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The editors would like to dedicate this work to Chris Kobrak, dear friend and esteemed colleague, who was drafting his contribution to the volume before his untimely death.

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5 Mutual Attraction

Siemens Activities in Italy 1855–1968

Luciano Segreto

Introduction

'It is better to be enemies than allies'. This could be the paradoxical slogan for Siemens investments in Italy and particularly the impact on them of the First and the Second World War. This chapter will outline the evolution of the strategies of the German electromechanical firm between the end of the 19th century and the early 1960s, when the consequences of the new strategies established as the result of the Second World War became evident. It will consider how the company reacted to political risk, and especially the extreme political risk presented by war.¹ However, in the case of the post-war period, the chapter will show that some of the decisions taken by the firm were the direct result of the attitude of the host country—Italy—which tried to use the dramatic consequences of the war to redefine the national interests in some of the sectors where Siemens was involved. From this point of view, the highest political risk did not strictly correspond to the years 1939–1945. It rather reached its peak in the immediately following years, when Siemens suffered the most dramatic attempts to reduce its influence and its role in the Italian market.

We will subdivide the period of about half a century of Siemens initiatives in Italy into the following four sub-periods. Each of them corresponds to a different strategy and structure of the firm both in Germany and in Italy—one of the countries where the company made its most significant foreign direct investments until 1945:

- 1) 1853–1918: commercial penetration into the Italian electromechanical sector and indirect investments into the electrical sector; the weak consequences of the Great War for Siemens' direct investments and the loss of all financial investments;
- 2) 1920s–1943: reinforcement and diversification of the direct investment into the telecommunication sector; the opening of industrial factories and the acquisition of small and medium-sized Italian advanced technology companies;

- 3) 1943–1959: confiscation and ‘nationalisation’ of Siemens investments in Italy without losing contact with the headquarters in Germany;
- 4) 1960–: re-establishment of German direct control over the Italian company.

The chapter will follow these segments representing the different moments of a long-term strategy that had to be modified in connection with the outcome of two world wars and their short- and long-term consequences. Finally, we will be also providing some conclusions that should permit comparisons with others included in this volume.

Investing in a Developing Country (1853–1914)

The Italian electrification process took place between the 1890s and the years before the First World War. In those years, the electrical sector showed a very high dynamism due to a series of factors. The acceleration of Italian industrialisation from the mid-1890s, after a false start in the early 1870s, offered many opportunities for social and economic development that included all the sectors of the Second Industrial Revolution.² The need for new forms of power for a country practically without coal (almost more than 90 percent was imported from Great Britain) was a more specific incentive for the important effort made to electrify manufacturing production. The strong tradition of an electrotechnical engineering culture in both the Polytechnics of Milan and Turin offered the opportunity to prepare highly qualified human capital for the different branches of the production and distribution of electricity.³ Finally a sort of symbolic struggle among small and big towns to have electric light in the public areas helped to create the pre-conditions for a strong demand for energy.⁴

In this framework, a very weak point of the country was the electro-mechanical production: generators, turbines, alternators and most of the small parts of big electric machines were largely imported from Germany, Switzerland, France, the United States and Great Britain.⁵ This situation is readily explained by the technological superiority of all these countries compared with the general economic backwardness of Italy, which was still part of the developing periphery of Europe. Nevertheless, there were also some more precise reasons—mainly the strong control over the most important patents and a sort of cartel among the world giants of this sector (General Electric, Westinghouse, AEG, Siemens, Brown Boveri)—that contributed to explaining the difficulties in setting up a national industry. The situation in the electromechanical sector was just more evident than in others because of the strategic importance of the energy sector.⁶

The strong political and diplomatic relations existing between Germany and Italy from the early 1880s, and the positive perspectives that Italy offered in the early 1890s, pushed all the Reich’s economic and financial establishment to consider this country as a privileged (and to some extent

captive) market for many German industrial and manufactured goods. In fact, Germany slowly became Italy’s most important commercial partner between the 1880s and the 1890s, a position that has actually never changed, with the exception of a very short period after the Second World War. In the early 1890s, the German share of total Italian imports was already higher than 10 percent, but ten years later it reached more than 16 percent.⁷ In the electromechanical sector, Italian dependence on Germany was even more impressive, so that after the first export of machines for the first Italian electrical firms in the early 1880s, this sector was largely controlled by that country: in 1913, almost 60 percent of Italian imports came from Germany.⁸

