Strategies and Structures of European Enterprise

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Une grande diversité d’approches
Alfred Chandler pointed out how US large corporation adapted to expansion of mass consumption by changing from "functional organisation" (U. Form) to "operational organisation" (M. Form). This model was systematically introduced in the Western Europe after W.W.II. This adoption of an American model was not total because of a smaller concern for marketing (in Germany), or because of a persistent holding organisation (UK, France, Italy). Through the 1970’s-1980’s the model of big multidivisional and managerial corporation was criticized but kept progressing, as pointed it the recent experience of privatisations, adapted to national specificities, because of persistent concentration of shareholding (UK, Italy), resistant individual capitalism (Germany), or heavy weight of state (France).

STRATÉGIES ET STRUCTURES DES FIRMES EUROPÉENNES

Alfred Chandler a montré comment la grande entreprise américaine s’est adaptée à l’essor de la consommation de masse par le passage d’une organisation fonctionnelle (U. Form) à une organisation opérationnelle (M. Form). Ce modèle a été introduit de façon systématique en Europe occidentale après la seconde guerre mondiale. Cette adoption du modèle américain n’a pas été totale, en raison d’une moindre préoccupation portée au marketing (Allemagne), de la persistance d’une organisation en holding (Royaume-Uni, France, Italie). Durant les années 1970-1980, le modèle de la grande firme multidivisionnelle et managériale a été critiqué, mais il a continué de progresser, adapté aux spécificités nationales, comme le montre bien l’expérience récente des privatisations, en raison de la concentration persistante de l’actionnariat (Royaume-Uni, Italie), de la résistance du capitalisme individuel (Allemagne) ou du poids très fort de l’État (France).

Mots clés/ Key Words : Stratégies et structure, gouvernance d’entreprise, grande entreprise, diversification, divisionalisation, économies d’échelle, économies de diversification ; Strategies and structure, corporate governance, large corporation, diversification, divisionalisation, economics of scale, economics of scape.

STRATEGIES, STRUCTURES AND THE WEALTH OF NATIONS

Strategy and structure studies have undoubtedly a father. In 1962 after a series of articles on the topic appeared in the Business History Review since 1956, Alfred Chandler publishes Strategy and Structure, a book that will mark an era.
for business history and managerial studies.\textsuperscript{1} The volume’s argument is very well known. At the eve of World War One, large corporations in the United States were governed by an organizational structure based on functions. It has not been an easy point of arrival since it has been necessary to unify different realities (factories, laboratories, centers of distribution, administrative centers). This unitary form (since then known as U-Form) of company governance became at least partially obsolete after World War One given the rising phenomenon of productive diversification. The glut of the original market compelled companies to enter in close sectors—a move also favored by the institutionalization of the Research & Development function. Large corporations were pushed towards diversification by a number of other reasons, among which a major role was played—albeit only in some industries such as food and beverages—by relevant economies of scope (e.g. in distribution). The diversification in markets close to the original one was stimulated also by risk-diversification policies which spread among top management during the Great Depression, as well as by the growing efficacy of antitrust policies, which were challenging the \textit{de facto} monopolistic positions of many first movers in their own industries. Moreover, during the same years America’s largest corporations started to spend their competitive advantages in the global market. This compelled them to adapt their organizational structures to the new requirements of production and distribution strategies which had to be undertaken on an international basis.

All this called for a decentralized form of organization, a difficult passage since it means to diffuse power in the company often overcoming resistance of owners and top managers. The structure that resulted from the entire process was the multidivisional corporation (M-Form), characterized by divisions built around a product-market or a geographical area, supervised, coordinated, evaluated and eventually restructured by a headquarters. The divisions are endowed with a central office and with all the company’s functions. The headquarters on its turn is equipped with a robust staff for all the functions so that it can lead the entire ensemble specializing in the strategy function, \textit{i.e.} taking care of the health of the entire corporation in the long run.

A particularly important aspect of such a diversification path is that it invades fields close to the original sector of the company, so that it is possible to transfer to the new activities already existing technical and managerial resources. It is on the basis of this technological and managerial common ground that the headquarters can positively dialogue with the divisions, can deeply understand what they are doing and thus be “patient” and supportive. In the end the relationship between headquarters and divisions takes place on the ground of the \textit{real economy}.

The result of the diversification process undertaken by the largest US corporations was an increase in operating efficiency, as well as in the responsiveness to market fluctuations. The results were outstanding in terms of financial performances of the single business units, which could enjoy the economies and capabilities at the corporate level. Moreover, the growing diffusion of the new organizational structure was accompanied, especially from the years following

the Second World War, by an apparently unchallengeable growth in the American economic power on a global scale. This point is fully caught by Chandler, thanks to his capability of using a comparative method to link micro and macro—a perspective that will even be reinforced in his following major works, *Visible Hand and Scale and Scope*. In *Strategy and Structure* the study of the largest 70 corporations “per asset” in 1948 and the fact of having singled out the distinctive features of the most dynamic part of them, *i.e.* the strategy of diversification followed by the organizational change that brings to the M-Form, made Chandler write at the end of his research:

“the coming of this new strategy and with it the new structure, is of paramount importance to the present health and future growth of the American economy… The institutionalizing of the policy of diversification does help to assure continued production of new products, to cut costs and raise the efficiency of American industry. Such a development is far more significant to the economies’ overall health than production increases in the older basic industries”. (Chandler [1956], p. 125.)

