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Firm networks and external relationships as sources of growth and competitiveness: the Sesa group S.p.A case.

Reti d'impresa e relazioni esterne come fonti di crescita e competitività: il caso Sesa group S.p.A.

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SUMMARY:

INTRODUCTION

The aim of this paper is to investigate the main ways in which companies establish collaborative relationships with each other. In the first chapter we will focus on the analysis of Business Groups, defined as companies that are legally autonomous but linked together by a series of links that can be formal and informal. The presence of Groups in the economy can be seen in two different ways: as the result of the imperfections that characterize the market or as a financial instrument capable of solving the so-called "agency problems". Business Groups are a growing phenomenon especially in Asia, in particular we distinguish the Japanese *keiretsu* who generally respond to a central bank from the Korean *chaebols* who are controlled and managed by a family. Moreover, in the first chapter we would go over the main theories developed on the subject of Business Groups and then we will identify the main types of business Groups considering the nature of the group leader, the economic activities of the group and the structure. Industrial clusters represent another way in which companies can collaborate with each other by making agreements. The industrial districts are spread over the Italian territory mainly dominated by SMEs. The latter through the industrial district can develop their own international market, develop innovative products and marketing strategies, and to identify business opportunities. These industrial districts allow SMEs to benefit from economies of scale. A peculiarity of industrial districts is that they can favour the birth of business groups, groups and districts in fact coexist and overlap. At the end of this chapter, we will also address the issue of the industrial cluster by comparing it with the district and above all we will focus on business diversification. The third chapter deals with the topic of mergers and acquisitions (M&A) from general to more specific aspects such as synergies and the due diligence process. In the chapter we will deal in depth with the issue of soft due diligence and in particular cultural integration and human resources. The last chapter is an analysis of a business case, in particular we will analyse the structure of the Sesa Grpoup s.p.a by analysing the composition and organization of the company more in depth.

1. BUSINESS GROUPS

Khanna and Rivkin (2001) define a Business Group as "firms which though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action" (p. 47). Business Groups operate in multiple markets and are active in a wide variety of industries, for this reason they are therefore defined as Diversified (or corporate) Business Groups. These conglomerates are widespread in emerging markets such as India, Korea and Brazil but also in already developed economies such as in Italy, France and Sweden.

Groups can assume different forms around the world. The most common are vertically-controlled groups (or pyramidal groups) and the horizontally-linked forms[1]. In the definition provided by Khanna and Rivkin we mentioned the formal and informal ties that are both important. While formal ties are equities for example, informal ties include different dimensions such as the common sense of identity, trade relations or family and social and family ties that connect member companies to each other (Khanna and Yafeh, 2005).

Property and control are the most important features to describe company's limits. These limits not always coincide with the legal entity, and this is mainly due to the presence of Business Groups. A group of companies can be defined as a set of legally separate companies, but held and controlled by the same person who can be an individual, family members or a coalition of people called "the ultimate owner" of the group (G. Cainelli & D. Iacobucci, 2009).

1.1 THE PRESENCE OF BUSINESS GROUPS IN THE ECONOMY

Business group is an organizational form usually used by entrepreneurs in order to expand and maintain their control on business activities. Since 1970 this kind of organizational form has spread widely to meet the new needs of the markets and

[1] The exception to this is the USA, where the M-form prevails. This is mainly due to the differences in fiscal regimes, such as the double taxation of dividends, that makes it inconvenient to adopt the group structure. Business groups are mainly adopted in Europe and Asia. (Chandler, 1982; Morck and Yeung, 2005).

technologies. The group form allows entrepreneurs to deal with the risks of investment in new activities (G. Cainelli & D. Iacobucci, 2009).

We focus our study on large business groups that often assume the form of pyramidal groups.[2] The presence of business groups in the economy can be seen in two different perspectives: i) as the result of market failures ii) as a financial device.

1.1.1. The groups as the result of inefficient market institutions

According to the institutional theory, Business groups seem to respond to the needs of emerging countries that show specific political, social and economic conditions. These forms of organizations, therefore allow the entrepreneurial activity to be carried out even in those countries that do not have performing and efficient institutions. These emerging countries are characterized by high levels of political instability, institutional uncertainty but above all by the presence of underdeveloped financial markets. Peng and Delios (2006, p.399) state that "in general, business groups and conglomerates are creatures of institutional imperfections".

An important feature of companies that belong to business group is their high level of diversification. Companies that want to overcome the typical problems of developing economies decide to join in diversified Business Groups. The latter can

[2] In different countries, some individuals or families govern a large number of companies. In such an organization, the ultimate family organizes the property of the group in pyramid structures. (Heitor V. Almeida, Daniel Wolfenzon, 2006). These organizational forms are large sets of controlled companies with a holding to the top. (Morck and Yeung, 2005).

provide various resources to member companies such as internal capital, labour, materials and technology markets, allowing member companies to transact more efficiently (Chang & Choi, 1988; Khanna & Palepu, 1997, 2000). Group structure allows better management of business risks through the processes of fragmentation and diversification of the risk. Furthermore, the transfer of skills, knowledge and ability is almost automatic and will entail a number of benefits such as the reduction of costs, the development of new strengths and the distribution of risks over a broader business basis. Through these advantages, firms in emerging countries have the possibility to operate successfully despite market inefficiencies. According to this theory, Business Groups exist as long as the market is imperfect. As the market becomes efficient, Business Groups no longer have a reason to exist.[3] This perspective is contradicted by the large presence of business groups in advanced economies.

1.1.2. The group as a financial device

Most of the large companies in the world are part of family business groups. These structures often give rise the so-called "agency problems". Agency problems arise when the manager acts in the interest of the family but not for the shareholders in general. Business groups can be considered as tools to separate ownership from

[3] The existence of business groups is due to the presence of market imperfections. As long as the markets, in particular capital markets, are imperfects, business groups will exist. As the markets become more efficient and the market information asymmetries will disappear, we will see their disappearance. (Chang, S. J., 2006, p. 407-417).

control, in particular to distinguish control rights and cash flow rights. According to this perspective the pyramidal organization is the best structure to allow a separation between ownership and control (R.Morck & B.Yeaung,2003) The pyramids are created to allow the holding (individual, family or coalition of people) to control a firm with a small cash flow stake.[4] The pyramid is not the only mechanism to ensure this separation. The objective can be achieved also through shareholder's agreement and the use of dual-class shares. In the first case we refer to agreements between subjects belonging to the same company in order to create alliance and regulate common action within the company. The second mechanism is called dual-class shares and consist in two or more class of action in which voting rights differ for each class. In general, managers have access to a class of shares that provide greater control and voting rights, while the general public has a class of shares with minimum or no voting rights. This last mechanism is called "tunneling"[5].

The presence of pyramidal groups in the market is not only due to the separation among ownership and control. Malfunctioning of the capital market and weak investor protection can explain the presence of pyramids even if the aim of the

[4] Suppose that the ultimate owner owns 50% of the firm A and that firm A in turns owns 50% of firm B, this means that the controlling owner achieves the control of firm B with a cash flow stake of 25%.

[5] The term "tunnelling" represents an expropriation practice by the majority shareholders in the towards minority shareholders in the Czech Republic where assets and profits were transferred outside the company in order to benefit the controlling shareholders (Johnson et al, 2000).

controlling shareholders is not the separation[6]. According with these two hypotheses, established entrepreneur has convenience of creating a new firm using existing business's cash flow, in this way he has less need to resort to the capital market. To conclude, business groups can be used as substitute for weak market mechanism allowing the entrepreneur to reduce the need of capital market and as financial device separating ownership and control.

1.2 ASIAN BUSINESS GROUPS: KOREA VS JAPAN

Business groups are a growing phenomenon in Asia although it is mainly focused on large firm sector. The large presence of business groups in Asian countries deserves particular attention as they are identified with highly industrialized regions and with economic development. These groups are composed by large companies that are independent from a legal point of view but linked by formal or informal ties. In the world, business groups can assume different forms. We can distinguish pyramidal groups, which are characterized by vertical control, from those controlled horizontally in which cross-shareholdings are important. Informal links assume particular importance in the field of business groups. In fact, societies can be linked together by family and social ties, by a certain sense of identity or other dimensions (Khanna and Yafeh, 2005).

[6] We are considering developing countries where capital markets are less developed and the investor protection is limited.

Several theories try to provide an explanation for the spread of business groups in developed countries. According to institutional theory, business groups compensate for the nation's inefficiencies (Clague 1997; Coase 1937, 1998; Harris et al. 1995; Leff 1978; North 1990) while another theory explains the existence of these business forms as a result of market failures (Collis and Montgomery 2005; Klein et al. 1978). Business groups are a corporate form through which it is possible to lower transaction costs relating to contracts and negotiations (Chang and Hong 2000; Choi et al. 1999; Hill 1995; Khanna and Palepu 1997, 2000) and through which companies can accumulate resources of different types[7] (Amsden 1989; Amsden and Hikino 1994; Guillen 2000). Both in Japan and Korea, ownership-based business groups are developing, i.e., diversified companies owned by a family. In Japan and Korea, business groups appear in early stages and allow these countries to overcome market inefficiencies and develop their own internal market mechanisms. As the Japanese and Korean economies advance and develop, their need to depend on the internal market decreases, but at the same time the founding families of large companies have difficulty in financing their economic activities by requiring external financing while weakening the ownership and control of these families. With the aim of reducing this loss of control, the interested parties create business groups based on control in order to obtain management control of the

[7] The valuable resources we refer to are industry entry skills, managerial skills and trained employees.

affiliated companies with a limited share of their debt. The widespread enterprise groups in Korea and Japan are different from the typical conglomerates of Western countries. Conglomerates and ownership-based business groups are composed by diversified companies that are independent from a legal point of view and controlled by a manager. The main difference is that, unlike conglomerates, ownership-based business groups are owned and managed by the founding family while control-based business groups have a board of directors in which shareholders participate, but is controlled only by a single family. We can therefore say with certainty that the birth of business groups in Japan and Korea is due to the industrialization of these countries. As previously stated, the conglomerates of Western countries differ from business groups in several aspects, for this reason the theories that explain the birth of business groups do not justify the emergence of business groups in Asia. To summarize, we can distinguish business groups into two categories: those based on control and those based on ownership. In the first case we are faced with legally independent companies with their own board of directors. Ownership-based business groups, on the other hand, are diversified businesses owned and operated by a family.

1.2.1 Business groups as result of industrialization programs

We refer to Japanese business groups as *zaibatsu*[8]. These business groups emerge during the *Meiji*[9] period. During this era, due to the increasing Western incursions, the Japanese government made national resources available in order to promote rapid economic development. The Japanese government provided entrepreneurs with capital and aided them through fiscal advocacy and protection from foreign competition. The *zaibatsu* born thanks to the support that the state gave to these entrepreneurs who soon extended their economic activities in various sectors. The role of these business groups during and after the Second World War was fundamental, particularly after the war the zaibatsu acquired the form of control-based business groups also called *keiretsu*[10]. The post-war Japanese government allows the *keiretsu* to acquire great economic power through policies to support business. Moving to Korea, business groups were born around 1960. The Korean government imposes the economic development of the country as its main goal by

[8] Japanese term for industrial, financial and commercial businesses consisting of a number of companies that are headed by the same holding and mainly family-owned.
Among the most important zaibatsu we remember Mitsui, Mitsubishi, Sumitomo and Yasuda (Morikawa, Hidemasa, 1970, pp. 62-83).

[9] The *Meiji* period is a historical moment in Japan that includes the 44 years of the reign of Emperor Mutsuhito. When the emperor Tokugawa Yoshinobu fell, the era of Emperor Meiji began. He modified the political, social and economic structure of Japan, based on the Western model (S.Kato, 1987, pp. 15-19).