The Siemens Company was established in Berlin in 1847 by a former Prussian officer, Werner Siemens, and a mechanical engineer, Johan Georg Halske, under the official name of Siemens & Halske. Its first activity was participation in the telegraph business. Werner Siemens patented a new system, called ‘Siemens rapid’. The model invented by Siemens was a telegraph using a needle to point to the right letter, instead of the Morse code. It was based on synchronism with automatic transmission and a five-unit code. The company developed an international strategy strictly connected with the sector in which it was involved. The first important contract concerned the construction of the telegraphic line between Paris and Brussels. The first country where the company directed its initiative was Russia. Czar Nicolas I asked the company to instal the telegraph network in the whole country (the length of the lines was 5,000 km). This explains why, in 1853, the firm opened an administrative branch in St Petersburg, under the supervision of Carl Siemens, the brother of the company’s founder. At the beginning, the Russian branch just assembled the different individual pieces produced in Berlin. In the following years, other important achievements confirmed the success of Siemens & Halske products: in 1858, Werner Siemens supervised the layout of the submarine cable between India and the Gulf of Aden; in 1867, the company built the line between Berlin and Tehran and one year later started the works to build a 10,000-km network between London and Calcutta. It is quite self-evident that Great Britain became in that period one of the most important markets for the firm. From 1853, a British branch of the company started its activities under the same business model adopted in Russia: Carl Wilhelm Siemens, another one of Werner Siemens’ brothers, worked in England as the commercial representative of the firm. Products were manufactured in Germany and sent to Great Britain. It was not until 1863 that Siemens & Halske established a first factory in Woolwich, near London, for the production of telegraph cables to link the United Kingdom with North America. This strategy was later followed in Russia, where the company moved to industrial activities between 1880 and 1882.⁹

In Italy, the first telegraphic network was established in 1847 by the government of the Grand Duque of Tuscany. The telegraph system

developed quite quickly in the following years, covering different parts of the peninsula, not yet politically unified, however. It is in this framework that Siemens & Halske established in 1855 the first links with Italy, actually even before the national unification process of 1861. The contacts—to establish a telegraphic line between Sardinia and Algeria—were with the Kingdom of Sardinia, the political entity that started the unification process under the lead of Prime Minister Cavour.¹⁰

The boom of modern infrastructure (railways and telegraph) after the unification process brought about new opportunities for increasing commercial relations with Italy. There were reasons to establish a representative office of the company in Italy too. Since the most relevant contracts were with the public administration (the ministry of Post and Communications, the ministry of War and the Navy), the logical choice was to establish an office in Rome, in 1878. In that same year, the Italian army passed an order to Siemens for telegraphic materials. Two years later, in 1880, Siemens & Halske signed a contract for the general representative of all their products with the company G. Taddei from Turin.¹¹ However, only one year later Taddei renounced this charge. The service was taken over by a manager with experience in the metal industry, Luigi Langert, and a Dutch engineer, Carlo Maleschott, who was for some years the general consul of his country in Rome. As Langer later resigned, Maleschott remained the only representative agent of Siemens between 1883 and 1891, but he continued to work for the German firm until 1897.¹²

However, this structure did not permit Italy to have an important role until the end of the century. There are many reasons for this situation, mainly associated with the generally quite conservative strategy of the company envisaged by the founder. Siemens remained for many years strictly linked with the first low-voltage products, being quite sceptical about the potential of the other segment of the electrical market. This also explains why AEG was able to take over quite rapidly a large part of the high-voltage market.

There were also some more specific reasons why the Italian market was of less importance in those years. According to Peter Hertner, the first historian to study Siemens activities in late 19th-century Italy, the death in 1880 of Robert Wedekind, a Roman private banker, who was a relative of Werner Siemens and informally supervised the company's business in Italy, reduced the importance of the links with Italy. It is possible that some important networks he had been able to establish no longer functioned without him.¹³

Italian economic development accelerated in the 1880s with the introduction of protectionist tariffs, as in many other European countries. However, new industrial sectors like the electrical one became protagonists for this new phase of economic growth, not just those sectors directly interested in the restrictive trade policy. From the early 1880s, many local electrical companies became active. The most important one was Edison

General Electric Company, established in Milan in 1883 by the European branch of the American Edison company. Soon many other towns, big and small, imitated Milan: electricity and lighting of city centres were the new frontiers of the modernisation process. Electrification of public transportation and of many manufacturers was the next step. The 1891 successful experiment in Laufen (Germany) of long-distance electricity transportation enlarged the market in many European countries, including Italy, where the orography was largely based on rivers running from the Alps and the Apennines toward the sea.¹⁴

Investments in the electrical industry needed many investors and intermediates. From the very beginning, they had an international character: international companies, banks and other financial intermediates were among the first actors in this process. They were particularly active in the 1880s. In the following decade, new kinds of investors started to play a decisive role in the development of the electrical industry at the global level. Manufacturers started to intervene directly in the sector, in a sense creating their own market. Initially, this strategy was limited to the national level. From the mid-1890s, almost all the biggest electromechanical producers (General Electric, Westinghouse, Allgemeine Elektrizitäts-Gesellschaft, Siemens & Halske, Brown Boveri) founded financial companies to make fund-raising easier in different countries, where they wanted to extend their initiatives with the creation of an electric company. In the case of the German and the Swiss manufacturing companies, the new financial holding companies were usually organised in Switzerland, and sometimes in Belgium, that is, in neutral countries with many financial and fiscal advantages, and very solid professional traditions in the banking sector.¹⁵

