

11. The evolution of human resource management in Italy: a historical-institutional perspective

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THE CURRENT STATUS OF HRM IN ITALY

HRM in Italy largely mirrors the dualistic and fragmented structure of its economy. On the one hand, there is a group of relatively large multinational companies, with headquarters in Italy (Fiat, Luxottica, Pirelli, ENI, Benetton, Unicredit, Banca Intesa Sanpaolo, etc.) whose HR architecture is aligned with the practices and approaches of the other leading companies around the world. For these companies, HRM is strategic (Wright et al. 2005), though still strongly contingent on the Italian historical heritage, corporate governance structures and prevalent industry focus. There is a second group of medium sized companies, mostly operating internationally in mature and competitive industries, where HRM is instrumental to pursuing strategies prevalently based on efficiency and flexibility. In this case, the applied HR practices are far from the “high performance” practices highlighted by the mainstream literature (Pfeffer, 2005), even though they may be consistent with the business models and often contribute to organizational performance. Finally, there is the articulated world of the Italian small firms, often embedded in industrial districts, where HRM has assumed, over time, distinctive and peculiar forms that, though seeming pre-modern at first sight, are, in some respects, innovative.

Because of the recent global crisis, most of the firms have suffered and struggled to survive, so that most HR activities have been recently focused on corporate restructuring and on initiatives geared towards efficiency improvement (Boldizzoni and Quaratino, 2011). Interestingly enough (and contrary to conventional wisdom about Italy), industrial relations, despite the heritage of high unionization and of strong labor market regulation, currently accounts for only 10 percent of total time spent by the HR departments of Italian firms. This may seem inconsistent in the aftermath of the worst economic crisis in decades and with the long tradition of collective bargaining and union power in Italy, but denotes how the role of unions and collective bargaining has changed and how individual relations have become comparatively more important than industrial relations in the majority of Italian firms.

Italian companies have been comparatively slower than their European counterparts in taking on a strategic role as business partners within top management teams and in getting access to the Board Room or to Executive Committees. However, after having lagged behind for a couple of decades *vis-à-vis* their European competitors, most Italian

multinational companies, as well as the Italian subsidiaries of foreign multinationals, have recently caught up and appear to be in line with what happens in the top multinational enterprises (MNEs) around the world (Bagdadli and Camuffo, 2011).

Approximately two thirds of the larger firms include HR systematically in the strategy process. This resulted not only from autonomous internal innovation processes, but also from the necessity to comply, at least for companies listed at the Stock Exchange, with new corporate governance legislation introduced during the last decade, which integrated human capital into corporate governance (for example making compensation committees mandatory within the Board of Directors of listed companies and requiring firms to include human capital information in their corporate reports) and, hence, in the strategy process.

Overall, however, these changes are not sizeable enough to allow us to assert that HR plays a full strategic role in the majority of the companies. Rather, the landscape is extremely fragmented with “modern” HRM more diffused in firms that are larger, more international and exposed to international competition because they are operating in dynamic industries (Costa and Gianecchini, 2009).

In order to understand and analyze the evolution of the theory and practice of HRM in Italy this chapter describes the major events from the beginning of the Italian industrial takeoff to the present day. As we will see, this history is characterized by some major phases, largely corresponding to different historical periods and is punctuated by some major discontinuities, effectively tipping points in which the theory and practice of HRM changed significantly.

ITALY'S FIRST INDUSTRIAL TAKEOFF AND THE BIRTH OF TRADE UNIONS

The first Italian industrial takeoff occurs at the end of the 19th century in heavy industries, including electrical, chemical, steel and mechanical industries, and automobiles (Mack Smith, 1997). The average firm size increases as does the complexity of operations, and business owners and managers experiment with new forms of organization and industrial management so that the reference framework starts to change. The rise of the electrical industry triggers a great modernization process: companies like Edison and Bastogi strengthen their organizations, hiring large numbers of qualified technicians, engineers and designers even from abroad. All these processes call for the development, in a selected number of firms, of the personnel department.

The internal migration of large amounts of population in search of more remunerative work from the countryside to the cities increases the urban population and develops domestic demand. As schooling and education replace illiteracy, the skills of the workers and the human capital level improve. As the role of the State and labor legislation expand, several companies, namely those led by more progressive and innovative entrepreneurs, enlarge the scope of the personnel department's activities in order to apply the new labor laws, manage labor relations with worker representatives, and build company-provided social services.

In this context, there are mainly three elements that characterize people management in the most advanced firms: (1) command, control and discipline, (2) paternalism, and (3)

minimal compliance with labor legislation; these three features arose in embryonic forms at this stage and developed considerably later during Fascism.

Command, control and discipline represented the founding principle of personnel management in Italy: the personnel department role was to directly supervise (or help line managers to supervise) the workers, ensuring the rigid observance of rules and standards, including behavior. This role, tightly related to a view of management as command and to a view of organizations as military entities, was associated with strong instances of paternalism, used as a means to gain consensus, sterilize conflicts and prevent the formation of trade unions. Paternalism was often mere manipulation, but sometimes was genuinely characterized by the intent to improve working conditions and workers' welfare starting from the assumption that this would eventually lead to productivity increase. These assumptions often came from the imitation of practices observed abroad. For example, Giovanni Agnelli (1866–1945), founder of Fiat, and Camillo Olivetti (1868–1943), founder of the company bearing his name, heavily drew from what they learned during their journeys and stays in the USA to innovate production techniques and people management. Similarly, Ernst Stamm (1834–1875), technical director of the most important Italian textiles company in that period (Lanificio Rossi), created the conditions to move to a management system in which technical competence and direct experience acted as sources of management authority legitimization rather than formal attribution of hierarchical authority (Maifreda, 2007, p. 20). Interestingly, Stamm was a sort of precursor, in Italy, of the Principles of Scientific Management stated by Frederick Winslow Taylor some decades later.

During the 1900s both workers and employers establish organizations (trade unions, employer associations), later destined to mark important stages in the history of personnel management in Italy in the 20th century. In 1906 the CGdL (Confederazione generale del lavoro) is founded by the workers with the intention to organize protest and overcome the pre-trade union phase based solely on social antagonism. The entrepreneurs establish the CIDI (Confederazione italiana dell'industria, now currently known as Confindustria), a national employer association set up in 1910 after a prior period of fragmented associations. CIDI declares itself "apolitical" and intends to promote the respect for labor, economic and productive development policies, and social legislation. CIDI essentially wishes to ensure a peaceful environment in the factories, attempting to obtain favorable conditions in order to better utilize labor as a factor of production, limiting strikes and trade union conflicts (Castronovo, 2010, p. 21).

With the development of labor legislation, personnel management enters into a socio-political phase (Actis Grosso, 1992, p. 10). It deals with minimum wages, collective contracts, and regulation of piecework contracts, and workers' representatives and committees begin to be recognized within firms. Many firms consider social legislation and labor negotiation an obstacle for business development but this attitude, though prevailing, does not prevent the emergence of more open attitudes, especially in the automobile industry. Giovanni Agnelli Sr. (1866–1945), leads this change, creating, in 1911, a consortium of auto employers led by Fiat purposely designed to manage the social question. The objective of the consortium, considerable as the first form of employers' association, is to standardize employment contracts for the whole automobile industry and to reach an agreement with the emerging trade unions to improve the organization of workshops. The counterpart is FIOM (Federazione Impiegati Operai Metallurgici), a trade union

established in Livorno in 1901, which is recognized as the sole workers' representative; and in this way the *sabato inglese* (lit. "English Saturday" meaning a five-day working week) is introduced, wages increase by 6.5 percent, and weekly working hours are reduced to 57 (Castronovo, 2010, p. 40). Lastly, piecework tariffs and contracts are revised based on Taylorist principles, introduced and followed particularly by Fiat, which was one of the very first companies deciding to pay higher wages in order to attract capable workers (Locke, 1992, p. 234).

THE FIRST WORLD WAR AND THE POST-WAR SOCIO-POLITICAL CONFLICT

Italy entered into WWI alongside the Entente in 1915. The war effort strongly affected the young Italian industry, which will emerge at the end of the war significantly different and in the immediate post-war period even reinvigorated. During the war, firms, unions and the State re-united, joining forces to support the army and ensure national integrity. The national government controls the industrial mobilization through coordination committees that centrally manage the war orders. A few entrepreneurs and companies gain significant power giving rise, in several sectors, to conspicuous industrial concentrations guided by companies such as Ilva, Ansaldo, Fiat, Breda, Terni, Falck and Pirelli.

As a result of these efforts, at the end of WWI Italy emerges as the world's eighth largest producer of steel, cement, electrical energy, automobiles, sulphuric acid, superphosphates and artificial textile fibres (Castronovo, 2010, p. 67). As a consequence of war, firm membership of CIDI tops 6000, three times as many as ten years earlier, when it was founded. Interestingly, at this stage CIDI also decides to change its social role, eliminating from its statute the clause about its "non-political nature", and inaugurating a new season in which industrialists and business associations wish to play a larger role in politics and society. Moreover, it is during the war that, differently from what was happening in the private sector, the State builds a heavy and inefficient bureaucratic structure, employing almost half a million staff, managed by means of laws and decrees but with no attention to organizational performance.

