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Beyond the "silo view" of strategic management and corporate governance: evidence from Fiat, Telecom Italia and Unicredit

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Abstract While corporate governance and strategic management have for a long time suffered from artificial separation and, therefore, generally been tackled in a secluded manner, their combined organizational impact makes them stringently related to one another in the firms' evolution. In this paper, we argue that, transcending the "silo view" of corporate governance and strategic management, time has come to acknowledge that, depending on circumstances and time periods, within a firm is possible to detect the relative dominance of corporate governance over strategic management, rather than the leadership of strategic management over corporate governance. Drawing on a *contingency* approach, we dissect the relationships (and the mechanisms that control it) between the strategic function (i.e., which defines the firms' strategy and supervisions its implementation) and the governance function (i.e., the congruence assessment between the firm strategy selected and the interests of the ownership and of other relevant stakeholders represented in the board of directors and the effectiveness appraisal of the entrepreneurial action). Then, by performing a thorough retrospective qualitative analysis of three relevant case-histories of Italian firms (Fiat, Telecom Italia and Unicredit) operating in three different industries (automobile, banking and telecommunications), we surmise that, either in corporate governance (board) oriented or in

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strategic management (CEO) oriented companies, the 'real' problems arise when the quality of corporate governance or strategic management is poor. Interestingly, we eventually suggest to adopt a *value-based* approach to the relationship between corporate governance and strategy that may fruitfully complement the contingency perspective taken at the onset of the work.

Keywords Corporate governance · Strategic management · Contingency view · Qualitative study

1 Introduction

Corporate governance and strategic management are currently two essential chapters of any standard business management handbook or textbook. Nonetheless, the crucial relationship between these two complementary aspects of economic and societal life has not yet been wholly investigated, detailed and, overall, explained. Notwithstanding the received body of studies, respectively, in the corporate governance field and in the strategic management domain, current business practice brings to light a myriad of intriguing cases and instances in which the relationship between the entrepreneurial role (or strategy formulation and execution) and the governance function underscores the existence of uncertain situations and dangerous juxtapositions, which can turn out hazardous conflicts of interest suitable to jeopardize the virtuous running of the firms' value creation process as a whole.

Why is it so? In our understanding, the basic reason why the fundamental relationship between corporate governance and strategic management has not been heretofore explained in detail lays in the condition that corporate governance and strategic management have suffered from *artificialseparation*. This artificial separation has been driven by the "silo view" of corporate governance and strategic management. According to the silo view, the cognitive mindset of the actors leads them to look only at one aspect of the reality in complete isolation to the other. In fact, the members of silos view the opinions of those outside the silo as being of no value and therefore deem them negligible.

To overcome this condition, we aim to show that, while corporate governance and strategic management have suffered from artificial separation, they need to be observed in stringent combination in the firms' evolution. This circumstance calls for igniting intense conversation and communication between corporate governance and strategic management (and their specific communities) with the intention of closing the chasm between the two relevant firm functions. Accordingly, time has come to detect more closely the fundamental *interfaces* of the two relevant functions. It is in fact possible to hypothesize that, depending on the different circumstances and time periods, within a firm (or interorganizational) context there may be the relative dominance of corporate governance over strategic management, rather than the headship of strategic management over corporate governance. In addition, we purport that, as in any human creation and application, theories and practices are not good or bad by definition for blissful intervention. There exist good and bad theories and good and bad practices (Ghoshal 2005) and they require to be assessed on the basis of their underlying value-based frame of reference.

The novelty of our perspective dwells in that it promises to be able to capture the underpinning of the dynamic evolution of the relationship between strategic management and corporate governance. This is tied to the contours of the two key elements that, in the initial phases of business development, are strictly combined. In fact, in the early entrepreneurial stage (i.e., new ventures) ownership, entrepreneurship and management are usually concentrated in the same individuals. Afterwards, in the ensuing stages of the firm evolution strategy and governance tend to follow relatively separate routes while keeping, in some cases, various degrees of interconnection.

To manage effectively and efficiently the progressive separation between the strategic and the governance function, considerable importance is taken by the institutional, normative and cultural contexts. Different contextual frameworks typically match up with different typologies of the capitalist regime. For instance, we can speculate on the role of the financing modalities (banking system vs. market ruling), on the choices concerning the efficiency and transparency of the financial markets, on the proclivity of the legal system and the commercial practice (e.g., the German-like double board system, the different kinds of shares, and so on).

According to a qualitative research design, we will match our arguments with the analysis of three significant case studies regarding leading Italian companies along a period of more than 80 years. One of the companies included in our sample is in the financial services or banking business, where typically (but not necessarily) governance problems prevail (i.e., Unicredit), while the other two, i.e., Fiat and Telecom Italia, operate in industry environments (i.e., automotive and telecommunications), where phenomena such as globalization, technological innovation, and changes in consumers’ attitude, lead to an alternate prevalence of corporate governance and strategic management. We acknowledge that in some industries and historical phases where external regulation plays a fundamental role (such as airline, banking and insurance) the results are, at least to a certain extent, more predictable (see Unicredit and also Kaczmarek et al. 2012).

The remainder of the article is organized as follows. Section two provides a concise review of the existing literature relevant to this study that, rather than on the relationship *between* the two basic items, seems more focused, respectively, on corporate governance *or* on strategic management. Section three thoroughly scrutinizes the relationships (and the mechanisms that control it) between the strategic function (i.e., which defines the firms’ strategy and supervisions its implementation) and the governance function (i.e., the congruence assessment between the firm strategy selected and the interests of the ownership and of other relevant stakeholders represented in the board of directors and the effectiveness appraisal of the entrepreneurial action). On the ground of a multi-year qualitative research project design that we specifically report in section four, section five systematically examines the evolution of corporate governance and strategic management in three business cases, extracted from the experiences of relevant Italian firms (Fiat, Telecom Italia and Unicredit) operating, respectively in the automobile, banking and telecommunications industries. In section six, the comparative analysis of the three cases comes to complement the appreciation of the issue at hand, helping to eventually distil a few intriguing implications for theory building and managerial practice.

2 Background literature

Corporate governance and strategic management have lately become exceptionally popular subjects in the business and management literature. The considerable amount of scholars and researchers who are currently involved in investigation programs in these fields has produced two substantial bodies of academic literature, respectively, either in the corporate governance field (Jensen and Meckling 1976; Williamson 1984; Jensen and Warner 1988; Hart and Moore 1990; Roe 1994; Zingales 1998; ECGN 1997; Coffee 2000; Monks and Minow 2001; Tirole 2001; Denis 2001; Charreaux and Desbrières 2001; Jensen 2002) and in the strategic management domain (Porter 1985; Rumelt et al. 1994; Teece 1990; Teece et al. 1997; Harrigan 2003; Barca 2003; Bromiley 2004; Capasso et al. 2005; Hoskisson et al. 2004; Barney 2006). Nonetheless, also owing to the different educational backgrounds of the researchers and communities involved (e.g., financial economics vs. management and sociology), the two relevant areas of research have mainly developed in isolation, originating what we have labelled as artificial separation between corporate governance and strategic management. The silo view of governance and strategy has notably hindered the possibility to start a fertile a dialogue between the two main bodies. For instance, while there has traditionally been little trade and interaction between the academic communities in finance and management, the *Strategic Management Society*, the most important global professional body of in the strategy realm, has presented for more than 5 years two *different* interests groups, one mainly dedicated to corporate governance and the other one to competitive strategy. Accordingly, only a limited number of outlier contributions have focused on exploring the crucial relationship between these two important aspects of the firms' structure and processes and, in fact, they converge on rather specific aspects of the relationship (Demsetz and Lehn 1985; Denis and Sarin 1999; Berglof and Bolton 2002; Daily et al. 2002, Giovannini 2010).

The seminal contribution of Freeman (1984) unveiled an intriguing research perspective, focusing on the relation between strategic management and company's stakeholders. In the subsequent decades, the stakeholder concept was developed within multiple management research streams—corporate planning, organization theory, corporate social responsibility, system theory (Freeman and McVea 2001)—providing a relevant tool to analyze the influence of different constituencies on the company strategic behavior, nevertheless the conspicuous literature body on stakeholders did not investigate in depth the complex relation between strategic management and corporate governance.

