Foreign family business and capital flight. The case for a fraud to fail
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Foreign Family Business and Capital Flight

The Case for a Fraud to Fail*

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Abstract. The research here proposed is a micro-analysis of a business ending in bankruptcy in the aftermaths of the first oil shock, concerning the Italian subsidiary of a German ware-enamelling group established in the town of Bassano in 1925. Following the budget reports and the interviews with the former entrepreneurs, the company flourished until the 1960s, when managerial and entrepreneurial successions emphasized the growing difficulties deriving from growing labour costs. A tentative reorganization of the company was hindered in 1968 by union resistance and political pressures for the preservation of employment levels. In 1975 the board of directors decided to declare bankruptcy as a consequence of the huge budget losses. However, a subsequent inquiry of the Italian tax authority discovered an accounting fraud concerning hidden profits in 1974 and 1975. The fraud disclosure shows how historical conditions could create the convenience for performance understatement not only for fiscal purposes, but also in order to make divestment possible. However, it is also used here as an element to argue that business sources and the story they tell should not be taken at their face value, and that a different reconstruction of the company's path to failure is possible. The literature concerning the missed recognition of opportunities is then mobilised in order to interpret the inconsistencies that emerge from the triangulation of business archives, press columns and interviews with union representatives and politicians. This allows to put back into perspective what results as an obsession of company management with labour costs, concealing the importance of other competitive elements, such as the increasing specialisation of the producers of home appliances. This 'refractive error' may be typical of businesses operating in (presumed) mature industries at international level, where wage differentials offer the opportunity to pursue quite literally exploitation much further.

Keywords. Business history, foreign direct investments, family business, accounting fraud, corporate governance.

JEL Classification Numbers. N84, G34, L21, F23.

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1 Introduction

The research here proposed is a micro-analysis of a case of bankruptcy in the Italian context in the aftermaths of the first oil shock. A first reason for the choice of the case is the peculiar nature of the failed company, the Smalteria Metallurgica Veneta (hence SMV), the Italian subsidiary of the Westen group, which was controlled by a family of German entrepreneurs who established ware-enamelling factories all over Central and Eastern Europe in the first half of the 20th Century, in order to overcome the growing maze of commercial barriers created by the dissolution of empires. This paper is indeed part of a larger projected research on the Westens’ holding and the history of the companies they founded in different countries.

Established in the small town of Bassano in 1925, the SMV flourished until the 1960s, when managerial and entrepreneurial succession emphasized the difficulties deriving from the emergence of new specialized competitors in the expanding sector of home appliances. The tentative reorganization of the company was hindered by union resistance and political pressures for the preservation of the employment level. A rapid managerial turnover paralleled a second entrepreneurial succession and the choice of the third generation of Westens to diversify and invest abroad, mainly in Spain and Latin American countries. On Christmas 1975, at the end of a recession year for Italy and most of Western European countries, the board of directors refused to fill the enormous losses that in the budget resulted created by an increase of labour costs. The company was then liquidated and 1,350 workers were fired. Five years later, an inquiry of the Italian tax authority discovered an accounting fraud concerning the SMV 1974 and 1975 budgets, where hidden profits emerged.

The Westens evidently used budget manipulation in order to exit from a situation they judged unsustainable, transferring abroad most of their Italian investments and overcoming prohibitions against capital flights by means of their foreign holding. The case shows how historical conditions could create the convenience for performance understatement not only for fiscal purposes, but also in order to make divestment possible, but the theoretical issues implied are wider.

The cross-comparison of company budgets and the inquiries of the tax authority, together with news and union reports of the time, previous studies collecting interviews and documentation that now is lost, and business documents deposited at the judicial archives after the bankruptcy trial, altogether allow an in-depth inquiry into a case history that presents some peculiar features. This requires the researcher to join together different theoretical perspectives in order to understand what happened, but offers also valuable insights into the connection between these perspectives in the actual dynamics of business evolution.
First of all, the concerned company was a family business going multinational very early and gradually changing its approach to the management of the relationship between national branches. It is in this context that it is possible to observe how during the post-WW2 decades the strategy of the Italian Westen business were radically changing. Up to the early 1950s the company was still pushing turnover expansion by means of the correlated diversification of products exploiting the core technology of metal pressing and enamelling, a strategy started in the 1930s to pursue scale economies that was now creating some problems in terms of narrower margins in the Italian market. Since the late 1950, the company invested a lot in the technological improvement of the internal efficiency and labour productivity, introducing taylorism and mechanizing the assembly lines, then using IBM mainframes in order to monitor the operations and finally resorting to a radical reorganization of the lines implying job redundancy. In the early 1970s, after the abandonment in 1968 of the reorganization projects, because of the pressures and incentives provided by the authorities to preserve employment levels, a tentative expansion by means of acquisitions of more successful related productions was paralleled by the preparation of an alternative escape strategy, finally applied in 1975.