[10] A *keiretsu* is a grouping of companies, operating in different sectors, linked together by cross-shareholdings, relational networks and in general, not so much legal as ethical bonds of belonging to the group. (Erik Berglöf, Enrico Perotti, 1994, pp. 259-284)

allocating various resources in favor of entrepreneurs. Companies that have been able to exploit these resources have also spread their economic activities across different industries, creating diversified ownership-based business groups called *chaebol*[11]. Thanks to government support, these corporate groups have increased their economies of scale and scope by creating jobs and increasing exports (Hitt et al.,1997). The relationship between these businesses and the Korean and Japanese governments are therefore very close, particularly during the early stages of economic development. As we have just seen, it was precisely governments, through targeted policies, (Guillén, 1997), that made the necessary resources available to entrepreneurs to enable economic development. Furthermore, due to the expansion of these business groups it was necessary to use external financing. In fact, governments were not always able to support these conglomerates, especially in the event of a bail out[12]. Relying on external financing can increase the risk of these business groups going into bankruptcy or losing their ownership control. To avoid these problems, Korean and Japanese business groups that depended heavily on external financing opted for interlocking ownership (Kim, D.

[11] A *chaeb*ol is a large industrial conglomerate that is managed and controlled by an owner or family in South Korea. The term is the Korean equivalent of the Japanese *zaibatsu* (Yoo and Lee, 1987).

[12] In developing economies, where investor protection is weak and where the stock market is underperforming, bank loans are an essential form of financing (Se-Jik Kim, 2004, p.317).

W. 2003) which led to the creation of business groups based on control rather than ownership. We can therefore say with certainty that both Korean and Japanese ownership-based business groups have been used as a tool to promote economic development by creating jobs and reaching Western's industrialization levels. In subsequent years, ownership-based groups have taken the form of control-based groups.

1.2.2 Business Group's theories

According to the institutional, companies and economic activities can be influenced by the institutional context (Scott, 1995). As we have already seen, diversified Business Groups appear mainly in developing economies in order to compensate market's failures and inefficiencies (Clague 1997; Coase 1998; Khanna and Palepu 1997, 1999, 2000; Leff 1978). During the early periods of economic development, emerging countries do not have sufficient resources, such as capital and labor, to support economic activity. To cope with these problems, governments decide to support entrepreneurial activities through industrialization programs and policies. Government support was essential because it allowed business groups to acquire sufficient resources to build a competitive advantage over independent businesses. The fact that business groups outperform independent companies does not mean that the former always remain efficient. With the development of the economy, social and economic infrastructures also develop and independent companies, through external capital can become more efficient than business groups. The external market can be more efficient, flexible and specialized than the internal market typical of Business Groups market (Collis and Montgomery 2005; Eisenhart 1989; Jensen and Meckling 1976). According to the institutional theory, therefore, government support is essential in order to promote economic development in emerging economies (Fruin 1994; Kim 1997; Woo-Cumings 1999).

The second theory that we are going to analyze is the Transaction Cost Theory according to which the costs associated with the external market are higher than those associated with the internal market (Chang and Hong 2000; Khanna and Palepu 1997). Companies rely on the external market because it is efficient from various points of view such as the allocation of resources, flexibility, entrepreneurial incentives and specialization (Collis and Montgomery 2005). As we all know, the market is not perfect and can fail. Market failures make it more difficult for companies to find the resources they need to perform their business activity, as a consequence these companies find it more convenient to rely on the internal market.

Another important theory about Business Groups is the Resource-Based Theory. Agency problems occur among managers (who have the control) and the minority shareholders. According to this theory resources and organizational capabilities give companies the opportunity to develop a competitive advantage on other firms

(Barney 1997). Business groups can acquire these resources independently or through the support of governments (Oliver 1997), however these resources allow them to repeatedly enter various industries. These resources are defined as idle (Guillen 2000) because they are generic in nature, therefore business groups must use them repeatedly to diversify rather than to focus on a specific industry (Chandler 1990). Business groups have the ability to accumulate these resources producing a competitive advantage over non-affiliated companies.

Last but not least we have the Agency Theory which argue that professional managers can follow their own interest at the expenses of shareholders. (Walsh and Seward 1990). It has also been found by several studies that companies with concentrated ownership are more likely to outperform companies with dispersed ownership, moreover affiliated companies managed by chaebol families have more chance to outperform compared to those managed by professional managers. This is mainly due to the fact that chaebol managers could have ownership interest, on the contrary *chaebol* families do not have the managerial skills needed to manage the Business Group's affiliated companies (Gong and Kim 1999). Agency problems are most important in control-based Business Groups rather than on ownership-based Business Groups because in the former the interests of one shareholder can be pursued at the expense of another shareholder, while in the ownership-based Business Groups this do not happen.

1.2.3. Japanese Keiretsu

The Japanese *Keiretsu*[13] is a type of conglomerate, so a group of small and medium-sized enterprises that together respond to a central bank. The *Kigyo-shudan,* also called *Zaibatsu,* is considered as the precursor of the *Keiretsu* and consists in a horizontally organized network of diversified alliances. On the other hand, the *Keiretsu* is a network of alliances vertically structured. Japanese corporate group consist of both *Zaibatsu* and *Keiretsu,* so set of companies tied together by interlocking relationships and shareholdings. The *Keiretsu* can take different forms in particular we can distinguish the horizontal type from the vertical ones (S. Dow, J. McGuire, 2009). In the case of horizontal[14] *Keiretsu,* the companies operate in different production sectors and are linked to each other by mutual share crossings and with the reference bank, generating structures that are difficult to scale by external companies made up of companies that pursue their own strategies with adequate time horizons, but are also able to implement forms of intense cooperation and benefit from significant economies of scale and scope. At the center of the horizontal *Keiretsu* there is the main bank that finance member companies which in turn hold shares in the main bank. (Miyajima & Kuroki, 2007). The year 1997

[13] J. Grabowiecki, "Keiretsu groups: Their role in the Japanese Economy and a Reference Point (or a paradigm) for Other Countries", V.R.F. series, 2006

[14] There are six commonly recognized horizontal Keiretsu in the story: Mitsubishi, Mitsui, Sumitomo, Fuji, Sanwa, and Dai Ichi Kango. Recent mergers reduced the number of horizontal keiretsu to four. In 2000 Sumitomo and Mitsui merged to become the Sumitomo Mitsui Banking Corporation while Sanwa became part of the Bank of Tokyo Mitsubishi group in 2001

was a particularly dramatic period in Japan due to the banking crisis that affected the fate of horizontal *Keiretsu*. According to studies conducted by Miyajima & Kuroki, banks sold several shares to companies whose shares were relatively more liquid with higher expected returns. As a result, main banks found themselves having portfolios of low-yielding companies and this contributed to the Japanese banking recession. The main banks with the aim to save these companies, contributed to the creation of inefficient firms that had no chance of surviving in the long run.

The vertical *Keiretsu*, on the other hand, integrate the entire production chain in the same sector, encouraging the creation of stable relationships, but without formal legal constraints, among businesses that operate for end users and network of subcontractors. The vertical structuring of supply chain relationships is a factor that has ensured considerable flexibility to the Japanese production system, while at the same time ensuring workers lifetime employment guarantees thanks to the possibility of moving from the parent company to the affiliated companies. evidence suggests that traditional buyer-supplier ties which have bound vertical keiretsu firms have also dissipated. Cross holdings are therefore less important than market relationships (Ahmadjian, 1997). In any case, the supplier-buyer relationship has weakened over the last decade also due to the increasing importance of the technological skills that have encouraged companies to internalize the most important functions (Ahmadjian & Lincoln, 2001).

1.2.4. The Korean Chaebol

Chaebol are typical Korean conglomerate forms controlled and managed by family members[15]. Chaebol is the Korean version of the Japanese Zaibatsu and emerged after World War II. According to the KFTC[16], to be considered as a Chaebol a conglomerate must have more than 30% of the company and member companies owned by the family and must have diversified economic activities (Kee-Hong Bae; Jun-Koo Kang & Jin-Mo Kim, 2002). One of the main characteristics of the Chaebols, in addition to the ownership concentrated in the hands of a family and high level of diversification is the pyramidal structure (H.V. Almeida & D. Wolfenzon 2006). Through the pyramid structure, the family has full control of the chain and has access to the retained earnings of the companies it already controls. As we have already said, the peculiarity of this type of conglomerate is precisely the presence of a family that controls the business group, so in the *Chaebol* blood relationships are preferred so the older son tend to become the heir of the conglomerate. The Korean *Chaebol* are very diversified conglomerates, this means that by operating in different sectors they are able to balance the risks facing possible recessions in demand. In recent times, the *Chaebols* have specialized in

[15] The four largest of which are Samsung, LG, Hyundai Motor and SK based on sales in 2004 (Park et al. 2008).

[16] KTFC stands for Korea Fair Trade Commission is a ministerial-level central administrative organization under the authority the Prime Minister and also Functions as a quasi-judiciary body.

the high -tech field by improving the quality of products and processes and keeping up with the changes driven by globalization. As we know, *Chaebol* has a particular structure that can have negative effects on the economic activity of the conglomerate. The Korean *Chaebol* has a very hierarchical structure composed of different layers which leads to a lack of transparency. This problem is mainly due to information asymmetries that are the cause of so-called governance problems as the manager is both owner and manager (Park et al. 2008). Another disadvantage of this type of conglomerate concerns the autocratic leadership style that leads to ignoring the point of view of employees who are instead an essential resource for conducting profitable investments and for more efficient management (Park et al. 2008). A further weakness of the Chaebol concerns the costs related to its hierarchical structure. This type of structure makes the control and management of the entire organization very complex and therefore expensive.

1.3 CLASSIFICATIONS OF BUSINESS GROUPS

Corporate groups can be divided into different types on the basis of multiple theories, this explain why it is possible and frequent that a group jointly owns characteristics belonging to different types. Business groups can differ from each other along numerous dimensions, attributable to both formal and substantial aspects. The main types of corporate groups can be classified as follows: i) typologies that consider the nature of the ultimate company; ii) typologies that consider the economic activities of the group and iii) typologies that consider the formal structure of the group. In the first case, we define the public or private nature of the controlling company on the basis of the nature of the majority shareholder of the parent company. The second distinction, on the other hand, refers to the strategic integration between the companies of the group and to the activity carried out by the parent company. In the latter case, however, we distinguish companies based on the structure of the group, in particular on the formal structure of shareholdings.

1.3.1 Typologies that consider the nature of the ultimate owner

As already mentioned above, to define the public or private nature of the corporate group, it is necessary to analyse the legal nature of the majority shareholder of the ultimate owner. Defining the nature of the parent company is of significant importance as it influences the dynamics of the member companies, in particular their behaviour and purposes. According to this criterion we can distinguish public groups, private groups and finally mixed ones. In the first case we have a group in which the company at the top is controlled directly by the State or by a public entity. Unlike public groups, private groups are those whose share control of the parent company is held by individuals and not by the state. Finally, in the last category converge those groups whose control is divided equally between a public shareholder and one or more private shareholders, therefore represented by natural persons or by legal persons always controlled by natural persons. Given the importance of the role played by the ultimate owner, it is possible to propose a classification that discriminates against corporate groups on the basis of the activity carried out by the company at the top of the group. It is therefore possible to distinguish the groups controlled by a holding or financial company from those controlled by a mixed or industrial holding company. In the first case, the group leader is a financial company which limits itself to managing the shareholdings it owns in the companies of the group, to coordinate the corporate policies of the member companies and to oversee the overall financial resources produced or requested by the group[17]. The second category includes those groups whose group leader supports the management of shareholdings, coordination of the group's financial management strategies, as well as an operational activity aimed at the production or marketing of goods.