The war period had also major effects on people management in companies. In fact, the war emergency in the three-year period 1915–18 indirectly makes the Government, through the laws, decrees and rules set out by the coordination committees, the ruler of the employment relationship, with a *de jure* and *de facto* militarization of the workforce. During the war a ban on striking is imposed, the 1906 law which banned women and children from night work is suspended, working hours increase according to peaks in production, and absences longer than 24 hours are forbidden. Nominal and real wages fell during the war. In 1918 wages are 20 percent less than in the pre-war period (Castronovo, 2010, p. 68). The large industrial groups obtain enormous profits from war related production, at times even imposing on the State price surcharges which, once these are made known in 1920, outrage public opinion. This last aspect contributes to making the economic situation extremely difficult: sky-high inflation, negative balance of trade, a public debt which is the highest of all the nations in the Entente, an impoverished rural economy and excess of labor supply due to veterans returning from the front.

These are the premises for a period of social unrest and strong trade union initia-

tive, which takes place violently in the *Biennio Rosso* (the “Two Red Years”, 1919–20). Unemployment, low wages, hard working conditions (due to continuing factory militarization and working hours of 14–15 hours a day), generate social turmoil and a wave of protest and conflicts which also resound the influence of the Russian Revolution. The trade unions manage to get some improvements. FIOM, with its two million members, manages in 1919 to obtain working hours of 8 a day and an increase in the piecework tariffs in the metalworking and mechanical engineering sector. In this context, factory councils appear and develop. Originating as ancillary functions of the Internal Commissions with the objective of protecting workers and very quickly becoming outposts based on the Soviet model, factory councils represent an attempt to undermine employers’ authority and to gain control of companies as a first step to overcome the capitalist system. While FIOM maintains a distrustful attitude towards the council movement, the socialists stimulate workers towards the clash, calling for obstructionism, sabotage, strikes and occupations, particularly in the north west in Turin and Milan. In 1920 many factories are occupied, involving approximately 500,000 workers. These occupations are weakly opposed by the public authorities, and even inspire a bill to establish trade union control in the firms. However, the economic recession at the door eventually blocks all these movements.

The *Biennio Rosso* does not reach its objectives but it does modify the balance of power between labor and management, thus impacting on people management practices in the years to come. Employers are forced to revise their authoritarian positions and workers, through the experience of factory occupations, become more aware of the technical and economic constraints that condition company management (Castronovo, 2010, p. 117). The personnel function, where formally established, alongside labor legislation and contract compliance, has to organize to manage union relations, which over the years become increasingly important. Thus, in selected companies, we start to see a few specialists in personnel management mainly characterized by labor law related knowledge and competencies.

FASCISM, CORPORATISM AND LABOR LEGISLATION

The rise of fascism (1922–43) is favored by the post-war recession coming after the *Biennio Rosso*, which increases unemployment and weakens the labor movement even if the level of unrest remains high. But the post-war problems and recession dissatisfy also the middle class. Even professionals, public employees, small business owners, artisans and traders, beside the WWI veterans, are disappointed with the outcome of the war and the economic prospects. It is in this *milieu* that the fascist movement finds followers and the support in order to take power. Fascism affected Italian large enterprises’ management and the personnel function through the ideology and practice of corporatism. The fascist Corporatism refers back historically to the Corporations of Arts and Trades which flourished in the free city states of medieval Italy. It evokes the so-called “social bodies”, i.e. the intermediary associations which form civil society. Fascism developed a theory of corporatism translating it into an industrial and labor relations system, formalized by the Charter of Labor of 1927. Fascist corporatism intends to prevent and eliminate social conflict and capital labor adversarial relations

through an articulated set of rules, procedures and reciprocal obligations between the parties. Corporatism changes the dynamics of industrial relations and considerably increases labor legislation. It draws incidentally on other cultural traditions and agendas, such as the Catholic perspective proposed by the encyclical *Rerum Novarum* (1891) of Pope Leo XIII, and by the *Scuola Ragioneristica Italiana* (Italian Academy of Accounting) which, during the 1920s and 1930s, started to develop a theory of management and an institutional view of the firm that clearly refers to corporatism (Costa, Facciperi, Rullani, 1978).

During fascism the employer associations and trade unions dissolve and merge into the fascist associations. This starts in 1922 when the fascist trade union, which has 500,000 members, proposes to move completely, definitely and compulsorily to a sort of totalitarian corporatism that cancels the autonomy of employers and workers. The fascist trade union is legally recognized as the sole trade union legitimated to sign national collective labor contracts, thus confining CGdL and FIOM to illegal unions, and obliging them to operate underground. CIDI changes its name to the General Fascist Confederation of Italian Industry (*Confederazione generale fascista dell'industria italiana*), therefore gaining legal exclusive representative power for all employers and *de facto* becoming an integrative part of the fascist institutional system.

In 1926 the rights to strike and appeal to the Labor Court in the event of trade union disputes are banned by law. Lastly, the 1927 Charter of Labor strengthens the influence of the State on companies' management: public authorities are granted the right to surrogate management if its action is considered ineffective. The impact of fascist corporatism on Personnel management is considerable:

- compliance requirements stemming from more complex labor legislation included in the Charter of Labor imply more activities, staff and skills to manage the employment relationship;
- the boundaries between business and politics blur, with employer associations and trade unions becoming official organs of the State in 1939, with the establishment of the Chamber of Fasci and Corporations (*Camera dei Fasci e delle Corporazioni*), in which trade unions merge with the National Fascist Party;
- this implies an increasing influence of politics on people management, for example in terms of losing sight of professional criteria in recruitment and promotion, in favor of political affiliation criteria.

The crisis of 1929 also hits Italian industry. The lack of liquidity causes financial difficulties to the main banks, partly because they own significant equity shares of important industrial enterprises which, due to the crisis, are practically bankrupt, and partly because they are already stressed by monetary and fiscal policies that have been aimed at the reduction of deficit spending and the revaluation of the Lira up to 1928 (Toniolo 1978). Worker agitation restarts as minimum wages are regularly ignored and unemployment triples. The “centrally imposed equilibrium” that has guaranteed social peace and collaboration between employers and the trade unions between 1925 and 1930 starts to crack.

In order to save the banks, the Institute for Industrial Reconstruction (IRI – *Istituto per la Ricostruzione Industriale*) is created in 1933. This institute, originally meant as

a temporary means, will become of fundamental importance for the modernization of Italian industry after the war. IRI buys the banks out of the crisis, and, after the war, finds itself owning shares and controlling numerous industrial enterprises and playing a central role in the economic life of the nation. The increased presence of the State in industrial activities puts strain on the private enterprise system as proven by the creation of a Corporative Central Committee in which the whole of Italian economic activity is progressively organized in view of a possible war. However, IRI's type of technical and financial structure allowed it to keep some degree of autonomy from the fascist regime, thus developing original and unique characteristics which have no equal in western countries. IRI pioneered a form of "mixed" capitalism in which the State has the role of directing industrial development via the management of a portfolio of financial participations in strategic firms and industries, but without the burden of managing it directly. A by-product of IRI is also the development of a management class. By other means, the separation of ownership and control as theorized in the USA by Berle and Means (1932) and Burnham (1941) takes place, though in a completely diverse context.

Differently from other public companies, companies controlled by IRI are only partially state-owned and take on the form of joint-stock companies, often also listed on the Stock Exchange. In this sense the IRI, though founded for other reasons during Fascism, in reality will have a crucial role in the post-war Italian "economic miracle", it being a source of great modernization and the first bearer of the managerial culture in Italy.

The 1930s are characterized by a personnel management which is necessarily influenced by the substantial presence of the State in private enterprise. In addition to the three banks of national interest (Banco di Roma, Credito Italiano and Banca Commerciale Italiana), the State manages via the IRI almost all the navigation companies, the whole group of southern Italian telephone companies, the three most important shipyards, the principal national concentration of iron and steel industries, two large electrical energy companies, and two "jewels", Alfa Romeo and Chatillon, in the fields of automobiles and artificial fibres (Castronovo, 2010, p.252). Only Soviet Russia had a level of economic nationalization greater than fascist Italy.

Fascist corporatism obviously impacted heavily on industrial relations with the central government imposing labor relations policies and the employer associations and trade unions simply confined to the role of bureaucratic bodies. With the outbreak of WWII, the central control on wages, work organization, labor hours and rules becomes even tighter: the fascist employer and employee organizations apply the central government policy supervising, repressing any form of dissent, limiting freedom and punishing. Within larger companies, the personnel manager takes on important supervisory roles (often, he is recruited from among former officers and NCOs in the Army, Police and Carabinieri) in order to keep the organization under control. Dissent, protest and anti-fascism do not disappear, though heavily and violently repressed. Union representatives and workers play a huge role in fighting the Nazis and the Fascists during the 1943–45 occupation, often sacrificing their lives. Also many employers and business owners, those not compromised with the fascist regime, contribute to the liberation process. At the end of the war the country is destroyed but there are the political, moral and cultural premises for a normalization of company life and employment relationships (Actis Grosso, 1992, p. 12).

