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‘Good’ versus ‘Bad’ Embeddedness: The Case of Bordeaux and of some Italian Regions.

Hubert Bonin & Luciano Segreto

Introduction

Generally speaking, the ‘virtues’ of embeddedness have been praised for banks, because taking root deep within local business connections cannot help but loosen the haunting asymmetry of information. Beyond a classical firm’s management demands, banking organisations – considering corporate commercial banking only here – dedicate a large part of their portfolio of skills to knowledge management and the collection of information about risks, because part of their decision-making processes are mainly based on risk assessment.[1] Sure, personal connections have been emphasized in key literature, for example in case studies about banking and finance in Great Britain,[2] or Lamoreaux’s study in finance in New England.[3] Regarding the latter, a further study is still pending about what happened when the Philadelphia economy crumbled (with de-industrialisation causing a US record for unemployment) and when bankers were facing collapsing customership. Our argument will on one side still advocate banking embeddedness, mainly in the case of some Italian regions. But on the other side, it will deliver a reappraisal of embeddedness, arguing that such a *modus operandi* would transform into a threat to the ability of bankers to gauge sensitively the prospects of their customers. This aspect will be scrutinised throughout this paper with regard only to their position as borrowers, because we shall focus here on the sole risks caused by loans. Surely, embeddedness constituted an advantage over the Paris banks, because relationship banking opened more doors and supplied more information among customers-to-be or being against mere transaction banking, endorsed by big Paris banks’ management rules – and the same in Italy for numerous regions, where, conversely with France, habits of developing business independently from a sole money centre prevailed, as was the case in the Florence or the Emily-Romagne areas. On the contrary, a close investigation of the events convinced us that we could even contend that local banks in Bordeaux were put at risk because they were too embedded, either during the punctual crisis of the 1930s, or during the harsh crisis which marked the demise of the Gironde economic model in the 1970s-1990s. And, in Italy, the move towards banking amalgamation, the crisis of renewal of several district centres and the globalisation of a large part of Italian family businesses led to the questioning of the ‘house bank’ system and the knots of connections woven for decades.

Despite the interconnection of regional economies through national flows and their frequent insertion into internationalised streams (either for the Bordeaux harbour or main industries active in the outskirts of Florence), and despite some kinds of centralisation of money markets through the policy and rediscounting of the central bank or through the discount practice of the banks from the ‘capital’ (in France: Paris; in Italy: Milan or Rome), local levels of decision-making were predominant in both countries. This is because of the importance of small and medium-sized enterprises (SMEs), the chains of credit fuelled by local productive

1 See G. Hodgkinson and W. Starbuck (eds.), *The Oxford Handbook of Organizational Decision Making* (Oxford 2008). Kenneth Arrow, *Théorie de l’information et des organisations* (Paris 2000). M. Casson, *Information and Organisation* (Oxford 1997).

2 F. Carnevali, ‘Les banques régionales en Angleterre au XXe siècle’, in: M. Lescure & A. Plessis (eds.), *Banques locales et banques régionales en Europe au XXe siècle* (Paris 2004). Michael Collins, *Banks and Industrial Finance in Britain, 1800-1939* (London 1991). Michael Collins & Forrest Capie : ‘Industrial Lending by English Commercial Banks, 1860s-1914 : Why Did Banks Refuse Loans?’, *Business History*, Vol. 38, No. 1, 1996, pp. 26-44.

3 N. Lamoureaux, *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (Cambridge 1994). N. Lamoureaux, ‘Regional financial institutions’, in: C.-E. Nunez (ed.), *Finance and the Making of the Modern Capitalist World, 1750-1931*, Twelth International Economic History Congress, Proceedings B9, Seville, Fundacion Fomento de la Historia Economica, 1998.

systems, and the existence of local banks. The issue can therefore be raised even concerning micro-economic case studies, all the more so because Bordeaux was among the five main French harbours and oversaw a hinterland and overseas array of trade; and because Florence reigned over a strong industrialised area. Both cities thus provided opportunities to constitute thick layers of business bourgeoisies with decision power over capital and credit, and to cement city communities of shared interests, thus paving the way to commonplace business connections of which banks could take profit by assessing firms' health and near future.[4] Clearly, embeddedness could be considered as a means of leverage to achieve competitive advantages for local bankers.

I.

One could assume that Bordeaux had never benefitted from the economic model of an 'industrial district',[5] as it lacked specialisation; contrary to other French regions,[6] the business connections lacked the density and stability highlighted by the historians of districts. But there were nevertheless a few solid and durable productive rings established for decades around wine and the alcohol trade, port activities (shipping, shipyards, maritime foodstuff, transformation of imported foodstuff), specialised metal-transformation and mechanics (and recently aeronautics). Such settings helped to foster enduring family firms, and thus built a framework for active social and business networks among local bourgeoisies. Networking prevailed as elsewhere, through family sociability (family unions, etc.), culture institutions and events, the Chamber of Commerce[7] or even Caisse d'Épargne de Bordeaux, because the French saving banks were confined to deposit-taking without getting access to lending,[8] and businessmen there practised only philanthropic patronage. But three key paths were opened to practise banking embeddedness along with a specific corporate culture. First, a practice of 'proximity banking' expressed first through the presence of local businessmen on the board of the two leading local banks, Société Bordelaise de Crédit Industriel et Commercial,[9] a sister bank to Paris CIC-Crédit Industriel et Commercial, and Soula bank, set up in 1924, and through close day-to-day relationships with these bankers. Second, membership of the local discount committee of Banque de France's branch. Third, active stake-holding amid the circles patronising and managing the two local mutual banks, Crédit Agricole

4 See G. Krippner, 'The Elusive Market: Embeddedness and the Paradigm of Economic Sociology', *Theory & Society*, Vol. 30, No. 6, 2001, pp. 775–810. B. Edmonds, 'Capturing Social Embeddedness: A Constructivist Approach', *Adaptive Behavior*, 7, 1999, pp. 323–348. M. Granovetter, 'Economic Action and Social Structure: the Problem of Embeddedness', *American Journal of Sociology*, Vol. 91, 3, 1985, pp. 481–510. I. Huault, 'Embeddedness et théorie de l'entreprise. Autour des travaux de M. Granovetter', *Annales des Mines. Gérer et comprendre*, June 1998, pp. 73–86. M. Casson, 'Entrepreneurial Networks: a Theoretical Perspective', in M. Moss, A. Slaven & C.-E. Nunez (eds.), *Entrepreneurial Networks and Business Culture* (Seville 1998), pp. 13–28.

5 B. Asheim, P. Cooke & R. Martin (eds.), *Clusters and Regional Development. Critical Reflections and Explorations* (London 2008). R. Martin, M. Kitson & P. Tyler (eds.), *Regional Competitiveness* (London 2008). P. Cooke & A. Piccaluga (eds.), *Regional Development in the Knowledge Economy* (London 2008).

