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“Myth and Reality of a Large Corporation in Fascist Italy: The Story of Montecatini”

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A brief outline of the company’s history

At the end of the 2nd World War, Montecatini was a giant of Italy’s economy. The company enjoyed a quasi-monopoly in many fields of mining and chemical manufacturing such as pyrites, sulphuric acid and nitrogen fertilizers.

Montecatini owes its fortunes to a strong entrepreneur, a Leghorn (Livorno) engineer by the name of Guido Donegani. His family was active in the shipping trade and among the major shareholders of Montecatini, a mining company founded by Tuscan businessmen and French bankers in 1888 in order to exploit copper deposits found in the center of Tuscany. In 1910, at the young age of 33, Donegani became chief executive of the company, quickly demonstrating an understanding of the strengths and weaknesses of his industry. He realized that copper’s biggest weakness was that it was constantly subject to the fluctuations of national markets so he decided to shift Montecatini’s focus to pyrites since deposits of the same had recently been discovered not too far from the company’s copper mines. Pyrites are a fundamental component of sulphuric acid which, in turn is a basic element for fertilizers, so its economic significance in a nation where agriculture continued to be more important than any industrial activity can be easily understood.
Thus Donegani started to pursue a strategy of vertical integration from raw materials to chemical products for agriculture.

World War I was a critical period for the development of the firm. Before the war it was an important company in its sector but not at the top of the Italian industrial system as it found itself at the end of the conflict. Such a significant leap ahead was brought about by state military orders: a notable consumption of explosives and copper for projectiles by the military favored Montecatini. It is important to note the fundamental role of Donegani’s leadership in this leap ahead: he did not disperse the enormous war profits into financial speculations or investments in unrelated sectors as occurred in other major companies (for example, Ansaldo in heavy machinery and Ilva in steel) and which later brought these companies into bankruptcy in the post-war period. With the financial resources it had accumulated, Montecatini was able to take over Italy’s two most important fertilizer manufacturers: Unione Concimi and Colla e Concimi, thus assuring it first position as the country’s pre-eminent chemical company.

In the years which followed, Montecatini was one of those corporations which consolidated its position as leader in the Italian industrial scenario. It extended its interest to all chemical fields without ever reducing (in reality, it was reinforced) its attention on mining activities. By the end of World War II, it is possible to affirm that Montecatini’s position in the Italian economy was truly central. “Any little Italian village cannot be without three things: the church, the carabinieri station, and the Montecatini warehouse for fertilizers” became a saying of one of the company’s top executives. By 1938 the company had 60,000 employees distributed around the country in 150 plants which consumed 10% of all electrical energy generated. Montecatini’s shares were considered to be as solid as government bonds.
Less than three decades later, the situation had changed entirely. In 1966, Montecatini found itself on the verge of bankruptcy and compelled to merge with Edison, a holding company with an enormous financial flow generated by the nationalization in 1962 of its electric power plants. In the preceding years, Montecatini had completely missed the opportunities offered by petrochemicals as it was still burdened by its activities in the mining sector.

The goal of this short paper is to show the relationship with Italy’s Fascist regime was an important determinant in this outcome. The author’s intention is to show that a critical variable in determining success or failure can be found in the capacity of the firm’s leadership to preserve its independence from political powers in terms of strategy and structure.

The “big fear”

It is impossible to understand the relationship between Italian industrialists and fascism without going back to the extremely turbulent years which followed the First World War, the so-called “Red Biennial”. These were years of great disorder: in the first case of economic dimensions given the strong process of inflation; in the second, political, brought about by the end of hegemony of the old Liberal Party elite caused by the introduction of universal suffrage; and thirdly, social, for the urgent requests by the subordinate classes (made up principally of the agricultural workers who constituted the bulk of the Army and ended up paying a high price in terms of bloodshed, as well as the industrial workers who had become more numerous as well as more vocal thanks to the industrial mobilization of the war years).
In 1919 peasants took to occupying the undeveloped lands of absentee landowners. In that same year, industrial workers began a series of labor unrest which put the nation in the position of being number one in Europe for industrial strikes. The results were tangible—a strong increase in salaries that compensated for inflation and the attainment of an 8 hour workday. But the workers were not satisfied with these results. Lenin, the Soviet experience and the birth of the Third International represented for them an irresistible attraction that seriously challenged the reformist leadership of the workers’ movement. The September 1920 occupation of factories represented a peak of the class struggle in this tormented phase of Italian history.