1.3.2 Typologies that consider the economics activities of the group

According to this criterion, company groups can be distinguished on the basis of the economic consistency of the aggregate, considering the nature that characterizes

[17] An example could be the sector financial companies of the I.R.I. that were born in Italy such as Finmare, Fincantieri, Finsider and Finmeccanica that did not carry out production or commercial activities but managed the operating companies.

the links between companies as relevant for this purpose. It is possible to distinguish economic groups, financial groups and mixed ones[18]. Economic groups are made up of companies linked together by productive and financial constraints such as to configure them as a real economic unit; these groups can be further distinguished according to the specific production activity carried out by the companies of the group. Financial groups are made up of companies operating in heterogeneous sectors and, consequently, it is difficult to identify the existence of a strong economic unit within them (L. Azzini, 1975). Mixed groups include companies that form an economic unit (economic subgroups) and others without a strong economic connection between them. This type of group therefore has within it companies operating in different and technically unrelated sectors, furthermore the parent company is generally a holding company (M.M. Pedrinola, 2008).

When the group is born as a result of the aggregation of economic activities, it is important to distinguish the type of economic integration existing between the companies, as it heavily conditions the reasons that led the aggregate to increase its size. Using this variable is possible to distinguish the groups with horizontal integration, with vertical integration and finally the conglomerate groups. The groups with horizontal integration have companies that carry out similar activities

[18] M.M. Pedrinola, 2008, *"I gruppi societari e le loro politiche tributarie: il dividend sharing."* Università degli Studi di Brescia. Dipartimento di Economia Aziendale, p.7.

within the same sector of activity. These companies aim to implement horizontal integration strategies with the aim of growing in the same sector. The goal is therefore to achieve growth aimed at replicating a successful original idea (M.M. Pedrinola, 2008). In the vertically integrated groups[19], the companies instead carry out successive phases of the production process, the integration is aimed at assuming control over the "production-distribution chain". The integration can be of two types upstream or downstream. In the first case, supplying and logistics phases are controlled, in the second case the aim is to control the commercial distribution process (S. Sivestrelli & A. Bellagamba, 2017). The last distinction concerns conglomerate groups formed by companies operating in very different sectors with the aim of offsetting business and sector risk.

It is possible to carry out a classification considering the strategic integration between the companies of the group, thus taking into account the type of activity carried out by the group leader. We therefore discriminate groups on the basis of the intensity of the intervention of the group leader in the management of individual companies so taking into account the strategic integration between the companies of the group. By distinguishing the groups on the basis of the activity carried out by the parent company, we can obtain these classes: equity groups, financial groups,

[19] This type of group allows to obtain considerable advantages in terms of productivity and internal efficiency, but involves the risk of seeing reduced flexibility given the increase in organizational complexity, administration costs and economic coordination according to the final objective (M.M. Pedrinola, 2008).

industrial groups and finally the entrepreneurial ones. The equity groups show a medium-low degree of strategic integration, in fact the ultimate owner limiting themselves to buying and selling the controlling interests held on the basis of a judgment of pure economic convenience, without intervening in the management of the individual units or in the appointment of the respective boards of directors. The financial groups[20], on the other hand, have a medium-low level of integration in fact the parent company also conditions the investment and financing activities of the subsidiaries, intervenes in the appointment and removal of the members of the individual BoDs, controls the policy dividends and intervenes in financing decisions and budgeting. The industrial groups show a medium-high degree of integration and the group leader intervenes directly in the strategic management of the individual units. Finally, we have the entrepreneurial groups that instead boast a high degree of integration as the group leader manages the subsidiaries in an integrated way through centralized strategic planning and control structures, as if it were a single conglomerate company[21]. A final distinction can be made by taking into account two variables, namely the level of strategic integration between the subsidiaries and the management behaviour pursued (management methods of

[20] Financial group can be also defined as "portfolio group" so a group characterized by the fact that member companies have no economic synergies and follow diversification strategies. Cainelli, Giulio & Iacobucci, Donato. (2009). "*Business groups and the boundaries of the firm*", Working Papers. 49.

[21] The higher the degree of strategic integration, the higher the risk that, in the presence of conflicts interests between the parent company and the individual units, the latter may be sacrificed in view of achieving a higher interest, or "group".

group companies). This distinction which takes into account these two variables can be easily explained through the following table:

Level of integration	Directional behaviour	Form
Low	Low	Equity groups
Low	High	Financial groups
High	Low	Formal groups
High	High	Strategic groups

Figure 1: Distinction of groups on the basis of the degree of integration and directional behaviour.

1.3.3 Typologies that consider the structure of the group

We can distinguish, according to the structure of the group itself, the vertical groups from the horizontal groups. In vertical groups, the unitary economic strategy is ensured by the financial link that binds the ultimate owner to the other companies through the participation of the former in the capital of the other companies of the group. In horizontal groups, on the other hand, the various companies of the group find themselves in a situation of substantial equality. Therefore, they are characterized by a lower degree of integration between the various companies than vertical groups and the unitary economic strategy is achieved thanks to contractual agreements[22].

The formal structure of the shareholdings determines the allocation of control rights and the rights to receive a portion of the residual remuneration. On the basis of the structure of the holdings, it is possible to distinguish between groups with a simple structure, groups with a complex structure and instead those with a chain structure[23]. In groups with a simple structure (Figures 2 and 3), there is a linear composition with relations under "direct" control of the holding on one or more affiliated companies through totalitarian shareholdings or by absolute or relative majority of the capital[24].

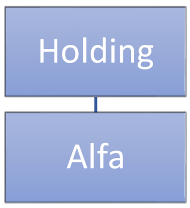

Figure 2: "Simple structure" group with only one subsidiary

[22] Obviously, it is also possible to have groups with intermediate structures in which both the characteristics of the vertical and horizontal groups can be found. In this case we are facing with mixed groups.
[23] E. Di Carlo, "I gruppi aziendali tra economia e diritto", Arcane Editrice, 2007, p. 87.
[24] According to the author, when the member companies are numerous, the group is also referred to as a "star group".

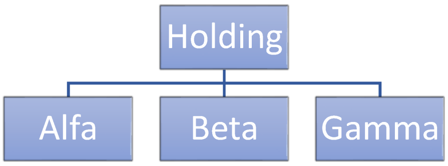

Figure 3: "Simple structure" group with more than one subsidiary.

In groups with a complex structure, the parent company controls a group of companies through "direct" and "indirect"[25] shareholdings. These can acquire different forms such as "cascading groups" (Figure 4) when the parent company directly controls another company which in turn controls a third and so on, or groups "at successive levels of grouping" (Figure 5), when the parent company directly controls some intermediate companies which in turn control others.

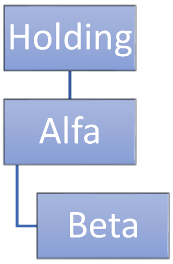

Figure 4 Complex group with a "Cascade structure".

[25] Direct shareholdings occur when a company holds the shares of another and therefore directly controls it. Indirect shareholdings cause one company to control another by holding a direct stake in a third company which in turn holds a direct stake in the second.

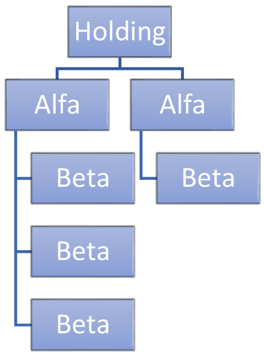

Figure 5: Complex group with a" successive levels of grouping structure".

Groups can also acquire the so-called chain form or when two or more companies of the group are linked by reciprocal shareholdings[26]. The chain can be direct (Figure 6), if a company has a controlling interest in another which in turn owns a stake in the first, or indirectly (Figure 7) taking the form of a "circular" group.

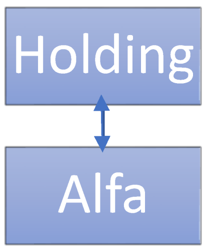

Figure 6: Group with direct chain structure.

[26] Reciprocal holdings occur when a company subscribes to shares in another which in turn holds shares in the first.

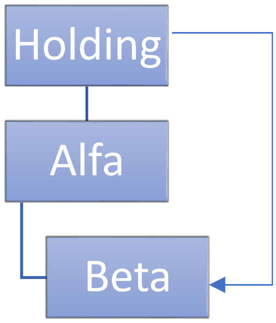

Figure 7: Group with indirect chain structure.

Finally, smaller corporate groups are usually composed of companies located within the same State, however, as the size of the group grows, there is a general tendency to set up or acquire companies located in other countries. Depending on the location of the companies that make up the group, it is possible to distinguish national groups from international ones. In the first case the companies of the group are established within the same country, in the second case the companies of the group are located in different countries.

1.4 UNITARY DIRECTION AND ADMINISTRATIVE CO-ORDINATION

Over the years, various authors have given their own definition of business groups, what all these definitions have in common is the reference to the plurality of legal units that compose the group. However, this membership in most countries is informal or in any case not determined by the control of a person. The linkage between the companies affiliated to the group can be of “proprietary” type (internal control) or can derive from “specific agreements” (external control), in the first case the bond is determined by the possession of the majority of the company shares, or in any case of a fairly significant share to ensure control to those who hold it. According to the financial approach, business groups can be interpreted as tools capable of compensating for the weaknesses of the market and the inefficiencies of institutions. However, there is another approach that sees the group not only as a financial mechanism but also as a way of organizing the company and this is the organizational approach. This trend sees as protagonists Chandler's seminal studies (1962, 1977, 1982, 1990) on business in capitalist countries and Williamson (1975, 1985) on multi-divisional business. The group is not considered a real form of enterprise but a form of aggregation between enterprises, as it lacks centralized strategic management and administrative body. What the two strands have in common is the idea that the company can be identified only on the basis of administrative coordination that is a form of coordination that tends to develop only within the legal boundaries of the company and therefore not all inside the group (Cainelli and Iacobucci, 2007).

Many scholars subordinate the recognition of the company to the condition of existence of administrative coordination (Penrose, 1959). On the other hand, Chandler (1962, 1977) describes the spread of the multidivisional enterprise[27], dictated by the need to efficiently control diversified activities. In his work Chandler (1982) compares the group with the M-form and concludes that both the group and the M-form can be considered as decentralized organizational forms aimed at controlling diversified activities. According to Chandler, the substantial difference between group and M-form lies in the fact that the former is based on *contractual cooperation* between independent units, while the M-form is based on *administrative cooperation*. Chandler also believes that the administrative coordination typical of the divisional enterprise is more efficient for the control of diversified activities, for the allocation of financial resources and for the exploitation of individual economic resources. According to Williamson (1985, 1986) the main feature of the M-form is the separation between strategic and operational responsibility which therefore allows the company to manage the activities more efficiently. For the author, in fact, if on the one hand the group represents an improvement for the allocation of financial resources, on the other it is lacking in some typical characteristics of the M-forms. For Williamson, in fact, the group would represent a structure characterized by a weak central management and a high degree of autonomy of its operational units, so that top management control over the affiliates would be occasional and unsystematic. For these reasons

[27] The M-form is interpretated by Chandler as the American style industrial group.

Williamson does not agree with Chandler in preferring the group to the multidivisional firm, in fact the group is a divisional firm which, however, cannot generate the typical advantages of the M-form:

a. a reduction in the burdens on the central management of the company, which can thus deal more carefully with long-term planning and coordination of the various sectors;
b. greater involvement of decentralized sectors in business management;
c. less information loss in the intra-company communication process, as the different steps from one level to another are reduced;
d. greater production efficiency as each division can profitably achieve the objectives outlined by the central management bodies.

All the authors who refer to the theory of transaction costs have in common the definition of the group as a set of companies linked by bonds that are not necessarily proprietary, and therefore lacking in the central administrative coordination, typical, for example, of the multi-divisional company. From this point of view, ownership and financial connection are not enough to define the company that is such only by virtue of a real administrative coordination.