6 M. Lescure, 'Entre ville et campagne, l'organisation bancaire des districts industriels : l'exemple du Choletais, 1900-1950', in: J.-F. Eck & M. Lescure (eds.), *Villes et districts industriels en Europe (XVIIe-XXe siècles)* (Tours 2002). A. Colli & M. Rose, 'Family Business. Industrial Districts, Networks, and Family Firms', (pp. 207–208); J. Zeitlin, 'Industrial Districts and Regional Clusters', chapter 10 (pp. 219–243), in: G. Jones & J. Zeitlin (eds.), *The Oxford Handbook of Business History* (New York 2007/Oxford 2008). H. Bonin, 'Les banquiers grenoblois des années 1890–1940 : un modèle spécifique?', in: H. Joly (et alii) (eds.), *Des barrages, des usines et des hommes. L'industrialisation des Alpes du Nord entre ressources locales et apports extérieurs*. Études offertes au professeur Henri Morsel (Grenoble 2002), pp. 185–209.

7 P. Butel (ed.), *Histoire de la Chambre de commerce et d'industrie de Bordeaux des origines à nos jours (1705–1985)* (Bordeaux 1987).

8 H. Bonin, 'Les Caisses d'épargne françaises (1914–1945): une croissance mouvementée sans évolution stratégique', in: *L'histoire des Caisses d'épargne européennes,* Tome 4, *Conjoncture & crises, 1914–1945*, Les Éditions de l'épargne, (1999), pp. 105-175. H. Bonin, 'Histoire aquitaines de Caisses d'épargne : de la prévoyance à la banque', in: H. Bonin & C. Lastécouères (eds.), L*es banques du grand Sud-Ouest. Système bancaire et gestion des risques (des années 1900 à nos jours)* (Paris 2006), pp. 365–382.

9 H. Bonin, *Histoire de la Société bordelaise de CIC (1880–1990)* (Bordeaux 1991).

de la Gironde and Banque Industrielle et Commerciale de la Gironde (belonging to the Banques Populaires confederation).[10]

In the interwar period, local banks were still very active throughout French regions,[11] and Bordeaux had also tried to resist the amalgamation and concentration wave around the big Paris banks and to preserve the special process of 'trust' established between family businessmen and their 'house bankers'.[12] Banque Nationale de Crédit[13] had absorbed the follower of the family bank Samazeuilh,[14] the leading Bordeaux bank until its collapse in 1913, and Crédit Commercial de France had afterwards purchased De Trincaud Latour-Soula Bank in 1917. Both banks had intensified competition already underway between Crédit Lyonnais, Société Générale and Comptoir National d'Escompte de Paris (and even a few British banks after WWI) within a liberal banking economy.[15] The very culture of 'transactional banking', along with drastic standards of risk assessment, had gained momentum; all the more so, because, when Société Bordelaise de CIC had faced a crisis of confidence during the ephemeral but harsh banking crisis (in Paris or in province) of 1913, its Paris godfather CIC had placed conditions on its refinancing help, which required a stake in its equity, representatives on the board and the exercise of better patterns of risk assessment and of liquidity rules. Even the challenger bank, Banque Nationale de Crédit, which had softened its risk assessment methods in the post-war period to undermine the predominance of big banks, had to return to strict rules in the mid-1920s after having endured too many bad loans throughout the French regions.

But a local business mindset still prevailed in Bordeaux as it did in several regional markets; businessmen grumbled about Paris hegemony and they favoured the recreation by Soula of a local bank, capable of resisting

Table 1: Members of the board of Société Bordelaise de CIC in the interwar period (with dates of presence on board).

Daniel Guestier (1885-1928)	Barton & Guestier wine trading house
Edmond Besse (1895-1922)	Besse neveux & Cabrol jeune rum trading house
Pascal Buhan (1898-1930)	Buhan & Teisseire wholesale trading house in Sub-saharan Africa
Jean Segrestaa (1902-1941)	Segrestaa overseas trading house
Alphonse Denis (1909-1928)	Denis wholesale trading house in Indochina
Daniel Dollfus (1918-1973)	Johnston wine trading house
Paul Maurel (1919-1942)	Maurel & Prom wholesale trading house in Sub-saharan Africa and Huileries Maurel oil company
Paul Magne (1912-1930)	Magne fisheries company
Étienne Denis (1928-1951)	Denis wholesale trading house in Indochina
Christian Cruse (1929-1972)	Cruse wine trading house
Daniel Guestier II (1930-1960)	Barton & Guestier wine trading house
Pierre Desse (1932-1967)	Desse metal building company
Philippe Chalès (1935-1971)	CEO of Société Bordelaise de CIC and chairman of Maurel & Prom trading house

10 É. Albert, *Les Banques populaires en France (1917–1973)* (Paris 1997). É. Albert, *Les Banques populaires en France, 1878–2009, 130 ans de coopération* (Paris 2008).

11 M. Lescure and A. Plessis (eds.), *Banques locales et banques régionales en Europe au XXe siècle* (Paris 2004). A. Plessis, 'Les banques locales, de l'essor du Second Empire à la 'crise' de la Belle Époque', in: M. Lescure & A. Plessis (eds.), *Banques locales et banques régionales en France au XIXe siècle* (Paris 1999).

12 See M. Casson, *Studies in the Economics of Trust* (Aldershot 1995).

13 H. Bonin, *La Banque nationale de crédit. Histoire de la quatrième banque de dépôts française en 1913–1932* (Paris 2002).

14 H. Bonin, 'La splendeur des Samazeuilh, banquiers à Bordeaux (1810-1913)', *Revue historique*, 1993, No. 288, pp. 349–389.

15 H. Bonin, *Les banques françaises dans l'entre-deux-guerres, Tome I : L'apogée de l'économie bancaire libérale française (1919–1935)* (Paris 2000).

the normative pressures of the Paris bank and able to rekindle competition, and to spur Société bordelaise de CIC, still the leading bank, to stick to its traditional trust relationships with local firms and families. Embeddedness was at stake: could Bordeaux preserve its way of business life against Paris banking norms? Heads of the medium-sized firms tightened their connections with their local bankers.[16] Their key influence on bankers was the power they could exert on the whole chain of credit opportunities. The linkage between the firms and banks were close, because a few dozen families managed a huge part (in value and volume) of Bordeaux trade exchanges, overseas (African staples: Caribbean rum, sugar, cocoa, coffee, wine, etc.) and locally (through warehousing and the upstream supply chain for the export of goods). Almost all the Société Bordelaise de CIC directors also belonged to the board of the Chamber of Commerce (some of them as the president), and a few to the discount committee of Banque de France.

This class of business bourgeois was so strong that Société Bordelaise de CIC could only rely on its business *modus operandi*; that is, low key accountability and low grade accountancy. They did not practice the art of the balance sheet, they oversaw broad arrays of subsidiaries in Bordeaux and overseas, with rapid treasury moves through extended accounts and a long chain of internal signatures covering bills of exchanges all along this chain. The very length of this chain itself fostered 'durable credits' from six to eighteen or even twenty-four months, in which banks ran up against their culture of liquidity because they were part of the 'package' of banking services to their customers and because returns were far more interesting on such overdrafts than on mere discounting. The bankers could do nothing but 'trust' their partners. At Société Bordelaise de CIC or Soula, members of business dynasties were lasting members of the board and, moroever, entertained bankers as a part of local social life.[17]