The shift from one strategy to another (connecting means to ends-in-view in the frame of different approaches to business: for this conceptual perspective see Whitford 2002) happened in connection with both entrepreneurial and managerial succession and change. It is indeed interesting to see how these two levels were connected in a family business. The succession of the presidents of the board of directors was indeed exogenous, directly connected to the rules of family inheritance that were applied after the death of the former president. Managerial changes followed a similar logic in the 1950s and early 1960s, with the appointment of CEOs grown up in the company or coming from other branches of the international group whenever the former one died. Still, when strategies started changing and failing more and more rapidly, the managerial turnover became more frequent, and connected to these changes, in what resembles a process of trial and error involving both the managers and the strategies of which they were bearers. Keeping into account that strategies require decision makers who believe and implement them, it becomes possible to use the literature on executive succession (see the overview by Giambatista, Rowe, Riaz 2005) in order to shade some light into the mechanisms by which not only an unsuccessful strategy implies managerial succession but also into the tacit nature of strategic knowledge (Anthony, Brockmann 1998).

Finally, different accounting instruments were applied in the tentative implementation of different strategies by different executives, from the focus on productive capacity and efficiency, justifying the huge fixed investments externally financed during the Reconstruction, to a more and
more detailed analysis of throughput times for each product aiming to a fordist reorganization of the operations, up to budgetary exercises aiming to demonstrate the unsustainability of specific productions, or the success of new policies, ending up with the fraudulent deflation of incomes justifying the liquidation of the company. The last point is somehow the occasion for this study, but it is important to notice that each of these phases involved an instrumental use of accounting in order to support the strategy devised by the management when dealing with specific counterparts, from the inspectors of the European Recovery Program to the unions.

The following paragraphs deal in detail with each phase, finally focusing on the implications of the dynamics emerging in the last.

2 The origin and expansion of the firm

The Smalteria Metallurgica Veneta (below SMV) was established in 1924 with a capital of 3 million liras (2.6 million of today euros) by a group of Italian, Austrian and German investors led by the brothers August and Adolf Westen. The Westen family at the time owned several factories for the production of enameled metal pottery in several countries of Central and Eastern Europe (SMV 1965).

The first plant was set up in 1858 in Neschwitz, a town in the historical Lusatia region of the filo-Habsburgic Kingdom of Saxony. After Saxony entered the German Empire in 1871, a new plant was established inside the borders of the Habsburgic Empire in the Styrian town of Knittelfeld, in 1873. The family fortunes were built during the second half of the nineteenth century in the Mitteleuropean area, and seem related to an undisputed monopoly of the new enamelling technology emerging from the innovations in chemistry and metallurgy, which allowed to produce metal pottery competing with the more fragile ceramic tableware. In 1894 a new plant was built in Celje, Slovenia, where the headquarters of the group were established. New productive branches were opened inside the territories of the Habsburgic Empire: in 1895 in Ligetfalu, Hungary; in 1897 in Budweis (now Ceské Budejovice), in Bohemia; and in 1908 and 1912 in today Poland, with the plants of Olkus and Wolbrom.

After WWI, the industrial interests of the family were expanded to Romania, where a factory was built in 1923 in Mediasch, to Italy in 1924, and even to the Soviet Union, where a plant was established by Peter Westen in Rostov, Ukraine, following an agreement with the Soviet authorities in 1926. This plant was then expropriated with compensation in 1930, but some technical consultants remained there until the late 1940s; after WW2, all the plants located beyond the Iron Curtain were nationalized. The relocation strategy the Westen family adopted in the interwar period responded primarily to the need to maintain a presence in the markets that were foreclosed to their
products because of protectionist policies or because of the border changes following WWI. The low cost of labour in these new national markets favoured the establishment of local production branches. The choice of small towns for their location aimed to provide the company with an undisputed position of strength as the main employer in the local context.

