

Giorgio Garuzzo

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The Secrets of an Epoch

Foreword by Alan Friedman



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Torino
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Foreword

Vittorio Valletta¹ and his men piloted Fiat with extraordinary ability through the 1950s and the first half of the 1960s, both participants and originators of the boom of those years. And, in the collective imagination, an aura grew up around Fiat that was consigned to the memory of the nation and thus immortalized forever: every one of those years can be commemorated through a car, a celebrity, an event, an image, a film, or a place that brings us back to the Turin-based industrial Group. It is a photographic gallery of the nation's memory: the Seicento, then the Cinquecento, the so-called *allievi*, literally “trainees” (the forerunners of the *quadri*²), the workforce and secure jobs, the night shifts, the Fiat health insurance scheme, Juventus football club, the immigrants, who returned to their home towns for the first time in cars running on the first motorways... It's no wonder that Italians idealized Fiat and transformed it into a kind of institution, maybe to be combated but in any event one of the few certainties, along with the ritual Sunday afternoon football match, and in the bars where they argued about whether the greatest cyclist was Fausto Coppi or Gino Bartali, about the Vatican and the Carabinieri. Nor is there any wonder that Italy became a country industrially and financially dependent on Fiat, while culture, politics, and the news media reserved a central position for the Agnelli family, a royal house without other pretenders, and a unique case among the great western nations.

But the end of the Valletta period was not exactly glorious. Following his death in 1967 at the age of 84, a considerable longevity for a top manager still with his almost absolute prerogatives intact, Fiat found itself in a pneumatic vacuum in terms of management, prospects, and industrial strategies. Inconsistent on an organizational level, with old managers and parasitic structures, with products that no longer corresponded with demand in advanced markets, the firm yielded as soon as the first leaves began to rustle. And this was a real storm: the energy crisis, the price freezes of the early 1970s, factories unmanageable due to extremist trade union movements, and terrorism. This led to a frantic search for new men on the part of the young Agnelli brothers, Gianni and even more so (in that period)

¹ Translator's note: Vittorio Valletta was Fiat's *amministratore delegato* (CEO) from 1939 and *presidente* (Chairman) from 1946 to 1966.

² Translator's note: the so-called *quadri* were managers below the rank of *dirigente*, but with first-line supervisory duties or those of qualified technicians.

Umberto. Such men were to be found only outside the Group: Nicola Tufarelli, Gian Mario Rossignolo, Cesare Romiti, Carlo De Benedetti... The memoirs of Giorgio Garuzzo, who joined Fiat in 1976 at 38 years of age along with Carlo De Benedetti, begin at this point, and they tell us—with the apparent detachment of an inhabitant of the eighth floor of the Fiat headquarters in Corso Marconi, ensconced in an office facing that of Gianni Agnelli—about the twilight of what remained of Valletta’s world, the *tote* (young ladies) of Piedmont and the court rituals, the external unrest, the problems to solve; but even more than this they tell us about the struggle the new managers had to wage in those days to sort out the issue of supremacy among themselves. And in the end one man won the day, a man, with hindsight, who was perhaps not the best choice, but certainly the solidest, the one who could keep his backside on his chair for longest: Cesare Romiti. The losers left, all except one fundamental player, who remained on the sidelines because he could not leave: Gianni Agnelli’s younger brother, Umberto.

Romiti, the victor, the new Valletta, tackled the management problem satisfactorily in 1979, betting on two men who, when it came to the crunch, took on and solved the Group’s industrial problems throughout the 1980s and beyond: Vittorio Ghidella for the automobile division (over half the turnover), Giorgio Garuzzo for parts production, followed by lorries, tractors, and agricultural machinery (almost the other half). Both men surrounded themselves with people of worth and competence, as Garuzzo himself tells us in his book. With this team, the 1980s marked a return to prosperity for Fiat, whose top management could go back to ruling the roost in Italy.

And this renewed solidity, this strong industrial leadership, allowed Fiat to lead the most important political and social reforms of those years, from the “March of the Forty Thousand³” that re-stabilized industrial relations in the factories, to the abolition of the *scala mobile*, a system that indexed wages to rises in the cost of living, and the devaluation of the lira, which made Italy competitive again. Garuzzo sees 1988 as Fiat’s peak year, the maximum point of rediscovered profit and power, and proves his case with the figures.

But in that very year the unpredictable began to happen: with the total compliance of Gianni Agnelli, Cesare Romiti set to dismantling the enormously successful managerial structure that he himself had created. In 1988 he (65 years old) sacked Ghidella (54) and took over his place in Fiat Auto; in 1993 (70 years old) he eliminated all prospects for the patient Umberto Agnelli (59), whose brother Gianni had officially announced as his successor for the following year, by calling Mediobanca and depriving the family of its voting power. Then, in 1996 (73 years old), Romiti fired Garuzzo (58), who he had personally entrusted with all the Group’s industrial activities. And all this when the Group had to face new external battles: market globalization, the aftermath of the *mani pulite* (“Clean Hands⁴”)

³ Translator’s note: the demonstration against the Unions that took place in Turin in 1980, described by the Author in [Chap. 3](#).

⁴ Translator’s note: *Mani pulite* or *Tangentopoli* (“Bribesland”) was a large inquiry, which involved a substantial part of the Italian political and financial establishment, described at length by the Author in [Chap. 9](#).

scandal, the evolution of the market towards high-tech vehicles... These events, accurately and passionately described by Garuzzo, mark the end of his memoirs in the year 1996, but Fiat's history went on, plunging back into the state of confusion of the post-Valletta era. And another 10 years were to go by in the search for an efficient, stable management, but this time in an even more complicated and painful way than the previous occasion.

In post-Garuzzo Fiat, there was no room for Giovanni Alberto Agnelli, Umberto's son, a young man whom all (especially his uncle Gianni) indicated as the family's new man. Like his father, was he destined to remain eternally on the sidelines without ever taking the field? He harboured some suspicions of this kind: "At bottom, no one has any intention of entrusting me with any real power," he said to Garuzzo. On the occasion of several meetings I had with Giovanni (I was on exceedingly good terms with him) he repeated to me that at the right time he would have been ready to tackle the challenge. But we shall never know how things would have gone, because the young man died the following year, in 1997, at 33 years of age. A tragic destiny and one that would also claim Gianni's son, Edoardo, who committed suicide 3 years later, at 46.

While Gianni Agnelli was promoted to the rank of *presidente onorario* (Honorary Chairman), without making the slightest change either in his role or habits, all power (by now without Garuzzo's influence and mediation) passed to the pair made up of Cesare Romiti, *presidente* (Chairman), and his former assistant Paolo Cantarella, *amministratore delegato* (CEO), an enterprising man but one guilty of superficiality in the eyes of his detractors. Since Romiti continued to deal more with the management of power than of industry, the fate of the real Fiat, the industrial entity, wound up completely in Cantarella's hands. In his turn, Cantarella promoted a new man as head of Fiat Auto, Italy's most important industrial company. This was Roberto Testore, a young man in whom Cantarella had great confidence and one who—within the firm—was considered to have good potential for the future. But his nomination to such an enormous responsibility was universally held to be far too premature, also because Testore had never had the occasion to work for a big company or to see how an international sales network operated. Romiti lasted only another 2 years, because he left in 1998, without managing to prolong the age limit of 75 years, which had been confirmed in the statute after repeated extensions in his favour, a sign that in the end Gianni Agnelli had really had enough. The sacrifice of Ghidella and Garuzzo had not been of great use to the man who, according to all who knew him, intended to remain the head of Fiat as long as he lived, like his predecessor in the 1960s.

Then, in 1998, Gianni Agnelli designated Paolo Fresco as *amministratore delegato* (CEO) of Fiat. As he was born in 1933, Fresco had had to leave General Electric upon reaching the age limit. In General Electric he enjoyed an excellent reputation as a collaborator of the legendary Jack Welch, but he had no experience in the car industry. Commentators at the time had the impression that he had been given the job in a bid to sort out Fiat Auto by means of some international agreement. But, inside the company, Cantarella, who would allow no one to interfere with his work, was effectively left without control more than he had ever been

before. Life for Fresco was not easy. And this was why the initiatives undertaken by the Group in that period were, to say the least, debatable.

In exchange for an enormous cash outlay, the firm bought the tractor manufacturer Case International, notoriously in trouble for many years, merging it with the profitable New Holland company, which Garuzzo had brought into the Group. It took years before that division regained the position it enjoys today. As for Fiat Auto, sales of the new cars (Fiat Stilo, Lancia Thesis, etc.) went terribly badly while a huge investment was squandered in Argentina, a country whose economic and market unreliability had been public knowledge for decades.

The oddest initiative of the period was without a doubt the deferred sale of Fiat Auto to General Motors, signed in 2000. The Americans immediately paid 20 % of the shares (in a 5 % swap of GM shares); the remaining 80 % was to have been bought as from 2004, if Fiat had wanted this (a “put option,” in technical jargon), but, and this is the curious thing, by paying a price to be calculated according to a pre-established formula based on Fiat Auto’s results in that period. This arrangement was legitimate but unusual, because from that moment, as a consequence of the structure of the agreement, in actual fact this weakened any interest on GM’s part to help Fiat Auto: every improvement that might have been registered in the accounts of the Italian concern would have increased the price that they themselves would have had to pay at the moment of the put option. According to authoritative press leaks at the time, Daimler Chrysler (the owner of Mercedes) had also made a move to buy Fiat Auto, with—it was said—an offer of 20,000 billion lire, and such a solution would have been much better for Italy, because there was little in the way of competition between the Germans and Fiat Auto and they would have had much more need of its factories and technicians than the Americans, whose Opel marque directly overlapped the Fiat marques. It is probable that the decision was influenced by an extra-financial element, image: Gianni Agnelli could not be the one to sign the family’s surrender in the automobile industry; for that to happen, it was necessary that *l’Avvocato*⁵ was no longer alive.

New Holland and Iveco had broad shoulders and withstood unwise ventures. But not Fiat Auto that, as in the post-Ghidella years, when it was run by Romiti in person, saw its market share and profitability plunge; and Fiat’s stock market quotation plummeted along with them. Top management also hit a crisis. The first to pay for this was Testore, sacrificed by Cantarella at the end of 2001. By then debts were enormous and Cantarella himself was ousted the following year, in concomitance with a loan of 3 billion euro, to be obligatorily converted within 4 years into an increase in capital (a so-called “convertendo” or mandatory convertible).

Fresco hung on for a little longer and formed another pair with Gabriele Galateri, as the new CEO, the very same Galateri who, as Garuzzo tells us, Umberto Agnelli had appointed to that post 10 years before, but unfortunately resisted for less than 6 months.

⁵ Translator’s note: *Avvocato* means lawyer, which he was not, but this became, and still is, the common soubriquet used by the press and the general public to refer to Gianni Agnelli. The Author never makes use of the expression in the book, except for citations.

In the meantime, to bring in funds, Fiat began selling off the family jewels: 34 % of Ferrari, Teksid, Fiat Avio, Fiat Ferroviaria... These last all wound up in foreign hands. Later, they also sold the Toro insurance company and the financial enterprise Fidis. This point marked the beginning of a frantic feeding frenzy involving those in charge of the big banks, Fazio and Berlusconi, Mediobanca and diverse pretenders in the world of industry, and all those who wanted to stick their noses into what only 10 years before had been the impenetrable stronghold of the country's finances.

The year 2003 will be remembered above all for the death of Gianni Agnelli, at the age of 81. I can only imagine how sad that last period of his life must have been. Edoardo's death, Fiat in turmoil, a few regrets for people who had been capable and wholly faithful to him and whom he had dismissed prematurely... One episode serves for all. His death was announced months before it actually occurred by stock market gossip, deliberately circulated for purposes of share manipulation: yes, that is really how it went, in order to make the Stock Exchange value rise someone invented his death. Some manager had the disagreeable task of explaining to the ageing *presidente onorario* (Honorary Chairman) the reason for that sudden spike in the firm's share value.

When he really did die, there was a grandiose funeral and people vied with one another to view the coffin, visibly and intensely involved and moved. What emerged with the greatest clarity was the dichotomy, which Garuzzo describes at length and scientifically in his memoirs, between the boss's excellent image and the mediocre one that the firm had at the time: for the Italian people, *l'Avvocato*, as Agnelli was popularly known, was the symbol of the economic and social redemption of the 1950s, both that of the state and the individual, and it was to that symbol that they paid homage.

By then fate had closed the circle. The banks asked Umberto Agnelli finally to show his cards and put his own name on the line, by taking over from Paolo Fresco. So his right by birth and training, which he had been explicitly promised by his older brother in far-off 1993 and had been blocked by the manoeuvring of Cuccia and Romiti, was finally restored to him 10 years later, but in conditions that had become desperate.

In 2004, a little over a year after his brother, Gianni, Umberto also died, at 69, without ever having been able to prove to himself and the world what he was really able to do. In my opinion, it was a great misfortune for the company that fate prevented Umberto from successfully completing his task.

This left two almost inevitable conclusions for the financial transaction in progress. General Motors (which had hit trouble in America in the meantime) withdrew from the put option, paying a large penalty that gave Fiat some relief on the cash front, albeit transitory. The banks converted the loan, thereby becoming the owners of 25 % of Fiat. But in order to maintain family control it was necessary to resort to a complex round of financial engineering that involved Exor and Ifil and had the déjà-vu aspect of manoeuvres that passed over the shareholders to their detriment.

After Galateri, industrial responsibility for the Group passed in rapid sequence from a man who served for a brief transitional period, Alessandro Barberis, to a

strongman, Giuseppe Morchio, who tried to force the situation in his own favour by having himself nominated *presidente* (Chairman) and *amministratore delegato* (CEO), a move that was seen as an attempted coup and cost him his dismissal.

Finally, in 2004, the consensus of the banks and the family came to converge in the couple of the present day: Luca Montezemolo, *presidente* (Chairman), and Sergio Marchionne, *amministratore delegato* (CEO), the fourth Chairman and the fifth CEO in the 8 years since that fateful 1996, in which Gianni Agnelli had (at least formally) retired, and Garuzzo had been sacked. Was this the end of the turbulent period that, as in Valetta's case, followed Romiti's old age and departure? Perhaps Fiat had finally found a stable structure at the top? We hope so, for the good of the company, its shareholders, and the Italian economy: the pair are potential winners but their task is an arduous one. It is difficult for the family to mobilize the financial means to support a group of those dimensions. And perhaps even cohesion is lacking, despite Gianni Agnelli's decision to transfer power and the share parcel to John Elkann,⁶ who still has to conquer a leadership accepted by all. Times have changed and are proving to be difficult regarding the survival of great family capitalism. The banks, after the conversion of the big loan into shares, could have taken the destiny of the Group on themselves, but in fact they have left all responsibility in the hands of the pair Montezemolo–Marchionne.

To be sincere, I must admit that for me Fiat was the key, in the 1980s, that permitted me to understand this country and become known to the Italians. It is really curious that in 1988 it befell a then young American journalist to write a book about Fiat (*Tutto in famiglia*, Longanesi Editore) and tell the Italians in black and white how certain things went in the country's most important industrial group. Yet that's how it was, because the Agnellis and the Company were an absolute taboo. And perhaps even more of a taboo, at the time, was Romiti, Gianni Agnelli's plenipotentiary who was an assiduous frequenter of the centre of power in Rome (above all Palazzo Chigi, the prime minister's official residence, during the reign of the so-called Pentapartito coalition).

It wasn't easy and I often had to face a coarse and provincial reaction on the part of the 1980s' establishment—better to say the vassals of the family, who vied with one another to identify the most perfidious and Machiavellian brain behind the "operation". It was an arduous undertaking for a young American journalist (previously a foreign correspondent with "The Financial Times") to make it understood that all he wanted to do was investigate, document, and then write a book with Anglo-American transparency, without anyone operating behind the scenes.

In the end, many people realized that, above all, the book intended to criticize (a few years before "Clean Hands") not so much the Agnelli family, but a feudal system that dominated Italian capitalism in the 1980s, and used the Fiat of Romiti and the tangled network created at the time by Enrico Cuccia and Mediobanca as an example with which to expose the degeneration of an entire system. But this is an old story by now.

⁶ Translator's note: Gianni Agnelli's daughter's son; in 2010 he became chairman of Fiat.

What is entirely new, instead, is the impassioned account of Fiat by Giorgio Garuzzo, who, together with Vittorio Ghidella, was perhaps the ablest of all the managers that the Group had had in the post-war period, a man with a true industrial and technological culture. I met him in the mid-1990s, a long time after my arrival in Italy, when he was going through a difficult period.

As Garuzzo recounts in his book, Gianni Agnelli and Cesare Romiti had ditched him precisely at a time in which his wife's serious health problems had obliged him to leave Italy for a brief period. I described this event to the readers of the "Herald Tribune" and he and I forged a good relationship, which many years later favoured an investment on his part in my television production company. Garuzzo has an authentically Piedmontese style. He is reserved and possesses a real gift for understatement, which is not the product of an ostentatiously cynical pose, but the result of a natural tendency to see the ironic, curious, and grotesque sides of human events. A quality that served him well in the journey through Fiat he tells us about today. It is a journey from the inside, offering privileged access to the decisions and the strategies that guided Fiat from the 1970s until midway through the 1990s, from the splendours of the Fiat Uno to the disasters caused by an establishment with little knowledge of the product, and even less about international markets and practice, and disinterested itself in the industrial life of the company to get involved in petty domestic affairs.

In my view, Garuzzo's book has the great merit of helping us to understand and, hence, to answer the question that I am posed very often indeed: how did they manage to make a colossus like Fiat go badly, despite its historically immense strength? Garuzzo stops in the mid-1990s, but the things he says throw light on the events that followed.

The immediate causes of the failure of Fiat Auto sprang from the lack of an international strategy for the models, marques, and sales networks, which led to the production of too many models devoid of a profit margin, and from the incapacity to define motor cars and organizations suited to international markets, thereby losing market share in Italy (where demand had become similar to international demand and that, in any case, was not able, alone, to sustain one producer). The consequence was the collapse of the reputation of the marques, the dissolution of the sales networks, the reduction in the Italian market share, the disappearance from the European markets, and the collapse of profits (all aspects that the new pair at the top are currently committed to recuperating).

But the basic causes were more profound and deeply rooted: they sprang from preferring national power over operating as an international industry, from the desire to keep out international capital in order to preserve the control of the family (in other words that of Gianni Agnelli whose possession of some percentage points of the great industry's capital, a little more than 7 % of ordinary shares, still played king of the country), from practices of corporate governance insufficient for the purpose of preventing the outside world from sticking its nose into internal affairs: "everything in the family." So top management imploded on Rome, its salons, the corridors of its ministries, but it did not travel the world trying to understand the big things that were going on, or to promote Fiat's image and

products; the operative personnel was chosen accordingly: not those who create profit, but those who conformed and did not challenge the absence of top management (it was not “threatening,” as Garuzzo puts it). To sum up: it was the mismanagement that is the consequence of a distorted entrepreneurship, a non-capitalist capitalism, which puts profit after power and glory. In his book, Garuzzo does not give direct judgements on these themes, but lets the facts speak for themselves, as he saw them from inside the company.

With these cardinal sins against the rules of modern capitalism, nurtured in the shadows by the power games whose master for a long time was Enrico Cuccia, as well as the car business Italy lost almost all the great industries it had constructed in a century of industrial history: electronics (Olivetti...), chemistry (Montecatini, Snia...), pharmaceuticals, telecommunications (Telettra, Italtel...), textiles (Chatillon, Rhodiatoce...), etcetera; and it constructed virtually nothing in the new hi-tech fields: informatics, biomedicine, aeronautics, defence...; the country was left (perhaps only for a little longer) with only inalienable and imperishable businesses such as telephones, banks, and energy. And these failings left the way open to speculators and wheeler-dealers who have always considered big industry as a big pot to be dipped into liberally, without taking the trouble to ensure orderly development in the long-term. In fact, it was the failure of a ruling class, of which politics was merely the reflection.

Is small industry enough to save the economy of a country? Certainly not, because alone it is unable to carry out basic research and innovation. No matter how much they contribute to the prosperity of the country and its exports, shoes are not cars, spectacles are not fine molecular chemistry, fashion is not biomedicine... In the absence of the driving effect of research and the ventures that only big industry can finance, small industry on its own cannot construct barriers with regard to developing countries, and it is effectively at risk, and sometimes it is already in crisis today. The dilemma is: either we move our small businesses abroad or the entrepreneurs of the emerging countries will take over their share.

What to do? Who will save us? For my part I deeply regret that a man such as Giovanni Alberto Agnelli, intelligent and competent, probably capable of bringing about a strategic change in Fiat's future, was unable to devote himself to the task. We need to bet on young men like him, accustomed to the world, to individual initiative, and courage. And we have to rediscover the spirit of a job done well and strike a blow against speculation and easy enrichment. The state must neither make nor finance businesses, but remove obstacles, and create a climate that greatly encourages those who really invest and develop. Only in this way can we also create employment; only in this way can we lend a new impetus to the Italian national economic system: by playing as a team. Wild political strife serves no purpose, because whoever is in government will have to do the same things: what counts is how they will want them and their capacity to realize them... The important thing now is to extend concerted action, help business and the trade unions to understand that Italy will make it if everyone sticks together, if we stop dividing the country. We need collaboration, we need to mobilize the best of the country, a country I love deeply and that has become my second home.

And this is why I am more than honored to introduce a special book, important and courageous, an authentic historical document. Those who read these pages cannot fail to appreciate the fact that in any case there are always Italians prepared to go against the flow,⁷ as the renowned journalist Indro Montanelli used to say. Italians who work for a better and more open society and economy, where the challenge of the future is that of a capitalism that is more competitive, but honest and fair, one where the winners will not be the “usual suspects” or “small-time neighbourhood speculators”⁸ but those who have more ideas and a greater desire to work in order to realize them. I think this is the spirit that prompted Garuzzo to write this book, so that it may be a testimonial in favor of all those who work and commit themselves, of young people in particular, to remind us that the welfare of a community is created in research and design laboratories, in factories, in sales networks, in services, in investments, and not through intrigues and speculation.

As I often repeat in my travels around Italy, generational turnover is underway, even though it’s still not easy to see: in the next few years, maybe even within the next 5 years, I can imagine a more innovative country, more meritocratic and more honest with itself, able to recognize the strengths and weaknesses of the Italians, and to act in consequence. And I never tire of saying that while we need clarity and transparency, you can’t emerge from the fogs of the past in a split second: and for this we need perseverance and time. A lot of time.

Rome, March 2006

Alan Friedman

⁷ Translator’s note: Montanelli’s expression was *steccare nel coro*, literally “to sing a wrong note in the chorus”.

⁸ Translator’s note: both expressions used by the Italian press to describe well known rogue financiers.

Preface

What was Fiat really like at the time of Gianni Agnelli's chairmanship?

I believe that the great Group still remains an unknown object during that historic period, despite the many books published on the subject. These usually deal with Fiat's "political" dimension in the Italian socio-economic panorama, or they describe the feats of the *amministratore delegato*, or CEO, Cesare Romiti, accomplished to a large extent in extra-corporate contexts, often with hagiographic or disparaging intent according to the standpoint of those who wrote them. In both cases the industrial dimension is lost, the one that really counted for a complex that provided work for a million people by operating on the free markets of the world. And we also lose the sense of individual, day-by-day contributions guaranteed by a great number of people, especially by many managers, those who truly "made" Fiat the industry it was, for better or for worse.

During the 20 years I spent in Fiat, I complained about this ignorance on the part of public opinion (expert and otherwise) with regard to the industrial reality of the Group and I determined that, when I eventually left active work, I would have given my contribution to knowledge through a first-hand testimonial. The stormy circumstances in which this separation occurred in early 1996 did not permit me to get this project of mine underway immediately: I did not want to damage even minimally the Group to which I had devoted so much time and commitment and whose personnel I appreciated and respected, especially if polemics had arisen of a kind liable to disturb the activities of those who were still in charge of it.

Now, 10 years later, a lot of water has gone under the bridge, things can be seen from another point of view and can be assessed in a more historical light, and so I can tell the story of "my Fiat" with greater tranquillity.

Consequently I speak of my experience in Fiat between 1976 and 1996 in a strictly autobiographical manner (with a few brief references to other periods in my working life, in particular with the Olivetti of charismatic leader Adriano's days,⁹ the electronics industry of the early 1960s and Carlo De Benedetti's Gilardini in the 1970s). I deliberately make no reference to any subsequent event

⁹ Translator's note: Adriano Olivetti was *presidente* (Chairman) of the Company from 1938 to his death in 1960.

of which I have no direct knowledge, because by choice I stopped dealing with Fiat on the day I left it. I have always held to the principle of reporting events I experienced at first hand or that were referred to me by the leading players of the moment: and when, in the interests of the completeness of the account, I have to recount my inferences or uncertain elements, I state this openly.

The emphasis of the chapters moves gradually from the fields of general industry and components to those of lorries and cars, in parallel with the development of my career. But as a consequence of the close interconnections that have always existed between my work, the various sectors of the Group and Fiat top management (Carlo De Benedetti, Umberto and Gianni Agnelli, Cesare Romiti, and many *capi-settore*, or Sector Heads) the reader will find constant references to the principal events that affected the entire Company in the course of the whole period.

I have no intention of dwelling on the journalistic or, even less so, sensationalistic aspects in which the Group was involved, something I have been asked to do many times in the past. But inevitably I had to touch on delicate aspects or topics regarding events I had experienced at first hand, sometimes with descriptions or opinions that do not coincide completely with those commonly accepted: the arrival and departure of Carlo De Benedetti in Fiat, the “March of the Forty Thousand,” the sacking of Vittorio Ghidella, the clashes between Umberto Agnelli and Cesare Romiti, the Group’s involvement in the legal affaire known as *manipulate*, or the “Clean Hands,” scandal, the role of Gianni Agnelli and his relationships with his brother and Cesare Romiti, the intervention of Mediobanca... It may be that dealing with such events may still arouse some sensation or trigger some controversy, but I couldn’t pretend that they didn’t happen.

A vast part of the text is devoted to industrial and commercial aspects and is therefore less interesting for those in search of strong emotions. I consider this part essential to the book. My work hinged on these topics, as did the course of my career, and likewise the work and careers of thousands of other persons inside and outside Fiat. These are the real themes on which the destiny of companies is played out; on the contrary, dealing exclusively with the sensational aspects in which the world of industry is sometimes involved would be a disastrous distortion of knowledge and, hence, of the economic health of the country, as I try to demonstrate in the book. So I say a lot about product (lorries, cars, but also biomedicine, the Pendolino fast tilting train, and so on) and industrial organization (the Fiat components division, the rescue of Iveco, the New Holland venture...). I believe that the themes bound up with the range of cars and the problem of the Group’s marques are absolutely topical to this day. In the same way, I hold that it is inevitable to touch on some major themes of national or international relevance outside Fiat that nonetheless conditioned its activities: terrorism and the unmanageability of the factories, inflation, the devaluation of the lira, the *scala mobile*,¹⁰

¹⁰ Translator’s note: the indexing of wages to rises in the cost of living (literally, the moving staircase).

the role of the trade unions and the Confindustria,¹¹ Japanese competition, European integration... These questions are covered with extreme parsimony to avoid their absorbing an excessive part of the argument.

It was also natural, and perhaps of interest to the reader, to create a minimum of “atmosphere” with a description of some aspects of customs in the world of the great firm: the headquarters building in Turin’s Corso Marconi (which the press at the time treated as legendary), ceremonial at the court of the Agnellis, corruption in purchasing, off-the-books work, the interrogations held during the legal inquiries...

I realize that the diverse subjects (highly sensitive themes within Fiat, themes of industrial management, themes of external relevance, aspects of custom and personal episodes) might encounter some difficulty in coexisting. But I think that coexistence is essential in order to convey the real sense of the way an industrial manager is expected to do his job. I have always been so fascinated by the points of convergence, often curious and random, between my destiny, that of other people of the past and present, and events of local or general importance, that I would not have been able to tell in a different way what happened to me and what I saw happening around me. Contrary to what happens in other trades, arts, or professions, there is little written evidence regarding the “condition” both in work and in life of managers with big companies in Italy and this lacuna ensures that events, persons, and complexes of enormous importance to the country are almost unknown, except for those few who have first-hand experience of them. From this overall point of view I think it would enhance Italian culture if its managers or workers were to recount their personal experiences more frequently, as happens in countries within the Anglo-American industrial tradition.

I decided to include an abundant mass of “historical” or “economic” notes (dates, names, numbers), both to give concrete support to my account and to leave documentation of possible academic interest to future historians of industry. I believe it is extremely important to be able to provide such information. Existing literature on this subject can seldom do the same and is obliged to trust in information in the public domain, some of which was carefully and subtly distorted from the start to correspond with one-sided interests (Fiat press releases, statements by trade unions and parties, records of judicial questioning, the self-justification of the main players...). Such not-always-perfect versions have become a part of commonly accepted lore and have been transmitted, from one reprint to another, to books on Fiat. For this reason, I have seldom made reference to books already published on the argument, basing myself exclusively on first-hand information or documents. Alternatively, and this is something that no expert has so far undertaken, it would be interesting, albeit tiring, to delve through the Fiat archives, but even in that case you would run the risk of getting your hands, to a certain extent, on “official” information, even if it is internal, and therefore also in some way

¹¹ Translator’s note: the General Confederation of Italian Industry.

distorted for the benefit of the Board, balance reports, internal communications or, sometimes, top management. To preserve the readability of the text, I have transferred most of the analytical information to the notes or to monographic appendices that may be of interest from the point of view of management theory and industrial history (and of my own work), but reading them is a little more demanding: notes and appendices can therefore be skipped by the hasty reader without losing the sense of the events.

Giorgio Garuzzo

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Chapter 1

One Hundred Days in Fiat with Carlo De Benedetti (1976)

The Eighth Floor

I joined Fiat in an absolutely unconventional manner. I did not have to undergo selection interviews, I did not discuss the position I was going to take on or what was expected of me, I signed no contract, nor did I receive a letter of appointment. I didn't even negotiate my salary. Simply, on the morning of 2 May 1976 I presented myself at number 10, Corso Marconi, the Turin headquarters.

For me and the travelling companion sitting beside me in the blue company car, this was the first day of a new job. He, Carlo De Benedetti, was to last little more than three months as *amministratore delegato* (Chief Executive Officer), the position he was going to take up that morning. I was to devote twenty years of my life to that Company.

The custodians on duty at the gate stiffened and brought one hand up to the visors of their caps in a military-style salute, as was the practice in Fiat in those days. The car plunged into the half-light of a huge underground garage, packed with cars, chauffeurs and bodyguards who were waiting for their respective "celebrities" playing cards or chatting among themselves. The heads of Fiat's internal security defined as *personalità* ("celebrities") those *direttori* to whom they devoted their efforts and this terminology had come into common use. In the course of the following years, the number of attendants waiting in the executive garage gradually declined, until it almost disappeared, because of the countless cost cutting exercises and the end of terrorism. But in those days the custom that had characterized an entire epoch, that of Vittorio Valletta, was still deeply rooted and a Fiat executive could really feel he was a "celebrity".

De Benedetti, who knew the way well, led the way along a narrow, dark corridor towards a lift. An attendant made sure the cabin did not stop on the intermediate floors, as was the custom when important people were announced, and with his

aid we reached the top floor of the building, the eighth, the seat of the *vertice direzionale* (top management).¹ After over two years working at his side, I could easily imagine how De Benedetti felt during that initiatory course: an implacable desire for success accompanied by an overwhelming anxiety to attain it quickly. As for me, I was infinitely curious to get close to a world unknown to common mortals, a world that before then I had only touched on through reading charts and figures, like a traveller who tackles a journey in exotic countries armed only with information culled from official government statistics.

The building in Corso Marconi, a featureless structure designed to serve as a hotel, was anonymous and absolutely not functional. A large corridor ran through the centre of every floor, from which the doors of the rooms opened on both sides, with a hospital-like aspect accentuated by the imperfect maintenance of painted surfaces and floors. The exception was the top floor, the eighth, to which the media had attributed legendary connotations. The decor of that floor conveyed right from the first impression an image of opulence and bygone days at the same time. The walls were clad in hempen cloth or boiserie, all a play on shades of brown, like the carpets on the floor. Some furnishings seemed decidedly odd, such as the heavy iron safes (light brown) or the telephone boxes in solid wood (dark brown) inset inside the secretarial offices, boxes that no one used, perhaps to avoid dying of suffocation inside: I never understood the reason why they had been installed and in time they were removed and the niches became cupboards.

In a central position, on the side overlooking the street, stood the office of the *presidente* (Chairman) Gianni Agnelli, flanked by that of his brother, Umberto, and on the other side, a room for important meetings, called the *sala Nasi* (the Nasi Room), where many of the rituals described in these memoirs took place. Further away, on a wing on the same side, was Cesare Romiti's office. In front of Gianni Agnelli's office there was the office of the *direttore generale* (Chief Operating Officer), Nicolò Gioia.² Located beside it, in front of the Sala Nasi was the office destined for Carlo De Benedetti, connected with mine by a shared secretarial office occupied by Renata Andretta, the faithful and efficient assistant who De Benedetti had brought with him and who would have followed him to the ends of the earth, as she later did.

¹ The problem of the lifts in the building on Corso Marconi was never solved because their capacity was structurally insufficient for the needs of the building. To ensure that Gianni Agnelli, or some other top manager, did not find himself mingling with clerks or visitors of low rank and having to put up with continuous stops before reaching the floor where he wished to arrive, a simple scheme was worked out: at every important arrival, the guardian at the lift gate rang a bell and an attendant would rush to reserve the use of a cabin (one ring, Gianni Agnelli; two rings, Umberto, three rings, Cesare Romiti).

² At that time Nicolò Gioia was in poor health and all that remained of his position as COO was the title. When he wasn't at his desk reading the newspaper, he travelled the world maintaining good relations between the Group and developing countries. Towards the end of the Seventies, he died in the course of a journey and Fiat's organization chart was left without a COO, a position that was dusted off for my benefit only in 1991.

Every office was equipped with a number of windows in proportion to the importance of the person who worked in it and, obviously, I began with the minimum. On my arrival on that morning of May 1976 I could not imagine that I would later have returned to take over the office (with more windows) that at that time had been the prerogative of my boss De Benedetti. Even less so could I imagine that I would have to make a hasty exit from those same rooms almost twenty years later.

Agnelli Likes De Benedetti

In the autumn of 1975, Gianni Agnelli had begun to take a special interest in Carlo De Benedetti, who realized this immediately and told me about the news, curious and flattered, towards the November of that year. At that time, De Benedetti was the majority shareholder and *presidente* (Chairman) of Gilardini SpA, a small company that had recently become a best seller on the Stock Exchange because it was highly profitable and was growing rapidly, thanks also to frequent takeovers.

At first, Gianni Agnelli thought to employ De Benedetti in the car component sector, a very important unit for Fiat where he had shown he knew what was what. In fact, the De Benedetti family concern, having changed its historic and dated name of *Compagnia Italiana dei Tubi Metallici Flessibili* (The Italian Company for Flexible Metal Hoses) to the trendier appellation Flexider, had bought—two years before—Savara, a components factory on the verge of failure that produced thermostats, petrol pumps, filters and other items of that kind destined for the car industry. In a short time, Carlo De Benedetti had turned it around, making it highly profitable again, personally supervising restructuring down to the smallest detail, after which both companies were inserted into the Gilardini container. That was followed by other ventures, all successful; in the light of this, Gianni Agnelli's interest seemed anything but absurd.

The two men had several meetings in that period. Carlo De Benedetti would go to the eighth floor in Corso Marconi, or to Villa Frescot, Gianni Agnelli's home on the Strada di San Vito in the hills above Turin. Every time he would wear a well-tailored grey suit that seemed made for the occasion: when I used to see him leave the office dressed that way, I knew there was going to be an important meeting and I would join Giovanni Germano, then one of his principal collaborators in Gilardini, in making a little respectful fun of him. On his return, Carlo De Benedetti would describe the meetings to me in colourful detail, meetings that soon became transformed into authentic negotiations.

Gianni Agnelli did not hold Fiat management in much esteem and was in search of new men for responsibilities at the top. In reality, Agnelli habitually had scant appreciation for the management of his companies and envied the heads of other companies, as in the cases I shall be dealing with later in this book.

I, too, had noticed with astonishment that in Turin the image of the most important managers of the biggest local industry was tinged with an aura that was not exactly

agreeable, which associated the average manager with a stereotype of inefficiency and hypocrisy. After twelve years spent elsewhere absorbed in other matters, I had returned to Turin barely two years before, in November 1973, and I could not imagine that fate would have led me to arrive in Fiat after a short time. So I knew nothing about Fiat, other than what people were saying round and about. It irritated me somewhat to note that the most negative opinions of the company's middle management were dispensed lavishly by entrepreneurs whose considerable fortunes had been made thanks to the fact that they were Fiat suppliers. In Turin many entrepreneurs had got rich in recent years, because Fiat's purchases of parts and production equipment during the Sixties had created an *indotto* (a suppliers' satellite industry) of conspicuous dimensions, an industry that had prospered through methods largely unknown to the general public. From 1960 to 1970 Fiat's annual production of motor cars in Italy had increased from around five hundred thousand to one and a half million; one hundred thousand cars more every year, for ten years. An enormous increase. In that fortunate period, suppliers were not called upon to produce well and at a low cost, but to produce a lot of units in a hurry. This bonanza had permitted the creation of huge profits, for the most part unknown to the tax authorities, but it did not work in favour of product quality, an original flaw that Fiat was to find hard to get rid of even in the distant future.

Yet, those who had earned most through their relationship with this great industry were those most willing to denigrate their own benefactor. This struck me as in bad taste, and I began to react to the grossest statements, sometimes rather incautiously. And for this reason I stopped frequenting some particularly rancorous salons. But, basically, I had been infected to a certain extent, and I saw no reason not to believe the statements made to De Benedetti by Agnelli regarding the scant worth of those Fiat personnel whose names I didn't even know.