But local banks needed their customership because they drew their business deposits, and thus fuelled the financing of the credit chain. Moreover, they drew on the wealth of families for purposes of wealth management. They also constituted their main outlet for the brokerage of securities which they had to distribute as sub-participants to the Paris underwriting and brokering syndicates – and CIC demanded its sister banks broker the packets of securities it acquired on the Paris market – and returns were substantial thanks to brokerage fees and charges on the management of private banking portfolios. All in all, therefore, the very profitability and even *raison de vivre* of such local banks against the big Paris banks depended on their connections with the local *Mittelstand*, on 'obligations networks' and the reciprocity of business favours, and on their submission to its needs and practices alongside the 'social construction' of the banking business.[18] The results may have increased risks, and lightened patterns of transactional banking and *crédit réel* in favour of relational banking and *crédit personnel*, which were based on trust and embeddedness. The balance of power on the Bordeaux market place was thus at stake because businessmen, taking profit from their influence on ('embedded') local banks Société Bordelaise de CIC and Soula, exerted a genuine power on and within the decision-making process, as directors, advisers, partners or 'connected' customers. And one had to ponder the margin of manoeuvre of the bank. Betting on such circles of family businesses as a wedge to counter big Paris-based banks' competition may have placed too much reliance on them as it did not diversify enough of its portfolio of activities. The profile was two-fold: it consisted of either wholesale traders or industrialists – and many of the latter were suppliers of the former, which reinforced the 'pro-cyclical trend'. Even if they avoided practicing some kinds of 'investment banking' and mixing corporate

16 P. Butel, *Les dynasties bordelaises. Splendeur, déclin et renouveau*, (Paris 2008). P. Butel, *Les dynasties bordelaises, de Colbert à Chaban* (Paris 1991).

17 See S.N. Eisenstadt & L. Roniger, *Clients, and Friends: Interpersonal Relations and the Structure of Trust in Society* (Cambridge 1984).

18 M. Granovetter, 'Economic Institutions as Social Constructions: A Framework for Analysis', *Acta Sociologica*, 31-1, 1992, pp. 3-11; 'Les institutions économiques comme constructions sociales', in: A. Orléan (ed.), *Analyse économique des conventions* (Paris, 1994), pp. 79–94. J. Scott, *Social Network Analysis. A Handbook* (Beverly Hills/London 2000; 1st edition 1995).

banking and financial holding, conversely to some bankers active further south in Dax or Bayonne,[19] local banks were too dependant on the fate of a small range of clients. And because they were not 'regional' or 'pluri-departmental' institutions, they were strictly focused on the Bordeaux area and harbour.

Meanwhile clever businessmen had penetrated the mutualist institution set up in 1904, Crédit Agricole de la Gironde,[20] to help peasants bridge seasonal treasury gaps and to borrow for agricultural investment. In a first step, those Gironde and Bordeaux bourgeois, who were also wealthy landowners and managers of vineyards, supplemented their wine trade with their own crops and only patronised local mutualist institutions (*caisses locales*) as members of their boards and sometimes chairmen in order to prop up the creditworthiness of this young popular credit institution. These profited from their reputation and acceded to a rough version of embeddedness: the popular bank attained embourgeoisement. In a second step, from the 1920s wealthy sponsors of Crédit Agricole understood how useful it could be for their own business and started borrowing themselves to modernise their farm or to finance wine stockpiling, pending its maturation and bottling. They convinced their co-operative managers of *caisses locales* and of Bordeaux Caisse Régionale that favouring big wine-producers would sustain the prices for the whole wine community and downstream for the rural population.

Such forms of 'embeddedness' offered great advantages for the bankers on the level of information, volume of credit and resources, prestige and thus creditworthiness, and as markers of resilience in the face of the competitive onslaught of Paris banks. But such a way of life was blurred by two events at the turn of the 1930s.

First, both credit systems at Société Bordelaise de CIC and at Crédit Agricole had to face the 1930s crisis of sales deflation and fast-growing bad loans; debtors prolonged delays for repayment or reneged on their debts, when they did not collapse. Among them were a few important customers: In overseas trading (Devès & Chaumet and Martre & Vézia in 1935–1936, whilst Maurel & Prom had to be refinanced and restructured); in foodstuffs (Dandicolle & Gaudin and Rödel in 1935–1937) or in wine trading (Latrille, in 1932–1936). Bordeaux was stricken by a commonplace slump (mainly with the crunch on overseas commodities and on the wine exports business). The Bordeaux market thus endured a dire crisis of illiquidity, which proves that the lessons of the 1913 sharp, local crisis had not been remembered; embeddedness provided bankers with a sense of security which could have blinded them, despite the fact that a huge majority of their clients were SMEs, which in the interwar years faced difficult paths to finance their growth.[21] Several key clients (Denis, Nathaniel Johnston, Schröder & Schyler, etc.) had to renegotiate and consolidate their credit.

Second, despite its advantageous use of embeddedness, Société Bordelaise de CIC did not fare better than other banks, when it was revealed that bankers had been misled to lend to rum wholesale trading houses, which constituted in Bordeaux a competitive group (challenging Le Havre houses). In the midst of the booming years, rum families originating in the Antilles islands and extending to the port of Bordeaux, had piled up inventories and tried a 'corner' (*Compagnie générale du rhum*)[22] to speculate on a further rise and thus provoke an artificial increase of prices. But they were disappointed by the sudden and sharp turn-around and the depression. With one exception (Bardinet), the whole Bordeaux rum community and its biggest houses (Faure, Besse-Cabrol neveux, Feuillate, etc., the two former being important clients to Société Bordelaise de

19 C. Lastécouères, 'L'émergence des banques à l'allemande en Aquitaine dans les années 1930 : un anachronisme?', in: M. Lescure & A. Plessis (eds.), *Les banques locales et régionales en Europe au XXe siècle* (Paris 2004). C. Lastécouères, 'Le financement bancaire d'une économie régionale : le cas du Sud-Ouest (1880–1914)', in: O. Feiertag & M. Margairaz (eds.), *Politiques et pratiques des banques d'émission en Europe (XVIIe–XXe siècles). Le bicentenaire de la Banque de France dans la perspective de l'identité monétaire européenne* (Paris 2003), pp. 223–245.

20 H. Bonin, *Le Crédit agricole de la Gironde. La passion d'une région, 1901–1991* (Bordeaux 1992).

21 M. Lescure, *PME et croissance économique. L'expérience française des années 1920* (Paris 1996).

22 H. Bonin, 'Les élites provinciales entre position et déconfiture : la crise des grandes familles girondines dans les années 1930', *Hommages à Annie Cocula* (to be published 2009).

CIC) collapsed in 1931. But bankers had trusted it, clung to their speculative scheme, and granted credit. Sure, they had been embedded and, in bed, financially raped; houses had hidden the truth about the size of their engagements and risks and about their 'bubble system'. Banks were therefore trapped because of huge bad debts, and the Bordeaux market was swept by this little banking (and rum) tsunami. Soula had to stop lending, putting a thaw on its operations until WWII (and its purchase by Société Bordelaise de CIC); and, even if it resisted the crisis, Société Bordelaise de CIC had to take losses, to cut deeply into its provisions and reserves, and it required a decade to liquidate the pledged assets it received from debtors.