THE POST WORLD WAR II “ECONOMIC MIRACLE” AND THE “HUMAN RELATIONS” PHASE

WWII is fought for almost three years in Italy, generating destruction and devastation almost everywhere. It is also a civil war with fascists and antifascists (so-called *Partigiani*) confronting violently in most of the Nazis' occupied territory. Italy, having lost the war, is occupied by the Allies who allow the new ruling class formed by antifascists to create a temporary government and then use a national vote (*Referendum*) to get rid of the monarchy, too compromised with fascism. The Italian Republic was declared in 1946 and the Republican Constitution of 1948 includes fundamental principles and rights like the citizens' fundamental right to employment, an adequate minimum wage and healthcare. A free and united trade union rises, CGIL (*Confederazione generale italiana del lavoro*) which, however, is strongly politicized and has diverse components (communist, socialist, social democratic, etc.) that, due also to the harshening of the Cold War, eventually split, after a period of unity. CISL (*Confederazione Italiana Sindacati dei Lavoratori*) is the other large trade union, founded in 1950 on the basis of the social Catholic tradition. CISL is politically connected with the Christian Democratic party. Some years later, UIL (*Unione Italiana del Lavoro*), the third largest trade union, was founded, partly as a spin-off of CGIL, with political links to the Social Democratic and Republican parties. CISL, the Catholic union, will play an important role in the modernization of the Italian industrial relations system and will form a generation of trade union representatives, managers and personnel managers in the state-owned companies and even government officials who try to apply the social doctrine of the Catholic Church, and compete against CGIL's class-based and antagonistic views. CISL acts as a social innovator, playing a role in many ways similar to that of the AFL-CIO in the USA (Turone 1992, La Palombara 1964). CISL stimulated management systems modernization and a strong attitude towards productivity improvement and distribution. For example, the first Job Evaluation manual in Italy was translated by CISL's Publisher *Edizioni di Politica Sindacale* in 1962 (Otis and Leukart, 1962). Similarly, CISL pioneered the application, at the firm level, of productivity agreements and profit-sharing plans. Years later, several Labor Ministers will also come from the CISL ranks, such as Carlo Donat Cattin (1919–1991) and Franco Marini (1933–) who designed pro-labor government policies. The post-war Italian economic situation was tragic: the conflict left great damage to all infrastructures including buildings, ships, railways, roads and other lines of communication; half of public spending is not covered by revenues; wholesale prices are 50 times pre-war levels and millions are unemployed. Also, the factories in Milan and Turin and the port of Genoa are hit but, surprisingly, damage is not substantial.

In this context, the personnel function within the larger companies is characterized by corporate values that still reflect the fascist and war periods. This phase can be characterized as “administrative-disciplinary” (Unnia 1974, Audano 1990) or “legal” (Actis Grosso 1992, p. 10) and lasts approximately throughout the 1940s and the beginning of the 1950s. In this phase the personnel departments of the few large firms that survived the war are typically broken down into three sub-units: administrative/accounting, supervision/control and, occasionally, social services units. There is no relationship between personnel management activities and the business strategy. Everything focuses on legal compliance and basic functions. The personnel director remains prevalently an

administrative officer/manager, but in some cases begins to deal with an antagonistic trade unionism. Under these circumstances, the personnel director is granted increasing power to guarantee order and compliance, which is done without disdaining authoritative methods (Actis Grosso, 1992, p. 11).

The democratization of society, the easing of Cold War related tensions, the improvement of managerial techniques, and a favorable wage-productivity relative dynamics, gradually lead to sustained GNP growth, higher exports and, consequently, to an evolution in the relationship between the firm and employees. Among the factors accelerating this process of change and modernization of Italian society and consequently the personnel functions, is the Marshall Plan (ERP, European Recovery Program, 1947–51) formulated by the US and with which international aid is provided to Western Europe via the supply of raw materials and machinery and reduced rate loans (Saraceno, 1969).

Italy, through IRI and, in particular, one of its founders, Pasquale Saraceno (1903–91) fully takes advantage of the opportunities offered by the Marshall Plan by formulating an industrial development plan geared towards employing the large labor supply available at low cost. In the period 1948–52 the USA pays out to Italy approximately 1.5 million dollars (over 10 percent of the allocation earmarked for Europe as a whole). The Marshall Plan drove the economic recovery, supporting the investment in capital and technology intensive industry and laying the basis for what will be called the Italian “economic miracle”. This plan, in addition to providing substantial material aid, also acts as an element of modernization of company management, through the diffusion of American productivity techniques and concepts such as “free enterprise”, “entrepreneurial spirit”, “efficiency recovery”, “technical experience” and “antitrust”, almost entirely absent in Italy and in other European countries. An interesting example was the introduction into Italy of training techniques developed by the Training Within Industry Program (TWI) (Graupp and Wrona, 2006). These training techniques, which had played a great part in the development of the US war economy’s productivity, also spread throughout Italy via Productivity Centres (*Centri Produttività*) and contribute, fostering a favorable labor cost/productivity ratio dynamics, to the “economic miracle” of the post WWII in Italy.

Thus the economic conditions improve and wages slowly begin to rise, facilitating a better political and social climate. An important contribution also comes from exports, thanks to the Treaty of Rome (1957) which founded the European Common Market. The Italian industry greatly benefited from the possibility to sell in an open European market with “Mittel-European prices” while producing with “Mediterranean labor costs”.

Italy experiences a period of economic boom and in the 1950s its GNP grows at an average annual rate of 5.4 percent, changing the way of life of increasingly larger fractions of the population. At the same time, the search for better living conditions spurs migration from the poorest areas of the country, both abroad (for example to Belgium, where many Italians will work in coal mines, or to Germany) and internally, from the South to the North where there are job opportunities related to industrialization. Migration creates wealth and fosters industrial development, but generates huge problems of social and cultural integration.

At this time, in large companies labor relations are entrusted to Internal Commissions (*Commissioni Interne*), joint management-workers committees elected by the workforce. Their role is initially important but they are progressively crowded out by

union-management relationships as these become more adversarial and as *Commissioni Interne* tend to become company, pro-management organs.

State-owned enterprises (belonging to the IRI and ENI) develop autonomous industrial relations separated from those of Confindustria (the national employer association born on the ashes of CIDI), which remains the largest business association. In 1958 the state-owned companies definitely spin off Confindustria and establish Intersind as their employer association. Intersind develops a more collaborative relationship with trade unions by signing pioneering agreements that anticipate the concession of new trade union rights and work, as innovation stimuli to Confindustria and private companies' more conservative approach (Cattaneo 1992). Among these, Fiat and Olivetti embrace this new approach, disassociating themselves from Confindustria, and modernize personnel management policies within a more open labor relations framework, particularly focusing on the provision of social services to workers. In companies such as La Rinascente, Montecatini, Olivetti, Pirelli, Fiat, ENI and Italsider, personnel functions start to have specific budgets and dedicated staff in order to formally set out innovative policies. These changes lead to a new phase of human resource management in Italy, named "human relations" (Unnia, 1974, p. 5-3; Actis Grosso, 1992, p. 12) because it recalls the US movement founded 30 years before by Elton Mayo. This phase is characterized by the introduction, in large Italian companies, of the toolkit derived from North American personnel management theory and practice (Kaufman, 2008): manpower planning, recruitment and selection, training, work analysis and job evaluation, merit rating, compensation and benefits, industrial safety, internal communication and so on.

The knowledge of these techniques is increasingly applied and in some cases adapted, and joint projects with local academic institutions are developed: for example, the studies on the use of tests in selection conducted by the Università Cattolica di Milano. Industrial sociology and occupational psychology emerge as new fields of research and sociological and psychological issues become an integrative part of middle management training.

Personnel functions in the "human relations" phase emerge as the combined results of two factors: (a) companies become larger and more complex and, hence, need specific competences, techniques, systems and policies that only a purposely designed department can implement; this helps efficiency optimizing labor cost; (b) companies need to keep social peace, gain and retain workers' consensus, avoid industrial conflicts that may have disruptive effects in a booming economy; they try to achieve this with better people management, services and communication characterized by strong paternalistic accents.

In this period also the first management training centers and business schools are founded, again following the US model. Initially, these are non-university institutions specifically geared towards improving management skills. Furthermore, management publications begin to appear, often offering the translation, in Italian, of North American management books and articles. Among them, the most important are:

- IPSOA of Turin (*Istituto post universitario per lo studio dell'organizzazione aziendale*), which marks "the first significant exposition of Italian management to the US management practices, personnel systems and organizational models, generating, through visits overseas, translation of management books and articles, and adaptation to the Italian context of training programs, communication channels

that have been later developed by other institutions” (Gemelli 1997, p. 65). IPSOA was active between 1952 and 1965, and was strongly promoted by the Chairman of Fiat Vittorio Valletta (1883–1967) and Adriano Olivetti (1901–1960). It benefitted from the preliminary studies and consultancy from the Ford Foundation (Gemelli 1997, pp. 100–127), and trained a generation of managers, consultants and management trainers who later greatly impacted on personnel practices in Italy;

- IFAP (*Istituto per la formazione e l'aggiornamento professionale*), the training school promoted by IRI to develop its team of professional managers. The foundation of IFAP relates back to the spin-off of state-owned companies from Confindustria and the establishment of Intersind in 1956. Firms belonging to Confindustria were private, often family-owned and -run businesses, still immersed in a conservative culture of unilateralism and conservatism, while the state-owned companies were run by the first generation of Italian professional managers (and hence the need to have a corporate university able to develop management skills and fill the gap deriving from the absence, at this time, of Italian business schools or business administration university programs) (Bertini 1997). IFAP's development is grounded on the organizational models, management systems and training pioneered at the Cornigliano IRI steelworks plant. Cornigliano represented a sort of template, built around the modern US corporation model with the support of US consultant Armco. This template was then used by IFAP as a reference and deployed within the IRI group. Indeed, personnel management constituted an important part of the training content offered by IFAP (Bertini 1997, pp. 233–34);
- IAI (*Istituto per l'addestramento nell'industria*) which contributes to diffuse the already described training techniques for supervisors, foremen and middle managers based on the US experience of TWI (Training Within Industry). IAI contributes to change the widespread idea that management skills can't be taught and learnt, and publishes the first Italian professional journal about people management, *Il fattore umano* (The Human Factor). The publisher of the journal, Franco Angeli Editore, also played a modernizing role, publishing translations of American works on management, business organization and human relations.

