National Determinants of Family Firm Development? Family Firms in Britain, Spain, and Italy in the Nineteenth and Twentieth Centuries

Andrea Colli, Fernandez Perez, Paloma, 1964-, Mary Beth Rose

Enterprise & Society, Volume 4, Number 1, March 2003, pp. 28-64 (Article)

Published by Cambridge University Press

National Determinants of Family Firm Development? Family Firms in Britain, Spain, and Italy in the Nineteenth and Twentieth Centuries

ANDREA COLLI
PALOMA FERNÁNDEZ PÉREZ
MARY B. ROSE

We provide here a complement to recent work on family business, which has demonstrated the need to go beyond the generic definition of the family firm to place personal capitalism in an appropriate institutional, historical, and cultural framework. By focusing on the nineteenth- and twentieth-century experiences in Britain, Spain, and Italy, we challenge the notion that in the nineteenth and twentieth centuries there was anything so simple as a Mediterranean model for family business. Rather, we demonstrate the need to consider family businesses in national and regional contexts if we are to understand their various capabilities and characteristics. We use similarities and differences in the experiences and responses of families and firms in the three countries to support this claim.

Family firms have commonly been seen as a versatile and successful entrepreneurial response to market failures during the early stages

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Enterprise & Society 4 (March 2003): 28–64.

ANDREA COLLI is assistant professor of economic history at Università Bocconi, Milan. Contact information: Istituto di Storia Economica, Università Bocconi, via Sarfatti 25, 20136 Milano, Italy. E-mail: andrea.colli@unibocconi.it.

PALOMA FERNÁNDEZ PÉREZ is assistant professor in the Departament d'Història i Institucions Econòmiques, Universitat de Barcelona. Contact information: Departament d'Historia i Institucions Econòmiques, Universitat de Barcelona, Diagonal 696, 08034, Barcelona, Spain. E-mail: pfernan@eco.ub.es.

MARY B. ROSE is senior lecturer in business history at Lancaster University. Contact information: Department of Economics, Management School, Lancaster University, Lancaster LA1 4YX, U.K. E-mail: m.rose@lancaster.ac.uk.

Paloma Fernández Pérez has benefitted from the financial support of the Spanish CICYT through research project grants PN98–1265 and PB98–1167.

of industrialization in the eighteenth and nineteenth centuries.[1] Yet small-scale family businesses remained numerically significant in some European countries in the twentieth century. In addition, the continued power of large-scale family firms, despite an assumed convergence of modern economies toward corporate capitalism, means that personal capitalism remains an important subject at the dawn of the twenty-first century.[2] Family firms make up 75 percent of all firms in Italy, 80 percent of those in Germany, 76 percent of those in the United Kingdom, and 71 percent of those in Spain. In France 60 percent of the biggest firms were family owned, while in Italy almost half of the fifty largest companies were family firms.[3] It is interesting, however, that, whereas institutional capital dominates large firms in Britain, in Spain many of the largest family firms in the capital-intensive industries have vanished. They do remain in other sectors, especially in food and drink manufacture and trade, in the construction or building industries, and in some branches of the chemical industries (pharmaceutical and perfume production).[4] In Italy family ownership and control is still important in large corporations, as well as in small and medium-sized firms. It is also interesting that the recent process of privatization of state-owned conglomerates has consider-

1. E. W. Nafziger, "The Effect of the Nigerian Extended Family on Entrepreneurial Activity," *Economic Development and Cultural Change* 18 (Spring 1969): 25–33; Sui-Lun Wong, "The Chinese Family Firm: A Model," *British Journal of Sociology* 36 (1985): 58–72; Mary B. Rose, "The Family Firm in British Business, 1780–1914," in *Business Enterprise in Modern Britain,* ed. Maurice W. Kirby and Mary B. Rose (London, 1994), 61–87; Paloma Fernández Pérez, "Challenging the Loss of an Empire: González & Byass of Jerez," *Business History* 41 (Oct. 1999): 72–87; Piero Bairati, "Le dinastie imprenditoriali," in *La famiglia italiana dall'Ottocento ad oggi*, ed. Piero Melograni (Roma-Bari, 1988), 30–55.

2. Emmanuel Chadeau, "The Large Family Firm in Twentieth-Century France," *Business History* 35 (Oct. 1993): 184–205; Keetie E. Sluyterman and Hélène J. M. Winkelman, "The Dutch Family Firm Confronted with Chandler's Dynamics of Industrial Capitalism," ibid., 152–83; Franco Amatori, "Growth via Politics: Business Groups Italian Style," in *Beyond the Firm*, ed. Masahito Shimotani and Takao Shiba (Oxford, 1997), 30–55; Fred Neubauer and Alden G. Lank, *The Family Business: Its Governance for Sustainability* (Basingstoke, U.K., 1998), 10; Paloma Fernández Pérez, "La empresa familiar y el síndrome de Buddenbrook en la España contemporánea: el caso Rivière (1860–1979)," in *Doctor Jordi Nadal: La industrialización y el desarrollo económico de España*, vol. 2, ed. Albert Carreras et al. (Barcelona 1999), 1398–1414; Andrea Colli and Mary B. Rose, "Families and Firms: The Culture and Evolution of Family Firms in Britain and Italy in the Nineteenth and Twentieth Centuries," *Scandinavian Economic History Review* 47 (Winter 1999): 24–47.

3. Miguel Ángel Gallo, *La sucesión en la empresa familiar* (Barcelona, 1998); Colli and Rose, "Families and Firms," 25.

4. *Actualidad Económica* 127, no. 2 (1999), special issue on "Empresa Familiar," 45–162; "Internacionalización de la empresa catalana: Una realidad," *Cataluña Económica* (1998) 58–63; Eugenio Torres, ed., *Los 100 Empresarios Españoles del siglo XX* (Madrid, 2000).

ably enlarged the section of Italian industrial capitalism "controlled" by family-owned corporations. Some very dynamic, family-controlled firms, such as Benetton, Del Vecchio (Luxottica glasses), Riva, and Lucchini (specialty steels), bought large sections of the formerly state-controlled concerns in distribution and in the iron and steel industry. On the other hand, the development of hierarchies inside the dispersed productive structure of the industrial districts, from which some larger organizations are emerging, does not in any way challenge the traditional family ownership form.[5]

Debate regarding the performance of family firms has sometimes pivoted on unfavorable comparisons, especially in terms of growth and capacity for innovation, to the American-style corporation.[6] It can be counterproductive to meet every criticism of family capitalism with an example of its strength, and it is far more important to place business in general, and family firms in particular, within a wider framework accommodating national and sometimes regional characteristics, with different institutional and cultural settings. Recently researchers have demonstrated that it is misleading to view "family firm" as a generic phrase, easily translated across economic and cultural boundaries. Indeed, the definition of family business may vary internationally, and the family ownership form may display different capabilities in specific societies.[7] Thus, it is important to avoid a rigid definition of family firms that masks the impact of family members on strategic decisions. Consequently, although the British definition—a firm of which "a family member [is] chief executive officer, [and where] there are at least two generations of family control [but where] a minimum of 5 percent of voting stock [is held] by the family or trust interest associated with it"—can be applied to the Spanish examples over the last fifty years, the significance of a specific level of financial control is only part of the story.[8] This is also true in the Italian examples, in which traditionally family ownership over large corporations is maintained through the use of hold-

5. Andrea Colli, "Pocket Multinationals: Some Reflections on 'New' Actors in Italian Industrial Capitalism," in *Transnational Companies 19th–20th Centuries*, ed. Hubert Bonin et al. (Paris, 2001), 155–78.

6. Alfred D. Chandler, Jr., *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass., 1990), 286.

7. Roy Church, "The Family Firm in Industrial Capitalism: International Perspectives on Hypotheses and History," *Business History* 35 (Oct. 1993): 7–43; Panikkos Poutziouris and Francis Chittenden, *Family Businesses or Business Families?* (Leeds, 1996), 6–7; Colli and Rose, "Families and Firms."

8. Derek F. Channon, *The Strategy and Structure of British Enterprise* (London, 1973), 161. Miguel Ángel Gallo, "Empresa familiar: fortalezas y trampas" in *Jornadas sobre la Empresa Familiar*, ed. Sindicato Empresarial Alavés (Vitoria, 1995), 10–11.

ing companies, agreements, cross shareholdings, and the issuing of stocks carrying multiple voting power. This allows the founders and their families to raise resources on financial markets while also controlling the company with only a small fraction of the share capital.

What is crucial is the extent to which a family is able to mold company decisions through personal influence on leadership succession, sometimes unfettered by any formal institutional regulation of governance. Although financial leverage may be critical, we can also link power to societal attitudes concerning family as much as to the precise level of a family's stake in a company. In Italy, for instance, we see "outsiders" fired for failing to give family interests preeminence over economic considerations and family insiders preferred to outsiders as a matter of course in several leading Italian businesses. Indeed, we should use the concept of family business relatively strictly in Italy because, especially among the largest private groups in the country, families (which often are defined by relatives' partnerships) usually retain a significant proportion, often the majority, of the capital and have their members among the top executives.[9] Consequently, in the Italian context, family firms really are just that.