In those years Gianni Agnelli had not succeeded in finding within Fiat either a Chief Financial Officer or a boss for the Group's principal sector, the car business. Carlo De Benedetti played skilfully on Gianni Agnelli's mistrustful feelings, and the latter was fascinated by the initiative, dynamism, and above all by the image of success projected by the young entrepreneur. And for Agnelli the aspect of the person who appeared before him often won out over substance, because he was not trained and scarcely inclined to understand, never mind to assess, the real contents of industrial activity.

So, having begun with a contact for an innocuous consultancy or for some association regarding motor car components, the discourse gradually extended until it assumed a dimension that even De Benedetti did not expect: it was in fact to his great surprise, towards the end of 1975, that he received from Agnelli the offer to take on the responsibility of *amministratore delegato* (CEO) of Fiat, effectively the top executive post in the Group, insofar as the *presidente* (Chairman) had never bothered with concrete affairs and in those days was a decidedly infrequent visitor to his office in Corso Marconi.

Carlo De Benedetti, accustomed by his experience as a small business man to sudden and risky decisions, was very quick off the mark and opportunistic. He objected that by working for Fiat he would be unable to see to the affairs of his own industry, with which conflicts of interests would have arisen. Agnelli then proposed

that Fiat buy De Benedetti's shares in Gilardini and exchange them for Fiat shares. This operation, conceived to compensate De Benedetti for his "sacrifice", would have also contributed to justifying his appointment in the eyes of the world, because his person would embody both natures, that of shareholder and that of manager.

In countries where the rights of public shareholders were better protected, a share transaction of that kind would have involved a tender offer on all Gilardini shares on the stock market, to guarantee minority shareholders the same treatment as that of the majority shareholder. At that time in Italy there was no rule about this, and so those who had had faith in De Benedetti and had ploughed their capital into the company he headed unexpectedly found it transferred to a peripheral province of the Fiat group, an investment that was far less attractive.

The share swap ratio was set at 2.2 % of Fiat capital³ against about 60 % of Gilardini capital, attributing an excessive value to this latter share package. It was true that Gilardini earned far more than Fiat in percentage of turnover, but the difference in absolute value was enormous and the two entities possessed incomparably different industrial dimensions and structures. Moreover, Gilardini's profits derived in part from the generous prices Fiat itself paid it as one of its suppliers. Paolo Mattioli, who had recently joined Fiat as Cesare Romiti's right-hand man in the administrative and financial area, later told me that he had tried to reduce De Benedetti's demands, with poor results owing to Gianni Agnelli's infatuation for the small businessman and his scarce sensitivity with regard to economic values.

No corporation of the dimensions and importance of Fiat would have ever decided to take a step as odd and chancy as giving the top job to a young man (De Benedetti was forty-one at the time) with no experience of running a big business and whose only strong points were the success he had attained in a small family concern and the fame earned as chairman of a local industrial association, a position offered him by the corporation itself.

Regarding the young entrepreneur's self-confidence, some rumours were circulating in Torinese financial circles, especially concerning the not-exactly-orthodox methods employed to take out competitors and the brutal treatment reserved for the vanquished. If someone had mentioned something to Agnelli, a matter about which I know nothing but one that is certainly possible, I don't think he would have been upset. As far as he was concerned, detached as he was from the material nature of everyday affairs, the stock character of the "rascally entrepreneur" always held a great fascination for him.

But the outlay required to hire him, or doubts regarding his competence, or scruples about his behaviour did not deter Gianni Agnelli, who wanted his new champion at all costs. There was one field in which Agnelli was profoundly competent: that of sport, football in particular. It came naturally to him to apply, consciously or unconsciously, the logic of the football market to all sectors. Were the newspapers singing the extravagant praises of an up-and-coming striker? Agnelli wanted him for himself. In the months that followed, some journalists compared

³ Equal to 5 % of the ordinary shares.

the De Benedetti affair to that of the Sicilian centre forward Pietro Anastasi, who was on the crest of the wave at that time and who Juventus wanted at any price: there was far more truth in the analogy than the uninitiated could have imagined.

I had been trained in the methods of American industry, which sought as far as possible to plan the development of the careers of top managers in order to ensure that turnover at the top took place without any trauma. I was struck by the improvised manner in which Gianni Agnelli had made his choice, without imagining that one day I was going to have to tackle head-on that same method of procedure, which was destined to cause incalculable damage to Fiat.

The fact remains that Carlo De Benedetti exerted enormous appeal in the world of business and not for trivial reasons, as I was able to confirm from personal experience. Two years before, in September 1973, a “head-hunter” had put us in touch and after a couple of clandestine meetings in a basement office near the Trade Fair complex, the seat of Flexider’s Milan branch, I had agreed to go to work with him despite the fact that he was an entrepreneur who was virtually unknown outside Turin. His words were very clear, precise and economically correct, expressed in confident tones, and he showed extraordinary drive and competence. Since then he revealed a quality that was to characterize him always: he was able to back up his ideas most effectively because, before convincing others of their truth, he had first convinced himself. He would charm his interlocutor with his frankness and his personal involvement, and this in a national context accustomed to indirect messages and the rejection of individual responsibilities.

I understood immediately that his approach was that of a siren, but I attributed him with real gifts that went far beyond the evident appeal of his song. In that period I still had fresh memories of the trade union and political agitation of 1969, whose consequences I had experienced at first hand when I was working in industry in the area around Milan. In the mid-Seventies, when the factories were becoming harder to run every day and many people on all levels felt exploited because of the mere fact that they worked as someone’s employees, the entrepreneurial spirit I discerned in De Benedetti during those basement talks in Milan led me to foresee that I would have learned and achieved a lot by going with him. At that time I was thirty-four and it seemed to me that it was worth the effort of trying a new experience in a world that was utterly different to that of the big international electronic industry in which I had worked for twelve years.

In my view, Carlo De Benedetti showed himself to be a real entrepreneur. He knew every aspect of his company and ran everything with a firm hand. He didn’t skimp on the expense of planning and productive investments, and so Gilardini’s divisions remained competitive on the level of product and manufacturing. The commercial area was his forte and the direct experience he had had with his salesman’s briefcase in hand (as they liked to say in the firm), allied to his innate capacities for persuasion, promotion, and boldness, ensured that he got special prices from clients. Unlike his colleagues, the other small businessmen of Piedmont, Carlo De Benedetti was also an innovator in the financial field, as evinced by the fact that he had his firm quoted on the stock market. Then, and for many years to come, the establishment subtly but efficaciously hindered the

process of development of the Italian financial markets. For example, the quotation of companies on the stock exchange was a difficult enterprise undertaken only by a few courageous people and for a long time any transparency regarding accounts and company strategies, considered an unjust interference in the personal affairs of the controlling shareholders, was to remain a mirage. Minority shareholders were obliged to put up with all kinds of harassment, and many of them didn't even have the satisfaction of being able to protest, because they were always kept in the dark.

This policy was a means of discouraging the spread of shareholders and of keeping economic-industrial power concentrated in a few hands. Publicly, the opposite was declared, but the facts and the consequences were before everyone's eyes and anyone who denied that now would do injustice to the intelligence of the main actors who monopolized the Italian economic scene of those days, such as Mediobanca⁴ and IFI, the Agnelli family's holding company. Italy was modernizing in many sectors, starting with that of the car market, but no one, far less the Agnellis, who paid lip service to their great sensitivity regarding the principles of international economy, did anything concrete to steer the national financial markets out of their pre-modern limbo. Money itself was the most menacing enemy that capitalism without capital could fear, the money that a market economy in search of profit could have mobilized in a powerful flow capable of overwhelming the concentrations of power, and that instead was channelled inoffensively into gilt-edged securities.

Following a different path, Carlo De Benedetti bought Gilardini SpA for a small sum. The firm was an old tannery that had been transformed into a property company many years before, when it ceased to be an industrial activity. Apart from the real estate properties it owned in Turin, which were soon sold off, its sole value consisted in the fact that it was a listed company. De Benedetti used it as a container into which he put the companies he already owned with a view to transferring them onto the Stock Exchange rapidly and efficiently, thereby avoiding the costly procedural and bureaucratic delays that were made to hinder new quotations in a period in which IPOs (initial public offerings) of shares in newly quoted companies, were unknown both in name and in fact.

The operation, which came off perfectly, won him early fame among the experts and a place among the pioneers of the revolutionary process that twenty years later, in the second half of the Nineties, was finally to bring about the evolution of the structure of financial markets in Italy, too.

It seemed to me at the time that by going to work with Carlo De Benedetti I would have entered a small and rather inconspicuous milieu but one that was very instructive, where people were trying to overcome the two forces that were blocking the development of the Italian economy: the then-dominant anti-capitalistic and anti-industrial ideological extremism and the opportunist and protectionist conservatism of the incumbent capitalists (Fig. 1.1).

⁴ Translator's note: a leading investment bank, headed by the legendary banker Enrico Cuccia.

Fig. 1.1 G. Garuzzo with his boss C. De Benedetti aboard the Gilardini company jet in 1975



Clandestine Preparations

Towards the end of January 1976, the details of the operation were defined and Agnelli made an agreement with De Benedetti whereby the new *amministratore delegato* (CEO) would join Fiat as from early May. De Benedetti took it for granted that I would have followed him to Corso Marconi because our collaboration over the previous two years had been perfect.⁵ As I said at the beginning of the chapter, I accepted the move to Fiat and the new position without any verification or guarantee; I don't recall if we even discussed this; I went with De Benedetti and that was that: the sense of a challenge and professional attractiveness were more than sufficient motivations.

By early February 1976, I had left all of my activities in Gilardini and I had moved to the headquarters of the Unione Industriale di Torino (the local employers' confederation), in an office next to that of the chairman, Carlo De Benedetti. There, far from prying eyes, I had begun to attend to Fiat full time, three months before I went there in person. I cannot imagine what the functionaries of the Unione thought on seeing that I was such an assiduous visitor to an office that did

⁵ The top jobs in Gilardini had been subdivided between Giovanni Germano, who was responsible for the line, in other words activities involving design, production, and sales carried out on a day-to-day basis; Franco Debenedetti (Carlo's brother), who saw to technical aspects and product, and I, who co-ordinated the staff and hence had to look after disparate things such as executive management relations, budgets and planning, communication, strategies, organization and so on. The experience I had gained in the big international groups General Electric and Honeywell proved extremely useful in the orientation of the development processes of a tiny but dynamic and diversified company like Gilardini. The harmonious relationships and efficiency of top management had allowed Carlo De Benedetti to detach himself from the company and to devote most of his time to the Chairmanship of the Unione Industriale di Torino, a post to which he was nominated in July 1974, and which became for him a showcase and a springboard towards the future.

not seem to produce anything at all. In any event, the news was successfully concealed until the moment of the official announcement.

For many months, Gianni Agnelli regularly sent De Benedetti a series of Fiat internal documents that immediately arrived on my desk in via Vela, where I studied them with great attention. The most important and interesting ones were certain unassuming looking booklets with plasticated covers that contained details of the accounts and the planning of the various Sectors within the Group. Until a short time before, Fiat had not had any management control worthy of the name. The policy of Vittorio Valletta and the generational void that had followed in the company after the old man's death had kept the management of Fiat on lines of strict accountancy, according to the book-keeping criteria of the Italian tradition. There was no budget or management reports and the annual accounts were prepared by executives with great secretiveness, for the exclusive use of Fiat top management.

It was the exact opposite of the methods I had been accustomed to since 1964 in General Electric, where the work of executives was assessed and guided by monthly management control reports.⁶ The American philosophy expected operating chiefs to use accounting systems, whereas the Italian tradition, which the Fiat of Valletta's day adhered to strictly, considered accounts to be confidential, and accessible only to a few initiates. In the Seventies I happened to take part, inside and outside Fiat, in meetings where they expatiated on the attribution of certain entries to one ledger account rather than another with the same pedantry as Byzantines arguing about the sex of angels, even though the entire balance sheet was false.

But for sometime time things had been changing in Fiat, too. While the old tradition continued, embodied by the offices for Administrative and Corporate Affairs, an office had been created for Planning and Management Control, constituted by some extremely able young men led by the talented and very young Antonio Mosconi, who had ushered in a new era.⁷ Their booklets left rather a lot to be desired on account of the difficulties they encountered in obtaining data and the scant congruence among the diverse Sectors of the Group, because Fiat was not to have a uniform chart of accounts and a consolidated balance until the Eighties. Despite this, it should be said that Mosconi was doing a good job and his product was thought out very seriously.

Thanks to those papers, it was easy for me to form a pretty accurate idea of the economic-industrial reality of the companies within the Group even before I saw them from close up. Carlo De Benedetti, to whom I reported constantly on the results of my theoretical studies, was aware that he was entering Fiat unprepared

⁶ Like many managers with the Company, I had attended, in the mid-Sixties, the residential courses held in a training centre located in Crotonville, in New York state, on the upper reaches of the Hudson river.

⁷ I believe that the credit for having brought Mosconi into Fiat to introduce modern and professional management methods derives from actions commenced by Umberto Agnelli in the early Seventies.

with regard to the mechanisms and processes of a big company,⁸ but he was more than prepared to have things explained to him and was very quick to grasp the essentials. The collaboration between us, as it proceeded in Fiat between February and August of that 1976, was total: I processed an immense quantity of information for him; he gave me carte blanche allowing me to realize some fine structural initiatives that were of the greatest importance to me.

The Fiat group had been recently subdivided into operative *settori* (Sectors or Divisions). It hadn't always been like that: in Valletta's day accounts and responsibilities were mixed and indistinct because almost all the products were managed by the same organization in a single hotchpotch that today would strike us as incomprehensible and intractable (and it was intractable then, too, probably, but this didn't do too much damage because Fiat's Italian markets were protected from international competition). A few years previously, under the thrust of Umberto Agnelli's modernizing drive and the consultants he had called in, the "sectors" had been defined and launched. This last was a term that was immediately to become fundamental in Fiat to designate operative macro-units endowed with great autonomy and very wide-ranging responsibilities that ranged from the conception and development of the product to sales and after-sales service, on the model of some big American corporations, with the sole substantial exception of aspects of financial management. There was a car sector, a lorry sector, and so on, about fifteen in all from the biggest to the smallest. And in this way it became possible for Mosconi to set in motion that management control system, sector by sector, which I mentioned earlier.

Sectorialization was a revolutionary change that Umberto Agnelli had pushed through despite enormous resistance, because it shook up management roles and highlighted the dramatic lack of staff trained to take on real business responsibilities, a consequence of the gerontocracy of Valletta's day. Cesare Romiti later tried to claim the historic merit for this innovation,⁹ but the decision had been taken, and put into practice, well before his arrival.

It was foreseen that each sector was headed by a *Società Capo-Settore*, or Sub-Holding, which controlled clusters of operative companies, and in effect many Sub-Holdings, such as Iveco, Fiat Allis, Teksid, etcetera, were established in the years 1974 and 1975 through the breaking up of the primordial hotchpotch. Only the motor car division was an exception and remained officially integrated with Fiat's central bodies: fiscal problems prevented its break-up. But, apart from corporate aspects, Fiat Auto was perfectly distinct and autonomous, so when tax law permitted it, in 1978 it, too, became an independent *SpA* (limited company), with a purely formal spin-off operation, devoid of any organizational content.

⁸ At bottom, he had seen his first budget two years previously. It should be said to his credit that he had given me his complete support when I had introduced the new instrument to Gilardini in 1974.

⁹ For example, in his book/interview with Giampaolo Pansa *Questi anni alla Fiat* (Milan and Rizzoli 1988), p. 18.

At the top was Fiat SpA, also called the *Società Capo-Gruppo* (or, simply, the *Capo-Gruppo*) or Holding Company, insofar as it held subsidiaries' equities.

Carlo De Benedetti was nominated, as we have said, the *amministratore delegato* (CEO) of the Holding and at first he was entrusted with five sectors: Components, Energy, Railways, Machine Tools, and Foundries. Thus he joined the other *amministratore delegato* (CEO), Umberto Agnelli, who for honorary reasons also held the position of *vice-presidente* (Deputy Chairman), and was to see to the four most important sectors: Automobiles, Industrial Vehicles, Tractors, and Earthmoving Machinery. But, as we shall see, these too went to De Benedetti when shortly afterwards Umberto Agnelli decided to abandon his areas of responsibility to go into politics.

At the same time, Gianni Agnelli wanted to nominate a third *amministratore delegato* (CEO): this was Cesare Romiti, who came from the public sector (Alitalia) and had been with Fiat for little more than a year; in October 1974, it is said on the recommendation of Enrico Cuccia: he was to take up the position of *direttore amministrativo* (Chief Financial Officer) of the Holding.¹⁰

Carlo De Benedetti made every effort to avoid finding himself flanked by another colleague, prompted by his own pride but also by the advice of his friends. Among these I remember the banker Guido Roberto Vitale, then the chief of a finance company in which De Benedetti had important interests, who maintained that a good relationship between the two was an impossibility and foresaw an irredeemable conflict between Carlo's entrepreneurial *animus* and Cesare's bureaucratic spirit. Apart from that hint of psychological racism implicit in the contrast between owners and non-owners, there was truth in Vitale's observations. But no one could have imagined the rapidity with which the logic of the bureaucrat was to get the better of the entrepreneur's spirit of initiative.

Gianni Agnelli was absolutely unshakable in his support of Cesare Romiti's candidacy and he ordered his appointment as third *amministratore delegato* (CEO), assigning him two very different responsibilities. On the one hand Romiti took direct responsibility for the "non-industrial diversified sectors". On the other hand he had to co-ordinate all administrative and financial aspects, including those sectors that were the province of his two colleagues. In this way a hybrid structure came into being, which can be rendered schematically by Table 1.1.

Cesare Romiti found fault with his two colleagues, but in his sectors he was the absolute sovereign. Umberto Agnelli and Carlo De Benedetti did not hold the levers of command regarding the administrative and financial sides of their business but had to use structures directed by their third colleague, who thus disposed of all information concerning their work. Gianni Agnelli countered De Benedetti's complaints with his intention to safeguard Romiti: "He's not been here long, but

¹⁰ Some years before, Nicola Tufarelli (previously with Olivetti) had been hired as *direttore amministrativo* (Chief Financial Officer), but later Tufarelli was to leave the position free because he had been nominated *capo-settore* (sector head) of the car division, as Romiti himself says in his book (*op. cit.*) thus implicitly admitting that sectorialization already existed before he arrived.

Table 1.1 Fiat top organisation chart in May 1976

U. Agnelli	Carlo De Benedetti	C. Romiti
4 sectors	5 sectors	Diversified sectors
x ←	x ←	← Finance and treasury
x ←	x ←	← Administration
x ←	x ←	← Management control

he had faith in us and has behaved well, I cannot offend him” [by not nominating him, too, as *amministratore delegato* (CEO)]. This simple sentence, which a disconcerted and worried De Benedetti told me about, pleased me at the time, I always remembered it and I did very badly. “If Agnelli had been so loyal to such a recent stalwart”, in 1976 Romiti had been with Fiat for little more than one year, “he would not have abandoned me who had been faithful and useful to him for twenty years”, I was to delude myself twenty years later, when Romiti unleashed his war against me.

It was in this way that in the first months of 1976 I prepared myself for the adventure in Fiat and I transmitted in a concise, organized way as much information as I could to Carlo De Benedetti on that unknown world described in Mosconi’s booklets.

Fiat Seen from the Inside

I joined Fiat with the same post I had held in Gilardini, namely as assistant to the *amministratore delegato* (CEO), but this title was considered very belittling. The high-sounding term effectively utilized was that of *direttore addetto all’amministratore delegato*, frankly, a horrible expression, in which I seemed to note a contradiction between *addetto* (dedicated or committed), which presupposes subjection, and *direttore* (manager), which implies independence and leadership: but every company microculture has its terminology and I, obviously, went along with this one.

As I have already said, on my arrival I was not bothered about the conditions of hire. For example, I was unaware that in Fiat there were a good three management levels. The maximum came with the rank of *direttore* (at the time there were three or four hundred of them, between the Sectors and the Holding Company). The lowest rank (*dirigente*) was reserved for the common clergy, three or four thousand units. In the middle there were the *vice-direttori*, young men waiting to fly high, or oldsters whose prospects had finished there.

Unexpected assistance enabling me to orient myself amid these habits and customs came from a singular person with whom I immediately forged a friendship. Enzo Amapane was Umberto Agnelli’s assistant, excuse me, *direttore addetto*. In the workplace, I never found anything like the huge devotion and total loyalty as that which always bound Amapane and his boss: for him, Umberto Agnelli was more than a son and he would literally have given his life for him. Amapane paid

no attention to the business content of events within Fiat and wasn't there for that purpose. All that interested him was the relationships among people and, above all, their relationship with Umberto Agnelli.

Amapane immediately explained the climate to which I would have to accustom myself had I wished to survive in Corso Marconi. The milieu that surrounded the Agnellis was governed by the same practices as a royal court. The managers had their responsibilities, but they never enjoyed the complete confidence of their sovereigns. And alongside them there moved figures of varying origin and extraction who had no direct official responsibilities but who exerted a lot of influence on the judgments that were eventually made regarding the work of the managers themselves.

As in every court worthy of the name, Gianni or Umberto Agnelli seldom heard about favourable episodes involving persons in the world around them. On the other hand, you could be sure that someone would have reported, with alacrity and a wealth of details, all negative or displeasing events that had (or presumably had) occurred. Even benign events, or, at most, neutral ones were transmitted and interpreted, if possible in a disagreeable light. At court, accounts of an aggressive or scandalous nature aroused more interest and attention than clinical economic statements.

Sometimes, gossip was used scientifically to attain pre-established goals. For example, some Fiat suppliers had the chance to communicate directly with the Agnellis and hence they tried to by-pass the operational apparatus. Even Carlo De Benedetti, when he was only one of Fiat's many external suppliers but who also already had access to the Chairman's intimate circle, used to chat in Corso Marconi about the people responsible for Fiat's purchasing office. Then he would work in such a way that the interested parties would come to know about it. His hope was that these people, fearing criticism at the highest level—or "getting the chop" as they say in slang—would offer him favourable conditions for orders.

Such practices, allied to the inability or impossibility on the part of the Agnellis to verify the real capacities of managers, ensured that both the Chairman and Deputy Chairman had no esteem for anyone or, at least, distrusted everyone. I began to understand the reasons for the lack of faith the Agnellis had in their own men, of the city's dim view of Fiat managers and the lack of new recruits brought up within the Group. This disparaging and destructive criticism irritated me enormously.

Sometimes the atmosphere at court led to grotesque attitudes. "Please, overlook the fact that you support Torino football club, you have nothing to gain by declaring this in Corso Marconi", Carlo De Benedetti suggested to me one day, even though he, too, was a fellow supporter. I did not comply with this wise advice and Enzo Amapane had to fly to my aid. He started a rumour to the effect that I was certainly a really competent manager, but that I didn't have a clue about football. I had to get used to the appearance of condescending smiles every time this weakness of mine was mentioned.¹¹ There was another, more concrete reason—apart from sporting loyalties—that justified Fiat's attachment to Juventus: between the late Seventies and the early Eighties, IFI sold its share package in Juventus to the

¹¹ Later, other non-aligned managers arrived; gradually the taboo faded away and finally there was freedom to support the club of your choice in Corso Marconi.

Fiat Holding Company, which gave it back almost immediately, just the time to inject some cash into the club whose finances were in poor shape. I don't recall if the operation was organized once or twice, but at the time Cesare Romiti confided to me that he had blocked any similar ambitions on Agnelli's or Gabetti's¹² part in the future: repeating that the ploy would have been too risky.

Amapane behaved the same way regarding far more serious matters. His friendship with me was based on the conviction that I would never have deceived the Agnellis. "If you only knew the things I hear" he said to me, "and they swallow everything". On saying "they" he pointed in the direction of the Agnellis' offices. Then he would raise his chin, bringing his thumb to his lips in an eloquent gesture: "Glug, glug, glug...". He used hermetic and allusive language, but lively, full of metaphors. Amapane helped me a lot with his suggestions on internal relations; his premature death in the mid-Eighties deprived me of the only friendly and disinterested adviser I had had in Fiat.

In that period I established good relations with a large number of people in the *capo-gruppo* (Holding Company), some of whom will be mentioned elsewhere in these memoirs. Thanks to the fact I was born in Piedmont and was familiar with the dialect, the doors opened even of those offices with the most archaic connotations, genuine antediluvian relics that, clearly on the road to extinction, lingered on here and there from Valletta's day.¹³

But I had never been, thank God, one to hang around the water cooler. I was interested above all in the places where industry went on and where people carried on the business. As soon as I could, I devoted myself to verifying personally what Mosconi's booklets said in figures and I started visiting the various factories and branches located in Italy and abroad. For this task, I had reserved 1 day every week, Thursday. I kept up this good habit for the first three years I spent in Corso Marconi but even after that I always saw to it that I made frequent personal visits to the places where operational activity went on.¹⁴

I am without a doubt the manager who has seen more factories of the Fiat group than any other and this record is destined to endure in the future, too, because the number of the Group's factories has been greatly reduced owing to sales and closures effected in the years that followed. But my purpose was not to

¹² Translator's note: Gianluigi Gabetti served for a long time as *amministratore delegato* of IFI.

¹³ These were profoundly reliable people who were devoted to the company. This was the case with *tota* Crespi, who was in charge of accounts and was one of the last of the famous "signorine" (in Piedmontese, "tota" means miss) still at work and who had been powerful in Valletta's time; now Crespi had to deal with Antonio Mosconi's new methods, and it was the same for Riolfo, in charge of corporate practices.

¹⁴ In those first years, what I saw was genuine because there was no artificial preparation, what I was shown or heard was spontaneous. Later, in the Eighties and Nineties, my visits took on a pastoral character. I know I caused, at that time, the consumption of drums of paint for freshening up the places I was expected to visit, but I am convinced that this paintwork was useful because it gave peripheral factories tangible proof that they were being followed and controlled by the centre and, hence, that they counted for something in the economy of the immense Group. And then, a little clean-up now and then did no harm even in the workplace.

get into the Guinness Book of Records. By visiting the factories I was trying to commit to memory the principles of productive processes and of product; as far as that was concerned, I had an excellent memory that permitted me to bring to mind events and problems even a long time afterwards.

And I had an even more important goal. In the Fiat Group they frequently held very crowded meetings involving dozens of participants and in which everyone recited a script; during those solemn masses it was impossible to understand people's worth and it was easy to be misled (or deceived) by superficial elements, such as skill in self-presentation, or even the tone of voice and pronunciation. My view was that one could get an accurate idea of the worth of managers only by seeing how they operated in their own working milieu. My memory for faces was decidedly poor, but I was very good at remembering names and results; I came to know the professional histories of hundreds of people.

On my travels I was usually accorded a warm welcome. The usual phrase I heard repeated was: "You are the first person from Corso Marconi who has come to visit us". Everywhere, the pride in showing work carried out prevailed over the informational closure that many Sector Heads recommended with regard to the Holding Company. In the Holding Company, instead, I had the impression that my frequent sorties were judged with great condescension, as if they were a mania, an engineer's professional bias. Only in later years did people rediscover the impact that the factory and the product had on the fortunes of companies, and visits became fashionable.

My pilgrimage also served outstandingly well for another objective that I had attributed to myself as a primary guideline in my work for all the hundred days in which Carlo De Benedetti remained with Fiat: promoting to the maximum the things realized by my boss and supporting him in his placement. And that placement did not proceed smoothly.

The Passion of Carlo De Benedetti

Carlo De Benedetti threw himself into Fiat like a fury, disrupting its habitual rhythms. From the first instant he began to behave like the effective boss of his Sector Heads, as was correct but not the way things had been done before, when the dominant management style was more detached.

Managerial meetings became frequent, full of discussion and substantial decisions. The people who took part did not imagine that I was often the one who studied the documents beforehand and prepared the questions De Benedetti had to ask and the conclusions he had to draw. For his part he was extremely quick to understand the substance of the business, immediately understood people's feelings and intervened rapidly, showing highly efficacious decision-making skills. As for the Sector Heads and the others, some began to appreciate him, others to fear him and, almost all, at least to accept him. Moreover, Carlo De Benedetti saw directly to setting up new initiatives and kept up a large number of interpersonal contacts.

And all this took place with a commitment and a frantic energy that led Gianni Agnelli to make his renowned quip, according to which he, De Benedetti, “got out of bed every morning as if he had to go to Entebbe¹⁵”. Certainly, the *presidente* (Chairman) was accustomed to far blander rhythms.

The disagreements between Carlo De Benedetti and Cesare Romiti began immediately. The first that I recall occurred a few days after our arrival. Romiti granted an interview to the financial paper “Il Sole” in which he talked about Fiat’s financial situation. De Benedetti knew nothing about it until he read the paper in the morning. He protested vigorously and, according to me, he had every reason to do so. But Romiti took advantage of this to lay the first tile in the anti-De Benedetti mosaic, using his image to present him as a troublemaker.

Romiti always used this technique of putting things in such a way that his right hand did not know what the left was doing, the exact opposite of De Benedetti, who loved to hyper-communicate. For example, in those very days Romiti and Mediobanca were already holding talks with the Libyan Arab Bank regarding the entry of Libyan capital into Fiat’s equity, but De Benedetti was not informed of this. Later, Romiti was to boast about this secrecy,¹⁶ but such behaviour strikes me as unacceptable to this day.

Antonio Mosconi was also a cause of friction. At that time he was very closely connected to Romiti, who repudiated him only in the early Eighties, judging him to be too close to Umberto Agnelli and exiling him to a place where he thought he could do no harm. In that tail-end of 1976, Mosconi went to Romiti to protest because I was taking away work from his office. It was hard to justify a complaint of this kind, because I was working alone whereas he had a hundred or so collaborators, but Mosconi did not appreciate the fact that I was personally pushing ahead with some industrial negotiations and initiatives about which I shall have more to say later. Had he brought the problem up with me I would have worked out some kind of coexistence, because I did my utmost to get along with all the functionaries I had found in Fiat, with the priority objective of helping De Benedetti to be accepted within the corporate structure. But Mosconi said nothing to me, he followed the hierarchical route and Fiat’s two CEOs clashed over this foolishness.

There was, however, a basic fact with regard to this question: De Benedetti was a CEO whose powers were curtailed. As I have described earlier, he had industrial responsibility for his sectors but not for that of finance. Agnelli’s policy of *divide et impera* kept De Benedetti in the condition of being unable to dispose of all the instruments necessary to be a true chief executive. If we think this over, it was predictable that war would have broken out between the two (Guido Roberto Vitale and many others had foreseen this) and that the winner would have been the one on the side of the bureaucracy. Those who merely have to tot up columns of numbers have the time and the instruments to bring their criticisms to bear, overtly or

¹⁵ The blitz carried out by Israeli Special Forces, in the heart of Africa, to free their fellow countrymen held prisoner in Entebbe airport had caused a great sensation in those months.

¹⁶ Romiti-Pansa, *op. cit.*, p. 39.

covertly, and never make mistakes, whereas those who have to produce effective results—plan, produce, sell—can be attacked, make mistakes and live in a perennial state of anxiety.

Carlo De Benedetti's anxiety soon began to grow exponentially, but this did not cause him to slow down his own rhythms of work, which became intolerable when Umberto Agnelli announced his intention to devote himself to a political career and De Benedetti also inherited the four large sectors that had been his province. It looked like a triumph, and it was; but, unexpectedly, for a character such as Carlo De Benedetti who wanted it all and wanted it now, taking charge of the disastrous situation in the Automobile Sector¹⁷ turned out to be an unbearable burden. Moreover, a problem instantly arose regarding relations with the head of Fiat Auto, Nicola Tufarelli. And this internal crisis came shortly after the one that had led to the sacking of Gianmario Rossignolo a few weeks previously.

It is necessary for me to give a detailed account of this affair, which may hold some interest for an understanding of the development of the Italian car components industry.

A Plan for Components Production

From Mosconi's white booklets, since February 1976 I had learned the composition of Fiat's Components Sector: it contained a bunch of over fifty companies of heterogeneous origin.

Some of these companies had once been simple production workshops linked with Fiat Auto, recently broken up in the name of sectorialization; it was no surprise that the autonomy of these ex-divisions was rather limited and their spirit conditioned by the lazy habits of the large complex from which they came. Magneti Marelli and Borletti, both in Milan, were remarkably large and had a long history of relative independence. Most of the companies of medium size had been born and developed under the personal ownership of a few minor industrialists who supplied Fiat; subsequently Fiat had bought them out, following transactions whose strategic motivation was hard to decipher and occasionally admitted of some not unjustified suspicions.¹⁸ Outside and inside Fiat, it was maintained, obviously in private conversations, that the ex-proprietors had sold the companies to Fiat because, the heyday of the car sector in the Sixties being over, they were no

¹⁷ As well as the car sector, the situation in Fiat Allis, the Earthmoving Machinery Sector (see [Chap. 3](#)) was also tragic; Tractors and Lorries seemed to be doing better, even though their strength was soon proved to be illusory.

¹⁸ I recall, for example, the case of Cromodora, which produced chrome-plated iron bumpers: its large factories located in Venaria, near Turin, seemed an odd and cumbersome purchase precisely when chrome in waste water began to be considered a disagreeable topic and plastic was emerging victorious as a technology and attractive in design terms. Comments on the operation among the well informed in Turin did not spare the Group's top management.

longer profitable and, in order to attain their goal, the former owners had taken advantage of high-ranking acquaintances.¹⁹

So it was no wonder that almost all of these companies were losing money and were deep in debt. Put together in the Fiat Components Sector, the aggregate total amounted to a lot of money lost every year and many accumulated debts: my first account, based on Mosconi's data, gave me for 1976 a loss of 25 billion lire (of those days!) on an aggregate turnover of about 700 billion.²⁰

The objective of organizing that accumulation of firms into a coherent whole struck me as a titanic task but the challenge fascinated me professionally, so much so that I had devoted an important part of my time as a Fiat *dirigente* before I actually became one, spent clandestinely in the Unione Industriale. I had, then as now, a keen interest in the development of small-to-medium Italian companies. I believed, in fact, that the Italian economy lacked the contribution of medium industry because in the past almost all Italian companies had failed to make the leap in development that ought to have transferred them from the ranks of small companies to those of medium-sized companies. It was true that all over the world it was expected that only the best, a small percentage, would manage to step up to the next category, whereas it was taken for granted that other claimants would die out, in a Darwinian sense, in the vain attempt to grow; but in Italy the mortality rate was excessive, almost a mass extinction. It was possible to count hundreds of small industries that had gone under at the moment of the big step. If you put the names in alphabetical order, the result was a staggering list, to which every reader could certainly add a contribution with cases known to him first-hand.

To this day I am convinced that the phenomenon (about which I don't think any in-depth analysis has been made) might represent an interesting subject of study for the science of applied economy; at that time the phenomenon was interpreted through the distorting lenses of Marxism, for which failure was a necessary consequence of the lack of awareness of social issues and other contradictions innate to capitalism, or it was commented on in a distorted way from the texts that big

¹⁹ Moreover, the map of the product/market in the heap of companies in the Sector, their technical competence, and their shareholding situation was extraordinarily varied. The range went from the torpedoes made by Whitehead of Livorno to batteries by Magneti Marelli, via compressors for domestic refrigerators by Aspera. Some of these companies had only one client, in other words Fiat Auto, such as Ages (items in rubber); others, such as Weber (carburettors), sold to car builders all over the world. Some possessed design centres and their own advanced know-how, others worked solely on licenses to third parties, such as Aspera Motors, which manufactured lawnmower motors under license from the American company Tekumseh; the ex-Fiat divisions, even when promoted to independence, limited themselves to working to customers' design, as *sous-traitantes*. Some companies still had in their own equity shareholdings belonging to third parties, as happened with Cavis of Felizzano (switches and wiring), co-owned by the Codrino family; Magneti Marelli was quoted on the stock exchange, as was Gilardini, recently acquired by the De Benedetti family; instead, many other companies were owned 100 % by Fiat.

²⁰ Magneti Marelli lost 19 billion lire, paint factories (IVI) lost eight and Aspera Motors (lawnmower motors) three. Others showing a loss were Cromodora (bumpers) and Weber (carburettors) for a billion each, Siem (headlights), Stars (plastic), Ages (rubber) for about 500 million each.

industries, public or private, commissioned to celebrate their anniversaries, texts that carefully avoided any hint that might seem disrespectful or contentious in the eyes of the establishment. Of course, to explain the phenomenon you could invoke general concepts relative to the economic structure of the country. I have already talked about the inefficiency of the Stock Market system. Moreover, the dimension of demand in the Italian domestic market was insufficient to sustain the development of products with a high value content and lacked that prerequisite of cohesion among political, financial, industrial, and trade union forces that years later was to be called the “national economic system”, required for the success of an attack on international markets on the part of Italian companies; on the contrary, the extremist trade unionism of those years often and willingly spilled over into authentic boycotts (in [Chap. 3](#) I shall refer to the case of Magneti Marelli that I experienced at first hand).

But I suspected that to explain some cases of unsuccessful industrial development it was sufficient to offer a more mundane analysis. According to me, the companies in question were often sacrificed in their moment of maximum splendour by owners who had stripped them of their liquidity and sold them off at the right time and in the right way to big public and private groups, preferring cash to the qualitative leap towards the industrial and financial adventure to be constructed on the models of international corporations. Or, in other cases, the companies had been razed to the ground by inept or corrupt management, whose work no one had supervised using management control systems (which already existed then and were widespread abroad). In both cases, therefore, there lacked a far-reaching, long-term entrepreneurial vision.

Whatever the case may have been, young and ingenuously nationalistic engineer that I was, I could not avoid looking at that picture without feeling a great sense of sorrow. I was embittered by the prospect that the doom of the companies in the Fiat Components Sector might be sealed if they were not inserted in suitable structures with some organizational expedient that worked both as protection and stimulus: many of these companies had been abandoned by their founders and regarding the current management it was sometimes legitimate to harbour some doubts; almost all of them ended 1976 with poor year-end results; it was to be expected that sooner or later Fiat would have stopped looking after this flock of small farmyard animals to devote itself solely to the big game in the noble park of the motor car.