By the mid 1960s, however, the economic, social and political context begins to change dramatically. The economy approaches full employment with rising salaries and labor cost. The labor movement gains strength with trade unions playing an increasingly larger role in society. The political system shifts with the left wing (the Communist and Socialist parties) getting more and more consensus. The requests coming from society and the worsening economic landscape (with labor cost hikes less than compensated by slower productivity increases) trigger a new period of industrial conflict, fuelled by some contradictions somewhat intrinsic in the dualistic nature of the Italian economy (large versus small firms, the industrial North versus the rural South, public versus private sector, etc.) Within this context, personnel problems within firms change significantly, driving a major transformation in personnel management role, activities and practices. The “human relations” phase ends and its positivist and paternalistic ideology of “promotion of the human factor” within firms is inadequate and even counterproductive in facing the new emerging challenges.

Throughout the 1960s and 1970s the prevalent denomination of the human resource

department remains “personnel office” or, in small-medium sized firms (Actis Grosso, 1992, p. 19), “personnel administration”. More advanced personnel practices are experimented with, amid many contradictions, only by a few large companies. For the most part, the personnel function is part of the administrative office or of the general affairs office, and some key personnel management activities, like organization, safety, and rewards and incentives, remain under the influence of the Operations Management Department. The management of managers and executives, even in large firms, is entirely empirical and not professionally organized.

Overall, the implementation of the “human relations” toolkit and ideology does not bring about the expected and desired results. This is due to several factors: (a) scant faith in the real effectiveness of the new practices in many firms; (b) lack of skills owing to the hurried assimilation of the tools, without an adequate contextualization to the Italian situation; (c) piecemeal and at times opportunistic applications of tools, systems and practices. Despite all these issues, the “human relations” phase of personnel management remains a major discontinuity: the nature and number of innovations introduced transform the Personnel Department into a specialist function, with well-defined professional skills and with a formal and structured professional content. This is also certified by the birth of national professional bodies and associations.

In 1960, AIDCP is established and later transformed into AIDP – Italian Association for Personnel Management (*Associazione italiana per la Direzione del Personale*). In 1965 the Institute for Personnel Management – ISPER (*Istituto per la direzione del personale*) – is founded. Studies, research and textbooks on personnel management continue to be published thanks to publishers such as Franco Angeli, Etas Kompass (which will later change its name to Etas Libri), and Utet, which specialize in managerial subjects and organizational behaviour (Actis Grosso, 1992, p.14).

As mentioned, by the second half of the 1960s the Italian economy approaches full employment. Tensions arise in the labor market and trade unions become influential as never before, taking on a strong antagonistic attitude. A few years before, trade unions had negotiated and obtained, with Intersind in 1962 and with Confindustria in 1963, a new contractual structure articulated into two levels: the national/industry level and the firm level. The legitimization of firm level bargaining and the obtainment of a 32 percent wage and working condition improvement occur (Unnia, 1974). The combined effect of a stronger labor movement and of a political system shifting to the left resulted also in the promulgation of new labor laws, such as the introduction of limitations to firms’ freedom to lay off in 1966.

Massive migratory flows from South to North pose immense integration challenges in the region of the *Triangolo Industriale* (the industrial triangle around Milan, Turin and Genova). Moreover, inflation erodes the purchasing power of wages, spurring a spiral of wage rise requests (Castronovo, 2010, p. 444). Furthermore, resentments emerge which have been hushed up in previous years in the name of “human relations”. The middle class asks for structural reforms to correct the income imbalances between the different social classes (Unnia, 1974). The welfare system, including pensions, healthcare and social security is still modelled around the fascist period system (Audano, 1990, p. 9). The delays and lack of political will to design social reforms lay the basis for a strong opposition movement (at times with revolutionary connotations) whose main target is the industrial enterprise as the key institution of Italian capitalism. The large modern

factory is identified as the place to develop political and social antagonism by anti-system groups (Castronovo, 2010, p. 445). In the wake of the events of May 1968 in France the working class unites with the student movement and starts sweeping unrest which lasts for two years (1968–70) and culminates in the “Hot Autumn” (*Autunno Caldo*) of 1969. This new situation poses an enormous challenge to the personnel function, which enters a “political” phase characterized by the prevalence of conflict management, collective bargaining and trade union relations (Actis Grosso, 1992, p. 14). The personnel department becomes engaged in continuing prevention or firefighting of strikes and conflict, in endless bargaining on all the aspects of the employment relations and in the definition and application of ever changing and more complex labor legislation and contract rules.

EMPLOYERS’ AND UNIONS’ CULTURE, STRATEGIES AND IDEOLOGIES

The modest results of the “human relations” phase with regard to the modernization of management, and more specifically of people management in Italian companies, partly derives from the fact that labor issues in Italy have always been strongly “ideologized”, i.e. characterized by the ideologies that drive the individual and collective actions of enterprises, unions and the State.

Firms’ and employers’ associations’ action during this evolutionary phase can be classified along a continuum with, at the extremes, two opposite views of what legitimizes the exercise of power within firms. The first view, to which most of the privately held, family-owned and -run, small and medium sized enterprises refer, can be defined as a “unitary frame of reference”. According to this concept, property rights are the only source of power that legitimizes management decision making and actions within firms, and such power is non divisible and can’t be shared. Owners strive to keep it and the fight for its control with other counterparts is seen as a zero-sum game in which the power won by an actor is lost by another. The conflict which arises has a distributive nature (Walton and McKersie 1965). Counterparts’ relations (and, more specifically, between labor and management) are characterized by reciprocal distrust. This concept has for a long time inspired the policies of most private firms and of its employer association, Confindustria, particularly during the chairmanship of Angelo Costa (1901–76).

The second view, to which some of the largest firms, the state-owned enterprises and their employer association (Intersind) refer, can be defined as the “pluralistic frame of reference”. This view acknowledges the firm as a multiple stakeholders’ institution, in which coalitions of individuals and groups pursue their own interests. These contradictory demands have to be mediated and balanced in order to maintain a collaborative climate thanks to which all the participants contribute to the organization’s goals and pursue, at least partially, their objectives. Within this context, trade unions are considered the legitimate expression of legitimate workers’ interests and are entitled to promote and negotiate contractual arrangements and other forms of regulations, even limiting management power, that are seen as values themselves (Fox 1966, pp. 80–82; Kochan and Osterman, 1994). By adhering to this second view, firms attempt to have a stable relationship with all the stakeholders. Conflict is considered a positive variable-sum game, in that from negotiated agreements associated to conflict better forms of governance and

improved control over internal and external resources are generated. Relations are fuelled by reciprocal trust, creating collaborative behaviors which make conflict and negotiation take on an integrative nature (Walton and McKersie 1965). During the “political phase” of personnel management, this more liberal conception has inspired management policies in large firms, especially in state-owned enterprises, as well as the policies of Intersind.

Symmetrically, during this evolutionary phase trade unions’ actions can also be referred to two fundamental concepts: “competitive” trade unionism and “class” trade unionism (Costa, 1978). Competitive trade unionism postulates the existence of several diverse unions that represent homogenous sets of interests and operate at the decentralized/firm level via a multiplicity of conflict and collective bargaining policies, contingent on the situation and the counterpart. The trade unions may compete with one another, and attempt to maximize the opportunities to gain advantages for their constituencies through the use of all the power they manage to acquire. The objective is to protect and serve their members’ interests as well as they can. This conception, derived from North-American unionism (Kochan, Katz and McKersie, 1986), has inspired CISL’s action at least until the mid 1970s. “Class” trade unionism has the ambition to represent and protect all the workers, introducing a monopolistic effect in the labor market (Freeman and Medoff, 1984). It aspires to exert as much control as possible over the economic and political system. “Class” unionism postulates strong emphasis on centralized, national level collective bargaining and actively seeks to involve the political power and the government. Through these “organic” links with the political system and more specifically with the left wing parties, “class” unionism on the one hand keeps challenging the “strong powers” and the “capital” and, on the other hand, it plays an institutional role, lobbying and influencing the political actors so that they promulgate “pro-labor” laws.

The mission of “class” unionism is to serve the general interests of the working class over the long term rather than the specific and short term interests of the union members. This conception, closer to European union tradition (Hyman et al., 2004), has inspired CGIL’s action throughout its history.