2. INDUSTRIAL DISTRICT

Becattini (1989) defines the industrial district as a socio-territorial entity characterized by the presence, in a defined territorial area, of a community of people and a population of industrial enterprises. The literature concerning business groups plays an important role in the development of industrial districts in particular in Italy. Industrial districts are a widespread phenomenon in various European countries such as in Italy, a Country where the industrial system is characterized by the presence of small and medium-sized enterprises. These small businesses can overcome their weaknesses by creating a network of relationships that characterize our industrial system. Business groups and industrial districts are two different ways to establish a collaboration network between companies. However, these two organizational forms can influence each other and overlap, that is when business groups are born within district areas. We therefore want to investigate on the dynamics that can arise between industrial districts and business groups and on how these organizational forms respond to any external shocks.

2.1 GENERAL CHARACTERISTICS OF INDUSTRIAL DISTRICT

Becattini, in Stato e Mercato (1989), defines the industrial district as a complex element. This complexity derives from the many social and economic aspects that characterize it. The industrial district in fact, includes the open community, a population of small businesses, which are part of a main local production and the territory to which this community of people and this system of small businesses belong to. Alfred Marshall[28] is considered the founding father of this concept as he is the first scholar to have identified industrial districts. Marshall in fact identified as districts concentrations of non-random industries in the England of his time such as the metallurgical and textile districts. Furthermore, Marshall always defines the district in relation to a single sector even if today the district concept has developed from a multi-sectoral perspective. The district, to be defined as such, must demonstrate both temporal and geographical stability, so the set of companies must be concentrated in a specific territory; which, with the passage of time and the development of activities, can also expand, occupying more than one urban centre (Bellandi 1987). According to Marshall, collaborating small companies can compete with large companies overcoming the problems deriving from their small size. Furthermore, Becattini argues that to promote the creation of industrial district some characteristics are necessary. These features concern the socio-cultural environment, the production process but also naturalistic and geographical elements[29]. We can therefore say with certainty that to ensure the formation of the district it is necessary that several companies concentrate in a particular territory

[28] Alfred Marshall (26 July 1842 – 13 July 1924) was one of the most influential economists of his time. His book, Principles of Economics (1890) was the dominant economics textbook in England for many years. It brings the ideas of supply and demand, marginal utility and marginal cost into a coherent whole. He is known as one of the founders of neoclassical economics.
[29] Climate, soil and environment contribute to the creation of the district

favourable to the development of the district itself. The territory seems to be the central element of the industrial district since individuals gather in a territory for various reasons which may be of an ethnic, religious or geographical nature. The importance of the territory also derives from the fact that the productive relations and the competitive capacity of companies are closely linked to it or more precisely by the socio-cultural features that characterize it. Becattini (2007) also explains that the territory element is essential in the context of the development of innovations. The territorial proximity of the companies in fact allows the dissemination of information and the concentration of experts from a sector in a specific area, favouring innovative processes and raising production levels. The local community is the second element that characterizes the industrial district. The local community in fact allows the diffusion of values shared by those who are part of the community itself. Shared values within a community are spread through institutions such as the family, school and church and give life to the norms that govern the actions of members of the community. As we know, the industrial district is made up of several companies, so we can speak about "population of companies". With “population of companies” we mean all companies that are part of the industrial district. The industrial district considered as a whole performs the entire function of production and therefore can be seen as a production process that can be divided from a spatial and temporal point of view. The set of all the companies constitutes the production chain, therefore the value creation process is the result of the productive integration of specialized but at the same time autonomous phases. We are faced with a population of companies, each of which specialized in a single phase (or in a few phases) of the typical production process of the district. These are therefore the fundamental features of the district model, which turns is a sophisticated concept of local system, a synthesis of history, social culture and industrial organization, where external economies play a crucial role and transaction costs are sufficiently low, and in which finds a combination of versatility, quality and innovation.

2.1.1 The small and medium-sized Italian enterprise

A peculiarity of the industrial district is the fact that it is made up of small and medium-sized enterprises which, thanks to cooperation and collaboration, are able to compete with large enterprises. As we know, the Italian industrial system is characterized by the presence of small manufacturing companies and his is mainly due to the high degree of fragmentation of the markets in which the Italian company operates. The industrial districts therefore characterize the Italian production system, differentiating themselves from those of the more advanced countries. The Italian districts are therefore characterized by small and medium-sized enterprises spread throughout the territory, particularly in the North and Centre (G. Cainelli, V.Giannini, D.Iacobucci, 2017) The Italian industrial districts are specialized in traditional productions and therefore are strongly linked to the concept of "*Made in*

Italy[30]". M. Fortis (2001) identifies the main sectors of "Made in Italy" which are goods for repeated use or for the person, goods for repeated use, home furnishings, food products, mechanical appliances or specialized machines. The industrial districts surveyed by ISTAT represent about a quarter of the Italian production system[31]. District manufacturing employment represents over a third of the total Italian employment, in line with what was observed 10 years ago, furthermore about 22% of the Italian population resides within the industrial districts. As for the geographical distribution, the largest number of districts (45) is located in the Northeast, traditionally the territorial area of reference of the Italian district model. In the Northeast over two thirds of the SLL correspond to industrial districts. The Northwest has 37 districts (58.7% of its SLL) and the Centre 38 (71.7%). In the South there are 17 districts, while in the Islands they are concentrated only in Sardinia, where all the local manufacturing systems have district characteristics (4). As in large companies, even in industrial districts there is cooperation between companies which operate by dividing the tasks. Unlike large enterprises, small enterprises enjoy greater flexibility and are characterized by horizontal integration (Dei Ottati, 2003). As M. Fortis and A.Q. Curzio (2006) argue, the specialized

[30] Products of a complex of sectors strongly associated with the image of our country in the world as it appears through the media.
[31] They are identified starting from the Local Labour Systems (SLL) on the basis of the analysis of their production specialization, as emerges from the data of the economic units collected in 2011 through the 9th General Census of industry and services. Compared to 2001, the number of industrial districts decreased by 40 units.

manufacturing districts that compose the "Made in Italy" are driving forces for the Italian economy, maintaining an important role in Europe and in the world.

2.1.2 The advantages of cooperation and competition

The industrial district is characterized by a particular combination of cooperation and competition. Although each company belonging to the district specializes in one phase of the production process, it is functional to the others (F. Belussi, K. Caldari 2009). Within the district, therefore, dynamics of cooperation and competition are created that involve individual companies. The latter relate to each other in different ways such as through alliances or compromises. According to Marshall:

“The broadest and in some respects most efficient forms of cooperation are seen in a great industrial district where numerous specialized branches of industry have been welded almost automatically into an organic whole.” (*Principles*, Alfred Marshall, 1919, p. 599).

The district environment works properly if certain conditions are satisfied. In particular, it is necessary that information circulate within the district in a clear and complete way. When the information circulating is distorted or untrue, the district risks disappearing as it would lack the fundamental element or trust. Williamson, O., Wachter, M., & Harris, J. (1975, p. 258) define individualistic behaviours in different contexts coming to the conclusion that opportunism derives from the effort to realize a personal advantage through the lack of honesty and clarity in transactions. The district system ensures that member companies find convenient to cooperate rather than act opportunistically. An environment of cooperation can be achieved through rules of conduct that are widespread in the district from the beginning and that are not questioned. Becattini (1989) argues that within the district a series of homogeneous values such as work ethic, entrepreneurship and family are consolidated with the aim of reducing the risks. Dei Ottati (2003) defines the concept of "community market" to indicate a shared and homogeneous language of values, meanings, implicit rules of behaviour (common habits). As Dei Ottati (2003) argues, economic exchanges must take place according to a mechanism that provides the parties with the information necessary to carry out the transaction. The author, in particular, identifies three possible mechanisms which are: the market, hierarchies or bureaucracy and communities. Each of these mechanisms provides the parties with different information. In the first case the mechanism provides the parties with information about prices, in the second case people refer to explicit rules enforced by authorities with discretionary powers and in the last case the parties follow a code of conduct acquired from socialization. In the district system, transactions are governed by a mechanism that is a cross between market and community, which is why Dei Ottati speaks about "community market". Competition and cooperation therefore create a new mechanism for regulating trade, a hybrid between market and community, furthermore, loyalty trust and mutual knowledge mean that the operations are less expensive.

2.1.3 Innovation as a result of knowledge transfer

The success of the districts derives from the fact that they operate as local innovation systems (Camuffo & Grandinetti, 2011). Through research, companies seek solutions that can be useful to the entire community by generating competitive advantages. The industrial district can therefore be seen as a complex environment in which knowledge is produced and transferred. The district is characterized by a high specialization of the individual companies in one phase of the production process. Becattini (2007) states that innovation can be aimed at the search for new needs or at identifying new ways to satisfy already existing needs. The innovation therefore leads to the expansion of the product mix, determining a horizontal diversification with respect to the original specialization, the enterprises of the district therefore specialize in new phases or supply chains. Within the industrial district, knowledge can be transferred in different ways. Camuffo and Grandinetti (2011) identify three main mechanisms that guide the process of intercompany knowledge transfer: i) observation aimed at imitation, ii) the intertwined relationships within the district and iii) the mobility of human resources. In the first case the objective is the imitation of the product which incorporates within it a series of explicit and explicit knowledge. Through the *reverse engineering*[32] process, it is possible to obtain more information on the product, in particular on the parts that compose it and on how they are assembled together. The relationships between companies represent the second vehicle for the transfer of knowledge. As we know, in fact, in the industrial district, companies are connected by creating a network of relationships that represents a fertile ground for the dissemination of information. The last mechanism we analyse concerns human resources. The knowledge acquired during the work experience follows the individual when he decides to change workplace and can be transferred to other people through communication or observation. The knowledge transferred is sometimes very simple but if used in the right way can bring improvements and produce competitive advantages. Obviously, the probability of success of an innovation increases substantially if the imitator company takes away a human resource that has been actively involved in the development of the innovation. Furthermore, the authors analyse the three processes that come into play when knowledge is transferred. The first step is the transmission of knowledge to the recipient which can be through observation or communication. Then we have the reception by the recipient and the absorption of this last stage of the transfer is particularly critical as it depends on the complexity

[32] The reverse engineering process consists on the analysis of the behaviour of a product made in order to understand its functioning and architecture, so that it can be replicated and possibly improved.

of the knowledge itself. It should be remembered that the industrial district is characterized by a socio-cultural homogeneity that Dei Ottati (2003) embodies in the concept of *community market*. Shared language, common values and rules of behaviour create an open community of people (G. Becattini, 1991) within which dialogue and mutual understanding are facilitated. Relationships and inter-company mobility are facilitated by socio-cultural homogeneity that removes barriers to communication, and unites company contexts, making the mobility of human resources even less difficult. Incremental innovations[33] spread rapidly within the district while in the case of radical[34] ones a sort of gap is created between the company that developed the innovation and the imitator company. Bellandi (2003) defines districts as an organizational form endowed with a corporate creativity. This creativity is due to two elements: the division of labour between companies and the incompatibility of the production processes of knowledge. Regarding the first element, Rullani (2003) analyses the vertical and horizontal variety of district specializations, concluding that this district characteristic multiplies the sources of knowledge creating distinct problem areas. As regards the second element, Maskell (2001) argues that even if two firms share the same specialization and find themselves having to solve the same problem, the solutions they will find will be

[33] We talk about incremental product innovation when innovation improves existing processes or products. This type of innovation brings an improvement in the efficiency and competitiveness of the company, without changing the technological models already adopted.

[34] Radical innovation introduces new products or production processes to the market, leading to the emergence of markets and needs that still do not exist.

different. Camuffo and Grandinetti in their study pause to analyse the peculiarities that characterize the district populations in particular define people as potential producers of knowledge. The district is characterized by small and medium-sized enterprises in which the level of division of labour is low and therefore individuals are able to acquire a lot of experience, moreover the company size allows the creation of informal relationships that favour the circulation of knowledge. The transfer of knowledge can result in the replication of knowledge but also in the production of new knowledge. This latter result depends on how knowledge is combined with others to create original outcomes. The industrial district also acquires knowledge from external sources. The traditional external sources are:

a. The relations with suppliers and customers;
b. The observation of innovations produced by external competitors;
c. The relationships with certain local institutions such as banks or training institutions.