In reality, Fiat already had a plan. I had studied it in the papers that Gianni Agnelli passed on in secret to Carlo De Benedetti. These papers were the work of Gianmario Rossignolo, a man very close to Umberto Agnelli, whom *vox populi* indicated as one of the upwardly-mobile *dirigenti* in the world of Fiat. Far from soothing my worries, Rossignolo's plan made me even more concerned. It called for the unification of all the operative activities in components into one strongly centralized organization, headed by an immense central body with eighty *dirigenti* and a swarm of other collaborators, whose research had already begun under the supervision of a Head of Personnel by the name of Riccardo Ruggeri.

This monolithic sector would have been justified if it had to deal with a few product lines but it appeared disastrous for components, which had to manage

hundreds of different products, based on dozens of different technologies with a specific map of competitors for every range, while the requirements of the various clients scattered around the world were also different. How was it possible to make fast, correct business decisions without a profound knowledge of the verities of each of those worlds, where every product had to find its right habitat, as had happened in Carlo De Benedetti's Gilardini?

But how to reconcile opposed requirements, to have agile entities close to the real life of the product/market and at the same time to dispose of dimensions sufficient to become a part of the cream of medium industry with international ambitions? I wrote my counter-proposal to Carlo De Benedetti on 25 February 1976, over two months before I officially joined Fiat. My plan, which I called "clusters", called for a far smaller and decentralized structure, in line with the De Benedetti style of those days, a structure that anticipated an organizational theory that was to become very fashionable twenty years later with the name "lean organization".²¹

This idea of mine, discussed in February and March, met with a certain coldness at first but soon Carlo De Benedetti espoused it completely, also because it provided him with a good project ready to be set in motion right from the first day of his entry into Fiat. But there was the problem of Gianmario Rossignolo and his

²¹ My plan called for the Components Sector to be organized on three levels. On the operative level there were simple entities each of which had to control its own product/market with the maximum knowledge of the facts. I reserved the name *Azienda* (Operating Company) for these single-product entities to underline the need for enterprise and independence they had to possess; I identified roughly thirty of them. Then came an upper level that brought together a certain number of *Aziende*, chosen according to criteria of operative convenience or specific common aspects. This was the birth of those entities that I called "clusters" in my letter to De Benedetti. These organizational entities, which were soon identified by the more down-to-earth name of *Raggruppamenti* (Groupings), had to supply the *Aziende* with the necessary administrative and financial support, manage the common services (personnel, information technology, etc.), see to planning and management control and promote the development of the business around the world: their role was that of a medium-sized multi-product company. Each one of these was to be run by an important person, with a wealth of authority, experience, and professionalism. The third level, that's to say the Sub-Holding of the Components Sector, had to be far lighter, no more than thirty persons in all, junior clerks included. Its task consisted of defining general strategies, preparing common policies and, above all, managing the *dirigenti*, planning the development of their experience and careers. The Fiat Holding Company came to find itself in an organizational position far distant from the operative units. This was to emerge as a great advantage: the *Aziende* were protected from excessive interference on the part of the Central Bodies. As I shall say later, the Central Bodies of the Holding Company, apart from Finance, were seldom able to stick their noses into the big Car and Industrial Vehicles sectors. As for the functions of Administration, Personnel, Image, the Legal offices and Staff of all sorts, how could they then justify their costly existence? That left only one hunting ground: small, isolated, run-down companies. This excessive trusteeship was oppressive and harmful, especially because it prevented the development of a modern, enterprising management at its head: a hapless unfortunate destined for such a position would have had to make compromises with at least half a dozen bureaucrats from the Central Bodies. Instead, according to my plan, the heads of the operative *Aziende* within the Components Sector worked under two layers of protective screens: the *Raggruppamento* and the Sector. Nothing guaranteed that these bodies were better than the central ones, but they spoke the same language and shared the same business interests.

plan. Carlo De Benedetti cut the Gordian knot: he sacked Rossignolo there and then. The move caused a great stir and scared many *dirigenti* but it proved useful to its originator because De Benedetti's reputation as a tough nut was reinforced and that increased his force of persuasion within Fiat.

Later, Gianmario Rossignolo maintained that he would have had no problem in accepting and realizing my cluster project; on the contrary, he said it would have been fine by him if only someone had told him about it. Instead he had been fired before knowing anything about it, the assumption being that he would not have appreciated it. The truth is that the top manager was ousted on the basis of deeper reasons.

Rossignolo had the reputation of being a great theorist of corporate economics; in fact, an excessive theorist. He was considered to be a supporter of the "descent of technologies" trend, according to which the motor car was a mature product, no longer innovative, destined to emigrate automatically from first-level countries, such as Germany, towards countries of intermediate development, such as Italy, which would have found a brilliant future in this field. The third world countries would have got even poorer industries. Carlo De Benedetti and I, like many experts in the car industry, derided that theory and judged it as naïve and pernicious. The years that followed proved that theory to be make-believe but in the meantime similar theories were published in the press and discussed at conventions, so much so that the contagion spread to political circles, where people began to consider the motor car as something obsolete. Even inside Fiat, managerial attention to the car sector was in some way distracted and this penalized the careers of some managers considered to be too technical and hence unsuited to following the new trend. The Fiat of Valletta's day had been excessively confined to the interior of the factory, recognizing primacy to those who dealt with production, the notorious *produciùn*, as they used to say in Piedmontese dialect with vaguely disparaging intentions; but now there began to spread an unproductive and glib intellectualism, a party with which, justly or unjustly, vox populi associated the Sector Head of Fiat Auto, Nicola Tufarelli, and that of the Components Sector, Gianmario Rossignolo. Some managers maintained that this really was Fiat's new course²² and they, too, adopted an affected and convoluted language that gained ground in Employee Relations management circles and characterized for a few years the Isvor, the company school that had just been housed in a castle renovated for the purpose in the hills above Turin. It was then that I developed a profound disgust for such pseudo-intellectual language, a rejection that I never managed to shake off.

There was, therefore, a strategic reason why Carlo De Benedetti dismissed Rossignolo in that emblematic manner, reasserting the arguments of business over those of ideology, even though I cannot exclude that the connotation of "intellectual" that accompanied Rossignolo contributed to disturbing De Benedetti for more intimate reasons: his pragmatism and self-esteem could not accept comparison

²² In private (but not in his book), Cesare Romiti always maintained that Umberto Agnelli had been the leader of the theorists devoid of any sense of industrial reality.

with a collaborator whom public opinion might have qualified as an antagonist whose competence on the level of ideas was greater than his.

The decision was made swiftly without Umberto Agnelli being able to side with someone who was considered to be his man, so swiftly that I, who was yet to meet Rossignolo personally (I met him only a few years afterwards), was informed by De Benedetti when the deed had already been done. Romiti, too, found out after the fact and accused De Benedetti of having taken advantage of his absence in Brazil. Romiti neither had a great esteem for nor particular relations with Rossignolo, who was not in his employ, but it seems to me that the former had every reason to complain, at least according to my feeling that top management ought to work as a team.

After Rossignolo's dismissal no one attempted to hinder any further my plan for clusters in the spare parts sector. Fiat's corporate staff, very efficient in these procedures, transformed it into reality in a short time.²³ To what had been Gianmario Rossignolo's position, Umberto Agnelli designated—shortly after Carlo De Benedetti's departure—Carlo's brother Franco Debenedetti²⁴ as head of this newly designed Sector. Franco, who was considered to be a “great bungler” as a manager but who was also an intellectually honest person, ran the Sector according to the “spirit” of the plan itself. He got things underway in the correct manner and did well as long as he stayed on, until 1978, after which I took on direct responsibility for the organization to which I had devoted so much attention.

Carlo De Benedetti in Crisis

Carlo De Benedetti paid a high price for his personal commitment. By the end of June 1976 he was showing clear signs of a psychophysical crisis and the intimates in his circle were seriously concerned. He struck me as being ever more agitated and insecure, so we set up a kind of rescue committee: apart from me and his brother Franco, there were Giovanni Germano, Guido Roberto Vitale and the couple Giulio and Franca Segre, who were his trusted accountants and looked after, then as always, his most private documents. We began to meet after the working day in Carlo De Benedetti's house, which was located a few metres below Gianni Agnelli's home in the hills above Turin, and we would stay there until late at night in a bid to boost his morale.

The feeling that big factories, unlike the small ones he was accustomed to in the past, were unmanageable and irrecoverable on the part of the capital that financed them, left Carlo De Benedetti prostrated. Having been unable to change all of Fiat in a few days, he had the sensation that he would never succeed. Cesare Romiti's detached, fence-sitting stance had a destabilizing effect on him.

²³ The new structure of the Sector is described in greater detail in Document 1 of [Chap. 14](#).

²⁴ At that time, Carlo and Franco spelled their surname in a different way. In this book I respect their personal choice.

A few days after our arrival in Fiat, in May 1976, the Moro government fell,²⁵ early elections were called and Umberto Agnelli announced that he intended to devote himself to a political career by presenting himself as a candidate for the Christian Democratic Party.

I am sure, now as then, that he made that decision in order to help his country. His analysis of the general situation was, as usual, precise and impeccable: (1) the degeneration of the established political class was destroying Italy; (2) the state was losing control of social issues and hence renouncing the reasons for its own existence; (3) the economy was being violated on a day-to-day basis under the blows of ideology. Today, with hindsight, everyone admits that this is how things really were, in an arch of consensus that includes many of those who found themselves on different sides at the time. But at the time it wasn't like that. According to Umberto Agnelli, the time had come for everyone to shoulder their own responsibilities; those who had a spirit of social service had to go in the front line; and he signed up for the Christian Democrats.

Umberto Agnelli had wanted to meet me on the very day I had emerged for the first time from the lift on the eighth floor of Corso Marconi. Affable, sensible, and intelligent, he struck me as better equipped than his elder brother for leadership of an industrial company. It seemed to me that we understood each other very quickly. From then on I appreciated and accepted his clear and incisive analyses and judgements; but I rarely understood his decisions and choices, which were often unpopular, always improbable.

His good deed in going into politics in the interests of a collectivity in need could not be assimilated to that of the other volunteers who converged on Rome, almost accompanied by the notes of the patriotic songs of the Risorgimento: *Addio, mia bella, addio...* (Farewell, my love, farewell...). The *bella* that he left in the hands of others was Fiat, a mechanism in grave difficulty but still strong, the most powerful independent private organism at Italy's disposal, able to play its fundamental dialectic role among the country's social forces. This separation was rapidly to put Umberto in the same condition as the many *peones*²⁶ who commuted devoid of any power between the North and the capital, because, without the great Group behind him, even an Agnelli becomes as powerless as an ordinary citizen. No one knew this truth better than those wily politicians who controlled the levers of power, starting with the colleagues in his own party. Umberto was to realize this immediately and he would have backtracked, but the new change, shortly after the first one, would have contributed to creating an image of fickleness on his part. So the fat was in the fire: when Umberto returned, Romiti had spun his own web and, De Benedetti having left, he was able to work on Gianni

²⁵ Translator's note: the government of Aldo Moro, the 32nd since the foundation of the Republic, was in charge for little more than 5 months in 1976.

²⁶ Translator's note: *peones* was the nickname for those Members of Parliament with no power whatsoever, who were merely forced to vote according to the party line.

Agnelli and exorcise the image of his absent younger brother, so full of defects, such as the insecurity and political naivety so recently displayed. At that point, Umberto Agnelli lost a lot of points in the game for the succession to Gianni, thanks to an inspiration that was noble, but destined to lose.

With Umberto Agnelli's departure from Fiat between the spring and summer of 1976 Carlo De Benedetti's responsibilities were extended enormously to include the four big automotive sectors. This led to a short circuit between him and Nicola Tufarelli, the chief of Fiat Auto, and everyone expected high-voltage sparks to fly. Just to avoid any misunderstandings, Tufarelli had declared that "an officer would never have obeyed a sergeant", and it was obvious to whom he attributed those ranks. Then, towards 20 July, the unexpected happened. Nicola Tufarelli resigned on his own initiative. I believe that by then he thought he had lost the match with Carlo De Benedetti, without knowing, as no one knew outside De Benedetti's circle of intimates, about the tribulations that were afflicting his new and abhorred boss.

I confess that when Carlo De Benedetti descended on my office waving the letter of resignation I felt a momentary relief. I recognized many of Nicola Tufarelli's virtues but I did not appreciate him as a company chief and this opinion dated back to a period, long before I met him again in Fiat Auto, when we were both still with Olivetti in the Sixties. There was nothing personal between us: Tufarelli had never done me any harm and in fact he actually held me in some esteem; but I didn't agree with his managerial approach, which I shall try to describe later. The fact that Tufarelli had eliminated himself on his own struck me a sign of destiny. Instead, unexpectedly, following the resignation of the man he feared more than any other, De Benedetti plunged even deeper into his existential crisis.²⁷

"Who shall we put in his place?" he began to wonder anxiously. I suggested the obvious solution, one that was a winning choice in my humble opinion: "You!". I reminded him of Valletta's old axiom: "Fiat is not run from Corso Marconi" i.e., the headquarters of the Holding Company, "but from Mirafiori", that's to say from the location of Fiat Auto headquarters.

My suggestions were as follows: that he should leave Bruno Beccaria, the chief of the Iveco Sector, in his lorry-driven isolation where he did not constitute a threat; that he should give his brother Franco autonomy in the Components Sector; that he should nominate other lieutenants elsewhere; and that he should go to head Fiat Auto in person. I am convinced that if Carlo De Benedetti had accepted my opinion the history of Italy's largest private company would have been different. Instead, he was a prey to an anxiety that prevented him from analysing the situation lucidly. In his eyes, Beccaria, his brother, I, and all the others were incapable of realizing anything acceptable. This marked the appearance of the first signs of that syndrome of authoritarian and exclusive self-esteem that was to damage him seriously in the years that followed.

²⁷ Romiti maintains in his book (*op. cit.*, p. 38) that De Benedetti caused Tufarelli's resignation; but the opposite is true, as I recount here.

In the last week of that July 1976, I personally wrote the statement to be given to the press announcing Nicola Tufarelli's resignation, a kind of task that fell to me when I was with Gilardini and that continued to do so in Fiat when events of extraordinary importance occurred, despite the bodies expressly assigned to external communications. I hoped that the note would be released before the summer holidays, even though there was a tacit company rule whereby news that might create agitation should never be released before the holidays (when people are scattered about all over, with free time to chat, and whose reactions cannot be controlled). I was expecting some reluctance on the part of the Agnellis and Romiti, but it was Carlo De Benedetti who stopped me, thereby increasing my disquiet.

And so we were heading for the August holidays of 1976, which looked set to be very agitated. I joined De Benedetti in Sardinia and the banker Guido Roberto Vitale also came. Two years before, Carlo De Benedetti had built an enchanting villa in a wonderful position on cape Capaccio, near Romazzino. A large living room opened out over two seas and a flat roof covered in rosemary ensured that the whole structure was inserted harmoniously among the rocks of the Costa Smeralda. It was in that paradisiacal place that towards the end of August Carlo De Benedetti received a visit from Gianni Agnelli, who stayed for a long talk with no witnesses.

When Agnelli left, Vitale and I rushed to De Benedetti, who we found in the deepest despair. We walked slowly along the road that from the villa led to the hotel Romazzino. I had gone out barefoot and the further we went, the hotter the tarmac got under the Sardinian sun, and so I found myself involved in a conversation that was searing hot, in all senses, as I walked along over the burning coals. According to the brief account that De Benedetti gave us, Agnelli had admitted that for Fiat and for capital there was no longer any hope, that everything was useless, that everything would be lost: the factories were unmanageable, and capitalism in Italy was finished.

Had Gianni Agnelli's cosmic pessimism destroyed in a moment what little self-confidence De Benedetti still had left? Why go on fighting? Why accept the provocations of a bureaucratic functionary (which was his opinion of Romiti), if in the end all efforts would have proved vain? It was then that he got the idea of a definitive trial, a kind of test of fate: he would have asked the Agnellis for full power in Fiat, absolute, total power. If this was not given to him he would have left; let them keep their Romitis and Tufarellis. And if he obtained it... what would he do with it?

To this question there was no answer, because De Benedetti had not worked out a plan of intervention or even some guidelines with which to remedy the serious mistakes that, in his view, Italian capitalists and first and foremost the Agnellis, had committed: that is to say of having made a mess of running the factories (especially those of Fiat Auto) and of having conceded an excessive, deleterious space to the trade unions and politicians.

In the exclusive circle of his friends we all tried to dissuade him from the idea of making such a radical request. It seemed unquestionable to me that Carlo De Benedetti should have greater autonomy and not have to put up with interference on the part of the other *amministratore delegato* (CEO), Cesare Romiti, whose

role should be that of an aide (as “his” *direttore amministrativo*, or Chief Financial Officer) and not that of an opponent.²⁸

The way in which Carlo De Benedetti asked for full powers was, more than unacceptable, incomprehensible. By taking on responsibility for the sectors previously headed by Umberto Agnelli his power had increased substantially, so much so that from that moment on Cesare Romiti should have been the one to worry. Why get scared by Tufarelli’s resignation and, at the same time, make even more radical requests? But as soon as De Benedetti took that road, he acted with his customary rapidity and on returning from the summer “holidays” he wrote a letter to Gianni Agnelli that he showed me as soon as it was ready. On reading it I immediately got a precise sensation; it seemed to me that the text “said” one thing, but “meant” another; the true substance signified: “Please, don’t accept what I am asking you for”.

I did what little I could so that De Benedetti might tear up that letter and perhaps I was the last to delude myself when his other friends took his departure for granted. On a wall in his office in Corso Marconi, Carlo De Benedetti had hung up a black and white poster: in a meadow with long grass you could see a running man, seen from behind. I tried to appeal to his pride: “Ingegnere” I said, as we used to call him, “don’t run away like that man there”. This was not diplomatic on my part and it certainly was not calculated to promote future benevolence, but I never played the diplomat in vital moments when I found myself faced with what I held to be my duty to be clear and coherent.

All was in vain: the letter was delivered on 23 August 1976 and the following day Carlo De Benedetti left his job without ever setting foot again in his office on the eighth floor of Corso Marconi.

In telling the story of how De Benedetti left Fiat “merely” because of a personal psychophysical crisis, despite the successes attained and the victory that was taking shape, perhaps I am disappointing some lovers of conspiracy theory who see premeditated plots and obscure intrigues behind it all. I hope instead that I have been understood by those who believe that great managers are men like any others and that there are no supermen even among those who make money and a career. It was said later that Carlo De Benedetti had been kicked out of Fiat for trying to take it over, plotting to deprive the Agnelli family of their shareholding control. Over and above the events narrated here, I never had any information or feelings about this alleged issue, nor did any person in possession of the facts make any mention of it to me.²⁹ Hence I must retain that what I have said is the complete truth.

²⁸ As I have already mentioned, an ulterior demonstration of this distortion was to come about when it was made known that Cesare Romiti and Mediobanca had negotiated the entry of the Libyans in Fiat capital unbeknownst to Carlo De Benedetti, while he was not only *amministratore delegato* (CEO) but also one of the major shareholders, whose personal quota was not much less than those of Gianni and Umberto Agnelli; and who was a part in some way (albeit indirectly) of that Jewish community that the new investors declared their mortal enemy.

²⁹ Even Cesare Romiti in his book (*op. cit.*), while he talks about the hypothesis, describes it as improbable.

De Benedetti's Inheritance

The realization of the Components project was only one of the many initiatives approved or undertaken by Carlo De Benedetti during his hundred-day spell in Fiat between the beginning of June and the end of August 1976.

For example, De Benedetti never lost the chance to say how proud he was about having endorsed a new car from Fiat Auto that was to come out a few years later with the catchy name Panda.

I accompanied him one day to Moncalieri, near Turin, to visit the style centre run by Giorgetto Giugiaro, a designer who was already well known and appreciated, and this last proudly showed us the maquette of the new car, which was then conceived in an even more Spartan manner than the model that it eventually became, so much so that it was nicknamed *la rustica* (the Rustic). For example, instead of seats it had canvases stretched between two tubular supports. But later it was realized that rusticity had its limits even for customers' bottoms.

Always in search of innovations and prepared to decide rapidly following the impulses of his entrepreneurial instinct, De Benedetti immediately authorized Giorgetto Giugiaro to proceed with his work, thus beating to the punch the assessments of the Fiat specialists whose job this was. Then the nuts and bolts process of production followed and the Panda, conceived under the aegis of De Benedetti, was born a few years later in the Fiat Auto headed by Nicola Tufarelli. The intervention was anomalous: De Benedetti worked in a company of enormous dimensions and he arrogated to himself the know-how of some top-flight specialists, substituting for them in approach and judgement. But this sometimes happened, in the car business all over the world: if things went well, a posteriori people talked about insight and flair; if they went wrong, there was a search for a scapegoat.

I do not share De Benedetti's satisfaction and, with regard to the initiative, I would make a substantial criticism: Fiat had no need at all for the Panda. Fiat Auto's problem then (and was to remain) that of breaking the vicious circle in which it was enmeshed: the cars it was producing were too small, and hence did not obtain sufficient sales revenue outside Italy, hence quality and the international distribution network fell below the standards of the competition, and hence most of its cars were destined solely for a domestic market that prevalently absorbed cars that were too small, hence... and so on. Unfortunately, the final effect of this vicious circle was insufficient profit or, more precisely, an insufficient return on investment with regard to that enjoyed by international competition.

I shall develop this theme at length later in this book, because that situation always represented the crux of Fiat Auto's existential problem and constituted a source of dispute among the major players in Fiat management twenty years later. Here, it suffices to observe that in 1976 it would have enormously more useful for Fiat Auto if there had been a plan that redesigned in an integrated, concrete, and innovative manner the map of the products, networks, and marques on the international markets, rather than an improvised runabout to be added to those that already existed and that, paradoxically, contributed with its success to prolonging the essence and image of Fiat Auto as a lower-class producer.

As well as the Panda project, Carlo De Benedetti got other interesting operations underway. For example, he started up the Comau initiative I shall describe in [Chap. 2](#) and opened or encouraged contacts in the Energy and Rail Stocks areas.

Above all, Carlo De Benedetti bequeathed to Fiat after such a short spell an important ideal legacy: he showed that it was feasible, or at least attemptable, to revive the entrepreneurial spirit even in big industry, and this demonstration was as compelling and convincing as his exertions “as if he had to go to Entebbe” every morning were absolute and desperate. Despite Gianni Agnelli’s sarcasm, his total dedication to the cause took on an extraordinary meaning in that historic moment in which all seemed definitively lost regarding the values of industry and the market.

This message kept up great vitality among Fiat management even after De Benedetti’s departure. In spite of the *damnatio memoriae* that followed his resignation, I never had any hesitation about admitting that, personally, I had been impregnated with that spirit. And many others with me.

The plan for Components was emblematic because it imposed on a Fiat sector a violent decentralization that delegated important responsibilities to lower levels. Many managers found themselves obliged to attend to a complete responsibility that included total visibility of the profit-and-loss sheets. The *dirigenti* were called upon to work in lean structures devoid of bureaucratic cover. The triple stratification in castes (*direttori*, *vice-direttori*, *dirigenti*), typical of Valetta’s Fiat, was explicitly repudiated. Even the clerical staff and, to a certain extent, the blue-collar workers were invited to assume greater co-responsibility, if nothing else through the reduction to the minimum of employees.

Obviously, this was far from the theoretical premises of the lean organization and the processes of re-engineering as they were to be worked out and spread in the Nineties, but it was the direction taken by that “Components spirit” that De Benedetti had introduced and was to survive him in Fiat, at least in many units. Only the two biggest Sectors, Auto and Lorries (Iveco) had to wait a few years before they, too, were affected by radical modernization, as I shall be describing in the subsequent chapters.

Chapter 2

New Initiatives and Old Problems (1976–1978)

Why and How I Remained in Fiat

I was very surprised to remain in Fiat following Carlo De Benedetti's departure. I had always taken it for granted that, as I had come with him, so I would have left.

It is true that during the hundred days I had forged good relations with all the top management of the Holding Company and its Sectors, visited a large number of factories, and done a considerable amount of work, but in Fiat no one had ever chosen or co-opted me: from the Company's formal point of view I had arrived there by chance, hired in an abnormal manner, without respecting any procedure or undergoing any initiation. Leaving did not strike me as an option so much as an obvious consequence of my boss's departure. In that situation, too, I had made no requests of a personal nature; it was De Benedetti who told me, while we were together in a car, on that same fatal Tuesday of his exit: "Now we must also decide about you..."; and then, to my surprise, he continued: "Let's talk about it right now; I have also sent for Germano and Ferrari".

I was astonished: my future was to be discussed and decided in the presence of other members of his circle who ran two relatively small companies within the Group, Gilardini and Whitehead, and who had nothing in common with my business. The reason was made clear to me shortly afterwards. At the meeting, Carlo De Benedetti made a no-nonsense start: "It's obvious that Germano, Ferrari¹ and my brother Franco,² who hold institutional positions, must remain in Fiat until we decide

¹ At the time, Mauro Ferrari was still under thirty and was much appreciated by Carlo De Benedetti who had him nominated *direttore* of one of the companies in the Components Sector, an enormous responsibility for such a young man, whose only previous experience had been with a small distribution company selling low-tech products. Later, he was put in charge of CIR, the holding company owned personally by Carlo De Benedetti, but relations between the two very soon deteriorated.

² I do not recall if Franco Debenedetti was also present at the strange meeting. He remained in Fiat as head of the Components Sector, an appointment that followed the dismissal of Gianmario Rossignolo.

together what's to be done". Then he spoke to me: "It would be better for you to stay on, too, until I buy some other company to run; that way, Fiat will pay your salary in the meantime".

The remark was a revealing one regarding the frame of mind of a man who, in those moments, did not feel able to represent a reference point even for the people closest to him. My colleagues rested on the solid ground of a well defined company position, whereas I was abandoned in a presumably hostile milieu, without support and without a precise position, the *direttore adetto* to a CEO who was no longer there, presiding over an office facing that of Gianni Agnelli on the eighth floor of corso Marconi. I was greatly distressed and said absolutely nothing.

But, as things turned out, the milieu where I remained "to have my salary paid" was not hostile at all.

The next day was a Wednesday and at ten in the morning there was scheduled a meeting of the Fiat *comitato di direzione* (Steering Committee) for which I acted informally as Secretary. I felt it was inelegant to present myself without my boss, so shortly before the meeting began I set to helping the secretary Renata Andretta, who had stayed on in corso Marconi to put De Benedetti's papers into boxes for storage in the cellar.

At that point, at ten sharp, I saw Umberto Agnelli appear in my doorway. "What are you doing? Aren't you coming to the meeting?", he asked me in the most natural way in the world; he took me by the arm and, after crossing the corridor with arms linked, he took me into the meeting room, the Sala Nasi that was right in front of my office, where Romiti, Tufarelli and Beccaria had already arrived.

Thus it happened that Fiat paid my salary for another twenty years.

My Early Relations with Cesare Romiti and the "Confidential" Remunerations of the Seventies

Carlo De Benedetti came to look for me in the autumn of 1976 but by then I was rooted in Fiat, where I was developing to my satisfaction numerous initiatives, which I shall be dealing with in the next paragraphs, and where I felt in tune with both top management and all the people in the Company, and I turned down his offer.³

I had stayed on thanks to the good offices of Umberto Agnelli, but my relations with Cesare Romiti were immediately just as good. My first meeting with him,

³ Later, in 1978, Carlo De Benedetti invested the money received from Fiat in the purchase of a shareholding in Olivetti, of which he became a "reference shareholder", according to the term that he himself contributed to divulging (and that in my view took on a rather euphemistic connotation, knowing his direct way of running companies personally). It is odd that a few years before, replying to his request to identify companies to buy, I had mentioned Olivetti, then chaired by Ottorino Beltrami, who had with him Marisa Bellisario, a couple with whom I had worked for a long time in the Seventies. But then Gilardini ended up in the Fiat Group and my suggestion came to nothing.

following Carlo De Benedetti's departure at the end of August 1976, concerned a delicate matter and was indicative of the degree of mutual trust established between us.

Carlo De Benedetti had left Fiat without a word of farewell. He had not passed on instructions to anyone regarding things he had got underway and had left hanging in the air; so it was up to me, directly or indirectly, to carry on those matters I had knowledge of. Among the other things he had abandoned, De Benedetti had not troubled to see to the economic conditions to be reserved for his former co-workers in Gilardini, myself included. I was the only one who could take on this task, and so, a few days after Carlo De Benedetti's departure, I requested a meeting with Cesare Romiti. I presented myself armed with a sheet of squared paper, protocol format, on which I had written in pencil the names and the "confidential" salaries of about fifteen of Gilardini's top managers. The last name on the list was mine.

In those years all Italian companies used to pay a part of salaries "in an unofficial manner"; this applied to *dirigenti*, and often even to employees. The practice was absolutely normal and included the Italian branches of foreign multinationals. Gilardini was no exception. Before my arrival in the Company, Carlo De Benedetti decided arbitrarily the end-of-year bonus for each *dirigente*, a bonus that was therefore known to all as the "San Carlo". But the number of *dirigenti* was growing and De Benedetti was steadily less able to distribute his generosity in an impartial and judicious fashion, so that as soon as I set foot in Gilardini, towards the end of 1973, he asked me to do something to make the system more professional.

In a short time I conceived and introduced into the Company a system of incentives linked to the results attained by each *dirigente* in the management of his area of competence.⁴ I had seen to this task in 1974 and 1975, drawing the raw material from a little briefcase full of cash that the Company's accountants had provided me with. I must confess that handling that money had caused me a few worries. Until then, and for many years, I had been working in complex structures of large international companies: that relationship with cash, so tangible, so "entrepreneurial", was entirely new to me.

⁴ The introduction of the budget and incentives based on targets was, explicitly, one of the tasks for which Carlo De Benedetti had hired me in 1973. At the end of every year the annual report was prepared with the favourable and unfavourable deviations with respect to the budget, and it was easy to calculate the total retribution owed to every interested party on the basis of parameters that had been defined beforehand. After the deduction of the official salary paid in the course of the year, which was considered an advance, the balance was paid directly to each party in bank notes. The band of fluctuation permitted for every individual payment was broad, so much so that the variable part could reach 50 % of the total and sometimes even more. The system was therefore deliberately highly incentivising, in harmony with the aggressive spirit of the Company on the markets. The excellent results of those years were translated into excellent emoluments for all, myself included. Apart from the manner in which cash payments were made, rather unorthodox albeit normal in the Italy of those years, the methodology employed in Gilardini was in the avant-garde even in comparison with the most modern countries, so much so that it was adopted by Fiat in the early Eighties, with some unsubstantial variations. Twenty years later the method was to come into general use everywhere.

And I wondered: in those days why did the companies operating in Italy, Italian-owned or not, pay part of salaries “in an unofficial manner”? Undoubtedly, there were good fiscal advantages, savings on both direct and indirect taxes (the ones known euphemistically as “social contributions”). But this could not be the only reason. Moreover, in order to generate cash it was necessary to fall back on subterfuges, usually false invoices from suppliers, and no one willingly carried out such an exercise with the sole aim of transmitting tax-free cash to collaborators. To understand the problem fully you therefore need to look for other explanations.

The fact is that in those days in Italy high salaries were considered indecent. Many businesspeople made capital gains (which were not taxed) by selling their companies; commercial intermediaries of all kinds were permitted to speculate on inflation, which was running at levels of 10–20 % per annum, generating monstrous extra-industrial profits for those who were able to “ride” the phenomenon (that is for those who increased the price to the consumer before sustaining an increase in their own costs); and the ostentation around the country of boundless wealth of unknown origin was accepted. But company managers were obliged to conceal part of their remuneration to avoid the attacks of widespread and vociferous demagoguery. Feigned egalitarianism was *de rigeur* in circles close to industry, which was subjected to the influence of an ideology with markedly extremist connotations. This was pure hypocrisy, obviously, because everybody knew the truth, and besides it sufficed to compare the salaries of Italian managers with normal salaries in competing foreign companies to realize that there had to be something behind it, unless one wished to give credit to the idea that Italians treated their profession as a charity.

I did not like this situation from any point of view: I was convinced that the egalitarian zeal of Italian trade unions and politicians was a serious mistake, which redounded against the welfare of the citizens; but I also thought that industrialists themselves were making an equally serious mistake by concealing profits and falling back on subterfuges instead of adopting an attitude that was more courageous and more congruent with the ethics of advanced capitalism.

It certainly was not from within the microcosm of Gilardini that one could hope to influence the opinion of the general public. At that time this was how things were and the generalized practice of “confidential” remuneration in Italy was not destined to disappear almost everywhere until the early Eighties, with the new laws⁵ and with the return of the meritocracy.

Be that as it may, on that day in early September 1976 I gave Cesare Romiti the account of the payments made to Gilardini *dirigenti* until the preceding year and

⁵ The determinant factor was the law that attributed criminal responsibility to *dirigenti* for a failure to declare payments (who could yet agree to assume penal responsibility for themselves with the sole purpose of doing a favour to the receivers of the salaries or the company shareholders?). Even more determinant was the attitude that the judiciary habitually adopted in work-related lawsuits (any employee or *dirigente* could request the payment of the contributions omitted—and hence the taxes, with the criminal consequences mentioned above—even after many years had passed: some used this threat as a form of blackmail when they no longer found themselves in agreement with the company).

the incentivization objectives for the current year, as I had always kept them, written in pencil on the sheet of squared paper.

Romiti did not bat an eyelid: “If you say that those are the figures, that’s fine; give them to Auteri who will look after them from now on”. He neither checked them nor criticized them, but accepted them wholesale, and so they ended up in the hands of the Head of Employee Relations of the Holding Company.⁶ It was difficult to think that Romiti could do anything other than acknowledge the situation, but the way in which he did so made a favourable impression on me.

In my working relationships I always tried to establish a rapport based on trust with my interlocutors, and all the more so I applied this spirit of fair play to my superiors. Hence I immediately found myself on the same wavelength as Romiti, too: that meeting was the first of an extremely long series of encounters in each of which I showed him the maximum deference and transparency, to the point where I arrived at the arguably excessive manifestations I shall be describing much later⁷; in exchange, he accorded me total trust, accepting many of my suggestions without argument. Romiti ended this relationship suddenly (and, to me, incomprehensibly) seventeen years later, in autumn 1993, with a unilateral break. Having trusted him turned out, in the very long term, to have been an act of naivety on my part, a delayed-action error whose origin can be understood only through the narration of a long relationship, whose point of departure dates from that very day in September 1976.

The Heritage of Togliattigrad and the Comau Initiative with the “Private Operators”

Cesare Romiti asked me immediately to see through many projects started up during the De Benedetti management and to this end he created for me a new, tailor-made *Direzione* (Department) which had never existed before, called *Nuove Iniziative* (New Initiatives). This was music to my ears. I had to complete the new structure of the Components Sector, which I described in the previous chapter and that was realized in a few months, but not only that: I had other interesting projects on my hands.

The most attractive one was the talks that were to lead to the creation of Comau, a big producer of systems for machining and assembly, among which stood out the gigantic automated welding systems that many car builders in numerous countries throughout the world use to this day for assembling their vehicles.⁸

In a rather chance manner, a Torinese businessman, Sergio Rossi, had suggested an idea to Carlo De Benedetti: “Why don’t we unite the strength of Fiat and

⁶ The salaries reserved for ex-Gilardini dirigenti were transformed into official payments by Fiat. But this was done gradually over three or four years so as not to be conspicuous.

⁷ See [Chap. 10](#).

⁸ I shall continue to identify Comau as a “machine tool manufacturer”, a traditional but erroneous reference because it was terribly belittling.

that of “private operators” in the field of machine tools?”. De Benedetti had passed the suggestion on to me: “You see to it...”; and I had pricked up my ears, because of that old theory of mine on the development of those small Italian companies that seldom made the leap up to medium size.

In this way I met Sergio Rossi, a man worth knowing.

Right from the first approach it was clear that his language of choice was Piedmontese dialect. Awkward and incorrect in his use of Italian, he shifted to the vernacular as soon as he could, and then he acquired an imaginative and unpredictable eloquence. With great skill he used an anthology of rhetorical figures that would have been the envy of a Byzantine grammarian, but all artifices poured out naturally and spontaneously. Then you understood you were faced with an intelligence of a high level, and the doubt even arose that the use of dialect, far from being a stopgap imposed by the lack of academic culture, was also a refined rhetorical device.

Years previously, Sergio Rossi had been a functionary with a Fiat office whose function I found unintelligible. Later, he set up on his own account and became the go-between, the focal point, of many initiatives that involved many first-level Fiat *dirigenti* and, on the other side of the watershed, some external entrepreneur-suppliers. In Rossi’s lexicon “private” was synonymous with non-Fiat, almost as if Fiat were a publicly-owned body, or better, almost as if it were the state itself: every time, I had to step in and correct the expression, and not only with Rossi, because the improper use of the term had become current even among many Fiat *dirigenti*.

Sergio Rossi was an expert in production methods and possessed a rare long-term vision in the field of factory technologies. This extraordinary blend of technical competence, entrepreneurial non-conformism and colourful approach made him unique among the business brokers who were then prospering around the big Group.

The machine tools companies interested in the business dealings between Rossi and Fiat were seven in number. He wanted me to visit all the factories and have lunch with the most important people in each of them. This was normal practice for him and other “private” entrepreneurs like him: it served to forge interpersonal bonds and to establish psychological connections that were less formal than relations in the office, in a setting that put Fiat *dirigenti* at their ease, facilitating the descent from their empyrean. I suspect that such visits may have occasionally favoured some less professional and more venal exchanges among “private sector” operators and their interlocutors, who in that context were made more malleable, but I very much appreciated that no advances were ever made to me either by Rossi or by any member of his entourage.⁹

Pointless from the standpoint of personal involvement, such visits were extremely useful to me to gain an understanding of the technical aspects, organizational situations, and the variegated psychologies of the people who played the roles of

⁹ Things went differently on another occasion when some “private” entrepreneurs made me an “anomalous” proposition. These people offered me a sum equivalent to ten years of my salary to “represent their interests”, in other words to have Fiat buy one of their insolvent companies at a high price. I was so shocked by this proposal that I hastened to tell Umberto Agnelli and Cesare Romiti about it. “So close to us...” was Gianni Agnelli’s comment when they told him about the approach.

shareholder or manager or, often, both of these roles in the limited but complex world of manufacturers of sophisticated machine tools. Having finished my round of visits and having analysed the facts, I was firmly convinced that the integration of the companies in question would have been not just useful but essential for their survival, which would have been good for Fiat and Italian industry in general, and was also feasible. In my opinion, Sergio Rossi had had a splendid insight and had also chosen the right moment, the moment of Carlo De Benedetti's arrival and his desire to get things done, to propose his idea; he was also lucky to find me as his interlocutor, and that I was to stay on in Fiat....