In all this period, industrialists were extremely disoriented, an attitude reinforced by the fact that the government led by the old liberal reformist, Giovanni Giolitti, did not oppose the occupations by sending in the army. Instead he chose to solve the hard conflict by proposing a bill which fostered workers’ participation in companies’ governance. It is likely that the workers, too, were disoriented by this result (maybe even more so than their owners!). It was true that they had given a significant demonstration of their strength but they had also failed to attain the goal of a social revolution.

The results of the November 1920 elections confirmed this state of confusion. In local elections, conservatives received an overwhelming majority. Benito Mussolini, until that point the leader of a small political movement with nationalistic and anti-socialist aspects (but also with leftist leanings as illustrated by its support of 8 hour workdays, progressive taxation and workers’ control of company management) showed a perfect understanding of the new direction of Italian political life and rendered himself available to landowners and industrialists, thus beginning the irresistible rise of Fascism.
A “marriage of convenience”

Donegani’s name does not appear in the first round of Mussolini’s followers (the so-called “Sansepolcristi” after the name of the Milanese square where they staged a demonstration in March 1919). Neither was he an enthusiastic supporter of the Regime. Rather, as an exponent of the old Liberal Party, he chose to accept and sustain Fascism as the warrantor of property rights, as the controller of social conflicts in factories, as a supporter of a political economy which was not hostile to big business. Donegani began his involvement in politics at the beginning of the century when he was elected (as a member of the Liberal Party) Borough Council Clerk of the province of Leghorn, a strategically important position as he was able to realize the aqueduct which solved the problem of drinking water in this Tuscan province. The growing importance of Montecatini propelled him into running for a parliamentary seat in 1919, an attempt which failed by just a few votes. But two years later he was successful when he presented himself as a candidate of the National Block, an alliance of Liberals and Fascists which then proceeded to re-elect him in 1924. A “memo” of the police to Mussolini in 1929 asserted that, since the first Fascist government, Donegani had always been loyal to the regime, but that in his parliamentary role he had strictly limited his concerns to Montecatini’s interests so that all his speeches were concentrated on agricultural problems and tariffs. Five years later, Leghorn’s chief of police wrote to the Interior Minister that Donegani had always followed the orders of the National government with discipline but that he had not accumulated any special merits as a Fascist.

As a matter of fact, the industrialist never developed any significant opposition during the political crisis that followed the murder of a Socialist member of Parliament, Giacomo Matteotti by Fascist killers in June 1924. For this plight, the owner-editor of Italy’s most
widely distributed newspaper, *Il Corriere della Sera*, an old-line Liberal by the name of Luigi Albertini, chose to blame the passive behavior of Italian business leaders defined as cynical. Albertini’s comments made in an exchange with another influential commentator, the Liberal economist Luigi Einaudi, prompted the latter to write an editorial in this direction. Einaudi—who would later become the first President of the Italian Republic—published an article entitled “Il silenzio degli industriali” (The silence of industrialists) in August 1924 in which he openly accused entrepreneurs of considering the absence of strikes and the positioning of their companies as being more important than the lack of political freedom for Italians. He then went on to comment that the industrialists’ lack of concern for the rights of minority groups confirmed that they clearly did not deserve the role of a ruling class.