Recent research on international differences in family firm behavior tends to involve two-country comparisons.[10] This work has revealed a strong relationship between national institutional, political, and cultural differences and the behavior and capabilities of family businesses. However, two-country contrasts have their limits. Explanations of the survival of powerful family businesses in Italy, but their relative decline in Britain, have demonstrated that different relationships among banks, industry, and the state were a vital distinguishing feature between the two countries. Yet the suspicion could remain, given the continued importance of family firms throughout the Mediterranean region, that a cultural north-south divide existed in Europe. By including a second Mediterranean country, Spain, in the comparison, we can explore the limits of the idea that "southern European" values transcend national boundaries. Certainly, nineteenth- and twentieth-century Britain was by no means a model for governance patterns in northern Europe. This is not a problem, however; it merely emphasizes the importance of exploring businesses against their national and local contexts rather than making assumptions about somewhat vague regional value systems and characteristics.

9. Colli and Rose, "Families and Firms," 43.

10. Colli and Rose, "Families and Firms"; Mary B. Rose, *Firms, Networks, and Business Values: The British and American Cotton Industries since 1750* (Cambridge, U.K., 2000), 58–98.

Family firms played a key role in the early industrialization of Britain, Spain, and Italy and diverged after the Second World War, with a relative decline in the importance of family capitalism in Britain. This is not particularly surprising and merely echoes earlier findings. In this article, however, we not only focus on the differences between Britain and the two Mediterranean countries but also explore the distinctions between Italian and Spanish family firms (the result of regional and national contrasts in social, political, economic, and institutional forces) that originated in the nineteenth century and continue today. By highlighting some of the similarities in experience among all three countries, we cast further doubt on the idea of a north-south divide, emphasizing instead the complexity of the picture. We begin our analysis in the context of both transaction cost theory and theories of networks before discussing the various elements of the informal and formal rules of the game influencing family business. Consequently, we discuss the role of institutional forces, including laws on taxation, limited liability, and inheritance, alongside value systems and training during industrialization. We assess why, given some remarkable similarities in the experiences of family firms in the three countries during industrialization, large family businesses remained far more powerful in Spain and Italy than in Britain. Although the results were similar in the two Mediterranean countries, we emphasize that the forces influencing family business power were very different in Spain and Italy.

Family Firms, Network Values, and Institutions

As a response to external uncertainty, the family firm has increasingly been interpreted as a network of trust that is, in turn, embedded in a wider locus of connections often centered on the local business community.[11] Especially during the early stages of industrialization, but also in some mature economies, the family and its surrounding community have frequently been seen as the ideal interface between firm and market. Thus, although the family might represent an internal market for managerial labor and a source of market information and of funds for establishment and expansion, the boundaries of the family business have usually lain within a larger group with shared culture and values.[12] Such family-centric networks are

11. Rose, "The Family Firm"; Colli and Rose, "Families and Firms."

12. Mark C. Casson, *The Entrepreneur* (London, 1982), 302–7; Casson, *The Economics of Business Culture* (Oxford, 1991), 169–70; Casson, "The Economics of the Family Firm," *Scandinavian Economic History Review* 47 (Winter 1999): 10–23.

not simply historical anachronisms. Large, relatively stable groupings are an important characteristic of many twentieth-century developing economies, especially in Latin America and Asia.[13]

The notion that family firms are embedded within social networks of trust implies that shared values and attitudes influence both family and business behavior. This approach lies at the heart of recent work on family business, where informal rules of the game underpin external networks with other firms and with other organizations, most particularly the state. Moreover, international comparisons reveal significant differences in behavior between firms in nations with divergent cultures and various types of family relationships.[14] The impact of these forces also applies to the internal arrangement of firms, where social norms relating both to family behavior and to the aspirations of individual business leaders may shape strategies such as leadership succession that may themselves be internationally distinctive. Succession strategies, embedded deeply in a defined culture, are a good starting point for discussing the differences among family firms in various institutional environments. In risky environments the family has provided "protection against the economic consequences of uncertain adverse events," especially in the sphere of management and the choice of future leaders. Where the objectives of family and firm are united, close networks of trust have the advantage of ensuring a combination of incentives, effective monitoring, and loyalty to protect against the danger of managerial impropriety.[15]

If insiders are typically preferred to outsiders, in family firms the process of securing generational transition is fraught with conflict and may be the most traumatic internal shock facing a business, as well as the crucial issue facing all family firms.[16] Moreover, though

13. Harry W. Strachan, *Family and Other Business Groups in Economic Development: The Case of Nicaragua* (New York, 1976).

14. Colli and Rose, "Families and Firms," 27–30; Casson, "Economics."

15. Robert A. Pollack, " A Transaction Cost Approach to Families and Households," *Journal of Economic Literature* 23 (Fall 1985): 581–608.

16. Robert G. Donnelly, "The Family Business," *Harvard Business Review* 42 (July-Aug. 1964): 261–72; Harry Levinson, "Conflicts That Plague the Family Business," *Harvard Business Review* 49 (March–April 1971): 346–52; Louis B. Barnes and Simon A. Hershon, "Transferring Power in the Family Business," *Harvard Business Review* 54 (July–Aug. 1976): 387–95; Martin Daunton, "Inheritance and Succession in the City of London in the Nineteenth Century," *Business History* 30 (Oct. 1988): 269–86; Mary B. Rose, "Beyond Buddenbrooks: The Family Firm and the Management of Succession in Nineteenth Century Britain," in *Entrepreneurship, Networks, and Modern Business,* ed. Jonathan Brown and Mary B. Rose (Manchester, U.K., 1993), 127–43; Philip Scranton, "Build a Firm, Start Another: The Bromleys and Family Firm Entrepreneurship in the Philadelphia Region," *Business History* 35 (Oct. 1993): 115–41; Fernández Pérez, "La empresa familiar."

the Buddenbrooks syndrome is given little credence, evidence does suggest that persistent insider succession (over several generations) may give a firm an inward- rather than an outward-looking business culture.[17] This occurs in part because, if the cultural norms of the host society influence the external behavior of family firms, there are inextricable links between the culture of individual family firms and the hopes and aspirations of the founders or their successors. Because of the intimate ties of the culture of any business to its leaders, changes at the head can influence business culture and a firm's internal and external relationships and the way these change through time: "For the entrepreneur, the business is essentially an extension of himself. . . . And if he is concerned about what happens to his business after he passes on, that concern usually takes the form of thinking of the kind of monument he will leave behind."[18]

By reinforcing business culture, insider succession may provide the foundation for long-term strategies by reducing transaction costs. Yet, if business leaders have gleaned training and experience within the firm or family circle, this may restrict the firm's ability to respond to external challenges or alter internal organization. Training and experience within the firm should be balanced against an outgoing business leader's network of contacts, which may be commercial, financial, or knowledge-based, and which represent an element of the firm's intangible assets.

It is ironic that the process is so conflict-ridden, because one of the principal aims of insider succession in family firms is to reduce uncertainty by maintaining family control. Although by no means the only factor determining survival or prosperity in family businesses, the tumultuous nature of generational transition has been identified as one of the principal reasons why family firms are often short-lived.[19] Even a casual reading of the specialist literature on family firm management, much of it relating to American and British firms, confirms the view that the passage of a business from a founder to his or her successor is likely to involve difficulty.[20] Yet

17. Mary B. Rose, "Networks and Leadership Succession in British Business in the 1950s," *European Yearbook of Business History* 1 (1998): 57–74; Fernández Pérez, "La empresa familiar."

18. Neubauer and Lank, *The Family Business*, 145.

19. Sudipt Dutta, *Family Business in India* (New Delhi, 1997), 32; Michael Lescure, "La demografía empresarial en Francia: Primer balance de las investigaciones históricas en curso," *Revista de Historia Industrial* 10 (Summer 1996): 201; Gallo, *La sucesión*, 14–18.

20. Donnelly, "The Family Business," 261–72; Levinson, "Conflicts That Plague the Family Business," 346–52; Barnes and Hershon, "Transferring Power in the Family Business," 387–95; Gallo, "Empresa familiar"; Gallo, *La sucesión*, 13–14.

the form and intensity of such conflict and the ways to remedy it are likely to vary internationally. Moreover, the difficulties of securing an orderly succession are far greater during times of economic hardship than in prosperous periods. The realization of the need for training for succession and the form that this training takes are also likely to vary among countries. Attitudes toward education and the relationship between education and business also mold succession strategies. The combination of these forces, along with differences in attitudes toward the family, affect the boundaries, capabilities, and internal behavior of family firms in different countries and even in the same country. They make anything so simple as a north-south divide in the evolution of personal capitalism highly questionable.