Recently, some scholars, even without specifically addressing the issue, offered valuable contributions to the study of this relation. In particular, Boyd et al. (2011) performed an extensive analysis of studies published on the interactions between CEOs and their boards of directors, comparing the key theoretical approaches and laying out a number of promising directions for future research. Studying Royal

Dutch Shell, Kwee et al. (2010) investigated how top managers' corporate governance orientation influences a firm's strategic renewal trajectories over time. They found that top managers' corporate governance orientation can be an important antecedent of strategic renewal and of organizational ambidexterity. Connelly et al. (2010a, b) and Desender et al. (2012) eventually studied how firm ownership influences the monitoring function of the board. Drawing attention on emerging forms of ownership (such as hedge funds and sovereign wealth funds), these authors have highlighted the changing (and often competing) interests of shareholders and how this impacts theories of governance. The perspective is particularly relevant in the context of this article since, in many cases, ownership structure changes have a critical influence in determining the predominance of corporate governance on strategic management (or vice versa).

3 Theoretical framework

In standard textbook approach, it is relatively easy to discern the tasks pertaining to corporate governance (Board of Directors) from those regarding strategic management (CEO). The Board of Directors usually in the one which hires the CEO, who is in charge of strategy formulation and implementation. The board maintains some essential roles: (1) monitoring-endorsement of the CEO activity, (2) CEO evaluation (also in terms of compensation) and, in case of mismanagement, (3) CEO substitution. In the business world, this distinction is unfortunately not so clear-cut and straightforward. If in the entrepreneurial phase of the firms' development, governance and strategic management are usually taken up by to the same individual (or group/team of people), as soon as the firm size requires role differentiation, we observe the emergence of a competition-cooperation dynamic between the two functions. The separation process between governance and strategy is in fact a rather long and often *incomplete* process, which may originate potential conflicts and dangerous overlaps.

Consequently, the history of business evolution provides a wealthy of paradigmatic illustrations, reporting an extensive number of cases in which the relationship between corporate governance and strategic management evolves as a consequence of the changes occurring either in the firm institutional organizations and/or in its competitive and technological scenarios (see the discussions on Fiat, Telecom Italia and Unicredit in section five). The relevant changes at hand can be grouped according to their original source:

3.1 Firm financing

When entrepreneurial resources and bank lending are not able to finance the firms' growth exclusively by cash, new equity becomes a crucial factor to finance further growth paths. New equity can be raised looking for financial partners or going public, floating shares in the stock market. In both cases, the firm needs to adopt a governance model which is different from its original one to look after the interests of minority shareholders and, consequently, the CEO will have to report to a board that is no more necessarily aligned to her/his position.

3.2 Entrepreneurial endowment

At some point of their evolution, firms may face the necessity to substantially modify their original business model to tackle to a significant change in its competitive environment. In these instances, when the original owners and entrepreneurs fails to have the required managerial skills and competences to devise and implement a new strategy, a separation between the governance role and the strategic management task inevitably takes place.

3.3 Managerial skills

Vis-à-vis the two preceding ones, the one of managerial skills is a more controversial condition embracing the relationship between strategic management and corporate governance functions. In various firms, organizational design assumes such degree of complexity that the strategic management function is de facto shared between the CEO and the COO (or managing director), considering the latter as the individual who actually controls management processes and operations. When the separation between corporate governance and strategic management takes place, we argue that the *power* balance between governance and strategy may follow alternate paths according either to specific firm characteristics (e.g., the financial and ownership structure, the relevance of different stakeholders, industry regulations and so on) or to factors related to change in the competitive environment (e.g., market power, competitive forces, innovation speed and so on).

4 Method

To uncover the underlying dynamics of the phenomenon over time and detect carefully the emergence of the phases of dominance taken by corporate governance or by strategic management, we benefited from the in-depth analysis of three specific cases. To unveil the processes that unfolded in these cases, we used a narrative approach (Langley 1999), which involves reconstructing detailed case studies from raw data obtained from various historical sources (Yin 1994). Our goal was to offer the vicarious experience (Langley 1999) of a triad of real settings in all their fertility and intricacy to stress the relevant facets of the phenomenon of interest. Further, we used the research question and the constructs highlighted in the extant literature (e.g., corporate governance and strategy) and in our theoretical framework to guide our inquiry and frame the analyses. We pursued a retrospective research strategy on three relevant historical cases focusing data collection effort exactly on the elements of the cases that seemed precisely linked to the outcome (Langley 2008).

4.1 Analytical setting, theoretical sampling and temporal bracketing

The cases of Fiat, Telecom Italia and Unicredit and the chosen time periods provide a particular powerful and interesting context for studying the issues of interest, one of the primary reasons for using a qualitative approach (Pettigrew 1992). The selection of the three cases in different dedicated environments (i.e., automotive, telecommunications and banking) relies on the basic principles of theoretical sampling (Pettigrew 1990). Theoretical sampling suggests that the relevant cases are selected, rather than for statistical reasons, on the basis of their relevance to our research questions and of their ability to apply and replicate the analytical framework that has been developed (Glaser and Strauss 1967; Mason 1996). In theoretical sampling the goal of the researcher is not grasping all possible variations, but achieving a deeper understanding of the cases analyzed, as well as to facilitate the development of analytic frames and concepts used in research. In more detail, the nature of our research question requires a process approach explanation of the temporal order and sequences in which a discrete set of events leads to an observable outcome. First the three firms at hand have historically been (and still are) among the most representative ones of their industries in Italy and are members of the FTSE-MIB (former “blue chip”) segment, representing the forty largest companies for market capitalization in the Italian stock market. Second, the scrutiny of the three companies seems of interest since during their historical evolution their records present a shifting relationship between governance and strategy. For the reasons above, on the one hand we have scrutinized the entire evolution of the cases of Fiat, Telecom Italia and Unicredit almost from their onset to the year 2010. Actually, we have dissected data from the more than seven decades practically from their inception to 2010 (as concerns Telecom Italia from 1997 to 2012). On the other hand, the in depth scrutiny of governance and strategy of Fiat, Unicredit and Telecom Italia seems coherent with the guidelines of the conceptual framework that we have previously outlined as it postulates that it is possible to observe rotating periods in which corporate governance prevails over strategic management and vice versa.

In order to gain a more fine-grained understanding of the course of events in the three cases under scrutiny, we use a temporal bracketing strategy by decomposing, in each case, the time scale into successive periods. This type of temporal decomposition offers significant opportunities for structuring process analysis. Specifically, it consents to carry out both within-case comparisons across subsequent periods and cross-case comparisons that nourish both the internal and the external validity of the study (Eisenhardt 1989; Langley 1999). We acknowledge that in a temporal bracketing research design accuracy depends on the adequacy of temporal decomposition. Accordingly, we have iteratively checked the validity of the temporal decompositions (phases) proposed with industry executives and experts.

4.2 Data sources and triangulation

4.2.1 Archival documents

Our primary sources of data were archival and documentary, supplemented by interviews with executives and industry experts. Automobile telecommunications and (to a minor extent) banking are global businesses that cost millions or hundred of millions dollar. As Newhouse (1985) has observed in the case of the commercial jet airplane industry, automobile telecommunications and financial executives are gamblers in a high stakes game, facing great odds against success. Given such massive financial stakes, the design, development, and manufacturing of are guarded carefully by academics, industry experts and the business media. Such extensive coverage provides a wealth of accurate material about the design and introduction of software and hardware products throughout the automobile and banking history. A good deal of information was drawn from accounts provided by the companies' annual reports, the media and historical books (Castronovo 2005; Dallocchio and Lucchini 2006; Oddo and Pons 2006; Rondelli 1999; Volpato 2004). We also had access to automobile, telecommunications and banking industry archival collections (such as Archivio Storico Bank of Italy, Archivio Storico Credito Italiano, Archivio Storico Fiat, Archivio Storico Telecom Italia), which provided a wealth of information on Fiat, Telecom Italia and Unicredit governance structure and design and strategic moves.