As a member of Parliament, Donegani did nothing to disassociate himself from the government, in favor of which he voted during the debate of November 15, 1924 when his colleague, Giacinto Motta (leader of powerful Edison), preferred not to participate in that specific parliamentary session and another important industrialist, Giacomo Ponti (head of SIP, *Società Idroelettrica Piemontese*) abstained from voting together with another 25 parliamentarians. A few days later in the Senate another entrepreneur, Ettore Conti, warned Mussolini that the country did not want to move from one political extremism to another. These incidents served as confirmation of the fact that not all Italian industrialists were silent, but why did the majority of them choose to act like Donegani, doing nothing to overthrow a morally disqualified government? Two explanations seem to offer good insight. First, in the 1922-25 period the economy was booming in a way which could be comparable only to the later “miraculous” 50s. It is debatable if this was due to the economic policy pursued by the Secretary of Finance, Alberto De Stefani, who tried to free
private initiative of as many state burdens as possible, or if it was the result of more
general circumstances—as was pointed out by an English commentator in August 1927—
such as a depreciation of national currency, low salaries and the temporary absence of
German and British competition. Certainly these were golden years for Montecatini, which
consolidated its supremacy in phosphate fertilizers and entered the very profitable field of
nitrogen fertilizers. The second reason might be found in the fact that, notwithstanding the
drastic reduction in strikes, industrial relations inside big corporations were not entirely
calm. Moreover, the communist component of some of the trade unions showed itself to
be very much alive and it was seen as a still serious opposition to corporate owners. In this
respect, Fascism represented a solid warrant, as was made clear in October 1925—the date
of the Palazzo Vidoni agreement—when free unions were abolished, including the shop
committees.

Great Favors

In this way, by fully accepting the dictatorship Montecatini entered the Fascist era facing
both the advantages as well as the disadvantages of Italian big business during those
years. There were protections from social conflict and from foreign competition and, after
1935, a good quantity of war-generated orders. However, there was little development of
the domestic markets for industry, given the policy of “ruralization” and “autarky” which
meant isolation from most of the advanced nations. Within this general framework,
Montecatini received a series of special favors from Fascism: the government made it
possible to replace nitrogen fertilizers in the Italian marketplace without fear of foreign
rivals in 1931.
Montecatini needed protection against foreign competition. It needed to defend the important technological leaps it had made in the production of nitrogen fertilizers which had started to be important for the company in the second half of the 1920s. As mentioned earlier, in 1920 Montecatini had become the most important chemical company when it took over control of the two fertilizer (mainly super-phosphates) producers, Unione Concimi and Colla e Concimi. Donegani immediately showed an entrepreneurial superiority when compared with the management of these two firms which were, de facto, little more than an informal federation of factories. First, he started a far reaching work of propaganda aimed at farmers, using techniques from experimental fields to movies. But, above all, Montecatini realized a real merger of the 35 plants it had inherited by acquiring the two companies. Some factories were shut down, others were enlarged and renewed, and new ones were built. The link between pyrites, sulphuric acid and super-phosphates produced greater fluidity allowing Montecatini to exploit all of the advantages of vertical integration. But the advantages provided by scale economies could be limited since, for a product such as super phosphates, technical progress consisted of a simple mechanization of different phases of crushing and mixing. Things changed in this respect when Donegani met a young engineer by the name of Giacomo Fauser in May 1921. Fauser had worked out a new method to get synthetic nitrogen based on an electrolytic process much simpler than the more diffused Haber-Bosch method with the added advantage of not requiring great quantities of coal, a mineral which was very expensive for Italian companies to import. Donegani enthusiastically accepted Frauser’s proposal to develop his discovery on an industrial scale.

In this way, Montecatini fully entered into the age of the Second Industrial Revolution, signifying new links with scientific research, more difficult and complex production
processes and wider possibilities of exploiting economies of scale and scope. It was also a very expensive choice, compelling Montecatini to build five new plants and three hydroelectric power plants between 1925 and 1927. These developments meant that the company more than doubled its capital stock. Such huge investments could be justifiable only if Montecatini could completely dominate the domestic market where growth, on the other hand, in the late 20s reached a peak (1.6 million tons of phosphates, 65 thousand tons for nitrogen fertilizers) that was far below Donegani’s expectations.