The decision to establish a factory in Italy in 1924 was directly related to the failure of the negotiations for a customs union between Austria and Italy (De Angelis 1982, 136): the Italian market was strategically too important for the Westens to be excluded from it. The choice of the location for the plant was primarily related to logistic considerations concerning railway connections. Bassano was eventually preferred because of the favorable conditions offered by the municipality, who granted the land for free and a contribution of 110,000 liras (95,000 today euros).

Shortly after the establishment of the SMV in Bassano, the industrial assets of the Westen family were divided between Adolf Westen, who together with the elder brother Peter remained in charge of the group based in Celje, and August, who moved permanently to Italy. However, in the following years the shares of the Italian company were concentrated together with other stocks into two holding companies (Anstalten), Intercont and Universa, based in Vaduz, Liechtenstein. The operation managers of the Italian plant were moved to Bassano from other factories of the group, whilst for external relations local managers were hired: Nicolas Leszl (Berti 2002a) was then appointed as general director and Ugo Sostero as managing director (SMV 1965, 13-22).

After 1924, the business grew larger in the number of employees, but also in the area covered by the plant and in the amount of power consumed (Table 1). To the enameled metal pottery, variously decorated, other products were added soon. In 1928 a new line for tinsmithery was introduced, soon producing also chromed, aluminium (1931) and steel (1933) items. Product diversification extended from enameled plates and milk cans to enameled bathtubs for the shipbuilding industry in 1929, and to heaters in 1930. Wood and gas cookers, water heaters and refrigerator boxes followed. In 1937 also enameled equipments for the pharmaceutical industry and for distilleries were added. The war in Ethiopia and WW2 pushed then the SMV to convert part of the production to war purposes, with cookware, large kitchens, but also helmets and mine shells (SMV 1950, 29-38).

The introduction of new materials and processes was paralleled by the construction of new lines and by a steady increase of the employed labour force, following a strategy aiming to exploit the economies of scope of molding and processing metal sheets. The integrated structure of the factory covered the entire production cycle from the bars arriving from the foundry to the enamel up to the finished product; however, it did not exclude upstream and downstream connections with other companies. The SMV supplied containers to the first manufacturers of electric appliances,
home appliances to shipyards and to the building industry, and equipment to the chemical industry. At the same time, a cluster of small producers supplied raw metal pottery to the Bassano plant in order to increase its capacity when sales expanded following the opening of warehouses and sales offices in Milan in 1936 and in Rome in 1940.

In the 1920s, the company used coal and Diesel oil for the furnace and to move the presses. During the 1930s, however, the introduction of electric ovens for new production lines resulted in an increase of power consumption. This pushed in 1941 the Westen family to participate in the construction of a new hydroelectric plant in Campolongo on the river Brenta, in collaboration with Giuseppe Volpi's Società Adriatica di Elettricità (SADE), who was already a partner in the establishment of a foundry in Feltre (SMV 1950, 25; Berti 1993, 149). The relationship with Volpi and with the shipping industry, together with the contracts for military supply starting from 1933, confirm the idea that the company was able to establish a privileged relationship with the fascist State, despite some signals suggesting a gradual distancement after 1938 (Vidale 2002).

After the war, the SMV rapidly reconverted to civilian production, taking advantage of the European Recovery Program to upgrade and expand the machinery (SMV 1965, 77), focusing on the production of home appliances. In the post-war years, the expansion of the building industry pushed the development of the company, who reinvested its profits into the technological modernization of production lines, starting a whole range of new products, from heating panels to cooling radiators for power plants. In 1951, the Westens established a new company for the production of bathtubs, the Metallurgica Sicula, in Milazzo, Sicily, taking advantage of the benefits granted by the Cassa per il Mezzogiorno.

In this period, the relationship with the unions took greater importance, questioning the model of workforce management that was made possible by their political repression under Fascism. In January 1947 an agreement established a performance bonus linked to sales, and laid the foundations for a non-conflictual relationship with internal unions. After the break of the unified union in 1948, the company developed a special relationship with the so-called non-Communist "free unions", and from 1950 on with the catholic union CISL. In 1949 the CISL put forward a proposal for granting the Italian citizenship to the Westen family, which did not succeed. The episode nonetheless shows that the strong ties the family maintained abroad could be perceived as a signal of distancement from the local context (Bortoloso 2000, 10-15).