4.2.2 Articles

We accessed selected magazines (e.g., *Business Week*, *Il Mondo, Automotive News*) and newspaper articles (e.g., *Financial Times, IlSole24Ore*, *MilanoFinanza*, *Il Corriere della Sera*, *La Repubblica*), as well as press releases from the time period. As Rindova and Kotha (2001) reported, often times media reports provide more objective and contextual information on industry dynamics and firm-level competitive actions than annual reports. We also looked at relevant articles published in managerial journals (Dagnino 2004). The availability of various sources of archival and documentary information allowed us to have a first round to triangulate facts and examine data from multiple vantage points (Glaser and Strauss 1967).

4.2.3 Interviews

We interviewed a specific set of 20 executives and firm and industry experts, who directed us to many of the important historical sources of the time periods and provided access to important historical documents and internal reports. A good number of these interviews were focused on gaining an understanding and appreciation for the vast archival information available on the business activities and getting support (or disconfirmation) in grasping the main innovations and events (e.g., industry shakeouts and regulation changes) that came to light during the industries' operation decades. All the interviews were recorded and transcribed and carefully organized within our research data base.

4.2.4 Data triangulation

At this point, we then had a second round of data triangulation: we triangulated archival and articles information with the interviews to achieve cross verification from multiple sources and improve the validity of the study. We analyzed the data on the ground of case histories and industry reports. Using several sources, we were able to document the evolution of them chronologically, while thoroughly analyzing any event that played a part in their design, introduction and subsequent impact on their rivals and the industry as a whole. As it is customary in qualitative research, we then checked the validity of insights with executives from industry competitors, experts and colleagues (Brown and Eisenhardt 1997). This allowed igniting an iterative process that resulted in further improvements and refinements.

5 The relationship between corporate governance and strategic management in three italian experiences: Fiat, Telecom Italia and Unicredit

According to the theoretical framework presented and the temporal bracketing strategy, in this section, we report the evolution of the relationship between corporate governance and strategic management, respectively in Fiat, Telecom and Unicredit.

5.1 Fiat

In order to exemplify the emergence and the evolutionary dynamics of the relationship between governance and strategy at Fiat and the rationale underlying its materialization and evolution over time, the temporal bracketing strategy we have chosen to pursue has driven us to split the investigation period into seven temporal phases (i.e., 1899–1910; 1911–1945; 1946–1970; 1971–1984; 1985–1989; 1990–2004; and 2005–2010).

5.1.1 Phase one: 1899–1910

In 1899 a group of Piedmont noblemen and entrepreneurs founded in Turin "Società Anonima Fabbrica Italiana Automobili Torino", immediately known as Fiat. Business conditions were those of an emerging high growth potential industry with an increasing, but still relatively small demand, mainly because of the very expensive selling price. On the supply side, there were no significant barriers to entry: the car production was almost hand-crafted with several small factories. The equity capital was provided by thirty original shareholders. The largest part of the founding shareholders had not specific skills in the automobile technology or business. The only expert was Aristide Faccioli, an engineer and creator of the first Fiat models.[1] The board, chaired by Emanuele di Bricherasio, included all the main shareholders. Secretary of the board was named one of the small shareholders, Giovanni Agnelli. In 1902 Giovanni Agnelli, in recognition of his determination and strategic vision was appointed managing director of the company. In 1903 Fiat became a listed company in the Italian market. Being a leading company in a fast growing business the stock price rose rapidly.[2] After a first stock market crisis,

[1] Operations were managed by Giovanni Battista Ceirano a skilled mechanic, but not a shareholder.

[2] The stock rise was fueled by the modest liquidity of the Italian stock market at that time. The financial results were striking (at least according to the company's accounts) and, in 1906, the value of a share was It Liras 2,500 (100 times the nominal value).

followed by an intense merger activity the old company was liquidated and Giovanni Agnelli, with the critical help of Banca Commerciale Italiana, took over a controlling stake (30 %) of the new company.

5.1.2 Phase two: 1911–1945

From the second decade of the last century the outlook became more cumbersome for Fiat, due to the increasing foreign competition with lower priced models (especially surfacing from the US). Domestic sales were decreasing and the export plunged. Two aspects became critical in this new scenario: (1) to get protection from foreign competitors through duties and trade barriers; (2) to strengthen the company position as a supplier of military vehicles and other equipment to the army. The latter was particular important during world war one; the barriers to imports were an essential characteristic of the Fascist era (1921–1943). Profits in this period were due to the quasi-monopolistic rents gained in the Italian market and to the military budget. Exploiting these competitive advantages, from 1910 Fiat expanded its activities to the steel industry, railways, electricity and public transportation. At this stage, Fiat corporate governance was focused on the capacity of the board members, Giovanni Agnelli and the managing director Vittorio Valletta, to interact with the Italian government to win contracts, trade protection, control on labor relations, and political decision potentially favorable to the Fiat business.[3] Meanwhile, in an effort to protect company control in the future, Giovanni Agnelli, in 1932, established IFI as a holding company of Fiat controlling stake. From this time, Fiat is *de facto* owned by the Agnelli family. In this phase, the board activities are definitely more critical for Fiat success rather than a market oriented business strategy.

5.1.3 Phase three: 1946–1970

During the after-war reconstruction phase, the competitive conditions were highly favorable for Fiat. The plant recovery project was widely financed by the US-funded Marshall Plan, as Fiat was able to shore up its leadership in the Italian market and enhance its market share in Europe and South America, thank to low wages, competition control[4] and a government transportation policy strongly oriented to building motorways (rather than railways or maritime hauling). The large cash flows and easy access to bank loans encouraged Fiat to diversify in several related and unrelated industries. Giovanni Agnelli died in 1945 at the end of world war two. After a short experience of employee self-management, the ownership and the governance of the Fiat were taken firmly over by the hands of Vittorio Valletta, who managed the company on behalf of the Agnelli family until 1966. In 1963 Gianni

[3] The chairman of the company, Dante Ferraris, was a fervent supporter of Italian intervention in world war one.

[4] Competition was kept under control either using country-level competitive devaluation moves or by means of international agreements. Until the 1980s a bilateral agreement kept to a pre-determined very low level the import–export car trade between Europe and Japan. Interestingly, the quota agreement had been requested by the Japanese government in the 1950s.

Agnelli (the grandson of the founder) become managing director and then, in 1966, eventually the chairman of the company. The diversification strategy of these years was clearly inspired by a corporate governance design, as a portfolio diversification of the family interests without diluting the control stake. The very positive scenario prevented Fiat from performing a realistic effort in devising a strategy that could somewhat shelter it from forthcoming difficulties (Table 1).

5.1.4 Phase four: 1971–1984

Two relevant phenomena characterized the sunset of the 1960s and the onset of the 1970s. The dramatic increase in labor conflicts and trade union power (1969) and the sharp boom in oil price shock (1973) induced severe financial pressure on carmakers. Fiat was not immune from it. After years of somewhat stable market and steady profit, the new scenario required renewed attention to business and financial strategies. Cesare Romiti was in charge of financial planning and Vittorio Ghidella, a brilliant connoisseur of the car industry, succeeded in quickly recognizing the car models that would be popular between buyers. Trade unions were eventually whitewashed in 1984 after the so-called march of the 40,000 and, by mid-1980s, the Fiat group was striking back to be so profitable to reduce to zero its banks debt. The abrupt changes in business conditions required Fiat a remarkable effort in terms of investment and organizational change. President Gianni Agnelli decided to give free hands to two professional managers, Cesare Romiti (Group CEO) and Vittorio Ghidella (Auto CEO). After a significant new equity injection[5] and a few years of turbulence, Romiti and Ghidella efforts managed to transform Fiat into a modern industrial group. In 1979, the company became a holding company when it spun off its various businesses into controlled companies. The auto sector was set up as an independent company, Fiat Auto S.p.A. A sound business strategy for the automotive business turned out as a must to rescue the entire group; this strategic move was the basis for Fiat success in the second half of the 1980s.