A vociferous opponent of this design for full control of the Italian market by Montecatini was Federconsorzi, the powerful federation made up of various associations of Italian farmers created in Piacenza in 1892. Piacenza was the heart of the Po Valley, the richest agricultural area of the country. Federconsorzi therefore could count on its own structures for the distribution of fertilizers and also on price ceilings for products in the field of phosphate production. Federconsorzi accused Montecatini of a form of dumping in the Italian market. This was possible because both Montecatini as well as Federconsorzi had phosphate factories in the industrialized northern part of the nation while only Donegani’s operations could also count on plants in the South. In this way, Montecatini was able to practice low prices in areas where Federconsorzi was present and make up for these “sacrifices” in areas where it enjoyed a monopoly. Federconsorzi lacked the financial resources necessary to construct the big plants necessary for the production of nitrogen fertilizers but, in this case, for the benefit of Italian agriculture the Federation pushed for their importation without any tariff barriers. Farmers were an important constituency for Fascism, so much so that Federconsorzi could easily make its voice heard. Within the committee set up by the government in 1926 to investigate the issue of high-priced fertilizers, Julo Fornaciari, a representative of the Union of Fascist Farmers, spoke of the
fear of seeing all the fertilizer trade end up in the hands of a single firm with all the companies, both private as well as cooperatives, being absorbed by the predominant group. His call was soon heard in Fascist circles. In 1927 *Il Corriere Padano*—a newspaper controlled by one of the principle leaders of Fascism, Italo Balbo—claimed that Montecatini needed to yield its entire production to the control of Federconsorzi’s distribution channels. In that same year, *Il Popolo d’Italia*, Mussolini’s newspaper, wrote that in order to realize one of Fascism’s major objectives—making Italy rural—a reality, it was absolutely necessary to remove the burden constituted by the high price paid to certain industries from agriculture. The showdown between Montecatini and Federconsorzi was finally resolved in 1931 when the Big Crisis threatened to sweep away Donegani’s work: the government chose to privilege the large corporation over consumers. Federconsorzi was compelled to enter into an agreement with Montecatini and super-phosphate prices were subsequently increased by 10%. In addition, tariffs on nitrogen fertilizers were raised so high that importing them became practically impossible.

**A Deadly Embrace**

The relationship between government and big industrial business in Italy has always been a tightly woven one. The historical phase in which Italy entered into the industrialization process at the end of the 19th century and the country’s endowment of resources made the State’s support an unavoidable fact, particularly based on 3 elements: control of the domestic market, a good quantity of orders (from the army, the navy and the railways), and the guarantee of rescue in the event of a financial crisis. But the relationship between the Fascist government and Montecatini was, above all, a particular one. This was most evident when the company started to produce synthetic nitrogen, a true point of conjunction of three major Fascist goals: ruralism, militarism, and autarky.
Mussolini preferred a rural Italy rather than facing the dangers of social conflicts caused by industrial modernization and, in order to foster demographic growth, an absolute necessity so as to become a great power and an objective to which he believed the rural population was more oriented than those who inhabited the cities.

Montecatini’s nitrogen fertilizers were seen as a powerful tool for rural Italy. At the same time, nitrogen was also associated with the war machine. In the chairman’s report of 1927, Donegani asserted that future military conflicts would have chemistry and aviation at their base. Commenting on his words, an important Turin newspaper, *Gazzetta del Popolo*, observed that it was compulsory and without humanitarian shame that the nitrogen industry was able to adapt quickly to war needs, from explosives to poisonous gases.

Finally, Fauser’s nitrogen had another virtue: it was obtained exclusively with national ingredients—water, air and electricity. The economic independence of the country had always been of central concern in Mussolini’s policy but it reached its peak in October 1935 when eighteen members of the League of Nations declared an economic boycott, the so-called “sanctions” against Italy for the invasion of Ethiopia. Thanks to this foreign threat (which was more apparent than real), Mussolini was able to enjoy a level of popularity as never before. In March of the following year he proclaimed “autarky” to be the highest ideal of economic self-sufficiency and Montecatini was soon presenting itself as the anti-sanctionist corporation which was able, as no one else, to replace imports with its chemical productions and with the exploitations of national minerals. In this way, a reader of the newspapers in the second half of the 1930s would quickly note that Montecatini had been transformed into a national monument.