I called him to my office in corso Marconi and, speaking *ex cathedra* with the maximum solemnity possible, I told him that Fiat was prepared to consider an operation with him.¹⁰ From then on there were many analyses and discussions, but the substance of the project was never in question and its implementation progressed speedily. Towards October 1976, the criteria of assessment were established and shortly afterwards the share swap ratio. The name COMAU, which until then had stood for the *CONsorzio (of sales) di MACchine Utensili*, was appropriated for the unified Company, too. As I have said, it was comprised of seven companies.

The most important company was the one owned completely by Fiat, known as MST¹¹; it was losing a lot of money because it was suffering from the gigantism imposed by the huge industrial dimensions of the contract Fiat had signed with the Soviet government, at the end of the Sixties, for the construction of a car plant in Togliattigrad, Russia.¹² I have no figures with which to corroborate my statement, but I am certain that this mega-deal contributed to worsening Fiat's serious difficulties in the first half of the Seventies. Probably, the costs sustained by Fiat for personnel and the materials used to build the plant on the Volga were well covered by contractual conditions and hence were reimbursed without losses, but as soon as the job order ended, many Fiat units that had been pumped full of men and equipment were left without work.

¹⁰ But he had to accept two preventive conditions, which I explained were non-negotiable. The first condition dictated that there could be no compensatory sums of money between Fiat and the other shareholders in other words the merger of the companies involved had to come about exclusively via share swaps, paper against paper. I said this because I knew that if the "private" shareholders had got wind of hard cash, in a period in which such goods were thin on the ground, then blood would soon have been flowing in the corridors. On the basis of the second condition, he, Sergio Rossi, had to be my sole interlocutor. I did not want anything to do with dozens of "private" shareholders, each busily defending his own interests with all the means at his disposal, interests that were different to those of the others; it was up to him to get his colleagues to agree, using the methods he thought best. Sergio Rossi understood and agreed on the spot, without thinking about it.

¹¹ On the subdivision of Fiat into Sectors, the new name had substituted the old one of *Officine Ausiliarie Fiat*.

¹² Translator's note: after Fiat won a major contract to build the automobile manufacturing plant of AvtoVAZ, the city on the Volga river was renamed Tolyatti, known in Italy as Togliattigrad, after the longest-serving secretary of the Italian Communist Party.

At that time there was no flexibility regarding the use of white-collar staff and blue-collar workers, so that production costs weighed for many years to come on the accounts of the Fiat group. I do not dispute that the contract with Russia was highly advantageous on the level of image and that many “private operators” working as Fiat OEMs, nimbler and less principled, had made substantial earnings from it through the subcontracts. Gianni Agnelli, moreover, was justly proud of the fact that Fiat had constituted an industrial bridge with the USSR in times of strong ideological closure, and he took pleasure in the veiled embarrassment that the operation had caused, on a petty political level, within the Italian Communist Party, so committed to destroying that very capitalism with which the country it looked to for guidance was now doing business. I, too, who in the days of the Togliattigrad contract could not have imagined I was destined to join the Turin-based car maker, had exulted from a distance at this success, like a good Italian engineer. But if Fiat shareholders had calculated the firm’s consolidated profits over an interval that also included the aftermath, they would have recorded a disappointing result; and in that tail-end of 1976 the situation of MST was before my eyes to prove it.

The structure that was Comau¹³ was built on the foundations of MST, and it was inevitable that Sergio Rossi became its first *presidente* (Chairman). I was glad about this and did what was within my power to favour his appointment. I knew perfectly well that with him at the helm the new company would not have been a model either of flawless accounting, or of transparency in personnel management, or of sales methods. But I also knew that it would not have been a bureaucratized concern or an inert one from the standpoint of technical innovation and commercial aggressiveness. With this “private” beginning, Comau would have had more than a good chance of success, and in future Fiat could have taken control when and how it wished, because it held a majority share of the capital, and this was what was to happen in the years to come.

Afterwards, relations between Sergio Rossi and Fiat deteriorated and his name did not enjoy a good press inside the Group.¹⁴ I no longer had anything to do with that world until the Nineties, when everything I have said here was already in the distant past, but I was never so drastic in my judgements. I believed I had identified Sergio Rossi’s flaws and limitations right from the start but I had also grasped his

¹³ I shall not dwell on the other components that merged with Comau. The most important was Morando, a company whose shareholders did not include Fiat and one that had a great reputation in the field of vertical turret lathes. But Morando was in deep trouble, also because of the cancellation of the Italian nuclear programme. Then there were, in various situations of equity ownership and performance, ColubraLamsat, IMP, SASS, and Di Palo, as well as two companies specialized in moulds, IMPES and Berto Lamet.

¹⁴ A contributory factor here was that in the Eighties, Paolo Cantarella, an ex *assistente* to Franco Debenedetti and Cesare Romiti, was nominated to flank Sergio Rossi as head of Comau. The tales that began to arrive in corso Marconi were terrible, disastrous for Rossi. Cantarella stated that he had been seriously opposed in Comau, so much so that threatening messages against him had appeared on the factory walls. Romiti very much appreciated the young man’s conduct in this critical situation, and he mentioned this to me several times. Rossi was dismissed and replaced by Cantarella.

merits and capacities. The talks for the constitution of Comau had engendered in him a certain respect in my regard. They told me of an opinion that Rossi had expressed on my account to his entourage in the course of the talks: “He’s very polite and you don’t notice anything, but when he goes away you find out he’s stuck it up your...”. Said in Piedmontese dialect, this phrase sounds very expressive; coming from a man like him, I knew it was a compliment, and I took it as such.

At the end of October 1976, Antonio Mosconi went back to Romiti to complain about the fact that I had too many deals on my hands. By that time the new structure of the Components Sector and the construction of Comau were underway and could not be reversed: I told Romiti that I would willingly leave the conclusion of the final implementation of the administrative and corporate aspects to the constituted offices and, from that moment, I took no more interest in the matter.

The Genesis of “Robogate”, a Masterpiece of Italian Engineering

There was a subject that Sergio Rossi was often willing to dwell on with me. It was a project that MST was planning to develop and, according to him, it was one that held extraordinary interest because it promised to revolutionize the way automobile bodies were traditionally produced. I tried to go deeper into the subject than Sergio Rossi’s colourful and imaginative descriptions: after all, I was an electronics engineer... The idea immediately struck me as interesting and feasible, thanks to the progress that electronics was making at that time. I liked to listen to a businessman who showed both competence and enthusiasm for the development of a new high-tech product. In those days this was not a common event in Italy. Moreover, if the effective characteristics of the system corresponded to the objectives, it would have been not only a marvel of technology, but also a business of the first order. The plant, in fact, promised unusual performance.¹⁵ It was in this

¹⁵ First, the system could assemble motor cars of various types, even if they were presented randomly, what came along, came along; it recognized the model by itself, then it automatically shifted certain tools that fixed the geometry of the body, found the right software and finally activated the electric welding robots that stitched together the metal plates of the vehicle. Factories became flexible, no longer rigidly bound to the production of a single type of vehicle. All this improved the response to the changing requirements of clients and solved the problem, disastrous but frequent in the car industry, of when one factory no longer had vehicles to produce while another, destined for a different, successful model, could no longer keep up with demand. Second: there would no longer be any need to throw away all the old equipment when new car models came out to replace the old ones: all that was necessary was to replace a few geometric tools and the software the system activated again immediately, with enormous savings in start-up times and investment costs. Third: this caused the disappearance of worker fatigue in one of the toughest departments of the entire motor car production process, the so-called *ferrolastratura* or car body welding; in fact, these workers disappeared, replaced by robots. Only those who have not spent eight hours a day welding car bodies holding electric welders weighing ten or twelve kilos above their heads can regret the passing of this manual labour.

way that I approached for the first time what was to become known internationally as “Robogate”. Comau installed the first exemplar in the Cassino factory around 1978 to produce the Fiat Ritmo. The same plant was still producing the Fiat Bravo and Brava in 1995, when I calculated that one in three cars in the world were being assembled by similar systems.

Italy never bestowed great honours on its own technical successes; nor did it pay them much attention. Some men of finance shared the opinion, attributed to Enrico Cuccia, whereby “know-how is a commodity you can buy like all the others”; this theory did the national economy monstrous harm because, without technical capacities, it’s hard to understand where an advanced country can obtain the money to buy anything at all: finance does not have the capacity to create wealth from nothing, in the absence of new and attractive products and services.

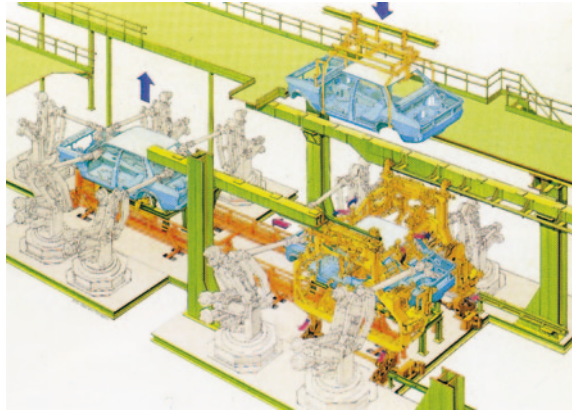
According to me, the general disinterest the Italian intelligentsia showed with regard to the fields of science and technology contributed to keeping public opinion in ignorance, an ignorance that in its turn increased the general disinterest, in a vicious circle. The political parties found technical topics scarcely rewarding and hence the media did not deign them worthy of attention, except for expressing great amazement at the extraordinary foreign “conquests” in fields such as aerospace technology, computer science, or biotechnologies. Italian intellectuals, almost always with a literary, philosophical, or artistic background, considered technical-scientific topics (of which they did not have a fundamental grasp) as inferior-level arguments, a judgement that many thinkers of the past, from Aristotle to Kant, would certainly not have shared. Even Italian industrialists and trade union officials preferred “political” debates to “technical” ones, a counterproductive choice that led them to play away from home on the treacherous and hostile ground of “primacy”.

This was very different from the case of countries with more advanced economies, such as the United States, Germany, and Japan, where the influence and esteem enjoyed by technicians and scientists were extremely important. In my view, no category should have stood out over the others, since the progress of a nation entailed a harmonious relationship between politics, economy, and technology: today as then, there is no doubt that politics influences the other two components, but it is equally true that each of these influences politics in its turn. It is easier to expound this idea of mine today, when technological development, especially in the fields of telecommunications and transport, has led the economy towards globalization and in its turn this has seriously constricted the policies of nation states; in those days, anyone saying such things passed for naive.

I discovered immediately that in Fiat the level of technical competence of many people, *dirigenti*, functionaries, clerical workers, and specialized workers, was very high indeed: to this day I recall with great pleasure the countless, endless discussions I held with engineers, discussions that revealed to me every time interesting and unexpected worlds, where experience, intelligence, and commitment reigned.

For this reason my contribution to the construction of Comau represents a source of great personal satisfaction for me. And to this day Robogate strikes me as an example of an engineering success of international value, a success that made it possible to develop an entire industry through which it increased the knowledge

Fig. 2.1 The drawing shows a Robogate manufacturing system, bought by BMW from Comau in 1984



and welfare of many people. I like to imagine that one day there might exist a place devoted to the conservation of the memory of the excellent accomplishments of the national technical intelligence, and I believe that Robogate has every right to be represented in this virtual pantheon, held up for the admiration of posterity together with a few hundred other equally valid and equally unknown achievements.

But in its heyday Robogate was anything but a museum piece (Fig. 2.1). That marvel, realizable in the future, whose praises Sergio Rossi sang to me in the mid Seventies,¹⁶ contributed, together with other inventions in automation, to revolutionizing the factories, with enormous consequences for civil society. Only after all this happened did rivers of ink flow on the subject.

In-house Planning

A few years after the Comau initiative, I happened to buy for Fiat the majority interest in UTS, a company supplying technical services. This was a small matter, but I mention it here because the acquisition, which represented the completion of the Comau operation, throws light on a singular aspect of the hidden and turbulent world that surged around the great Group.

In the Sixties and the Eighties, Fiat Auto, Iveco, and other Fiat Sectors used to assign to outside suppliers many R&D contracts that included both the product (for example, cars or lorries) and the equipment and production methods, that is the sum of the instruments and the norms necessary for the manufacture of the product in a suitable and economical manner. By way of justification, it was

¹⁶ I absolutely do not mean to suggest that Sergio Rossi was the inventor of Robogate, but that he was a strong supporter and an efficient promoter of this idea. The effective conception and realization should be attributed to a team effort to which, apart from Comau, a substantial contribution was made by the technicians of Fiat Auto Production, then headed by Bracco, with Nicola Tufarelli as Sector Head.

said that the number of people available in-house was insufficient. This practice entailed positive and negative aspects at the same time. It was well known that, in the main, suppliers used Fiat employees themselves, who rendered their services outside working hours and managed in this way to improve their standard of living thanks to a second, tax-free salary. It was an efficacious expedient for the avoidance of the constraints imposed by trade union egalitarianism, which flattened wages and held all criteria of meritocracy in contempt. Hence this clandestine work contributed to preserving the precious expertise of mid-level technicians in the Turin area, the widespread local know-how that was of extreme importance for the safeguarding of its industrial vocation.

This was a primitive version of the rush to outsourcing that was to explode with the processes of industrial restructuring of the Nineties, but the aim was different and similar to that of the “confidential” incentives paid to *dirigenti*, which I mentioned earlier: getting round the excessive egalitarianism of those years. Clearly, no category at the time was as free of sin as to be able to cast the first stone. The undesirable aspects of the system were also obvious. The tiredness of technicians during working hours, caused by extra work done at home, could not fail to harm performance, also because the people involved knew that the less they produced in-house the more Fiat would have been obliged to re-route other orders towards external suppliers,¹⁷ and no one knows the art of self-regulation better than the employees of a big organization. The system therefore contributed to an excessive inflation of both the personnel and the costs borne by the Group.

If we exclude Fiat, UTS was the principal R & D subcontractor in the Italian automotive sector: established and run by private business people, it had attained remarkable dimensions (some hundreds of official planners and engineers and a good level of technical competence, which in some units surpassed that of Fiat and its defeatist attitude). But, and this is an essential fact for me, it was UTS that acted as a middleman with the vast world of the “underground providers”, receiving orders from Fiat and farming them out to a large number of external collaborators. By acquiring control I did not put an end to the practice, of which I could also see the favourable aspects, but I did introduce a possibility to “monitor” affairs on the part of the Fiat Group, which, as I have already mentioned, could also have taken over direct control, as was to happen later.

The Failure of a Rolling Stock Operation and the Origin of the Pendolino Fast Tilting Train

A good number of initiatives I had in hand at that time were unsuccessful, as was to be expected.

¹⁷ Still in 1984, when I was sent to head Iveco, I discovered that the practice was widespread, I had it cease instantly.

For example: Renato Piccoli, the chief of the Rolling Stock Sector, had set up a project aimed at redesigning the structure of the Italian locomotives and carriages industry, and Carlo De Benedetti had passed the proposal on to me just as he had done with Sergio Rossi's idea for machine tools. I set to collecting data and visiting factories among the Italian industries in the field that were owned by third parties, as well as those few that belonged to Fiat.¹⁸ The panorama struck me as disheartening: the companies were extremely numerous and fragmented, most of them small with primitive technology; it was immediately clear that a process of general merging was necessary or, at least, some form of integration and rationalization. But, unlike the case of Comau, in this field any initiative was, more than impracticable, out of the question. The presence of Fiat was marginal: only a few percentage points of the Italian market. It was obvious that competitors were not prepared to put up with any operation, never mind leadership on the part of the huge Company; the powers of persuasion that Renato Piccoli and I could bring to bear were therefore wholly devoid of efficacy.

The market was controlled in a rigorous manner: the *Ferrovie dello Stato* (Italian Railways) distributed orders among the various manufacturers with strict respect for the historic market shares, predetermined as a percentage of annual turnover calculated to the second decimal point. This caused incredible consequences: for example, if the Railways needed a locomotive, they also had to buy a goods wagon, in order to respect everyone's quota. As a result, trains cost as if they were made of gold, and no one took the slightest interest in innovation.

This monster of market regulation paralysed Italian industry for decades, from the post-war years onwards, and contributed to the disaster of the national railways. The case ought to be studied in schools of economics, because it shows how the abolition of competition, far from safeguarding jobs and the rights of users, in the long run destroys the former and mocks the latter. The profits, or, more precisely, the guaranteed incomes obtained by "entrepreneurs" were obviously very high, but the party couldn't go on forever. I suspect, however, that the interested parties did not pose themselves the problem of the future: as long as it lasted....

The plan to restructure the industry was abandoned almost immediately, but from it there derived an unexpected positive spin-off for Fiat and for the country. Renato Piccoli, like a good native of Trento, was a tenacious man. Given that there was nothing doing with the others, he had a try on his own. He gave wings to an idea suggested by one of his engineers and launched Fiat Ferroviaria into a more than innovative development, even a reckless one, given the conditions I have described: the result was the conception of an entire train that was to see the light many years afterwards, another product worthy of appearing in the virtual exposition of the marvels of Italian engineering that I mentioned earlier: the Pendolino fast tilting train.

¹⁸ Fiat Ferroviaria Savigliano and two 50 % shareholdings in Omeca and Ferrosud, located in southern Italy.

The Failed Rationalization of the Italian Large Electric Machine Industry

Another initiative, to which I attributed no importance for Fiat, so much so that I did not shed a single tear when it was aborted not long after, sprang from an idea by Carlo Rossi, the head of the Energy Sector. It was a matter of putting together all the Italian companies that produced large electric motors for railway locomotives and large alternators for generating electrical energy.

Unlike the railway materials unit, in this milieu there were only three players, but all heavyweights: Tecnomasio Italiano, despite its Lombard tradition, was owned by the Swiss company Brown Boveri; Ansaldo was publicly owned; Ercole Marelli, among the three, found itself in a riskier position. A short time before, this glorious Company had been the object of a takeover bid by an industrialist from Brescia, Luigi Nocivelli. This last had made grandiose investments to prepare the factories for the advent of the Italian nuclear power plants programme, whose launch seemed imminent: I recall having admired in a huge shed in Sesto San Giovanni the machine tools being made ready to manufacture the one-thousand-megawatt alternators. But the project and the commitment were too far-sighted for Italy's defeatist political reality and the sudden cancellation of the programme decreed the end for the deeply overexposed company.

Three manufacturers of such machinery in Italy were too many and it seemed opportune to rationalize them, but this was not a task for Fiat, which in that unit held a few, small concerns that I would willingly have seen sold off, and certainly not extended. In any case rationalization was out of the question. Brown Boveri, the owner of Tecnomasio Italiano, did not look kindly on the idea that the Italians might agree among themselves to create a competing complex, and I would have done the same thing had I been in their shoes.

I took it for granted that their representative in Italy, Gerolamo Pellicanò, would show interest in the initiative and take part in the relative talks, but only with a view to boycotting any progress. I found it curious that Pellicanò had been nominated chairman of Milan's Assolombarda, because by doing this the entrepreneurial community had put at the head of the most important and prestigious association of the category in Italy¹⁹ a person who not only was not an entrepreneur, but a representative of foreign interests. Never, and I mean never, in Britain or Germany or France could an official who represented a foreign-owned industry have won such a delicate position in a city so pre-eminent in the country's economy.²⁰ Yet this practice was to

¹⁹ Translator's note: Assolombarda is the largest entrepreneurial association in Italy, with many thousands of associates.

²⁰ It was only in the Nineties that a Fiat functionary, Massimo Carello, became the first to make progress within the Confederation of British Industry, after Fiat had become an important local producer through Iveco, New Holland, and Magneti Marelli. Carello was a member of the Chairman's staff, but no one ever deluded himself that he could have become the number one in London, and certainly not because he was less worthy than Pellicanò.

continue even later. Pellicanò's successors in Milan's Assolombarda were first Ottorino Beltrami and then Ennio Presutti, both perfectly worthy persons,²¹ but both functionaries coming from foreign complexes, one from General Electric, the other from IBM. I never understood the reason for such a defeatist choice on the part of the Milanese entrepreneurs, a choice with respect to which Fiat was not extraneous (as it owned Milan's Magneti Marelli, Telettra, Iveco/OM, Borletti and other interests), and, inspired by Cesare Romiti, its goal was an extended hegemony over national industry. At the time I did not deal with the matter, nor did I do so later, and therefore I am unable to provide first-hand information, but I remain convinced that putting the representation of the category in the territory into the hands of pensioners of foreign companies was not a particularly courageous or rewarding decision.

In any case, the initiative that had been proposed to rationalize the electrical machinery unit ran aground in endless arguments and after a while it was shelved.

The Prehistory of Sorin Biomedica

In this digression on Fiat initiatives in the second half of the Seventies I cannot avoid telling the story of an operation that amused me for its speed and efficiency.

In the Fifties, Vittorio Valletta visited the United States, where he was struck deeply by future prospects in the field of atomic energy in America. So he decided to join Fiat's forces with those of Montecatini to prepare for the advent of the new market. This marked the birth of SORIN, the *SOcietà di RICerche Nucleari* (the Company for Nuclear Research), and with it the experimental reactor at Saluggia, which was the first plant in Enrico Fermi's homeland to become critical, that is to self-sustain a nuclear reaction.²²

At the end of the Sixties, the Italian nuclear programme was shelved, the reactor finished its work and was decommissioned. But what to do with it? Few things in the world are as cumbersome as a closed down nuclear reactor. A young research worker, Umberto Rosa, who had been with Fiat for a short time, was put in charge of its deactivation. He had a different idea: given that the plant would have remained radioactive for decades, he transformed the problem into an opportunity. He set to irradiating those substances that, once transmuted into radioactive

²¹ The first in particular always held me in great esteem and friendship: I had worked for him for some years in General Electric in the Sixties, he taught me a great deal and it was he who nominated me *dirigente*. His permanence as head of Milan's *Unione Industriale* cost him a great number of legal problems for events that had involved him but certainly not for personal interest; he faced those troubles with the same serenity and firmness with which he had commanded (and always brought home to port) the submarine under his command during the war.

²² The reactor had been conceived not to generate electricity but to study the behaviour of materials subjected to radiation, because (correctly) it was believed that European industry could have made a greater contribution to that field. The two great Italian companies were complementary, as Fiat was oriented towards mechanics and Montecatini towards chemicals.

isotopes, were currently arousing great interest in the field of medical diagnostics. Sorin had become Biomedica.

Sorin Biomedica was one of the few true technological innovations (a “venture”, as we would say today) that was born and flourished in the Italy of those years. It made sterling use of IMI research funding²³ to develop and go on to become an internationally competitive medium-sized company in this highly advanced field.

In the period to which my account refers, at the end of the Seventies, Sorin was designing its own pacemaker that, together with the artificial heart valves subsequently put on the market, would have assured the Company international leadership in the field of heart surgery systems, while giving Italy another extraordinary technical accomplishment.

The field of cardiac oxygenation during open-heart operations was in synergy with Sorin’s projects, and for this reason I found myself, one day in 1977 or 1978, on a flight to Los Angeles together with Umberto Rosa to try to establish an alliance with a small but outstanding Californian company. The founder, Jim Bentley, whose name the company bore, was the prototype of the self-made small American businessman, the way they are portrayed in film stereotypes: arrogant, unpredictable, impulsive, even likeable. The talks, which lasted twenty-four hours straight, were an authentic happening. In the end we bought the company, after which the staff of a Los Angeles law firm worked all night long to draw up the voluminous contract we signed at dawn. Bentley remained with Sorin for a few years, until Rosa sold it off for a capital gain for Fiat that was gigantic compared to the price we had agreed to pay that night in California.

Cesare Romiti: Good Finance and not Much Industry

The two years of work with the Direzione Nuove Iniziative were very instructive for me, both for acquiring a knowledge of the business, and, more generally, for understanding the ways of the world. Apart from the large Auto and Lorry Sectors, the Group showed extraordinary dynamism, accentuated by sectorialization and by the spirit left by Carlo De Benedetti and his men.

From my vantage point, I could see Fiat top management at work, especially Cesare Romiti, to whom I was very close.

In the first place, Romiti followed directly all aspects of administration and finance. Fiat’s organizational and methodological progress in that field were extremely slow. For example, the Group’s first consolidated annual report did not come along until 1981: while it was true when some boasted that this was an important novelty for a major Italian industry, it was equally true that it came scandalously late with respect to advanced countries. Until that same year there was no unified chart of accounts for the hundreds of companies within the Group, a fact that made management control rather confused.

²³ Translator’s note: a state-funded bank entity in charge of supporting innovation.

Again: the search for sources of financing seldom explored the world's big markets, such as New York or London. The priority objective was that of maintaining the Agnellis' control of the share capital, the consequence being that it was necessary to exclude *a priori* normal investors with liquidity and influence and to accept more anomalous but more controllable capital, such as that provided by the Libyans of the Libyan Arab Foreign Bank in autumn 1976.

Moreover, Cesare Romiti always had a scarce propensity for relations with advanced foreign countries, which weakened Fiat's international prospects. I would have preferred a different line of conduct because I had my ideas on the role that a large company should have played in favour of our country. Italian industry saw Fiat as a model; if the model flew low, then the rest of the country would have flown even lower. Corso Marconi should have taken a leaf out of the book of the best foreign companies and spurred other Italians on towards progress, but at this point, unfortunately, the limitations of fundamental provincialism emerged. The administrative functionaries of Fiat preferred to play within the national boundaries, content to measure themselves against national mediocrity. My belief was that we had to do the exact opposite and I shouted myself hoarse in a bid to convince everyone around me, taking advantage of my status as a neophyte in the Group. I was seen as a fanatic who stuck his nose in matters that did not concern him, but occasionally I obtained some results.

Notwithstanding the sin of resistance to the innovation of procedures, the Romiti management was reliable and shrewd both in accounting and in the treasury: a huge step forwards compared to the situation that had preceded his arrival. In both areas some excellent persons began to gain experience and emerge and these same people were to go on to form the framework of those "functions" in the Eighties and Nineties.

On another front, at that time Cesare Romiti was committed to freeing Fiat of a set of unprofitable and strategically disastrous activities that were weighing it down. In the social climate of those days closures were out of the question, and finding private buyers was impossible: that left the state. In this milieu, relations with the political powers in Rome, Romiti gave the best of himself.

In the steel area, Ferdinando Palazzo, the *capo-settore* (Sector Head) of Teksid tried desperately to ally himself with the corresponding public companies, in particular with Cogne²⁴ and the steel works at Piombino, in which Fiat held a 50 % holding. His declared objective was that of inserting them all in his area of control. To this end, he was organizing projects non-stop, such as the ones imaginatively dubbed "pair" and "four in hand". Romiti let him carry on, but at the right time, and with a masterpiece of lobbying that was as intense as it was secret, in 1978 he suddenly overturned the situation: it was the Fiat steel mills that went to the state. Fiat had the double advantage of earning money from the sale to Finsider and distancing itself from the poor prospects facing that business.

²⁴ Translator's note: a steel mill built at the beginning of the century strategically close to the iron mines and the hydroelectric power plants of the Aosta valley.

Grandi Motori Trieste, the marine engine factory that was a 50 % joint venture, also ended up in the hands of Fincantieri, taking with it a piece of Fiat history in a field by then entirely lost as far as western industry was concerned. With its arrival in Finmeccanica, Aeritalia met the same fate; years before, the firm had been the vehicle for Fiat's once-glorious activities in airframe construction.²⁵

Fiat's participation in SGS-Ates, the producer of semiconductors that later became ST Microelectronics, ended up differently because, if I remember aright, Fiat reduced its presence to vanishing point by declining to invest the capital necessary to make good the losses, which seemed unstoppable until the merger with Thomson and new management under Pasquale Pistorio.

One very important operation carried through by Cesare Romiti concerned the activities of Fiat Auto and the Teksid foundries in Brazil. In the early Seventies, everyone in Fiat thought that their predecessors had been wrong to prefer investments in Argentina while neglecting Brazil, which seemed destined for a bright future. In fact, Brazil was revealing itself to be an Eldorado for those car builders who were producing locally, such as Ford and, above all, Volkswagen, which was making gigantic profits. In an attempt to make up for lost time, a monumental joint venture was set up together with the state of Minas Gerais. This marked the birth of the enormous car plants in Belo Horizonte and the big foundries in Betim, then entrusted to Teksid.

The idea was far-sighted and fifteen years later impressive benefits were to come along for Fiat, but the initial set-up was wrong, so much so that it caused a long period of troubles. Investments were excessive regarding both production capacity and the automation of the plants, as a consequence of the exaggerated manner in which Fiat Auto engineers habitually tackled new industrial projects, neglecting any consideration of a "return on investments". The factories in Minas Gerais would have appeared excessive in Europe or the United States; in Brazil they were enormous cathedrals in the *sertão*, the like of which had never been seen.

There was worse: the investment was financed almost entirely through onerous debts in dollars. In a country where the percentage of inflation was running at two or three digits a year, with constant currency devaluations and with a gigantic gap between inflation and the cost of money, servicing the debt caused an enormous hole in the annual Profit and Loss report. The state of Minas Gerais pulled out of the venture and the hot potato remained in the hands of Fiat, jeopardizing its solidity. Only after exhausting negotiations with the financing bodies and the state of Minas did the situation gradually improve.

In Italy, Romiti made a wholehearted bid to push through the law on the financing of Innovation, the famous law n° 46 of 1982, of which he was effectively the originator. It was a good law, of which Fiat and many other Italian industries took the maximum advantage. Finally Italy, too, was offering companies substantial aid, on a par with other countries that dispensed an enormous amount of money through military

²⁵ The last emblematic realization under Fiat management was the G91 fighter/trainer, under the direction of Giuseppe Gabrielli, already legendary in the Seventies. Instead, the unit producing aero engines (Fiat Avio) remained entirely in Fiat.

and aerospace orders, which did not exist in our homeland.²⁶ Romiti and his aides (in particular Cesare Annibaldi and Cesare Sacchi, highly efficient Roman lobbyists who in fact drew up the law) worked for a long time so that financing might be granted automatically, that is to say without the interference of state organs that the parties normally inserted in spending laws in order to impose their not entirely disinterested mediation.

Cleaning up the Fiat Group's portfolio of assets and financial structure and the lobbying in Rome were not only meritorious but essential activities. Romiti, however, took little or no interest in the running and the strategies of the Auto and Industrial Vehicles sectors, even though they constituted respectively 50 and 15 % of the Group's turnover. In theory, on the basis of the organization charts he was the chief executive of the Company and, as such, he should have given the two great sectors constant priority and attention. In reality, Romiti did an excellent job as director of Finance and Holdings and was enormously active on extra-corporate fronts, but he did not contribute tangibly to the industrial core business. Fiat's real organization chart was very different to the formal one.

The Real Organization Chart

Looking at the effective reality of Fiat, over and above official information, it was easy to identify some large areas of authority that were independent of one another and with little communication between them.

The Auto sector was in the hands of Nicola Tufarelli, who ran it from the "palazzina", a building in the Mirafiori plant where he resided with his direct collaborators. Similarly, the Industrial Vehicles sector was run by Bruno Beccaria, whose offices were in the factory known as Spa, in Turin's via Puglia.²⁷ In reality, the pair were totally independent of the Fiat CEO, Cesare Romiti, just as their staff were independent of that in corso Marconi. The heads of the minor sectors, some more and some less than others, acknowledged a relationship of dependence with regard to Romiti, even though when it came to industrial activity they did substantially what they wanted. Then there was a "transversal" function, that of Finance, which Romiti always supervised in person, totally.

A privileged place from which to observe the situation was the *Comitato Direttivo* (Steering Committee), of which I had been secretary since my arrival, in May 1976, to January 1979. As well as Carlo De Benedetti and Umberto Agnelli, who took part pro tempore, as from 1977 the permanent members were Romiti,

²⁶ In Italy, most of the funds destined for defence were absorbed by the current operations, to support low-level employment in more or less poor areas, where military arsenals had been located for generations. Moreover, production volumes were insufficient to pay for sophisticated research.

²⁷ Iveco was a BV (private limited liability company) incorporated in Holland, but management was always in Turin.

Tufarelli, and Beccaria.²⁸ The committee meetings were a ballet in which everybody tried to avoid any talk about their own business, and in general they succeeded. Few decisions, no debate. I did my best to draw up minutes in the Anglo-American style, not cryptic or vague as was the custom in the Holding Company, but brief and precise: despite my efforts, and some stretching, I seldom managed to use the crucial opening: “It has been decided that...”

From then on I was steadily more convinced that things should have worked differently. Fiat was an industry and mainly an automotive one. According to me, top management, which used to be known as the “*vertice aziendale*”,²⁹ ought to have busied itself full time with automotive aspects, all automotive aspects: product, production, sales, finance... The involvement of all those with top management responsibilities should have been totally centred on the subjects of the world of motor vehicles, because on that one, and only on that one, would the destiny of the Group depend. The heads of the principal Sectors, the “core” Sectors, had to manage everyday problems, obviously. But strategic and structural decisions should be agreed on by a small, close-knit and informed management group of which they themselves were a part together with the upper level. In other words, I envisioned a command group on two levels that interacted between themselves very closely. Was this a dream, on my part? Or was it perhaps preferable to follow the current practice and leave Nicola Tufarelli and Bruno Beccaria the absolute masters of their Sectors, company demigods in their own houses, while Cesare Romiti dealt with topics that were important but far from the core business, only to intervene and dismiss both men in order to replace them with another two, Vittorio Ghidella and Giorgio Garuzzo, and years later repeat the story with new characters, ad infinitum?

It was on this basic theme, many years later, that I was to fight, and lose, my battle.

Nicola Tufarelli and the Heritage of Vittorio Valletta

In the second half of the Seventies, the two major Sectors, those of Motor Cars and Lorries, were going from bad to worse.

²⁸ Gianni Agnelli began to keep himself informed about Fiat affairs at a much later date, at the end of the Eighties, and then, more assiduously, in the Nineties. At the time of the account, the *presidente* (Chairman) was not a part of the *Comitato Direttivo* (Steering Committee) and took part only rarely, and distractedly, in the Company’s internal meetings.

²⁹ *Vertice aziendale* (top management), also used in the plural, *Vertici aziendali*, was a Fiat term of unknown origins that emerged from the communiqués of the Employee Relations department. The Fiat board was then totally absent in every sense of the word: the *presidente* (Chairman) was a charismatic but detached entity, to whom you could not refer any operative matters, the *amministratori delegati* (CEOs) the *direttori centrali* and the respective *direttori addetti*, came and went. The necessity was felt for an all-embracing term that was sufficiently vague and flexible: the personnel department was not found wanting and coined the expression “*vertice aziendale*”, whose content no one ever took the trouble to define precisely.

In Fiat Auto, Nicola Tufarelli, already powerful before, became even more so after the departure of Carlo De Benedetti and the simultaneous annulment of his resignation in July 1976. Tufarelli's career was a particular one. At the beginning of the Sixties, he was head of Employee Relations in Olivetti. After the crisis following the death of Adriano Olivetti, he became head of Production. He was hired by Fiat in the mid Seventies, I believe by Umberto Agnelli, as head of Administration. After some months, he was nominated head of Fiat Auto. This last leap was no less extraordinary than the previous ones, and I never managed to understand what experience in his curriculum had suggested it. Perhaps, more than his competence and his managerial successes, the Agnellis had been won over by the way he presented himself.

My personal relationships with Tufarelli were not deep but neither were they bad. He, jokingly, claimed the "merit" for having hired me in Olivetti in 1961.³⁰ Personally, I never had anything against him but I did not appreciate him on a professional level. He made up for the lack of direct experience by shifting all discourse onto the level of pure theory; and there his dialectic skills were such that he could reduce all interlocutors to silence. This intellectual superiority made him patronizing. He was a man of power and did not "team up" with the men around him. His international experience was zero; in this sense he had probably not been helped by his origins in Basilicata, in a period, that of the Sixties, when that region was still far from the processes of international industrialization.

In Tufarelli's time, the decline of Fiat cars became dramatic. Vehicle quality deteriorated before one's very eyes, as did performance; it suffices to recall the fuel consumption of the Lancia Beta. Some models came into being out of pure improvisation, such as the Lancia Trevi. Working effectiveness in the factories became intolerably poor. Market share and image abroad plummeted.

It's true that the social situation inside the factories made it very hard to control the production processes, because the supervisors were subjected to frequent intimidation and their authority was constantly challenged. The rhythms of work were declining and continuous, fragmented strikes broke up the normal operational flow. Dismal neologisms such *gambizzazione* ("kneecapping") and *microconflittualità* ("micro-unrest") were coined in that period. Threats to bosses were the order of the day and also killings – such as that of Carlo Ghiglieno, a collaborator of Tufarelli's since the Olivetti days, who was slaughtered outside his home.³¹ There is no point

³⁰ I let him say so but in reality the "credit" was to be ascribed to others.