**An Emerging Consensus**

The “new” organizational form gained immediately (*i.e.*, almost from the second half of the Sixties) a growing academic consensus. New institutional economists saw in this complex organizational artifact a device more efficient than the market itself in the allocation of resources and gains. One of the main theoretical assumptions descending from the implicit superiority of the M-form was its superior efficiency *per se*, since it was able to solve, better than other organizational forms, the problems arising from the enlarging scale of corporate activity, included transaction costs. In the words of Oliver Williamson,

“It was untenable, however, after the publication of Chandler’s book, to hold that the internal organization of the corporation was economically unimportant. In the language of transaction-cost economics, the large, unitary form structure was beset with both bounded-rationality limits and opportunistic distortions. The ability of the management to handle the volume and complexity of the demands placed on it became strained and even collapsed in the large U-form enterprise. This was a manifestation of bounded rationality. Furthermore, managers of the functional parts were sometimes given to subgoal pursuit at the expense of overall enterprise achievement, which reflects opportunism. The creation and refinement of the M-form concept served to correct both”. (Williamson [1982], p. 107.)

The main advantage of the multidivisional form, as captured by organizational theorists (Williamson [1975]; Armour and Teece [1978]), was the presence of control systems which stimulate divisions to pursue appropriate goals, the separation of strategic and operating decisions, superior techniques of information and control. Under the financial point of view, the M-Form is designed to develop internal capital markets which are more efficient than external one, avoiding transaction costs and increasing efficiency in allocating resources by a well-informed top management (Teece [1981], p. 175).

The legitimization of the M-Form was not, however, an easy process. Immediately after the Second World War, large and diversified corporations were
considered quite critically especially in terms of their market power and of the possibility of internal cross-subsidization, which was seen as anti-competitive by many commentators and by a large share of the public opinion (Goold and Luchs [1993], p. 7-8). The reality, however, imposed itself. Thanks to their superior performances, diversified large firms were admired and studied also abroad. The skills of US top general managers, able to confront themselves with a broad set of complex problems, were clearly the main asset of this model.

Above all, the interest towards diversification and multidivisional structure grew in Europe from the late Fifties onwards, in coincidence with the outstanding growth of the economy. What was really needed in the Old Continent was the same kind of general management skills available in the US.

The Harvard Project

It was certainly on the basis of these theoretical acquisitions and of the climate characterized by the obsession of the “American challenge” that with the support of the Division of Research of the Harvard Business School in 1970 was started a project on four European countries – United Kingdom, Germany, France and Italy. The project gave origin to four studies, partially published, about the European enterprise, plus a fifth one analyzing in depth the US case (Rumelt [1974]) which represented a kind of “benchmark” for valuating the findings of the other country studies.

The research took into consideration the twenty years between 1950 and 1970, and it examined the first 100 companies (by sales) for each country. Taking advantage of the further elaboration of the Chandlerian model by Bruce R. Scott and Leonard Wrigley, the authors used a more accurate classification than the original one both for strategy and structure. For the latter they defined “single business” a firm whose total sales are for 95% or more concentrated in one activity; “dominant business” when besides other related or unrelated initiatives 70% of the sales are in one business; “related business” when one business does not overcome 70% of total sales; “unrelated business” when firms diversify into activities that have no market or technology in common. For strategy, in addition to the functional and the multidivisional considered by Chandler they point out the existence of a “functional-holding” structure, that means a company in which managers immediately below the top management lead function areas for the major part of the business while for the rest heads of subsidiaries report to top management; “holding structure” when the activities of various subsidiaries are supervised and loosely coordinated by top management. The expected outcome of the research project given a similar environment is a convergence between the United States and Europe.

DIVERSIFICATION AND DIVISIONALIZATION IN EUROPE

As a matter of fact, the empirical results of the researches apparently support Chandler’s idea of a triumphant diversification strategy followed by a structural change that brings to the M-Form. In the United Kingdom in 1950 the corpo-
rate population showed little diversification, being diversified a quarter of the sample. The field was dominated by functionally structured companies or by loosely held holding companies, but in 1960 a noticeable change had occurred: the main category of product-market diversification was already the related-product group. A substantial number had adopted the multidivisional structure, even if the organization did not immediately follow the imperatives of strategy. In any case, by 1970 94% of the companies of the sample had diversified and 60% had moved into related or non-related products. The multidivisional organization had become the dominating form, so much that it can be found in 71% of the British first 100.

Similar is the situation in Germany. Between 1950 and 1970 the companies with related and unrelated diversified policies had increased from 39 to 56, while the multidivisional structures were dominating in 50% of the cases. The correlation between diversified strategy and divisional structure was particularly tight after 1960. But also in France it was possible to observe the same trend. Considering related and unrelated diversified companies together, the group of diversified ones grew rather steadily from 37 in 1950 to 52 in 1970, and if we consider the evolution of structures, the strongest change is the growth of divisional companies which increased from 6 to 54. But even in Italy the Chandlerian model seems winning, if in 1970 48 companies could be defined as multidivisionals.