Sources of Convergence and Divergence in Family Firm Behavior

Personal capitalism became synonymous with European business from the industrial revolution to the twentieth century. The evolution of family firms in the late eighteenth and early nineteenth centuries was inseparable from the deeply uncertain economic environment, the institutional background, the attitudes toward the family and its members, and the culture of the local business community. These forces influenced the shapes and capabilities of firms, their financing, and the way they managed labor in most sectors of the economy. Although some important and anticipated similarities of experience emerged in Britain, Italy, and Spain, family firm behavior varied considerably, especially during the later phases of industrialization. Local and national customs, attitudes, and laws, as well as differences in economic, social, and political circumstances influenced the evolution of strategies of leadership succession and variations in the relative political power of families in the three countries.

Company Law

The legal framework for companies represents one of the institutional underpinnings of family business and is part of the formalized "rules of the game." One of the most distinctive features of British company law was the Bubble Act of 1720, which outlawed the joint-stock company and, more specifically, limited liability. Yet, if the Bubble Act of 1720 contributed to the popularity of the private partnership in British business, the partnership's very fluidity and flexibility, combined with the ingenuity of the legal profession in skirting round the act's more restrictive clauses, made the form attractive throughout the economy for over a hundred years. Long after the repeal of the Bubble Act in 1825, manufacturers, retailers, and merchants favored the partnership as a method of management and finance that truly united ownership with control.[21] Unlimited liability became inseparable from the culture of family firms in Britain for much of the nineteenth century.[22] It provided a guard against speculation and led to the assumption that the majority of those who became partners, and hence had a financial stake in the firm, would be active and drawn from close family, personal connections, or others with shared values and outlook. Faith in this device, for the security of private business, led to vehement opposition to attempts to change the law of partnership in the 1830s, a decade after the repeal of the Bubble Act. These attitudes remained strong among many prominent businesspeople right up to the company law reforms of 1856 and 1862. Consequently, it was not until the 1880s that the popularity of the partnership began to wane to any significant degree, and even then, only a small proportion of firms became public companies. Most were merely converted family partnerships where ownership and control remained united.[23]

Because the family firm was a response to market failure during the early stages of industrialization, it comes as no surprise that in the eighteenth century and for much of the nineteenth family partnerships also proliferated in most branches of manufacturing, commerce, and finance in Italy and Spain. Joint-stock companies were normally confined to public utilities and to other ventures where financial requirements were considerable.[24] What is rather more surprising is that the legacy of the Bubble Act for British business seems to have been exaggerated as a reason for the slow divorce of ownership from control and as the institutional force distinguishing British from Continental business.[25] Even without equivalent experience,

21. Peter Mathias, *The Transformation of England* (London, 1979), 103–4; Rose, "The Family Firm," 64.

22. James B. Jefferys, *Business Organisation in Great Britain, 1856–1914* (New York, 1977), 6.

23. Rose, "The Family Firm," 65–66.

24. Ibid., 63–69; Albert Carreras and Xavier Tafunell, "National Enterprise, Spanish Big Manufacturing Firms (1917–1990), between the State and the Market," Economics Working Paper 93, Universitat Pompeu Fabra, 1994, 6–7; Jesús María Valdaliso, *La navegación regular de cabotaje en España en los siglos XIX y XX: Guerras de fletes, conferencias y consorcios navieros* (Vitoria, 1997), 103; Franco Amatori and Andrea Colli, *Impresa e industria in Italia dall'Unità ad oggi* (Venezia, 1999), 31; Vera Zamagni, *Dalla periferia al centro* (Bologna, 1990), chap. 2; Rosario Romeo, *Breve storia della grande industria in Italia, 1861–1961* (Milano, 1991), 19.

25. Philip L. Cottrell, *Industrial Finance, 1830–1914: The Finance and Organization of English Manufacturing Industry* (London, 1979), 63–68.

business owners in Spain and Italy were also reluctant to limit liability by using joint-stock companies. In Spain, for example, entrepreneurial family partnerships, based on unlimited liability, remained the norm until after 1950, despite a series of legislative measures facilitating incorporation, measures which began in 1829 and continued with subsequent laws in 1848, 1865, and 1885. Only in finance and transport was limited liability popular in the nineteenth century.[26]

In Italy joint-stock companies were covered by statute in 1865. Even before the unification of the country in 1861, a few examples of joint-stock companies were active in the peninsula, and they were under the close public control required by the almost universal Napoleonic commercial code.[27] Nevertheless, joint-stock companies remained a rarity, restricted to the industries of the second industrial revolution. They began proliferating during the late nineteenth-century industrial takeoff, which was followed by a reform of commercial legislation in 1882. Limited liability was, from the start, concentrated in transport, insurance, mining, and, to a small extent, iron-smelting industries. Some interesting but exceptional initiatives occurred in the textile sector before the First World War. At the beginning of the 1870s, for instance, only ten years after the unification of Italy, the Lanificio Rossi was founded in a small town near Venice. It was to become the largest joint-stock company in Italy in terms of capital. This company began in the early nineteenth century as a family company, owned and managed by the Rossi family. After the transformation of the enterprise into a joint-stock company, drawing finance mainly from across Lombardy, Alessandro Rossi remained the owner and the sole manager of the company. The Rossi firm was, however, an exception in an industry dominated at every level by small individual workshops or family partnerships.[28]

It would seem, therefore, that although the company law framework did create important rules of the game for family firm behavior, it was by no means the only force determining when and how ownership and control should be divorced. Rather, the key in all three

26. Paloma Fernández Pérez, *El rostro familiar de la metrópoli: Redes de parentesco y lazos mercantiles en Cádiz, 1700–1812* (Madrid, 1997), 125–83; Gabriel Tortella Caseres, "El principio de responsibilidad limitada y el dessarollo industrial de España, 1829–1869," *Moneda y Crédito* 104 (1968): 69–84; Carles Sudrià and Pere Pascual, "Financing a Railway Mania: Capital Formation and the Demand for Money in Catalonia, 1840–1866," *Financial History Review* 6 (Summer 1999): 127–45.

27. Alberto Caracciolo, *La storia economica*, in *Storia d'Italia: Dal primo Settecento all'Unità* (Torino, 1973), 677.

28. Paolo Ungari, *Profilo storico del diritto delle anonime in Italia* (Roma, 1974), 61.

countries lay partly in the financial requirements of particular industries.

Even then, the shift to limited liability joint-stock companies need not reflect a shift in governance and may be closely associated with the persistent role of the family. In addition, in the uncertain world of early industrialization, unlimited liability was attractive in Spain and Italy, as in Britain, precisely because it could deter speculation. This is not to suggest that the legal framework is irrelevant in shaping national business behavior. Instead, these findings demonstrate the importance of placing the rules of the game in the context of the economic environment.

Inheritance

Company law is but one dimension of the institutional framework within which business operates. We should consider it alongside other elements of the legal system, most particularly inheritance law. The interplay between these two elements may have important implications for patterns of ownership and control, as well as for the supply of entrepreneurs to family firms. The use of the joint-stock company, while facilitating business expansion, also could ease inheritance difficulties. The precise relationship between inheritance and the ownership and control of joint-stock companies is partly linked to whether partible inheritance or primogeniture prevailed. In Britain, therefore, where primogeniture was sometimes practiced, though by no means universally, joint-stock status created the basis for an income flow for younger siblings and family connections. The case should not be taken too far, however, for, as Roy Church has demonstrated, the evidence that family business owners in the late nineteenth and early twentieth centuries treated their businesses merely as income streams to support family hangers-on is, at best, ambiguous.[29]

In Italy the Napoleonic legal code stipulated a system of partible inheritance, but in practice the norm was primogeniture, and the law's prescriptions were adapted to business needs. The technique was to divide the whole assets of the family (adding the value of the shares to other assets and properties) among all the heirs but to give one of them control over the business, including all the manufacturing or commercial activity. This solution was common among the families involved in textiles and metalworking, especially during the first phase of the country's industrialization. For instance, cotton entre-

29. Church, "The Family Firm," 22–23.

preneurs often decided to transform their previously family-owned businesses into joint-stock companies to manage inheritance problems. In doing so they gave the majority of the voting stocks to those among the heirs who were entitled to run the company in the future.[30]

A single Spanish system of inheritance did not exist. Rather, primogeniture and partible inheritance customs coexisted in Spain, with different patterns predominating in particular regions. In Catalonia primogeniture was the norm during the earliest stages of industrialization, and the system created a ready supply of entrepreneurs for business, particularly from among those younger sons who did not inherit but who received monetary compensations from their parents. In several Catalan textile and metallurgical firms, primogeniture often led to a concentration of family wealth and power, greater longevity of firms, and relatively easy leadership succession from the last third of the nineteenth century. In contrast, in Spanish regions where Castilian customs of partible inheritance prevailed (in central and southern Spain), agro-industrial family firms tended to be short-lived because of the relative dispersion of family wealth and power.[31] During the incorporation wave of the first decades of the twentieth century, large family firms in which different generations coexisted faced the specific problem of how to support numerous potential managers within the firm. A frequent solution, both in regions practicing primogeniture and in those practicing partible inheritance, was to transform the large family firms into joint-stock family holding companies that secured incomes across the family. This step also had the advantage of reducing succession conflicts and avoided the loss of managerial control.[32] Large, dynamic family firms in both Italy and the Netherlands were also managed in this way, with the family controlling preferential voting shares in the administrative council.[33]

30. Roberto Romano, *I Crespi: Origini, fortuna e tramonto di una dinastia lombarda* (Milano, 1985).

31. David Reher, *La familia en España: pasado y presente* (Madrid, 1996); Paloma Fernández Pérez, "Bienestar y pobreza : El impacto del sistema de herencia castellano en Cádiz, el emporio del orbe (1700–1810)," *Revista de Historia Económica* 15 (Summer 1997): 243–68; Javier Moreno, "Empresas y empresarios castellanos en el negocio de la harina, 1778–1913," in *La empresa en la historia de España*, ed. Francisco Comín and Pablo Martín Aceña (Madrid, 1996), 187–200.