5.1.5 Phase five: 1985–1989

The effective strategy that the Romiti-Ghidella couple devised was based on technological innovation to reduce either the cost of manpower in the manufacturing processes, or the market risk adopting flexible manufacturing systems (FMS). These 5 years represented probably the highest point of Fiat success over the century. Market share was higher than 60 % in Italy and close to 14 % in Europe, which projected Fiat as the uncontrasted runner-up after the German mass giant Volkswagen AG. But Fiat success of the 1980s was not fated to last along. Indeed, it vanished in a few years due to a series of wrong crucial strategic decisions taken at the board level. As a consequence, the company that had driven Italy’s post-war motorization and economic miracle converged on a protracted decline path.

[5] In 1976 the Libyan government, through La.fi.co., acquired a 9.6 % stake in Fiat providing a capital injection of Italian Lira 250 million. Despite the dilutive effect of the Libyan investment, the company’s largest shareholder, IFI, retained a 30 % stake.

Table 1 From Società Anonima Fabbrica Italiana Automobili Torino to Fiat Industrial S.p.A

	Competitive scenario and company milestones	Ownership, strategy and governance
Phase One 1899–1910	"Società Anonima Fabbrica Italiana Automobili Torino" founded in Torino in 1899 Niche products No economies of scale	30 original shareholders 1902 Giovanni Agnelli sr. managing director 1903 takes over a controlling stake
Phase Two: 1911–1945	Increased foreign competition Duties and trade barriers High demand for military vehicles and other equipment to the national army	Corporate governance lobbying for trade protection and military contracts 1910-onwards: diversification in steel industry, railways, electricity and public transportation
Phase three: 1946–1970	Post-war reconstruction Competitive conditions highly favorable Market leader in Italy and strong export flows in Europe and South America Diversification in several, related and unrelated, industries fueled by high cashflows	1945: Giovanni Agnellisr dies, Vittorio Valletta manages the company on behalf of Agnelli family until 1966 1966: Gianni Agnelli jr. chairman of the company. Diversification strategy aimed to reduce owners' business risk without diluting control
Phase Four: 1971–1984	Increased labor conflicts 1973: oil price shock Severe conditions for car industry Changes in demand called for new models Sound business strategy for the automotive business was the basis for success in late 1980s	Strategy focused on financial control Ownership gives free hands to Cesare Romiti and Vittorio Ghidella Substantial equity injection from Lybian Lafico 1979, Fiat becomes a holding company. The auto business unit set up as an independent company, Fiat Auto S.p.A.
Phase five: 1985–1989	Market recovery Strategy based on technological innovation to reduce either labor cost either the market risk adopting flexible manufacturing systems Market share in Italy higher than 60 % and close to 14 %in Europe	1987: the controlling stake of IFI secured in unlisted partnerships "Giovanni Agnelli & C." The aim to optimize investment portfolio of controlling shareholder prevails over Fiat Auto business strategy (cash flows produced by Fiat Auto invested in other industries)
Phase six: 1990–2004	After 1992: Erosion in Fiat market share and revenues due to increased competition Decline partially stopped with the devaluation of Italian lira and thanks to State subsidies 1999: the adoption of Euro discontinued competitive devaluation maneouvres Global competitors make inroads in the Italian market	Rapidly deteriorating financial conditions Mediobanca, Deutsche Bank, Generali and Alcatel become important shareholders in Fiat, but a shareholder agreement left the control to the Agnellis 1996: Gianni Agnelli jr. honorary president and Cesare Romiti chairman of the Fiat Group Paolo Cantarella CEO When Romiti retired in 1998, Paolo Fresco (former vice president of GE) is appointed as chairman, to mediate among the diverse components of the board and negotiate joint venture with GM Shareholders-banks accept to extend debt maturity subscribing a convertible-bond issue that, for the first time, put Agnelli control at risk 2003: Gianni Agnelli jr. dies and the new chairman, Umberto Agnelli, names CEO Giuseppe Morchio, who began turning the company around, selling some of non strategic assets (insurance, engineering, energy, and aviation)

Table 1 continued

	Competitive scenario and company milestones	Ownership, strategy and governance
Phase seven: 2005–2010	Facing a very complex business scenario, Marchionne in a few years brings Fiat back from the brink of bankruptcy Alliance strategy as a critical factor in the automotive business; Fiat follows 2005: Fiat was courting Ford 20 January 2009: Fiat S.p.A. and Chrysler LLC announce the intention to form a global alliance 2011: Fiat holds a 53.5 % stake in Chrysler The merger between Fiat and Chrysler probably will start, after more than a century, an entirely different story	2004: death of Umberto Agnelli, Luca di Montezemolo chairman of the board and Sergio Marchionne CEO An equity-swap operation consolidates Agnelli control on the Fiat, reducing the banks influence Marchionne operates with a large degree of autonomy from the board Lean organization to reduce lead time and global strategy aimed to transform Fiat into one of the world's top performing mass market automakers September 2010: Luca di Montezemolo replaced by John Elkan (Gianni Agnelli's grandson) as chairman 2010, Fiat car businesses split from the group Agricultural and construction equipment manufacturer CNH Global NV, truck maker Iveco and the industrial and marine division of Fiat Powertrain Technologies were spun off into a new group on 1 January 2011. Parent company, Fiat Industrial S.p.A., listed on the Italian stock exchange at the onset of 2011

The brilliant results of Fiat Auto in the second half of the 1980s produced a relatively quiet phase for Fiat corporate governance. The group had about 750 subsidiaries with a shareholder value equal to 25 % of the market cap in the whole Italian Stock Exchange. In 1987 the controlling stake of IFI was secured in an unlisted Limited Partnerships "Giovanni Agnelli & C. S.a.p.a.". But, as in the past, the aim to optimize the investment portfolio of controlling shareholder prevailed on Fiat auto shareholders' value maximization, and the cash flows produced by Fiat Auto were invested in other industries. Fiat diversification strategy generated in turn a conflict between the two CEOs, Romiti (supporting the corporate governance aim) and Ghidella (a mechanical engineer whose strategic thinking was firmly centered on the automotive business as the long-lasting core interest of Fiat Auto). Indeed Ghidella was keen on a merge opportunity with Ford, but the Agnelli family could not bear to lose control. Ghidella eventually lost Fiat internal war, while Romiti became CEO of both Fiat and Fiat Auto. In a favorable business scenario, we can confirm that corporate governance had prevailed on strategic management.

5.1.6 Phase six: 1990–2004

During the 1990s, Fiat was once again under stress facing a crisis which this time takes the shape of market competition. After 1992, the Italian economy opens up to foreign players, foreign car companies relied on price cuts, quality improvements and new and innovative design to gain market share. Fiat failed to react to changing market dynamics, even while Renault and Volkswagen restructured their operations and focused on R&D to compete globally.[6] As a result, Fiat's competitors brought about severe erosion in Fiat market share and revenues both in Italy and Europe. The decline was only partially relented in 1992, with the devaluation of Italian lira and again in 1996, when significant subsidies were granted by the Italian government to the buyers of a new car. But, with the adoption of the euro after 1999, Italy could no longer devaluate its currency, and global competitors eventually made massive inroads into the Italian market.

In 1994 Fiat financial conditions were rapidly deteriorating. To get the cash needed, the group was forced to ask the help of Mediobanca (the main Italian investment bank in that age), which raised a large amount of new equity. Mediobanca, Deutsche Bank, Generali and Alcatel became important shareholders in Fiat, while they signed a shareholders' agreement that left the group control to the Agnelli family. In 1996, Gianni Agnelli was appointed as the honorary president of the Fiat Group, while Cesare Romiti took over as the chairman. Paolo Cantarella became Group CEO. When Romiti retired in 1998, the board appointed Paolo Fresco as chairman with the hope that the former vice president of General Electric would bring more emphasis on shareholders' value. Cantarella was the one who was in charge to run the day-to-day affairs of the company, while Fresco mediated among the various components of the board and especially acting as an external negotiator.[7] Observed from a strategic perspective, the company lacked sense of direction, had lost touch with its customers and was therefore making massive losses. Financial debt, mostly short term bank debt, was huge. As occurred in 1994, again the board tried to solve the problem by means of financial maneuvers. In 2002, the banks accepted to extend the debt maturity subscribing a convertible-bond issue that, for the first time, put the Agnelli family control at stake. Cantarella had to resign and was replaced by Gabriele Galateri, a finance expert, as requested by the financing banks. Notwithstanding that there was no real turnaround in Fiat accounts. Galateri was then replaced by Alessandro Barberis and, after the death of Gianni Agnelli in 2003, his brother, Umberto Agnelli, the newly appointed chairman, named CEO Giuseppe Morchio, who was coming from Pirelli. Morchio began turning the company around, selling some of Fiat non strategic assets (e.g., insurance, engineering, energy, aviation) out.