In this changing process the “American challenge” plays a very important role. During the Sixties, Europeans had the sensation of being invaded by American multinationals, which proved to be superior especially in organizational terms. On the other hand the American contribution to the British economy was undeniable, given the fact that by 1965 US-owned companies manufactured 10% of the total British industrial production, and what was more impressive was that this US intervention was concentrated in high-tech sectors like pharmaceuticals and computers, but also in large consumption goods like automobiles, appliances, packaged foods. Moreover, these American firms brought along new technological and managerial know-how. Especially important was, in this respect, the introduction of new marketing techniques which in fact made possible a better market penetration through segmentation and product differentiation. Again in Germany we can observe a similar situation. Here particularly important was the work of American consultants and subsidiaries of US companies. There is a name that everybody recalls engaged in organizational change and this is McKinsey, the consulting company that helped to divisionalize more than a dozen of top German firms. In Italy the most important impact in the sense of change was represented by the activity of foreign multinationals, where were formed several Italian managers who thus became familiar with diversification and divisionalization techniques.

This pattern to “divisionalization” was to some extent the consequence of the Americanization of the European business culture (Schroeter [2002]), a process which accompanied the whole post-war period in all the four countries considered. The tendency towards diversification, however, was due to the pervasive modernization of the postwar European economies. The improvement of the general economic framework played a relevant role in this respect. In France for instance, in 1936 the employees in agriculture were 37.6% of the total labor force; in 1968 they had sharply fallen to 15.2%. During the same span of time, the employees in industry grew from 29.9% to 39.3%. Between 1950 and 1969 food and drink consumption had sharply fallen from 47% to 28.4% while housing, household equipment and maintenance moved on from 15% to 20.7% and...
transportation and telecommunication increased from 6.1% to 10.3%. On the other hand, the rate of growth of GNP between 1950 and 1970 was 2.7 for UK, 5.1 for France, 6.7 for Germany and 5.8 for Italy. The two decades were characterized by a progressive increase of demand, by the improvement in the investment system (mobilization of savings, self-financing, use of banking credits), by a growing concentration which permitted much more effective economies of scale, by the application of new production techniques and a better productivity, while at the same time innovation capability reduced the lag in the implementation of innovations, thus allowing the renewal of the markets. A general technical progress can be observed in all industries but traditional ones like steel, textiles, natural fibers had progressed less than automobiles and of the new sectors of the third industrial revolution like synthetic fibers, plastics or electronic equipment or consumption like TVs and Hi-Fis. All this occurs in a context of more intense competition given also the various agreements on liberalization of international trade. The steady growth of demand (both in quantitative and qualitative terms) opened new markets, filled by new entrants and well established producers which found new possibilities for expanding their dimensions. In this case, the pattern of growth was mainly through a diversification strategy from core activities.

DEVIAITON FROM THE MODEL

The formal introduction of the M-Form, though, does not always mean its real implementation at least according to the American model (Schroeter [1998], p. 109). For the United Kingdom, for instance, it is possible to say that the adoption of multidivisional structure for many companies was never completely realized. The British M-Form has been a sort of unaccomplished desire, especially for the management’s resilience in delegating power for the senior management’s will to actively take part in operations. In the end, we can observe that British corporations even adopting multidivisional structures were in fact characterized by previous organizational forms, as it is evident from the reward system still reluctant to be linked to divisional performances. But especially important as a difference with the Americans is the role and the function of headquarters, that in general was not so developed and functionally equipped as in the United States. Apparently in Germany there was more discipline in following the American model. Top managers in many cases were able to devote themselves to strategic activities without getting involved in direct operations. Nevertheless, even for Germany it would be superficial to talk of a complete convergence with the American model. First of all, diversification was not so widespread as it could have been, and in any case the diversification process never really fundamentally changed organizational features, even during the slow rise of the multidivisional company. But with respect to the typical American way there are specific differences, for instance in some companies the head of the division was collegial instead of being assigned to a single general manager. In some cases the division managers were not subordinate to a chief executive, but they were themselves the executive committee (Vorstand). Much weaker than in America were the positions of the controller and the marketing function in the sense that sales, distribution, promotion and advertising activities were never completely integrated in a supervisory function. Finally, the reward system did not emphasize the profit.
orientation of the divisions, as there was no precise link between management compensation and divisional outcomes.

In general, during the “European Miracle” all over Europe the holding maintained a substantial weight. This form, especially in the UK, had the main problem of showing an absence of centralized guide and positive coordination of the entire group. Apparently the holding company had a more positive meaning in Germany. Here it was the tool of family controlled conglomerates, very different from the American ones criticized by Chandler (Chandler [1994]) since the ownership kept a permanent commitment to the various branches respecting their autonomous needs and time horizons. In France the holding company has been employed as a transitional form towards multidivisionals during the twenty years considered. In France there were very important cases of dominant business and in these circumstances the holding company resulted more effective than the multidivisional. On the other hand the holding form blended better than the multidivisional with a regulated environment like the French one, in the sense that the leaders of the various branches could autonomously bargain with public authorities. In Italy a holding company—Montedison— is the first of the list. But in this case the evaluation is not positive, since this structure seems to combine the worst aspects of an autonomy similar to anarchy in the periphery with centralized autocratic decisions taken with little knowledge of the real problems.

Explaining the Anomalies

The European organizational anomaly in respect to the predominant American model was clearly linked to ownership and governance structures, to managerial cultures and attitudes, and to the dominant industries in the national economy.