3 Competitive decline and shifting strategies

In 1952 and 1953 both the managers who since the foundation had run the company, Ugo Sostero and Nicolas Leszl, died: the latter's brother, Matias, was then appointed as technical
director; the engineer Giuseppe Santasilia, from Naples, was appointed as business manager, and Viktor Kaspar, formerly the director of the factory the Westen established in Rostov (USSR), became the managing director.

Kaspar invested the capitals resulting from repeated increases in the share capital into a rationalization of the production cycle and the automation of the assembly lines. The effort toward a complete fordist reorganization of the factory culminated in the early 1960s in the incorporation of all technical services into an IBM data-processing center for the management of throughput times (Giusto 1997, 27-28). The focus on production planning paralleled a conservative attitude toward the market, hindering product innovation.

In 1960 August Westen died, and was succeeded by a nephew, Karl Hermann, trained in Germany and Austria under the guidance of his father Peter. The generational turnover brought to light some problems that became even more evident with the 1964 crisis. The difficulties concerned the whole manufacturing sector, facing a “full-employment” crisis that required a modification of the development strategies based on low labour costs that had been adopted during the reconstruction and the economic miracle (Amatori 1997). In the production of home appliances, the expansion of the domestic market had allowed many small businesses to grow, specializing in niche products and threatening the dominance of big producers covering the whole range, such as the SMV. In this context, Kaspar's focus on the further increase in productivity allowed by economies of scale and technological improvements, resulted to be shortsighted.

The crisis of 1964 finally imposed a change in corporate strategy, which was reflected in the choice to shift the investments to the commercial network: in 1965 the Commerciale SMV was established as an independent company with the aim to lower distribution costs (Santin 2002, 23). In the subsequent years, however, the international and domestic competition became unsustainable, especially in the market for enameled pottery. Despite the complete mechanization of the line, in fact, SMV's wares could not compete with the imports coming from the former Westen plants in Yugoslavia and Poland, where the cost of raw materials and labour were much lower. In Italy, State-owned enterprises started selling similar items at a price below their cost, in this way further reducing the SMV's market share.

When dying in 1967, Kaspar left the company in a difficult situation, with a decrease in sales that resulted in budget losses. In an attempt to reverse this negative trend, Karl Hermann Westen appointed then as managing director Amedeo Cuminatti, reknown for the downsizing and reorganization of the Pellizzari metalwork company in Arzignano. At the same time, he started diversifying his investments, financing together with Zanussi the establishment of the Spanish company Ibelsa (Iberica de Electrodomesticos, SA), which produced bathtubs in Fuenmayor using
machineries and technicians coming from Bassano but enjoyed the lower cost of labour allowed by Franco's regime (Paolin 1981, 25-26).

Faced with the unsustainability of pottery production, in January 1968 Cuminatti decided the closure of the line, proposing the unions the dismissal of fifty women employees and the suspension of eighty more. The following conflict with workers was settled through the mediation of the Italian government, who urged for the maintainance of employment levels, offering in exchange to the company the advanced payment of the compensations due for the 1966 flood and for the 1962 nationalization of the power station in Campolongo, and a soft loan of one billion liras (9.15 millions of today euros) (De Marco 1968). The SMV accepted and used the money to build a new assembly line for radiators. However, the management of the labour force thus became primarily a political problem, somehow outside of the province of business decision.

In the following months the participation in Ibelsa was increased, and this move was interpreted as a signal of a disengagement of the Westen family. As a result, at the end of 1970 Cuminatti resigned together with other managers. Karl Hermann Westen appointed then as chief executive and general director Mario Emanuele Bianchetti, who hired a team of managers "connected to the Bocconi University and the left wing of the Christian Democratic Party" (Viviani 1978, 116). This choice appeared as an explicit attempt to separate ownership and management, somehow consistent with the “political” turn in the company governance resulting from the outcome of the 1968 dispute.

A new management team took then office at the SMV in 1971. Its explicit aim was to recover market positions in profitable sectors through mergers and acquisitions. The first move was the acquisition of the Smalteria Abruzzese in Sambuceto, which was realized again together with Zanussi. In the same year also the Zarpa plant in Pove was acquired (Giusto 1997, 37-38). In the 1971 and 1972 budgets the recovery was evident, if measured in terms of annual sales per employee; still, it was in part an effect of frozen hiring and of the expanded brokerage on behalf of third parties (Paolin 1981, 52-54).

In the following years, the effects of international economic instability, of labour unrest, of managerial turnover intertwine in a frantic sequence of events finally leading to the liquidation of the company.