[6] During 1995–2001, while Renault and Mercedes invested each more than US$9 billion in R&D and Volkswagen $20 billion, Fiat Auto R&D spending was only US$4.5 billion.

[7] In 2000 Paolo Fresco signed a deal with General Motors (GM), by which GM would buy 20 % of the shares of Fiat Auto. In addition, the Fiat Group had an option to sell the other 80 % of Fiat Auto to GM between 2004 and 2009. Fiat had the opportunity to off-load its automotive business at a fair market value. If GM balked, it would be forced to pay a penalty of US$2 billion. When Fiat tried to sell GM its Auto Company, times had changed and GM eventually leaned to pay the penalty. On 13 May 2005 GM and Fiat officially resolved the Fresco agreement. The two parties agreed that GM would pay Fiat US$1.55 billion to terminate the takeover bid and the other aspects of the relationship. Fiat used the much-needed cash pouring from GM for restructuring and, as part of the deal, retained the benefits of being part of GM's worldwide purchasing operations.

5.1.7 Phase seven: 2005–2010

With the sudden disappearance of Chairman Umberto Agnelli in 2004, an actual generational change occurred at Fiat. The new chairman becomes Luca di Montezemolo, Morchio resigned and Sergio Marchionne, who had been appointed to Fiat board in 2003, was named CEO. In a very complex business scenario, corporate governance remained a step behind leaving the scene to strategic management. Marchionne had in fact the possibility to operate with a large degree of autonomy from the board. This was possible because, with an equity-swap operation (which prompted criticism and a legal action), the Agnelli family consolidated their control on Fiat, thereby reducing the influence of the banks shareholders. Marchionne was aware that the dramatically changed competitive conditions in the automotive business required a lean organization capable to trim down radically lead times and time to markets. His turnaround plan simultaneously cut entire layers of management, reducing Fiat bureaucracy and changing its attitude to focus on markets and profit. Actually, Marchionne strategy aimed to transform Fiat in one of the world’s top performing mass market automakers. The results were quickly at a glance. In a few years, Marchionne brought Fiat back from the brink of bankruptcy. More than in the past, strategic alliances are a critical factor for success in the automotive business and Marchionne definitely fine tuned this external growth strategy. In 2005 Fiat was courting Ford. But then, after the world’s automobile cataclysm of 2008, on 20 January 2009 Fiat S.p.A. and Chrysler LLC publicly announced their intention to form a global alliance. In 2011, it emerged that Fiat held a 53.5 % stake of Chrysler (fully diluted). The prospective merger between Fiat and Chrysler would possibly start, after more than a century, an entirely different chapter in the history of the popular Italian car maker.

In September 2010, Luca di Montezemolo was replaced by young John Elkan (Gianni Agnelli’s grandson and principal heir) as Fiat chairman, while the shareholders approved a plan to split Fiat capital goods businesses from the group. Agricultural and construction equipment manufacturer CNH Global NV, truck maker Iveco, and the industrial and marine division of Fiat Powertrain Technologies were spun off into a new group on 1 January 2011. The parent company, Fiat Industrial S.p.A., was listed independently in the Italian stock exchange on 3 January 2011.

5.2 Telecom Italia

The origin of Telecom Italia (TI) dates back to the 1960s wave of nationalization in the Italian electric power sector. In 1964 IRI (a conglomerate company owned by Italian state which gathered some of the most significant firms operating in the mechanical and banking industries) and STET (a telephony company controller by the same IRI) promote the founding of SIP (*Società italiana per l’esercizio telefonico*), which merges together three former electric companies to run the domestic telephony business. In the two decades between 1970 and 1990, Europe is characterized by a profound mutation in telecommunications, which brings about an industry regulation breakthrough to turn out into national markets. Telephony density growth in Italy reaches 100 % in this period (vis-à-vis a 110 % EU density). It is the era of reunification in telephony networks, which extends the scope of Telespazio to all satellite connections without national territorial limitations, and gives birth to companies which are allowed to access the free market of the new telecommunication services. The national public monopoly age goes into an end leaving space to more competitive markets, which require a unitary and integrated telecommunication service management.

In 1994 Telecom Italia is established by the transformation of SIP and the year after (1995) Telecom Italia Mobile (TIM) is launched to manage mobile telephony services. In 1997, following the European Union wave of privatizations which brings about British Telecom in UK, Deutsche Telekom in Germany, France Telecom in France and Telefonica in Spain (Nestor 2005), the Italian Government decides to privatize Telecom Italia. The IPO is launched in the Italian stock market on 20 October, 1997.

From this time on Telecom Italia has to meet with several moments of discontinuity, with five different presidents/chairmen and boards that will proceed in a four-year span (Dagnino 2004). A somewhat unexpected top management rotation that is noteworthy in a firm of such magnitude and that has brought in turn a rotation in the corporate governance-strategic management power balance. Every new leader has in fact decided to change the top management as well as the governing rules and regulations, thereby introducing (or sometimes attempting to do so) new management styles and methods. We consider hereafter five relevant phases of temporal discontinuity in the governance of Telecom Italian in the decade 1997–2012 (see Table 2). In more detail, according with the temporal bracketing strategy and drawing liberally from Dagnino (2004), we have identified the five relevant temporal phases (i.e., January–December 1997; January–October 1998; 1998–1999; 1999–2007; and 2007–2012) reported below.

5.2.1 Phase one: January–December 1997

This phase covers the year 1997 between the launch of Telecom Italian privatization and chairman Rossi resignation. The privatization road show in Milan, London and New York is a notable success: the IPO of 1,450000 shares brings into the Italian government fresh cash for Euro 13.5 billion. Privatized Telecom Italia takes the shape of a public company. Chairman Guido Rossi and CEO Tomaso Tommasi di Vignano are included in an eleven-member board designated by the "small nut" of stable shareholders (which has a 12 % stake in the company) and the Ministry of Treasure, which keeps its "golden share". To grant stability board members are elected for a 3 year term. Unexpectedly, Chairman Guido Rossi resigns on 28 November 1997, only a month after completing Telecom Italia privatization. He declares that his vision of the role of the chairman of a public company is to safeguard shareholders' rights as well as to serve as the arbitrator between them and the top management team (Dallocchio and Lucchini 2006: 49). He wants to abolish the role of "company chief" (*capoazienda*), arguing for more collegiality in the board decision making process. The Italian government supports instead CEO Tommasi as the company leader.

Table 2 From SIP to Telecom Italia

	Competitive scenario and company milestones	Ownership, strategy and governance
Phase one: January–December 1997	Liberalization of Italian telephony (started in 1994)	Formation of the “stable small nut” of shareholders
	Privatization of Telecom Italia	Chairman: Guido Rossi
	IPO and Italian market listing	CEO: Tomaso Tommasi di Vignano
Phase two: January–October 1998	Strategic plan (first ever)	Chairman: Gianmario Rossignolo
	Continuous change in top management	CEO: Tommasi resigned (19.1.98)
		Managing Directors:
		– Vito Gamberale (up to 30.7.98) then Massimo Sarmi,
		– Fulvio Conti
		– Francesco De Leo
		Failure in alliance strategy
		Difficult communication strategy and market relations
Phase three: 1998–1999	Olivetti bid	Chairman: Bernardino Libonati
	Failure in deploying anti-takeover measures	CEO: Franco Bernabè
Phase four: 1999–2007	1999–2001	1999–2001
	Ownership change and BoD members as follows Olivetti bid	Chaiman and CEO: Roberto Colaninno
	High debt management	Failed attempt to lessen the control chain by downloading debt to from Olimpia to Telecom Italia
	2001–2007	2001–2007
	Pirelli and Benetton acquisition	Chairman: Marco Tronchetti Provera (until Novmber 2006) then Guido Rossi
	Industrial plan and divestments	Vice-chairman: Gilberto Benetton
	Industrial integration and push for growth	CEOs: Carlo Buora and Enrico Bondi (resigned 2002) replaced by Riccardo Ruggiero (as per 12.12.2002)
Phase five: 2007–2012	Acquisition by Italian-Spanish consortium Mediobanca, Generali, IntesaSanpaolo and Sintonia and Telefónica—Telco 23 % shares	Chairman: Gabriele Galateri and the
	October 2009 Telco renewed for 3 years	CEO: Franco Bernabè, until 2011 when appointed chairman
		Costs cutting strategy
		Trade assets out and divestment
		Debt reduction