32. Torres, ed. *Los 100 Empresarios*; Francisco Comín and Pablo Martín Aceña, eds., *La empresa en la historia de España* (Madrid, 1996), 86; Jesús María Valdaliso, "Orígenes y desarrollo en la historia empresarial en España," *Príncipe de Viana: Suplemento de Ciencias Sociales* 17 (1999): 103.

33. Doreen Arnoldus, *Family, Family Firm, and Strategy: Six Dutch Family Firms in the Food Industry, 1880–1970* (Amsterdam, 2002), 375–77.

Women and Inheritance

Female inheritance patterns, the status of women's property, and women's changing roles in business are also crucial to family firm behavior and often varied internationally. Women directly and indirectly were vital sources of finance and contacts, and in all three countries marriage was an important way to reduce business transaction costs by extending the family network of trust.[34] However, differences in the legal and cultural status of women in the three countries, along with changes in women's status over time, had implications for family firm behavior and ultimately for leadership succession.

In Britain in the early nineteenth century, the legal status of married women with respect to business and property was such that, under common law, women existed only under the protection of their husbands. This meant that, although they were often de facto "partners" in business, they had no legal right to the capital of the firm or to other property. Yet, in a world where the interests of firm and family were so closely intertwined, the hidden financial roles of women should not be underestimated, for marriage and business were inseparable in this period. In those families practicing partible inheritance rather than primogeniture, marriages between cousins could often counteract the dilution of family wealth and also strengthen and extend networks of contact. Alternatively, marriage outside the immediate family group could bring with it additional sources of finance and contacts, while the establishment of trusts could enhance family and female security. Numerous examples exist of women who as widows inherited and developed ongoing businesses. These companies, such as Twinings, were especially concentrated in the shopkeeping and food and drink sectors, but they were also found in commerce and manufacturing.[35]

In early modern Spain strong regional differences led to a variety of cultural practices regarding women's inheritance rights, and those

34. Leonore Davidoff and Catherine Hall, *Family Fortunes: Men and Women of the English Middle Classes, 1780–1850* (London, 1987), 208–22; Paloma Fernández Pérez, "Mujeres y burguesía en el Cádiz del siglo XVIII," in *La burguesía española en la Edad Moderna*, ed. Luis Miguel Enciso Recio (Valladolid, 1996), 281–98; Fernández Pérez, "El declinar del patriarcalismo en España: Estado y familia en la transición del antiguo régimen a la edad contemporánea," in *Historia de la Familia, III*, ed. James Casey and Juan Hernández (Murcia, 1997), 379–93; Fernández Pérez, "Tolerance and Endogamy: Entrepreneurial Strategies in Eighteenth-Century Spain," *Journal of European Economic History* 29 (Summer 2000): 285–90; Giorgio Fiocca, ed., *Borghesi e imprenditori a Milano dall'Unità alla prima guerra mondiale* (Roma-Bari, 1984); Bairati, "Le dinastie imprenditoriali."

35. Davidoff and Hall, *Family Fortunes*, 208–22.

practices influenced family firm strategies, especially leadership succession. In Castille the practice of partible inheritance could protect the welfare of women and children in the short run. However, the resulting wealth division could lead to family poverty and bankruptcy. Research on elite families in eighteenth-century Cádiz suggests that a common way around this problem was to finance the social promotion of some men with outstanding political or military careers that brought extra income. Alongside this was the practice of sending some daughters to nunneries to avoid further divisions of wealth. Widowhood was the most common reason that women went into business. Significant numbers of women ran workshops and mercantile companies, although often only until a male relative could take over. Long-distance travel by male business owners, especially in mercantile firms, sometimes required women to replace them during their long absences from home. This was especially true in sixteenth-century Seville and in eighteenth-century Málaga, Cádiz, and México City.[36]

In most Spanish regions, however, the men who received the capital ran the business. The income from land or buildings or some other source of permanent rents supported women. This practice remained the norm well into the twentieth century in large family firms. For instance, the two founders of the wine company González and Byass began planning for succession in the mid-nineteenth century, and in 1870 they brought in two Byass sons and two González sons as new partners. The Spanish partner, Manuel María González Angel, gave two hundred barrels of the best and most expensive wine to his two eldest daughters as their inheritance but withdrew all their other rights to income from the company. Sometimes intermarriage could strengthen businesses, as did the link between Gordon's, the sherry exporters, and González and Byass. In 1877 the eldest González son, Pedro Nolasco, married into the Gordon family at the same time that he succeeded his father as head of González and Byass.[37]

In Castilian regions progressively patriarchal Spanish civil law systematically eroded women's inheritance rights.[38] This did not mean that women were never involved in management; rather, they repre-

36. Mary Elizabeth Perry, *Gender and Disorder in Early Modern Seville* (Princeton, N.J., 1990); García Villar and María Begoña, *Los extranjeros en Málaga en el siglo XVIII* (Córdoba, 1982); Fernández Pérez, "El declinar"; Silvia M. Arrom, "Marriage Patterns in Mexico City, 1811," *Journal of Family History* 3 (Fall, 1978): 389–91; Elizabeth A. Kuznesof, "Household, Family and Community Studies, 1976–1986," *Latin American Population History Newsletter* 14 (1987): 9–11.

37. Fernández Pérez, "Challenging the Loss of an Empire," 82–83.

38. Fernández Pérez, "Bienestar y pobreza," 349–63.

sented a hidden resource, and their participation often went unrecorded. Recent research shows that in some Catalonian family metalworking firms, such as Codina of Capellades and Roca Radiadores in Manlleu, the founder's wife or daughter played fundamental executive roles in accountancy and in technical production during the early stages of the firm's development. In Italy, although there is evidence of female entrepreneurship, usually to manage a transition period after the death of the founder and before the first male son came of age, women generally had no direct role in business and lost any rights upon marriage.[39]

Although evidence of women in business in Italy is elusive, examples can be found of Italian women playing prominent roles in an enterprise's survival. An excellent example is Irene Rubini, the daughter of an important textile and iron industry entrepreneur, Giuseppe Rubini, from Lake Como in Lombardy. Together with her brother Giulio, she was expected to inherit her father's share, but she was not expected to run the business. In 1863 she married Enrico Falck, the only son of Georges Henry Falck, an Alsatian engineer hired by her father to run the iron plants in Dongo, near the northern part of the lake. The marriage had lasted fifteen years when in 1878 Enrico, who had set up a flourishing ironworks in Lecco (located on the eastern side of the lake), suddenly died, leaving Irene alone with three children. Because Giorgio Enrico Falck, the couple's only son (and the future founder of one of the most important steelworks in the country), was too young to run the business, Irene took over the role of entrepreneur, helped by her brother Giulio, who also acted as a tutor for her three children. Irene was fully involved in the day-to-day management of the firm until 1887, when Giorgio Enrico came of age. He became the sole owner and manager of the firm after his sister Luigia married Costante Redaelli, another important local entrepreneur and merchant in iron and steel.[40]

The Informal Rules of the Game: Community and Religion

Social and economic conditions, combined with poor communications, meant the embedding of family partnerships in local business communities in all three countries during the early period of industrialization. The choices of successors by family firm owners rein-

39. Bairati, "Le dinastie imprenditoriali."
40. Amatori and Colli, *Impresa e industria*, 37, 117, 120.

forced this state of affairs, often embracing both the local business community and religious groupings. How much this was a way to greater business stability, perhaps combating both external uncertainty and the conflicts within the immediate family, is unclear. Whatever the motive, the result was the same, with business strategies entwined with the values and aspirations of the local community. Indeed, in Britain the Test Acts seriously constrained the opportunities for religious nonconformists, while in traditional professions shared beliefs provided a coherent basis of collective trust in business.[41] The Quakers represented one important nonconformist network in Britain, as did the Unitarians, and the role of Jews in London's trade and banking communities is well documented. Yet, if minority groups were overrepresented among successful family businesses in Britain, nonconformity by no means dominated British business networks. Irrespective of which denomination held sway in a city, the general acceptance of codes of conduct and shared attitudes by a community could provide a powerful force for collective activity within localities.[42]