During this phase alternative conceptions of the State also emerge. The State contributes by defining the conditions under which employment systems and labor relations develop and evolve. The State impacts the way in which firms manage the employment relation in a variety of ways, including labor legislation, labor jurisdiction, the education/schooling and welfare systems, and public sector employment. The State can take an interventionist or *laissez faire* position and adopt a pro-business, pro-labor or intermediate stance. During this phase, the active role of the State in the Italian economy becomes larger, and public spending can take on different meanings and support diverse strategies. These strategies can be classified along the continuum between *social consumption* and *social investment* according to how the State sees its intervention in society:

- With *social consumption* the State may intervene, through public spending (and public sector employment), in order to gain social consensus, redistribute income, and keep the status quo.
- With *social investment* the State may intervene, through public spending (and public sector employment), to drive social transformation, foster innovation, and direct the economic development, via services, infrastructures, and technologies that allow a balanced development of all the factors of production, particularly labor.

At the end of the 1960s, when the “human relations” approach to personnel management begins to be challenged and shows its limitation, the Italian context has become extremely complex. The above described conceptions, cultures, ideologies and lines of actions of firms, employer associations, trade unions and the State, combine in an extricable puzzle.

Now, the “human relations” phase of personnel management would be consistent with a specific combination of the above actors’ elements, characterized by a pluralistic concept of the firm’s and employer associations’ governance power, competitive trade unions and a State which selectively intervenes in the economy through social investment. Instead, the situation was increasingly characterized by a unitary concept of firm governance, class trade unionism and an interventionist State focused more on maintaining social peace and political consensus than driving change and economic development.

Overall, the situation becomes so complex and full of constraints that there is basically no room for firm-level people management strategies and autonomous personnel function actions. The employment relations are almost totally exogenously determined and the employment system is driven by actors other than the personnel function, which has the task to reduce the negative impact of other actors’ strategies on firms’ operations, and to manage and possibly relax the above exogenous constraints.

PERSONNEL MANAGEMENT AS CONFLICT MANAGEMENT AND COLLECTIVE BARGAINING: THE “POLITICAL” PHASE

The four year period 1969–73 is characterized by a stream of trade union successes in a climate of high political tension and social unrest. The turning point for the trade union is 1969 when it establishes itself decisively as the dominant subject. The three main national trade union confederations’ (CGIL, CISL and UIL) strategies and actions progressively converge considerably, increasing their bargaining power *vis-à-vis* their counterparts. The struggle for workers’ rights reaches its peak on the occasion of the renewal of the metalworkers’ contract in the fall of 1969 (the above mentioned *Autunno Caldo*) with which the trade unions obtain from the employers several important concessions such as: narrower and more rigid job classification systems, extensive training rights with a budget of 150 hours per worker/year of company paid training, a 40 hour work week, and extensive voice and information rights and powers in the workplace.

This significantly changes the power balance between management and workers at the firm level. The government accentuates this shift launching for pro-labor reforms and supporting the trade unions’ achievements obtained with the renewal of the metalworkers’ contract, by making them an integrative part in a comprehensive piece of labor legislation, Law n. 300 of 1970, the so-called *Statuto dei Lavoratori* (Workers’ Statute), strongly inspired by the 1935 US Wagner Act.

The conflict dynamics remain high after 1969, with the trade unions’ initiatives particularly focused on work organization issues and, more specifically, on the questioning of piecework systems, work standards based on time and motion measurement, overtime and shifts regulations. At this stage, the personnel function finds itself under pressures coming from both top management, who asks it to reduce conflict and ensure business stability and efficiency, and the trade unions, whose militancy make conflict management and collective bargaining extremely difficult. Furthermore, the ever more challenging

pro-labor legislation requires major adjustments in personnel practices, while the body of knowledge, systems and tools developed in the “human relations” phase becomes non-applicable and is questioned.

Job analysis and work standardization are alienating and exploitative, competence or intelligence based selection is discriminatory, merit-related pay or pay for performance are exploitative, participation and even negotiation are acquaintance with management: these are a few examples of how an ideology of continual struggle about anything and everything undermines the existing personnel practices (Actis Grosso, 1992, p. 14). The role and activities of the personnel function in large Italian firms change almost immediately. From the spring of 1970, the overriding problem becomes keeping the trade unions under control, and the personnel functions lack the skills to prevent conflicts, avoid or manage strikes, or negotiate collective agreements. The personnel functions adopt a defensive approach and find themselves engaged in a rearguard battle in which they give up trying to design and implement personnel policies instrumental to the business strategy and simply oppose and counterbalance the trade unions’ increasing power (Audano, 1990, p. 10). Union action and conflicts lead, in 1973, to the metalworker national contract that includes a new, unified job classification system for blue and white collars. This system, later diffused to other industries via the subsequent national contracts, decreases management’s discretion in work organization, job design, and person-job matching. Workers’ organizational mobility, advancements, promotions, and pay dynamics become automatic or subject to collective contract procedures. Pay differentials narrow, especially between blue and white collars and the rigid pay dynamics hinders meritocracy and jeopardizes internal perceived equity, which, nonetheless, is compensated by the egalitarian ideology underlying unions’ action.

In the meantime, the economic situation deteriorates: the energy crisis of 1973–74 hits Italy. The real GDP growth rate falls to 1.8 percent in 1972, the lowest in the last twenty years, and investment average rates fall by 3 percent (Castronovo, 2010, p. 463). By fall 1973, the staggering rise in oil prices and the strong increase in labor cost driven by national contract renewals and automatic pay increases, generate “stagflation”, with inflation and economic stagnation occurring simultaneously. The national government undergoes a phase of great instability. The necessity to keep the political support of public administration employees and the rents and power provided by political control over state-owned companies stall political action. This immobility make room for a larger political role of trade unions, that take on more political responsibilities and gain increasing legitimization to intervene on economic, social and political issues (pan-unionism). Better political stability is sought through changing political alliances, with the Communist party joining the Catholic-socialist party alliance in the *Compromesso Storico* (“historic compromise”) agreement of 1975.

Within this context, the appointment of Giovanni Agnelli (1921–2003), chairman of Fiat, as new chairman of Confindustria (1974–76), also contributes to the socio-political stabilization of the country. Indeed, Agnelli theorizes and sets as Confindustria’s main goal the collaboration between the productive middle class and the working class, to improve the productive situation and introduce a period of national solidarity with the aim of combating the social disruption which is rapidly advancing, as evidenced by the advent of terrorism by extreme left, the red brigades, and extreme right groups. To take a step forward towards a new social peace, in 1975 Agnelli signs the historic pact between

Confindustria and the three major trade unions (CGIL, CISL, UIL) which accentuates and extends the system of wage indexation. This makes union pressure on wages less necessary but causes a process of inflation by costs and intensifies the levelling out of wages. The pact initially favors social peace in that workers (particularly low-wage workers) obtain greater benefits with the wage indexation system than with collective contracts (Devicienti 2003).

During these years, the personnel function just focuses on industrial relations, which absorb 80 percent of the personnel staff time. The personnel function becomes more important and gets more organizational power, often reporting directly to the CEO (Audano, 1990, p. 15). The skills within the personnel function change significantly: organizational psychologists, engineers, and economists give way to labor law experts, sociologists and experts in the management of conflicts and negotiations with trade unions. Even the denomination of the function changes, from “Personnel Administration” or “Personnel Management” to “Labor Relations” or “Industrial Relations” (Actis Grosso, 1992).

In the meantime, personnel management also emerges as a discipline in the Italian academic world. The first personnel management courses begin to be taught in the early 1970s (almost half a century after the USA) in the schools of economics of the Bocconi University of Milan and Ca’Foscari University of Venice. However, they remain ancillary, optional courses for almost two decades without becoming an integrative part of undergraduate or postgraduate business administration curricula.

The same destiny is followed by organizational behavior and organizational theory. No original theory development or significant empirical research effort in the human resource management field took place throughout the 1970s, while industrial sociology flourished. This lack of research and theoretical foundations affects the “thickness” of the skills of the human resource professionals in the Italian firms, who tend to adopt techniques and management fads, developed elsewhere, without being able to metabolize and adjust them to the Italian economic and cultural context (Costa 1975; Maggi 1981).

The mid 1970s are characterized by the development of a centralized industrial relations system aimed at containing industrial conflict and agreeing on rules that would meet workers’ demands without jeopardizing firms’ survival. Among these, the wage indexation system (so called *Scala Mobile*, defined in 1975) greatly reduces wage-related strikes, but also triggers a spiral of cost-driven inflation. The results of these efforts are not satisfactory. Inflation and the recessions driven by the two oil shocks of 1973 and 1979 lead to extremely high levels of social tension: the strikes and trade union conflicts continue and the “national solidarity” governments which follow one after another between 1976 and 1979 have to tackle a new wave of student disputes and the heavy attack of terrorism from the red brigades (Locke, 1995).