5.2.2 Phase two: January–October 1998

This phase spans from the onset of Gianmario Rossignolo on 12 January 1998 as the new president to his forced resignation in October 1998. Newly privatized Telecom Italian is still searching for stability in both management and ownership, sense of direction and a credible strategic plan. Gianmario Rossignolo comes from Trieste, where he has been CEO of Zanussi, an Italian appliance company controlled by

Swedish Electrolux. Rossignolo is called to be the glue between the major shareholders and the top management as well as to resolve the share exchange agreement with AT&T. Rossignolo obtains the powers that his predecessors was claiming so that he is able to declare: "*I'm an executive chairman, a very powerful executive chairman*". Nonetheless, the relationship between governance and strategy in Telecom Italia turns out to be particularly complex. Once in charge, Rossignolo immediately gets rid of CEO Tommasi di Vignano implementing a new management model characterized by collegiality in board decision making. Telecom Italia has an executive chairman, no CEO, and three managing directors: a) a strategy and development managing director (Francesco De Leo), b) an operations managing director (Vito Gamberale, also CEO of TIM), and c) a finance and control managing director (Fulvio Conti); The strategic difficulties are epitomized by the failure in internationalization strategy for the difficulties in making strategic alliances running the negotiations sessions in secrecy, as well as the failure in communicating with the market. The internal atmosphere is all but serene: competent manager are invited to walk out. Telecom Italia share price sharply plummets on 6 October 1998 and chairman Rossignolo quits the ensuing 23 October.

5.2.3 Phase three: 1998–1999

In November 1998 Bernardino Libonati is appointed as the new chairman and Franco Bernabè as the CEO. This phase goes from November 1998 to Roberto Colaninno's final takeover of Telecom Italia in May 1999. The events of phase 3 are a direct consequence of Rossignolo's moves. Telecom Italia was undervalued in the market. As Gnutti confirmed: "We noticed that Telecom Italia was underappreciated in the market by roughly 30 %. The presence of a strong golden share of the Italian government made it virtually un-attackable by foreign groups who were unwelcome by domestic politicians. Therefore, we acknowledged that the support of our government was essential for launching a takeover with some possibilities of success" (Dallocchio and Lucchini 2006: 58–59). New CEO Franco Bernabè, who has recently left the helm of ENI (the Italian government controlled petrol company) for Telecom, attempts to confer more stability to the governance of Telecom Italia and to give it a strategic direction but his effort is under-stretched. In fact, between 20 February and 21 May 1998 the Colaninno-Gnutti duo together with other entrepreneurs from the Northeast Italian city of Brescia complete the huge hostile takeover on Telecom Italia of Euro 63 billion. The anti-takeover moves of Bernabé do not meet with success (e.g., the proposed merger with Deutsche Telekom as white knight) also because TI raiders have won in advance the required support of the Italian government.

5.2.4 Phase four: 1999–2007

After the ownership change, chairman and CEO is Roberto Colaninno from 1999 until and 2001 then, upon the acquisition by Pirelli-Benetton, Marco Tronchetti Provera until 2007. This phase spans the 9 years between the advent of Colaninno, the Pirelli-Benetton deal and their exit in 2007. Phase 4 includes two ownership changes of Telecom Italia (Colaninno and the bresciani at first and then Pirelli and Benetton Groups), but this time the governance structure does not change.

In 1999 Roberto Colaninno is appointed chairman and CEO of Telecom Italia. Colaninno, Gnutti and the other syndicated shareholders redefine the strategy and structure of the Telecom Italia Group, with the aim to rationalize the control chain of the two main operating companies (Telecom Italian and TIM), and to implement a *business plan* along the guidelines that follow: transformation of the business culture; concentration on activities of service sales; internationalization, and value creation for shareholders. A problem immediately emerges as soon as minority shareholders succeed in blocking Colaninno move to lessen the chain of control to download the huge acquisition debt to Telecom Italia. Thanks to the global crisis in the telecommunications industry and to Colaninno co-raiders, who show to be financial investors rather than industrial entrepreneurs, in September 2001 the Pirelli-Benetton tandem performs and extra-market deal with Gnutti, Colaninno and the bresciani that regards the acquisition of Telecom Italia control chain.

Marco Tronchetti Provera is appointed as the new chairman of Telecom Italia, Gilberto Benetton the vice-chairman, while the two CEOs are Enrico Bondi (replaced in 2002 by Riccardo Ruggiero) and Carlo Buora, also coming from Pirelli. Two Italian banks UniCredit and IntesaBCI control 20 % of the holding company. Since small shareholders are kept outside of the extra-market deal, London based *Financial Times* ironically reported of a “takeover Italian style”. After privatization of 1997, Colaninno in good part and Pirelli and Benetton are the ones who present a strategic logic for Telecom Italia that seems oriented to a medium-run industrial focus rather than being merely short-run and financially driven. In an interview released in 2003, chairman Tronchetti Provera posits: “Telecom Italia is a set of many realities. It has a strong technological and operational competence in fixed telephony, but has followed a customer approach that has been dragged by the monopolistic logic”.

5.2.5 Phase five: 2007–2012

Between 28 April and October 2007, an Italian-Spanish consortium made by primary Italian financial institutions (such as Mediobanca, Assicurazioni Generali, IntesaSanpaolo) and Sintonia and Telefónica launches a bid to takeover Olimpia from Pirelli creating a new company, labelled Telco, that has (still today) about 23 % of Telecom Italia. The appointed chairman is Gabriele Galateri and the CEO Franco Bernabè, once again after 9 years (until 2011, when he is appointed chairman as Galateri moves to chair the board of Assicurazioni Generali). In October 2009, almost all Telco shareholders, except for Sintonia, renewed the consortium agreement for a 3 year term. In this period, the new management guided by Italian banks and Telefonica, has expressly aimed to cut costs, trade assets out, and reduce the huge debt cumulated over the takeovers waves that Telecom Italia had to pay for.

5.3 Unicredit

Unicredit direct ancestor, Banca di Genova, was founded in 1870 just after Italy’s unification. At the time Banca di Genova was founded, however, the Italian banking system was quite inefficient and poorly organized. An agricultural depression in the south, which banks tried to relieve, and an exaggerated amount of buildings development in Rome, which banks helped finance, further aggravated the situation. This condition complemented by a worldwide business depression, culminated in the national banking crisis of 1893–1894, which caused the failure of several large Italian banks. In the subsequent massive reorganization of the banking systems in 1895, Banca di Genova turned into Credito Italiano, largely capitalized by German banks and money. For its first 20 years, Credito Italiano grew more quickly than other Italian banks. Between 1895 and 1914 its deposits doubled. In 1907 Credito Italiano increased its capital with the financial support of Banque Franccedilse pour le Commerce et l'Industrie and Banque de l'Union Parisienne. Three years later in 1910, Credito Italiano helped Société Generale de Belgique to found Banca Brasiliana Italo-Belga. The bank continued to expand thereby by 1914 it had nine main branches, three regular branches, and 52 offices (Archivio Storico Credito Italiano). The close interdependence of European banks at the time heightened some of the conflict leading into world war one. After the war, the 1920s brought a wide crisis which eventually blasted out in 1929 Wall Street (and worldwide) crash. For this reason, in 1933 the government stepped into rescue the Italian troubled banking system by creating IRI, a government holding company, to buy the medium and long-term assets of the main commercial banks, including Banco di Roma, Banca Commerciale Italiana, and Credito Italiano. IRI (Istituto per la Ricostruzione Industriale) becomes the banks' main shareholder. In 1936, the Italian Banking Law, made in the footsteps of the Glass Steagall Act of 1933, was passed. This law declared that the three banks under IRI control from 1937 were "banks of national interest". They were no longer allowed to engage in investment banking, but only in short-term commercial banking.