The role of locality and of minority groups in business was every bit as important in nineteenth-century Spain and Italy as it had been during the British industrial revolution. In Spain localized entrepreneurial networks formed the foundation of wide-ranging commercial links that extended well beyond individual regions. This was especially the case in the Catalan textile industry, with products sold throughout Spain.[43] Spanish colonial and ex-colonial urban centers created external networks for Catalan, Basque, French, Italian, and Irish groups. These immigrant groups formed very strong business networks whose overseas contacts gave them an international orientation. Their marriage and residence strategies reinforced networks based on their common geographical and cultural origins. Irish merchants such as Michael Hore, Lawrence Lee, and Joseph Warnes came to Cádiz in the early eighteenth century to escape religious wars at home, and they became well integrated into the commercial communities of their adoptive cities. Operating in the colonial trade and using their Irish connections, they created localized business networks that extended to other Spanish cities, such as Málaga, or

41. Ann Prior and Maurice Kirby, "The Society of Friends and the Family Firm, 1700–1830," *Business History* 35 (Oct. 1993): 66–85.

42. Robin Pearson, "Collective Diversification: Manchester Cotton Merchants and the Insurance Business in the Early Nineteenth Century," *Business History Review* 65 (Fall 1991): 379–414.

43. Assumpta Muset i Pons, *Catalunya i el mercat espanyol al segle XVIII: Els traginers i els negociants de Calaf i Copons* (Barcelona, 1997).

to the Canary Islands. This led to the exchange of capital, information, and strategic support among very distant cities within Spanish territories.[44]

In Italy, another Catholic country, ethnic minorities operating in local business communities played a significant role in building family firm networks. A good example is the Jewish community in Milan, which built up an impressive range of entrepreneurial activities in finance and banking. Similarly, the northern textile districts often pivoted around nonconformist religious groups.[45] In northern Italy, from the first half of the nineteenth century, foreign (mainly Swiss) entrepreneurs dominated the cotton industry. Attracted by low labor costs and a growing consumer market, they came to Piedmont and Lombardy. Recent research has shown that these networks of entrepreneurial families were extremely dense and cohesive. These traits stemmed from the closed communities effectively created by the families' Protestant religion; trust became a strategic asset, especially for firms active in banking and financial services.[46] This description is particularly true of the Protestant community in Milan. From the beginning of the nineteenth century, a growing number of foreign entrepreneurs migrated there from Switzerland and Germany, settling in Lombardy to manufacture textiles. The network included the Kramer family (from Frankfurt), who were active in the cotton industry; the Mylius family (also from Frankfurt), who were involved in banking and the commerce of textiles; and the Vonviller family (from St. Gallen, Switzerland), operating in the same sectors as the Kramers and Myliuses, and in many others as well. Common language, geographic origin, and nonconformist religion united this social network. The network proved strategic in some important manufacturing initiatives in which high levels of trust reduced uncertainty. Wealthy nonconformist entrepreneurs were the primary providers of capital for Elvetica, founded in Milan in 1850 mainly to produce spare parts and machinery for the silk industry, and the company's work force shared the same reformed religion and Swiss origins.[47]

It would be easy to assume that the key religious difference likely to affect family firms across Europe was whether they were in predominantly Catholic or Protestant countries. Indeed, the north-south

44. Carlos Martínez-Shaw, *Cataluña en la Carrera de Indias, 1680–1756* (Barcelona, 1981); Fernández Pérez, "Tolerance and Endogamy."

45. Cinzia Martignone, "La comunità dei commercianti: gli imprenditori evangelici a Bergamo nell'Ottocento," in *Storie di imprenditori*, ed. Duccio Bigazzi (Bologna, 1996), 136–55; Martignone, *Imprenditori protestanti a Milano, 1850–1900* (Milano, 2000).

46. Martignone, *Imprenditori protestanti a Milano*.

47. Ibid., 51.

distinction could be defined roughly in religious terms. However, despite the predominance of Catholicism in Italy and Spain and of Anglicanism in Britain, clearly marked similarities in the roles of community-based and religious groupings developed in all three countries. These similarities suggest that the significant issue was the embedding of family businesses within a network, linked by intermarriage, of shared values, often (but not exclusively) minority values. It was this interconnection and its accompanying benefits of trust and knowledge that were significant, rather than subscription to any particular religious creed.

Preparation for Leadership Succession

The informal and formal rules of the game were clearly important dimensions of the business environment in the eighteenth and nineteenth centuries in all three countries. However, the effects on firms of the lengthening shadow of the founder through the process of succession and the choice and training of future business leaders are also significant. Within family networks there resided a considerable depth of skill and knowledge, reinforced through time to form the basis of individual firms' or groups of firms' competitive advantages. This situation accorded succession strategies considerable importance, for they hinged on the training of potential future leaders, often within the firm. Succession arrangements in all three countries were somewhat ad hoc, yet failures in succession planning could lead to the involvement of management consultants whose reports might influence the prevailing culture of a family business and indeed of the entire family. That said, consultants' reports were often so controversial that they were rejected, leaving the firm no alternative but to "go public" and alter the financial basis of the company. [48]

Local business communities became the reservoir of skill and knowledge in Britain, Spain, and Italy. In nineteenth-century Lancashire, the classic industrial district, there is ample evidence of the way in which business knowledge evolved within families and localities, giving each distinctive characteristics. Moreover, formal technical and higher education also developed within Lancashire towns, closely linked to the needs and business profile of the community during the nineteenth century. In Spain and Italy local business communities gave priority to formal business education earlier in the

48. Gallo, *La sucesión.*

process of industrialization than did those in Britain, perhaps reflecting the priority accorded by local and national governments in countries that were generally later industrializers to catching up with other nations. In Spain, although knowledge and training for merchants was often acquired through personal contacts within the family firm or those of relations, local technical colleges and engineering schools were set up to train businessmen and to finance trips abroad. By 1850 the Barcelona Junta de Comercio, founded and managed by local Catalan entrepreneurs, pioneered professional training in engineering, design, trade, and commerce.[49] In Italy, too, localized systems of production provided traditional on-the-job training, a model clearly linked to the handicraft traditions embedded in the history of Italian manufacturing districts. From the second half of the nineteenth century, however, and occasionally earlier, a growing number of technical schools provided a more sophisticated and systematic education. Usually these institutions, such as the Setificio in Como and the Aldini-Valeriani in Bologna, which specialized in mechanics, were founded and managed through the support of local entrepreneurs.

Where Italy and Spain differed from Britain was in the provision of managerial education. In Britain, although management schools were not established until the 1960s, the bachelor of commerce degree with its emphasis on accountancy did evolve before 1939 in a number of institutions, including the universities of Liverpool and Manchester.[50] In both Spain and Italy the first two decades of the twentieth century saw the founding of formal, private institutions teaching professional and new management methods to members of well-known family firms. These new commercial and business schools spread in the industrialized northern regions of Italy and Spain. They taught managerial processes and ideas that were especially useful for the large firms of the first and second industrial revolutions. However, though business schools in the United States and Britain were associated with the shift toward managerial companies, in Spain and Italy they actually reinforced personal capitalism, largely because these schools were not financed by the state. Networks of family firms supported modern business schools in northern Italy and Spain, and the schools reflected the needs of large family firms rather than the promotion of a shift to corporate enterprise.

49. Ramón Garrabou, "Lescola d'Enginyers Industrials de Barcelona (1851–1936)," in *Tècnics i tecnologia en el desenvolupament de la Catalunya contemporània*, ed. Jordi Maluquer de Motes (Barcelona, 2000).

50. Robert R. Locke, *Management and Higher Education since 1940: The Influence of America and Japan on West Germany, Great Britain, and France* (New York, 1989); Rose, "Networks and Leadership Succession."

In Italy the most important of these schools was Bocconi, founded in 1902 as an Institute for Commercial Education. Ferdinando Bocconi, an entrepreneur pioneer of large-scale distribution and founder of the first Italian chain of department stores (lately transformed into La Rinascente), initially endowed it. From the very first, Bocconi was a link between the academic world and industry. By providing advanced education in economics, accounting law, commerce, and organization, it made an invaluable contribution to the improvement of human capital needs. In general, Bocconi's students were drawn from wealthy entrepreneurial families, a trend that created a new well-educated cohort of family managers and entrepreneurs. From the early 1880s onward, Milan had been a center of technical and scientific education, and Bocconi built on that tradition. Bocconi provided a model for similar developments in Spain a decade or so later. In 1916 the Universidad Comercial de Deusto was founded in Bilbao to meet the needs created by the commercial techniques of the shipbuilding and iron and steel industries. In the 1950s, the founding of other new business schools in Madrid and Barcelona, under private and public initiative, served to professionalize the management of Spanish firms in old and new economic sectors.[51]

This evidence of relatively sophisticated community-based technical and business education at an early stage in the industrialization of both Italy and Spain is at odds with common perceptions about European industrialization. The assumption is that, of the peripheral nations, the Nordic rather than the Mediterranean countries invested in education.[52] Clearly, the idea of a north-south divide in terms of business knowledge transfer and improvement is not sustainable. Instead, the evidence for Italy and Spain reinforces the idea of the close relationship between such education and the economic needs of particular localities rather than specific national characteristics.

