of total, ordinary and preferred, voting capital)

Fiat group		Pirelli group		Falck group	
Shareholders	Shares	Shareholders	Shares	Shareholders	Shares
FIAT, SPA (1947)		PIRELLI, SPA (1947)		A.F.L. FALCK (1947)	
Agnelli family	*70.2*	*Pirelli family*	*12.9*	*Falck family*	*73.1*
Persons (37)	*10.5*	*Persons (75)*	*23.2*	*Persons (40)*	*11.8*
Vatican	*0.4*			*Vatican*	*0.7*
Banks (10)	*2.8*	*Banks (4)*	*2.6*		
Non-banking firms	*2.5*	*Non-banking firms (11)*	*2.9*	*Non-banking firms (3)*	*14.4*
"Others" (2207)	*13.6*	*"Others"*	*58.4*		
FIAT SPA (1993)		PIRELLI & C. (1993)		A.F.L. FALCK (1993)	
Agnelli family	*24.8*	*Pirelli family*	*8.7*	*Falck family*	*32.3*
via IFI*	18.1	*Banks*	*16.4*	*Banks*	*4.8*
via IFIL*	1.9	Mediobanca*	10.0	IMI	4.8
via Fimepar	4.8	Banque Indosuez	6.4	*Non-banking firms*	*28.3*
Banks	*11.0*	*Non-banking firms*	*32.9*	Italmobiliare* (Pesenti)	11.8
Istituto San Paolo	3.4	GIM* (Orlando)	6.7	SidercaTechint* (Rocca)	5.9
Mediobanca*	3.2	SMI* (Orlando)	3.6	Ilva* (IRI)	4.9
Deutsche Bank*	2.4	Gemina*	5.3	Finarvedi* (Arvedi)	4.7
Banco di Roma	2.0	SAI* (Ligresti)	5.0	Sofinda* (Danieli)	2.9
Non-banking firms	*4.8*	CAMFIN*(Tronch. Provera)	5.0	Pirelli & C.*	2.0
Assicurazioni Generali*	2.4	CIR* (De Benedetti)	4.4	Ras*	1.0
Alcatel *	2.0	SOPAF* (Vender)	2.9	*"Others"*	*34.6*
"Others"	*59.4*	*"Others"*	*42.0*		

Note: Numbers in brackets show the number of shareholders when known; asterisks indicate that among these shareholders there is an agreement on voting coordination and a mutual pact bot to transfer shares to third parties (both these are legal under Italian commercial law).

Source: Barca *et al.* (1997).

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