Thus, AEG founded, in 1895 in Zurich, the Bank für Elektrische Unternehmungen, simply known as Elektrobank, with the financial support of a consortium of German banks, the Credit Suisse, and the Geneva branch of the Banque de Paris et des Pays Bas. The Swiss electromechanical firm Brown Boveri reached, in the same year, an agreement with some German and Swiss banks and the biggest German metal trader to set up a holding company called Motor. In 1896, Siemens set up a holding company in Basel called Schweizerische Gesellschaft für elektrische Industrie (Swiss company for electrical industry), later simply known as Indelec, with the intervention of a group of German and Swiss banks headed by Basler Handelsbank and Leu & Co. of Zurich. Schuckert was the only exception. Its financial holding, Continentale Gesellschaft für elektrische Unternehmungen, was founded in 1895 in Nuremberg.¹⁶

The strategy established by the German and the Swiss manufacturers consisted of a complex financial and commercial structure, based on very strict legal constraints. The electrical firms created and financed by the holding companies bought, on an exclusive contract basis, all electrical machinery (turbines, alternators, generators, transformers) from the

electromechanical producer controlling the electro-financial holding of the manufacturer company. De facto, in this way, the electromechanical companies created a sort of international captive market, granting themselves a quite regular flow of production. This system was internationally known by the German term *Unternehmensgeschäft*.¹⁷

In Italy, the crisis of the late 1880s to early 1890s reduced for some years the interests of foreign investors. Many sectors were damaged, including the banking sector, and wholesale reform became necessary. The Bank of Italy was established in 1893, while the Italian government requested that the German authorities prompt the German banks to intervene in Italy to reorganise the main banks, and to create a better and more efficient image of the most important financial actors, in order to attract foreign investors again.¹⁸

The slow beginning of a recovery in Italy, together with the decision, taken in Berlin, to reorganise the international structure of the company, pushed Siemens to reconsider how to keep the contacts with clients and even more how to win new ones. In 1890, the company set up so-called technical offices. In 1903, there were already 30; eight of them were abroad and one was in Italy. In 1898, the Italian office was transformed into a stock company called Società Italiana Siemens per Impianti Elettrici. This change gave new momentum to the Italian business. From the early 1890s onwards, the first electric tramways in Genoa and Turin were running thanks to Siemens' technology. However, the most relevant change in the interest concerning the Italian business took place from 1895 after the company secured the concession for a hydroelectric plant near Ivrea (less than 60 km north of Turin). The objective was to produce electricity for the industrial town of Biella, one of the most important centres of the Italian wool industry. To run this business, Siemens set up, in early 1896, S.A. Alta Italia. The German company established, in Turin, Società Elettrica Alta Italia, subscribing 100 percent of its nominal capital of 1.9 million lira. In 1897, Siemens won another important contract for the electricity service in the town of Alessandria. For that purpose, they decided to set up a specific company, S.A. Elettrica Alessandrina, which provided electricity with a thermal plant.¹⁹

In the following years, the Alta Italia Company increased its capital to 15 million lira (only 5 million lira completely subscribed). Siemens asked its holding company, Indelec, to participate in supporting the financial efforts required by the new investments' programme of the Italian electrical firm. Nevertheless, the relationships between the mother and holding companies were quite tempestuous. The Italian component of the firm, represented by the banker Roberto Cattaneo, chairman of the Banco Sconto e Sete (one of the oldest and most important banks in Turin), played an important role in permitting the company to develop, but this had a cost, the relative autonomy of the holding company from the mother firm. For instance, the company gave a preference to material

manufactured by Siemens & Halske only if it was sold at a more convenient price. De facto, the *Unternehmensgeschäft* was thus broken. Moreover, different evaluations on the effectiveness of some very expensive and risky investments made by Alta Italia Company produced some friction that finally calmed down only in 1901, when Siemens agreed to pass all its shares in that electrical company to Indelec. The most critical aspect was Siemens financial difficulties in the early 1900s, which pushed the German company to ask for the intervention of the second Italian bank, Credito Italiano, and of one of the biggest Swiss banks, Basler Handelsbank, to subscribe to the bonds issued by Alta Italia.²⁰

The development of the Italian business implied that the Italian technical office should be transformed into a more formalised structure. Thus, in 1899, Siemens set up in Milan a company called Società Siemens per Impianti Elettrici (Siemens Company for electric plants). Its role was a commercial one, channelling all the orders to the mother company in Germany and offering a sort of pioneering after-sale service. In the same year, Siemens moved to another region for a new investment in the Italian electrical industry. The new company was the S.A. Elettrica Umbra (capital 1.2 million lira) for the production and distribution of electricity in Perugia, and the surrounding area. A few months later, but already in 1900, a new investment was made at a local level. The S.A. Elettrica Toscana was established in Pisa (capital 800 thousand lira). A little later, the three companies of Alessandria, Perugia and Pisa were sold by Siemens to Siemens Elektrische Betriebe, a holding company set up by Siemens & Halske and Indelec in Germany to reduce the risks of long-term investments.²¹