In any case, even if the acquisition of external knowledge has played an important role in the evolution of industrial districts, it must be pointed out that these have developed their own competitive advantage over the cognitive processes present in the district context.

2.2 BUSINESS GROUPS IN INDUSTRIAL DISTRICT

As we have already said, the Italian industrial system is characterized by the presence of small and medium-sized enterprises that establish an intense network of relationships aimed at overcoming the problems deriving from their size. These relationships are strengthened by the geographical proximity of the companies, in fact they often operate within industrial districts. The companies that operate within the industrial districts are specialized in different phases of the production process by exploiting the advantages deriving from the possibility of cooperating with each other and from the spill-overs of knowledge that derive from collaboration (Becattini, 1989; Camuffo et al., 2011; Dei Ottati et al., 2003). In recent decades, medium and large enterprises have emerged within the industrial districts and organized themselves as a group (Cainelli & Zoboli, 2004). The companies that are part of the groups benefit from various advantages such as those deriving from the greater diversification of activities. The diversification of the activities carried out by the companies belonging to the group in fact allows a reduction of risk and allows transfers of resources from the most efficient companies to those with difficulties (Guillen, 2000; Chandler, 1990; Hamelin, 2011). Several studies have also shown that groups foster innovation and research and allow the dissemination of results to other companies (Belenzon & Berkovits, 2010; Mahmood & Mitchell, 2004). One of the main advantages of enterprise groups is the fact that their member firms can rely on the internal capital market without having to draw on external resources (Almeida & Wolfenzon, 2006). Business groups and districts can be considered two different ways to achieve the same result, or to create a stable network of relationships aimed at achieving competitive advantages. These two organizational forms can overlap when business groups arise within district areas, thus benefiting from both the advantages deriving from belonging to the group and those deriving from localization within the district. The overlapping of groups and districts leads to the birth of "district groups" new organizational forms able to combine the advantages of the group with those of the district (Brioschi & Cainelli, 2001; Iacobucci, 2004; Cainelli & Iacobucci, 2005). The authors identify the presence of business groups in industrial districts as a result of the establishment of new companies or the acquisition of new companies such as competitors or suppliers. When a district company decides to expand, it establishes one or more new companies rather than enlarging the existing one in order to repeat the already tested organizational model. In the case of expansion by acquisition or external expansion, district companies get a greater impact on their growth. The fact that external growth strategies are implemented within the district led to the emergence of "district groups". As regards the structure, the subsidiaries are located within the industrial district and therefore respond to the same owner and take care of different phases of the production process. The district groups, unlike the industrial districts, are less diversified and show higher levels of hierarchization, in particular monitoring and decision making are organized hierarchically and the leader company coordinate some function such as production, finance and marketing (Brioschi et al. 2004; Cainelli & Zoboli, 2004). The authors argue that industrial districts organize themselves into hierarchical structures because through stable and predictable relationships between partners they are able to overcome unpredictable market relationships. Obviously, the diffusion of business groups within the districts, if on the one hand it changes their traditional characteristics, on the other hand, ensures them a certain continuity in terms of growth and development of the district (Dei Ottati, 2018).

2.3 REACTION TO ECONOMIC SHOCK: BUSINESS GROUPS VS INDUSTRIAL DISTRICT

Company performance does not depend only on the company organization and its strategy but also on how the firm relates to others. The relationships established between companies influence the ability of the company to acquire knowledge and information necessary for innovative processes, to obtain specific production inputs and to access financial resources. As we know, belonging to a business group benefits the company on several fronts, in particular access to financial resources thanks to the internal capital market (Hamelin, 2011), therefore the companies that are part of a group have greater investments and innovative abilities. On the other hand, belonging to an industrial district also generates advantages such as the reduction of transport costs, the production of economies of scale, the presence of skilled workers and the possibility of exploiting the technological spill overs that occur among companies. These two types of networking can coexist and be self-reinforcing. The presence of forms of collaboration between companies assumes particular importance in the presence of external shocks. Economic shocks, such as the 2008 international financial crisis, lead to a reduction in domestic and international demand and a contraction of credit. Business groups can benefit from their high degree of diversification and from the possibility of sharing the financial resources of the group and therefore of referring to the internal capital market (Belenzon & Berkovitz, 2010)

. The districts, on the other hand, benefit from the cooperation and relationships established between the companies that are part of them (Dei Ottati, 1994). For the reasons listed above, companies belonging to industrial groups and districts are more likely to survive during periods of financial crises and other shocks. Consequently, a company that is part of a group during an external shock has a chance to survive despite poor performance while a "standalone" company is forced out of the market. In light of the above, belonging to a group implies the survival of underperforming and inefficient companies, avoiding a dispersion of productive resources and therefore producing a positive welfare effect in the long term (Almeida & Wolfenzon, 2006). In any case, the possibility of accessing the internal capital market for companies belonging to business groups does not always translate into better performances. As reported by various authors (Bae et al., 2002), some independent (standalone) companies show better performance than companies that are part of groups. As we know, the market presents various imperfections and business groups represent a valid solution to market failures. In fact, companies belonging to business groups can access the cash flow of other group members, and they also have the ability to easily access external credit despite the high transaction costs (Frieman, Johnson, & Mitton, 2003; Ghatak & Kali, 2001). However, the possibility of accessing the internal capital market could have negative consequences on the group for instance by suppressing productive activities in some members to protect obsolete investments in other affiliated companies (Morck & Yeung, 2003). In fact, a redistribution of profits is achieved from the company with higher performances to the one with lower performances (Estrin et al., 2008). Moreover, this profit distribution involves risk mitigation for the weaker company but translates into costs for the stronger company. It has also been shown by various authors (Almeida & Wolfenzon, 2006) that standalone companies tend to invest their few resources in more profitable projects and activities compared to affiliated companies, thus obtaining better performances. Although the profitability of the group is questioned, we can say with certainty that business groups favour continuity and innovation allowing the survival of inefficient companies. Furthermore, the effects of belonging to the group during a period of crisis are not directly observable due to the contradictory dynamics that come into play (Cainelli, Iacobucci, Giannini 2018).

Industrial clusters are a second form of organization that can ensure the survival of businesses in times of economic shock. In fact, the districts can benefit from various advantages deriving from agglomeration such as the sharing of inputs and human resources but also the knowledge spill-overs. Furthermore, it is good to remember the existence of forms of competition and sharing that represent crucial elements for the survival of the companies belonging to the district (Dei Ottati, 1994). As we have seen in groups, even in the case of districts, there is a tendency to protect companies with lower performances, guaranteeing the survival of inefficient companies. To conclude we can say that belonging to a group or an industrial district increases the probability that a company will survive in periods of economic shocks and recessions. Iacobucci, Cainelli and Giannini (2018) argue that as regards the profitability of companies, the effect of belonging to a group or district is ambiguous, in fact during periods of crisis there is a strong "selection effect"[35] on standalone companies at the expense of those affiliated. What is certain is that

[35] Since the 1980s, a line of studies has emerged in the field of industrial economics whose objective is the analysis of the survival of businesses. The focus is on the dynamics of industrial selection and in particular on how these affect the less productive firms, determining a reallocation of market shares in favour of the more efficient ones. Furthermore, according to a widespread opinion, in the period of the economic crisis at the end of the 2000s, the processes of company selection already triggered by the strong international competition of recent years would have significantly increased in the Italian manufacturing industry (Mariani et al., 2013).

belonging to a group or a district can have a negative effect on the average firm performance.

2.4 SPECIALIZED CLUSTER AND FIRM DIVERSIFICATION

The concept of industrial district is often confused with that of specialized cluster, this happens because of the numerous characteristics that the two forms have in common but in reality, the two concepts are not the same. Porter (1998) defines specialized clusters as geographic agglomerations of companies, suppliers, service providers and associated institutions linked by different types of externalities and complementarities. In the definition of clusters, we can identify three different dimensions: the geographic dimension, the activity dimension and that relating to the business environment. As regards the geographical dimension, we must specify that the externalities that emerge depend on the proximity of the companies, in fact the clusters are concentrated in regions or towns. The activity dimension refers to the activities carried out by the companies belonging to the cluster, in particular they are interconnected with each other in the supply of goods and services valued by customers. The third dimension concerns the environment surrounding the cluster, the activities carried out within them are in fact strongly influenced by government bodies, universities, other "public" institutions, and by the private sector acting individually and collectively (Porter & Ketels, 2009).

Although the characteristics that unite clusters and districts are manifold, the two organizational forms must not be confused. According to the definition of Goodman (1989), industrial districts are characterized by groups of small and medium-sized enterprises operating in the manufacturing sector. In the district, therefore, we do not have a few large companies but many small and medium-sized companies operating in a specific manufacturing sector (Beccattini, 1989). The cluster is a broader concept than the district which includes different types of companies and institutions, so we can define the industrial district as a form of cluster. As Withford (2001) argued, globalization has played a fundamental role in the evolution of industrial districts. In fact, the latter have exploited the new opportunities arising from globalization by combining local and global sourcing. It is important to consider clusters and districts as two complementary forms of networking and therefore we should see industrial districts as an important form of agglomeration rather than a generalized description of agglomeration.

Both of the organizational forms analysed can influence firm diversification. As we know what clusters and districts have in common is that they operate in well-defined geographical areas. The geographical dimension is a decisive element in the development of mechanisms of routine replication such as labour mobility and spin-offs (Boschma and Frenken, 2006). When these two mechanisms come into operation, the companies within the local systems will demonstrate similar organizational characteristics tending to replicate the same successful routines.

Geographic of production[36] will therefore be the result of firm heterogeneity between local systems and firm similarity within the same system, so we will focus on these two phenomena. As Nelson and Winter (1982) suggested, firms' similarity and heterogeneity are related to organizational routines that are hardly imitable by competitors since they develop over time within a specific organization. We concentrate on the two main mechanisms of routines replication that are labour mobility and spin-offs. These two mechanisms occur inside a specific geographic area producing routines that have chance not only to be successful but also to be transferred to other local firms (Boschma and Frenken, 2011). When these two mechanisms work, we expect a consistency between firms' organizational routines and structural characteristics of the local environment, the environment operate as a selection mechanism for successful routines and also for their replication. The replication of organizational routines depends on various conditions which vary according to the local system and its structural characteristics. The degree of similarity between companies that are part of the same local system depends on the local selection environment and therefore local systems can be characterized by companies with different organizational routines. The mechanisms identified to explain corporate routines can also be extended to the concept of firm diversification. Business diversification is a dynamic concept in fact the presence

[36] With geography of production, we mean the spatial distribution of economic activities.

of successful diversified companies within the local system could induce other companies within the same geographical area to imitate the diversification strategy. Furthermore, a diversified local system favours the diversification of companies that give birth to it, facilitating access to resources through acquisitions of other companies or through labour mobility (Cainelli & Iacobucci, 2015). The local system therefore has a strong influence on diversification models in particular in relation to small and medium-sized enterprises. which given the lack of organizational capabilities to manage the new activities, refer to the acquisition of external resources[37]. For a company, adopting a diversification strategy consists in operating in different businesses. There are two different types of diversification: correlated and unrelated diversification. Correlated diversification consists of exploiting strategic correspondences between businesses. The assumption is that the value chains, of the businesses in which the company diversifies, are linked by strategic correspondences that have a competitive value and create the conditions for achieving superior performance (Teece et al., 1994). The unrelated diversification on the other hand, consists in entering businesses that have totally disconnected value chains and no cross-relationships. Firms that adopt this diversification strategy are willing to enter any industry that presents opportunities for lasting financial gains (Robinson et al., 1993; Carter et al., 2004). As

[37] Brioschi et al. (2002) argued that this is typical of Italian industrial districts, where familiarity between firms in the same local system promotes the acquisition toward other firms.

demonstrated by various authors (Winter, 1984; Teece et al., 1994; Breschi et al., 2003), technology assumes a role of significant importance in the context of business diversification. Cainelli and Iacobucci (2015) identify two main characteristics of the technological regime which are technological opportunities and market selection. By technological opportunities we mean the possibility of a company to exploit the knowledge developed within a specific market to other business areas. Market selection, on the other hand, refers to the fact that only efficient and successful diversification strategies survive in the market in the long run. Pavitt (1984) provides a classification of the product sectors based on the sources and nature of technological opportunities and innovations, the intensity of research and development (R&D intensity), and the type of knowledge flows. Pavitt identifies four large groups of firms: supplier-dominated, science-based industries, specialized suppliers and scale intensive industries. The supplier-dominated firms include the textile, footwear, food, paper and printing or wood sectors, therefore those sectors that refer to external sources for innovation, in particular suppliers. In particular, these firms show a low level of diversification and depend on the acquisition of external resources. To the opposite side we have the science-based industries which include the chemical, pharmaceutical and electronic sectors and which therefore require high investments in R&D. Specialized suppliers and scale-intensity companies fall between these two extremes and rely more on internal generation of knowledge to support their innovation and diversification patterns so they are less dependent on the resources available at the local level.