³¹ The murder was perpetrated on 21 September 1979 in Turin's via Petrarca, a few metres from my office, then located in via Campana. For us Fiat *dirigenti* the crime was a shock. Ghiglieno did not hold a pre-eminent or strategic position: he co-ordinated the "logistical" function, whose task was to make sure cars reached their new owners at the right time, preferably in the right colour and with the optionals requested. I wondered if the label "logistical" had attracted the attention of the criminals for that slightly military air that their imaginations attributed to it, or, more subtly, if it was precisely customer service that they wanted to boycott. I discovered later that it was neither one nor the other; a former collaborator had indicated the victim, at random. The Red Brigades had studied my cluster project for the Components Sector. In one of their hideouts, called "dens" by the press, the authorities found a document that contained a detailed description of the structure and analysed the consequences of its industrial efficiency. Between the lines one glimpsed a certain industrial satisfaction, almost admiration. Then, in the closing lines, the tone

in my repeating here the story of what was happening in the factories in those days, because others have done so already, starting with the realistic and touching account offered by Cesare Romiti in the book he wrote with Giancarlo Pansa in 1988.³² I understood the problem perfectly well, thanks to my first-hand experience in a factory outside Milan right from the first hour of the “hot autumn” of 1969; and I think that these circumstances ought to be duly borne in mind even now, when judging Tufarelli’s era and work. Nonetheless, there was a lingering doubt that not all that could and should have been done in a corporation as large and emblematic as Fiat Auto had actually been done. Carlo De Benedetti, for example, was absolutely convinced that there was a lack of leadership, and without a doubt he would have tackled the situation with greater incisiveness, had he remained.³³

The problems of Fiat Auto had distant causes and deep roots, and solving them would have required far more than Tufarelli’s intellectualism. Vittorio Valletta, who remained in charge until the respectable age of eighty-four (he died in 1967), had left behind him a fossilized and inept management. He had won great merit in the preceding decades but unfortunately he failed to step down at the right time. Gianni Agnelli glorified him on every occasion, but his brother Umberto was not of the same opinion, also because the task of sorting out Fiat in the early Seventies had fallen to him.³⁴

Fiat Auto’s profit margins all sprang from the Italian market, which between 1960 and 1970 had registered a growth of one million cars: on the average one hundred thousand cars more every year for ten years! It had been a cakewalk, but now Fiat Auto, seated on its national laurels, could no longer count on alternative market outlets, nor did it have the international experience required to create them. The energy crisis of 1972 and the restrictions on the circulation of vehicles that ensued suddenly reduced the demand for cars in Italy and did terrible damage to the profit and loss statements of a Company absolutely devoid of flexibility regarding costs.

Then came the price freeze. In 1973 inflation was galloping and Fiat Auto should have increased its own price lists starting from spring. Instead, this measure

Footnote (Continued)

changed brusquely, clearly the work of some “political commissar”, and the entire project was referred to as a monstrous scheme contrived to damage the proletariat. In that document I could read explanations and objectives that not only had never crossed my mind, but also struck me as unthinkable for any human mind. In those days all us Fiat *dirigenti* were at risk, and we knew perfectly well that it would not have been the bodyguards to save us in case of attack. In general, we took this philosophically. The most serious harm concerned the families, children above all, who lived in an apprehensive climate of civil war, kept up by the perennial presence, useless but brooding, of the personal escort.

³² Pansa and Romiti, *op. cit.*

³³ Gianni Agnelli’s doubts must have been even greater and more contagious, if we consider the impact they had on Carlo De Benedetti’s morale, as I mentioned in Chapter 1.

³⁴ Cesare Romiti recalled on many occasions how much Fiat was in debt on his arrival in 1975 and boasted about his own efforts aimed at finding lines of credit, until the injection of Libyan capital. This is true and his merits in this sense should be widely recognized. But those debts did not come from nowhere: they were the legacy of Valletta’s era and the consequence of Fiat’s incapacity, as he had left it, to face the challenges of the new decade, the Seventies.

was deferred to please the government of Mariano Rumor, who, by way of gratitude and without warning, decreed a total price freeze starting from the first of July of that year. All business and most of Italian industry easily dodged the freeze, for example by abolishing the customary discounts or by creating intermediation companies, as Montedison did. But Fiat could not do this. Until March of the following year, the revenue for every car remained fixed, while the salaries of employees and suppliers' prices increased excessively.

I, who at that time had just arrived in Gilardini, wondered why Fiat accepted this squeeze. The Group could have refused to grant rises to both parties, and if for this reason someone had suspended their services it would have been possible to close the factories: no law can oblige an entrepreneur to work at a loss. What measures could the government have taken? Would it have nationalized Fiat? Or called off the freeze? In any event, Fiat did nothing.

Perhaps it was precisely the burning humiliation of the price freeze that influenced Gianni Agnelli, persuading him in October 1974 to choose as his close collaborator a person well introduced in Roman circles, as Cesare Romiti was by nature and was always to remain. This is an inference of mine, which if it corresponded to the truth would help to explain the *presidente's* (Chairman's) dichotomy between theory and practice: in words, Agnelli rose on every occasion to play the defender of Fiat's Piedmontese nature and the severe critic of government activism, but in actual fact he had chosen a man from the opposite side to whom he entrusted the administration of the Company.

There were also some who maintained that in Fiat nobody had noticed the enormous losses caused by the price freeze, because there was no monthly reporting of accounts. The hypothesis is a credible one, and I saw many other cases of the kind in my working life, with reference to smaller entities. Until the Eighties, Italian capitalism opposed modern management accounting to avoid giving proof to the tax authorities and minority shareholders; hence companies did not possess the instruments required in order to have a rapid grasp of the situation when things were going badly. The banks granted credit readily and operational activity proceeded without anyone taking remedial action, until it was too late.³⁵ Some businessmen even adjusted their accounts so as not to show losses, then they ended up believing in those very accounts they had falsified. Perhaps Fiat was not an exception.

In this terrible situation, Fiat Auto remained under the leadership of Tufarelli in conditions largely independent of the Holding Company, until his dismissal at the end of 1978.³⁶

³⁵ The press coined the stereotype, unacceptable from a semantic standpoint but liked by the unions, of a company that was "healthy but overwhelmed by debt".

³⁶ As I mentioned before, Cesare Romiti took absolutely no interest in the management of Fiat Auto, either to modify negative trends in the technical or commercial fields, or to improve industrial relations. In my direct experience of those years I saw no trace of what he wrote in his book of 1988 (Pansa and Romiti, *op. cit.*, p. 17): "It was then, precisely in 1975, that we began to lay the groundwork of the task destined to come to completion towards the end of 1979, on the eve of the year of the turning point".

Bruno Beccaria and the Problems of the Industrial Vehicles Sector

Apparently, things were going better in the Industrial Vehicles Sector,³⁷ because the accounts showed a profit. But in reality Iveco was floundering in troubles no less serious than those of Fiat Auto: I shall analyse them in detail and with full knowledge of the facts later. Iveco's capital included funds from the German firm Klockner Humboldt Deutz (KHD), which held 20 % of the shares, obtained in exchange for their contribution to the joint venture with Magirus Deutz of Ulm. The Germans displayed colossal arrogance. Even though they held only a minority share, they had managed to impose a most onerous condition: Iveco always had to offer its own lorry customers air-cooled diesel engines, as an alternative to the normal water-cooled engines that were in use all over the world. Obviously, the air-cooled engines were produced only by KHD, and they agreed on a minimum number of units to be purchased every year, at an off-market price. The enormous burden of this contract was magnified by the technical and logistical difficulties of managing a dual range of vehicles. The owner of KHD, Jorg Henle, and his CEO, Bodo Liebe, spared no criticisms and attacks during board meetings, and for his part, Bruno Beccaria, Iveco's Sector Head, did not miss any opportunity to provoke them to the point of exasperation. Normally, the Germans were most unwilling to belong to groups controlled from abroad, and KHD explicitly assumed the role of the paladin of the German spirit of Iveco against the Latin one. The feud among the shareholders influenced effectiveness, so that production and planning in Ulm (Iveco Magirus) and the sister companies in Turin and Brescia (Iveco Fiat and Iveco OM) not only failed to integrate but had no contact with one another.

From my vantage point in *Nuove Iniziative* I discovered a woeful, almost unbelievable situation. Despite the disagreements among the shareholders, an administrative operation called Iveco 2 was approved, to bring additional assets into Iveco that originated in Fiat or KHD. Both parties locked horns in a bidding war to see who could shoot the biggest line regarding the values to be conferred, to the point of using excessive coefficients to revalue dwellings and sales networks throughout the world. "Anyway" they said in Fiat "it's a matter of a 'dogs-against-cats' exchange: the main thing is to keep the shareholding ratio at 80/20". The ratio was saved and Fiat recorded a remarkable capital gain. Then one day, almost by chance, I decided to read the contract whereby Iveco had been established in 1975. I shot bolt upright in my chair and dashed into Romiti's office. I had discovered that KHD had a put clause, in other words an option to sell from then to within a few years its twenty percent of Iveco at book value! In 1981 Fiat was obliged to pay cash for those "dogs" and those "cats", at the unrealistically high price at which they had been entered in the books, both for Iveco 2 and for the original

³⁷ Translator's note: the Author habitually uses the term *camion*, asserting that the lofty term "industrial vehicle" distorts reality. In this translation, apart from the official name of the Sector, the British term "lorry" is used, in preference to the American "truck".

contract. The cost of the operation was six or seven hundred billion lire of those days, more than the entire capital that the Libyans had paid into the Fiat Holding Company shortly before. My discovery caused a sensation. Umberto Agnelli tried to conciliate the Germans so that they would stay, but that hope seemed vain to me because of the enormous value of the prize KHD would win by cashing in its shareholding. The put option was exercised three years later, in one of the darkest moments of Fiat's history. Cesare Romiti rejected it and, without any arrows to his bow, he requested arbitration, just to beg for a little discount that, albeit minimal, might come in handy in that critical situation. According to me, the example showed how much harm Fiat had suffered from the excessive autonomy of the operative sectors and the fact that the attention of top management was directed elsewhere, at things that deserved it less.

In the course of 1978, Iveco undertook a study for an important initiative that did not come off but allowed me to get closer to the world of industrial vehicles, without imagining that I was going to become a part of it six years later. Until the beginning of the Seventies, British Leyland had been one of the biggest lorry manufacturers in the world. Then it had plunged into a deep crisis, like much of British industry, which at that time was declining day by day. The management of B.L. had approached Iveco in search of an alliance, and talks had begun. Cesare Romiti, who did not trust Bruno Beccaria, but who never stuck his nose directly into the industrial aspects of Fiat's most important Sectors, asked me to take part in the talks with the excuse of my duties in the *Nuove Iniziative*.

Right from the start, the operation looked difficult, both on a strategic level and on the level of negotiations. Iveco still had not digested the fusion of the companies that had merged with it in 1975,³⁸ and hence it seemed rather risky to think already about swallowing another big mouthful. Beccaria was rather cautious on the subject, perhaps because he realized the weaknesses in management and product that afflicted Iveco, a condition that had still not emerged outside the company but which was to explode a few years later. I, too, began to harbour serious doubts about this, concerned as I was by the analytical data coming in from the study groups that had been set up by both parties. A suggestion was made for a share swap of minority shareholdings, but the absurdity of this was soon recognized. The English would have accepted a total sale but at a prohibitive price of nearly one thousand billion lire (of those days). A large number of fruitless meetings were held in London and Turin.

Then one day the head of the entire B.L. complex showed up. This was Mike Edwards, a personage who was enormously popular in England and one whose behaviour was reputed to be unpredictable and whose attitudes were Napoleonic. Edwards, who had never taken part in any meeting until that moment, "summoned" Umberto Agnelli to London. Knowing this individual's reputation for eccentricity, I persuaded Agnelli to swallow his pride and accept the call: something good might

³⁸ Fiat, OM, Lancia Veicoli Industriali, Unic (in France) and Magirus (in Germany). As we shall see in Chap. 7, the process was not to be completed until the beginning of the Nineties.

have come out of it. We met in a huge, high-ceilinged room in London's Piccadilly Hotel.³⁹ In the middle stood a small round table holding lunch for four: Mike and his assistant, Umberto and me. The grandiose nature of the place made the scene curious and unreal. Mike Edwards got straight down to business: "I have been told that talks regarding possible common initiatives are in course between Fiat personnel and that of British Leyland. I want you to know that such talks were not authorized by me. I wish, therefore, that they cease immediately".

Agnelli looked at me in amazement. Then he took on an icy air and made a remark about the English weather. We finished lunch talking about the economic situation, we got up and never saw one another ever again.⁴⁰

Some time after the crisis, B.L. went to the wall and Mike Edwards was sacked on the spot by the British government of those days. His involvement in the Piccadilly Hotel had saved Iveco from a frightening experience, even if we grant for the sake of argument that later we might have fallen into the trap of a marriage that was out of the question for too many reasons.

Two New Bosses for the Eighties

Between the end of 1978 and the beginning of 1979, two important changes occurred at the highest management levels of Fiat Sectors.

Regarding the first of these, the dismissal of Nicola Tufarelli, I know nothing about what may have gone on behind the scenes. All I recall is the moment of the final announcement. In Fiat they used to hold occasional meetings of a purely informative and formal nature, which were held on the seventh floor of the building in corso Marconi, in the so-called *Sala Consiglio* (Board Room). It was rare, in Fiat, for "meetings" to be held without the assumption of the existence of a "Committee". The practical act of meeting to discuss a topic implied an abstract entity through which one referred to the world of ideas, as in Platonic philosophy. Right from my first days in Fiat, I was astonished by this peculiarity, the institutionalization and bureaucratization of every repetitive activity.

At the end of the Seventies, a certain kind of meeting was labelled the *Comitato di Coordinamento* (Co-ordinating Committee), and gaining admittance to these became one of the most sought-after privileges for managers. As well as top management, participants included the heads of all the operative sectors, the function heads in corso Marconi and a certain number of other functionaries whose presence was justified by historical reasons or personal recognition. In all, this meant

³⁹ Translator's note: now Le Meridien Piccadilly Hotel.

⁴⁰ I met Mike Edwards again, by then getting on in years, at a conference in Birmingham in 1996. I did not get the impression that he remembered the lunch at the Piccadilly Hotel.

thirty or forty people seated in a huge room, at the sides of a very long ring made of wooden tables, listening solemnly to the official communiqués of the moment. Gianni Agnelli sat in the centre of the long side, with Cesare Romiti on one side and his brother Umberto, when he was there, on the other.⁴¹

During one of these committee meetings in 1978, Gianni Agnelli began with the unexpected announcement that Nicola Tufarelli was to leave Fiat.⁴²

The audience was left dumbstruck.

Without uttering a word, Tufarelli got up from his place by the *Presidente* (Chairman) and, corpulent as he was, he made a low bow to the onlookers; then he walked slowly along the two sides of the room, passing behind the chairs of the participants; in the absolute silence the sound of his footsteps echoed on the wooden floor; he reached the door, slowly opened it, went out, and closed it slowly behind him. And no one heard anything about him anymore.

This noble end reminded me of that king, according to Shakespeare, who redeemed the way he had lived with the manner of his death.

The second change in the organization chart regarded Franco Debenedetti. The results of the eighteen months he had spent as head of the Components Sector were positive. He had a terrible personality that infuriated his co-workers, punctuality was not his strong point, he aroused confusion and reacted emotively to stress, but he was competent, reliable, dedicated and intelligent. I had had an excellent working and personal relationship with him since my time with Gilardini.

Sometimes, when he had some doubt, from his headquarters in via Campana, a few blocks away, he would send a young assistant of his to my office in corso Marconi to ask for advice or reassurance. In this way I met a big young fellow who was to go a long way in Fiat, Paolo Cantarella, who had drive and imagination, which I liked, but was proud and presumptuous beyond measure, as was evident by his unwillingness to accept those missions in which he had to refer to the Holding Company. On the operative level, Franco Debenedetti had sorted out many situations leading to losses, bringing many, if not yet all, units making up the Components Sector into profit; on the structural level he had built the framework of the Sector, improved the principal management positions, launched programmes for planning and internationalization, and so on.

A good job, therefore. But Carlo wanted him at his side in Olivetti. He said that it wasn't right for his brother to contribute to the advantage of third parties (the Agnellis) instead of that of his own family.

⁴¹ In the Nineties, in the vain attempt to make the whole thing less rigid, an enormous single table was made with tapering sides. On one of the short sides a slide projector was mounted, and the powers that be were moved to the opposite extremity.

⁴² Some time before, Tufarelli had already been moved from Fiat Auto and, *promoveatur ut amoveatur*, he had been co-opted onto the Board of Fiat SpA.

Franco was perfectly happy where he was and he told me that, until then, this had been the best period in his life. So he left with regret, but he left: the call of blood was too strong for him.

At the moment of Franco's departure, Cesare Romiti commented to me that Carlo De Benedetti had caused damage yet again.⁴³

⁴³ The account given by Cesare Romiti in his book (Pansa and Romiti, *op. cit.*, p. 68) is different because he attributes to himself the responsibility (or the merit) of having requested the dismissal of the *dirigente* (too much under his brother's influence). My version is the one referred to me by the interested party at the time and confirmed by Romiti himself.

Chapter 3

The Perilous World of Automobile Components (1979–1982)

Ghidella in Fiat Auto

In early 1979, Nicola Tufarelli's successor as head of Fiat Auto was nominated. The person chosen, Vittorio Ghidella, was known to the Agnellis because he ran RIV, a factory producing ball bearings in Villar Perosa that had been the property of the family before it was sold off to the Swedish concern SKF. Three years previously, when Tufarelli had voluntarily handed in his resignation, Gianni Agnelli had already mentioned Ghidella as a possible replacement, and De Benedetti had told me about this, but neither he nor I knew who he was and the suggestion was dropped.

Later, I wondered what would have happened if Ghidella had arrived in Fiat three years before he did, under De Benedetti. Perhaps the conflicts inside and outside the Company would have been even sharper? Or would the Fiat Group have enjoyed a firmer leadership on the industrial level, firm enough to slow the decline of that period?

At first, Ghidella was not called into head Fiat Auto but another Sector, that of Earthmoving Machinery, the Fiat Allis joint venture. Towards the end of 1978, he was given a tiny temporary office in corso Marconi and Umberto Agnelli asked me to provide him with documentation and explanations regarding that Sector, which I did in the course of a few confidential meetings I had with him. Ghidella absorbed all my information without any reaction. The situation in Fiat Allis was very worrying because the acquisition of Allis Chalmers in the USA in 1975 had turned out to be a failure. The initiative reminded me of 1960 and Olivetti's incautious purchase of Underwood, the renowned typewriter manufacturers. Both the American companies still had a great name, both were insolvent, and both had rebuffed rescue attempts on the part of local entrepreneurs. In each of the two cases the Italian buyers had deceived themselves into thinking they could succeed where no American had managed to do so, only to discover at their expense that they did not possess the instruments required to trigger a competitive advantage, a

synergy, as they say nowadays, nor did they manage to set up a management equal to the task.¹

Ghidella immediately saw which way the wind was blowing and he turned down the position for which he had been called in. Then the Agnellis offered him a post as head of Fiat Auto.²

As soon as he arrived in his new job, Ghidella changed all the members of the *comitato direttivo* (Steering Committee) of the Sector, in other words the men in charge of the principal functions, replacing them with people brought in from outside, almost always from fields different from the car business. Vittorio Valletta's management of the Sixties and the successive period of decline had prevented the formation in Fiat Auto of a group of managers able to handle top-echelon responsibilities. I did not experience that period personally but the survivors' accounts made it clear to me that in past times persons of worth were systematically ruined as soon as they stood out, "getting the chop" as soon as they raised their heads above the common herd. Consequently, inside the firm a class of *dirigenti* had sprung up who were technically competent and diligent as far as the company was concerned, but easy to subjugate and reluctant to take any position on sensitive matters.

The new people chosen by Ghidella were not of extraordinary calibre, but their characteristics were sufficient for the purpose, also because his leadership ensured compact, efficient action: there were no pointless complications in the organizational structure, in which all the functions reported directly to the overall chief, ensuring the kind of swift intervention required by the difficult circumstances. Perhaps that team had no world-beater, but it played a good championship all the same.³

¹ The spectre of those failures came dramatically to mind years later, when (in 1990) I negotiated the acquisition of Ford New Holland: over and over again I compared the terms of the initiative I had got underway with the ghosts of the past, to convince myself that my case was based on the right conditions.

² Romiti's account in his book (Romiti-Pansa, *op. cit.*) is different; perhaps Ghidella was invited to join Fiat by the Agnellis without Romiti's having taken part in the decision.

³ Paolo Scolari, who came from the Earthmoving Equipment sector (Fiat Allis), was put in charge of R&D. Just like that: they took a person who was working on heavy machinery and sent him to design cars. Among Fiat's thousands of engineers no one was considered up to the task! It was necessary to turn to the agricultural sector even to find someone to design cars: the nomination to head the Sales Department went to Paolo Bernardelli, who also came from Fiat Tractors. Ghidella felt it was very important to boost the Logistical function in order to improve the scheduling and distribution process of the car sector. He put Gianfranco Castagna in charge, the only person he had brought with him from RIV (a fact that proves that his team was not a "concert party") and Castagna was very careful to make savings on distribution costs, while he was less interested in customer satisfaction. As for Employee Relations, Ghidella entrusted the responsibility to Carlo Callieri (about whom I shall talk with regard to the March of the Forty Thousand and about my arrival in the *direzione generale* (COO's office)), while Administration went to the Frenchman Stéphane Doblin and the Purchasing Department to Giorgio Rigazzi. The only ones left from the previous Committee were Bracco in charge of Production and Giuseppe Perlo in Product Planning. Ruggero Ferrero, the most authoritative industrial director of the past epoch, was elbowed out. Cesare Romiti made him head of the Teksid Sector and then made him *direttore centrale*, but he couldn't stand him and never took any account of his opinions.

Ten years later, at the time of Ghidella's dismissal, Cesare Romiti would not tolerate the idea of any of Ghidella's team remaining in his post and he disbanded the group altogether, but times had changed with respect to 1979 and the successors were almost all drawn from within Fiat Auto, where in the meantime they had gained experience in a less ungrateful climate than the previous one. As for Ghidella's "orphans", in the future almost all of them were to work for me, directly or indirectly.

... and Garuzzo in the Components Sector

I left the Department of *Nuove Iniziative* to take on the responsibility for Fiat's Components Sector at the same time as Ghidella joined Fiat at the beginning of 1979, but for some time it had been taken for granted that I would be appointed to the position that had once been held by Franco Debenedetti, considering my long involvement in that organization. So it happened that for four years, from 1979 to 1983, I found myself immersed in the tasks of operational management and strategic development in the very field of "medium industry" that had been for me both a subject of interest and a source of worry. In fact, the structure of the Sector that I myself had conceived a little more than two years before was comprised of seven *raggruppamenti* (Groupings), and in their turn these were subdivided into over thirty *aziende* (Companies) whose overall turnover amounted to 2,250 billion lire (of those days, obviously) and gave work to more than 42,000 employees.⁴ From the standpoint of personnel, the situation in my Sector at the start was better than the one that Ghidella had found in his, because the "open" organization of the Companies and Groupings and Franco Debenedetti's management had allowed several persons to make their mark. But I did order several changes, promoting the most capable young men, such as Gian Alberto Saporiti, who I sent to run Comind (plastics), and Giancarlo Boschetti, the future head of Iveco, who I made head of IVI, a paint manufacturing company. I adopted, I believe for the first time in Fiat, a coherent and explicit career development plan. I drew up lists with the names and positions of dozens of people and sketched out a programme for the future of those who struck me as most promising: they began by running small entities or professional functions and then their responsibilities gradually increased as they

⁴ I recall the names of the seven Groupings, whose description is given in greater detail in Document 1 of [Chap. 14](#), and the principal data of 1982 (incidentally, they represent turnover in billions of lire and the number of employees with the Italian companies). Aspera (t. 218, e. 3,262), Comind (t. 440, e. 6.147), Gilardini (t. 332, e. 5,026), Magneti Marelli (t. 480, e. 9,475), Weber (t. 207, e. 4,918), Fiat Lubrificanti (t. 208, e. 608), together with IVI (t. 162, e. 1,387). Finally there was Sepa (t. 24, e. 522). The top echelon of the Sector had only 49 employees, secretaries included. The total for Italy came to 2,254 billion lire of turnover and 35,956 employees. The turnover of the foreign companies was 314 billion and employees 6,166. Another 1,369 employees were in *cassa d'integrazione straordinaria* (temporary lay-off).

moved on to steadily larger entities. Curiously, I kept the information written in pencil on sheets of squared paper, protocol format, exactly the same as those on which I had previously recorded the “confidential” salaries of Gilardini *dirigenti*, and on them I wrote down variations from time to time when someone was promoted or when I got news of the performance of those individuals I was keeping an eye on.

I shall return frequently to the subject of the “map” of people, their roles and companies, a procedure I was later to export to Iveco, because I consider that this part of my past work was very interesting for me, very useful for Fiat, and very positive for the people involved, despite the inevitable errors (years afterwards, the entire Fiat group followed a similar path on the initiative of the Holding Company personnel department, headed by Enrico Auteri).

Among the large number of ups and downs that I experienced during my years spent in the world of components, I have chosen a few cases worth recounting in the following sections, thinking that they might hold some interest from the standpoint of industrial history, management theory, or merely anecdotal curiosity.

Negotiations with Vittorio Ghidella

As I have already mentioned, Franco Debenedetti did a good job of slimming down both structural and operational levels. Despite this, as soon as I arrived in the Components Sector I immediately had to tackle some serious crises. The first was triggered by my colleague Vittorio Ghidella who, a few weeks after having taken on his new responsibilities at Mirafiori, issued a diktat to the suppliers. For the year 1979, Fiat Auto would have recognized, with regard to external producers of components, solely price increases strictly determined by a simple formula: 0-5-11. In other words: no price increase in the first four-month period, 5 % in the second, and 11 % (in relation to the initial zero) in the third; the increases were the same for all. In that year cost inflation was running at 20 %: the squeeze applied to the hapless suppliers was therefore a very powerful one. Today, it’s difficult to realize the entity of this step, how it was felt by the industry that worked to produce components for cars, and the extent to which the impact of the decision hit the economy of the Piedmont region. Fiat Auto bought about 65 % of its turnover from external sources; deflating that enormous sum of money by over 10 % points with respect to production factors meant that many hundreds of billions of lire were drained from a few hundred industries in the area.

But this was an indispensable step, put off for too long. Until then, Fiat suppliers were in the habit of passing on to their principal customer any increases in costs they incurred in their own production factors. It was easier to increase prices, a measure considered both normal and necessary, rather than seek greater efficiency in the factories and resist demands for pay rises from the unions. Opposing the workers was dangerous for small- and medium-sized industries, almost quixotic, also because the inevitable strikes would have stopped production and hence

Fiat itself, which would have severely punished whoever was guilty of the stoppage. Contrariwise, granting pay rises was not penalizing because, shortly afterwards, one could recoup through sales prices; in fact, the smartest operators managed to anticipate the times, by increasing their price lists even before higher costs emerged. In times of serious inflation, there are always plenty of people capable of making a large fortune out of nothing without too much effort.

In the choice of their attitude, Fiat suppliers had an illustrious example to follow, because the agreement that Gianni Agnelli had signed a few years previously in his role as Chairman of the General Confederation of Italian Industry adding to everybody an equal amount in pay as a periodic cost of living allowance⁵ sounded explicit: they forbore any control over inflation, and the meritocracy too, provided the unions made no trouble. The entire supply cycle therefore turned on unprofitability and inflation.

The innovation introduced by Ghidella's diktat was enormous, as enormous was the sensation it caused among the interested parties.⁶ Having absorbed the shock of the news, the army of suppliers prepared to resist. The companies in my Sector supplied Fiat Auto with about one third of its component requirements, and these entities were the ones hit hardest by Ghidella's measure. If I accepted, I also agreed to jeopardize any improvement in the profit and loss statements in the groups obtained after much effort by Franco Debenedetti and his men. My arrival as head of the complex came to coincide with a disaster.

On the other hand, I could not and would not go against my colleague's initiative and put myself at the head of the more or less overt opposition to the measure, as many people asked me to do: I realized that Ghidella was working to remedy an extremely difficult situation regarding the profitability of Fiat Auto, something that many considered beyond redemption. This was the nature of the thoughts that plagued me for some days. The heads of my groupings were disoriented and left the hot potato in my hands. I sought Cesare Romiti's opinion, but he never intervened in the clashes between the Group's sectors, far less so on that occasion. I pondered for a long time, then I asked for an appointment and went to see Ghidella, who greeted me in his office at Mirafiori, politely, but with disquiet: the stakes were very high for him, too.

I went to him and agreed, on my word, there and then; I accepted his prices for the entire Sector and for all of 1979.

⁵ Translator's note: in Italy, salaries were constantly adjusted to inflation but, after Agnelli's concession, the amount added to workers' pay for every percent of the index increase (*punto*) was not a percentage of their previous salary but a fixed sum, the same for everyone all over the country. Gradually, over time, this led to salaries being nearly equal for everybody, irrespective of the starting point.

⁶ Five years later, when in 1984 I took on the management of Iveco, my purchasing office, run by Alessio Lucca, obliged suppliers to respect a long period of zero inflation, in other words a moratorium on price rises, and ten years later, in 1991, from Fiat's *direzione generale* I supported Ghidella's successor in Fiat Auto, Paolo Cantarella, who went as far as to ask suppliers for reductions in the prices paid for components.

That negotiation was the fastest and most onerous of my career.

I accepted because I was convinced that he was right and that the imposition was a good thing for us, too: it would make it possible to realize enormous efficiencies in the manufacture of components and only the ineluctability of the price freeze would have obliged us to seize them; otherwise we would have continued to take the line of least resistance, that of the laxity of those years. I offered Ghidella the support of our companies in the event of some external supplier thinking of attempting a boycott, and asked him to transfer to us the orders of any suppliers that might have refused. But there was no need of our aid: they all accepted. By breaking a potential front of resistance before it coalesced, and by throwing into the scales the weight of a preponderant sales volume, I had lent Ghidella a big hand. He wasn't the kind to show gratitude but my intervention favoured relations between us as well as those of the companies within the Sector with their most important customer.

The procedure Ghidella inaugurated in 1979 was to become standard practice: equal increases for all suppliers, defined centrally once or a few times a year.

Corruption in Purchasing

No one imagined, not even Ghidella, I believe, that the new procedure he had introduced not only prompted suppliers to go in search of greater efficiency but also resulted in an unexpected spin-off: it substantially reduced the possibility of corruption in purchasing procedure (in strictly legal terms, at least in Italian law, you cannot talk of corruption among private individuals: I use the expression because it is in common use). In those years, in big industry it could happen that suppliers bribed executives of the purchasing company with a view to obtaining or improving supply contracts. In the car business the phenomenon was facilitated by the enormous number of components involved in a single vehicle model (three or four thousand), by their technical complexity, by constant renewal and urgency, factors that made any checks on their worth rather difficult. A similar reasoning held good for factories: enormous, complex one-offs whose performance was hard to compare among one another at the time of the offer, and hence on paper. In the world of car manufacturing no one could ever say they were immune to the risk of fraudulent agreements: off the top of my head, I think that the phenomenon was minimal in American industry and at its peak in German industry.

From that point of view, the Seventies were a really bad time for Fiat. Obviously, I am unable to produce either statistics or proof, but I can give a few examples regarding those few cases in which it was possible to identify malpractice.

First of all, I should point out that the staff in the purchasing departments were not the only ones to be led into temptation. The people in admin let themselves be cajoled into paying false invoices, for example by adding a zero to the prices agreed upon for the order; the technicians responsible for testing were paid off to

favour the homologation of one supplier to the detriment of another; sales personnel could help this or that car dealer with discounts or incentives or rebates; it was even possible to falsify the “objective” data regarding product quality just enough to have one’s own component passed or have another’s rejected. However, it was usually the staff of the purchasing offices who found themselves in the eye of the hurricane. Traditionally, the most critical areas were those of machine tools, consumables and various services, such as canteens or cleaning, but the most important figures concerned production components, a field in which the simplest and most widespread practice was “protected dumping”. Things went more or less in the following manner. A supplier won a tender in the light of day, beating the competition with extremely low prices, even below cost; then his clandestine connections got busy to ensure he was granted a rapid increase in price, justified by inflation, which brought his books back into balance in the space of a certain time.

This procedure became instantly impracticable after Ghidella’s innovation, because the 0-5-11 rule held good for everyone; those who were involved in dumping at the time when the measure was passed were destined to remain in that condition forever, stuck with the unprofitable prices offered during tender bids. Some people lost a load of money, on that occasion.

There is an ironical side to this story. When Carlo De Benedetti joined Fiat, he was very worried about corruption in the field of supplies. And for good reason: he too, no less than the other suppliers, had been one of the number of benefactors with wallet in hand, and he knew all the tricks of the trade; otherwise Savara and the other companies within Gilardini would not have prospered as they did. There were some in certain Fiat offices who had felt their blood freeze when the name of the Group’s new *amministratore delegato* (CEO) was announced. Carlo De Benedetti behaved like a gentleman with single individuals but he thought to take general measures to clamp down on the phenomenon, for example by appointing a specialist to play the role of grand inquisitor; he had even identified the person, of absolutely proven honesty. But De Benedetti was aware of the difficulty of this kind of control and his sudden departure broke off any systematic initiative.

Cesare Romiti showed himself to be relentless in some cases of corruption that could be proved, but he seldom ordered any methodical and generalized enquiries, at least as far as I know.

Nicola Tufarelli was personally above suspicion, yet his management involuntarily encouraged corruption around Fiat Auto, owing to a measure he had taken on the basis of theoretical considerations. Tufarelli had decided, and let everybody know, that no supplier could cover more than 60 % of Fiat Auto’s requirements for all types of components. In theory, the procedure should have served to prevent monopolies and to encourage contests among different sources, but in practice the move was tantamount to the discovery of a new gold fever: it started a feeding frenzy among sharks in search of the 40 % of requirements that had suddenly become available. Many of the monopolistic positions were held by companies with the Fiat Components Sector, which immediately found themselves in a sad plight, also because they could not defend themselves by resorting to “anomalous” means of persuasion. In this way a vicious circle came into being: in the

past, Fiat (Holding) had purchased at high prices—from external entrepreneurs—some monopolist supply companies, now Fiat (Auto) was cancelling 40 % of their orders and, by transferring them to third parties, the same Fiat (Auto) attracted the attention of wheeler-dealers whose position was not exactly disinterested. According to me, Tufarelli's strategic decision involved the destruction of value for the Group's shareholders, and this fact contributed to my critical judgement regarding his work in Fiat Auto.

Vittorio Ghidella showed far more pragmatism in the percentages of supply and made dumping unfeasible, as I have described above. The reform that he brought about in 1979 was one of those typical decisions labelled as “technical”, which were passed on to the Sectors wholesale and ignored by the Holding Company, but which had a gigantic and enduring impact on the fate of the Group and the economic-industrial phenomena that orbited around it. Yet, and here lies the irony, it was Ghidella who was sacked in 1988 with the accusation of having cheated in the field of supplies, as I shall recount in [Chap. 7](#).

Years afterwards, Gianni Agnelli, during his periodic talks with me, was to return often to this topic, asking me a question that was always of the same tenor: “How widespread is corruption in Fiat?”. It was difficult for me to reply: had I been too optimistic I would have been telling a lie; if I had been negative I would have confirmed his general disrespect for people, tarring everyone with same brush and involving that extremely large chunk of company personnel whose hands were clean. Sometimes, I tried to be more analytical in my explanation of the phenomenon, but I fear that my didactic efforts always met with scant success.

The Case of Magneti Marelli and Management Control

After a few days in the Components Sector, I realized that the biggest company in the portfolio, Magneti Marelli, was far deeper in crisis than I had thought. The case of the Lombard company could have been used in a course of business economics to show how an industry, having reached medium size internationally, was capable of avoiding control and spiralling down towards its own destruction, in the total absence of the majority shareholders, in that case the Fiat Holding Company. I consider myself one of the saviours of Magneti Marelli, a company with which I had a close bond after that period. But the reason for this digression in the world of electrical components is not merely academic or hagiographic, but historical, because the case of Magneti Marelli is representative of the situation that in one way or another involved an important part of industry in Lombardy during the Seventies.

Unlike the other Groupings in the Components Sector, Magneti Marelli had almost completely eluded Franco Debenedetti's measures to increase efficiency: its headquarters in Milan were at a safe distance from the sub-holding of the Sector in via Campana in Turin. Historically, it was close-knit, unlike the other newly created clusters, and it was surrounded by an aura of Lombard superiority that was unwilling to accept subjection to its Piedmontese neighbour.

The budgets of all the companies in the Components Sector for 1979 were delivered to me after the year had already begun, because I had taken up my position in January, but the Magneti Marelli budget took longer to arrive, despite reminders. When, in March, they finally held the presentation meeting, I could not accept the document, which was not only unsatisfactory but not even credible. From the figures it seemed clear to me that productivity was extremely low and that all the management parameters had been falling for a long time. Yet, to my amazement, Marco Bono, the *amministratore delegato* (CEO) asked if he could hire 400 or 500 new employees, when in my view there were already thousands too many.

I sent Bono back across the river Ticino to think again.

The weeks went by and his rethink seemed endless. Until one day he called me to say that he had discovered that the personnel requested had already been taken on by his co-workers, unbeknownst to him. Whether this was true or not made little difference: I had to send someone else to Magneti Marelli.

My choice fell on Giovanni Germano.

Germano was one of the ablest operative company managers I have met, and a great cutter of costs and expenses. He came from the school of Rodolfo Debenedetti, Carlo's father, who had made a cult of shrewd, close-fisted management. When I met him in 1973, in Gilardini, Rodolfo Debenedetti was a retired gentleman, mild and reserved, who loved to tell me old stories that I enjoyed listening to in my spare time. But he had not always been like that. Until only a few years before, in the Sixties, Rodolfo Debenedetti had been a tough, inflexible businessman, the memory of whose violent outbursts of rage was a part of company lore. There was talk of how suppliers were bled dry in extenuating negotiations, of how female employees had to wear black smocks in order to avoid distracting their male colleagues (and any particularly good looking ones were discriminated against from the moment they were hired), or of how employees had to bring toilet paper from home for their personal needs.