In general, Siemens economic and financial profile was reinforced in the coming years thanks to a new, very important financial partner, Deutsche Bank, but even more thanks to two mergers. The first one, in 1897, with Halske, was because of the transformation in a stock company—Telegraphen-Bauanstalt Siemens & Halske—which specialised in the telegraph industry. Even more important was the second merger that took place in 1903 with Schuckert, the third German competitor by size in the electromechanical sector. The very deep crisis of 1901–1902 in Germany, as well as in the US, provoked a strong wave of mergers and acquisitions, which involved the entire electromechanical sector. It produced also important consequences in Italy, and particularly in the northwestern part of the country, where Schuckert, with much bigger investments, had until then been a very dangerous competitor for Siemens. Many of Schuckert's direct investments, as well as those undertaken through Continentale Gesellschaft and an Italian sub-holding company, Società Nazionale per Industrie Imprese Elettriche, no longer represented a challenge, as they were all now part of the same group. The merger with Schuckert implied also the reorganisation of the Italian commercial branch. In 1903, Società Italiana di Elettricità Siemens-Schuckert (SIESS) commenced operations.²²

In the following years, Siemens became the most important supplier for the Italian telephone industry. To some extent, the company rediscovered its origins in low-voltage products. This sector had started on a very weak basis in the 1890s, but it was significantly reorganised in 1906–1908, when the government tried to establish new rules for the sector, permitting private companies to run the business only at the town level, while keeping under state control the long-distance calls. From the 1890s, Siemens & Halske controlled the most important company, *Società Telefonica Alta Italia*, based in Milan, where the telephone network was much more developed. In 1903, the company installed the most modern switching device in the Milanese central exchange. However, the management of the company was always in Italian hands. In 1907, the sector was nationalised. The German firm remained one of the most important suppliers of the national network with its technology, selling telephones, central switches and junction boxes. From 1910, SIESS distributed also the products of *Gesellschaft für drahtlose Telegraphie m.b.H.*, *System Telefunken*, simply known as *Telefunken*, a joint venture company set up in 1903 by Siemens & Halske and AEG in the very advanced (for that time) field of wireless telecommunication.²³

The decision taken by the Italian government to push the electrification of the railways system offered another opportunity to the German multinational. This process was a part of the economic modernisation of the country during the 15–20 years before the First World War. However, as in some other high tech sectors, Italy's development was relatively behind that of West European nations. Italian State Railway (nationalisation took place in 1905) had mainly Italian steam locomotives (the largest producer was Breda company in Milan, which was very competitive and also active in some Balkan countries), whilst before 1918–1920, electric locomotives were largely imported from Germany, and particularly those produced at the Siemens Werke in Berlin.

In the years before the First World War, when Italy was experiencing its 'first economic miracle', Siemens-Schuckert had consolidated its structure both in Germany and in Italy. In the peninsula, its financial holding Indelec was increasing its activities mainly in the same geographical areas (the north and the northwest of the country), while the commercial branch SIESS, which had still a very light structure, organised all the imports of goods from the firm's factories in Germany. However, this structure could have been much stronger if the company had accepted, in 1903, the proposal by a dynamic but not very big Italian electromechanical firm from Milan, Gadda & Co, to merge. This would have given Siemens a more solid presence, particularly in the manufacturing sector. The Swiss electromechanical company Brown Boveri & Cie accepted the proposal. A new, big actor thereby occupied part of the sector: *Tecnomasio Brown Boveri*, the name of the new firm after the agreement, became the biggest producer of the sector for many years ahead.²⁴

Expropriation During the First World War

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In May 1915, ten months after the beginning of the conflict, Italy entered the war against the Austro-Hungarian Empire, while the declaration of war against Germany came only in August 1916. The government seized temporarily all properties belonging to the enemy. Under these conditions, officially only SIESS and its eight branches located in eight Italian towns were among the companies involved in this procedure. Nevertheless, the impact was very little, because all the economic sectors not directly linked with the war effort suffered from much-reduced business activity. More relevant was the process of 'Italianisation'—a very early, but still partial process of 'domestication'²⁵—experienced by the electrical sector, wherein 1913 all the foreign investors (Swiss, German, French and Belgian) controlled about 40 percent of the top 50 electrical companies and 29.77 percent of the total sector, whose total value was 515.2 million lira. More particularly, Indelec investments had been evaluated at 20.49 million lira (distributed in five companies), the second biggest amount after the Swiss holding *Elektrobank* (22.42 million). However, if this data are correlated with the shares directly controlled by Siemens (2 million, in two companies), those in the hands of *Alta Italia* (280 thousand lira) and those of *Schuckert's holding Continentale*, since 1902 controlled by Siemens, 18.2 million lira (distributed in six companies), it appears clearly that Siemens had the largest portion of all foreign direct investments in the Italian electrical sector, more than 41 million lira, equivalent to 7.96 percent of all investments in this sector, and to 26.77 percent of the foreign investments in the Italian electrical industry.²⁶