The 1973 currency crisis was initially perceived as an opportunity: despite the increased price of raw materials, the depreciation of the Italian lira allowed remunerative prices in the international market. A bottleneck was rather identified in the high cost of money, discouraging the investments that were necessary to adjust the capacity to meet demand: all the applications for credit facilities the SMV put in during that year were indeed rejected (Incerti 1973). At the same time, Bianchetti
started a reorganization of the business administration, relying on outside consultants and focusing on the need for renovation and motivation of middle managers, who were called to meet to discuss the plans for business recovery. These plans were also accepted by the unions, who finally signed an agreement in October 1973, accepting temporary redundancy against the commitment of the company to restore the same employment level before 1976.

4 Liquidation and bankruptcy

At the end of 1973, Karl Hermann Westen died and his sons, Carlo and Peter, took over. In the same months, the inflationary effects of the September oil shock became evident: the credit restrictions adopted by the Bank of Italy to curb inflation affected in particular the building sector and the related industries, jeopardizing Bianchetti's recovery plans. In this turbulent situation, the Westen brothers opted for a further diversification of investments: a new holding company, Intersa, was established in order to acquire shares of other businesses producing consumer goods (Colussi 1976). In disagreement with the strategic turn decided by the family, Bianchetti and large part of his team resigned in February 1974.

The Westens appointed a new executive, Paolo Alberto Colombo, coming from Face Standard (the Italian branch of the American multinational ITT). In September 1974, the unions started a series of strikes asking for wage adjustments to the rising cost of living that would result in an unsustainable increase in the cost of labour for the company: after suing the unions for paralyzing the production, in November the SMV gave in, allowing wage increases that were quantified in the 1974 budget as equivalent to 45%. In retaliation, 500 workers were made temporary redundant 100 others were dismissed in Milazzo. Further strikes followed, up to November 1975, when a new plan was presented by the company, asking for an extension of hiring freezing against investments that were explicitly subordinate to the recovery of the construction industry and to the allowance of public credit facilities. While the plan was still under discussion, on December 22 the board of directors (see Table 2) decided the liquidation of the company and the parallel dismissal of all employees: the directors refused to replenish the company's capital after the huge losses (2,400 millions of liras – 11.9 millions of today euros) the 1975 budget ascribed to furtherly increased labour costs. Five years later, an investigation by the Ministry of Finance revealed that the SMV actually had in 1975 a profit of more than 300 millions (1.5 milions of today euros) (Ministero delle Finanze 1981; Paolin 1981, 131). The falsification of accounts was therefore used by the Westens in order to get out of a situation they deemed untenable by liquidating the company, with a view to a subsidized downsizing of the business, as they explicitly admitted (Berton, Vidale 2002).
In the negotiation that followed, the Westens were instead discredited as possible counterparts: the decision to liquidate the company was actually perceived as a betrayal of the formal and informal engagements taken with all the parties at local level. Since January 1976, the possible scenarios and the actors involved were defined. The court declared the dismissal unlawful, and the Minister of Industry Carlo Donat Cattin committed the government to intervene quickly; the Zanussi company immediately showed a specific interest for the Sambuceto plant.

But things went for long: unemployment benefits were made available only in May 1976, after the workers refused to sign a composition agreement, so causing the bankruptcy of the company and paving the way to State intervention. Several acquisition projects failed (in view of the indebtedness the trustee estimated at 20 billions of liras – 100 millions of today euros), and the scenario of a dramatic downsizing was becoming more and more realistic, when Zanussi attempted a sudden acquisition of the Smalteria Abruzzese, asking to buy it after having blocked State intervention again. The sale procedure was contested both by the some competitors and by the trustee in bankruptcy: in order to avoid a formal litigation, the Zanussi company finally agreed to acquire also the Bassano plant, on condition that the State would cover the whole cost of reorganization (Acli 1978; Paolin 1981, 129-179).

After a year of inactivity, in January 1977 the SMV started working again, even if it would take many years to take all the former employees back to work. In February 1977, the Zanussi finally proposed a plan for hiring them gradually (at starting wage) in a new plant for the production of freezers, to be built at State expenses for 70%. In the following years, the Zanussi adopted a strategy aiming to capitalize the results of the subsidized reorganization of the former SMV: in 1983 the old plants, reconverted to the production of heaters, were sold to the Ocean company, and in 1984 even the new plant for freezers was sold to the Iar company (Santin 2002, 34-35).