3. MERGERS AND ACQUISITIONS

Mergers and Acquisitions transactions are radically changing the landscape around the world, forming a new economic, social and cultural environment. These operations have growth as their general objective, they are means that companies use to increase their capital base (Andrade & Stafford, 2004). Companies, more specifically, need to increase their competitiveness in response to globalization, by merging they are able to expand into new markets and incorporate new technologies (Harpeslagh & Jemison, 1991). As Langford and Male (2001) argue, there are two methods by which development and corporate growth can be achieved. The first method is the internal one where the company invests its own capital to set up and operate a new venture, the second method, on the other hand, is the external one so through mergers and acquisition operation. The mergers and acquisition strategies are based on the idea that following the operations the new reality acquires a greater value than the previous single companies (Mirvis & Marks, 1992).

3.1 MERGERS AND ACQUISITIONS: GENERAL ASPECTS

Companies adopt strategies that allow them to acquire, maintain and develop their competitive advantage. They can implement internal strategies, thus exploiting their skills, skills and resources to develop new activities, but also external ones through three main ways of growth: strategic alliances, joint ventures and mergers and acquisitions. In the case of strategic alliances, companies adopt a perspective of sharing strategic lines, while joint ventures are based on alliances characterized by autonomous companies from a legal, managerial and organizational point of view. The last type concerns mergers and acquisitions which represent external growth modalities through which the governance and management of the individual units acquired is assumed (Hagedoorn & G Duyster, 2002). According to Gaughan (2007), DePamphilis (2003), Scott (2003), a merger is a combination of two corporations in which only one corporation survives (bidder) and the merged corporation (target) goes out of existence. In a merger, the acquiring company assumes the assets and liabilities of the merged company. Moreover, although the buying firm may be a considerably different organization after the merger, it retains its original identity. An acquisition occurs when one company (bidder) takes a controlling ownership interest in another firm, a legal subsidiary of another firm, or selected assets of another firm such as a manufacturing facility (De Pamphilis, 2003). In other words, an acquisition is the purchase of an asset such as a plant, a division, or even an entire company (Scott, 2003). Mergers and acquisitions are often confused as the objective of these two operations is the same: the realization of an external growth of the company in order to obtain a competitive advantage. It is possible to distinguish different types in relation to the relationship between the businesses in which the acquiring company and the acquired company are respectively engaged. Mergers and acquisitions transaction can be horizontal, vertical or conglomerate[38]. A merger and acquisition operation is defined as horizontal when the two companies belong to the same sector. In this way the acquiring company reduces the competitive pressure to which it was subjected realizing a goal of dimensional growth. Instead, we are in the presence of a vertical type operation when the companies operate in different phases of the production chain, thus securing supplies, reducing costs and implementing strategies aimed at creating supply problems for competitors. Finally, transactions can be defined as conglomerates when they involve companies belonging to different sectors of activity and therefore allow for the implementation of a diversification process of a productive type (the range of products handled is broadened), geographical (the number of countries or areas in which is present) or pure conglomerate (entering completely new sectors). These operations therefore consist in the transfer of control of one company to another thus creating a new legal entity. Mergers and acquisitions are a way to achieve a growth process. There are two growth options:

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[38] Lantino S., Acquisizioni di aziende e partecipazioni, Milano, 2002, p. 23 ss.; Campobasso G. F. Manuale di diritto commerciale, Milano, 2006

internal or organic growth and inorganic growth (Sherman & Hart, 2006). Organic growth includes hiring staff, new product development and geographic expansion is therefore an option that requires time and resources. Inorganic growth, on the other hand, consists in the acquisition or merger with another company to guarantee access to new product lines or new market segments, it can also be defined as external when it is achieved through franchising, joint ventures or strategic alliances. Companies can therefore grow within their industry but also expand outside which means diversification.

3.1.1 Causes and objectives of mergers & acquisitions operations

The rapid evolution of the competitive environment often requires the growth of the company by external lines with M&A operations. There are many reasons for companies to expand through M&A operations (Motis, 2007). An example could be new regulatory constraints relating to the environment or safety, in fact, the entrance into new markets requires compliance with national and international product regulations and the need for certifications and approvals (Cassiman & Colombo 2006). Furthermore, demand could be subject to uncertainty, volatility and contraction, a consumption crisis and the reduction of margins on the domestic market are the main causes that push companies to expand through external lines (Gaughan 2007). Moreover, in recent years there has been a compression of the life

cycle of products, therefore companies feel the need to protect intellectual property and to develop new approaches to the development of products and industrial models (Andrade, Stafford 2004; Cassiman, Colombo 2006). In a world where technologies are constantly evolving and are increasingly diversified, companies are forced to overcome traditional business models by adopting new ICT tools also due to the evolution of customers' expectations and consumption habits (Kreitl & Oberndorfer 2004). The globalization and internationalization of the markets appears to be the main cause of M&A operations. In fact, it not only involves a significant growth in demand in emerging countries but also an extension of competition on a global level. The strong development of some emerging countries has in fact favoured the competitiveness of some production factors, accentuating competition on the market. The changing factors of the competitive context force the company to grow in multiple dimensions, for example through internationalization and the extension of the range of products. As far as the objectives of the merger and acquisition operations are concerned, the companies that choose to approach this strategy have as their ultimate goal the realization of low-cost savings, the reduction of transaction costs and the tax burden and the elimination of any inefficiencies
(Kreitl & Oberndorfer 2004; Ghosh & Jain 2000). In fact, M&A operations allow the company to obtain economies of scale (Kumar, 2009), thus reducing unit production costs as production capacity increases and tend to occur in the presence

of horizontal mergers. Transaction costs, on the other hand, are reduced following the elimination of the risks and uncertainties associated with negotiations with customers and suppliers and are typical of vertical mergers. Mergers and acquisitions allow companies to leverage complementary resources, for example by expanding their sales networks in different geographic areas. Finally, companies that resort to expansion through external lines have the possibility of eliminating any inefficiencies due to inadequate management.

3.2 PHASES AND PROCESSES OF MERGERS AND ACQUISITIONS

The acquisition and merger operations are particularly complex as they are made up of different phases and involve many parties. The first subject encountered in an M&A transaction is certainly a company that intends to acquire another. The corporate buyer therefore aims to take control of another company defined as a "target" (Stahl & Sitkin, 2005). The latter is the second party involved in the process as it has to enter into contracts with the purchasing company, for example to provide access to its data. As we have said, there are many parties involved, in fact a very important role is that of the advisors (Koo, 2020). Advisors are those who offer economic, financial and legal consultancy services to the parties, or other specialized services. The presence of advisors is very important as it increases the level of reliability of the company proposing the acquisition by facilitating the

M&A transaction. Additional parties involved may be significant employees of the target company, banks or other stakeholders. The merger and acquisition project involves many steps and can take anywhere from six months to several years to complete. We can summarize a typical ten-step merger and acquisition process (Frankel & Forman, 2017). First of all, it is necessary to develop an acquisition strategy, it is necessary that the buyer has a clear idea of what he wants to obtain from the operation and therefore his commercial purpose for the acquisition of the target company. It is necessary to define an M&A strategy that is in line with the business development plan and to identify possible synergies in advance. Then the M&A search criteria are set, that is the key criteria to identify potential target companies such as profit margins or geographic position. During this screening phase the research area is defined and the correspondence to the research profile of the identified companies is verified, then the consistency of the target company and its interest in the operation are assessed. Once the research phase of the potential acquisition objectives has been completed, the operation itself is planned. In this phase, the buyer hangs in contact with the companies that satisfy his research criteria and a series of conversations are established aimed at obtaining as much information as possible by evaluating how much the target company is inclined to the merger or acquisition. Assuming that the initial contact has a good response to proceed with the valuation analyses, the acquiring firm asks the target firm for a set of information that allows the acquiring firm to further evaluate the objective.

Having produced several valuation models of the target company, the buyer should have sufficient information to enable him to come up with a reasonable offer. Once the initial offer is made, the two companies can negotiate the terms in more detail. The next step is “due diligence” (Perry & Herd, 2004), a process that begins when the proposal is accepted. Due diligence aims to confirm or correct the buyer's assessment of the target company's value by conducting a detailed review and analysis of every aspect of the target company's operations: financial metrics, assets and liabilities, customers, human resources, etc. due diligence consists in evaluating the initiative in strategic and operational terms, identifying any risks deriving from the transaction. Assuming that due diligence is completed without any major problems or concerns arising, the next step is to execute a final sales contract; the parties make a final decision on the type of purchase agreement, whether it is an asset purchase or a share purchase. Once the financing strategy for the acquisition has been defined, the acquisition is definitively closed. In reality, it should be pointed out that before the closing of the operation a series of activities are carried out aimed at favouring post-merger integration. Following an M&A operation, it is necessary to manage any problems and criticalities in order to ensure stability.