Dynasty and Concentration of Power

High eighteenth- and nineteenth-century bankruptcy and failure rates suggest that most firms in all three countries were short-lived in this

51 José Antonio Colinas Aguirrebengoa, *Historia de la Universidad Comercial de Deusto, 1916–1966* (Bilbao, 1966); Colinas Aguirrebengoa, *Cincuenta años de historia de la Asociación de Licenciados en Ciencias Económicas por la Universidad Comercial de Deusto, 1922–1972* (Bilbao, 1974); Javier Fernández Aguado, *Historia de la Escuela de Comercio de Madrid y su influencia en la formación gerencial española, 1950–1970* (Madrid, 1997).

52. Robert Fox and Anna Guagnini, eds., *Education Technology and Industrial Performance in Europe, 1850–1939* (Cambridge, U.K., 1993); Maxine Berg

period; given the high proportion of small firms, this finding is entirely predictable. Yet in each country, large, long-lived, elite firms emerged, and from these it is possible to derive some insights into leadership succession and the relative power of family firms in the economic system. In nineteenth-century Britain, dynastic tendencies existed in a range of industrial sectors, including cotton, iron and steel, coal, and hosiery. Although some firms were large, they did not dominate their sectors, nor were groups of them able to exert any significant political power. Even in the most economically powerful industries, such as cotton, iron, and steel, the collective leverage of individual families or family groups was limited in the nineteenth and early twentieth centuries. Only among the financial "aristocrats" of London, including families such as the Rothschilds and the Barings, was there sufficient social cohesion with those in government to influence policy significantly.[53]

In Spain, on the other hand, dynastic power emerged in a number of industrial and commercial sectors. Some of the best-known families in the dynamic industrial sectors of the nineteenth century include the Bonaplatas, the Corominas, the Echevarrietas, the Larrínagas, the Rivières, the Rocas, and the Miquel y Costas Hnos. Dynasties were especially common where firms were connected with expanding or very dynamic international markets, such as the sherry export trade of González and Byass, the domestic-oriented wheat trade of the López Dórigas, and textile production.[54] Dynasties developed in textiles, metalworking, and the commodities trade, none of which were especially capital-intensive sectors. In Italy, too, large and powerful family groups, which became self-reinforcing through time, evolved in heavy and staple industries. Dynasties emerged in capital-intensive sectors and included firms such as Fiat, Pirelli, and Olivetti; there were also some large firms in the iron and steel indus-

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and Kristine Bruland, eds., *Technological Revolutions in Europe: Historical Perspectives* (Cheltenham, U.K., 1998).

53. Rose, "Beyond Buddenbrooks," 127–43; Steven Tolliday, "Tariffs and Steel, 1916–1934: The Politics of Industrial Decline," in *Businessmen and Politics: Studies of Business Activity in British Politics,* ed. John A. Turner (London 1984), 77–90; Peter. J. Cain and Anthony G. Hopkins, *British Imperialism: Crisis and Deconstruction, 1914–1990* (London, 1993); Rose, *Firms, Networks and Business Values*, 133–55.

54. Jordi Nadal, "Los Bonaplata, tres generaciones de industriales catalanes en la España del siglo XIX," *Revista de Historia Económica* 1 (Spring 1983): 79–95; Fernández Pérez, "Challenging the Loss of an Empire," 72–87; Javier Moreno, "Los López Dóriga: Historia de una saga empresarial santanderina, 1770–1914" in *Economía y empresa en el Norte de España*, ed. Pablo Martín Aceña and Montserrat Gárate (San Sebastián, 1994), 287–312; Josep Maria Benaul, "Família i empresa en una nissaga de fabricants llaners sabadellencs: els Corominas, 1759–1874," *Arraona* 13 (Spring 1993): 9–26.

try and in textiles. Rossi and Marzotton, for example, are in the woolen industry; Crespi Cantoni, Caprotti, and DeAngeli, in the cotton industry.[55]

The relationships among finance, succession policies, and control in all three countries from the late nineteenth century until the Second World War were intimate and symbiotic. In Britain, Spain, and Italy, therefore, most limited companies on the eve of the First World War remained private and were little more than converted partnerships. Among public companies, too, families making flotations ensured that they held equity, with its attendant voting rights, so that the divorce between ownership and control was distinctly limited, even in public companies. By 1919 in Britain, 55 percent of the top two hundred companies had family board members. The trend of confirming family control in public corporations rose during the interwar period, especially in brewing, shipbuilding, and food.[56] Joint-stock status allowed families to deal with inheritance issues; the judicious holding of voting shares ensured that families maintained control of their firms. This pattern was also found in Spain, where there was little evidence to suggest that ownership and control were separated before the Second World War. In fact, the 1951 Spanish law on limited liability, which reformed the 1885 legislation, allowed family firms to adopt the limited form (Sociedad Anónima, or S.A.) but also stated that separation of ownership and control was not strictly necessary. Families could even write private legal agreements to avoid free circulation of shares outside the company, "due to the old tradition observed in some Spanish regions which creates limited liability firms for modest entrepreneurial purposes." In the 1950s and 1960s Spanish lawyers deplored the legal difficulties that arose when family and business were so intimately related.[57]

Yet if Britain and Spain were similar in the way firms were controlled and financed until 1945, Italy was unusual, because the fi-

55. Maria Cristina Cristofoli and Maurizio Pozzobon, *I tessili milanesi: Le fabbriche, gli industriali, i lavoratori, il sindacato dall'Ottocento agli anni Trenta* (Milano, 1981); Romano, *I Crespi*; Giorgio Roverato, *Una casa industriale: i Marzotto* (Milano, 1987); Colli and Rose, "Families and Firms."

56. Peter Payne, "Family Business in Britain in the Era of Industrial Growth," in *Family Business in the Era of Industrial Growth*, ed. Akio Okochi and Shigeaki Yasuaoka (Tokyo, 1984), 174.

57. Ngô Bà Thành, *La Sociedad Anónima Familiar (Ante la ley española de 1951)* (Barcelona, 1963), quotation at p. viii; José Puig Brutau, "Algunas consideraciones sobre la llamada Sociedad anónima familiar," *Revista Jurídica de Cataluña* 5 (Fall 1958): 567–76; Paloma Fernández Pérez, "Leadership Succession in Spanish Family Firms," in *Business and Society: Proceedings of the Third European Business History Association Conference "Business and Society,"* ed. Anne-Marie Juijlaars, Kim Prudon, and Joop Visser (Rotterdam, 2000), 503–11.

nancial underpinnings of business, intertwined as they were with the state, greatly increased the concentration of power and the political leverage of heavy industry in much the same way that they did in Germany before the Second World War. This was especially true in capital-intensive sectors, such as iron and steel, which family-controlled joint-stock companies largely dominated. The reinforcement of family power in these sectors stemmed from the emergence in the 1890s of universal banks patterned after the German model. The banks' representatives often sat on company boards beside family members, taking responsibility for management only in an emergency, but freeing families from financial constraints.[58] This pattern continued during the interwar period, when ties with the state were strengthened. Dominant families and individuals ran capital-intensive industries alongside state-owned firms after the formation of the Istituto di Ricostruzione Industriale (IRI) in 1933. The IRI was a public-owned holding company controlling a considerable section of the Italian big business in capital-intensive industries, and the state increasingly emerged beside IRI as an "entrepreneur" in Italy. Against the close relationship between the state and heavy industry, the power of entrepreneurial dynasties was so great that a few families (the Agnellis, the Pirellis, the Falcks, and others) were remarkably like medieval feudal lords. They literally dominated and ruled entire industries in which the corporations they controlled maintained a stable monopolistic or oligopolistic position.[59] The system created industrial groups controlled by financial holdings also partially or totally in the hands of the same group of families.[60]

Family Firms after 1945

Only after the Second World War was there a marked decline in the significance of family business in western Europe, apart from the Mediterranean countries. Then it becomes possible to identify most of the deviations in family firm behavior and succession strategy as springing from a combination of institutional and cultural differences. However, the cumulative impact of the past undermined more than the power of British family firms. Major changes—both financial and legal—from the 1940s onward also had a major impact. For example, "the 1950s marked the beginning of a period of change

58. Antonio Confalonieri, "Banca e industria in Italia (1894–1906)," Banca Commerciale Italiana (Milano, 1975); Zamagni, *Dalla periferia*, 173.