On the other hand, suppliers were paid on the agreed date without a minute's delay, in accordance with the Jewish tradition. I always remembered this lesson from the old *presidente onorario* (Honorary Chairman) of the Compagnia dei Tubi Metallici Flessibili, and I tried to put it into practice in all the companies I chanced to run. I am convinced that delayed payments are a calamity that attacks the foundations of capitalist ethics and damages the entire system, an enemy worse than Marxism; it is no accident that this malaise of underdeveloped countries was endemic in Italy. Carlo De Benedetti shared this principle, in which he had been brought up, but afterwards circumstances sometimes induced him not to respect it, something that also happened to me for that matter: when they spring from upstream, starting from big customers (especially state-owned concerns), delays in payment extend to suppliers downstream like some kind of perverse chain-letter.

Germano obliged no one to bring toilet paper from home, but his managerial principles were still the old ones, adapted to a modern business. In Gilardini he had improved the fortunes of the Savara division, taking it from its near bankruptcy, which had allowed Carlo De Benedetti to buy it at zero cost in December 1972,

to a significant profit by December of the following year. Obviously, De Benedetti held him in great esteem, so much so that he nominated him as his successor as chief of Gilardini, with my full agreement. Germano's detractors maintained that his remedy saved the invalid in the short term but killed it later, in the medium-to-long term, because he cut off essential sources of nourishment, such as research and development. There was some truth in this opinion, because he had no training in creating development for internal lines. The recipe that Gilardini had adopted was the following: you buy an insolvent company for a small sum and you make it earn a lot, by shrinking it, and then you use the profits to acquire another insolvent concern, and so on. Development was exclusively for external lines, and Germano was highly suited to this strategy.

My opinion was different. According to me, perfect managers did not exist even in theory. Certain gifts that are essential at some times are harmful in others, and vice versa. The ability of a leader lies in putting the right people in the right place at the right time. I spoke to Cesare Romiti about Germano and, as usual, he gave me *carte blanche*: and so, after a few days, Germano took possession of his new office in viale Monza, in Sesto San Giovanni. With him, he brought Francesco Torri, a young administrator who he later nominated *direttore generale* (COO) and who was later to go a long way. Germano immediately began to cut away the dead wood, and was to continue doing so for the almost three years he remained there; I am convinced that without his cure Magneti Marelli would not have survived.

The Attractive Spare Parts Business

Almost three years later, at the end of 1981, I held that the phase of the tough restructuring of Magneti Marelli ought to have been completed. No company can survive constantly under the stress of an implacable contraction, because people get used to everything and sooner or later this gives way to an irreversible condition similar to a coma. Changing policy meant changing the man: those who have done the dirty work of the "hatchet man" during the period of the cultural revolution, when there is no regard for anyone, have neither the desire nor the possibility to return to a normal management policy, and this condition can also lead to convoluted and risky behaviour. This organizational principle also held for Giovanni Germano, after his three terrible years with Magneti Marelli. I found myself in some difficulty. Germano had worked in a hostile, difficult environment, he had faced up to considerable sacrifices on a personal level and even some physical risk; in conclusion, he had done a good job. I did not know anyone in Fiat or outside it who would have been able to do the same. I could not and would not penalize him. But I wanted to move him from where he was and change company policy. Vittorio Ghidella got me out of the tight corner by asking me if he could nominate Germano to head Fiat Auto's Spare Parts sector. I accepted on the spot.

For a car builder, profits from spare parts make up a large chunk of the net profit on the income statement. It would be foolish to state, as I have heard at

times, that profits come from spare parts and not the vehicles, because these are two sides of the same coin: the business is unitary. But it's true that those who sell less spare parts and at a smaller profit than the competition find themselves in a serious state of inferiority. And it was this that was a sore point for Fiat Auto and, to a lesser extent, for Iveco.

An exhaustive treatment of the topic of spare parts would bring into play complex theoretical arguments on business law: monopoly with respect to the free market, the defence of the brand and the intellectual property of the models, consumer protection, distribution exclusivity, product liability, and so on. To keep things on a concrete level, here it suffices to point out that there are three possible sources from which come the parts destined for the end user through various and complex distribution networks.

The first and best-known source is the car manufacturer: the spare parts that come from him are customarily known as "original", both when they are produced in his factories and when they come from official suppliers. The second source is the manufacturer's official supplier of components, who distributes on his own account spare parts identical to the "original" ones, but with a different label; this is the case, for example, of the big names in components, such as Bosch or Valeo or Magneti Marelli. Then there is an undergrowth of spare parts dealers commonly called "imitators" or, in a more expressive but less pleasing manner, "pirates", who copy the original parts and take them to market. This category causes a lot of trouble for the other two, not only because it appropriates those margins of earnings that the "originals" consider to be of their exclusive pertinence, but also because it sometimes compromises levels of quality and always lowers market price levels. On the contrary, imitators are loved by consumer associations and, as a consequence, by more free-trade oriented governments, such as the British one.

The "pirate" phenomenon was almost unknown in Germany, not very widespread elsewhere, but endemic in Italy, where it damaged above all the national producers: Fiat Auto and Iveco. The origins of the problem lay in the past: until 1975 Fiat had not worried too much about the situation and had not made any serious attempt to remedy it.

I don't think we can talk about mere negligence, because there is always some good economic reason at the roots of every economic phenomenon. There were more mysteries in the spare parts field than underground galleries in the Turin of Pietro Micca's day.⁷ By nature, the people of Turin have little love for exploration: in a well-known novel by Fruttero and Lucentini (*A che punto è la notte*), set in the city, an outside investigator has to be called into discover that behind the inexplicable crimes there are no esoteric rites held by Gnostic sects but a far more down-to-earth traffic in spare parts.

All in all, the market share of original spare parts supplied by Fiat to buyers of its vehicles, a quota that used to be called "captive", was among the lowest, if not the

⁷ Translator's note: a miner who helped construct a maze of underground tunnels during the war of Spanish Succession. When the French threatened to conquer Turin and entered the network he blew himself up inside a tunnel to block their advance.

lowest altogether, among all the car builders in the world. And this was why Vittorio Ghidella wanted Giovanni Germano at the head of Fiat Spare Parts: his was an attempt to change the tune and reconquer quotas, and profits, on the captive market.⁸

The Defence of the Workers Between the Sixties and the Eighties

I had no suitable replacement for Giovanni Germano to hand, as his departure from Magneti Marelli had been too sudden. I was obliged to do in a small way what Carlo De Benedetti had not wanted to do in a big way in Fiat Auto: I remained Sector Head but I also took direct control of Magneti Marelli, becoming its *amministratore delegato* (CEO). For me, this marked the beginning of an enormously tiring period that lasted a whole year, 1982. I divided my working time between Sesto San Giovanni (in Milan) and Turin, and my spare time between the motorway and a residential hotel in Milan's Porta Garibaldi. But the physical demands were nothing compared to the tension caused by the climate I found in the Company.⁹

Labour relations in Magneti Marelli were still turbulent. The slogan adopted by the factory unions was explicit: "What passed at Mirafiori (the defeat of the union and the social peace that followed the March of the Forty Thousand in Turin in October 1980) will not pass in Crescenzago". One time when I found myself complaining to the socialist mayor of Sesto San Giovanni, he gazed at me in amazement: "I am obliged to behave like this: are you perhaps unaware that Sesto is known as Italy's Stalingrad?". *Noblesse oblige*.

In recent times there had been some signs of improvement. In that period, the workers' leaders could enter—without running too many risks—even the most "advanced" (i.e., turbulent) departments of the Crescenzago factory, even those where they produced compressed-air braking systems for industrial vehicles, where some very ugly incidents had occurred. But internal demonstrations were still in vogue, accompanied by whistles and drums, always indecent events, but absurdly harmful when they were staged during visits paid by potential foreign buyers. One particularly disastrous event was organized for the benefit of a delegation from BMW, which we had been courting for years in a bid to persuade them to buy our onboard alternators.

⁸ I won't have further occasion to talk about Giovanni Germano, who did not work for me any more after Marelli. He did not stay long with Fiat Spare Parts: Cesare Romiti handed him the task of bringing Fiat Allis back to health. He was the third to attempt this, after Jacques Vandamme and Ferdinando Palazzo (or the fourth, if we also count Vittorio Ghidella's farsighted refusal). Germano lived up to his reputation as an absolute cost cutter but he did not succeed in his impossible intent. He resigned and became self-employed, as perhaps he had always wished to do.

⁹ Not even Francesco Torri was left to help me: the fame he had won in past years as *direttore generale* with Germano had aroused the interest of Umberto Agnelli and I did not feel I should oppose the career of a person who was asked to become the *direttore generale* of Piaggio.

One day, I vented my exasperation on one of the trade unionists in Crescenzago: "It seems that the only one left here to defend the factory is me."

"Of course" he replied with an astonished look, "That's your job, that's what you're paid for."

"So what are you trade unionists here to do?"

"We're here to defend the workers."

Their concept of defending the workers meant that the factory was frequented by swarms of extraneous visitors, including pseudo-journalists and propagandists of all sorts. These people could enter the headquarters of the trade union organizations, in accordance with rights granted by the Workers' Statute,¹⁰ but from there, which was located in a barycentric building, they could then easily sneak in anywhere, even among the production lines.

I asked the advice of the new Head of Security, a courageous veteran of the clashes in the Seventies by the name of D'Errico, who I had brought from the Holding Company in Turin, and he suggested the only practicable solution: the trade union building would have to be surrounded by a metal mesh fence that would then lead to a long walkway, also fenced in, which would lead to the outside. The construction work for this enclave was completed in a single weekend and my co-workers expected a tumultuous Monday. Instead the unionists opted for satire. They called the press and the television and, to highlight the terms of the management's arrogance, they filled the fenced-in area with poultry. But the show did not make many waves and was followed by a long phase of attrition. I realized we had won when the union activists were spotted feeding the hens at five in the morning, thinking that no one would be watching them. After a few weeks the hens disappeared, the fence remained and those who went to the production lines were those who went there to work.¹¹

Unfortunately, the Crescenzago factory was doomed: immense, unmanageable, obsolete. Perhaps the great deal of money required to relaunch it could have been found, but no one could have found the boundless faith that would have been required to invest such a sum there of all places. The closing-down phase took seven years. In 1990, the plant, one of the most representative of the glorious historic industrial area north of Milan, ceased to function.

As for the staff in the headquarters in viale Monza, they too were affected by a general sense of laxity and abandon. When I used to leave Turin at six in the morning, I would arrive in Sesto San Giovanni at the ideal moment to walk through the groups assembled around the coffee machines, where people would watch me pass by as they stirred their coffee; I got the impression that the attitude of some of them was that of defiance, and this gave me an almost physical sense of distress. The labyrinthine antiquity of the place made it easy for staff to hole up during working hours and the nearness of the production plant in Crescenzago

¹⁰ Translator's note: a 1970 law whereby workers were granted substantial protection.

¹¹ I received a hand in getting through the "chicken coop crisis" from a young socialist member of the regional council with responsibility for labour matters, a serious and upright person who I remember with great esteem: Sergio Moroni. I was deeply grieved when I learned, ten years later, that he had committed suicide in prison during the darkest period of the "Clean Hands" legal inquiries.

turned the workers' frequent demonstrations into the chance for an easy, crowded stroll. We had to move the offices as soon as possible. The move took place a short time after, to viale Fulvio Testi, but not all the clerical staff and *dirigenti* came along: a large number of them were made redundant and had to stay at home.

The Case of Magneti Marelli and the Challenge from Bosch

The habit of keeping the books “open” after the 31st of December every year in order to ensure that invoices issued in the following year were included in the profits shown in the income statement, was a practice I saw applied in many companies that were doing badly and did not want to admit it. This was the easiest way to increase margins artificially while leaving expenses unchanged. This dreadful habit spelled double trouble for any company that practiced it. The first damage was done immediately, because the falsified economic performance led to the deferment of the measures that the dramatic nature of the situation required. Then, in the year when the reckoning inevitably came along and it was necessary to go back to normal accounting, the lack of the anticipated income caused the situation to explode and put the company on the road to bankruptcy. In 1979, by dint of postponing the closure of the balance sheets, Magneti Marelli had eaten up the entire revenue for the month of January 1980, by attributing it to the previous year.

There was worse: in that same context some big contracts for supplies of batteries were pre-invoiced to the year before, contracts that then had to be honoured gradually throughout the whole of the new year. Giovanni Germano and Francesco Torri had interrupted such practices and covered a hole in the balance sheet that amounted overall to 40 or 50 billion lire of those days, also with the aid of cash supplied to them by the Components Sector.

But there still remained other business practices that were less irregular but just as detrimental to company accounts, practices that I had to put an end to immediately. For example, the price offered to the distribution network of the spark plugs produced in Crescenzago was well below that of the leading competitors, and the net profits for Marelli were therefore far lower, whereas costs were higher owing to the inefficiency of Crescenzago and scant production. Yet, even with that ultra-competitive price tag, the network was not pulling its weight. The dealers would wait for the discount “campaigns” to stock up on supplies, and such campaigns arrived punctually, at the end of every month, to increase turnover.

I immediately interrupted that vicious circle, closing down the spark plug department and putting them in *cassa integrazione*¹² indefinitely, something that created

¹² Translator's note: this was a form of compensation, paid for with funds from the National Pensions Institute, which in turn drew funding from the taxation of companies and workers. The beneficiaries, usually laid off temporarily because of a shortage of work, received about 80 % of their salary. This system gradually developed into a very long-term institution where people never went back to work, even if still officially employed, and were paid for years. This is not to be confused with unemployment benefits, which also exist, but usually involve far smaller payments.

no problems with the unions because the workers didn't mind at all being paid for not having to go the factory. Nothing happened for a while: I knew that the network had at least 3 million units in store, a supply good for three months, and another million were lying in the central warehouse. After a few weeks, timid requests began to arrive from dealers asking when the next sales would be held. After three months, spark plugs were in short supply. Our network, which could not buy plugs from the only serious competitor (Champion), began to get twitchy and a few dealers started to fall into line. In the end we got the right price and the deleterious practice ceased.

The story of the spark plugs is only one example of the problems that a company encounters when it abandons the principles of sound business management. But on the technical level, too, things were not going well in Marelli. With regard to some essential products, the Company did not even possess the equipment required for testing prototypes. Testing was provided by Fiat Auto in Turin, which, despite this indulgence, was not much appreciated by Magneti Marelli.

The crisis exploded with the windscreen wipers of the Fiat Uno. Ghidella wanted a single wiper that covered the entire windscreen instead of the twin version that had been used until then. The Marelli prototypes broke as soon as they were used and for that reason there was a risk of having to postpone the launch of the new vehicle, so much so that Fiat turned to Bosch for the first series supply. In Magneti Marelli they defended themselves from the scandal that ensued by saying that "this is the way things had always been done". In any case, the new policy of austerity proved positive once more, because it made it necessary to set in motion various corrective mechanisms regarding structural problems, thereby getting the Company's competitive capacities back on the right track when, at that time, they seemed to be so low as to appear almost unbelievable today.

One day in 1979 I went to visit Bosch. This company was the European leader in almost all the fields that Magneti Marelli was operating in, and in others too. The firm's technical commitment was total: it invested an enormous percentage of income in research and employed a large number of engineers who enjoyed enormous prestige because they were considered the pillar of the Company; top managers were all expert in technical fields and completely dedicated to the development of international business; the entire company complex was perfectly integrated with the local and national socio-economic environment, which supported it without reservations. I still did not know the world of German industry as I was to know and appreciate it later, but it seemed to me that Bosch was exactly what an industry in that sector should be, a model for Fiat, in short.

Like all well run companies, Bosch tried to hinder the growth of competitors, which it opposed in every way and at any cost. The Germans had viewed our Autronica project with some apprehension, and I shall be dealing with this in the next section. Bosch rightly saw our new initiative as an attack on their monopoly in the field of electronic injection for petrol engines, and they were following our attempts to breathe new life into Magneti Marelli with the same attention, and in the same spirit, with which vultures perched on rocks follow the progress of a caravan struggling to cross the desert. The head of Bosch Italia, Steinhauslin, was considered a tough nut. I met him for the first time in a beer house in Stuttgart

where he had agreed to meet me, and after a little small talk, he got straight down to brass tacks: “I don’t understand why Fiat is being so obstinate” he said to me in good Italian. “We’ll make you close down Magneti Marelli.”

I took my competitor’s challenge the same way as I had taken the statement of the trade unionist in Crescenago: we had to stick to our guns. I knew that the battles did not take place in the streets ruled by demagogues or in the corridors of political power, and not even in the temples of finance. Victories or defeats were played out in the research centres, in the factories, and in the markets. After my experience in Magneti Marelli I was to accentuate even more my commitment to reinforcing the instruments of competition in the possession of the companies entrusted to me, those instruments that I had got into the habit of calling “structural”, in other words not based on contingent, occasional, or wishful elements but, on the contrary, on constructions that derived from decisions that were well thought out, planned and implemented in the long term.

At the end of 1982, I found the right CEO for Magneti Marelli and I left the operative management of the Lombard firm, which I always had a fondness for, as if it were a son who, in order to recover from an illness, had required a great deal of care. I chose as my successor Alessandro Barberis, who had made a big impression on me six years previously, when I had visited Teksid’s Brazilian foundries recently constructed in Betim, in Minas Gerais, and had seen in person how he had managed to run an immense foundry at reduced rhythms while drastically cutting all types of costs and expenses. In my view, Barberis was able to get Marelli back on to a reasonable course of development without abandoning the savings criteria that Germano and I had re-established: his running of the Company, which was to last about ten years, later confirmed the correctness of the choice.

Autronica

In those years towards the end of the Seventies, people were beginning to talk about electronic applications for cars. I had had first-hand experience of events that had happened fifteen years before in the computer science segment, events that had had pernicious consequences for Olivetti, and I felt my mission was to prevent the same consequences from repeating themselves to the detriment of Fiat’s Components Sector. In the beginning of 1962, when I had been given my first job with Olivetti’s Electronics Division based in Borgolombardo near Milan, the mother company in Ivrea was living and flourishing on typewriters and calculators, built using the traditional mechanical technology in which it boasted absolutely excellent design and production capacities.

It was thanks to that technological supremacy that in the Fifties Olivetti enjoyed an extraordinary leadership on the world market. The Divisumma, for example, was a printing calculator, obviously wholly mechanical, capable of carrying out multiplication and division, a masterpiece worthy of being remembered as one of the great creations of Italian engineering. For the most part it was constructed with thin pieces of sheet metal, obtained with a few fine cuts of the shear, which swarms of girls in the sheds in via Jervis in Ivrea assembled with Tayloristic rapidity to create a unit of

incredible mechanical complexity.¹³ I, a fledgling electronics engineer, opened the casing and gazed in fascination inside the machine as it worked: a forest of sheet-metal parts moved up and down madly, animated by some occult force, almost as if following an arcane rhythm of their own, and produced the result after entire minutes of labour. More prosaically, I was struck by the fact that the Divisumma was sold at more than one hundred thousand lire of those days, but its “shop cost”, as manufacturing costs were known in Olivetti, was around 14,000 lire, perhaps the biggest margin I ever came across in many years of work.

It was thanks to industrial income such as that provided by the Divisumma, typewriters, and accounting machines such as the Audit, all directly attributable to the skill of extraordinary technicians and the efforts of a no-nonsense workforce, which allowed Adriano Olivetti to make gigantic profits during the Fifties, with which he kept up his court of intellectuals and propagandists and cultivated his utopian sociological dream. But time was flying by and technology was evolving in new directions, overwhelming the old status quo. Yet, still in the early Sixties, we young electronics technicians were snubbed by the traditionalist *dirigenti* in Ivrea. Our nascent technology was considered chancy and ingenuous: university stuff that perhaps would be all right for the big, newly invented calculators; but the transistor, they maintained, would never have threatened the fine pressing of sheet metal, in which lay the firm’s truly difficult know-how and from which many successes had come.

Adriano Olivetti died in 1960 and in 1963 Olivetti, bereft of his leadership and torn by tribal struggles between top managers, was hit by a crisis of market saturation and by the increasing competition that soon began to globalize in that sector. Under the guidance of Mediobanca and with the participation of Fiat they set up the so-called *gruppo di intervento* (a “white knight” intervention group of industrial and financial institutions) for the “rescue” of the Company, the first of many such efforts that were to follow. And the first “intervention” on the list imposed the sale of that money-devouring unit, professional electronics. The creature that Adriano Olivetti had conceived with extraordinary far-sightedness starting from the early Fifties, when he had founded two research groups, one in the United States and one in Pisa, was sold in 1964 to General Electric for 13 billion lire of those days, a figure that was recouped in a few months through the rental fees for the electronic computers (mainframes as they say nowadays) that, in Italy, had been leased and installed until then within the brand name of the Elea range.¹⁴

¹³ The pro tempore Minister for Industry, Bersani, on the occasion of Olivetti’s 90th anniversary, celebrated in Rome’s palazzo Colonna in November 1998, attributed the Olivetti of Adriano’s day with the “overcoming of the Tayloristic model”. The remark corresponds to posthumous adulation, encouraged by Olivetti propaganda of the Fifties. In fact, Olivetti had created crèches and other important social benefits, but the organization of work had been extremely traditional. The power of stereotypes!

¹⁴ In 1964, I was certainly not a part of Olivetti top management but everyone in the Company knew how things had gone. Years later, I told Carlo De Benedetti, then *presidente* (CEO) of Olivetti, about the episode and he included it in the text of his parliamentary hearing in 1996. He received an indignant letter of protest from Mediobanca supremo Enrico Cuccia. At the ceremony for Olivetti’s 90th anniversary, Carlo De Benedetti climbed down and said that the *gruppo di intervento* (a “white knight” intervention group of industrial and financial institutions) had been “necessary and useful”. The power of Mediobanca!

A few years later, Hewlett Packard launched a desk-top electronic calculator that made all of Olivetti's machines obsolete in the blink of an eye. In great haste, a project known as Programma 101 was dug out of the drawers in which it had been lying for many years. In effect, Programma could have been the first exemplar of the new breed had it come out when my colleague Piergiorgio Perotto and his team had designed it; instead it came to light already old, when world leadership, which had been held by the Audit,¹⁵ the Divisumma, and the other extraordinary machines in Olivetti's catalogue, had been lost forever.

That precedent was crystal clear to me, engraved on my mind, when in 1979 I devoted myself to reorganizing the electronics business of the Fiat Components Sector. In Magneti Marelli a few electronics developers were working on electronic engine management.¹⁶ The other big grouping in my Sector, Weber, based in Bologna, also had a handful of designers working on the same idea.¹⁷ In reality, just like Olivetti with its pressing technology until twenty years previously, so Weber was convinced that the carburettor would never be supplanted: it was extremely simple, extremely cheap, and performed excellently. The motor car had been born with it and electronic injection would have turned out to be an expensive, passing fad.¹⁸ I was in a hurry, because very soon the axe wielded by Giovanni Germano, who I myself had hired to prune the forest of waste in Magneti Marelli,

¹⁵ The Audit was a mechanically programmable accounting machine that was extraordinarily widespread in company accounts departments and on which swarms of women of the Fifties and Sixties spent their youth. In the early Sixties it was improved by an electronic device, the *Unità Moltiplicatrice Elettronica* (the Electronic Multiplying Unit), entirely transistorized, which was one of the first gadgets of its kind in the world, if not the very first.

¹⁶ They were led by an engineer called Ingignoli. This small group started from the presupposition that the problem lay in the electronic module: the rest of the system, and the injectors in particular, would have easily been found on the market; in case of necessity they had decided to join forces with the American company Bendix, which promised to make major investments. I believed they were wrong. Petrol injectors were among the most sophisticated ironware of any to be found among all the products of mechanical engineering, given that they had to be machined to micron precision and cost less than ten dollars apiece. Bendix did not have much of a chance because the big three American car builders had decided to produce these essential parts by themselves.

¹⁷ This firm saw things in a way that was diametrically opposite to Marelli. According to them, the tricky parts were the mechanical ones, especially the injector and the pump. They maintained "they would have the electronics done" by some small company in the Bologna area and, in any case, they had contacts with the American firm Motorola. I visited Motorola and all they could show me on the subject was a radio factory in Texas. The mistake was just as serious as that of Marelli, as was to become clear in the years that followed.

¹⁸ Weber had some good reasons in support of its idea of the immortality of the carburettor. Its new "twin barrel" model had been a success all over the world thanks to the advantages it offered in terms of fuel consumption and atmospheric pollution. Ford adopted it in the USA and asked for it to be produced near them. I accepted the idea of Livio Montefameglio, Weber's CEO, to acquire an existing company and together we visited the Carter factory in Saint Louis. Down there we understood the success of the Italian concern: for thirty years the Americans had been producing the same old four-barrel carburettor model, a gas guzzler offering something like the technology and savings of a fire hydrant; moreover, the social degradation around the production plant was incredible. Having discarded that factory, which was shut down soon after, we turned to a smaller factory recently constructed in South Carolina, and we bought it for a low price. My

would have chopped to pieces any technological shoots that were still unproductive. I tried to act diplomatically, even organizing conferences at the company training centre in Marentino,¹⁹ in which I spoke of the “technological anxiety” that I felt was lurking in the world of car building. Given that I got nowhere by playing the “nice guy”, I acted unilaterally. I forbade the two groupings to make agreements with third parties on this matter and I ordered the two research groups to be merged into a single entity that I set up as a joint venture between Weber and Marelli.

The term then in use for automobile electronics was *autonica* (“autonics”), along the same lines as *avionica* (“avionics”), but Franco Sensazono, in charge of Image in the Components Sector, maintained that an “r” would have lent force to the name, and thus Marelli Autronica was born.

I had my staff look for a suitable chief of Autronica and they brought me a fellow with a big moustache who had just arrived from America. I understood immediately that he was a big character, and not just in the physical sense. Too big for such an uncertain, fledgling affair. We agreed together that there wasn’t space sufficient for his experience and ambitions and so Fiat lost the chance to hire Pasquale Pistorio who, coming from Motorola, was later to do so well for many years with SGS-Thomson.

The development of electronic injection in the ten years that followed the establishment of Marelli Autronica would merit an in-depth study, mid-way between technology and economics. For the Fiat Group, electronic injection was to prove a difficult and costly exercise. The first results were dismal. For example, in Formula 1, it was discovered that when the Ferraris got too close to each other, each car influenced the other because of electromagnetic disturbances. The investment in the injection units was enormous, despite the aid of public financing received by the Altecna factory in Bari. The trickiest problem became that of firmware, in other words the mapping of the system to adapt it to each of the different kinds of engine provided to customers with a view to optimizing performance.

This technical venture was tackled by many competitors in the years that followed and only a few were successful, despite important support, such as the backing the French government vainly gave to its own national industry.²⁰ In Fiat, too, forces contrary to the initiative came forward occasionally. For example, a

Footnote (Continued)

goal was to use the local presence and our contacts with Ford to attempt to introduce one day the future Weber/Marelli injection system to the United States market as well. And even if the idea had not worked it would not have been a tragedy, because the initial costs were covered by the income from the carburettors. I do not believe that that initiative went completely as I had wished but it certainly contributed to the internationalization of Weber and Marelli at a time when the word globalization was yet to become fashionable.

¹⁹ Translator’s note: a small town close to Turin, where Fiat had located facilities for meetings and training, in a beautifully restored ancient *villa* (see [Chap. 8](#)).

²⁰ Among those who tried but failed to keep up with the development of electronic injection I recall: Siemens in Germany, Lucas in the United Kingdom, Sagem and Valeo in France, and Bendix in the USA.

Fig. 3.1 V. Ghidella, head of Fiat Auto, and G. Garuzzo, head of the Fiat component sector in 1982 present the first prototype of the Weber-Marelli electronic injection system to the *direttore generale* of the industry ministry, V. Barattieri



consultancy by MacKinley requested by Umberto Agnelli came to the conclusion that it was madness to challenge Bosch, which held the world monopoly together with its Japanese licensees. But I did not give way.

Ten years later, electronic injection was to wipe out the carburettor.

One thousand billion lire later, Magneti Marelli and Weber were to have electronic injection (Fig 3.1).

Borletti

I had intervened with full powers in Magneti Marelli right from the start, in 1979, managing to get the situation under control in the space of a few years, thanks to the commitment and sacrifices of many people. I suspected that the other medium-sized Milanese company in the Components Sector portfolio, Borletti SpA, was in serious trouble, but I couldn't get my hands on it. In the years during which my account unfolds, Ferdinando ("Nando") Borletti was the unchallenged master of the company of the same name. In reality, Fiat held 50 % of the shares but it seemed as if this were of no importance. Some years before, I had taken part in the board meetings of Borletti SpA, together with Cesare Romiti. It was all a series of elaborate and ceremonious pleasantries among decrepit board members, after which one took one's leave. Throughout the Fiat galaxy it was taken for granted that board meetings were pure formalities, but Borletti was a 50/50 joint venture, one of the few cases within the Group: yet, never were meetings more inconclusive and anachronistic as those held in Borletti SpA.

Nando Borletti recognized and accepted Gianni Agnelli as his sole equal, and since the latter took care to avoid sticking his nose into the everyday banalities of business, Borletti actually answered to no one. And no one dared to interfere until, a few years later, troubles began to bear down on the company. Romiti kept out of

the way, also because Nando Borletti, impartially, had no more consideration for him than he had for any other Fiat *dirigente*.

All Fiat cars were equipped with instruments by Borletti, and even Tufarelli's decree, which prohibited a monopoly of supplies to Fiat Auto and the use of other brand names, had not affected Borletti's position: for years, millions of motorists continued to drive while keeping an eye on the name Veglia-Borletti on the dashboard; yet all that Fiat publicity for another firm's name was neither necessary nor normal. Then Vittorio Ghidella joined Fiat. He was deeply dissatisfied with the quality of the on-board instrumentation and other components by Borletti, but he too was obliged to bow to the power of the noble brand and did not dare speak up too freely. The aura that surrounded the legendary name of the Milanese aristocracy was unassailable.

It goes without saying that Nando Borletti didn't even deign to see me, despite my being the head of the Components Sector. And so I, too, decided to let the matter drop²¹: it was someone else's fate, some years later, to find himself in trouble over Borletti and its eponymous owner. In 1984, when I had already left corso Marconi for Iveco, Ferdinando Borletti had his company buy Valsella, a firm that manufactured anti-personnel land mines, one of the most contemptible products ever. Valsella had an irregular history of exports to banned countries, through triangulations with neutral states, practices that had earned massive profits for the previous shareholders. I never understood why Borletti got himself into that pigsty, with the party over and the stinking remains of food still on the table. In effect, he came along in time to pay a very dear price that led him to prison and, perhaps, to his premature death. I imagined that he was attracted by the idea of reproducing the splendours of his family, who had contributed to arming Italy in the First World War; and by way of proof of this I considered the affection that Nando had for the military sector of Borletti SpA, where they made fuses for artillery shells, an area he considered to be his own private reserve. For Fiat, the Valsella initiative involved massive damage in terms of image; the men involved, in particular Carlo Callieri and Gian Alberto Saporiti, maintained they had never been operative, and I have no trouble believing that, remembering through first-hand experience how Nando Borletti had no intention of sharing his decisions with anyone in Fiat. It was an error on Fiat's part to accept a subordinate role in a 50 % participation. On Borletti's death, the Fiat Group had to take on the responsibility of managing—through Gilardini—the phase-out of the remains of Valsella, paying the relative costs and wasting attention and reputation.²² The automotive part of Borletti was absorbed by Magneti Marelli, and so the former invalid owned by the hated Piedmontese of Fiat swallowed up the ex-jewel of the Lombard aristocracy. *Sic transit*.

²¹ By contract, the role of *amministratore delegato* (CEO) of Borletti SpA was the preserve of a Fiat nominee and this was an impenetrable position, given the circumstances and a CEO of that kind. I engineered the idea of sending Marco Bono, who had been hapless enough to present the Magneti Marelli budget shortly before. I was unable to judge his degree of responsibility for Magneti Marelli's recent troubles or to what extent he had been forced to stay afloat amid a local situation that was unserviceable for him and a policy marked by industrial disinterest and negligence on the part of Fiat as a shareholder.

²² See, for example, "la Repubblica", March 3, 1991.

Profits Go Up and Debts Go Down

The Components Sector achieved excellent results.

The aggregate net profit improved in each of the four years under my direction, reaching 145 billion lire in 1982.

Right from the start, I had applied strict control over the financial debts that burdened the companies, devoting to that parameter the same attention customarily attributed to the net profits from the income statement. For the companies within the Components Sector, the terms of payment at 135 days on the part of the main customer Fiat Auto made financial management a critical factor. Almost all the companies were heavily indebted to the banks at the time of the cluster project of 1976, and many of these debts still existed in 1979, when I found myself having to tackle the problem directly. Inflation in those years, which had pushed interest rates up to a very high level, well over 20 % per annum, massacred the balance sheets of the indebted companies.²³ It was therefore necessary to take priority action on the balance sheet structure. I would have preferred to approach the problem from the standpoint of the “return” on the “net invested capital”, measuring the income that was generated by the money put into the company by the shareholders or the banks, as I had done a few years before with De Benedetti’s Gilardini.²⁴ But I did not succeed in my intention and I contented myself with tak-

²³ I maintained (provocatively) that financial burdens ought to be entered among fixed costs because interest increased even when production was at a standstill for lack of buyers and the workers were in *cassa integrazione*. The normal schemata of the income statement and the entire methodology of industrial accounting were insufficient to describe the phenomenon, having been conceived in very different conditions of inflation.

²⁴ In Gilardini in 1974 I stipulated that every operative division should measure its own net invested capital as the sum of net fixed assets (machinery, plant, etc., after deduction of depreciation) and working capital (inventories, customer receivables and supplier payables, etc.). Net invested capital was considered to be financed by an internal debt on which the Central Bodies pocketed a virtual “interest” (the divisions were not independent companies). The pay incentive about which I talked in Chap. 2 was accorded to *dirigenti* only on the part of company profits that exceeded the “service” of the debt on the net invested capital. This was an extremely advanced criterion, which Carlo De Benedetti had accepted in full, but I could not export what I had managed to do in a small family company to big industry, where this task did not concern me and where any proposal regarding this was in odour of heresy as far as the function of *finanza centrale* (the Central Finance Office) was concerned. At the time when I joined Fiat a curious misunderstanding occurred. For simplicity’s sake I had used the term *capitale di dotazione* (allotted equity) to describe the amount of virtual net invested capital on which Gilardini divisions had to pay their virtual interest to the central “provider of funds”. In Italian public industry the term I had used had a completely different meaning, the opposite of mine, and a decidedly negative connotation: it meant the funds that the state effectively paid into the equities of the companies it owned, equities that were in any case lost in the operations, paving the way for further requests. When Gilardini was bought by Fiat, Carlo De Benedetti boasted to Cesare Romiti about the system in use in his former company: the latter, interpreting the term *capitale in dotazione* from his point of view as an ex public manager and without verifying what it was about, indignantly labelled it as statism-oriented. My terminological imprudence had caused another source of friction among the many others that poisoned the atmosphere between the two men.

ing steps to reduce debts: in 1979 I had found the Components Sector with 2,000 billion lire of net financial debts and I left it in 1982 with less than a quarter of that figure.

The Easy Finance of Fiat Auto

No matter how strange it may seem today, when I joined the firm in 1976 I found that the widespread culture in the world of Fiat was insensible to the matter of debt. In the Sixties, Fiat had an abundance of cash because profits were extremely high and an extraordinary source of income was working at full speed: the financial cycle of the car business in Italy, a cycle that was unique anywhere in the world and one that deserves a brief description.

When a client ordered a new car, he would give the dealer an advance payment; then he would pay the remainder in full on delivery of the vehicle. When the client made a purchase on instalments, the finance company that acted as an intermediary would pay the entire sum immediately, and so for the manufacturer the cycle was no different from normal. In both cases, the dealer immediately transferred the cash to Fiat Auto. Consequently, there were very few days in which sums due from clients (receivables) remained unpaid. On the contrary, Fiat Auto paid suppliers according to the following formula: “one hundred and twenty days from the date of the invoice at the end of the month”, which meant an average of 135 days after the delivery of the materials.²⁵ The terms of outstanding amounts owed to suppliers, the payables, were therefore long, far longer than those of receivables. Precisely on account of the difference between receivables and payables Fiat Auto always had in hand, on the average, the equivalent value of 50 to 60 days of income that did not belong to it: in financial jargon it was said that Fiat’s working capital was negative, an extraordinary eventuality anywhere! When the market was developing, production and turnover increased and Fiat Auto became a gigantic generator of cash, as it had been throughout the Sixties. But the mechanism was reversible, that’s to say it worked the other way during periods of recession, when turnover was falling, and it was precisely this phenomenon that worsened the financial headaches that Romiti had had to tackle in the Seventies.

Here it’s necessary to insist on the concept: when the market took an upturn, Fiat Auto seemed to be extremely rich because it withheld for a long time money belonging to clients and suppliers. When the market took a downturn, the other economic difficulties were aggravated by the need to return the money to its legitimate owners. Yet again, having manipulated the cycle of financing that lay at the basis of the market economy made it possible to develop the business without falling back on external capital, keeping control in the hands of the historical shareholders, but it went against the long-term interests of the Company and domestic capitalism.

²⁵ The condition did not apply to raw materials and the most powerful foreign suppliers could also reject it; but this did not have much effect on the general average.

In reality, the topic of the use of capital had never been internalized by the *dirigenti* of the big Fiat Sectors, automobiles and lorries in particular. It was taken almost for granted that money, for any investment eventuality, was to hand, and this illusion was also encouraged by the distance deliberately maintained between the operative Sectors and the central financial services controlled by Romiti.

The March of the Forty Thousand

I had been with the Components Sector for almost two years, in the autumn of 1980, when Turin was the scene of the “March of the Forty Thousand”, to use the definition consigned to history by the media.

The succession of events is well known, and, for example, there is a detailed account in the book by Cesare Romiti that I have already quoted.²⁶ In an act of great courage for those times, in October 1979 Fiat Auto fired 61 workers suspected of terrorism from factories in the Turin area. This was the first substantial act of resistance on the part of an industrial body against the control that the axis constituted by trade unions, politicians, and ideologues of the far left had exercised on the economic-industrial life of the country for eleven years, starting from the “hot autumn” of 1969.