3.3 FACTORS THAT MAY INFLUENCE M&A: TRADITIONAL DUE DILIGENCE AND SOFT DUE DILIGENCE

In the past, as recalled by G. Adolph et al. (2006), mergers and acquisitions operations, particularly since the 1990s, they have been carried out in a hasty and inaccurate manner, leading buyers to repent of the operation carried out. Subsequently, due to the high failure rate of these operations, a more prudent and systematic method was developed for carrying out acquisitions and mergers, and for making them successful. Carrying out an accurate and complete observation of the possible causes of value and risk increases the likelihood of M&A operations being successful. It is precisely since the 1990s that the factors influencing M&A operations have changed. In fact, nowadays, it is necessary to take into account factors such as the satisfaction of customer requests, the realization of economies of scale, access to capital but also the ability to exploit new opportunities for growth. While growth is a key strategy for gaining competitive advantage and for meeting the challenges of globalization, mergers and acquisitions often tend to fail (Cartwright & Schoenberg, 2006; Lubatkin, 1983). Several authors (Appelbaum et al., 2000; Mirvis & Marks, 1992) highlight the cultural incompatibility of the organizations involved and the way in which these dynamics are managed as the main cause of this high failure rate. When companies merge following a merger or acquisition, they not only combine their technologies and market share but also people, cultures and structures. The way in which these are integrated with each other is of crucial importance for the success of the M&A operation. Angwin (2001) defines due diligence as a process aimed at verifying and evaluating business opportunities in mergers and acquisitions operations. Normally the due diligence process takes place before the most important decisions or after the M&A agreement is announced. It consists in the analysis and revisions of some data defined as "hard" which include products, financial assets, business models and technologies and particular attention is paid to legal and financial aspects. If the process is carried out correctly, it ensures the success of the operation for the organization, preventing the emergence of problems related to negotiation or integration. The due diligence processes can be of different types based on the data and information to be collected and analysed. The "strategic due diligence" for example is aimed at anticipating problems that may arise following the M&A process, specifically tests the strategic rationale behind a proposed transaction with two broad questions. Is the deal commercially attractive? And, are we capable of realizing the targeted value? On the other hand, the financial and legal due diligence processes are concerned with assessing the potential value of the agreement, thus ensuring that it is convenient. The due diligence procedure can be defined as a fact-finding analysis of the company involved in the M&A transaction in order to carry out an examination of the company's health status. This process consists in carrying out a series of surveys aimed at analysing the current state and future potential of the target company, highlighting any potential and verifying the existence of potential risks. The objective is to highlight the strengths and weaknesses in support of the evaluation process, also to identify and define the contractual guarantees in the negotiation stage, analysing the corporate and organizational structure of the company, the reference market, its strategies commercial and a set of other fiscal, administrative and management aspects. In the specific case of acquisitions, the preliminary due diligence represents a fundamental moment to define the final price of the sale and allows you to set the parameters with which the parties determine the "value" of the object of acquisition. In relation to the type of business to be acquired and to the client - who can be a financial or industrial investor - the due diligence is set up with a specific approach. It has a financial approach if the goal is to identify and evaluate the strengths and financial vulnerabilities of the company examined (profitability, cash flows, debt). In this case, the current financial situation is taken into consideration by providing support to the buyer's prognostic analysis, also regarding the future trend, which will be the basis for determining the value. Instead, it has an accounting cut when it is aimed at the analysis of aspects, precisely, purely accounting, and the impacts at the level of equity and liabilities / minor assets. Mergers and acquisitions involve not only the union of technologies and structures but also of people, so it is good to take into account the role that human resources and culture play within these processes.

3.3.1 The soft due-diligence

Mergers and acquisitions are complex and risky and rarely achieve the desired results, therefore creating value and improving competitive positions. The causes of failure of these operations often lie precisely in the superficiality with which some aspects such as the management of human resources are considered. Often during the planning phase, the parties involved focus purely on strategic, financial and legal issues, leaving out the problems related to the organization, integration of human resources[39]. In this regard, we must specify that in the negotiation phase, in addition to the traditional due-diligence processes, it is also necessary to develop "*soft due-diligence*" in particular: *human due diligence* and *cultural due diligence* (Conner, 1992; Lebedow, 1999; Oberlander, 1999). M&A operations involve radical changes that involve all business aspects, in particular human resources represent one of the most complex and unpredictable variables as they alone can contribute to the success or failure of the entire operation. The changes brought about by M&A operations involve people, employees and operations staff causing feelings of distrust, frustration and uncertainty about the future and negatively impacting their productivity. Marks and Mirvis (1985, 1986) speak of the "*merger syndrome*" or that feeling of disorientation that spreads not only among employees

[39] Issues related to the integration of human resources are addressed and resolved only in the post M&A phase (Mirvis & Marks, 1992).

but also between managers and executives. In fact, managers must adopt a strategy that allows them to avoid the leakage of information to avoid the spread of so-called "rumors" that could lead to cases of turnover[40]. Managers and executives therefore in the negotiation phase should focus on adapting each organizational structure by making sure that human resources focus on their role rather than worrying about any career paths at risk. In this regard, it is essential to include human resources experts or human resources managers of the organizations involved in the negotiations. With regard to human resources, we must distinguish hard aspects and soft aspects: in the first case we refer to the differences concerning the types of contracts, remuneration or the calculation of the severance pay, in the case of the soft aspects, on the other hand, the differences concern values, attitudes and the knowledges. It is precisely the soft aspects that are neglected as they are considered by mangers as irrelevant to the success of the operation. The M&A operation can be divided into two phases: a pre-M & A phase which includes the decision-making process, the negotiation and closing of the agreement and the post-M & A phase which instead includes the monitoring of changes and the integration of organizations (Cartwright & Cooper, 1996). Particular attention should be paid to the first phase, then to the pre-M & A phase, so the moments in which the decision

[40] We are witnessing real leaks of talents from the acquired companies. Cartwright and Cooper (1996) explain this phenomenon as a necessity on the part of workers who are driven by the loss of autonomy and a coexistence that they see as unacceptable.

is formed and the due diligence procedures are carried out. Due diligence can be considered as a process aimed at reducing information asymmetries in M&A contexts and is often entrusted to experts[41]. It is important to focus on the so-called “soft due diligence” which includes “human due diligence” and “cultural due diligence”. Human due diligence aims to reduce information asymmetries between companies involved in the M&A operation by helping people to overcome differences and pursue a common goal. We tend to proceed with a survey on the employees of the target company by analysing factors such as the demographic and socio-cultural composition. The goal is to spread confidence about the upcoming change by outlining the weaknesses and strengths of the employees so as to identify the objectives of the new organization in a realistic way.

Cultural due-diligence has the same objectives as human due-diligence, that is to make the mergers and acquisition process as clear and transparent as possible. When two companies decide to give life to a process of merger and acquisition, it is inevitable that different cultures coming into contact give rise to "cultural shocks". This occurs mainly when the “dominant” acquiring company imposes its organizational strategies and policies on the target company without contextualizing the changes. The objective of cultural planning is not to eliminate

[41] We are talking about specialized companies that deal with managing changes related to M&A operations. Their task is therefore to guide the companies involved in the entire corporate restructuring process, placing human resources at the centre of the intervention.

contrasts and differences but to ensure that these do not represent an obstacle to the success of the operation. In particular, the objective is to ensure that these contrasts increase the attention of the human resources involved, allowing the birth of a dialogue about cultural dynamics in order to achieve a successful cultural integration. The aim of this paragraph is to make clear the centrality of human resources within contexts of organizational change within a company.

3.4 SYNERGIES

The term synergies comes from the Greek "synergia" which means "cooperate" (Capasso & Meglio, 2009, p. 84). As we have already seen, carrying out a merger or acquisition of another company is the most effective way, for a firm, to expand your horizons, internalizing knowledge, markets and products. In general, acquisitions represent an important lever for innovation, as they allow companies to grow and remain competitive on the market, increasing profitability. Creating synergies means obtaining an effect of the joint action of several factors, which is different from the simple sum of the factors themselves (Sirower, 1997). These effects can be positive when there is an increase in the effectiveness of the actions deriving from the combination of the factors or negative if the result of the joint action of the factors is less than their sum. The factors underlying the formation of synergies can be of different types, in particular we distinguish four factors which are the increase in revenues, the reduction of costs and risks and tax advantages. The increase in revenues can be obtained in various ways, for example through a recovery of efficiency in the marketing area or thanks to strategic benefits linked to the changed competitive context. Normally the acquisition or merger tends to increase the market share of the buyer who therefore obtains greater market power which translates into an increase in revenues. One of the factors that pushes a company to implement an M&A operation is the possibility of reducing costs through the realization of economies of scale linked to the larger company size but also thanks to operational restructuring that allows the elimination of inefficient managers (Kreitl, Oberndorfer, 2004). Furthermore, M&A transactions are attractive as they reduce the variability of results through a greater market share which entails a reduction in risks for the purchasing company (Gaughan, 2007). The tax advantages associated with acquisitions and mergers are many and mainly concern the carry-over of losses, the use of untapped debt capacity and the use of excess liquidity (Ghosh & Jain, 2000).

De Pamphilis (2003) distinguishes two main categories of synergies: operational synergies and financial synergies. Operational synergies are mainly realized in M&A transactions involving companies with similar, competing or replacement products or services and include:

- Economies of scale: the spent M&A operation gives rise to cost efficiencies in the production, distribution, logistics and administrative fields. This is due to the greater contractual strength of the new corporate entity towards suppliers but also due to a better exploitation of production capacity[42];

- Increased price control: the conquest of greater market shares can reduce competition on the sales and procurement markets, resulting in greater margins and operating flows;
- Increase in growth rates: this may occur due to the best market opportunities aimed at larger companies, both in the relevant sector and in new sectors;
- Combination of functional strengths: derives from the possibility of combining different corporate skills, competences and resources (technical, managerial, organizational etc.).

Operational synergies therefore allow companies to increase their operating income and growth starting from existing assets. Financial synergies can materialize in the form of higher cash flows and / or a lower cost of capital. The cases that fall into this typology are the following:

- Increase in credit capacity: it can occur when the merger of two companies makes the cash flows generated more stable and

[42] With economies of scale, we mean the spreading of fixed costs, such as depreciation of equipment and amortization of capitalized software; normal maintenance spending; obligations such as interest expense, lease payments, and union, customer, and vendor contracts; and taxes, of over increasing production levels.

predictable. This greater stability of flows and results makes us perceive to lenders the activity as less risky, who are willing to increase the volumes of financing or reduce their cost, thus reducing the weighted average cost of capital;

- Increase in investment capacity: it can occur when the merger involves a subject with good cash availability, but limited rates of return on investments, and another subject that proposes interesting projects, but is limited by credit restrictions and, for this reason, is unable to carry them out;
- Tax benefit: with the merger of two companies, higher asset values emerge, which translate into an advantage in the use of higher depreciation. Another advantage is given by the possible availability of previous losses by one of the two companies, which can be seen as an additional source of financial efficiency that reduces the overall taxable income, if the company does not have sufficient income to use them;

- Risk diversification: this is probably the most discussed and controversial motivation, since it often leads to a lower focus on activities, with a net negative rather than positive effect. It is indeed preferable for an investor to diversify his portfolio by buying shares of different companies rather than companies.

4. SESA GROUP S.P.A

Taking into account what we said in the previous chapters, we are going to analyse the Sesa Group S.p.A case. The Sesa Group is the reference operator in Italy in technological and digital innovation, supporting partners and client companies in their evolutionary path. A successful entrepreneurial story based on continuous and sustainable growth, which led the Sesa Group to reach, in the fiscal year to 30 April 2020, revenues of 1,776 million euros and over 2,500 employees, developing skills in sectors with strong growth potential. Sesa Group s.p.a bases its strategy on three fundamental pillars which are technological and digital innovation, skills and human capital and partnerships with world IT leaders. The aim of this chapter is to analyze how the Sesa Group is structured specifically.

4.1 SESA GROUP: COMPANY OVERVIEW

Sesa s.p.a is an Italian company based in Empoli (FI) and operates throughout the country: it is a leader in Italy in value IT solutions for businesses. The Sesa Group began its activity in the seventies in the sector of information technology services for companies in the industrial districts of Tuscany. Since the 1980s, in order to support the technological evolution of the sector, the group has extended its business to the marketing of IBM personal computers, software assistance and hardware maintenance. In 1994 the Sesa Group extended its activities to the sector of the distribution of IT solutions and products with added value (VAD “Value Added Distribution”) managed by the company Computer Gross. In a few years Computer Gross became the leader of the Italian VAD market, with an initial focus on the offer of IBM solutions (both hardware and software), which gradually supported other leading international supplier such as Cisco, Fortinet, Dell Technologies, HP, HPE, Lenovo, Microsoft, Netapp, Oracle, Palo Alto, Samsung, VMWare. In 2009 the Group further expanded its activities in the software and system integration area through the establishment and development of Var Group, active in the offer of IT services and business application solutions for the Small & Medium Enterprise and Enterprise sector. In 2013, the Group further consolidated its growth through the acquisition and aggregation of some partner companies and the development of human capital, with the listing on the stock exchange of Sesa S.p.A. initially on the MTA market and starting from 2015 on the STAR market. Today Sesa, thanks to the appreciation of its investors, composes the FTSE Italia Mid Cap and FTSE Italia STAR indices of the Italian Stock Exchange. In 2014, the founding members set up the Sesa Foundation, a non-profit organization operating with the aim of promoting Sesa's corporate welfare and supporting education and philanthropy initiatives for the benefit of the communities in which the Sesa Group operates.