The crisis culminates with the Fiat strikes of 1980, when the company threatens massive layoffs, including those of some of the most militant union representatives. The situation stalls for several weeks, with the blockage of the main plants in Turin, until the “silent” majority of the workers decides to show up in Turin streets, taking sides with Fiat’s management. This is the so called “march of the 40,000” (*Marcia dei quarantamila*) in which Fiat’s shop stewards, technicians, professionals and middle managers protest against the union strike that has shut down the firm for five weeks. This event can be considered a turning point in the recent history of Italian HRM as it triggered

the shift towards a new configuration of HRM, emphasizing company HR policies and individual relations rather than collective bargaining and union relations. Never before in the history of post-war Italy has a demonstration occurred which did not start from the left-wing trade union movements and, even more striking, the same demonstration is expressly in favor of a collaborative relationship with the firm (Castronovo, 2010, p. 559). After this demonstration, Italy symbolically enters a new phase, where it will discover and promote a variety of organizational and professional roles other than blue collar workers and where interest will grow for the individual rather than the collective (Audano, 1990, p. 12), at the same time emphasizing the need to keep workers' demands compatible with firms' survival and financial performance (Regini and Sabel, 1989).

A PARALLEL STORY: HUMAN CAPITAL DEVELOPMENT AND MANAGEMENT WITHOUT PERSONNEL MANAGEMENT IN SMALL AND MEDIUM ENTERPRISES

While trade unions attempt to emancipate workers through collective bargaining, contractual solutions and legislative backing which create big problems for the functioning of firms without increasing the prospects for economic growth, while firms seek trade union consent without managing to hook the newly employed, and while politicians seek complicated compromises by squandering public resources, a silent parallel story unfolds which is destined to change the economic and social situation. In this story neither managers nor personnel managers nor trade unions are the protagonists. It is the story set within industrial districts and the "*fabbrica diffusa*" (diffused factory) of small enterprises located in the province of the country. The workers, technicians and middle management laid off during the 1970s crisis from large private and state owned firms, transform themselves into entrepreneurs. They start new companies up or spin off existing companies, leveraging their skills and the resources local communities make available. They use flexible technologies, diversify production, even seek foreign markets, while partnering, collaborating or benchmarking with other local workers/entrepreneurs who have made the same choice. In this way, by leveraging on the social capital composed of local identities and traditions (Putnam, Leonardi, and Nanetti, 1993), networks of social and industrial cooperation are created. All this saves the former workers from unemployment and alienation by creating the conditions for an alternative development model, something the trade unions were unable to do, being accomplices and victims of mass production, which they are unable to break away from even when its failure is evident. Piore and Sabel (1984) reconstruct this parallel story framing it as a "second industrial divide" with industrial districts or local clusters being the functional equivalent of the large modern managerial organization in coordinating economic activities. Bagnasco (1977) and Trigilia (1986) defines this movement as the "third Italian capitalism" (the "first" being the historical private family capitalism born at the beginning of the 20th century and the "second" being that of the state-owned companies within the IRI and ENI groups). And within local clusters, large firms at times eventually grow, becoming large multinationals.

Benetton is a good example. Starting in the textile-clothing cluster around Treviso in North East Italy during the 1960s, the Benetton family was able to develop a business in the stagnating clothing industry leveraging a network of local suppliers and then growing

through innovative distribution and retail arrangements in Italy and all over the world (Lorenzoni, 1996; Camuffo, Romano and Vinelli, 2001).

At the heart of this and other cases (like Luxottica in the eyewear industry, Caligaris and Natuzzi in the furniture industry, Ducati in the motorcycle industry, Tod's and Geox in the footwear industries) are the industrial districts, a form of production organization, widely diffused and studied around the world (Piore and Sabel 1984, Porter 1998; Berger and Locke, 2001). The constitutive elements of a local cluster are a specific territory, a certain product specialization and a population of firms (and institutions). However, their real distinctive feature lies in the fact that production is not the result of operations carried out by one or more vertically integrated firms, but is achieved by a group of relatively independent, local firms specialized in one or more segments of a supply chain. Thus, what characterizes a local cluster are the differences (specializations) and the relationships (based on the differences) in the local population of firms (Costa and Gubitta 2008, p. 274; Lipparini and Sobrero 1994).

Examples of industrial districts are the footwear district in Brenta and Ascoli Piceno, hosiery in Castelfelfredo, tanning and leatherware in Arzignano, Santa Croce and Solofra, granite in Gallura, biomedical in Mirandola, textiles in Prato and Biella and eyewear in the Bellunese. Local clusters are an organizational form which is functionally equivalent to large integrated enterprises and within them a set of mechanisms and institutions for skill development, human capital mobility and allocation, human resource evaluation and rewarding also work as functional equivalents of the personnel function of large integrated enterprises. In these "organizations without HR department", effective people management takes place without formal HRM and within these clusters, small enterprises grow, becoming leading district firms (Camuffo and Grandinetti, 2011) in the mechanical, apparel, furniture and food industries. These firms tend then to adopt formal human resource policies and develop modern, standard human resource functions and systems.

The above mentioned mechanisms and institutions that operate as functional equivalents of HR systems in industrial districts are (Albertini, 2002):

1. the enterprises and institutions (schools, agencies, etc.) within the district act as places of generation and regeneration of know-how and skills;
2. inter-firm mobility on the local labor market acts as a mechanism of human resource deployment, leading to allocation, hybridization, diffusion and reproduction of the skills that become, at least in part, a pool of resources accessible to all district firms and not only to the individual enterprises;
3. the local social context allows the maintenance of a balance between competitive mechanisms and serial rules of reciprocity, favoring the transfer and accumulation of know-how and competencies;
4. the local labor market operates as the people evaluation and wage setting device.

From an HR perspective, industrial districts can be conceived as knowledge systems (Maskell, 2001), where the processes of skill development, labor evaluation, wage definition and knowledge diffusion are grounded on the overlapping of the local and social production systems (Lazerson and Lorenzoni 1999), which are at times indistinguishable in the local context. The interpersonal relationships among people working in different

district firms (family ties, school or college classmates etc.) are a source of knowledge circulation because they connect district firms. Inter-firm mobility within the industrial district's local labor market is a key mechanism of knowledge diffusion. Turnover rates for skilled workers to and from local firms are high (Camuffo and Gerli 2007). Individuals who move from one firm to another play the role of "knowledge carrier". More specifically, when employees change jobs by moving to other district companies, tacit knowledge accrued in a given district firm also moves to another firm and constitutes, for the acquiring firm, a potential source of knowledge that could be activated and used.

Within this model, the district firms, if small, usually have no formal HR department. However, in these cases it is the district firms' founders, owners or top managers who directly engage, within daily activities, in the development and management of their people. The district mechanisms described above work, then, as the functional equivalent, at the district level, of the HRM department of large firms.

THE TRANSITION TOWARDS HUMAN RESOURCE MANAGEMENT

The situation of the personnel function at the beginning of the 1980s can be summarized using the results of a research conducted by the *Associazione Italiana per la Direzione del personale* (Camuffo, 1987). This research was conducted on a large sample of Italian firms, diverse in terms of size, industry and ownership. The results of this research show that personnel professionals are middle aged, under-educated (almost half do not have college degrees) and their training is prevalently in labor law. Education levels are higher for younger HR professionals, but remains low compared, for example, with Germany where 24 percent of personnel staff have degrees, 45 percent with diplomas, and 6 percent have a PhD in scientific disciplines. In France and Great Britain there is a certain number of staff with technical and engineering qualifications, while it is not unusual to arrive at the position of head of personnel after a functional career within HR (Brewster and Hegewisch 1994, pp. 42–45). On the other hand, Italian personnel professionals seem to keep a certain amount of organizational power, probably still a heritage of the "political phase" fully centered around industrial relations. Staffing ratios are on average between 1 and 1.5 percent, slightly higher than in other foreign companies. The personnel budget is spent mainly on: administration of personnel (which remains in spite of everything the prevalent activity), trade union relations (which are less important than in the 1970s but still sizeable), recruitment and selection and training. Performance and potential evaluation systems, a more revealing sign of a certain sophistication of the personnel policies and, in particular, formal compensation policies are significantly present only in a relatively small number of companies. Core activities remain collective bargaining, labor cost control, performance assessment and incentive plans, wage reviews and manpower planning.

At this stage, the process of modernization of HRM in Italian firms really begins, and the personnel function gets increasingly structured and articulated in sub-departments such as: organization, recruitment and selection, development, evaluation and compensation, industrial relations, to mention the most relevant ones.

Therefore talk begins about the development of human resources and occasionally

the name given to the personnel function is “personnel and organization” and since the mid 1980s also “human resource management” (Auteri and Busana, 1985; Actis Grosso, 1992, p. 20). In manufacturing companies the key success factor is, with the advent of automation, operations management, production planning and control. In a broader and heterogeneous context, firms begin to use the rhetoric of human resource management, claiming that people are the true strategic resource. Practice lags behind, though, with very few exceptions. Personnel management is no longer merely involved in political processes of conflict or bargaining, but it starts to connect with strategy and moves from an auxiliary and ancillary role to a strategic role. New management fads, often imported into Italy by consultants, by then a flourishing industry, are adopted: among them TQM, lean production, and, later, BPR (Camuffo, 1991; Actis Grosso, 1992, p. 21). HR professionals are hired in the search for new managerial skills, unknown to the older generation of personnel professionals, hardly needed to play a role which is more complex and heterogeneous. The HR director, once typically with a law, administrative or political science background begins to have a more business oriented background and education. Personnel professionals get, for the first time, a status similar to that of colleagues in other functions. Even their salaries change and they are no longer perceived simply as administrative, labor law or collective bargaining specialists with little business knowledge. They increasingly deal with business and organizational issues characterized by dichotomous variables: external and internal, development and control, professionalism and hierarchy, flexibility and standards, strategic and operational, innovation and efficiency, theory and practice (Baldini, 1990, p. 92).