The wine crisis also pushed Crédit Agricole de la Gironde to the brink of collapse; its main *caisse locale* had granted too many and too large credits – they had doubled in 1929–1931 – to its wealthy directors and clients, among them many wholesale wine traders. Its manager and the CEO of Caisse Régionale had in fact been tricked by *grands bourgeois*, who had cheated them about the size of their wine inventories, the actuality of the pledges granted to warrants discounted by Crédit Agricole, and abused their trust when they had convinced them of the short duration of the crisis – which in fact lasted until WWII. Wine guarantees had been reduced to nil, interests could not be honoured any longer, the value of property fell, and apprentice bankers discovered the tricky effects of embeddedness – when trust was short-circuited by excessive 'proximity' or 'relationship' banking. The Paris-based state institution itself, Caisse Nationale de Crédit Agricole, concerned that numerous such *caisses régionales* were on the brink of collapsing, had to intervene directly, to dismiss their CEO, even to impose a thorough reshuffling of the compromised boards of local and regional institutions and also to establish a code of procedures in risk-processing and assessment, which big banks had generally adopted from the 1870s–1890s (because of their own infantile misadventures).[23] Mutualist structures and procedures had to be structured in a way that they could not be circumvented by influential members using their array of connections to set up an artificial embeddedness in favour of the prestige of their bank. This explains the thorough reorganisation of the Gironde Crédit Agricole in 1934-35, after its rescue through FRF 60 million of advances,[24] whilst the new chairman was a retired state marine officer and the new CEO and *ancien* head of Banque de France branches. Thus this change disrupted false embeddedness and the professionalisation of banking practices.

All these cases prove that embeddedness does not need to be a mere *bonna fide* formula, because bankers could risk being blinded by their trust in 'partnership attitudes'. Bad practices of embeddedness could lead to fostering the perception among clients that bankers are keen to tolerate some kind of collusion, if not 'balance cheating', at least; a willingness to be open toward over-growth, over-stockpiling, hyper-procyclical moves, and even speculative exhilaration. A position of 'active caution' from the bank (against myopia and a tendency to underestimate risks), a lucid anticipation of risks and business turnarounds, and rigour in risk assessment, could be threatened by such drifts toward embeddedness. Codes of 'good practices of embeddedness' are thus required in business and banking life to avoid the dangers of influential customers conflating their interests with those of the bank.

23 H. Bonin, 'Les banques et la fraude : un risque permanent (1850-1950)', in: G. Béaur, H. Bonin and C. Lemercier (eds.), C*ontrebande, fraude et contrefaçon, de l'Antiquité à nos jours* (Geneva 2007), pp. 345-362. H. Bonin, 'La gestion des banques françaises. La construction empirique de modes de gestion des systèmes d'information, des risques et des organisations (1800–2007)', in: É. Godelier (et alii, eds.), *Encyclopédie de la pensée et des pratiques managériales françaises, XIXe-XXe siècles* (to be published 2009).

24 H. Bonin, *Un siècle de Crédit agricole mutuel en Gironde* (Bordeaux 2002), pp. 54–59.

In both cases, corrupted embeddedness trends led to bad practices, based upon the nowclassical 'tragedy of commons',[25] when stake-holders of a community of business interests do not respect the collective rules – here, transparency, balance of information, trustworthy balance sheets – and thus pave the way to a common subsidy of the community, swallowed in the dire results of such a unilateral *modus operandi*. The untold pact, based on self-enforcing agreements, is torn up by bad players.[26] These customers misused banking processes and loans, and they over-appropriated bank-money in favour of speculation instead of restructuring and investing. Standards of business morale were therefore blurred, and bankers, surely lured by opportunities of sales and returns, fell into the trap; and, far from being embedded, became bogged down.

II.

In Italy the banking system has always been a mixture of highly centralised big banks and a myriad of local or regional banks. Their interaction has been one of the less scrutinised factors of Italian economic and industrial development. A few studies underline the importance of the constructive dialogue between these two very different (by size and scope) actors. The history of Italian economic growth cannot be completely understood without the intervention of the mixed banks (or universal banks). On their role generations of scholars fully agree, despite the intellectual survival of some iconoclasts. Their presence and their size in the national economic landscape, mainly in the period of industrialisation (between the second half of the 1890s and the beginning of the First World War) has hidden for a long time the importance of other actors, especially that of savings banks and popular banks. Although not definitively smaller, since some savings banks like Milan-based Cassa di Risparmio delle Provincie Lombarde can be considered a big bank in view of the amount of its deposits, figures were (and are) not questionable.[27]

Nevertheless, from the very first studies on the Italian national banking system, and the relationships between banks and industries, some elements concerning the importance of other banks, which are different from the key actors, the universal banks, are clear. These features emerged more clearly through case studies about the history of a firm or a sector. Usually under these circumstances the usual strategy of the firms and the entrepreneurs appeared evident: just in a few cases the German idea of the 'house bank' was dominating.[28] Most historical evidence shows that firms, the big ones as well as the small and medium size ones, have always had a strategy of diversification concerning their financial resources. The big national banks (Banca Commerciale Italiana, Credito Italiano, Banco di Roma) were necessary to maintain contacts with a larger scenario both economically and politically. The presence of some other local banks (commercial banks, savings banks, popular banks) was, in a different way, linked with the idea of keeping a sort of independence from the big banks or a sort of escape from the strict ties these banks could impose. In the end, even from a quite long period (from the mid-1890s until the beginning of the 1930s) when the universal banks were dominating the Italian banking landscape, the firms and their owners wanted to have some other contacts with different actors of the banking system.[29] Some case studies show that in many circumstances those

25 G. Hardin, 'The Tragedy of the Commons', *Science*, 1968, No. 162, pp. 1243–1248. D. Feeny, F. Berkes, B. McCay and J. Acheson, 'The Tragedy of Commons: Twenty-two Years Later', *Human Ecology*, 1990, No. 18, pp. 1–19. E. Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (New York 1990). J. Acheson, 'Capturing the Commons : Legal and Illegal Strategies', in: T. Anderson and R. Simmons (eds.), *The Political Economy of Customs and Culture: Informal Solutions to the Commons Problems* (Lanhaw 1993). E. Ostrom, R. Gardner and J. Walker, *Rules, Game and Common-Pool Resoures* (Ann Arbor 1994).

26 K. Cool, J. Henderson and R. Abate (eds.), *Restructuring Strategy, Strategic Management Society Book Series* (New York 200x). L. Telser, 'A Theory of Self-Enforcing Agreements', *Journal of Business*, 1980, No. 53, pp. 27–44. M. Olson, *The Logic of Collective Action* (Cambridge 1965).

27 See A. Confalonieri, *Banca e industria in Italia 1894-1906*, Vol. 3 (Milan 1974–76).

28 See P. Hertner, *Il capitale tedesco in Italia dall'Unità alla prima guerra mondiale. Banche miste e sviluppo economico italiano* (Bologna 1984).

29 See A. Confalonieri, *Banche miste e grande industria in Italia (1914–1933)*, Vol. 2 (Milan 1994).

entrepreneurs were more likely shareholders, if not members of the board of directors, of local banks. The roles of direct, even personal contacts, as well as the interconnections in the governance structure, were of crucial importance. On the other side these 'special relationships' between the local banks and firms (and their owners) highlighted the structural presence of some forms of conflict of interests, which was in the end solved according to mutual interest so as to maintain the relationships between the two social and economic actors.