As far as ownership and governance structures are concerned, beyond the differences among the various patterns of evolution of the national governance and financial systems some common features can be tracked which help to explain the origin of the European “deviation”. Basically, the outcome of the State involvement, together with a persistent family control, led to a considerable ownership concentration more or less in all the countries considered. Concentrated ownership via non financial firms reveals the existence of different structures in different settings. For instance, in the Italian case it is due to the diffuse presence of pyramidal groups aimed at maintaining high control rights, while in Germany it confirms a widespread use of the practice of cross-shareholding characterizing the “cooperative capitalism”.

The relative smaller dimension and the scarce degree of diversification characterising the European corporation can be partially explained by the ownership and governance characteristics, especially when family ownership is considered. Also in the case of the UK, which after World War II was characterized by a financial market more efficient than the Continental ones and was experiencing a progressive transformation of what Chandler nicknamed “personal capitalism”, the presence of family controlled enterprises appears as a hindrance to diversification and a real divisionalization under the fear of losing control. The same situation occurred in Italy, where managerial know how in relation to diversification and divisionalization processes was not absent, but where family ownership resorted only partially to it in order not to risk an excessive growth. In this way compa-
nies did not easily divisionalize and internationalize the spectrum of their activities. Management was evaluated more on the basis of loyalty to the family owner than in respect to the performances. State intervention seems to have had a minor influence in this respect and in any case more in Italy than in France, where during these decades for sure it had a larger impact on the industry structure than on the internal affairs of the companies. In the German case the ownership concentration had crystallized into a mix of family ownership, of intercorporate shareholdings, and of a competent supervision by the largest banks via proxy votes. Thus, the relative strength of unrelated diversification in Germany has been connected to “strategic choices based on family traditions and the personal interests, experiences and preferences of the owner” (Dyas and Tanheiser [1974], p. 97).

Nor less relevant in explaining the divergence are managerial attitudes. The diversification strategy is based upon the availability of general management skills which in the US case were produced by a mix of “in-company” training and of a long-standing tradition of business education emphasizing the existence of basic and universal principles of management applicable in a wide range of situations, industries and enterprises.

The American challenge was hence evident under the management side as well. US-style business schools started to be active in Europe from the Sixties onwards, trying to provide general management skills similar to those available to the large US corporations, overcoming a very different administrative culture (Goold and Luchs [1993], p. 9). For England managers have often been blamed of amateurishness and technical incompetence –for instance the incapacity of long term planning– fostered by the backwardness of business education still oriented to “the academic at the expenses of the empirical” (Channon [1973], p. 246). From this derived a persisting involvement in the operations of top management, its scarce capacity of control and long-term planning, the refusal to link rewards to performances –an element fully shared with Germany, France and also Italy. In the Continental case the evidence provided by the Harvard researchers stressed the negative influence on the diversification process deriving from an overwhelming technical orientation emphasizing production process and engineering abilities over profit-making and marketing– oriented strategies (Dyas and Tanheiser [1974], p. 38). France and Germany on the other hand shared a strictly hierarchical culture, which in Germany emphasized the role of the Unternehmer, in France of the President Directeur General. The tendency to centralization and to a low degree of power delegation which characterized the administrative culture in the two countries had a relevant influence on the adoption of the M-Form, the essence of which is based upon the delegation of full decisional power to the divisions’ top management. In the Italian case, the degree of autonomy of the divisions’ management seemed to be dependent more from the personality of the manager (and from his personal connections with the ownership) than from organizational considerations (Pavan [1973], p. 291).

Due to their academic orientation recalling the structure-conduct-performance paradigm, the Harvard group researchers took only partially into consideration the relationship among dominant industries and their life-cycle, ownership structures and the strategies adopted by the main corporations. In other words, the typical European orientation towards specialization and labour intensive industries, with the prevalence of technical competencies and product-oriented entrepreneurial ideology could affect both the prevailing ownership model (families and individuals could easily manage and finance companies with an average
dimension generally smaller than their American counterparts – Table 3) and hence the patterns of diversification. The result of a prevailing national mixage of industrial specialization, ownership structure and strategic orientation originated path dependent and not easily modifiable structural models – the European deviation (Palmer et al. [1987]; Thomsen and Pedersen [1999]).

Presenting their research in 1974 Dyas and Tanheiser were able to summarize the findings of the whole Harvard project stressing the increasing product-market diversification of the main European corporations during the two decades going from 1950 to 1970, with the parallel adoption of the divisional form of organization. In any case they were well aware of the European peculiarities, when they pointed out that “the long delay in the adoption of the divisional form [...] was strong in contrast to the experience of American enterprise” (Dyas and Tanheiser [1974], p. 30).