Most of these investments could not be considered German from the legal point of view. They belonged to a Swiss company, Indelec, and therefore they were considered of neutral ownership. However, this condition did not protect them completely. Siemens had to face a complete transformation of the ownership structure of all the companies where the German company was directly and especially indirectly involved. The 'forced' Italianisation of the shares controlled by the German companies and their holdings provoked considerable losses, which are not easy to calculate, because the assets were on the balance sheet at their nominal value, while the sale was made under the political pressure. The dramatic conditions of the war permitted the potential buyers to impose their evaluations during the negotiations, usually taking place in Switzerland. Moreover, after the war, all the electrical holdings, including Indelec, suffered many losses due to the devaluation of all their foreign investments, not only the Italian ones. Their complete reorganisation passed through a recapitalisation that the original mother companies were not ready to support. Thus, only the intervention of the Swiss banking system permitted the rescue of these holdings. *De facto*, this process was equivalent to another loss of assets for the German firms. The 'Switzerlandisation' of *Elektrobank* and

Indelec was just the other face of the 'Italianisation' of their investments in the Peninsula.²⁷

The same process occurred in Great Britain. All German companies were confiscated. In 1916, after the passing of the Trading with the Enemy Act, the Public Trustee took over Siemens' works at Stafford. Only in 1929 did Siemens re-establish contacts with this very important market. However, the absence of German competitors in the domestic market was only partially exploited by the English electromechanical groups. A wide reorganisation of the sector in this country, which included also a closer relation with the American Westinghouse, did not succeed despite the efforts made by a group of firms and entrepreneurs headed by Dudley Docker, the flamboyant industrialist and financier who wanted Metropolitan Vickers to become the new British national champion in the electromechanical industry.²⁸

In the end, Siemens was 'surprised' by the events. The change of strategy provoked by the war was unexpected, and it could neither be prepared for nor its impact avoided. To some extent the reorganisation of Siemens both in Germany and abroad, opened a new era for the company, while the general economic, financial and monetary conditions determined the borders of this transformation.²⁹

A New Beginning in the Telecommunication and the New, Advanced Electrical Devices Sector

Re-establishing contact with the Italian clients was not so easy. The reinforcement of the Italian industrial structure in the years before the First World War and the impressive development in the 1915–1918 period, particularly in the military sector, changed the framework for all the foreign investors. In particular, in the decade following the end of the war, the Italian electromechanical industry gained in importance and technological capabilities. Italy no longer needed to import relevant machinery. The successful process of import substitution was one of the best consequences of the war for the Italian economic system.³⁰

Moreover, the procedure to eliminate the seizure of the SIESS with the payment of a fee seemed to take too much time. For this reason, the Berlin headquarters decided to set up a new company, Siemens Società Anonima (Siemens S.A.), in 1921. The capital of the new firm was subscribed to only by Siemens & Halske and by Siemens-Schuckert. On the one hand, the new approach in corporate governance reflected the new business climate. The Chairman and General Manager of the company was an Italian, Giovanni Gianninola, as was one of the three technical directors (the other two were German). On the other hand, Gianninola was the only non-German in the board of directors of five members.³¹ The main activities of the firm were concentrated in the classical sectors of low-voltage products, especially all the devices for the telephone network, which was

in a phase of new development. This trend became more evident after 1923, when the first Mussolini government reprivatised the electrical sector and reorganised the service in an oligopolistic way, subdividing the country in three macro-areas (North, Centre, South and the Islands), controlled by three different big capital groups (Stipel, Telve and Timo, the two latter later controlled by Sip—Società Idroelettrica Piemonte, the new name for Società industriale elettrochimica di Pont Saint Martin that, at the end of the war, emerged as the new, big actor in the northwest Italy). Nevertheless, telephone companies remained largely dependent on foreign technology. In this expanding market, Siemens was facing the competition of two other, very big foreign producers, the Swedish Ericsson and the American Face Standard. All of them, in those years, were just exporting to Italy, through their sales companies, the products requested by the Italian telephone groups.³²

Thus, when Siemens started the new phase of its Italian experience, the company suffered from the same problem that had arisen from its pre-1914 strategy: the absence of its own manufacturing plant. However, this time Siemens took a new direction: the acquisition of some Italian manufacturing companies. The explanation for this new strategy lies in the economic consequences of the war. Already practically absent from France before 1914 because of political tensions between the two countries following the Franco-Prussian War and the proclamation of the German Empire in the Hall of Mirrors at Versailles in 1871, the geographical profile of Siemens' European markets had changed considerably. The disappearance of the very promising Russian market, the expulsion from the British market, the weakness of the Spanish and the Portuguese markets, all increased the relative importance of the Italian market, notwithstanding the many difficulties that existed in the peninsula. However, the choices made in Italy, once again, were mostly the consequences of a new strategy at home.³³