In an even more unheard-of move, at the beginning of September 1980, Fiat Auto declared that it wished to reduce superfluous personnel and, shortly after, on 11 September, it announced the dismissal of 15,000 people. This led to a confrontation with the unions, which called an indefinite strike and hermetically picketed the factories. Their action was broken 35 days later, on October 14, by a “spontaneous” demonstration on the part of a crowd that marched through the streets of Turin protesting that they wanted to go back to work.

In this circumstance, Cesare Romiti led Fiat operations with masterful skill. I met him a few times in his office in the most turbulent week in early October 1980, and it struck me that he was sitting at his desk in corso Marconi with the same attitude and in the same spirit attributed to Lenin by John Reed in his famous book on the Soviet Revolution, *Ten Days that Shook the World*.

It was in crisis situations that Cesare Romiti always gave the best of himself. On those occasions he revealed an authoritarian style that aroused insecurity in his opponents. He was cynical, rapid, and rational.

I appreciated, for example, the promptness with which he corrected a mistake he had made: on September 27 the Cossiga government fell, for other reasons, and Romiti jumped at the chance; with the pretext of not wishing to create social problems for the country in the absence of a government, he withdrew the measure to sack the 15,000, which had shown itself to be unpopular and untenable, and he replaced it by putting 23,000 people in *cassa integrazione*.

²⁶ Romiti-Pansa, *op. cit.*

Having rendered unto Caesar that which is Caesar's, I think that we can make a few general observations.

First consideration: the operation was carried out and was successful because, behind Romiti, in the factory, stood Vittorio Ghidella and his team. The role of Ghidella and his staff in the affair never emerged because, by Fiat rules, public image was reserved for the Agnellis and Romiti. But it was from Fiat Auto that the measure regarding the "61" came, the first and hardest step with a view to breaking the long standing situation of unmanageability and illegality within the company, insofar as it challenged directly the terrorist matrix and its trade union connections. Subsequently, the organization of the march was arranged perfectly by the Employee Relations function in Mirafiori, Carlo Callieri in particular, and by the association of intermediate heads, the so called *quadri*, led by Luigi Arisio, a highly principled leader, whose dominance over his subordinates was total. In general, it can be said that Fiat won the clash with the unions because the behaviour of the managers and the *quadri* showed a cohesiveness and a determination that bore witness to how the lines of communication and the factory spirit had been restored in Fiat under Vittorio Ghidella's management.

Vittorio Ghidella was indignant about Pansa's and Romiti's book, as he told me explicitly on more than one occasion. Ghidella and his many admirers found that what had been totally left out was the serious, hard, coherent and constant work that had been done within Fiat Auto, and hence the role played by Ghidella himself and his management, in favour of an exclusively political view of the event aimed at supporting Romiti's personality cult. With the publication of the book, in early 1988, Ghidella's relations with his boss changed drastically.

I don't know who had the original idea for the demonstration of October 14 1980, but I recall that Carlo Callieri was a passionate supporter of it. It was not an easy operation to set up, also from a logistical point of view, because the heads, the *quadri*, and the loyal workers had not been in the factory for over a month and to make contact with them it was necessary to activate a delicate, widespread word-of-mouth campaign. These were the persons called upon to get the Turin demonstration underway and to constitute the nucleus of condensation that, it was realized not without surprise, attracted—on the route between via Nizza and piazza San Carlo—workers who had not been invited, shopkeepers, and ordinary citizens, tired of union abuses of power, to make up the flood of people who took to the streets. Fiat never admitted having organized the march, not even Romiti in his book. The march struck me as an excellent initiative because it revealed a resourcefulness whose equal had not been seen for a long time as well as a renewed capacity for ideal coagulation and organization in conditions of enormous logistic difficulty. The fact that the demonstration was a success, over and above all expectations, owing to the spontaneous aggregation of many people who had not been invited, makes it even more appreciable.

A second observation is more speculative in nature. The events of autumn 1980 confirmed the defeat of the unions after a serious and important struggle, but it was not the first time, and it was not to be the last, that somewhere in the world a union lost a battle. Who says that only in Italy the unions always have to win? The

conclusion should have taken on a normal enough character, albeit very disagreeable for one of the contending parties, namely the loser. Instead the outcome of the clash assumed an epochal aspect, and the first to accord this “historic” connotation to the event were the unionists themselves: they had not lost the battle, but the war. Even in the decision to sign the agreement immediately, so close to the “March”, the union delegation gave up on the final phases of the talks with excessive haste.

Why was it that from within the movement itself there had emerged such a self-destructive and defeatist attitude? How was it that it was not rejected but on the contrary accepted throughout the political left, especially the far left? On reading certain statements from those days, one seems to grasp a paradoxical nuance, almost as if Marx had predicted the ineluctable victory of capitalism, not that of the proletariat, and that that prophecy had finally come true on the streets of Turin.

I shall hazard a psychological hypothesis. The years of triumphant and excessive unionism that had gone by since the autumn of 1969 had wearied and frightened everyone, the protagonists included. There was a feeling, not admitted but widespread, that it was not possible to go on this way, that things had gone too far. If this interpretation is true, the defeat of 1980 not only was expected but, deep down, hoped for. Many heaved a sigh of relief at the news, even some on the losing side. If this is how things went, then we would have confirmation of the supposition that the party of the employers, insofar as it was capable of determining or, at least, influencing the political stance of the country’s ruling classes, had resolved in its own favour a critical situation that it itself had partly encouraged or, at least, tolerated, owing to the indolence, laxity, and scant ethical sensitivity of its conduct over many years.

And this consideration applies heavily to Fiat for its management of the factories in the Sixties and Seventies, and for the ambiguous position of the Agnelli, Valletta, and Romiti with regard to public power. In other terms, Romiti’s energy and opportunism had got the better of a crisis to whose genesis his predecessors, his colleagues and to a certain extent himself (at least in the previous five years) had contributed out of the absence of long-term vision and out of disinterest in the real life of the big factories entrusted to them and in the great themes of international capitalism (which in those very years was laying the groundwork on which the international challenge of the Eighties and the globalization of the Nineties was to take place).

The discourse could go even further if we tried to understand why no other economically advanced country had been as profoundly affected as Italy by frankly absurd anti-industrial practices and self-destructive theories.

Laying the blame on politicians or intellectuals for this can only confirm the thesis: Italian capitalism of the Sixties and Seventies did not have the capacity or the ability to realize structural modifications of its own way of being, nor of developing the charisma necessary to sustain within the country a modern, advanced concept of the market economy. Such modifications and such charisma were certainly not compatible with an industry half of which had been transferred to state control, managed without transparency, with accounts doctored to cover tax evasion, devoid of diffused shareholding owing to a Stock Exchange that was jaded and given over to speculation in a context where rules were thin on the ground. A

world where even the most important local industrial association, that of Milan, was in the hands of men whose allegiance lay with foreign multinationals.

What positive messages could be transmitted to people by such a system?

Romiti often complained that the General Confederation of Italian Industry and many industrialists and politicians had not supported him in the struggles of autumn 1980, preferring to adopt a fence-sitting attitude or even opposition to a clash.²⁷ But this very decision allows us to presume that the Fiat of previous years had not deserved the leadership of the country's private industry, and not even a credible management of relations with the unions, not just for the laxity on a disciplinary level that the attitude of public authorities from Carlo Donat Cattin²⁸ onwards had made difficult to oppose, but also for the incapacity to propose and promote any alternative economic and social policies.

The preceding considerations, in my view, can be used to refer to a common matrix highly developed in the Italy of those years, in all environments and at all levels, which tended to consider the free market as something intrinsically dangerous, and saw business management as not being aimed at an economic goal—maximizing the return on investments and, therefore, income from the capital invested—so much as the expression and the instrument in the struggle for supremacy among political powers. So, after the March of the Forty Thousand, the idea began to circulate that all the troubles that Italian industry had previously encountered were to be ascribed to adverse relations between politics and the unions, and this stereotype spread rapidly and was backed up by propaganda on the part of the Confederation of Italian Industry. Fiat was efficaciously instrumental in this sense, and it suffices to read Romiti's and Pansa's book to remain convinced of this: in 380 pages there is virtually no mention of products and markets.

I always rejected that approach.

I am convinced that social peace is a necessary prerequisite, but that alone it is not enough to ensure the success of an industry, far less of a national economic system, if the ruling class does not come up to its task on the economic and industrial level. The battles of industry are fought on the market, with products, with factories, with sales and after sales service, on the customer satisfaction front. From this point of view I am fairly cynical: a big industry must never be bound too closely to one country because it must be able to maintain its own freedom of action with regard to political blackmail. Exactly the opposite of the Fiat tradition against which I struggled, for the entire period of my time with the Company, as far as was possible for me and my level of responsibility.

The fact remains that, while it is hardly tenable to maintain that the March of the Forty Thousand was the sole determinant agent in the Italian socio-political changes of the early Eighties, one cannot cast doubt on the symbolic impact it had on public opinion and, given this, one cannot underestimate its importance in a country where symbols often count for more than facts and concepts.

²⁷ Romiti-Pansa, *op. cit.*

²⁸ Translator's note: A Labour Minister from the left wing of the Christian Democrat party, particularly lenient in dealing with union turmoil.

Chapter 4

A Rather Unattractive Position (1983)

The New *Direttore Centrale*

One day in 1982 Cesare Romiti summoned me to say that from that moment I would no longer be his direct subordinate but that I would be referring to a *direttore centrale*, a new role that had never existed since I joined Fiat. As well as my Components Sector, the new organizational level also controlled the other “Intermediate”¹ Sectors and those of Tractors and Earthmoving Equipment, while the Automobile and Industrial Vehicle Sectors remained under the direct control of *amministratore delegato* (CEO) Cesare Romiti. I reacted badly to the news.

The new *direttore centrale*, Simone Fubini, was a capable, responsible person and was also a personal friend of mine. He had been my boss many years before, around the mid-Sixties, and we had worked together with so much mutual satisfaction that in 1976 I had sought him out to offer him the position of *amministratore delegato* of Telettra, which had recently entered Fiat’s orbit.² He had done a very good job in that position, which was perfectly suited to his experience in the field of advanced professional electronics.

¹ The internal terminology of the Group, a knowledge of which is essential to orient oneself in its complexity, distinguished four *Terminali* Sectors and three *Intermedi* Sectors. The first sold vehicles outside the Group and were prevalently buyers on the “market” internal to the Group: Fiat Auto, Iveco (lorries), Fiat Allis (earthmoving machinery) and Fiat Trattori. The *Intermedi* Sectors were prevalently suppliers of components and equipment to the *Terminali* and, when possible, to their external competitors: the Components Sector, Comau (which I deal with in [Chap. 2](#)), and Teksid (foundries and, until the Seventies, steel).

² In 1976, Fiat found itself landed with Telettra, a high-tech Milanese firm, very strong and active in many parts of the world in transmission by radio link, with capacities and interests also in electronic communications. I use the term “found itself” because Fiat would willingly have done without that purchase in that period. In the Sixties, around the time that the “white knight” intervention group obliged Olivetti to drop electronics, Fiat had acquired a 20 % share in Telettra, an operation the reason for which no one in my day was able to reconstruct or explain. There was a clause in that old contract whereby Floriani, the legendary founder and manager of the Company, could transfer to Fiat the remaining 80 % of the shares at a price fixed by a

The constitution of a position as *direttore centrale* might seem correct, if we stick to the norms of organization theory. Until that time, fifteen or so heads of various Sectors who differed greatly in size among one another referred directly to the *amministratore delegato* of Fiat, Cesare Romiti. This led to the pathological condition that in the jargon of organizational consultants is defined as “span of control”, or overly slack coordination. Yet, despite my friendship with the chosen person and the comfort of organization theory, I did not approve of the decision one little bit. Part of my reaction was certainly wounded pride, because I found myself with a new controller above my head just when I thought I deserved compliments for results achieved. But what worried me above all were practical, functional considerations: I would have wasted time and lost efficiency.

Obviously, there was nothing to be done. I put my mind at rest and Fubini became my boss. He did not last long. After a few months, the company grapevine maintained he was already in disgrace. Cesare Romiti ignored him, behaving as if he didn't exist, in accordance with a treatment he repeated with many *direttori centrali* that he himself was subsequently to nominate, such as Giancarlo Vezzalini and Ruggero Ferrero.

Carlo De Benedetti took advantage of this, and he asked Simone Fubini to go back to Olivetti to work with him. Fubini accepted the proposal. He quickly packed his bags and left, leaving Romiti to look for another *direttore centrale*, annoyed by this affront on the part of the defector, who had gone over to a hostile camp, even though he himself had created the conditions that made Fubini feel ill at ease with him.

To replace him, Cesare Romiti immediately turned to me. I tried to avoid the bitter cup. I was perfectly happy in the Components Sector. I knew everything and everybody: my team was made up of capable men and my relations with them were based on mutual esteem and trust, nor were they devoid of human warmth. The results could be seen, and I had the outlines of some good projects in mind...

Had it been up to me, I would have remained there until retirement, pursuing the mirage of constructing a complex ever more like that of Bosch, which I feared and admired so much. To attain my goal, I had recently persuaded the Holding Company to set up a small company, called Fiat Componenti SpA, which in my intentions should have become a sub-holding in charge of all the Groupings of companies in the Sector. Subsequently, I would have sold off to third parties those units devoid of know-how or unable to withstand international competition. With

Footnote (Continued)

precise formula, if and when he wished. Just when Carlo De Benedetti and I first set foot in corso Marconi, Floriani decided that the time had come to exercise his right. The calculation of the formula with the parameters of the day gave a result favourable to him and Fiat had to pay some tens of billions of lire. The event had enriched my personal knowledge of how to do business thanks to two lessons. First, you should never sign contracts with put and call clauses whose duration extends too far into the future, your successors have the right to choose their own ordeal. Second: it is possible to establish values or variability ranges for the prices to be paid at the deadline of the contract, but uncontrolled formulas that put no limit on the sums to be paid out are dangerous.

the earnings from the sales I would have financed the development of the strongest remaining units, through their own research and development efforts or through the acquisition of similar companies around the world. In accordance with his mental categories, Cesare Romiti interpreted the creation of Fiat Componenti SpA as a decision calculated to serve my goal of internal power, and he did not back the project, which I was unable to develop any further than a rough outline.

Instead, I was obliged to leave to become *direttore centrale*, and it was up to someone else to take charge of the Components Sector that, in the second half of the Eighties, was substantially transformed through successive and occasional aggregations of new companies around the central nucleus of Magneti Marelli without any sign of a genuine industrial strategy. Entrusted to short-term management that received little attention from the powers that be, the Sector was gradually broken up and dispersed through spin-offs and cheap sales: another business area, that of components for cars and industry, was thus lost for Fiat and the country. Apart from Magneti Marelli, very little remained of my labours over those years.

A Feudal Structure

Those with no direct experience of the relations that exist inside big groups perhaps may not wish to believe that a young Sector Head (I was forty-three in 1982) was disappointed with the “promotion” to one of the most illustrious positions in Fiat. Well: in complex organizations the labels that appear in official communiqués do not succeed in describing exactly the assignment of effective responsibilities regarding industrial management; in other words, the official organization chart never completely coincides with the real one. In the Fiat of 1982 this dichotomy was particularly marked, and was to remain that way for a long time.

In order to explain the apparent paradox of my resistance to the change in my career, it is therefore necessary to understand the reality of Fiat’s organizational structure in those years. As I have remarked on several occasions, the Holding Company had given up attending to industrial activity: responsibility for business was wholly wielded by the Sector Heads, each of whom was a de facto dictator within that part of the Group entrusted to him. The companies within the Fiat group were moulded exclusively by the decisions of those persons who came and went as the Sector Heads and in no way were they influenced by the decisions made by the Holding Company. Many books have been published to describe from diverse standpoints events connected to Gianni Agnelli and Cesare Romiti, and others will certainly be written about them in the future. They fulfil their role as biographies of the personalities, but it would be mistaken to think that they tell in some way the “industrial” history of Fiat, because there is no value in an industrial history of Fiat that does not talk, for better or for worse, about the men who led its Sectors and the things they did.

Following the March of the 40,000, with the symbolic significance ascribed to it, Cesare Romiti acquired political status and national fame. The media took

possession of the personage and the Fiat Press Office did the rest, constructing an image for him that soon took on the connotations of a personality cult. Romiti was presented as the *deus ex machina* behind every Fiat success (but exempted from any failure), and this stereotype gradually perpetuated itself as the events of those years were rewritten, always referring a critically to the same sources, especially from the press. In reality, the outside world could not understand who actually did what in Fiat. One of Italy's most important bankers expressed this uncertainty to me most efficaciously: "I never understood how Romiti managed to develop all the industrial achievements attributed to him while he was to be found present at every conference and every social occasion". Well: those achievements were developed by the same people who had invented them, the Sector Heads.

An analogy may serve to understand. The distribution of industrial power in Fiat was of the feudal sort and every feudatory exercised absolute power within his own territory. The deference towards central power, the power of the "emperor", was substantially ritual: periodic ceremonials were held in which the court took part, crowded and codified meetings during which it was considered inappropriate to ask indiscreet questions to any feudatory about what was happening in his territory, an aprioristic lack of trust; instead, it was taken for granted that generic and innocuous exhortations would be made that the feudatories gladly accepted. To sum up, the rule in force was a tacit but precise and absolute subdivision: industrial power lay in the outskirts, while the image of power was the exclusive prerogative of the centre, which used it for its extra-industrial excursions.

During his hundred days, Carlo De Benedetti had attempted to go against this dualism, overcoming it with the things he did: his activism was proof of this; the sacking of Gianmaria Rossignolo and Nicola Tufarelli's resignation were a consequence of it.

On the contrary, Romiti skilfully exploited the advantages of the situation. For years he availed himself, with regard to the outside world, of the power and the image that his position conferred upon him. At the same time, the mistakes, the industrial imbalances and, finally, even so-called improper actions,³ in short all the negative factors, were laid at the door of the Sector Heads. This allowed him to present his own role as that of the demiurge who charismatically stepped into save the day.

The dichotomy between effective sectoral power and pure central representativeness sometimes took on paradoxical connotations.

For example, in foreign countries, every Sector could freely open its own branches according to necessities dictated by business. But when one or more Sectors were established in the same country, then the Holding Company would take steps to set up its own agency, different and separate from that of the Sectors. The offices were in different locations and operated with different personnel. If a Fiat Auto *dirigente* had to go to London then his base was Slough, an Iveco officer would go to Watford, and so on for all the Sectors, each on its own account; instead, a head office *dirigente* from corso Marconi went to Berkeley Square.

³ Translator's note: a reference to the judicial inquiries in the '90s (see [Chap. 9](#)).

The same happened in Paris, New York, and everywhere else in the world. The result of this practice was the opposite of a synergy, a kind of “dis-synergy”: one plus one made three, in terms of costs. The situation was worsened by the fact that the local vassals of the Sector usually rejected any submission, even if trivial and formal, to the representative of the Centre, and this led to feuds among expatriates that did not contribute to improving the company spirit and image in places that were already difficult by nature. The only central “function” with global jurisdiction within the entire Group was the financial one. Procedures of unified treasury made it possible to compensate financial flows automatically, relations with the banks, and exchange rates; every Sector limited itself to providing input, but effective activity was carried out beyond their purview. The *direttori amministrativi* (Chief Financial Officers) of the Sectors were doubly dependent, servants to two masters: their own Sector Head and the *capo-funzione centrale* (Central Head of Department), who in his turn referred to Cesare Romiti through his alter-ego in this field, Francesco Paolo Mattioli.

This financial limitation of feudal power had to be tolerated and in any case it had the advantage of freeing the Sector Heads from the irritating task of looking for money when they needed it, but this also involved the extremely serious drawback of exacerbating the use of capital by the Sectors, without too much concern for returns on investment. It should be said, however, that the unit was run with a good degree of professionalism.

The Sector Heads, so authoritative in their own territory, were not all equal in the eyes of the Holding Company. Although this was not formally codified, there was an ineluctably precise classification of rank that was reflected by external symbolism. To continue the analogy, this was something similar to the ceremonials of an imperial court: the first to strut in was the head of Fiat Auto who brought in half of Group sales and commanded more than half of the employees of the Group; in descending order, there followed the heads of Iveco, Fiat Trattori and Fiat Allis, and then the three heads of the Intermediate Sectors: Components, Teksid, and Comau, in that order; the last were the heads of the *Diversificati Industriali* (Diversified Industrial Sectors), *Aviazione* (Aeroplanes), *Ferroviana* (Rail Stock)...⁴ Even the sequence of participation in messages of condolences published in the city’s newspaper was strictly codified and issued directly and explicitly by the External Relations function in corso Marconi: to know the real Fiat organization chart it was enough to wait for the death of an important *dirigente* or his spouse and read the obituary columns.

The power of the people at the top of the Holding Company, who kept as far away as possible from the aspects (and the inconveniences) of industry, flowed

⁴ Civil Engineering (Impresit and Fiat Engineering) always went its own way because it was difficult to classify according to the categories of the industry, and this was to happen later in the case of Snia BPD, whose minority shareholder was Mediobanca and was closely followed by Enrico Cuccia, a privilege that gave it a special status. There was also a Financial Sector, Fidis, which was substantially an emanation of the homonymous central function, into which no one except the consecrated could stick their nose.

towards the outside and swept over labour relations, image, lobbies, financial engineering, and politics in a broad sense. To this end, Romiti and some functionaries of the Holding Company who referred to him in real time wove a web of interpersonal relationships with journalists, sociologists, merchant bankers, trade unionists, politicians and other persons who had nothing to do with Fiat's products and markets. And it was for this purpose that Fiat held shares in companies that did not serve its own business and profits, such as Gemina, for example. Sector Heads were forbidden to intrude in these areas and any such attempt was seen as unpardonable insubordination with regard to imperial power.

But a terrible nemesis was lying in wait for the powerful Sector Heads, especially the most important ones who, after spending a reasonable time in their positions, ended their mandate badly. Completely at odds with Agnelli and Romiti, they fell into disgrace with the Empire, which ostracized them and condemned them to *damnatio memoriae*. Among the cases I have already mentioned, or will deal with later, I recall those of Nicola Tufarelli and Vittorio Ghidella in Fiat Auto, of Bruno Beccaria, Jacques Vandamme and Giorgio Manina in Iveco, of Ferdinando Palazzo in Teksid and Fiat Allis. Other Sector Heads were obliged to quit without violent conflict but in a subtly unpleasant manner, such as Giancarlo Cozza (Fiat Ferroviaria), Giovanni Germano (Magneti Marelli then Fiat Allis), Gian Alberto Saporiti (Ivi, then Comind, then the Components Sector). If we add the cases of Carlo De Benedetti, Gianmario Rossignolo, Simone Fubini, and my own, it seems clear that the Group could aspire to the world record for the coefficient of "mortality", metaphorically speaking, of top managers by the executioner's hand, either by knife or poison. Either there was a curse that caused Fiat to choose its bosses from the least suitable persons, or something was wrong with the way in which internal relations were handled, something that cannot fail to have a bearing on the aims, methods and, all in all, the personalities of Gianni Agnelli and Cesare Romiti. I am convinced that this historic responsibility with regard to the Company is to be considered very costly on the economic level, highly criticisable on the professional level, and most unpleasant on the human level.

To return to my affairs of 1982, it is easy to understand, after this description, why I had no desire to become *direttore centrale*: it was only the position of Sector Head that made it possible to manage the operative aspects of the companies and also gave the power to build the bearing structures of the business, the kind of work that constituted the profound and essential motivation of my professional activity.

Return to the Eighth Floor

I put up considerable resistance to my nomination, but I did not succeed in my intent and, finally, I accepted as I had accepted all my other previous positions. After four years of absence, in December 1982 I returned to the eighth floor of corso Marconi, in the office situated in front of that of Gianni Agnelli and the sala Nasi, which had been so briefly occupied by Carlo De Benedetti in 1976. From

there, for about sixteen months, as best I could, I managed relations with the feudatories of the five Sectors assigned to me.⁵

That hybrid position, midway between the real business in the periphery and the institutional representation of the centre, was understood as a service rendered to Cesare Romiti in order to lighten his workload without affecting his power either internally or externally, and I saw it as such. But it was not a waste of time for me, because I was able to gain experience that would be useful in future, particularly in the two units, so distant from each other, of agricultural machinery and armoured vehicles. I also had room to continue my meditations about how it might be possible to preserve the undoubtedly great advantages of sectorialization and also to overcome the problems—by then evident—of the excessive personal autonomy of the major Sector Heads and the lack of commitment on the part of top management, an absent force within the business itself.

Fiat's Worrying Agricultural Business

I had already dealt with tractors when I was the director of the *Nuove Iniziative*. At that time I had been involved in secret talks for Massey Ferguson, which was a very well known brand because it produced tractors in many countries throughout the world (in Italy it owed Landini) and had bought Perkins, a major British manufacturer of diesel engines.⁶ The elderly former chairman of Perkins Sir Monty Pritchard made himself the spokesman of the company management's discontent with the Canadian shareholders in the group, assuring me that an entry on Fiat's part would meet with approval. I had some clandestine meetings with him in his London home, near Kensington Church Street, but when we came to the price, it amounted to eight

⁵ I nominated Gian Alberto Saporiti as head of the Components Sector; in the Metallurgical Products sector the recently assigned head was Ruggero Ferrero, a reliable and competent engineer who had had a long career in automobile production; in the Machine Tools and Production Systems Sector (Comau) I found my old friend Sergio Rossi (see [Chap. 2](#)); the Agricultural Tractor Sector had been under the command of Giancarlo Vezzolini for many years; in the Earthmoving Machinery Sector (Fiat Allis) Marco Pittaluga had assumed, after Jacques Vandamme and Ferdinando Palazzo, the impossible responsibility that Vittorio Ghidella had turned down.

⁶ There was a time when some maintained that manufacturers of agricultural tractors could be competitive even if they bought engines from third parties, but the development of the competitive scenario proved this theory to be untenable. Even though it is not true that a tractor is merely an engine on wheels, because in reality the entire machine is a highly complicated system, nonetheless the engine accounts for a third of the overall cost of the product and is the arbiter of overall performance, with the result that the customer sees it emblematically: the farmer of years gone by simply called his tractor "the motor". The purchase of Perkins, which had gone unnoticed in Italy, was noted and appreciated in a period in which mergers were rare also as a consequence of rather unconventional talks: to solve a disagreement about a million dollars on the price (at early Seventies values), the two chairmen could find nothing better to do than entrust the matter to chance and, in the London taxi in which they found themselves, they tossed a coin, literally; the penny, once it had been ensured to be the original one, was conserved among the memorabilia in the company's historical archives.

100 million dollars, a price that Fiat could not think of allocating to that purpose in the conditions then prevailing: this spared me the effort of studying to see whether the operation was strategically valid and whether Fiat could have run it with the managerial team it possessed. The destiny that in 1978 had led me to merely skim the world of agricultural machinery brought me back to that topic in 1983, and then again, with far greater commitment, in 1991 for the New Holland operation.

In the meantime I devoted myself to an in-depth study of the condition of Fiat's tractor business together with Giancarlo Vezzolini, the Sector Head, and I got a shock. There were lots of problems, some extremely serious, so much so that their accumulation made the situation dramatic: what was certain was a process of degeneration similar to the one that was killing off Fiat Allis. The European tractor market was beginning to fall, even though no one could yet imagine the duration and the dimensions of that drop: between 1980 and 1990 production was to slump from 300,000 units per annum to little more than 100,000, two thirds of volume vanished in ten years.⁷

Fiat Trattori was active almost exclusively in the Mediterranean area: Italy, France, plus a little in Spain and Turkey. A region that absorbed modest quantities. The Company did its utmost to save on costs and expenses, but that was not enough; sooner or later it would have been forced to cut back the range of products, which had been almost complete until then. Its market share would have fallen, other margins would have been lacking, more cuts would have become necessary, and so on, in a spiral that in the space of a few decades would have led the Company first to become a niche manufacturer and then to die out in the arms of a presumed "ally", in other words a stronger buyer. In addition, market trends were going in the opposite direction towards wider and wider ranges of product, integrating the distribution of tractors with that of other agricultural machinery. Fiat Trattori had undertaken two initiatives in that direction: it had bought a share in Laverda, the Breganze-based company that built combine harvesters, and had acquired control of Hesston, an American firm whose strength lay in the fields of hay and forage. The path was the right one but the moves were insufficient, even though the sum of the three entities was boldly renamed Fiat Agri.⁸

Fiat Agri's most dramatic weakness lay in its own house: it had no sales network in the domestic market because Fiat tractors were distributed in Italy by

⁷ In the past, in Europe, demand had been doctored by the incentives freely granted by governments to direct cultivators; subsequently it was to be doctored in a negative sense by incentives to cease cultivation and letting land lie fallow, the so-called "set aside".

⁸ In particular, Laverda was a family-run company, well managed but too small to challenge the big names in combines such as Claas and New Holland. Hesston scarcely lent itself to integration with the others. Its location in Wichita, Kansas, in the heart of a Mormon area, ensured that local parish decisions had more weight than those coming from Modena, the remote headquarters of Fiat Trattori. Above all: the American machines were hardly suited to Europe; for example European herds do not winter in the open on the great prairies grazing on enormous round bales of pressed hay and, therefore, the gigantic machines that Hesston manufactured for this purpose (round balers) were of little use in Europe. The world market was globalizing and the few big brands with international resonance (John Deere, International Case, Massey Ferguson, Ford, and Sperry New Holland) seemed destined to prevail.

Federconsorzi, the gigantic public body then the emblem of Christian Democratic power in the countryside. Perhaps in the distant past, in Vittorio Valletta's day, Fiat and Federconsorzi had lent each other a mutual hand, but now things were no longer like that. I still did not imagine what I was to learn later, that in some parts of Italy Federconsorzi officials were in the pay of dealers belonging to the competition who wished to hijack potential buyers, but what was evident to me was the inefficiency and the lack of entrepreneurial spirit in the network, with a few rare but praiseworthy exceptions. It was no accident, among Fiat's three fundamental products, cars, lorries, and tractors, that these last held the lowest share of the domestic market: less than 40 %, as opposed to the 50 and 60 % held by the other two. On the sales price front, Federconsorzi's inefficiency provided an umbrella under which even rather small competitors, such as Same or Landini, managed to do better.

With Giancarlo Vezzalini we had far-reaching talks about what was to be done but at that time we did not find a feasible solution, because abandoning Federconsorzi meant handing over that market share to some competitors and remaining without sales in Italy for the two or three years required to set up another network: we were condemned to the indissolubility of a disagreeable marriage.⁹ Ten years later, the unsolvable problem was to solve itself in a catastrophic manner, with the collapse of Federconsorzi. Its failure cost Fiat Agri about one 100 billion lire, an absolutely important sum but one that I would have willingly allocated ten years before, had it been sufficient to finance an operation of disengagement. Then, in 1983, nobody imagined that such an outcome was possible and, when my brief spell with the *direzione centrale* came to an end, neither Vezzalini nor I had managed to come up with any practicable solution for the troubles of Fiat Trattori, which I was to find in a critical condition on my desk at the end of the decade.

Ariete and Centauro

In that same year of 1983, the Italian army decided to launch the national construction of a new heavy tank that was known by the code name of C1, and was later officially named Ariete. The specifications of the project called for very modern features, of a type similar to those of the German Leopard 2, including a 120-mm cannon and an engine of at least 1,200 HP. Fiat received the regular notification and a letter landed on my desk from the Chief of the General Staff, general Umberto Capuzzo, which opened the development procedure. The Sector in question should have been Iveco, because of its armoured vehicles factory in Bolzano, but Romiti asked me to supervise the programme from the Holding Company.

⁹ Nando Palazzo, during the brief period in which he ran Fiat Allis, decided to free that Company from a similar bondage from which it suffered, too: he gave notice to the most inefficient consortia and nominated private dealers in their place: the measure was passed because the production of earthmoving machinery for Federconsorzi was not very important, but despite this there were unpleasant repercussions.

I liked this military initiative because of its potential long-term implications: I believed that this would be the last model of tank designed within a single European country. The next generation of heavy tanks would spring, in my view, from an international cooperative effort, as had already been happening for some in the aeronautical field. The British, French, and Germans each had their own tank and their own industry; if Italy did not gain experience with its own product it would have been unable to sit at the negotiation table to obtain a slice of a future joint venture. But I saw a contradiction. The C1 programme was supported by Oto Melara, of the IRI Group,¹⁰ which intended to produce most of the order: almost all of it, in fact, except for the engine. The project would have absorbed for many years to come the funds available to the Ministry of Defence for armoured vehicles, and hence the Bolzano factory would have been left without work. For us it was indispensable to promote a plan for a wheeled vehicle, an armoured car that, unlike Ariete, would have been constructed mainly by Fiat.

Military strategies were not my business but it seemed to me that the proposal would not harm the defence of the country. Quite the contrary. The Ariete was planned for only one war scenario: to oppose for a brief length of time an invasion of the Po Valley by a horde of enemy tanks coming down from the direction of Gorizia. The aggressors could only have been the Soviets and the picture that emerged, improbable as it was, left one breathless and without hope. On the other hand, an armoured car could prove useful to Italy in the event, less catastrophic and more likely, that it might prove necessary to intervene in local conflicts on a smaller scale. The Army had been thinking of something of this kind for a long time, but it did not manage to take the initiative. It was necessary to synchronize the two programmes, tank and armoured car, making them industrially complementary and parallel, and for this purpose it was indispensable to come to an agreement with Oto Melara.

I knew and appreciated Oto Melara, based in La Spezia, thanks to dealings in the past. And I had met its famous Chairman, Admiral Alberto Stefanini, the submariner who had brought his *maiale* (literally, “pig”, a pocket submarine) into the port of Alexandria, where he sank a British destroyer.

“Don’t you feel uncomfortable?” I had asked him in the course of a visit¹¹ “on finding yourself producing cannons mostly destined for that British navy you used to attack during the night? And directing strictly communist workers, like those of

¹⁰ Translator’s note: *Istituto per la Ricostruzione Industriale* (IRI), established in 1933 and dissolved in 2000, was the largest corporation in Italy, fully under State control.

¹¹ Before Snia BPD came within Fiat’s orbit, there had been a complex manoeuvre around one of its subsidiaries, Simmel, based in Castelfranco Veneto. This important company (which operated in the field of heavy forging) produced tracks for earthmoving machinery, which it tried to sell to Fiat Allis, and also big, 155-mm naval artillery shells, a product that Oto Melara considered essential to its market strategy. Cesare Romiti had asked me to follow developments in this matter together with the head of Snia’s defence unit, Sirignani. But nothing was concluded and, shortly afterwards, I had abandoned my contacts to go and head the Components Sector, but I did have occasion to visit Oto Melara, accompanied by its Chairman, admiral Stefanini, who was very proud to show me the modern equipment and specialized workforce.



Fig. 4.1 The C1 Ariete tank

La Spezia, so that they will construct with great skill weapons destined for that NATO whose sworn enemy is the communist bloc of the Warsaw pact?"

He burst out laughing: "Life is really a very complex business".

The relativity of human affairs! That encounter between those destinies struck me as worthy of a short story by Borges.

Now Stefanini had gone into retirement, leaving his post to his deputy, Ricci, a tough and capable man. I met him on a few occasions to discuss the deal, but he didn't give an inch: he wanted the tank almost entirely for Oto; we would have talked about the armoured car later. The last time I saw him we met at dinner in a restaurant in Genoa, where I informed him peremptorily that, in the absence of an agreement, Fiat would proceed on its own, offering its own tank project in competition with Oto. It was a horrible threat: between two contenders like IRI and Fiat, between two factories like those in La Spezia and Bolzano, the Army would never have managed to make a choice. All programmes would have been blocked *sine die*. Ricci telephoned me the next day to accept my proposals: the Consortium between Iveco and Oto Melara was born. Oto would have control over the tank, Iveco over the armoured car; two thirds of the orders for the tank would go to Oto and one third to Iveco, and vice versa in the case of the armoured car. Officers of the two Companies would take turns as Chairman of the Consortium. I went with Cesare Romiti to take the news to general Capuzzo, by then on the verge of handing over his command. He was extremely happy: he had feared that the conflict within national industry might leave the armed forces empty handed. As for me, I did not suspect that a few months later I was to be entrusted with the management of Iveco and that the range of my responsibilities would include the realization of our part of Ariete and of B1, the "8 x 8" armoured car that was to be named the Centauro.¹² (Figs. 4.1, 4.2, 4.3)

¹² The Centauro armoured car was criticized by some who thought it was too heavy, especially for the use of a big 105-mm cannon (which could not be operated in movement like the one on the tank because it was not gyroscopically stabilized). Obviously, the technical specifications of the car were defined by the Army and it may be that Oto Melara had influenced the choice of such an important weapon. Alternatively, it is possible that the Army technicians had been influenced by the war scenarios preceding the fall of the Berlin Wall. The fact remains that the Centauro is operative, I believe to the satisfaction of the military command, and that in itself is a positive thing.



Fig. 4.2 The 8 × 8 B1 Centauro armoured car



Fig. 4.3 The presentation of the prototypes of Ariete and Centauro at La Spezia in 1987: in the tester's white overalls, beside G. Garuzzo, is General A. Viesti (the future commander of the Carabinieri); beside him is the Chief of the Army General Staff, General L. Poli, and (in civilian clothes) the secretary general of the Defence department, General G. Piovano

Recollections of Enzo Ferrari

In that period I often met Enzo Ferrari.

My contacts with him dated from the time when I was running Magneti Marelli, the historic supplier of electrical parts for Formula 1 cars. Such parts had recently been joined by an innovation of the first order: cylinder by cylinder electronic injection (multipoint), in a version that was still experimental, as it had been produced by Autronica, a company I have already mentioned. Magneti Marelli components had occasionally given trouble to the Ferraris in competition, but the Ferrari Press Office systematically blamed the Milanese Company for malfunctions of different origins, which stopped the racers before the chequered flag even when its products were innocent. I had complained to Enzo Ferrari, who immediately gave me proof of his legendary toughness. “For you it should be such a great honour to have your brand name on the nose of a Ferrari that you ought to keep quiet”, he had said to me, “And if that doesn’t suit you we can call in Bosch right away”.