In the 1920s, when fascism came into power, the regime slowly introduced the fascistisation of the banks by pressuring the local banks to open the boards of directors or even the position of general director to well-known personalities of the fascist national party. But even in that case, although the central bank underlined the strong desire of the regime to increase its control over the banking system, the final result evidenced just some local representatives with close ties to the regime, who did not interfere with the governance issues nor the historical links between firms and banks.[30] The new banking law, approved in 1936, strictly separated commercial banks from investment banks[31] and gave the state control over 70 per cent of the Italian banking system.[32] The law was quite weak in offering strong support to small and medium-sized firms, which were not, by and large, the zenith of the political and economic interests of the government. On the other hand, big private as well as state controlled groups could rely on the new long term credit institute, Istituto Mobiliare Italiano, set up in 1931.[33]

This gap was to some extent eliminated by the democratic government and parliament in the late 1940s and 1950s, when special credit institutes at the regional level (*Mediocredito regionale*) were created to support small and medium size firms. These were no longer considered a sort of negative heritage of the past, but a strong pillar on which the country could recover after the war.[34] The dual structure of Italian capitalism was finally finding a complete and coherent banking system. The very big industrial groups faced a system within which they had a different audience for different needs. The new merchant bank Mediobanca offered a list of sophisticated financial services (capital and/or bond issues, both in Italy or abroad; financial and governance restructuring), and the rest of the system gave regular financial support for short term necessities.[35]

The banking law had much larger consequences for small and medium size firms. The banks who usually worked with them were savings banks and popular banks, and to a limited extent (considering their large number) the big national banks. The commercial banks still in private hands were too few and in any case the rules governing industrial financing were as strict as in the other segments of the banking system.[36] The preference for banking credit instead of the larger capital market and the limited number of listed companies (in the 1950s there were fewer than in 1907, when a stock exchange crisis dissuaded many firms from entering capital markets; the number of listed companies of that year was finally equalised in the mid-1980s) built a

30 See C. Bermond, 'La banca tra Grande Guerra e grande crisi', in: A. Cova, S. La Francesca, A. Moioli and C. Bermond (eds.), *Storia d'Italia*, Annali 23, La banca (Turin 2008), pp. 481–502.

31 See M. Porzio (ed.), *La legge bancaria : note e documenti sulla sua 'storia segreta'* (Bologna 1981). S. La Francesca, *Storia del sistema bancario italiano* (Bologna 2004), pp. 190–203.

32 See E. Cianci, *Nascita dello Stato imprenditore* (Milan 1977).

33 See G. Lombardo, *L'Istituto Mobiliare Italiano. Modello istituzionale e indirizzi operativi* (Bologna 1998).

34 See P. Cafaro, 'Una rete per lo sviluppo: i mediocrediti regionali (1950–65)', *Storia d'Italia*, Annali 23, La banca, pp. 824–864.

35 See S. Battilossi, 'L'eredità della banca mista. Sistema creditizio, finanziamento industriale e ruolo strategico di Mediobanca 1946–1956', *Italia contemporanea*, No. 185, 1991. N. Colajanni, *Il capitalismo senza capitale* (Milan 1991). F. Tamburini, *Un siciliano a Milano* (Milan 1992). G. Galli, *Il padrone dei padroni. Enrico Cuccia, il potere di Mediobanca e il capitalismo italiano* (Milan 1996). N. Colajanni, *Un uomo, una banca 1946-1991: storia di Enrico Cuccia e della prima Mediobanca* (Milan 2000). G. Piluso, *Mediobanca. Tra regole e mercato* (Milan 2005). L. Segreto, 'Il Caso Mediobanca', *Storia d'Italia*, Annali 23, La banca, op.cit., pp. 785–823.

36 See F. Giordano, *Storia del sistema bancario italiano* (Rome 2007), pp. 69–89.

sort of Hegelian servant-owner relationship, where it was to difficult to distinguish who was more necessary for whom.[37]

The situation was particularly true in the provincial areas where small and medium size industries were located. Strong links – stronger than before – were set up. Local political parties and elites played an important role because nominations to the boards of directors of the savings banks as well as the popular banks were largely influenced by a political decision-making process. Government coalitions (basically the majority was the sum of the Christian Democratic party, the Socialist party and some small liberal-democratic parties) usually took most, if not all the seats. In a very limited number of cases, the largest opposition party (the Italian Communist party) had the opportunity to take part (especially after the 1970s and, in any case, just in some regions, where it was the majority party) in this selection process.[38] The importance of this complex system ran parallel to the decrease (if not the collapse) of big private industrial groups, a destiny soon followed by state owned companies during the 1970s; and the increasing role of industrial districts, both in terms of the proportion of exports to the total amount of the national commercial balance, and of the proportion of the number of employees out of total industrial employment.[39]

III.

Far later on, when the productive systems crumbled at the turn of the third industrial revolution and globalisation, Bordeaux' economic system was reconfigured by strategic considerations like those of other European regions. Its 'model' was questioned by the repositioning of the division of labour on an international scale.[40] This section will thus contend that what had been 'good' embeddedness since the interwar period – when local Bordeaux banks had woven useful connections within Gironde SME's – became 'bad' embeddedness, because such business networks hinder the resiliency of bankers in their capacity to evolve rapidly enough and to cut into their traditional portfolio of customers. They were involved in sharing the 'business culture' of the Bordeaux business area, in which they were deeply embedded, which reduced their margin of manoeuver and their ability of 'disruption'. They were committed to stay faithful to their clients, however condemned to disparition they might be, which inserted them durably into forms of path dependency.[41]

Almost the whole Bordeaux community of interests (banks, chambers of commerce and industry, business organisations, even local political powers, influential businessmen or *notables*) clung to an economic mindset consisting of a desire to modernise a productive system, which was in fact condemned to be rubbed off by the changes of productive systems. And bankers could imagine that granting new loans and helping firms to evolve would allow them to gain time, so as to overcome the threats of 'decline'. Blind conformity

37 See G. Aleotti, *Borsa e industria. 1889–1989. Cento anni di rapporti difficili* (Milan 1990). G. De Luca (ed.), *Le società quotate alla Borsa valori di Milano dal 1861 al 2000. Profili storici e titoli azionari* (Milan 2002). A. Volpi, *Breve storia del mercato finanziario italiano dal 1861 ad oggi* (Rome 2002).

38 S. Gatti, 'Guerra di banche', *L'Espresso*, 12 August 1984, pp. 96–99.

39 See G. Becattini, *Distretti industriali e Made in Italy. Le basi socioculturali del nostro sviluppo economico* (Milan 1980). G. Provasi (ed.), *Le istituzioni dello sviluppo. I distretti industriali tra storia, sociologia ed economia* (2002). M. Fortis and A. Quadrio Curzio (eds.), *Industria e distretti. Un paradigma di perdurante competitività italiana* (Bologna 2006).

40 J. Dumas, *Les activités industrielles dans La Communauté urbaine de Bordeaux*. Études de géographie économique et sociologique (Bordeaux 1980). H. Bonin and O. Pétré-Grenouilleau, 'Deindustrialisation and Reindustrialisation: the Case of Bordeaux and Nantes', in: F. Amatori, A. Colli and N. Crepas (eds.), *Deindustrialisation & Reindustrialisation in 20th Century Europe* (Milan 1999), pp. 233–262. H. Bonin, 'L'industrie agroalimentaire du grand Sud-Ouest aux XIXe-XXe siècles. Un renversement historique du positionnement dans les flux économiques', in: Jacques Marseille (ed.), *Les industries agroalimentaires en France. Histoire & performances* (Paris 1997), pp. 121–160.