Siemens & Halske made another acquisition in Germany, by taking the complete control of Isaria Zahlerwerke, a firm that had some specific knowledge and market share in the production of electrical counters. Automatically, the branch that already existed in Italy, Isaria Contatori Elettrici, which had a small factory in Milan, also passed into the control of Siemens. In that plant, Siemens started the first industrial production in Italy under the name of Officine Siemens (Siemens Workshop). There, the company produced electrical counters and table telephones.³⁴ This initiative did not change, however, the strategic vision of the company: the main market remained Germany. The foreign branches were just bodies completely dependent on the mother company. This attitude arose not only out of choice but also from a constraint: the insufficient liquidity of the company, connected with the process of stabilising the German currency, did not permit huge financial resources to be used to start a completely different strategy.³⁵

A similar situation—the establishment of a commercial branch, by adopting a wider strategy of diversification and the acquisition of a specialised firm—appeared some years later. In 1925, Siemens bought the electro-medical devices producer Reiniger Gebert & Schall. In the same year, the Società Italiana Apparecchi Medicali e Affini (SIAMA) was established in Rome. At the end of the 1920s, it became clear that the success of this company would be more secure if it could produce directly in Italy. Therefore, at the end of the same decade the firm merged with the Luigi Gorla Company, a firm specialised in X-ray devices and radioscopic instruments.³⁶

Two collateral areas remained weak: the lamps production, and the telephone devices production. Siemens entered the lamp production just after the First World War. The biggest German electromechanical companies decided to share their knowledge and technologies in this field. In 1919, Siemens & Halske, AEG and Deutsche Gasglühlicht, together with a Berlin banker, Leopold Koppel, formed a new firm, called OSRAM Werke GmbH Kommanditgesellschaft. One year later, this firm opened a commercial branch in Milan by setting up a new firm, Osram Società Anonima, which soon became one of the most competitive companies for the use of lamps in public areas, streets and monuments. Italy was one of the first countries where OSRAM established a foreign commercial branch.³⁷

Siemens reinforced its presence in Italy in 1928. The firm acquired the control (62 percent of the shares) of a very promising company, Officine Lombarde Apparecchi di Precisione (Lombardy Workshops Precision Equipment), simply known as OLAP, a company mainly working for the Italian Navy. The results did not meet the company's expectations. However, the investment had an advantage. It helped to stop the initiative of the American multinational, ITT, which in the early 1930s was ready to invest in Italy in the telephone sector, opening a factory with 5,000 workers. Mussolini personally intervened to support the Siemens' interests, because, according to a Siemens & Halske's manager, 'Siemens gave a lot of favours to the Italian government'.³⁸

The following step was the take-over of another firm, Alferi & Colli Company, in the late 1920s, specialised in telephone devices and low- or high-voltage dispatching. This allowed Siemens to have a semi-monopolistic position across the telephone devices' sector in Italy. By 1941, the company controlled through its different 'branches' around 70 percent of the Italian market.³⁹ In the same year, Siemens, through Siemens Plania Werke AG, acquired one of the most important industrial companies in central-southern Italy, the Società dei Forni Elettrici e dell'Elettrocarbonium (SFEE). This company was a sort of monopolist in the production of amorphous coal and graphite, two components for the electrodes.⁴⁰

Thus, in the 1930s, Siemens had a quite complex structure in Italy, one of the most important and very promising foreign markets. Its new

specialisation in lamps, advanced technology medical devices, and telephone devices, including dispatching structures, showed the new capabilities of Siemens to act in electrical mass (light or mainly light) production, whilst the idea of basing heavy electromechanical manufacturing in a country which, from an industrial point of view was far more technologically advanced than before the First World War, was much less attractive.

Following the onset of the Great Depression in 1929, the general structure of the company was reorganised in Germany and, in the meantime, in the rest of the world, according to two big divisions: 'light & power' and 'electrical devices'. Included in electrical devices was the production of the Telefunken radio transmitters. In Italy, that firm had existed since 1910 as a commercial branch of the German mother company. When, from the early 1930s, the production structure of Siemens in Italy had become more complete, Siemens OLAP also manufactured the Telefunken radio-telegraphic devices. However, its commercial activities remained in the hands of Siemens S.A.⁴¹

From Military Ally to Economic Competitor

Italy entered the Second World War in June 1940 as an ally of Germany. At that moment (the data are for 1941), Siemens's employed about 5,600 staff. The structure of the group had a sort of main company, the official branch of Siemens & Halske, Siemens S.A., and a series of semi-independent companies. Some of them were just the commercial branches of a German mother company, and others had a very qualified manufacturing profile. The development of new products and technologies was mainly concentrated in Germany, but some of the Italian-controlled companies like OLAP or SFEE, thanks to their previous tradition and experience, had their own R&D departments.⁴²

In 1942, this structure was dramatically modified. All the companies, except for Gorla & SIAMA, and Radion SA (established in Milan in 1941 to act as a substitute for Telefunken activities in the country, after the agreement signed in that year between Siemens and AEG in Germany, by which AEG was to become the only shareholder of Telefunken) merged into Siemens S.A. The new company had the lion's share among the employees of the group in Italy: 4,056 out of 5,600 were working in this enterprise.⁴³

One year later, when in September 1943 Italy exited the war—without becoming a new ally of the anti-Nazi fascist alliance—and the fascist regime collapsed, Siemens activities were suddenly in danger. The assets that were in the regions progressively liberated by the Allies were confiscated by the Italian Finance Ministry, but the largest ones were in the north of the country, which remained under the control of the Third Reich until the German army surrendered in April 1945.⁴⁴ However, once Germany was finally defeated, an international committee for the liquidation

of the goods of the defeated nations decided to transfer the management of all Siemens properties in Italy to the Italian Finance Ministry.