5 Theoretical implications of the case study

The events following the liquidation of the SMV company by the Westens on the one hand confirm that their intention was indeed to divest their capital from the SMV by transferring it to the holdings in Vaduz: it was in particular on the payments of debts toward the latters that the subsequent investigation of the Ministry of Finance would focus in order to demonstrate the falsification of accounts. On the other hand, the economic motivations of their choice resulted quite sound: only the State intervention for an amount of 26.5 billions of liras between 1977 and 1979 (87.3 millions of today euros) did actually allow to reconvert the business to a production that could be sustainable on the market, and to reabsorb the remaining dismissed workers only in 1984. Letting aside the eventual mistakes of Zanussi itself, it was quite evident that the situation of the
company in 1975 was irretrievable without a radical downsizing; but this solution had proven politically impracticable already in 1968.

It is interesting to notice that the Westens attained their main objective (divestment) but subsequently were not able to restart a business in Italy, being virtually ostracized because of their broken promises. The same means they used to attain their end were found out to be fraudulent, formally because of the tax evasion related to a virtual overstatement of expenses, which actually consisted in the payment of undue reimbursement to the owner holdings. The source revealing us that the company's financial statements were false is fiscal, but the motivation for misstatement were rather strategic than fiscal. This point is important, as long as it shows that the peculiar system of corporate governance characterizing Italy in that period was providing incentives to an understatement of profits not only for fiscal reasons, as usually supposed in literature (Jones, 2011; Tiscini, Di Donato, 2006).

A further implication of this case study concerns the same process of decision making concerning the divestment strategy and involving both the shareholders and the stakeholders.

It could indeed be argued that capital flight emerged as a solution gradually, as long as the rising risk related to the Westen Italian company pushed to prepare what would become a way out. The actual starting point of this strategy (at the time still not defined as such) was perhaps Karl Hermann Westen's decision to participate into the Spanish joint venture with Zanussi, a company which shows up for its ambivalent relationship with SMV, cooperative and competitive at the same time, as it was probably usual in the oligopolistic dynamics of the industry. From this point of view, Zanussi was quite the obvious purchaser for the liquidated company, only the terms of the deal being really under discussion: the Minister of Industry, Carlo Donat Cattin, is remembered to declare “Let Zanussi take the meat [Sambuceto], and you will see it taking also the bone [Bassano]” (interview to an anonymous SMV worker, in Paolin, 1981, 255).

However, the final step toward liquidation was the decision of the Westen brothers to transfer in 1973 part of the shares to the Intersa holding that was explicitly established in order to pursue uncorrelated diversifications: this move made the unions (rightly) disillusioned about the reliability of the Westens, exacerbating the conflict with workers. Bianchetti, the penultimate executive of the company, suggests the idea that the element that precipitated the events was the unprepared generational transition following the death of Karl Hermann Westen (Favero, 2002): Carlo and Peter Westen were not involved in the company and ended up following the suggestions of their financial consultants. This is clearly part of the truth; still, it is also evident that a deeper turn in the role of the family happened the late 1960s.
Up to the death of Kaspar, the managing director arrived in Bassano from the USSR, the owner family was relying completely on the ability of the company management, which had been trained in other branches of the group. The same succession of Karl Hermann to his uncle August as company president in 1960 did not entail any strategic discontinuity. Still, Karl Hermann's decision to appoint Cuminatti as company executive in 1967 marks a change: an external manager was clearly chosen under suggestion of the industrialists' association because of his past experience in downsizing (Berti 2002b). Paradoxically, this way the ownership shouldered the responsibility to modify a strategy that was not anymore effectively responding to the situation: the president simply appointed an executive who corresponded to the new strategy, focusing on cost reduction. Once downsizing was proven politically impossible, Bianchetti was appointed as the bearer of a different strategic and political approach, entailing an appeasement with the unions and a gradual reconversion of production. If he could succeed is a question impossible to answer: not only the death of Karl Hermann, but also exogenous factors as the oil shock affected the final decision of Carlo and Peter to divest from Bassano. Again, it is interesting to highlight that Colombo was appointed as perfectly fitting with the new strategy of the owner family, because of his experience as the director of the local branch of a multinational.