59. Ettore Conti, *Dal taccuino di un borghese* (Bologna, 1986), 432.

60. Amatori, "Growth via Politics."

which culminated, by the end of the 1960s, in a corporate economy dominated by institutional investors and where, although family firms remained numerous, the role and relative power of large family businesses was much diminished."[61] Changing educational and employment opportunities in the 1950s made reliance on the family firm for support less of an imperative, while the trend toward corporate enterprise saw a shift toward the use professional managers, although insider succession remained the norm.[62]

In both Spain and Italy, by contrast, alterations in educational opportunities reinforced rather than undermined family succession by improving the formal education of insider successors. Especially in large Spanish family firms, such as González and Byass in the 1960s and the Rocas in the 1970s, professional managers became involved in the top management, but, more generally, education as part of the training for succession became a crucial element of familial meritocracy. In the Basque Country and in Catalonia, big family firms supported and participated actively in the foundation of business schools such as the Escuela Superior de Técnica Empresaria (ESTE, San Sebastián, 1956), Instituto de Estudios Superiores de la Empresa (IESE, Barcelona, 1958), and Escuela Superior de Administración y Dirección de Empresa (ESADE, Barcelona, 1958). The executive managers of big firms in the most important economic sectors in each region (iron and steel, shipbuilding, logistics, construction, textiles, and chemical industries) could learn about management and organization while building their social networks.

Biographies of entrepreneurs in these regions and sectors show that after the 1950s the senior managers of large family firms (usually family members) earned higher degrees either in Spain or overseas.[63] In science-based sectors, this professionalization of family management was often a requirement, and failure to achieve a degree of specialization often meant low levels of internal power in the family firm and control of less valued activities, such as administration of the firm's fixed patrimony. During the 1970s and 1980s improved educational opportunities, combined with new attitudes toward women's role in the labor market, led to a redefining of the family in Spain and prompted the inclusion of female family members in executive positions. This was especially true in a few well-known large firms in the food and drink industries, such as Codorniú,

61. Maurice W. Kirby, " The Corporate Economy in Britain: Its Rise and Achievement since 1900," in *Business Enterprise in Modern Britain,* ed. Maurice W. Kirby and Mary B. Rose (London, 1994), 162.

62. Rose, "Networks and Leadership Succession."

63. Torres, ed., *Los 100 Empresarios.*

González and Byass, and Calvo. More rarely, it occurred in capital-intensive firms, such as Codina and Roca Radiadores in Catalonia in the iron and steel industries.

The reinforcement of family control was especially pronounced in Italy in the postwar period, certainly until the 1980s. Indeed, familialism was so embedded in Italian business culture that from the 1950s to the 1970s even professional managers were almost entirely subject to the family will. Although there was a considerable improvement in the managerial culture among Italian family firms, we still find a familialistic climate inside the most important corporations, with few exceptions. Among the most dynamic, internationalized Italian corporations, including Benetton, Barilla, Ferrero, and Pininfarina, insiders are still preferred over outsiders in key strategic managerial positions, although this bias is never openly admitted. As a result, families own and manage nearly all the leading firms, and inheritance patterns still determine transmission of top positions.[64]

The prolonged survival of powerful family firms was a feature of both Spanish and Italian business development, even in the recent past, although the forces at work were not always identical. In Spain, and especially among northern Spanish families, wealth has remained sufficiently concentrated for businesses to exert considerable political power in ways simply not available to British firms. This power comes into especially sharp focus when viewed in the context of inheritance taxes. In Britain the inheritance tax fundamentally and permanently altered family firm behavior. In 1949, for instance, a sharp rise in death duties to a top rate of 80 percent, part of the Labour government reforms to redistribute income, encouraged some firms to abandon family control. The Economic Intelligence Unit estimated in a 1951 report that, faced with the prospect of increased death duties, 17 percent of firms took some form of anticipatory action, many choosing to go public.[65] If this legislation undermined the financial viability of many family businesses, the 1948 Companies Act helped to shift the balance of power in British business toward finance capital and the business corporation.[66]

This outcome is in sharp contrast to the impact of similar legislation in Spain. There, the transition to democracy during the 1970s led to a number of economic reforms designed to bring economic convergence with the rest of Europe in both macro- and (by implica-

64. Colli and Rose, "Families and Firms," 42–43.

65. Cedric Thomas Sandford, Joseph R. M. Willis, and Donald J. Ironside, *An Accession Tax* (London, 1973), 134.

66. Colli and Rose, "Families and Firms," 40–43.

tion) microeconomic terms. These included significant tax reforms, because trade and industry historically had contributed little to state revenues in Spain. In 1977 and 1978 new taxes on entrepreneurial wealth and profits were introduced, and death duties were increased to help finance the transition to democracy and counteract the inflationary spiral initiated by the 1974 oil crisis. The combined impact of economic crisis and increased taxation on family businesses was fast and drastic: bankruptcies, especially among family firms, began to multiply during the 1980s.[67] In Britain family business owners mustered no effective or noticeable response to rising death duties, which had rapidly undermined the power of families and contributed to the shift to financial capitalism. It is hard to see how they could have responded effectively, given the historical limitations of the business lobby in Britain and the relatively dispersed nature of family ownership.

In Spain the Francoist regime had preserved and reinforced family ownership and management, particularly in economic sectors in which the public holding company Instituto Nacional de Industria (INI), created in 1941, had no major interests. The greater relative power and organization of family businesses in sectors in which private interests prevailed helps to explain why in Spain, in contrast to Britain, large family firms transformed outrage into effective political action and bolstered the position of personal capitalism in the late 1980s. In 1991, with the support of the Catalan government, the Instituto de la Empresa Familiar was formed. It included the 104 largest Spanish family firms (around 20 percent of Spanish family businesses) and lobbied Madrid for a reversal of the legislation of 1977 and 1978. During the late 1990s and at the beginning of the twenty-first century, this institute (with similar initiatives taking place in Europe and in the United States) did much to reinforce networks between big family firms, at the national and international levels, and political decision centers. The lobby has progressively secured significant legal reductions in death duties, profit taxes, and inheritance taxes. These reductions have contributed to the survival and transition of family firms, effectively reversing the trend away from family control and succession in Spanish business.[68] In Italy, on the other hand, there have been no changes in death duties equivalent

67. Emilio Albi, *Fiscalitat i empresa familiar* (Barcelona, 1993); Francisco Comín, "Tax Systems, Equity and Economic Growth in Spain, 1845–1985," in *Tax Systems in Historical Perspective: Equity or Growth?* ed. Francisco Comín, Daniel Díaz-Fuentes, and Ecart Schremmer (Madrid, 1999), 83–87; Fernández Pérez, "Leadership Succession."

68. Artur Mas, "El motor del avance," in *Actualidad Económica* 127, no. 2 (1999): 156; *La Vanguardia*, 1998–2002.

to those found in Britain and Spain. Instead, historically close ties and reciprocity between the state and family business, especially in capital-intensive sectors, has meant that the state has not significantly increased the tax burden associated with family succession.[69]

It might be thought that the shift in the governance of western European business that began in Britain in the 1950s, in Spain in the 1970s, and in Italy in the 1980s (at least among large-scale firms, though not among small and medium-sized businesses) would have had repercussions for leadership succession. We might anticipate that the divorce of ownership from control would wrest power from those controlling the management of firms, increase the power of the shareholders, and reduce the importance of insider succession. Stakeholders would then be in a position to challenge the leadership of a company and lobby in favor of outsiders, if performance declined. At least initially, several forces may have diluted this tendency, even in Britain. First, share ownership alone is not the best indicator of control; what is crucial is the distribution of shares of differing categories. The family could sustain control of strategy by retaining a minimum of 5 percent of the voting stock.[70] In Spain, too, share ownership is not a good indicator of control. Indeed, since the 1970s "family control" has resided in a group tied by kinship or marriage that has "operative control irrespective of share ownership."[71] Second, even with a true divorce of ownership from control in Britain in the 1950s, individual shareholders held very limited power, and there were no rules regarding a quorum for the annual general meeting. The increasing role of "finance capital" and the trend toward financial interlocks with industrial and other companies placed institutional shareholders in a position in which they could influence strategy generally and leadership succession in particular.