Now Siemens' presence in Italy was challenged much more than in the past, especially in the telephone sector. The pressure of the American government during the reconstruction period permitted two Italian companies controlled by US firms, Autelco Mediterranea (in the hands of Automatic Electric Corp. of Chicago) and Fabbrica Italiana Apparecchi Telefonici e Elettrici, simply known as FACE (a branch of ITT) to have an important role in the modernisation of the telecommunication sector in Italy. Another company, Fabbrica Apparecchi Telefonici e Materiale Elettrico, better known as FATME, controlled by the Swedish firm Ericsson, also contributed to the reduction of Siemens' market share in post-war Italy.⁴⁵

Nevertheless, the most important telephone company, STET, a financial holding controlled by the state-holding IRI, embarked on a very different trajectory. Some circles in the Italian political and economic establishment, and particularly the one connected with the role of the State in the economy, wanted the country to reach a more independent position in this field. In 1947, long and tough negotiations took place between ITT and the Italian government about a comprehensive modernisation of the telecommunication sector. It appeared to be very advantageous to have one single counterpart, provided with the most advanced technological solutions, and quite obviously well positioned to channel some financial aid as part of the Marshall Plan. The Minister for Budget and Economic Planning (and, from 1948, President of the Republic), the well-known economist, Luigi Einaudi, strongly criticised the deal under discussion, because it would have given too much power to ITT in the Italian telecommunication sector, frustrating the attempt to improve national production. However, it appears quite clear that the real aim of the US firm was not to have a better position among the numerous firms working in this very important sector. Rather, ITT's strategy was to eliminate its biggest competitor—Siemens, still under forced state-management, which before the war had controlled 70 percent of the Italian telephone market—by asking the Finance Ministry to transfer its control over the Siemens group to the US firm. This could possibly have been the reason why, in spring 1947, the workers in Siemens' Italian plants went on strike several times. They wanted to see the old manager, Mr. Mantellassi (pro-German, but untainted by collaboration with the Nazis during the Wehrmacht's occupation), brought back, and the man who represented the provisional owner, the Italian State, Mr. Fulvio Furani, fired as he was not supported by the workers and their representatives in the company's workers' council. However, in 1948 the Finance Ministry of Treasury named a new manager, Aganippo Brocchi, who started the reconstruction of the company.⁴⁶

In the end, STET, which was against the ITT strategy also because 60 percent of its telephone exchanges had adopted the Siemens model,

refused to sign an agreement with ITT. By contrast, they started to talk about cooperation with Siemens S.A., still under state confiscation. In the meantime, the US, Great Britain, France and Italy signed an agreement pushing the Italian government to sell the companies and the foreign goods under sequestration. Despite these pressures, it was very difficult and even impossible for STET to acquire the control of just the telephone manufacturing activities of Siemens S.A. The only way was to buy all Siemens' activities in Italy. The agreement was finally reached in 1950. Thus Siemens S.A., despite keeping strategic links with the parent company, particularly from the technological point of view, became part of the STET group. Siemens' capital was split in order to give a better balance of power inside the IRI universe: 49 percent of the shares remained in STET, 49 percent were given to SIP (the biggest telephone company controlled by STET), and 2 percent to IRI, a decision that, according to Bruno Bottiglieri, can be explained logically only by a desire to avoid STETT becoming overly weighty. After this new distribution of the shares, Siemens S.A. was renamed Società Italiana Telecomunicazioni Siemens (later known simply as SIT-Siemens). This ownership structure lasted until 1963, when the nationalisation of the electrical industry pushed SIP (which had been involved in this sector) to sell back its SIT-Siemens shares to STET.⁴⁷

In a few years, the new company STET-Siemens achieved the leading role in the Italian telephone market, followed by the Pirelli Group and Swedish Ericsson. Its strong position was even enhanced by the complex links and its financial shareholdings in some of the companies controlled by its two main competitors.⁴⁸ Nevertheless, the inclusion of the whole Siemens S.A. in STET also provoked some problems. Already in 1947, just at the beginning of the negotiations about the acquisition of Siemens by STET, IRI considered splitting the telephone and telecommunication production from that connected with the electromechanical automation. At that moment, the suggestion was to include those activities in the recently established Finmeccanica, the IRI holding for the mechanical sector. This solution was abandoned after the completion of the negotiations, but, immediately after, IRI started the process of separating the non-telephone branches of Siemens from those directly linked with the telephone sector, which was the strategic one for STET. This process took many years to be completed. Before the end of the decade, the non-telephone branches were finally merged in a new company, Siemens Elettra, formed in 1960. During the reorganisation process, in 1959, the company Gorla-SIAMA, which had been sold to a private group in 1950, was sold back to Siemens Elettra, and, later, in 1963, it merged with this company.