The Group closes the year 2020 with economic performances above the historical track record despite the Covid epidemic. The Group reacted promptly through organizational changes that allowed business continuity, preserving the health of its resources and continuing to grow sustainably. The spread of Covid-19 has also accelerated technological innovation and digital transformation trends in order to build economic recovery. In this context, the Group has strengthened its investments in human capital and innovation, also made through corporate acquisitions, for a total value of approximately Euro 45 million in the year.

In the last 12 months, 10 new acquisitions were carried out in order to expand the offer of digital transformation services in complementary segments with high prospective growth and with margins above the average of the Group, with long-term sustainability objectives for the benefit of all stakeholders.

4.2 ORGANIZATION AND DEFINITION OF BUSINESS LINES

The Sesa Group operates with a presence distributed throughout the country and in some European countries. The headquarters of the Group is in Empoli (Florence) but it also has a widespread presence in Milan with a workforce of over 500 resources. Other offices are located to cover the whole national territory, and in particular in Genoa, Turin, Verona, Padua, Bolzano, Trento, Brescia, Montebelluna, Ferrara, Bologna, Florence, Siena, Arezzo, Perugia, Rome, Pescara, Ancona, Jesi, Naples, Bari, Palermo and Cagliari. Finally, the foreign branches operating in Germany (Aichach, Filderstadt and Moers), Spain (Barcelona) and China (Shanghai).

The Sesa Group is organized into 4 business sectors. The VAD Sector (Distribution of value-added Information Technology solutions), managed through the Computer Gross SpA subsidiary, the SSI (Software and System Integration) Sector, managed through the subsidiary Var Group SpA, which offers digital transformation to end-user customers belonging to the SME and Enterprise segments, the BS (Business Services) Sector led by the subsidiary Base Digitale SpA, which offers outsourcing, security and digital transformation services for the finance segment and the Corporate Sector which, through the parent company Sesa S.p.A, manages the corporate functions and the financial and operational platform of the Group.

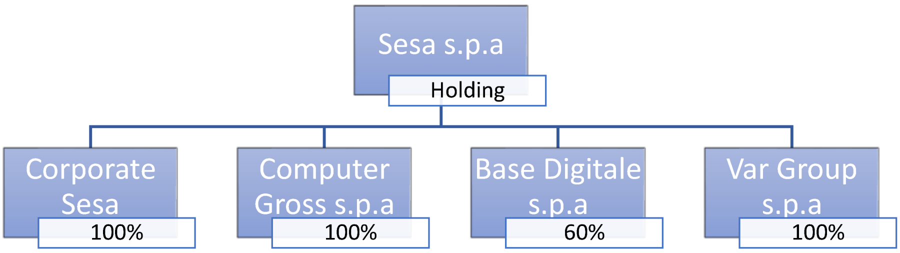

Figure 8: Sesa s.p.a organization chart.

As can be seen from the chart (Figure 8), Corporate Sesa is a wholly owned subsidiary of the Sesa Group and contains Strategic Governance, Administration, Human Resources, Finance and Control, Legal & Compliance, ICT, Operations, Investor Relations. Computer Gross s.p.a is another wholly owned subsidiary of Sesa s.p.a. The company is a leader on the Italian market in the Value Added sector with more than 13,000 business partners and annual revenues of approximately euros 1.45 billion. Base Digitale s.p.a is a 60% subsidiary of Sesa and is a reference operator in the Business Services and Business Process Outsourcing sector for the finance segment, with annual revenues of approximately eu 50 million. Finally we have Var Group s.p.a, a wholly owned subsidiary of Sesa that operates in the softwer and system integration (SSI) sector for the SME segments.

4.3 VAR GROUP S.P.A

As we have previously seen, Sesa s.p.a is the holding that controls four different subsidiary companies, one of these is Var Group, 100% controlled by the holding Sesa s.p.a. Var Group s.p.a aims to offer customized offers for each business sector with the aim of helping its customers to increase and maintain their competitiveness in an increasingly complex global market. For this reason, Var Group s.p.a is internally divided into sectors to offer services targeted to the needs of each customer. The sectors in which Var Group operates are fashion, furniture, retail, pharmacy, industry for the packaging sector and wine cellars. The solutions and services offered by var Group are mainly eight: Advanced and Cognitive Analytics (Artificial intelligence at the service of business transformation), Business and Industry Solutions (International and national ERP and application solutions for specific sectors), Business Technology (technological solutions to compete in the global market), Customer Experience (solutions in the field of strategic communication and marketing), Digital Cloud (strategies to fully exploit the private and public hybrid Cloud), Digital industries (Solutions aimed at digitizing and servitizing processes and products), Digital Security (cybersecurity services for Italian companies), Smart solutions (integrated IT services aimed at operational and production continuity) and Financial Services (offers all services in one fee with flexible contractual formulas).

4.3.1 Business and Industry Solution sector

For Business and Industry Solutions we mean the development of national and international ERP[43] (Enterprise Resource Planning) to allow companies to compete on global markets. Var Group's goal is to compete in an increasingly globalized market that pushes entrepreneurs to compete with global companies. Precisely for this reason, Var group s.p.a, in the Business and Industry Solution sector in particular, develops a strong network of acquisitions with various companies. Purchasing new companies, the business can achieve a dimensional growth and consequently an increase in revenue but above all a greater market share, factors that give strength to the competitive capacity of the company. Var Group's choice to grow by adopting a network of acquisitions rather than an organic path was driven by the fact that growth through acquisitions is the faster and shorter option. Following an organic path, on the other hand, involves a much slower and in any case risky growth (in terms of size and revenue), in fact the market changes rapidly and the objective could be reached when the international scenario will have already changed. Through the acquisitions Var Group s.p.a and in particular Sesa s.p.a (the holding company) can expand their business, extending their activities in complementary and similar sectors.

[43] Enterprise resource planning (ERP) is a management software that integrates all the relevant business processes of a company and all business functions, for example sales, purchasing, warehouse management, finance and accounting. It therefore integrates all business activities into one single system, which is essential to support the Management.

Var group controls several companies in the Business and Industrial Solution sector through shares. As we will see, some companies are totally controlled, this means that Var Group holds 100% of the shares of the subsidiary company, in other cases it will hold only part of it. Furthermore, while some companies are directly controlled by Var Group, others will be indirectly controlled this means that they will be controlled by Var Group through an intermediate company. The group we are analysing assumes a complex form that combines characteristics of the simple structure (with companies controlled directly by the holding) and the complex structure with successive levels of grouping (with companies controlled directly by Var group which in turn control other companies).

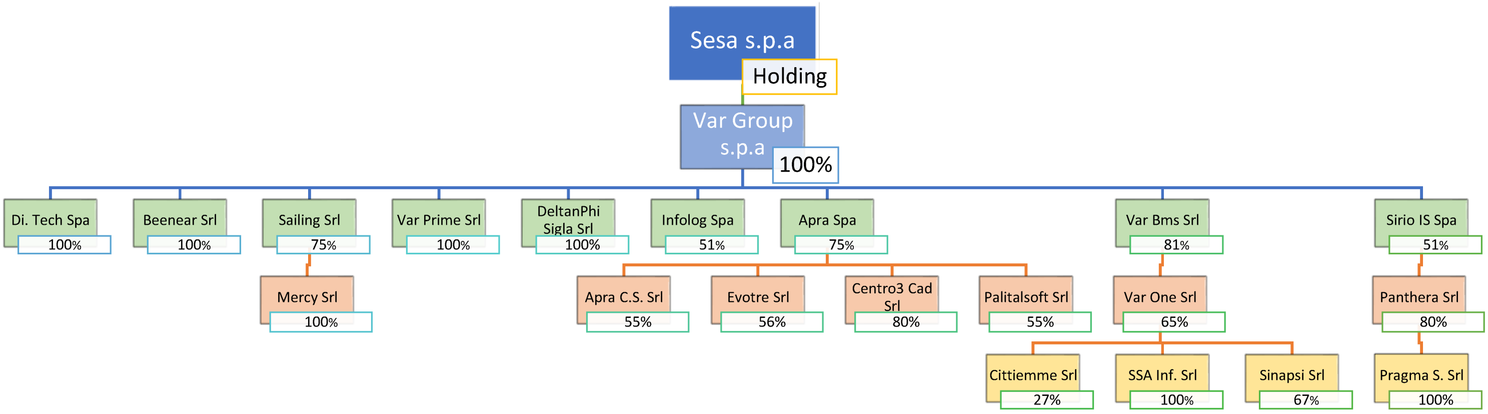

Figure 9: Structure of Business and Industrial Solution Sector of the subsidiary Var Group.

Each of these companies operating in the Business and Industrial Solution sector are specialized in more specific areas, in this way Var Group can offer its customers customized solutions. For example, while "Sirio Informatica e Sistemi Spa" (a company 51% controlled by Var Group) operates in the sector of development and marketing of ERP software for the SME market, a company such as Sailing Srl (75% owned by Var Group Spa), operates in the production and marketing of software and specific IT services for the GDO / Retail sector.

4.3.2 Apra Spa

Apra Spa is a 75% subsidiary of Var Group Spa that offers digital services, business applications ("I-Wine" and "I-Furniture") and IT solutions to SME and Enterprise customers in Central Eastern Italy and belonging to some districts of the Made in Italy (including Furniture and Wine). One of the strengths of the Company is the territorial coverage to be close to the needs of its customers also from a physical point of view. Its widespread presence on the Italian territory allows the Company to stay close to SMEs that want to be more competitive on the market. Apra Spa has its headquarters in Jesi and spreads throughout the territory with branches in Ascoli Piceno, Bari, Perugia, Pesaro, Pieve di Soligo, Vicenza, Termoli and Trento. With the aim of guaranteeing greater territorial coverage in January 2020, Apra Spa acquires the company Sys-thema Srl, a small IT company based in Pedaso that has been offering management software in the local area for over thirty years. Sys-thema therefore becomes a branch of Apra Spa through a sale of a company branch. The sale of a business branch is a widely used method of sale because it allows the acquired company to sell a portion of the company while maintaining its autonomy. Through this operation, Apra spa has achieved greater territorial coverage but has also acquired a competitive advantage in the wine sector. Specifically, the Sys-thema company has been operating in the wine sector since 1986 and has always been a competitor to Apra Spa. The choice, was especially driven by the fact that the Sys-thema company is already structured and organized, making it suitable for business operations but above all made up of already trained and competent human resources.

CONCLUSIONS

The main purpose of this thesis is to investigate the main forms of external relations between companies -the location of a company within an industrial district and belonging to a business group- specifically analysing the causes that drive companies to create these forms of agglomeration. Specifically, the objective is to study how these forms of agglomeration affect business performance and in particular the survival of businesses in the presence of economic recessions.

Companies tend to adopt agglomeration strategies by creating external relationships with other companies in order to positively influence company performances. Through the creation of business groups and industrial districts, companies can more easily obtain information and knowledge useful for innovation, have easier access to industrial resources and, above all, can easily overcome problems related to economic crisis. Companies that are part of industrial clusters and corporate groups are much more likely to survive economic shocks than stand-alone companies. Companies that belong to a group can in fact benefit from the internal capital market and the diverse activities performed by group companies. Industrial clusters allow their member companies to take advantage of cooperation between companies by providing support in the event of a crisis. While on the one hand the enterprise's networking favours the survival of enterprises in the presence of economic recessions, on the other hand it promotes the survival of inefficient and poorly performing firms. Mergers and Acquisition (M&A) operations allow companies to achieve external growth quickly and above all to access strategic markets. Our analysis shows that the success of these operations is closely linked to the due diligence process, i.e. a series of operations that allows advisors and managers to collect data about the companies involved in order to outline their health status. More specifically, our analysis focuses on the importance of soft due diligence, often ignored, in particular of all those procedures relating to the integration of human resources and the co-existence of corporate cultures in the new reality.

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