We need more research to establish how far and in which ways financiers influenced the choice of leadership in British business in the 1960s and 1970s. In the 1950s, however, one of the catalysts that encouraged a change in ownership of firms is likely to have indirectly reduced the role of financiers. The sharp rise in death duties in 1949 was a potent, though by no means the only, force leading family firms to go public. The Estate Duties Investment Trust (EDITH) was established in 1952 to provide financial help to companies facing the prospect of possible liquidation because of the higher duties. Unlike the merchant banks and securities houses, such as the Charterhouse Group, Neville Industrial Securities, Minster Trust, Bir-

69. Colli and Rose, "Families and Firms," 44–45.
70. Sandford, Willis, and Ironside, *An Accession Tax*, 137–38.
71. Joaquín de Arquer, *La empresa familiar* (Pamplona-Barcelona, 1979), 12.

mingham Industrial Trust, and Singer and Frielander, all of which would purchase the shares of firms facing death duties, EDITH did not require board representation. It was, accordingly, popular with family firms, indirectly reinforcing insider succession and the power of individual families.[72]

The impact of finance capital in the Spanish economy has grown rapidly since the mid-1980s, after the reversal of much Francoist legislation concerning banking and foreign investment and particularly after Spain's integration into the European Community, when foreign institutional investors increased their participation in Spanish firms.[73] In Italy in recent years, finance capital has become increasingly important without significantly undermining the power of families and family succession, largely because, although in Italy institutional investors began to operate in the 1980s, the regulation of collusion and illegal practices—or the equivalent of the Cadbury Code for British corporate governance—did not occur until 1998. Conversely, foreign institutional investors have agreed to buy a substantial stake in firms, leaving control and management with the founders and their relatives. This is quite common, especially among new, promising midsized firms operating in international niche markets. Such enterprises are currently expanding and very profitable, so there is no reason for institutional investors to interfere in day-to-day management.

Even though there were significant differences in the relative power of family firms in Britain after 1945 compared to those in Mediterranean countries, it is fair to observe that after the Second World War insider succession remained a characteristic in all three countries in family businesses, blurring the impact of any divorce of ownership from control. Moreover, in some cases what amounted to family managerialism in corporate enterprises emerged.[74] Insider succession took on a number of guises in large manufacturing corporations. At one extreme were the large family-controlled corporations such as the British Wedgwood, Cadburys, Pilkingtons, and Tate and Lyle, and the Spanish Rivières (until 1978), Rocas, and González Byass, where successive generations of a founding family retained strategic control after the Second World War. In Britain, for instance, Tate and Lyle drew successive chairs from the two families, whose members continued to dominate the board until the 1960s. In less

72. Sandford, Willis, and Ironside, *An Accession Tax*, 139.

73. Emilio Ontiveros and Francisco J. Valero, "Sistema financiero: cambios estructurales e institucionales," in José Luis García Delgado, ed., *España, economía: ante el siglo XX* (Madrid, 1999), 271–302.

74. Rose, "Networks and Leadership Succession"; Fernández Pérez, "La empresa familiar."

obvious family corporations, however, "managerial families" emerged who lacked any significant financial stake but whose members dominated and sometimes plotted succession. For example, Sir Walter Benton Jones followed his father to United Steel, and Sir Allen George Clarke made provision for his son to succeed him at Plessey's in the 1950s. At the General Electric Apparatus Company, on the other hand, Hugo Hirst made formal succession plans concerning who was to succeed him as chair and succeed Max Railing as CEO. Their successors were to be drawn from among the existing "ruling" families and were, respectively, Max's brother and Hirst's brother-in-law, an uncomfortable and indeed, for the company, unfortunate compromise between the two families.[75]

In the British cases, insider succession exacerbated existing industrial difficulties by reinforcing an inward-looking culture in poorly performing firms. Similar succession-related difficulties occurred in the Spanish industrial firm of Rivière in the late 1970s, when the fourth and the fifth generations clashed because of the lack of acceptance of a central authority. External professional consultants were hired, and members attended the best management courses at IESE on how to deal with family succession problems. Theory and counseling were not effectively put into practice, however, and individualist solutions blocked decision-making processes during a financial and industrial crisis, thus leading to the end of a century-old family firm.[76] These problems also affected two of Italy's most prominent family corporations, Fiat and Pirelli. The succeeding generations in these firms were probably no less able than their predecessors, but they entered top managerial positions with less experience and, above all, in a very difficult period. Similarly, the case of Olivetti illustrates a major failure in the management of succession. After the death of Adriano, the very able son of the founder, Adriano's son Roberto was not able to keep the family united and to convince them to pursue the promising but new and risky business of computing. After a period of serious financial difficulties, a group of investors led by Mediobanca rescued Olivetti and sold its computing activities to General Electric.[77]

The prevalence of internal succession in all three countries was perfectly predictable, but research has shown that, although insider succession may be important to secure some continuity, it is unlikely

75. David Jeremy and Christine Shaw, eds. *Dictionary of Business Biography: A Dictionary of Business Leaders in Britain in the Period 1860–1980,* 6 vols. (London 1984–86) 3: 539 and 1: 679; Robert Jones and Oliver Marriot, *Anatomy of a Merger: A History of GEC, AEI and English Electric* (London 1970), 197–202.

76. Fernández Pérez, "La empresa familiar."

77. Amatori and Colli, *Impresa e industria*, chap. 19.

to have a particularly revitalizing effect on firms, whether successors are family members or those who have gained their business experience exclusively within the firm. "Insiders" may become "embedded in organizational inertia" so that change, especially structural and strategic change, will occur more rapidly with an outsider.[78] Yet we should not take this argument too far; although insider succession may pose a problem in large firms, in small- and medium-sized firms in, for instance, Italy's dynamic industrial districts, insider succession based on training and a tacit knowledge of skills has contributed to competitive advantage.[79] Indeed, such skill and training become important externalities within industrial districts, while the knowledge embedded within families is an important intangible asset of individual companies.

Conclusions

Family business was clearly important to the industrialization of Britain, Spain, and Italy, with firms evolving in remarkably similar ways to compensate for market failure and uncertainty during the eighteenth and nineteenth centuries. What is striking, however, when one compares the twentieth-century experiences of family businesses internationally, is the impact of different historical, cultural, and institutional forces and the implications they have for the power of families within both their businesses and their respective economies. In Britain, although families remain important in small- and medium-sized businesses, institutional and social changes have undermined the power of large family firms in ways that were not replicated in either Spain or Italy even at the end of the twentieth century. Although insider succession remained the norm in British business in the 1950s, the impact of institutional investors increasingly counterbalanced family power despite changing ownership patterns.

In Spain and Italy, on the other hand, at least until the late 1970s a changing environment served to reinforce the power of the family and to dilute the impact of outside influences on the management of family businesses. In turn, family succession bolstered and was bolstered by the political power of family firms. Profound political, economic, and cultural changes that took place in Spain in the 1970s

78. Margaret F. Wiersema, "Strategic Consequences of Executive Succession within Diversified Firms," *Journal of Management Studies* 29 (Spring 1992): 73–94.

79. Guido Corbetta, *Le imprese familiari: Caratteri originali, varietà e condizioni di sviluppo* (Milano, 1995).

must account for the relatively new ownership and management patterns that emerged. In Spain, the last two decades of the twentieth century witnessed an increase of corporatism and finance capital and a decrease in the number and the informal political power of large family firms. Familialism has been and is still quite important among middle-sized and small firms in Spain since the 1980s, but large family firms are transforming their leadership succession strategies in a peculiar and distinctive way. Outsiders and finance capital are increasingly influential, as has been the case in Britain since the Second World War, while at the same time connections between firms and national and regional political decision centers have been forged as in Italy, though in a more institutionalized and less personalized way.

The persistence of the political and economic power of family firms in Spain and Italy, in contrast to their relative impotence in Britain since 1945, is our most notable finding. There are a number of reasons for this phenomenon. First, in Britain the state-devised norms and rules (including tax changes and limited liability) restricted or at least reduced the attractions of family firm succession far earlier than was the case in Spain and Italy. Second, neither Spain nor Italy experienced the same transformation of financial markets that occurred in Britain after 1945. Neither of these factors, however, fully explains the persistence of the political-economic power base linked to the family firm in both Italy and Spain. The crucial historical factor ultimately distinguishing these two Mediterranean countries from Britain is the existence in Spain and Italy of a weak central state and strong, regionally focused families. In Italy, for instance, the family firm embedded in its locality remained prevalent and dominant because of political compromise. Unlike those in Britain and, for different reasons, in the United States, regions in Italy have more political power than the central state. In Spain, too, although family firms lost many long-standing privileges following Franco's death, networks of large family firms effectively regrouped and maintained their power with a strong regional base.

The persistence of family firms' political and economic power in Spain and Italy as contrasted with their relative impotence in Britain surprises no one and reflects the stereotypical north-south divide in business behavior. Yet researchers have given very little attention to explaining divergences in family firm strategies and power between Mediterranean countries or analyzing them within a broad historical or comparative framework. We clearly demonstrate that the most noticeable divergences among all three countries (not just between north and south) occurred after 1945. We also show that institutional factors, most especially the role of the state and legislation, had fundamental effects on the evolution and needs of entrepreneurial networks in each national framework. Finally, we point out the error of differentiating between northern and southern patterns of family firm behavior. The United Kingdom clearly differed from other northern European economies, and Italian and Spanish large family firms behaved in particular and sometimes contrasting ways, demonstrating no distinctive Mediterranean pattern.

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