41 M.-L. Djelic and S. Quack, 'Overcoming Path Dependency: Path Generation in Open Systems', *Theory and Society*, 2007, 36, No. 2, pp. 161–186. R. Burt, *Brokerage and Closure. An Introduction to Social Capital* (Oxford 2007). M. Stack and M. Gartland, 'Path Creation, Path Dependency, and Alternative Theories of the Firm', *Journal of Economic Issues*, 2003, 37, pp. 485–492. S. Ghezzi and E. Mingione, 'Embeddedness, Path Dependency and Social Institutions: An Economic Sociology Approach', *Current Sociology*, 2007, 55, No. 1, pp. 11–23.

to well-established positions and the replication of basic paradigms prevailed over self-reflection, and bankers were affected by a herdist attitude. If we consider the well-known formula, bankers were perceived as 'lenders of last chance', even though family firms were to change their business model and invent new paths of entrepreneurship, innovation and strategic scales of action. Their very embeddedness led bankers to be committed to the survival of an obsolete business culture,[42] that of a community which had not clearly understood how to rid itself of its heritage and to jump into the globalised *modus operandi* shaped by the 'third industrial revolution'. This explains why bankers were addicted to business 'routines' which reduce the scope of businessmen in their ability to confront broad economic challenges;[43] like the Darwinian processes which eliminate firms that resist cultural changes and revolutions of knowledge.[44] The case study of Société Bordelaise de CIC epitomises such a deadend, a form of 'bad' embeddedness. The local bank – which since the 1930s had become a regional bank, active in the whole of south west France, but which had preserved the power of its Bordeaux 'central branch' – could not help but being involved in the successive crises of Gironde SMEs.

Gates to Decline in the 1970s–1980s

Wine family businesses were swept by a wave of bullish speculation in the mid-1970s and the same years were marked by a first industrial 'tsunami' which destroyed numerous family firms in foodstuffs or mechanics/light metallurgy. Bankers trusted family firms, which used large overdrafts to pile up huge inventories so as to speculate on prices. This led to vast losses in 1973–1975 and to the collapse of a dozen firms. Banks' archives are rich with records relating the surprise of bankers who discovered all at once that balance sheets and reports from well-trusted customers had been massaged; that *notables* were acting as white-collar swindlers; that relational banking was crumbling.

> 'Conversation became painful because the boss (of the largest building company of Bordeaux) confessed that we could not find out in the documents the actual turnover of his firm; because accounting documents did not take into account the whole array of participations and joint deals [...].'

True, the generation of managers of the bank had emerged in the 1940s and had aged parallel to the economic system; for decades it had rarely, if ever, left Gironde, and was not quite able to perceive the (genuine) 'decline' of Bordeaux' economy or France's position because their 'business culture' had been immobilised. Before opening doors to local 'rust belts', the 'invisible crisis' of strategic scale and scope had led to 'rusted brains'. The rupture imposed by such historical embeddedness was difficult: when Société Bordelaise de CIC approached its Ginestet customers, the owners of the prestigious Ginestet wine house and (since 1920) of Château Margaux, to mobilise their personal assets (Margaux & Co.) to repay their bad debts,[45] they were shocked by such a 'revolution' of distrust and the crumbling of long term banking relationships. They even denounced a 'conspiracy' of bankers against them, who were still insensitive to the crisis of their business

42 M. Casson, 'Entrepreneurship and Business Culture', in: J. Brown and M. Rose (eds.), *Entrepreneurship, Networks and Modern Business* (Manchester 1993), pp. 34–50.

43 M. Becker and N. Lazaric (eds.), *Organizational Routines. Advancing Empirical Research* (Cheltenham 2009). M. Becker (ed.), *Handbook of Organizational Routines* (Cheltenham 2008).

44 B. Noteboom (ed.), *Knowledge and Learning in the Firm* (Abingdon 2006).

45 Dossier du Contentieux, 'Ginestet', liasse 164, Société bordelaise de CIC archives. These archives have not been classified nor preserved after the removal of the headquarters of the bank in the 1990s.

model. But the local bank had set up a pool of banks (with Crédit Agricole and BNP) and decided to evolve to 'transactional banking'. The same misunderstanding between businessmen and bankers could be noticed by the Cruse (a family company), who could not imagine that the former could reappraise their financial and patrimonial assets and their loss of accounting power. This resulted in the boycott of the family by bankers in 1975 and even the rejection of Cruse managers from the company to prevent them from controlling the trade branch. Paris-based banks decided to abandon 'relationship banking' and to admit to Cruse's practices of embezzlement. A bunch of local 'stars' dating back to the nineteenth century,[46] like Ginestet,[47] Cruse or De Luze, were thus condemned to leave their family business model and to join institutionalised capitalism, and were bought out by Paris-based or foreign firms.

Gates to Transactional Banking in the 1970s–1990s: The End of Embeddedness?

Later on, when the long-term crisis of the Gironde productive system bordered on completion, a last array of firms closed down, all along the harbour banks, and wholesale trading almost thoroughly stopped, beyond a few wine houses, mostly belonging to outside companies. But Société Bordelaise de CIC also had to tackle the difficulties of its customers in other areas where it had spread its network. Having been nationalised, then privatised (and bought by Crédit Mutuel Centre-Est-Europe group), the CIC group had to reinvent itself, because the disappearance of its historical clients had deprived its regional banks from accessing their commercial outlets. Besides developing 'mass banking' on one side, it had to rebuild a business foundation and to recreate connections among the firms which had emerged from the 1970s-1980s. Like in every region, such clients were often financially fragile, in the process of balancing start-up entrepreneurship and intense consumption of treasury resources. This demanded large amounts of current credits. How could a system of 'trust', of 'connections' between bankers and businessmen/women be rebuilt? Paris-based and local banks (joined by Banque Populaire du Sud-Ouest and Crédit Agricole de la Gironde, then by Crédit Agricole d'Aquitaine, and later on by Caisses d'Épargne, when these specialised banks were allowed to join universal banking and therefore corporate banking) competed sharply to draw in these new clients. Numerous heads of branches and regional headquarters were tempted to cede to the exhilaration of rapid growth to 'conquer' these fresh segments of clientele for the sake of 'trusting' these layers of 'entrepreneurs' who were highly praised by local authorities as leverage against unemployment and in favour of developing an 'Aquitaine Valley' alongside Silicon Valley.

Once more, embeddedness practices flowered, through new networks of business connections, more oriented towards technology, entrepreneurship, citizenship, etc. A new community of interests took shape at the turn of the 1990s. But the 1993-1995 recession revealed the illusion of such confidence. A few Paris-based banks, among which most prominent were Crédit Lyonnais and BNP, suffered from their bad debts to SMEs. The same can be said for Société Bordelaise de CIC. Crédit Lyonnais almost stopped such credits, but the other banks, either from Paris or local, had to reinvent their business models once more. This led to a thorough rebuilding of risk processing. Société Bordelaise de CIC for example created new levels of scrutiny concerning collective loan records,[48] moved or dismissed its branch managers, and set up rigorous processes

46 H. Bonin, *Les patrons du Second Empire*. Bordeaux & en Gironde (dictionary) (Paris 1999).

47 H. Bonin, 'The Ginestet Case Study. Internationalisation as a Way to Renew Bordeaux Wine Economy's Entreprise Spirit (1978–2000)', in: H. Bonin (et alii, eds.), *Transnational Companies (19th–20th Centuries)* (Paris 2002).