THE “BREAK” OF THE EIGHTIES

Up to the Seventies the Gospel of diversification spread all over the (industrialised) world. The Harvard group’s research represented at the same time the apotheosis and the “swan’s song” of the large, diversified corporation. From the second half of the decade, in fact, the link between the prevalence of this successful organizational form among the largest corporations and the wealth and success of the US economy started to be heavily criticized. The main point was that the US large, multi-divisional and multi-national firms were no longer the “top performers” of the world’s economy. The data available show an impressive and steady decline in the competitive performance of the largest US corporations during the late Sixties, the Seventies and the first half of the Eighties (Chandler [1994], Appendix B). The main problem was that this negative performance was only partially due to “external” factors, among which the resurgence and aggressive behaviour of the main European corporations in the Continental market and abroad (Franko [1976]), the Japanese economic miracle and a negative global economic cycle. The responsibility of the decline of the US corporation was given to the process of over-diversification undertaken by the top management under the pressure of foreign competition in international markets, and to the action of short-term-oriented institutional investors (Chandler [1992], p. 58). Growing unrelated diversification gave origin to huge conglomerates. Consultants had a relevant role in this process, providing the top executives with the techniques which made possible to manage their highly diversified companies “by numbers”, i.e. through the mere allocation of financial resources and not on the basis of the existing capabilities. One relevant consequence was that many of these companies became targets of corporate raiders, who widely used leveraged buy-outs to take over conglomerates selling the most valuable assets separately. Villains and robber barons (in the perspective of Chandler [1990]) or heroes and pure instrument of the capital markets’ reaction to corporate mismanagement (Sobel [1993]; Holmstrom and Kaplan [2001], p. 129) the raiders would be, the evidence is that the over-diversification period of the Seventies was quickly followed, in the first half of the following decade, by a radical change in the strategies adopted by the largest corporations.
Corporate Restructuring and Managerial Disciplines

The “new age” of corporate restructuring generated a new stream of studies in the theory of management. Consultants and scholars started to publish empirical research emphasizing the role of “core competences”, the strategic version of Chandler’s organizational capabilities. A book written by two McKinsey’s consultants opened the new era: in 1982 Tom Peters and Robert Waterman published *In Search of Excellence: Lessons from America’s Best-Run Companies*, explicitly criticising the strategies of related and unrelated diversification. In chapter 10, significantly titled *Stick to the Knitting*, they emphasized the successful behaviour of “excellent” companies for which the growth “has been internally generated, and home grown” (*ibid.*, p. 300). Their acquisition policy was limited, prudent, and based upon focusing on the original core business more than diversification.

The consequences of the new climate on the strategic behaviour of the largest US corporations were almost immediate. In an extensive research published in 1995 (*Diversification, Refocusing and Economic Performance*) a HBS-trained scholar, Costantinos Markides showed that, among the US Fortune 500, refocusing strategies were largely prevailing during the Eighties, reversing the over-diversification process which in the previous decades had brought to a sharp rise of costs and diseconomies (*ibid.*, ch. 2), with a negative impact on the firm’s value (diversification discount). This trend continued during the Nineties. The pressure of money managers (the funds) and in general of the market over top management was steadily oriented towards downscoping.

**WAS THERE A REAL CHALLENGE TO AMERICA?**

Beyond strategies, the challenge to the American model involved also the organizational side of diversification, *i.e.* the supposed positive and univocal relationship between the M-form and economic performance. The real world of international competition was showing, on the contrary, the need for a sharp contextualization of this relationship. First of all in chronological terms: the M-form was the prevailing organizational form in the post-war period, but for many reasons things could be different in the Eighties (see fig.1; Goold and Luchs [1993]). Second, the Japanese success, and its “deviant” model of corporate organization, emphasized the necessity of geographic contextualization of the multidivisional: what was good for America did not necessarily have to be adopted elsewhere. Third, the nature of industry and the dominant technology inside it do matter: some scholars started to examine the impact of new technologies on the organization of the production process, and the dawn of “de-verticalization” strategies, networks and other organizational structures (maybe not new at all –Piore and Sabel [1984]) were considered to be the sunset of the M-form. Institutionalists introduced the idea that the spread of the M-form was due to the economic and political US. hegemony, but with a scarce impact over domestic cultures which on the contrary successfully resisted to “Americanization” (Locke [1996]). Organizational sociologists increasingly scrutinized the multidivisional as a *locus* of struggle for power among different interest groups,
and not as the superior organizational form praised by Oliver Williamson (see a general discussion of all these approaches in Hoskisson et al. [1993], and Whittington and Mayer [2000], 51 ff. and p. 72-79).

**Beyond the M-form. Beyond the M-form?**

In 1993 Chris Bartlett and Sumantra Goshal published in the *Strategic Management Journal* and article whose title (“Beyond the M-form: towards a managerial theory of the firm”) sounds as the definitive epitaph of the multidivisional (Bartlett and Goshal 1993). It is a fascinating piece of research based upon a single case-study of an European, Swedish-based successful big multinational corporation, Asea Brown Boveri. In their perspective, the old and out-of-fashion M-form could be profitably replaced by a federation of small, aggressive, entrepreneurial entities (ibid., p. 42). Notably, the emphasis of Bartlett and Goshal is not on the firm’s dimensions (ABB was a successful large corporation), nor upon the degree of diversification, which was anyway high. The success was due, on the contrary, to the organizational structure which the top management gave to the firm itself. The two authors got the point: after more than a decade of critiques to the large and integrated enterprise, the “anachronistic” big business was still in power (Whittington and Mayer [2000], p. 49). Large firms persisted as the main centres for knowledge and wealth generation, as well as the most important factors of economic development.
The critique to diversification strategy and to its organizational mate, the M-form, contrasted with the absence of clear and undisputable evidence of a negative relationship between diversification strategies and performance. At least, it is an uncertain relationship (Markides and Williamson [1996]). For instance conglomerates seem to perform better than related-diversified firms, while when the degree of variability of the results is taken into account, related diversifiers show much more stability (Hill [1983]). Performances depend clearly also on the organizational structure but also on a broader set of elements among which are national culture and institutions (Whitley [1994]).