Such an intense relationship between the company and the Fascist regime also had some serious consequences for the long-term health of the former. Starting in the early 1930s it
was evident that between the two a do ut des relationship was developing; a relationship which, when considered in the long run, would end up being more costly for Montecatini. In the same period of high tariffs on nitrogen fertilizers (1931) Montecatini was asked to take over ACNA, the principal Italian manufacturer of artificial dyes, which had ended up bankrupt during the crash of Italgas, the conglomerate which owned it. Montecatini was not prepared to enter into the new field, so much so that it had to form a joint venture with the powerful IG Farben, which took on 49% of the operation. It was not an easy move but Mussolini had personally asked for it; to justify this investment—Donegani wrote about the Duce’s intervention in the 1932 company report—Montecatini had no choice but to obey. But this was only the first of a series of requests which the company could not turn down. In 1934 Montecatini found itself rescuing a Sardinian lead-mining operation, Società Miniere di Montevecchio, and in later years it did the same for a marble extraction operation in Carrara (northern Tuscany). The policy of autarky compelled the company to reintroduce anti-economic raw materials and technological processes. Before 1935 Donegani had decided to shut down the lignite mines the company owned in Tuscany, as they were of no economic interest to the company, but in less than a year the company was forced to go back on its decision and return to mining this poor surrogate for coal. By the same token, in order to produce a totally Italian aluminum, they chose a process which allowed them to use national bauxite rather than the more efficient Bayer system utilized by foreign competitors. In 1936 Montecatini built a large electrolyte plant to produce zinc, while international prices for this product were plummeting. But even Italy’s “beloved” nitrogen turned out to be a trap as it required so much electrical power that in 1935 the government could not help but permit the construction of a large coke plant to get the hydrogen necessary for the nitrogen synthesis. In the end, Montecatini had become a
company burdened down by all these compromises it had been forced to make with the government—a reality which the company’s leadership did not seem to understand as it moved within an extremely protected environment. Insensitivity to market needs made Montecatini a company which was strongly centralized. There was no trace of an organizational debate like those which occurred in foreign competitors IG Farben and ICI. The multidivisional form was envisioned only in the early 60s when the company found itself on the brink of an abyss.

Conclusions

The 1950s and 1960s have been christened the years of the Italian “economic miracle”. They formed a period in which big business—sectors like automobiles, steel, cement, tires, petrochemicals and similar—played a role of extreme relevance. But not all large corporations were automatically winners; there were also some losers. Among the former was surely the automobile manufacturer Fiat, but another winner was also Finsider, the state-owned holding for steel whose leaders in the 30s had behaved in a manner similar to that of Giovanni Agnelli, Fiat’s founder-owner. Behind a formal homage to the regime, these entrepreneurs formed an independent, cohesive and competent management while they realized a strategy based on a new integral-cycle plant that defined itself as an “autarkic” plan but was, in reality, going in the opposite direction. They reaped their rewards in the 50s, when steel production dramatically increased and Italy moved from ninth to sixth position in the world. Among the losers there were those who more passively adapted to autarkic policy and made of the do ut des relationship with the state a precise strategy. In addition to Montecatini, a very good example of this attitude is found in the multi-sectorial Terni operations which was able to bargain with the government and secure good prices for its electric production, good positions in the compulsory cartels for
its electrochemical fertilizers, and which in exchange had its war steel plants kept alive even when state demand was weak. This kind of strategy solidified a corporate culture which had state protection and strictly regulated markets as fixed reference points.

Upon Guido Donegani’s death in 1947, it never occurred to one of his aides or successors (the continuity of Montecatini’s top management was never challenged) that the compromises made with the state during the war period had damaged the company. Montecatini built up the first petrochemical plant in Europe in the city of Ferrara in 1950 but, having previously dispersed itself into too many fields, was unable to invest enough in petrochemicals and, hence, unable to attain the right scale of production. Six years later, Enrico Mattei, founder of the state-owned holding ENI, built up a petrochemical plant nearby in Ravenna which was three times larger. In this way, Mattei was able to drastically lower the prices of nitrogen fertilizers, whose monopoly Montecatini ended up losing forever. It was inconceivable for the company’s leaders that the state itself could promote such a harsh form of competition. The only response that they were able to envision was an offer of agreement to Mattei. Alas, ENI’s leader turned them down, marking, for Montecatini, the moment which would signal the beginning of its demise.
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