48 H. Bonin, 'Faire de la banque d'entreprise dans le grand Sud-Ouest. La reconstitution d'un système de gestion des risques à la Société bordelaise de CIC (depuis 1994)', in: H. Bonin and C. Lastécouères (eds.), *Les banques du grand Sud-Ouest. Système bancaire et gestion des risques (des années 1900 à nos jours)* (Paris 2006), pp. 439–466.

for assessing the financial situation of clients. The same attitude was adopted at Caisses d'Épargne and Crédit Agricole to avoid incurring losses which had undermined several *caisses régionales* of Crédit Agricole.

Thus everywhere transactional banking put a halt to traditional ways of embedded banking life. Local banks even adopted a rule stipulating that heads of branches ought to be moved every two to three years to prevent them from being circumvented by clients and to dissipate 'bad' embeddedness. This left room for the cold cross-examination and 'scoring' of the situation of clients. Experts noticed that bankers had to preserve their margin of manœuver which allowed them to 'cut rotten arms off', even if they belonged to friendly customers. And this explains the very refusal from banks, since the 1990s – even at mutual institutions which were accustomed to longer terms – to maintain branch managers beyond an average scope of three to four years. Such a permanent reshuffling of managers is supposed to help them avoid becoming too 'embedded'.

IV.

Under the new framework and circumstances that took shape within the Italian banking market in the 1970s, the 'special relationships' between the banking system and new industrial Italy demonstrated their strategic importance.[49] The consequences were both positive and negative. We shall consider a few case studies to explain this very delicate situation. For any bank the information about the economic territory where it was supposed to work was a prerequisite for any form of intervention. All clients, but especially industrial clients, were not only their targets, but also their main material for a concrete, coherent and comprehensive analysis of the performance of a sector and of its actors. To know the true figures of the balance sheet of a firm and/or its long term strategy was absolutely necessary in order to establish correctly the amount of a credit line as well as any other special form of short or medium term financing. In a sense, the embeddedness of the bank was a natural or an obvious quality: like a fish swimming in its usual waters, the banks were supposed to have a regular and very deep contact with the firms. Their capacity for monitoring them and the effectiveness of this process was a crucial variable affecting not only the decision-making process concerning a single firm, but even the whole sector or, in some cases, the entire industrial district.

Trust to be circumvented?

The strong backing of the political system was extremely important. The rise of a manager or CEO of a bank was strictly linked to his personal contacts with the local political system. The political parties were actually concerned about social and political stability from which they derived their legitimacy. The regular flows of credit to small and medium size firms were coherent with this programme. Not only the nomination to the board of directors or as head of the bank, even some official prizes were strongly linked with a managers' capability to answer the different questions raised both by entrepreneurs and their firms as well as by the political system.[50]

The case of the chairman of the Cassa di Risparmio di Prato (the savings bank of one of the most important industrial towns for the wool industry, located some 25 kilometres west of Florence) illuminates this assumption very well. Strongly supported by the Christian Democratic Party and working in an area where the putting out systems of production, even in the 1980s, were not an industrial relic of the past, but a concrete and spectacular form of division of labour among different firms, this banker had to face

49 See G. Conti and G. Ferri, 'Banche locali e sviluppo economico decentrato', in: F. Barca (ed.), *Storia del capitalismo italiano dal dopoguerra ad oggi* (Rome 1997), pp. 446–450.

50 Ibidem, pp. 454–455.

the fact that the town (as well as the surrounding area) was supportive of left wing parties, especially the Communist party, after the end of WWII. In 1984 this banker was awarded the 'banker of the year' award for his contribution to the excellent performance of his bank and for the strong and large network he set up with the local industrial community. This helped many firms to develop and to strengthen their market position. The official results of the bank showed a very solid situation in many aspects. One year later the shock: he was arrested on the basis of a very severe accusation of being the official responsible for the dramatic situation of the bank's accounts. The figures were showing a long series of very risky loans, opening a period of financial destabilisation for the bank. The balance sheet offered a completely different picture compared with that shown only one year before.[51] The most dramatic plunge from the award to jail in less than twelve months showed the vulnerability of a system where bankers, even the better, could fail just because they were too strictly linked to the territory. In fact, the real risk evaluation of any single industrial client was affected by many other non-economic factors (the image of a firm, its importance in the social and economic local network, the political consequences of a bankruptcy or even of some financial difficulties) that were not measurable by the more or less strict banking criteria for a credit line. Even worse, in many cases they were becoming more important than any other criteria.

Regional Bankers: Balance-cheating their Business Community?

This behaviour put into evidence the relevance of the sense of responsibility of a bank towards the local business community. This attitude opens the doors to some possible parallels with the experience of mixed banks in the 1920s, a period in which they accepted any request from the big industrial firms to give them some credit. Waiting for an improbable recovery, they were forced to transform their credit into shares without actual value and which they could not sell to the market.[52] Like the latter, banks of the 1980s were ready to collapse; they hid the real situation of their balance sheets in order to permit credit flow to industrial firms, some of which were probably just struggling for survival. Only the 'superior' interest for social and political stability could explain that conduct. But this attitude put under scrutiny the efficiency of the banking criteria for credit and showed excessive discretion. In some cases, there was an absence of objective elements (financial parameters, specific ratios to access banking credit, etc.) that could be used for any firm and under any circumstances. Technical procedures instead of political and social evaluations: this was the lesson to take from that case, and it showed the high risk of embeddedness.[53]

The objective criteria used to check the economic and financial health of a firm have been implemented to a different degree and mainly in very different moments by Italian banks. Both the Bank of Italy and the Italian Banking Association (ABI) supported this process to a very limited extent. The reasons for this behaviour lay in the very differentiated conditions the banks were working in, depending on the economic and social structures they were faced with at the local level.[54] Nevertheless, the first European directive on banking, which introduced the concept of the bank as a firm, permitted a more objective approach to many aspects of banking activity. It also included rules about credit financing, which were reinforced by the first 'Basel agreement' in 1988.[55]

51 See L. Fanti, 'Note su alcune tendenze della Cassa di Risparmio pratese', in: IRES-CGIL Toscana, Produzione e credito nell'area pratese nei primi anni '80 (Florence 1986); M. Valentini, 'Sofferenze in banca', *L'Espresso*, 5 March 1989, pp. 233–235.

52 See A. Confalonieri, *Banche miste e grande industria in Italia*, op.cit.

53 See P. Ciocca, *Banca, finanza, mercato. Bilancio di un decennio e nuove prospettive* (Turin 1991), pp. 40–55.

54 See P. F. Asso and S. Nardozzi, *Storia dell'ABI. L'Associazione bancaria Italiana 1944–1972* (Rome 2006), pp. 380–390. L. Conte, 'L'azione della Banca d'Italia', *Storia d'Italia*, Annali 23, La banca, op.cit., pp. 683–687.