The first half of the 1980s represents a period of innovation and change.

The employers’ mindsets and the management capabilities change significantly and are now mature enough to recall, understand and interiorize the people management techniques which have emerged during the “human relations” phase of the 1950s and ’60s. What in the past was implemented episodically and randomly is now developed with awareness and consistency (selection, training, performance, potential, careers, communications, information system, etc.) (Actis Grosso, 1992, p. 16). Of all these, training stands out as the main instrument and area of development.

Furthermore, this wave of novelty is facilitated by the change in attitude towards work and a newly energized and legitimized concept of the enterprise. Slowly, following trends emerging also elsewhere (Kochan, Katz, McKersie, 1986; Kochan, Locke and Piore, 1995) the trade unions lose their bargaining power and the constraints posed by the pro-labor contracts and legislation of the 1970s are progressively dismantled (Locke, 1992).

A new, market based, enterprise driven ideology becomes pervasive and overcomes some of the ideological taboos of the 1970s, including the rules of the market economy, entrepreneurship, and diversity.

The right-wing, free-market based policies implemented by Margaret Thatcher in Great Britain and Ronald Reagan in the United States influence the political and economic debate and reshape the thinking of the intellectuals. So does the profound crisis of the collectivist economies in Communist East Europe.

This comprehensive shift is also nurtured by the energy and success of an emerging entrepreneurial class that drives the development and success of small and medium enterprises, especially in industrial clusters. These employers become increasingly important and gain significant power positions not only providing support to the new right wing

parties that will emerge in the early 1990s (such as *Lega Nord* and *Forza Italia*), but also within the employer associations. They challenge the historical “great families” of Italian industry (Castronovo, 2010, p. 583).

Nevertheless, competition is even more fierce and firms struggle to survive partly because they still lag behind in terms of productivity and quality and partly because the heritage of the 1970s still has some effects.

Many large firms engage in heavy restructuring processes, that lead to massive layoffs, especially in declining or no longer profitable sectors, buffered by the use of support labor legislation and more specifically by *Cassa Integrazione Guadagni* (state redundancy fund) generously provided for short and long term crises.

Similarly, a revision of the wage indexation system (*Scala Mobile*) is driven by the Government and the employers association with the dissent of part of the trade unions (namely CGIL), which divide themselves for the first time since the mid 1960s.

In this way productivity picks up and Italian firms’ financial reports get better. Overall, in the second half of the 1980s Italian firms do well, especially the small and medium sized ones. This derives partly from internal factors (more investment, better technologies, modernization of management, etc.) and partly from expansive monetary and fiscal policies. More specifically, generous central and local government deficit spending, tax evasion or elusion and a series of devaluations of the currency (Lira) allow the private sector to stay competitive and prosper. Eventually, however, this system proves to be unsustainable, especially for the enormous public deficit and the inefficiency of the public sector as well as of service sectors shielded from competition (like banking and insurance).

Hence, at the beginning of the 1990s the Italian economy faces a new economic crisis. The public debt increases particularly owing to the excessive public spending policies. Each year the surplus spending over revenues is on average equal to 10 percent of GDP. In this way the public debt / GDP ratio moves from 38 percent in 1974 to over 100 percent in 1992 (Mack Smith, 1997). Some large public groups like IRI and Eni continue to be controlled and managed also with political objectives in a climate of generalized corruption and illegal entrenchment of public and private interests that bursts into the impeachment, accusation and arrest of a large group of influential politicians (so-called *Mani Pulite*, “clean hands”, court investigations and trials). Inflation becomes a scourge for the economy and this is reflected very strongly in the cost of labor, since wages still increase automatically with the wage indexation mechanism.

Furthermore, with the Italian entry into the narrow bands of the European Monetary System, currency devaluation is no longer a viable way to restore companies’ competitiveness which rapidly deteriorates. In June 1989, Confindustria publicly states its intent to definitely abandon wage indexation. This was the credible signal of change that began serious discussions among the three concerned collective actors in Italy: employers, unions and the government.

At the same time, in the summer of 1992 Italy plunges into a dramatic crisis. After the signing of the Maastricht Treaty, which imposes cuts to the national budget in order to reach European standards in terms of GDP/national debt ratios, the economy enters a recession triggered also by the instability and lack of credibility due to the scandals (corruption, illegal funding of political parties, etc.) involving several national and local government officials, as well as business people. Between the summer of 1992 and that

of 1993, in full economic and political emergency, employers, unions and the government give a decisive contribution for the country's exit from the crisis, by signing two fundamental agreements, aimed at correlating wage increases to productivity, and design a fiscal policy aimed at a more equitable income distribution.

GOVERNMENT-UNIONS-EMPLOYERS ASSOCIATIONS' "TRIANGULATION", CORPORATE RESTRUCTURING AND ORGANIZATIONAL FLEXIBILITY

By the late 1980s, before the structural crisis of the early '90s, the "modern" HR function is in place in most Italian large firms. Human resource practices start to contribute to strategy development and implementation helping the large companies to achieve their business goals. For example, after the "March of the 40,000" in 1980, Fiat begins to develop new personnel policies for white collars, middle managers and professionals, including merit based positions and career planning, incentive pay, increased autonomy and responsibility for management teams; all of these changes are integral parts of the new corporate strategy (Auteri and Busana, 1985; Camuffo and Costa, 1993). In this period managers and executives start to recognize HRM as a constitutive part of the strategy. Thus, the human resource service industries rapidly develop. Business schools, universities, training centers, and consultants flourish (Actis Grosso, 1992, p. 17).

Research on HRM also gains momentum, aligning with the rest of Europe and North America, and focusing, though appreciating Italian peculiarities, on a strategic vision of human resource management. A number of research projects are conducted (Boldizzoni, 1992; Camuffo and Costa, 1993; Camuffo, 1994; Boldizzoni, 1999) and the theoretical and practical implications are formalized in two human resource management education textbooks (Costa, 1992, 1997) that become a sort of standard in universities and business schools. The Italian version of strategic human resource management emphasizes a constitutive relationship between strategy and human resource policies and tries to disentangle how HR practices along the employment relationship lifecycle may contribute to value creation. Furthermore, because of the above described heritage of social embeddedness and prevalence of network organizations, HR practices are seen as going beyond the boundaries of a given organization and deal with the management and development of people of partners such as supplier and customer firms.

This broader, strategic conception of HRM reflects the changes in the business environment during the 1990s, including some relaxation of labor legislation constraints and less stringent collective bargaining processes and accords, and imposes new challenges for managers at all levels. For example, firms and HR functions of larger firms start to develop new skills in hiring, developing and retaining knowledge workers. They also increasingly use, at all levels, contract qualified freelance and project workers, and often develop joint human resource development programs across supply chains with suppliers and customers (Camuffo and Costa, 1993).

The modernization of HR systems and practices, however, affect only marginally micro and small firms, which account for 95 percent of the firm population, 80 percent of employment and 74 percent of GDP. These firms, especially those not embedded within

industrial districts, remain characterized by traditional, informal HR practices and the absence of a structured HR department.

Moreover, even in larger firms the process of modernization is comparatively slower than in their European counterparts, especially with regard to taking on a strategic role as business partners and in getting access to strategic decision making processes.

More advanced in terms of the strategic role played by the HR function appear to be Italian multinational companies or Italian subsidiaries of multinational companies where innovative HRM practices support and at times shape business strategies. From the late 1980s, Pirelli, Fiat, Electrolux and Benetton innovate significantly in their HR practices and align them with international standards.

Overall, however, HRM transition to maturity is very slow, contrasted and country-specific (Camuffo, 1994; Boldizzoni, 1999). This is also due to the economic and structural crisis that involves Italy between 1990 and 1995: firms suffer in the slump and human resource management focuses on labor cost reduction, including restructuring and headcount reduction. HR managers are evaluated and rewarded on cost and headcount reduction metrics (Actis Grosso, 1992, p. 16). Human capital investments are frozen as well as the pioneering experiments attempted till then in high performance work practices, workers' welfare and work-life balance. Large restructurings involve firstly managers, executives and employees, and a massive process of production relocation to low labor cost countries in Eastern Europe and Asia starts. Recourse to *Cassa Integrazione Guadagni* increases, unemployment – particularly among the young people – increases to approximately 10 percent and at the same time, for the first time in the Italian labor market, large numbers of foreign workers immigrate from Eastern Europe, North Africa, Africa and Asia. Even the name of the function changes and in some instances the traditional "Personnel Department" denomination substitutes back "Human Resource Management".

Large Italian firms undergo a second big wave of restructuring after 1992, change organizational forms, outsource and opt for more flexible work arrangements. The government tries on the one hand to govern the crisis at the macro level, negotiating triangular agreements with the employers' association and the unions with regard to labor cost, pensions and social welfare. On the other hand it also undertakes an ambitious program of privatization of the state-owned companies (Negrelli and Treu, 1995).