The European Divergence

Another challenge to the “vanishing M-form hypothesis” was brought by the fact that, despite the US-based fashion, an enduring diffusion of diversification strategies and of the M-form both in the US and Europe was clearly observable during the late Eighties and the Nineties. Alongside this, and maybe more surprisingly, the stubborn persistence of unrelated diversifiers could be detected (Whittington and Mayer [2000], p. 47). In other words, the decline in the number and relevance of multi-business firms appeared more as a specific US phenomenon. Things went differently elsewhere, and above all in Europe. According to the comprehensive research on the top-100 UK, German and French corporations published by Whittington and Mayer [2000], between the mid-Eighties and the first half of the Nineties it was possible to detect an increase of multi-business firms (especially among unrelated diversifiers), while single-business firms proved to be less and less relevant (Table 2 –referring to a different sample of 2000). This framework is, obviously, differentiated (Table 1), but it shows a substantial continuity with the pattern highlighted by the research of the Harvard group quoted in the first paragraphs of this article. In other words, diversification and the adoption of M-form structures is a dominant trend, but it coexists with a number of national peculiarities, in the choice of both strategies and structures. In the British case the pattern of diversification privileges related diversification, even if in dynamic terms it is unrelated diversification which shows the highest degree of diffusion. At the middle of the Nineties 61% of top UK industrial enterprises adopted related diversification strategies, and 24% were unrelated diversifiers, while 25 years before the same figures were respectively 57% and 6%. To this corresponds a more or less universal adoption of the divisional structure (Whittington and Mayer [2000], p. 174), adopted in 1993 by nearly 90% of the top-100. The German situation is slightly different. Here the relevance of diversification is more or less equally shared by related and unrelated diversifiers. The logic of conglomeration is, in sum, still followed. The dominant structures are in this case both the divisional and the holding-functional form. This has probably put in relationship with the “robustness” (Whittington and Mayer [2000], p. 172) of the conglomerate. France shows an interesting peculiarity: the persistence of non-diversification strategies (in the middle of the Nineties, 35% of the French top industrial corporations were adopting strategies based upon single or dominant businesses), and “conservative” diversification patterns (Whittington and Mayer [2000], 129 ff.). In any case, the functional structure is no longer used in France, substituted by the M-form and, to a much less extent, by the holding. In the last country analysed by the “Harvardians”, Italy, the economic slowdown
of the Seventies was contrasted by the main corporations through restructuring via the dismissal of not profitable businesses. This strategy, however, did not invert the trend towards diversification, which was on the contrary enhanced by aggressive financial strategies finalized to collect resources through leverage policies. In the Nineties the privatization process saw some of the most important Italian corporations diversify by taking over some of the most profitable businesses sold out by the State, thus fostering the diversification process. The absence of an efficient market for corporate control and of institutional investors has been probably among the causes of the persistence of (sometimes inefficient) diversification policies among the Italian largest corporations after the Seventies. The diversification strategies were managed through the progressive introduction of divisional structures. The percentage of the top-100 Italian corporations adopting strategies of both related and unrelated diversification rose from 47% in 1978 to 61% ten years later, to 65% in 1998 (Facci [2000]), in a substantial continuity with the trend foreseen by Robert J. Pavan in his study published in 1973. At the same time, the number of firms adopting the M-form rose from 49% to 60% in the same period, while the U-form declined (was adopted by 40% of the firms in 1978 and by 32% twenty years later, while the holding form maintained the same degree of diffusion over all the period considered).

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</tr>
</thead>
<tbody>
<tr>
<td>Non-multidivisional</td>
<td>31.1</td>
<td>24.2</td>
<td>43.3</td>
<td>30.2</td>
<td>10.6</td>
<td>10.5</td>
</tr>
<tr>
<td>Single business</td>
<td>24.3</td>
<td>19.7</td>
<td>18.3</td>
<td>12.7</td>
<td>6.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Dominant business</td>
<td>18.9</td>
<td>21.2</td>
<td>18.3</td>
<td>9.5</td>
<td>22.7</td>
<td>13.4</td>
</tr>
<tr>
<td>Related diversified</td>
<td>43.2</td>
<td>45.5</td>
<td>43.3</td>
<td>52.4</td>
<td>54.7</td>
<td>56.7</td>
</tr>
<tr>
<td>Unrelated diversified</td>
<td>13.0</td>
<td>13.6</td>
<td>20.3</td>
<td>25.4</td>
<td>16.0</td>
<td>25.4</td>
</tr>
<tr>
<td>Bank ownership</td>
<td>5.4</td>
<td>13.6</td>
<td>18.3</td>
<td>20.6</td>
<td>0</td>
<td>5.9</td>
</tr>
<tr>
<td>Government ownership</td>
<td>28.4</td>
<td>24.4</td>
<td>10.0</td>
<td>9.5</td>
<td>6.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Personal ownership</td>
<td>44.6</td>
<td>42.4</td>
<td>53.3</td>
<td>46.0</td>
<td>8.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Number of firms</td>
<td>74</td>
<td>66</td>
<td>60</td>
<td>63</td>
<td>75</td>
<td>67</td>
</tr>
</tbody>
</table>

*Beneficiary and nominee shareholders in France and the United Kingdom; proxy shares excluded for Germany.