The Westens did finally carry out the escape strategy they prepared since 1967, perhaps taking to heart their past experience with the political transformations of 20th Century Europe. The role of path dependence in determining the attitude of a multinational family business is perhaps a further issue this case puts forward for inquiry.
References


### Table 1: Evolution of the SMV company.

<table>
<thead>
<tr>
<th>Year</th>
<th>Power (KWh)</th>
<th>Surface (mq)</th>
<th>Employees</th>
<th>Registered stock: mln ITL</th>
<th>Sales: mln ITL</th>
<th>Mln EU 2012</th>
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</thead>
<tbody>
<tr>
<td>1925</td>
<td>175.000</td>
<td>16000</td>
<td>85</td>
<td>2</td>
<td>1,540</td>
<td>n.d.</td>
</tr>
<tr>
<td>1930</td>
<td>875.000</td>
<td>23000</td>
<td>502</td>
<td>7</td>
<td>5,995</td>
<td>n.d.</td>
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<tr>
<td>1935</td>
<td>1.000.000</td>
<td>26000</td>
<td>973</td>
<td>7</td>
<td>7,530</td>
<td>n.d.</td>
</tr>
<tr>
<td>1940</td>
<td>5.000.000</td>
<td>34000</td>
<td>1302</td>
<td>15</td>
<td>10,446</td>
<td>n.d.</td>
</tr>
<tr>
<td>1950</td>
<td>14.500.000</td>
<td>42000</td>
<td>1709</td>
<td>450</td>
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<td>787</td>
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<tr>
<td>1965</td>
<td>n.d.</td>
<td>64000</td>
<td>1536</td>
<td>1500</td>
<td>14,471</td>
<td>ca. 7000</td>
</tr>
<tr>
<td>1970</td>
<td>n.d.</td>
<td>64000</td>
<td>1367</td>
<td>1500</td>
<td>12,713</td>
<td>8996</td>
</tr>
<tr>
<td>1975</td>
<td>n.d.</td>
<td>64000</td>
<td>1373</td>
<td>1800</td>
<td>8,906</td>
<td>ca. 20000</td>
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</tbody>
</table>

Source: Berton (2002); SMV (1950, 23-25); SMV (1965, 8); Milani (2002, 49); Viviani (1978, 120).

**Power per employee**

<table>
<thead>
<tr>
<th>Year</th>
<th>Power (Kwh)</th>
<th>Employees</th>
<th>Kwh/employee</th>
</tr>
</thead>
<tbody>
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<td>175.000</td>
<td>85</td>
<td>2059</td>
</tr>
<tr>
<td>1930</td>
<td>875.000</td>
<td>502</td>
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<tr>
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<td>1.000.000</td>
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<tr>
<td>1940</td>
<td>5.000.000</td>
<td>1302</td>
<td>3840</td>
</tr>
<tr>
<td>1950</td>
<td>14.500.000</td>
<td>1709</td>
<td>8484</td>
</tr>
</tbody>
</table>

**Sales per employee**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (mln E 2012)</th>
<th>Employees</th>
<th>Sales/employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>13774</td>
<td>1709</td>
<td>8</td>
</tr>
<tr>
<td>1965</td>
<td>67531</td>
<td>1536</td>
<td>44</td>
</tr>
<tr>
<td>1970</td>
<td>76244</td>
<td>1367</td>
<td>56</td>
</tr>
<tr>
<td>1975</td>
<td>98955</td>
<td>1373</td>
<td>72</td>
</tr>
</tbody>
</table>

### Table 2: Participations in the SMV capital in 1975 (3,600,000 shares worth 500 liras each)

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Delegate director</th>
<th>Shares</th>
<th>% of capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercont SA</td>
<td>Fritz Reust</td>
<td>242400</td>
<td>67.33%</td>
</tr>
<tr>
<td>Intersa SA</td>
<td>Elemer Leszl</td>
<td>588000</td>
<td>16.33%</td>
</tr>
<tr>
<td>Universa SA</td>
<td>Anna Kaastrup Seidenfad</td>
<td>300000</td>
<td>8.33%</td>
</tr>
<tr>
<td>Peter F. Westen ing.</td>
<td>Peter F. Westen</td>
<td>96000</td>
<td>2.67%</td>
</tr>
<tr>
<td>Carlo E. Westen dott.</td>
<td>Carlo E. Westen</td>
<td>96000</td>
<td>2.67%</td>
</tr>
<tr>
<td>Ruth Westen Pavese</td>
<td>Luigi Monti</td>
<td>96000</td>
<td>2.67%</td>
</tr>
</tbody>
</table>