The other strategic change had already occurred three years before. In 1960, Siemens Elettra was sold by IRI to Siemens & Halske and to Siemens Schukertwerke. More than 2,000 staff were employed at that moment in the company. The company mainly produced mass consumer goods (TV, radio, cinema projectors) and a wide range of industrial

electrical devices (counters, high- and low-voltage machinery, measuring instruments). The telephone production remained in Italian hands under the name of Società Italiana Telecomunicazioni Siemens, simply known as Sit-Siemens, official representative of Siemens in Italy for this sector. This company employed, in the early 1960s, more than 4,400 staff.⁴⁹ The process of European integration, which facilitated trade relations and was strongly supported by the German and Italian governments, made the deal easier and to some extent the logical conclusion of the post-war strategy of Siemens and STET that was always based on mutual respect.⁵⁰

The 'coming home' strategy was completed with a total Germanisation of the corporate governance structure. An *Aufsichtsrat* (the board of Directors with representatives of Siemens & Halske and Siemens-Schuckert) and a *Vorstand* (the managerial structure) were set up, usually comprising a large majority of German citizens. The Siemens headquarters in Munich (where the company moved after the Second World War), kept the right to nominate all the members of the two bodies.⁵¹

For a large part of the 1960s and 1970s, the leading role was given to the sales department, a sort of heritage of the original structure of early Siemens' investments in the country, when the Italian branch had been mainly a commercial firm charged only to collect the orders and to offer a post-sales service. Despite the increasing importance of Milan in the central organisation of the company in Italy, during the 1950s and 1960s many commercial branches and representatives started their activity in different towns and regions of the peninsula.⁵²

During the second part of the 1960s and through the 1970s, following the merger in Germany between the three Siemens companies (Siemens & Halske, Siemens-Schuckert, and Siemens-Reiniger), which occurred in 1966, all the foreign branches were reorganised. The new Siemens AG, as with many other big European companies in those years, adopted a multidivisional structure. The foreign branches were, of course, included in this process. This permitted them to become part of a global strategy of the German group, by increasing their role in R&D and manufacturing. In Italy, this process went ahead in parallel to a progressive 'Italianisation' of the management. Seventy years after entering the Italian market, Siemens was more German, but also more Italian, than it had ever been before.⁵³

Conclusions

Siemens investments in Italy are paradigmatic of the company's strategies. Until the First World War, Italy was still a developing country, and highly technologically dependent. Siemens, as well as many other foreign firms in the electromechanical as well as in other advanced industrial sectors, took advantage of the situation. However, because of the size of the Italian market and some conservative attitudes still prevailing in Berlin, the peninsula was not placed among the top destinations for Siemens' foreign

direct investments. Commercial penetration was preferred. This helps to explain the development of the *Unternehmensgeschäft* strategy, which permitted the company to secure important deliveries of big electromechanical devices through financial control of the customers.

Although the consequences of the First World War were relatively unimportant for the company's direct investment position, they were quite important for the financial investments through the German and the Swiss electric holding companies. However, from the point of view of the company, looking to define a post-war strategy, losing the war was more devastating than entering the war. The financial losses and the mark devaluation reduced the possibilities of a new wide-investment phase. The company adapted quite well to the new constraints. Italy became a sort of preferential market and the place where most of the new domestic strategies (particularly in the case of mergers and acquisitions) had a direct effect. The potential to expand the capacity of the Italian market, from the 1920s the most relevant in Europe after the domestic one, especially in the telecommunication sector, offered Siemens the possibility to become the most important actor in this rapidly developing area. The next step was to create manufacturing activities in Italy, not as direct investment but through the financial control of very promising Italian firms in electromechanical manufacturing activities as well in some strategic production.

The consolidation and the reorganisation of all investments in Italy occurred during the Second World War. As in the case of the Great War, the most relevant negative effects came with the end of the war. For about 15 years, Siemens could no longer control its Italian assets. This time, the strength of Italian national interests was directly represented by the state-owned companies and their controlling holding companies (IRI and STEI). Thus, the example of Siemens tends to confirm that—in some cases—the dramatic effects of the beginning of the war were less important than those provoked by the end of the conflict. The political risk could be accepted and, to some extent, it was included in the variety of tactics a company had to pursue. Much less predictable—and difficult to evaluate—were the economic and financial long-term consequences. The probability of resisting and succeeding, at the very end of a process that can sometimes be very long, depends on how firms adapt to changing economic and political conditions and how effectively they respond to a sort of Darwin's invisible hand.⁵⁴

Notes

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