Source: Mayer and Whittington [2004], 1070.

<table>
<thead>
<tr>
<th>Dominant Strategy</th>
<th>1983</th>
<th>1993</th>
<th>Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monobusiness</td>
<td>16.3</td>
<td>12.2</td>
<td>-4.1</td>
</tr>
<tr>
<td>Dominant business</td>
<td>14.5</td>
<td>11.2</td>
<td>-3.3</td>
</tr>
<tr>
<td>Related diversifiers</td>
<td>53.1</td>
<td>53.4</td>
<td>+0.3</td>
</tr>
<tr>
<td>Unrelated diversifiers</td>
<td>16.0</td>
<td>23.1</td>
<td>+7.1</td>
</tr>
</tbody>
</table>

Source: el. from Whittington e Mayer [2000].
In sum, as Whittington and Mayer note ([2000], p. 145):

“Taking the comparative picture overall, the original Harvard expectation that Europe would continue towards further diversification has been fulfilled. Neither the swings of business fashion nor enduring national institutions appear to have had much effect. Certainly, there are still some differences between the countries in detail, but in the 1990s Europe is more diversified than ever before”.

“STUBBORN” EUROPE

If basically the adoption of diversification strategies and divisional structures are confirmed in Europe during the Eighties and the Nineties, the role played by institutions, policies and cultures becomes evident when ownership and governance are considered. The fragmentation in the prevailing model of ownership, in the nature of the dominant shareholder, in the institutional framework characterising the main European countries started to change after the mid-Eighties. At the origin of this evolution was the process of privatization of the large public sector. The impact of the reduction of State ownership has been relevant all over Europe, even if the effect over ownership structure and governance policies has been different from case to case.

Ownership and Governance of the European Corporation

In the British case the policy of privatizations gave origin only seldom to US-style public companies. The main outcome of the privatization process was instead to more than double the presence of institutional investors (insurance companies, pension funds and trusts) as the main shareholders (Franks, Mayer and Rossi [2004]; Tab. 3). If in 1963 institutional investors controlled nearly one third of the equity of the listed corporations, at the eve of the year 2000 this percentage had scrambled up to 56%, or 85% if also foreign investors are included. This ownership concentration seems to put the UK on a different pattern from the US. Control is in fact exerted through informal channels by the fund managers, while institutional investors’ activism can be detected only in really critical situations. In any case the British pattern of governance and ownership seems able to conjugate the presence of a relatively concentrated institutional ownership (and maximization of shareholder value) with a closer control over management actions through a voice/exit policy.

<table>
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<tr>
<th>Ownership and Governance of the European Corporation</th>
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<tr>
<th></th>
<th>Largest in the sample</th>
<th>Smallest in the sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>4,500</td>
<td>167</td>
</tr>
<tr>
<td>France</td>
<td>2,000</td>
<td>80</td>
</tr>
<tr>
<td>England</td>
<td>9,700</td>
<td>147</td>
</tr>
<tr>
<td>Italy</td>
<td>4,800</td>
<td>36</td>
</tr>
<tr>
<td>US (Fortune 500)</td>
<td>24,000</td>
<td>150</td>
</tr>
</tbody>
</table>

A significant impact of the privatization process can be also detected in France. A radical change in the French pattern of ownership and control occurred from the mid-Eighties onwards. The challenge to the established framework came in 1986 from the privatization of the banking system. The privatization of the financial core of the French economy [1986-1993] was followed [1993-1997] by a second wave of privatizations which involved mainly industrial and service companies. The way in which the French government –differently from the British one– managed at the beginning to undertake a smooth privatization process, aimed at avoiding an excess of foreign ownership in capital intensive and strategic sectors and to grant a better efficiency in the long term. The privatization process was hence based upon a stable core of private investors (both financial and non financial firms) and a dense web of intercorporate shareholdings which granted a stable support to the management, at the same time influencing the main strategic choices. This “driven” process of privatization led at the end of the decade, however, to a growing presence of foreign institutional investors as relevant shareholders in the main French corporations, as well as to the consolidation of a more dispersed ownership. The State is, anyway, still in control of many large firms, mainly in natural monopolies. In the German case, the owners of the most important firms are today individuals/families and other companies, while financial institutions (namely banks) count less than 20% of the total of the largest voting blocks. This data seem to put into discussion the image of German capitalism as bank-driven and directed, reappraising the role of personal capitalism in ownership and management of Deutschland AG. The privatization policies revolutionised also the ranking of the Italian largest corporations, even if less radically than in France. Starting from the early Nineties, the pervasive presence of the State in the Italian economy was gradually dismantled. IRI, the vast conglomerate founded during the Fascist period started to sell the companies belonging to the group, dissolving in 2003. An impressive wave of privatizations, apparently the most relevant in Europe in the first half of the Nineties, reduced to a significant extent the presence of the State in the Italian economy, even if not completely. Some of the most relevant companies are today still under State control (e.g. Alitalia and ENI). The aim of the privatization policy was only partially the creation of public companies characterised by dispersed ownership. Many companies were privatized through private agreements and bids, while the IPO of Telecom Italia was unsuccessful in creating the first real Italian public company, privileging the interests of some existing business groups. During the Nineties the ownership and governance structures characterising Italian capitalism as it developed during the whole post-war period remained largely unchallenged, at least as far as private companies are considered. Together with the limited role played by banks and institutional investors, the pyramidal group headed by a holding company is still the rule, especially among the largest companies, listed or not. The pyramidal structure as a device to separate ownership and control allowing to manage vast resources with a limited amount of capital is common also to the groups emerging during the Eighties and the Nineties, and confirms the tendency typical of the Italian case towards a pattern of concentrated ownership. One important consideration in this respect is that when the issue of structures is considered it emerges quite clearly that the holding form substitutes the multidivisional structure, allowing at the same time a closer control over the companies belonging to the group by the ultimate owner or controller.
Social Democracy Still Works