Consistent with our temporal bracketing research strategy, we have decomposed the entire period of 73 years under investigation (1933–2006) in four relevant temporal phases (i.e., 1933–1970; 1971–1993; 1994–2006; and 2007–2010).

5.3.1 Phase one: 1933–1970

From 1933 to 1970 the ownership of Credito Italiano is fully in the hands of the IRI. In 1935 Credito Italiano went private and its shares become unlisted. We remember that the banking act issue in 1936 regulated commercial banking activity forbidding equity investment. Just after the end of world war two, in 1946 the three banks of national interest establish Mediobanca (probably the best example of an investment bank focused on playing a political role rather than on creating shareholder value in the Italian industrial economy). In 1970 Credito Italiano went public again after IRI bailout, albeit only a minority stake was floated.

Corporate governance of Italian bank in these years is essentially political. Since the Bank of Italy exerts tight control over the country's banking industry preventing aggressive expansion moves, banks are not required to formulate and implement specific strategies. Due to oligopolistic collusion and the consistent growth rates of the Italian economy, profits are considerably high for all banks (with very few exceptions due to malpractice). The thorny problem is how to divide the rent produced by oligopoly among shareholders (the Italian State and minority shareholders), managers, employees (in those years bank employees were considered as an elite in the job market for their significantly higher salaries and benefits), and the politicians interested in winning consensus and votes by subsidized firms with questionable creditworthiness or in rescuing almost defaulted companies. Bank directors were chosen by politicians (and sometimes were politicians themselves) and the balance of power between the CEO and the Board were clearly shifted towards the latter. For the reason above, corporate governance is the main company driver over strategic management at Credito Italiano.

5.3.2 Phase two: 1970–1993

In the 1970s and even more in the 1980s conditions tends to change in the once quiet and stable banking industry, but the overall corporate governance picture is still relatively unvarying. In 1993 a new wave of legislation shift, the Amato-Ciampi Law, eventually outspread in the Italian banking industry advocating for a deregulation process and splitting the institutional functions of banks (and foundations) from their original commercial business. Credito Italiano is eventually privatized by the Italian government in 1994 (Table 3).

5.3.3 Phase three: 1994–2006

In 1994 Alessandro Profumo is appointed COO of Credito Italiano and, 1 year later, CEO. As said, the Italian banking industry conditions had dramatically changed after the deregulation of 1990–1991 and the liberalization of the European market in 1992. Banks profits can no more taken for granted and banks felt a strong pressure to consolidate to preserve economic efficiency in the new environment that has turned into a really competitive one. Banks are forced to elaborate and implement a strategy as the balance of power shifts from the boards to the CEO.

Who takes the lead of the significant growth-through-mergers strategy in the Italian context? It is Credito Italiano which starts first a wide consolidation path then followed by Banca Intesa. In the second half of the 1990s in fact Credito Italiano merged with Rolo Banca 1473, Cariverona, Cassa di Risparmio di Torino, and Cassa di Trieste, thereby creating the largest Italian banking group called Unicredit (2002). The new millennium growth strategy continues with the acquisitions of Banca dell’Umbria and Cassa di Risparmio of Carpi. In 2005 UniCredit makes a big leap outside Italy purchasing HypoVereinsbank AG (HVB-Group). And finally in 2007 UniCredit eventually merges with former Italian third bank Capitalia.[8]

[8] Between November 1, 2008 and November 1, 2010, Unicredit strategy has been aimed to consolidate three acquired regional banks. In center and southern Italy, they present its UniCredit Banca di Roma brand (under which they gathered all branches of Unicredit Banca, Bipop Carire and Banco di Sicilia of center and southern Italy). In northern Italy, Unicredit display the brand Unicredit Banca (under which they gathered all the branches of Banca di Roma, Banco di Sicilia and Bipop Carire of northern Italy). In Sicily they show the brand Banco di Sicilia, an umbrella brand under which they gathered all the branches of Unicredit Banca, Banca di Roma and Bipop Carire in the island. This wave of consolidation brought to Unicredit an additional stake of 9 % of Mediobanca, turning its total stake to 18 %. To avoid affecting the power balance of Mediobanca shareholders syndicated agreement, Unicredit committed to sell out to the other Mediobanca shareholders its additional 9 %.

Table 3 From Credito Italiano to Unicredit Group

	Competitive scenario and company milestones	Ownership, strategy and governance
Phase one: 1933–1970	Banking industry tightly regulated and controlled by the Bank of Italy profitability was considerably high (oligopoly rents) Credito Italiano ownership and control taken by State-owned IRI 1935: Credito Italiano private and shares become unlisted 1970 Credito Italiano public again even if only a minority stake floated	Corporate governance of Credito Italiano essentially a political issue No need of entrepreneurial strategies Crucial issue: rent-sharing among the different stakeholders (shareholders, managers, employees, politicians) Directors chosen by politics (and sometimes politicians themselves)
Phase two: 1970–1992	Ongoing deregulation of the Italian banking industry 1990–1992: Ciampi-Amato Law of the banking system Italian banking system starts to achieve an higher degree of competition	Deregulation of banking industries gradually brought in market orientation in management policies Not yet significant changes in terms of ownership and corporate governance
Phase three: 1993–2006	Deregulation of 1990–1991 and liberalization of the European market in 1992 radically changed the commercial banking industry More competitive environment No more rent-granted profitability Italian banks compelled to merge to preserve the economic efficiency 1993: Credito Italiano privatized 1994: Alessandro Profumo appointed initially COO, and one year later, CEO	Need for an effective competitive strategy Relevant growth through merger strategy Late 1990s: Credito Italiano merged with Rolo Banca 1473, Cariverona, Cassa di Risparmio di Torino, and Cassa di Trieste, creating a large banking group called Unicredit (2002). 2000s: Growth strategy continues with Banca dell'Umbria and Cassa di Risparmio of Carpi 2005: UniCredit buys HypoVereinsbank AG (HVB-Group) 2007: UniCredit merges with Capitalia (the third Italian bank of that time)
Phase four: 2007–2010	2007: Global financial crisis changed the competitive scenario for the international banking industry	2007–2008: Unicredit, as other leading financial institutions, lose large portion of its shareholders value New equity raised placing Unicredit among the better players in Europe in ratios and stress test Rescue of banks and financial stability becomes a central issue Attention more focused on political equilibrium among different stakeholders September 2010: Alessandro Profumo resignes and is replaced by Federico Ghizzoni

5.3.4 Phase four: 2007–2010

The global financial crisis surfaced in 2007 again made a pretty dramatic shift in the competitive scenario of the international banking industry. For this reason in the period 2007–2008 Unicredit, as other leading financial institutions, lost a large portion of its market cap at the Italian stock exchange. Between 2008 and 2010 Unicredit CEO Alessandro Profumo managed to raise new equity for Euro 7 billions so that Unicredit was among the better financial players in Europe as concerns bank ratios and stress test. Nonetheless, the profound crisis had changed the scenario once more. Since banks rescue and financial stability had become a central issue for the public opinion, the attention is now increasingly focused on the political equilibrium among Unicredit different stakeholders, shifting once more the pendulum of the balance of power from the CEO to the board. In September 2010 Alessandro Profumo is forced to resign from the office of CEO and is replaced by Federico Ghizzoni. The leadership attitude of the new CEO, at least for the limited time lapse we have been able to study, seem to confirm that the balance of power has definitely shifted to the board and that, due to the internationally wide financial crisis, for the time being banking turns again into a “political business” rather than “business as usual”.

6 Discussion and conclusion

As part of an ongoing multi-annual project (Capasso and Dagnino 2007), we acknowledge that this study is exploratory in nature and therefore we do not mean to present definite outcomes and conclusions. Nonetheless, drawing on a *contingency* approach and performing a thorough retrospective study of three significant cases of Italian firms operating in the automobile, banking and telecommunications industries, we believe we are able to draw a few intriguing hints on running the dynamic relationship between corporate governance (often referred as the boardroom) and strategic management (often claimed as the CEO office) that may shed some light on current theoretical and managerial problems and prove helpful in further investigation.