55 See F. Giordano, *Storia del sistema bancario*, op.cit., pp. 184–194.

For a long time discretion increased in the Southern regions. There the political framework was influen cing – if not conditioning – the banks' strategies and behaviours. Personal, non-political (or pre-political) contacts, based on a series of mutual understandings and mutual knowledge, played a decisive role. On one hand, embededdness was at its peak here. On the other hand, it was showing its worse face. The Southern Italian banking system encountered increasing difficulties in the second half of the 1980s and in the beginning of the 1990s.[56] Many small private banks were close to collapse or bankruptcy. The same destiny awaited some bigger banks, some with hundreds of employees and billions of euros in deposits. The Bank of Italy came slowly to the conclusion that only permitting mergers and acquisitions (previously permitted to a very limited extent, because this kind of process was, in the opinion of the Italian central bank, destabilising the system) by clean, healthy, and well managed banks, it was possible to give new stability to the banking system in the Southern regions.[57] These were usually based in the North of the country and desperately sought an enlargement of their branches and subsidiaries network (a possibility the Bank of Italy permitted to a very restricted extent).

Modernising Embeddedness?

Big national banks were not always ready to accept such an invitation if it was not proposed by the Bank of Italy, which was against the concentration of the banking system. Middle-sized banks were better suited, because of their size and of their (potentially) more aggressive strategy. Moral persuasion worked very well, because it met real needs by this segment of the Italian banking system, which sought expansion in other regions. In exchange they were more than happy to give their support for a concrete, sometimes even decisive contribution to the rescue of an important part of the national banking system. One of the most active actors in this very complex strategy has been Credito Emiliano, better known as Credem. Credem is a commercial bank controlled by many industrial families of Reggio Emilia, around a very big name of Italian industry, the Maramotti family, which is founder and owner of the fashion group Max Mara. Between 1989 and 1992 this bank took control of more than a dozen banks located in Sicily, Apulia, Calabria, and Campania. Among many other novelties the most important one involved its credit strategies. In order to avoid any negative aspect of embeddedness (mainly personal contacts between bankers and firms) Credem centralised any decision concerning credit. The experience of the 1980s was decisive. In that decade banks implemented a very complex and sophisticated system to scrutinise any financing request by industrial clients with a series of very objective criteria based on sane management principles. Clients of the newly controlled banks in Southern Italy, even before the merger with Credem, were no longer able to have direct contact with local managers to discuss their financial requests. Everything was decided in Reggio Emilia. This strategy was very successful, and contributed to a more serious approach to credit by small and medium size business. In the end this could be considered, paradoxically, a secondary effect of a new way to interpret embeddedness; stay close to the business community and understand its needs without any interference which could compromise the correct use of financial resources.[58]

There is another case, more famous and well-known on the international level that could be mentioned in this framework, namely the Parmalat case. This food and dairy industrial giant became a big multinational in this sector between the end of 1980s and the end of the 1990s. This firm, controlled by the Tanzi family – rooted in Collecchio, a small village not far from Parma – went into bankruptcy between 2003 and 2004.

56 See P. Bongini & G. Ferri, *Il sistema bancario meridionale: crisi, ristrutturazione, politiche* (Rome–Bari 2005). F. Panetta, *Evoluzione del sistema bancario e finanziamento dell'economia nel Mezzogiorno*, Servizio Studi-Banca d'Italia, No. 467, March 2003.

57 See C. Conigliani, *La concentrazione bancaria in Italia* (Bologna 1990), pp. 25–30.

58 See G.L. Basini and L. Segreto, *Le radici di un successo. Storia del Credito Emiliano (1910–2010)* (Rome–Bari forthcoming 2010).

Its managers and the owner, Callisto Tanzi, went to jail. The accusation dealt with the insolvency of the firm. Huge volumes of bonds, as well as many other more sophisticated financial instruments,were issued by the firm from the end of the 1990s to finance a spectacular acquisition strategy and permitted it to become a global actor. These rapidly lost their value because of default.

In the Parmalat case, the local banking system intervened to a very limited extent. The scale and scope of the firm apparently excluded, by definition, these banks from many activities with regard to this industrial client. The amount of financial operations was a very selective tool. Recent research also suggests that the decision to establish contact mainly with big banks, both national (Banco di Napoli, Banco di Roma) as well as international (especially American banks), was also due to the fact that Parmalat management and the Tanzi family preferred to avoid any contact with the local banking network. In some cases, the opinions there about the firm were radically different from official ones and especially from those proposed by the banks charged with placing the shares and the bonds issued by the firm among the public of small saviours.[59]

V.

Business and banking history also follows conceptual trends, and the fashion towards embeddedness paved the way to a socio-cultural history of business connections.[60] One could have ascertained from such a topic that banks would be able to reduce the assymetry of information thanks to their insertion within business networks which constitute an immaterial capital to market places, whatever their scope. An immediate access to businessmen in charge of SMEs should therefore have allowed regional and local bankers to reduce the range of risks because of kinds of relationships based on 'trust' and direct access to ('on the spot') information. This also allows the by-passing of gaps in still emerging balance sheets and accounting methods. Sure, such 'good' embeddedness could be fruitful, and living at the heart of a community of interests, could fuel flows of data and foster a precise perception of businessmen's mentalities ('honourability', relations to pace of growth and to 'profit maximisation', etc.). But an evolution towards 'bad' embeddedness could conversely result in 'the social construction of failure' (K. Lipartito), when bankers were blinded by their confidence in their business partners. 'Horizontal' relationships between bankers and clients, based on 'relational banking', could incentivise over-confidence as well as an osmosis with the mindset of the local business community. For instance, in Bordeaux, which too easily trended towards speculation, excessive stock-piling and borrowing through overdrafts or documentary credits during bullish terms at the height of booms. Bankers became more and more puppet lenders as they stuck to pro-cyclical attitudes and over-lending or were far too lenient in their assessment of risks, because of the opportunities supplied by fat loans to their big historical clients.

One should establish an index which charts the propension of a business culture toward speculation across the market places of a country; but because Bordeaux frequently adopted speculative moods on commodities, wine or other goods, practicing banking there ought to have focused on the anticipation of such risks, and more on transactional banking. But competition from Paris-based big banks (and British banks) surely enticed local banks to bet on risky business because they contended that they could rely on their embeddedness within business circles and thus cultivate confidence. This would lead to a 'social destruction of trust' and hinder them from anticipating turnarounds and the decline of well-established industries and trades, and of well-off families and houses. Embeddedness could have sapped resiliency and flexibility as bankers could think of their customers as 'eternal' layers of business, inherited from generations upstream,

59 See V. Malagutti, *Buconero Spa. Dentro il crac Parmalat* (Rome–Bari 2004).

60 K. Lipartito, 'Business Culture. The Embeddedness of Business', in: G. Jones and J. Zeitlin (eds.), *The Oxford Handbook of Business History* (New York 2007/Oxford 2008), pp. 605–610.

a promise of durable growth, and able to absorb short term shocks thanks to their financial cushions and their patrimonial fortunes. Such 'embeddedness habitus' could have reduced their ability to remain open and watchful for permanent business and market intelligence. It could have also blurred their skills in refreshing their patterns of 'knowledge management' within 'learning' corporations,[61] which leads us to a commonplace conclusion about the required balance between 'good embeddedness' as a leverage against the asymmetry of information; and 'bad embeddedness' as a source of complacency towards risky customers to be with the risk of increasing the role of 'moral hazard' and even paving the way to 'adverse selection' at the expense of the banker acting as a 'principal agent'.

61 See D. Belet, *Devenir une entreprise apprenante. Les meilleures pratiques* (Paris 2003).