The prevalence of ownership concentration can be largely explained with the still pervasive presence of the State, above all in Continental Europe. According to recent research, the privatization process across Europe can be defined as “reluctant”. In fact governments sold ownership rights, only partially transferring control rights, through many devices among which the golden share system. The data show that as of the end of year 2000 in a selected sample of OECD countries, through the golden share system (which can be defined the State’s special powers and statutory constraints on privatized companies) Governments were still able to control more than 60% of privatized firms. The impact of privatizations over the ownership structures of the large firms has in fact to be examined considering if and how the State maintains some form of control in the privatized corporation. All this is obviously related to the way in which the privatization process is carried on, for instance if stable shareholders (noyaux durs) are preferred to diffuse ownership, or if “partial” or “smooth” privatizations prevail over a radical selling policy.

CONCLUSIONS. GOVERNANCE, OWNERSHIP, STRATEGY AND STRUCTURE: IMPLICATIONS FOR PERFORMANCES AND EFFICIENCY

Do Ownership and Governance Really Matter?

The issue of ownership/governance is crucial for understanding the dynamics of strategy and structure. Stakeholders’ groups may influence strategies, structures and efficiency of a corporation as well as of a national economic system, as Chandler himself notes in his account of the British relative decline. Current research recalls three ownership typologies at odds with diversification strategies and multidivisional structures: personal/family, bank and State ownership (Mayer and Whittington [2004], p. 1061-1063). Personal ownership would resist decentralization, accountability as well as power delegation characterising the M-form, and in any case would be unable to deal with the complexity of diversification (Channon [1973]; Dyas and Tanheiser [1976], Pavan [1973]). Banks would resist divisionalization “on account of the competition that the multidivisional’s internal capital markets provides to bankers’ traditional role as prime allocators of capital” (Mayer and Whittington [2004], p. 1062). Finally, the State – an historically relevant owner in Continental Europe – could prefer to the M-form other organizational structures which can multiply power and enhance control and patronage opportunities, as the holding or the U-form.

The available evidence, however, seems to contest these assumptions. The governance structures prevailing in Europe, still heavily concentrated and based upon a mixage of State, banks and family/individual ownership, coexist with a pervasive strategy of diversification undertaken by the large European firms. Table I shows clearly, anyway, that the homogeneities in diversification strategies in France, Germany and UK contrast with different kinds of dominant share-
holders, while only to a limited extent the dominant shareholder’s nature can explain the persistence of holding structures among Continental corporations.

The impact of ownership concentration on the firm’s performances are however not so clear. According to some research the effect is fully positive, especially when among the main shareholders there are families or individuals in charge of top management (a perspective which puts into severe discussion the conventional wisdom on the inefficiency of family control). Barontini and Caprio [2005], for instance, after having examined market evaluation and performance of the listed firms in 11 European countries, suggest that families are still the most important shareholders in most of the European main corporations, keeping their leadership through control-enhancing devices (pyramids, financial holdings, dual or multiple class shares) which in theory should lead to lower market value.

On the contrary other scholars stress the fact that the absence of an adequate regulatory framework, allowing ownership concentration reduces the potential efficiency of the corporation itself. In this case the most efficient situation would be the British one, characterized by dispersed ownership and by a regulatory framework favourable to minorities.

Strategies, Structures and Performance

The whole story presented above is an uncomfortable one for those who believe in a direct relationship between diversification, divisionalization and performance. From its very beginning, the European experience is probably more interesting for those who accept the institutional point of view and stress the relative efficiency of organizational structures inside an historically determined framework. After more than 50 years of convergence, it is true that there is not “enough institutional perversity” —as Whittington and Mayer suggest— to create new organizational structures. The European experience demonstrates, however, at least two things. The first one is that, historically, national experiences do matter: diversification and divisionalization, even if prevailing, are not more efficient in absolute terms. In many cases, single business-oriented firms seem to be as efficient as related and unrelated diversifiers are (Whittington and Mayer [2000], p. 154). Second, the European experience seems to confirm the presence of a “Continental” way to diversification. High levels of efficiency and performance are in fact shown by unrelated diversifiers and conglomerates. The Continental story, however, stresses the peculiarity of governance structures, looser than the pure M-Form; “network-multidivisionals” —as Bartlett and Goshal named this kind of European-style M-Form— and H-forms seem to be more suitable to the European climate.

Europe, in sum, maintains its peculiarities, as a whole and in terms of national experiences. Out of question among the European main corporations seems, however, the Chandlerian (and Harvardian) prediction of diversification, notwithstanding the persisting patterns of ownership and sector specialization. Europe is not in the end questioning the general movement towards diversification, but simply adapting it to its economic history and culture.
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