These initiatives are triggered by the European Monetary System crisis of 1992, which obliges the government to embark on a series of fiscal and monetary reforms to reduce the public deficit. Initiatives like currency devaluation, privatization of public enterprises, including banks and local utilities, reform of the public and banking sectors, and income tax increases for the more affluent were undertaken, and subsequently a (total or partial) privatization process is implemented by important state-owned companies (banks, multi-utilities, retail). The Italian economy undergoes profound transformations. Firms in the manufacturing sector go international, extending their supply chains and engaging in processes of mergers and acquisitions. Often, they struggle to survive but at times they are able to reach leadership positions in some industries and market niches. They relocate production and develop more articulated strategies to access foreign markets (Campagnolo and Camuffo, 2009).

Information and communication technologies heavily impact organizations and work, generating serious adjustment problems especially in large firms. Existing skills rapidly

become obsolete and firms find it progressively more difficult to make human capital investment in terms of both training and job security. Rather, they start asking for legislation and contracts allowing more labor market flexibility and make an ever larger use of flexible work arrangements.

Within this context, the need to increase labor market flexibility becomes a priority (Sirianni, 1992). The complex body of rigid labor legislation built during the 1970s is increasingly dismantled to allow the firms to adjust more quickly to the challenges posed by new technologies and globalization, as well as to increasing competition and the tighter discipline imposed by the advent of the common European currency (Euro).

The right wing governments in place after 1993 support this process, and a new phase of pro-capital labor relations and law legislation is inaugurated. The key milestones of this transformation of the Italian labor relations are the 1996 *Patto per il lavoro* (Pact for Work), and the 1997 reform of the labor market (Law n.196/1997), also known as *Pacchetto Treu* (Treu package, named after the Minister of Labor who designed it) (Molina and Rhodes 2007). All these pieces of legislation and contracts converged into the so-called *Legge Biagi* (Law No. 30/2003) named after the labor law scholar assassinated by Red Brigades terrorists in 2002. Building on the principles set out in 1993 and progressively developed later, the *Legge Biagi* and the other labor reforms introduce significant labor market flexibility and establish, at the regional level, procedures for labor market policy information, consultation and negotiation among the social parties. This new legislation ends the public monopoly on intermediation between labor supply and demand, moving the responsibility of labor-market policies and job placement services to the regional and provincial administrations through a system of employment centres. It also introduces temporary work and experiments with temporary work agencies and firms, aligning Italian legislation on the matter with that of the majority of other European countries. Despite these steps forward, active labor market policies in Italy still lag those in other European countries, as confirmed also by comparatively lower spending levels.

Overall, Italian social and economic policies implemented in the second half of the 1990s are intended to support GDP growth, reduce public deficit and, hence, comply with the strict requirements imposed by the European institutions to join the new European currency (Euro). Labor market flexibilization as well as the retirement pensions system reform are two milestones of these policies.

Once Italy succeeds in joining the European Union and the Euro in 2001, the need to innovate and invest in research in order to remain competitive on the world market becomes the priority and makes it necessary to invest in new production methods but also, and more particularly, in the optimization of human capital. This period is characterized by the surge of the role and importance of medium sized enterprises, often referred to as “fourth capitalism”. After the “first” (that formed by the great historical families of the 20th century industrialization), the “second” (which hinged on public enterprises), and the “third” (characterized by the diffusion of many small firms in the production chains of numerous industrial districts), this “fourth” model (somewhat similar to the German *Mittelstand* (Simon, 1992) is characterized by medium-sized enterprises that leverage on quality and flexibility to become global leaders in niche markets (Castronovo, 2010, p. 665).

In these firms, often born and grown in the above described industrial districts,

employment systems and HR practices change, as a response not only to the changed domestic institutional environment (labor market) but also to cope with the necessity to compete internationally with global dispersed operations (Negrelli and Sheldon, 2004). Consequently, the HR departments of these companies also begin to adopt concepts and tools consistent with the so-called “high performance work practices” (Pfeffer, 1994), including work-life balance, psychophysical wellbeing, high-powered incentives, de-hierarchization, team-based organizations, “best place to work” and employer branding (Leoni et al., 2003).

Overall, during the last 15 years HR departments of Italian companies have progressively changed their tool-kit, by introducing a series of practices which are to a greater extent in line with the requirements of ever more complex, dynamic and multinational organizations (Camuffo, 1994; Boldizzoni, 1999; Costa and Gianecchini, 2007; Boldizzoni, Guerci and Quaratino, 2011).

The introduction of competency-based human resource management (Camuffo, 1996, 1997, 1998, 2000; Comacchio 1999) has probably been the single most important innovation in Italian HRM in the last 15 years. Initially introduced, with different approaches, in the largest firms (for example ENI, Telecom Italia, Fiat and the subsidiaries of multinational companies like Glaxo), competency-based human resource management has been increasingly applied in a variety of industry and business settings as a way to give an integrative framework to HRM. Since then, competencies have often become the common “platform” on which HR departments have designed recruiting and selection, training, performance management, careers and development. The Italian “competency movement” is characterized by the following peculiarities. First, differently from the French and British case, where competencies have become institutionalized through the *Bilan de Competence* and the *National Vocational Qualification Certification* systems, Italian competency-based human resource management develops bottom-up (Camuffo, 1998). Second, it is practitioner-driven. Introduced and diffused by large consulting firms, with little local research background (Camuffo, 2000; Camuffo and Gerli, 2004), competency models are often adopted “off the shelf”.

Overall, the establishment of the competency approach has backed the organizational transformations and created the conditions for the processes of performance management, training and development to be evolved towards more modern configurations aligned with international standards (Brewster, 2007; Scholz and Bohm, 2008).

THE 21ST CENTURY AND FUTURE PROSPECTS

Personnel management’s peculiar, contrasted and original evolution towards strategic HRM slows down significantly in 2009 with the crisis that hits the Italian and world economy. The priority is survival and HRM policies are all geared towards efficiency. Managerial/administrative logic takes on importance again: union relations re-intensify, as would normally be expected since the trade unions are historically the first stakeholders in moments of economic crisis; and cost control becomes a priority and a necessity which cannot be disregarded.

Boldizzoni and Quaratino (2011) applied Ulrich’s (1997) model to analyze the evolutionary trends of Italian large firms’ HR departments, showing that there has been a

significant increase of focus on processes, with a large presence of HR departments that characterize themselves as either business partners or functional experts. At the same time, there has been a decrease in change agents and the almost total disappearance of employees' advocates, witnessing a weaker focus on people inside the organization. This strong emphasis on processes and efficiency may relate back to the recent worldwide economic crisis, which hit the Italian economy very hard. Overall, it seems that the largest firms have not been able to complete the transition to strategic HRM, yet.

Overall, Italian transition to modern, strategic HRM (at least as conceptualized by mainstream North American literature) is still ongoing and incomplete. Paradoxically, the most innovative human resource management practices can be observed in the behaviours of those innovative enterprises which, in recent years, have done without HRM as traditionally conceived and described in textbooks. Recent studies show that, though in the absence of formal HR departments and "state of the art" HRM practices, some firms have come to develop HRM systems more intimately and structurally connected with management itself. These forerunning Italian firms (middle sized, closer to the German *Mittelstand* than to the stereotyped small district firm) have invented more flexible, efficient and rewarding labor relationships; they have piloted spectacular professional growth without adopting rigid career or succession plans; they have found new forms of people involvement and empowerment; they have used associative relationships and inter-firm collaboration relationships creatively; and they have pioneered social sustainability, agreeing on and respecting pacts with internal and external stakeholders.

CONCLUSION

In Italy, more than in any other country, HRM found itself at the centre of the dualisms which have run through economic and social development: North/South, small/large enterprise, private/public enterprise, liberalist/interventionist State, competitive/class trade unionism, Catholic/Marxist culture, authoritarian/liberal corporatism, unitary/pluralistic conception of the firm's governance power. These dualisms have for a long time characterized social and economic life and, inevitably, the development of HRM. People management which has been successful in different situations and in different historic periods is the result of decisions and behaviours of actors other than HRM professionals. In many situations people management is often realized without HRM and in other situations the commitment and capacity of HR professionals have not been successful, and they have realized HRM without a people strategy. HRM's willingness to play a strategic role has covered, to use the Ulrich classification (1997), the functions of administrative expert and employee champion well but it has encountered very great difficulties in becoming a change agent and business partner, except in a limited number of cases in particular sectors of the economy (Boldizzoni and Quarantino, 2011).

A variety of factors influenced the birth and evolution of HRM in Italy: the peculiarities of the Italian industrial takeoff, which occurred later than in the other western countries; the specificities of the Italian political, institutional and labor relations systems; a dual business environment characterized by a few large industrial groups and banks and by a multitude of entrepreneurial, family-owned and -run, small and medium sized enterprises; an inefficient public administration; the divide between the North and the South;

a society strongly characterized by local communities and territorial identities; and a managerial profession that, because of ineffective selection and development processes, lacks the legitimacy and at times the competencies to drive economic and social change in the face of globalization. This chapter provides an account of the development of human resource management in Italy adopting a historical, neo-institutional perspective and analyzing the co-evolution of the theory and practice of HRM in Italian firms during the last century of Italian economic, social and political history. This historical account of HRM in Italy shows that HRM practices have been shaped not only by economic factors and labor market dynamics, but also by the industrial relations system and the institutional environment. The history of HRM in Italy has been characterized by alternate phases of incremental evolution and radical upheaval at times deriving from exogenous shocks and at times triggered by social actors' interests, power and strategies.

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