6.1 Theoretical and managerial implications

First, it is apparent that the multifaceted relationship between corporate governance and strategic management cannot be dealt with a fully deterministic approach which sees either governance or strategy as the continuing dominant issue in the firms’ evolution. In other words, our intention is to provide no prescriptive model that can allow executives and entrepreneurs to decide, ex ante and once forever, if a governance-oriented setting should be preferable vis-à-vis a strategic management oriented one. Rather, we propose a *quasi historical contingent* approach to study the relationship between corporate governance and strategic management, which allows for either the firm-specific characteristics or the environmental conditions that influence the firms’ conduct. By doing so, we suggest an explanatory framework that provides some essential guideposts to illuminate the critical phases of switching from the prevalence of corporate governance to strategic management and vice versa (see Table 4 below). In fact, the core of our interest lies in complementing a few suggestions on the role of mutable context conditions in conjunction with the firms' governance and strategy, thereby contributing to open up a fertile area which lies at the intersection between corporate governance and strategic management. This new area of inquiry is potentially able, on one hand, to foster the emergence of a stream of research that is now labelled "strategic and entrepreneurial governance" (Whincop 2000). On the other, it contributes to the stakeholder approach (Freeman 1984; Freeman and McVea 2001; Jensen 2002), in that it pays tribute to the significant influence of context in driving firms' governance structures and strategic postures especially in turbulent and crisis times, such as the one we are currently intersecting.

Second and interestingly, from the comparative analysis of the three relevant cases under investigation we can infer that the prevalence of corporate governance versus strategic management or vice versa, may be the outcome of either changing *external* or *internal* conditions, as we observe that tweaking in this relation usually occurred either as a consequence of significant change in the competitive scenario (e.g., legislation especially for banks and Unicredit and Telecom Italia, economic conditions for all, industry structure for all, or degree of protectionism/trade liberalization especially for Fiat) or in the firms' governance structure (in terms of ownership, leadership or generational turnover). See Table 5 for the details.

In this regard, we are able to develop the three propositions reported below to effectively visualize the key features in the evolution of the relationship between corporate governance and strategic management in different contexts.

Proposition 1 *When industry conditions present high innovation pace and fierce competition among the extant players (due, for instance, to the fast post-war growth or the increasing globalization process), strategic management role tends to dominate the corporate governance function since firm profitability (and sometimes its survival) is at stake.*

Table 4 The relationship between corporate governance and strategic management

Practice	Function prevailing in a specific phase	
	Corporate governance	Strategic management
Good	CG dominance turns into an effective discipline exerted vis-à-vis the management function to avoid a set of behaviors that are not directed to value creation	SM dominance turns into effective strategies targeted to value creation and diffusion
Bad	CG dominance turns into a pressure on management to adopt strategies that respond to the (changing) interests of board members and of the actors that are able to empower them	SM dominance turns into strategies that respond to management personal interest more than to those of the firm as a whole

Proposition 2 *In situations of relatively stable competitive conditions (mature industries, monopolistic or quasi-monopolistic positions, and relative sustainable competitive advantages), corporate governance tends to acquire a pre-eminent role vis-à-vis strategic management. Firm profit and survival are not at odd; therefore strategic management becomes less crucial compared to the corporate governance function that is called to find viable equilibriums among the stakeholders.*

Proposition 3 *On the ground of the two propositions above, we posit that, depending on the different circumstances and time periods, in the same firm it is possible to detect the relative dominance of corporate governance over strategic management, rather than the leadership of strategic management over corporate governance. Therefore, if we investigate the firms' experiences, we can observe alternate times in which corporate governance leads strategic management and vice versa.*

Third, the qualitative retrospective analyses that we have carried out of the three relevant narratives of Fiat, Telecom Italia and Unicredit are also able to show that, in recent times, the *rhythm of change* between the prevalence of corporate governance or of strategic management has become more rapid (and intense) probably due to the faster pace of dynamic evolution of business environments on a global basis. The scrutiny of the three cases visibly documents this condition, while the multiple unexpected changes in Telecom Italia governance over a period of 4 years after its privatization (1997–2001) may be regarded as quintessential in this perspective (Table 5).

Four, as management scholars not only we are interested in fostering the study of quantity in the relationship between corporate governance and strategic management, but also of *quality* of the crucial relationship. From the onset of the research project, we observed that, either in corporate governance (board) oriented or in strategic management (CEO) oriented companies, the 'real' problems arise when the quality of corporate governance or the quality of strategic management is *poor*. We know that there is a clear-cut distinction between good theory and bad practices and that there is an additional clear-cut distinction between good management and

Table 5 Governance-strategy relationship juxtaposition at Fiat, Telecom Italia and Unicredit

	Fiat	Telecom Italia	Unicredit
Temporal bracketing: number of phases	Seven: 1) 1899–1910 2) 1911–1945 3) 1946–1970 4) 1971–1984 5) 1985–1989 6) 1990–2004 7) 2005–2010	Five: 1) Jan–Dec 1997 2) Jan–Oct 1998 3) 1998–1999 4) 1999–2007 5) 2007–2012	Four: 1) 1933–1970 2) 1971–1993 3) 1994–2006 4) 2007–2010
Governance prevalence	Phases: 2, 3, 4 and 6	Phases: 1, 2 and 3	Phases: 1. 2 and 4
Strategy prevalence	Phases: 1, 5, and 7	Phases 4 and 5	Phase: 3

bad management, as well, and between good governance e bad governance. Though that, it is arduous in practice to detect and draw a specific boundary-line between the two. Interestingly, as an excellent companion to the quasi-historical contingent approach pointed out, we suggest a *value-based* approach to the relationship between corporate governance and strategy that proceeds by extremes. Good management usually regards competences, resources, and the relevant context in a way that they are embedded in a strong and specific value-based reference frame capable to guide its action. Bad management can also be endowed with a good competence base and the capability to run resources, but it normally does not have the sufficient *sensitivity* to adopt a value-based reference frame and thus its proclivity goes to a series of objectives guided by short-term economic opportunism (Williamson 1984) and sheer agent self-interest (Ghoshal and Moran 1996; Ghoshal 2005). Good governance (and good citizenship) dedicates significant attention to multilateral relationships among stakeholders, respecting the behaviors of all actors and trying to balance the different interests and powers in a harmonious synthesis. Bad governance (and bad citizenships) does not grant the same importance to all stakeholders, but is expected to favor one or two specific stakeholder(s) at a time, while at another time another kind of stakeholder(s) will receive idiosyncratic support by executives and/or entrepreneurs for opportunistic motives.

6.2 Limitations and conclusion

We here acknowledge three limitations of this study that may open space for further research. First, since in various instances the potential problems unveil only in a successive temporal phase, it is arduous to infer from sheer firm financial performance at a specific time whether the prevalence of strategic management or of corporate governance may represent an appropriate solutions to spur firm growth over extended time periods. This condition also implies the inherent intricacy of assessing whether the prevalence of corporate governance or of strategic management may be desirable. From our evidence we observe that, in complex conditions of rapid change and innovation, there may be definite prevalence of one function over the other (especially strategy over governance), while in the medium run an equilibrium among the two key features may be expected to be the basis for firm success. Second, since we have chosen three cases taken from the Italian experience, we recognize that the study may be affected by some country bias. Additional case studies of experiences extracted from other countries both in Europe, America, and Asia are needed to suitably compare, extend and generalize the preliminary findings proposed in this article. Third, for the flaws present in any qualitative study, additional empirical research in the relationship between corporate governance and strategic management (also using quantitative methods) is required to confirm or disconfirm the preliminary findings we have discussed heretofore.

Notwithstanding that, we are confident that in this study we have provided a step forward in the direction indicated since we believe that the analytical discussion of a specific set of wealthy live experiences on the relationship between corporate governance and strategic management may add to the considerations provided by the foregoing literature. In this vein, while received methodological discussions posit that the narrative analysis of one or two cases is generally sufficient in performing this kind of retrospective qualitative studies (Langley 2008), in this study we have chosen to proceed by providing a comparative examination of three relevant experiences taken from the Italian context.

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