I had agreed that it did indeed suit me. Then our personal relations became very friendly. He would sometimes invite me to visit him and I still have a very pleasant memory of those lunches at Fiorano, in a little house he had alongside the test track, just the two of us, or in the presence of his son Piero Lardi. Perhaps Ferrari had come to like me also because he wished to get back at Vittorio Ghidella, for whom he had little love, I don’t know why, even though Ghidella was an unofficial shareholder in his company, by virtue of a secret agreement that no one knew about at the time.

Perhaps there was another, more sentimental reason: a branch of my family hailed from the Emilia region and used to live in a farmhouse near the little church of *Santa Catléina*, the Saint Catherine of the people of Modena, which then stood in open countryside. In that same church with the grassy entrance, where in 1875 my maternal grandfather had been baptized with the name of Primo, Enzo was baptized in 1898. That archaic and arcane commonality, which he knew, perhaps contributed to the old *commendatore*’s favourable disposition in my regard almost a century later.

As for the church, it is no longer there. Urban development swallowed it up inside the city; derelict, it cluttered up the parish courtyard of the modern building that had replaced it. The priest talked about it with a willing parishioner who worked with heavy machinery: “Now see what you can do...”; and the man, without further ado, arrived with his bulldozer and razed it to the ground during the night. *Santa Catléina* was a national monument, and the priest got a two-month suspended sentence and the nickname *Don Ruspa* (Dom Bulldozer). Things that

used to happen in Emilia, where, as Guareschi¹³ would have put it, people don't go in for subtleties that much.

The Degeneration of Iveco

Shortly after Nicola Tufarelli was replaced by Vittorio Ghidella in Fiat Auto, Bruno Beccaria was also forced to leave Iveco, the Industrial Vehicle Sector. His relations with Fiat had always been difficult. He was a man with drive and energy, but with an off-putting character and brusque ways. In the Company he was accused of belonging to the "Brescian" faction, in other words one of those men who had come from OM, the historic Lombard company, one of the old firms that had become a part of Iveco. He was considered to be hostile to the Piedmontese in the Turin factory, and this also held for Magirus Deutz of Ulm. His management was criticized in corso Marconi, one of the most explicit in this sense being Cesare Romiti, and so I was not surprised when I learned of his dismissal, which came suddenly. His place was taken by Jacques Vandamme, amid general surprise, because he had left Fiat Allis in a far worse condition than he had found it and because he was thought to be close to Umberto Agnelli and hence disliked by Romiti. He did not last long. One year later he was already kicked out, rather brutally, and no trace of his spell in Iveco remained.

His successor, Giorgio Manina, was brought in from the large-scale retail trade and the results of his management of Iveco were awful, but I never felt like giving him the blame. It had been a bizarre idea to send someone with the characteristics and experience in the marketing of products for mass consumption, from large-scale retailing to publishing, to run the Sector with the most markedly technical-industrial connotations in the entire Group. When the European market for lorries began to shrink and Iveco's production volumes began to fall, Manina did what he would have done in a big chain store: he increased advertising and lowered prices. In that unit neither one thing nor the other was of any use, but both measures caused a massive slump in company accounts. The operating loss rapidly became a bottomless pit and Iveco bore a significant degree of responsibility for the price war that devastated the unit in Europe, sending all European producers deep into the red and some into bankruptcy.

Manina's dismissal was decided on in a few days by Gianni Agnelli and Cesare Romiti after urgent discussions, towards the end of April 1984. I had no influence on the decision, but as soon as I learned that it had been made I launched a campaign to persuade them to assign me to that post. I saw two opportunities in one: to go and do a job I liked and for which I felt cut out and, at the same time, to leave the *direzione centrale* with its scant powers and all those rituals. Cesare Romiti hedged for a while, not because he thought I would make a bad job of

¹³ Translator's note: Giovannino Guareschi (1908–1968) was an Italian journalist, cartoonist and humourist whose most famous creation is the priest Don Camillo.

where I wanted to go, but because I was useful to him where I was; then he gave his assent under the pressure of urgency and perhaps also owing to the fact that Umberto Agnelli stepped in, advised in his turn by Enzo Amapane.

“Don’t worry” I said to Romiti when he confirmed the decision. “I feel I can do it. And, besides, I’m lucky”. He smiled: “You can’t be a good manager and not be lucky too”.

Chapter 5

The Rescue of Iveco (1984–1985)

The Eleventh Month

“You’re in luck” Giorgio Manina said to me in aggrieved tones when he dropped into say hello on 2 May 1984, my first day as CEO of Iveco,¹ “this month’s accounts will break even”.

I anxiously waited for the monthly report, which arrived a few weeks later: it showed a loss of thirty billion lire, a billion a day, Saturdays and Sundays included; and that had been the daily result since the beginning of the year.

That the situation was serious was widely known.

“Fiat has announced a reshuffle at the top that seems designed to trim losses in its industrial vehicle branch, Iveco”, the “Financial Times” of 3 May told its readers, beneath the headline “Fiat replaces chief at Iveco”.

“Fiat Iveco deep in crisis” declared Michele Costa in “l’Unità²” on 1 May, “A long series of errors has cost the loss of 30 % of its markets”. In those days, the PCI (the Italian Communist Party) was hard on Fiat; still referring to Iveco, Costa also wrote on 11 April:

¹ Iveco was incorporated as a Company subject to Dutch law, holding all the controlled companies throughout the world. To solve the problem of the Babel of languages in the international organization charts and being unable to use Dutch words for obvious reasons of pronunciation, I adopted American terminology for all the positions involving the entire Group, wherever the respective officers were based. Below the Chairman of the Board (Cesare Romiti until 1990 and then Giorgio Garuzzo until 1996) and the Chief Executive Officer (Garuzzo and then Giancarlo Boschetti), the main Heads of the operative functions were called Vice Presidents (in some cases with the additional title Senior or Group); all these were members by right of the Steering Committee, as well as the national representatives of France, Germany and, later, the UK and Spain; in this book I use this terminology extensively.

² Translator’s note: founded in 1924 as the “newspaper of workers and peasants”, this was the official newspaper of the Italian Communist Party.



Fig. 5.1 The new CEO of Iveco in 1984, G. Garuzzo (*right*), with the Chairman of Fiat G. Agnelli (*middle*) and the CEO of Fiat C. Romiti

It will not be easy for a management team that attributed itself with the miracle of bringing Fiat back to health to confess to having written this new black page in the history of Italy's biggest private industry. Yet the moment of truth will not be long in coming. And the measures Fiat are preparing are dramatic.

The Steering Committee, which received data from all Iveco companies in the world, met for the first time under my direction on 8 May 1984. I remember that meeting well, on the fourth floor of the run-down building in Turin's via Puglia that was the headquarters of the Iveco group in Italy. The tension among the participants, wearing gloomy expressions, was almost physically palpable. The minutes are explicit regarding the situation:

Company results appeared extremely onerous; in fact, after the more than 100 billion of the first two months, the final balance for March showed another 30-billion loss. The preliminary flash for the month of April, with another loss of 20 billion, was even more particularly negative if we consider that this last month accounted for an increased number of units with respect to the preceding months.

In May, as I have said, there were no positive signs. Immediately afterwards, in the minutes, there came the statement of the general lines of my programme:

Garuzzo explained the guidelines for company management to be developed in the course of the coming weeks regarding the three levels of company activity that must be simultaneously put under control in order to solve the difficult current situation. The first level of intervention concerned management in the short term. It was clear that company results involved the implementation of an emergency programme aimed at seeking out all possible sources of savings that could be effected in every management area. The emergency programme will have to be ready within three weeks. [...] It will also be necessary to look for possible increases in profits in the short term [...]

The first-level intervention, as I had defined it, had an impact that was greater than everyone’s expectations, me included. Losses were to last for another ten months in all. On the eleventh month, in March 1985, Iveco was to report a small profit. The comparison between the two months of March at a distance of one year gives the measure of the leap forward made in such a short time. In March 1985, 8,318 lorries were billed for, 102 less than in March 1984. But instead of a loss for the month of 30 billion lire, a profit of 4 billion was recorded.³ Progress was so strong that, at first, the figures were greeted with scepticism, and some member of the Agnelli’s entourage went to court to say that the accounts had to be false.⁴

How was it possible to make such progress in such a short time? Simple: we intervened forcefully on every parameter of the current management and we cut off some chronic situations at the roots. It would take too long to dwell on the content of the steps taken, which I limit myself to reporting in a summary in

³ The figures are as follows:

Evolution of Iveco’s results between March 1984 and 1985

In the month of:	March 1984	March 1985	In percentage (%)
Vehicles sold	8,318	8,216	+1.3
Turnover (in billions of lire)	387.7	395.4	+2.0
Cost of product (in billions of lire)	324.9	302.4	-6.9
Gross margin (in %)	16.2 %	23.5 %	
Net profit (in billions of lire)	-30.6	+4.0	

⁴ Others were less suspicious: “Garuzzo steers Iveco to recovery” was the headline in the Financial Times on 1 May 1985, exactly one year after my arrival, “The new chief introduces radical changes, Ken Gooding reports”. Romiti chose the recovery of Iveco as a strong argument for the Fiat Press Office releases on the progress made in the first semester of 1985. As a consequence, the papers of 24 and 25 September 1985 were very explicit. “La Tribune”: “After losses in recent years—Now Iveco is part of Fiat’s dynamism”; “Il Sole 24 Ore”: “Iveco is part of the Fiat boom”; “Frankfurter Allgemeine”: “Iveco has got over the lean years”; the “Corriere della Sera”: “Fiat eliminates the last great critical area, that of industrial vehicles...”; “The Wall Street Journal” noted “a recovery of the run-down truck sector, Iveco B.V. Iveco’s losses in recent years had remained the strongest exception to Fiat’s recovery”. “il manifesto” was more dramatic: “At full speed without ‘dead weight’. Fiat turns over 13,000 billion and rids itself of 13,000 workers. This is how Agnelli presents himself to Ford”; in his text Loris Campetti permits himself a touch of lyricism: “Romiti, Ghidella and Annibaldi, not to mention the brothers Giovanni and Umberto Agnelli, present themselves to Ford Europe with their papers in order to clinch the deal... of the end of the century. Fiat’s balance continues to run on overdrive, the useless dead weight, read the surplus, and that’s to say the workers, continue to fall like dead branches and yellow leaves in the autumn wind. The auto sector is in profit, but also industrial vehicles”. As usual, the most attentive was Ken Gooding of the “Financial Times”, who returned to the topic several times; on 25 September, under the headline “Iveco set for a tenth birthday celebration”, he wrote: “Iveco, Europe’s number two lorry group, seems certain to celebrate its tenth anniversary this year by returning to profit for the first year since 1982. [...] The extent of the profit will depend on the intensity of the lorry price war over the last quarter, which has flared up again in France, one of Iveco’s key markets. [...] For three years, Mr Giorgio Manina has been trying to get Iveco back on the right track with a search for growth, by pushing the company’s market share. [...] When it appeared clear that this strategy was doomed to failure, Mr Garuzzo was called in to cut costs in every area and to lower production level to a point where Iveco could break even”.

Chap. 14.⁵ It seems more important to me to mention two fundamental guidelines that I gave to Iveco right from the first day and that I pursued with total determination: the creation of a cohesive and resolute management team and the motivation of the entire Company on the battlefield of its product/market.

A Management Philosophy

In those first few months of my time with Iveco, I found myself projected into a period of extraordinary, intense and fruitful activity, a condition I experienced more than once in the course of my working life. It was as if fate periodically demanded of me an exceptional investment of energy. And, as I did every other time, in Iveco, too, I tried to involve a group of capable colleagues as motivated as I was: without their contribution I would have attained scant success. Only one month after my arrival, on 1 June 1984, I introduced a new organization chart. Without making too many changes in the previous personnel, almost all of them newly appointed, I brought in a few fundamental innovations. Giorgio Manina had supervised directly some staff activities, such as Administration and Publicity, but had delegated the operational responsibilities to Heinz Werner Hahn, who had come from Magirus and was sound on the technical side, competent but rather irresolute. I overturned this slack management approach and brought under my direct control all the company functions, with no exceptions, roughly as Ghidella had done five years before in Fiat Auto. To their number I added the heads of the European national companies.⁶

⁵ See Document 2 in **Chap. 14**.

⁶ I left Hahn, with the title of deputy, as internal consultant to the technical area, where he was useful in helping me understand the specific aspects of lorry engineering. I assigned the line functions as follows: R&D to Federico Filippi; Production to Antonio Benzi; Purchasing to Alessio Lucca; Sales to Giancarlo Boschetti; Diversified business (“Divisions”) to Riccardo Ruggeri. For staff functions I nominated: Giovanni Millo to Product Development; Umberto Quadrino to Administration and Finance; Francesco Zen to Legal Affairs; Cesare Palenzona to External Relations; Gianfranco Castagna to Logistic and Informatics Services; Giovanni Morello to Employee Relations; Felice Cantarocco to Advanced Planning. The national companies were headed by François Marc (Iveco Unic, France) and by Wolfgang Keller (Iveco Magirus, Germany). Later, the UK and Spain were added. I had not brought any co-worker with me from outside, except for my secretary, Gianna D’Anna, who had made her contribution to the efficiency of office work right from my first days with Fiat, but the managers I surrounded myself with came from an extremely wide range of backgrounds. Three of them had trained with me in the Components Sector (Boschetti, Lucca, and Ruggeri), another came from the Politecnico university (Filippi), two from the Automobile Sector (Millo and Palenzona), and one from the Foundry Sector (Morello). Castagna was a follower of Ghidella who had gained experience with RIV, owned by the Swedish SKF concern. Until then Quadrino only had experience with the Holding Company, including working as *direttore addetto* to Cesare Romiti. Marc had been with Mercedes, Hahn in the German firm KHD and Keller in some American multinationals. Benzi was the only one who had come from the world of lorries and represented, so to speak, the autochthonous substrate of the population.

The marked differences in origins and culture of the managers I had chosen proved to be a great advantage. I have always believed in the strength of internal dialectics: no company can realize its potential if it does not promote regular, frank discussions on all arguments, with reference both to management and to structure. Every *dirigente* must constantly be able to give his/her own contribution of ideas, useful even when mistaken, because to refute them involves examining them in depth. Such confrontations must be public and no one must take offence if opinions circulate that differ from their own, far less so the chief, who has the last word in any case.

This was not the customary atmosphere in Fiat during my time with the Company. The strong personalities of some top managers such as Nicola Tufarelli, Vittorio Ghidella, Bruno Beccaria and, later, the personality cult of the last years of Cesare Romiti's era, transformed into an act of *lèse majesté* any non-aligned point of view even if expressed in a correct and discreet fashion. Such opinions, if there were any, could be made only behind the scenes, in the corridors or face to face, and every time they would take on conspiratorial connotations; more often than not, everyone tended to keep his thoughts to himself. There was no lack of enlightened Sector Heads, and in general the Sectors they ran went well, but it was a matter of individual initiatives, never of Group philosophy. I did my utmost to hold to the principle I have explained here. The meetings I chaired, for example, were training-grounds for discussion, sometimes excessively so. This had been the case with the Steering Committees of the Components Sector and of Iveco.⁷ We would meet every Tuesday morning for lively discussions, then, towards two in the afternoon, we would have lunch together, where the tension was dissipated in outspoken comments that sometimes spilled over into irreverent banter. In that atmosphere no one could show himself to be too touchy and in the end the sense of community prevailed, engendering cohesion.

I had designed an intrinsically dialectical organization chart, carefully selecting the personalities of the people chosen to occupy the various squares, so much so that some momentary clashes became almost institutional. There was an inherent drawback to this kind of organization: all decisions eventually returned to the top and, in that context, it was difficult and laborious for me when the time came to make them. But that was fine by me: every time, I was sure that the problems had been analysed from all points of view and that there were no hidden or chronic problems.

All in all, the organization worked and attained the goals for which it had been designed. I was very proud of those men and I think that a little of that pride still shows through today after so many years (Fig. 5.2). Three of them, Giancarlo

⁷ I would like to have copies of the minutes of those meetings, over three hundred in the years between 1984 and 1990, minutes that I personally reviewed every time and would provide a cross-section of company life in each of its functions. The head office copy was destroyed at the time of the judicial enquiries of 1993 and 1994 by a zealous functionary who thought it might contain dangerous information; the assumption was out of place but in times of emergency it is hard to conserve clear-headed reasoning everywhere. I hope that some other copy may have survived in the hands of one of the vice presidents of those days.



Fig. 5.2 The management team of Iveco in 1988, shown here in the Tour d'Argent restaurant in Paris for the traditional end-of-year meeting. Seated from the *left* F. Cantarocco (Iveco Ford—United Kingdom), S. Decio (business development), C. Palenzona (external relations and image), C. Fassio (production), G.C. Boschetti (sales and marketing), W. Keller (Iveco Magirus—Germany), G. Millo (product planning); standing, from the *left* C. Milanese (assistant to the CEO), S. Gaboardi (organization), M. Aimetti (administration), R. Ruggeri (defence and diversified products), G.F. Castagna (logistics), F. Marc (Iveco Unic—France), G. Garuzzo (CEO), H. Hahn (vice chairman), F. Filippi (research and development), G.A. Lucca (purchasing), and G. Morello (personnel and employee relations)

Boschetti, Riccardo Ruggeri, and Umberto Quadrino, were destined in their turn to become Fiat Sector Heads. I was happy about that and could not resist attributing to myself, in my heart of hearts, the credit for having contributed to training them while preventing them from “getting the chop” before their time as a result of feuds at court.

Market Credibility

It was indispensable to recover credibility also outside the Company, because for too long Iveco had been considered the sick man of Europe's lorry manufacturing business and the newspapers indulged in guessing sprees to see which competitor would have taken advantage of this, and when. It goes without saying that this reputation hurt business, so much so that the best dealers had either gone over to the opposition or were about to do so.

In the autumn of 1983, Gerhard Prinz, the Chairman of Daimler Benz (the mother company of Mercedes), had asked to meet Romiti in conditions of maximum

secrecy. At the time I was *direttore centrale* and Romiti wanted me to accompany him to mysterious talks to be held in a remote hotel in a small Swiss town. Prinz said he was very worried about the situation in the European lorry industry; he had been diplomatic and had carefully avoided any allusion to agreements, but made it understood that he considered Iveco guilty of dumping, especially in France, with prices that would have destroyed lorry makers if they had spread elsewhere, as was inevitable. “What’s your game? Don’t you realize that you’re committing suicide?” was the gist of his position.

The talks were not followed up, also because Romiti did not let himself get involved in the commercial side of the business, but the meeting had made a big impression on me because of its unusual strangeness. I understood a few months later that that event had marked the beginning of the end of Giorgio Manina’s time with Iveco.

As soon as I took over his position as head of the Company, I had someone bring me the data on the situation in France, and I shuddered: Prinz, who had died prematurely in the meantime, had been absolutely right. In that country a terrible battle was raging between Mercedes and Iveco Unic, each of which was trying to increase their market share at Renault’s expense. François Marc, our local chief, was the most aggressive of all, even though Iveco was a fragile structure owing to its ageing and incomplete product range. The French government had ordered Monsieur Pierre Semerena, the head of the *poids lourdes*, not only to resist, but even to recover lost ground. This was not pure desire for glory: the *regie* Renault was state property, and in France events in the automotive industry always took on connotations of public interest.⁸ The consequence of this war of conquest was a drop in net prices to absurd levels: by that time, discounts offered to fleets amounted to more than half of the list price.

As soon as I could, I went to Stuttgart to see the new Chairman of Daimler Benz, Edzard Reuter, and, immediately after, to the Chairman of Renault, Monsieur Georges Besse, in Paris; I found the former worried and the latter desperate. On my return I no longer had any doubts: I called the sales director, Giancarlo Boschetti, and ordered him to do away with discounts, in France and elsewhere. It did not matter to me if we lost market share. Albeit with far greater dimensions, the case was similar to the one concerning spark plugs I had had to deal with in Marelli: giving in

⁸ As was to be seen many years later in the case of relations with Japan. I once had an experience that demonstrates the role of government in the defence of the country’s industrial interests, but also the reliability of the *grands commis* of the French state. One day I went to Paris to meet Dominique Strauss-Kahn, then Industry Minister, about the Magneti Marelli electronic injection system (years before, Marelli had bought Solex and Jaeger and supplied Peugeot-Citroën and Renault). I was accompanied by Fiat’s representative in France, Giorgio Frasca. The minister arrived late on account of an unexpected meeting regarding the crisis in Somalia. At the end of our conversation, during which Strauss-Kahn supported in an accurate, documented fashion his position in favour of the French case, his personal secretary returned to apologize: “The minister was in a bit of a hurry, but his father died last night and he had to dash off to see to his onerous task, but only after holding the extraordinary meeting and after having honoured his appointment with you”.

on prices beyond certain limits, to the point of losing coherence with direct production costs and the structural situation of the market, does not make you sell more.

Boschetti was speechless.⁹

“Don’t worry” I told him. “You keep the prices and save the margins. If you don’t sell, that’s my business: I’ll have the factories closed and lay off the workers”.

We applied the procedure unilaterally, but the competitors realized that we had become trustworthy and followed us immediately. We did not lose so much as point 1 % of market share and commercial margins picked up instantly. In 1984, the situation in France and elsewhere was anomalous and absurd because people were selling products below direct factory cost without any serious reason, only out of a desire for personal success and extra-economic attitudes. I thought that delivering a product to customers in such conditions was equivalent to accompanying it with a wad of banknotes taken from the shareholders’ accounts and that this transaction was beyond the powers granted to a company chief. The French operation did a lot for Iveco’s image and my own. In the automotive world, everybody tried to get the better of everybody else and relations were tense, but there was a code of esteem even among opponents, as happens in every business, and even in war.

Little Engines Grow

A substantial contribution to the rescue of Iveco came from an unexpected direction.

From the manufacturer’s standpoint, the entire range of Iveco lorries was expensive because it was old and not standardized, but from the customer’s standpoint the substantial problem lay in the engines. A lorry can only give what its engine gives in terms of performance, consumption, and durability: Iveco engines were famed for being robust but unacceptable as regards other characteristics. Above all, they were too heavy, and this handicap lowered performance and increased consumption.

There were only two possible solutions if the problem was to be solved. The first was to lighten the engine, redesigning it and the equipment used to manufacture it: a path that was long, expensive, and risky. The alternative was to aim for

⁹ Boschetti had done a good job at IVI, a paint factory in the Components Sector, where I had nominated him *amministratore delegato* (CEO) in 1979. Years later, Giorgio Manina asked me for him to head Iveco’s Purchasing function. I refused. According to me he was entirely unsuited for that position. Manina invited me to lunch to plead his cause, as was typical of his background as a marketing man: “I’ll let him go”, I said, “only if you make him marketing and sales director”. He accepted immediately: “I’ll use the pretext of purchasing to fit him in and after six months I’ll transfer him in place of Michelacci”. And so it was. But in Iveco’s sales department, Boschetti soon found himself in a sorry plight. His work was criticized and in the corridors of corso Marconi there was talk of taking him down a peg or two, an opinion that began to influence Romiti. I didn’t think he was all that guilty: Iveco’s Head Office was putting a lot of pressure on him to increase sales volumes and, in a declining market, the network reacted by relaxing on prices: gross margins had fallen to 16 %, ten points below the previous figure. When my time came in Iveco I immediately confirmed him as head of all the commercial operations in the lorry sector.

Table 5.1 Power output of Iveco’s engines (1984–1992)

Year	HP obtained from the same engine of:				
	17 L	14 L	9.5 L	8 L	6 L
1984	420	304	240	169	138
1992	510	470	375	266	227
Increase	21 %	55 %	56 %	57 %	64 %

increased power. Weight and consumption are commensurate with the power supplied: more HP obtained from the same engine means to say less kilograms per HP in terms of weight and fewer grams per HP of diesel burnt per kilometre. If it is beefed up, the smaller, more powerful engine can be transferred into a bigger lorry, proportionally scaling down the entire range while applying the same criterion. And this is what we did in Iveco with fantastic success (see Table 5.1).

At the Turin Show in October 1984, Iveco announced an upgraded engine for the light vehicle known as the Daily. The output of the 2.5 L engine had been boosted from 72 to 92 HP thanks to the use of direct injection and a turbocharger, for an increase of 28 %. This move saved a vehicle that looked headed for a crisis, transforming it into one of the pillars of Iveco for decades to come, and with it the large factory in Foggia was also saved. This form of engine “bodybuilding” continued: in 1995 it came to supply twice the power it had been designed to produce, 135 HP!

If we had not chosen that path, devoting a major design effort to it, and if the existing engines had not tolerated it, Iveco would not have remained one of the two biggest lorry manufacturers in Europe and perhaps it might no longer exist as an independent producer. The technical explanations for this apparent miracle are beyond the scope of this book. Basically, by leaving the architecture of the engine unchanged and hence by applying modifications that did not cost the factories much, advanced technological improvements were introduced that were well tolerated by the engines, these having been conceived in the Fifties and Sixties with great superfluity of materials.¹⁰

I believe the example of Iveco engines shows how an industry with a high technological content is conditioned by long-term thinking: the pre-existing engines were an asset that came from Iveco’s history and it would have been unthinkable to improvise them. Far less so to improvise the designers. Apart from the efforts of the chief engineer Federico Filippi, the contribution to the rescue of Iveco on the part of Giovanni Biaggini (engines) and Domenico Pierucci (other mechanical areas) was determinant. Those were the positions of great and delicate responsibility in a company of that size and complexity. According to me, the chief engineer of a company with a high technological content ought to be revered and coddled as was the case in many advanced countries. This was not so in Italy, where these people were ignored not only by the media and, consequently, by the general public, but also by the boards of companies,

¹⁰ Painstaking research was carried out on the fluid dynamics of the manifolds and combustion, new injector pumps were used and powerful new devices were introduced: the turbocharger (which is a pointless luxury for petrol engines but very useful for diesels), the intercooler, the waste gate, and so on, down to ceramic inserts, turbines, variable geometry, and other contraptions typical of modern engine technology.

Fiat included. It was not surprising that a career as a pure technician steadily became less and less sought-after by young Italians, who were led to think that it was extremely demanding and less remunerative than other more prestigious and rewarding alternatives. The Fiat of Valletta's day had granted the possibility of external visibility to designers of the calibre of Dante Giacosa (automobiles) and Giuseppe Gabrielli (aeroplanes). This was no longer the case in the Eighties and Nineties.

The First Management Meeting

All was well, therefore, in the short term. But I knew as soon as I arrived that it would not have been enough merely to break even. The minutes of the meeting of May 8 1984 were already clear about this:

The second level of intervention (medium term) concerned the restructuring required in the field of manufacturing locations, the sales network, logistics, etc. [...]
As for the third level (long term) Iveco obviously had to guarantee itself the availability of a suitable range of products. [...] The strategic connotations of the abovementioned two levels involved the preparation of a strategic plan [in the] coming months with the contribution of all interested parties [...].

It was obvious that I wanted to differentiate implementation times: my immediate intention was to concentrate all my attention on level one, managing the emergency. Subsequently, I thought to modify the structure of the Company in order to solve the most unacceptable problems definitively. Once the structures were sorted out, it would have been possible to launch a third phase of strong development. The interim period would also have served to prepare the plans and the specifications of the new products. In accordance with my logic I wrote in a document of that period:

Iveco's strategic plan is aimed at the attainment of two fundamental objectives:

- lowering the company break-even point to the value of around 95,000 units sold [...] with the mix of product and market referring to 1984;
- integral revision of the company structures in all functions and interfunctionally with a view to improving areas that are currently sub-optimized and no longer adequate in the light of the competitive context.

This “integral revision” was to keep Iveco occupied for the entire period of my time with it until 1990 and even beyond.

My intentions were not entirely understood, far less shared. In Iveco, and even worse, later in Fiat Auto, I found it was easier to launch immense reengineering projects, accompanied by factory closures and mass redundancies, than to promote an orderly planning of company development in the mid-to-long term. Under the pressure of the crisis, people obeyed, doing their utmost to cut out frills, expenses, and staff. Once the emergency was over, it was no longer possible to persuade everyone that it was necessary to foresee the future crisis and that this task demanded a different but not a lesser commitment and sacrifice. In order to attain ambitious objectives, rigorous planning would be required; instead, complacency and laxity crept in. It was far harder to spend well than not spend at all!

These decisions of mine sprang from a precise and deep-rooted concept of management in general. If a company is to be successful two conditions are necessary. Everyday operational activities have to be carried out well, and for this I use the term “management”. At the same time, the “structures”, in other words the physical and organizational instruments that the company can count on in order to face the competition, must be perennially improved and adjusted to tackle the changes in the external context by following very clear and rigorous long-term plans. The case of engines, which I talked about previously, is in my view an emblematic example, which well illustrates my constant obsession with “structural interventions”, the ones that irreversibly change the organization of a company in the long term: all industries proceed towards the future on the bases constructed by the preceding generations; they are the forerunners, often unknown, who in the past had built the “structure” as it is used in the present; in its turn it is up to the generation currently in charge to improve the structure in real time to make it suited to the future.

Two spirits coexisted in Fiat. One, which I would call industrial tradition, to which Vittorio Ghidella and I belonged, as well as many other people. The other was more opportunistic, tending towards short-term initiatives, often in emergencies, or, when possible, towards highly profitable initiatives of a speculative nature. I can give one clear example of the distortions engendered by this dichotomy. The incentive system for Fiat top managers (Management by Objectives, MBO) was exclusively correlated to annual results, with parameters decided after the budget had been drawn up, usually around January or February every year. It was a ridiculous practice: for companies of those dimensions and with such an inertial structure, the results of the current year cannot be modified by the Sector Head and depend almost exclusively on trends in demand in the very short term. I fought many battles about this until 1993, when I managed to introduce a multi-year system (the Long Term Incentive, LTI) which I was unable to follow through to completion as I would have liked.

In Iveco I was the absolute boss and could impose my planning methods, which I lumped together under the label “structural projects” or “plans for strategic intervention”. Years later, as the *direttore generale* (COO) of Fiat, I had to make a far harder effort. Romiti was constitutionally incapable of conceiving industrial programmes linked to a view of business in the mid to long term, and this mind set of his with its tendency to improvise, very useful in critical situations and always in line with his personal goals, was terribly detrimental when it came to establishing the entire system of values that determined the fate of a Company.

On 1 March 1985, ten months after my arrival in Iveco and a few weeks before the attainment of the monthly break-even, I summoned to the Fiat Centro di Formazione (Training Centre) in Marentino, near Turin, all those Iveco *dirigenti* who held positions of responsibility of any importance around the world, 120 persons of varying nationalities. I called the event the “Management Meeting” and that was the first of a series of meetings to be held periodically in the following years. I wanted the participants to receive a clear and complete explanation of the Company’s structural situation. Nothing was concealed from them, for better or for worse: they were given accurate figures, not just vague statements; they had to understand what was happening and get a precise idea of the guidelines with



Fig. 5.3 G. Garuzzo talks about the Company's situation to a large audience of Iveco managers in 1984

which their conduct had to comply. The Meeting was a fundamental moment in my time with Iveco, to which I attributed an emblematic quality that was historic in a certain sense; I believe that for many in the audience the presentation of that day appeared as something like a revelation, a panoramic picture whose outlines they had never imagined before.¹¹ (Fig. 5.3)

¹¹ I organized the day in an unusual manner. I personally took on the role of conductor, following a constant thread of what was said, a kind of solo voice. Among the many topics in a long list, I would take one, and introduce and conceptualize it. Then a solo instrument would break in, the vice president of the Function most closely concerned, to show the tables with the figures that justified my assertions and to give detailed instructions about what was to be done. Then I would move on to the next point; and so on, for eight or nine hours. Preparation had been meticulous, without leaving any room for improvisation. There was little human warmth: Giorgio Manina had distributed that in abundance, real or sham as it may have been; it was necessary to make a sharp change of direction towards no-nonsense professionalism. (I have always advised young people to beware of company meetings where human warmth is exhibited and dished out open-handedly; good collective feelings are not always justified or utilized for good ends, better to leave them to genuine and spontaneous occasions and devote business meetings substantially to business). There had been some grumbling on the part of some vice presidents who felt like puppets thrust onstage by the bouncer. But I stuck to my guns. I wanted the audience to perceive the feeling of a Steering Committee conspicuously united and compact with its own head. Then, albeit without saying so directly, I wanted each vice president to get involved in the objectives outlined and to put his own soul before that of his function; they were all true professionals and I knew that by presenting a topic in public they would have felt deeply involved as far as the future was concerned.

Structural Sub-Optimization

I had planned the agenda in such a way that the participants, at first, would get a sense of cautious optimism from the news of results achieved in recent times. This state of mind was preparatory to mitigating the sense of psychological alarm that would have spread among the participants when, in the course of the entire afternoon, they would be brutally faced with a bitter reality that I introduced like this, without mincing my words:

I must state that the Company is affected by a generalized situation of structural sub-optimization. I propose to illustrate a series of cases regarding this situation, with the warning that I shall never refer to the specific responsibilities of any one Function. [...]. On the contrary, the need for interfunctional integration is precisely what in many cases makes the solution of the situations I shall explain to you even more difficult.

When I talked, and I often did so, about “structural sub-optimization” I was referring to the functioning of the complex as a whole, something that for the Company had global, all-encompassing connotations. Within a short time, my colleagues and I had laid our hands on the entire functioning of the company apparatus. What Iveco achieved in the space of a few years in terms of industrial reconstruction represents one of the greatest successes of my working life and I would like to be able to devote an important part of my professional biography to that period and to those topics. The subject is vast and complex, but the outline I prepared for the Management Meeting of 1 March 1985 remains like an Ariadne’s thread suited to guide whoever wishes to penetrate that labyrinth, an authentic academic textbook case.¹²

The Debts

Among the problems facing Iveco that the Chief Financial Officer, Umberto Quadrino, put before the astonished eyes of the hundreds of *dirigenti* watching us from the auditorium of the lecture theatre in Marentino, that of financial indebtedness could not be left out.

While in 1979 I had been alarmed by the debts of the Components Sector, what could I say about the 1,250 billion owed by Iveco, equal to 30 % of its turnover, with passive interest for a figure equal to 5 % of turnover itself? I limited myself to a bitter comment: “Basically, we’re working for the banks”. Then I repeated a concept that has always been close to my heart:

We have no intention of scrimping on investments, be they in production, in the sales network, or in the organization: on the contrary, I believe that [...] today we are investing too little in fixed assets: without ill will on anyone’s part, because we are verifying, before making any specific investment, that it is correct on the technological and economic level and above all we are assessing it in the framework of a global strategic concept. [...] The problem is [...] that of not using capital in unproductive or risky investments [...].

¹² Many structural interventions are shown in Document 3 of [Chap. 14](#), just as they were presented in Marentino.

Table 5.2 Iveco's financial debts, consolidated (1982–1987)

	Billions of lire
October 1982	2,300 all-time record
December 1983	1,666
December 1984	1,253
December 1985	923
December 1986	850
October 1987	32

Some time afterwards, Cesare Romiti granted through Fiat an increase in Iveco paid-in equity,¹³ but before the measure was decided and implemented the financial position improved substantially on its own account, owing to the effect of results and recoupment. The combination of the two influences ensured that Iveco's financial debts vanished altogether before the end of 1987. This caused a sensation because progress had taken place in a relatively short space of time; as for the increase in capital, Romiti understood that my intentions were well meant and rightly took no offence (see Table 5.2).

Attitudes

I dealt with other matters that afternoon in Marentino, the last of these being problems related to certain attitudes that I found to be widespread in Iveco. And these infuriated me.

There would be a lot more to say about our structural problems, but I would like to conclude this exposition with the one that is in my view the most elusive [...]. Within Iveco there is a problem to do with a set of attitudes on the part of *dirigenti* and *quadri* alike, an attitude not only unsuited to the tasks that await us but also a weak one in comparison with the levels reached by the other leading companies in the countries where we operate, the Fiat Group included.

First and foremost I complained that in business we always gave in when faced with others. I had already talked at length about excessive discounts to clients,

¹³ As soon as the books were balanced, I began to insist with Romiti that an increase in equity capital was needed to reduce passive interest and to finance the new range of products, a request I formalized in a letter on 26 April 1985. They granted me 1.69 billion Dutch florins, which eventually arrived on 15 October 1987. Of this sum, 1.03 billion florins replaced a previous interest-free loan (effectively equivalent to our own equity); that left a net 0.65 billion florins, or roughly 400 billion lire, which I ordered to be withdrawn from Iveco and paid into a wholly owned holding company, FinIveco, which used the cash in the years that followed to back up all the associated companies in their investments in fixed assets and in working capital. FinIveco was originally called TruCo, but I had this name changed because, frankly, it was ugly and gave the idea of a clandestine entity. FinIveco was based in the Dutch Antilles for reasons of tax relief and flexibility, like many sister companies owned by multinationals in every country, but was legitimate from every point of view.

suppliers that were too dear, pirated spare parts, and disastrous initiatives. It was necessary to understand the psychological process that lay at the source of these defeats, which had to end once and for all:

A correct view of business is often lacking in terms of comparison between performance and the company's advantage, which engenders defeatist behaviour destined to fail *a priori*. [The profitability of every company] is basically constituted by a small percentage of margin on turnover. [This] is precisely the [small slice that] is won or lost with the last act of intervention in the final moments of decision making [which is up to every one of you] and that is to say the saving of the last percentage points in our costs or the revenue from the last percentage points of our income. It is easy [to transform a good deal into a bad one] if it is not tackled with due drive and will. [...] I believe that in general we are ill-prepared to manage with determination and shrewdness this [...] essential marginality.

Then I complained about the lack of internal transparency:

Shortcomings [regarding the transmission of information] on a horizontal level create confusion; towards the top they engender the possibility of erroneous decisions; for example, all too often [...] during Steering Committee meetings the real problems [emerge] only after decisions have already been made, because only decisions requiring implementation make it obligatory for information to be extracted from desk drawers. And this is only one example.

As far as I was concerned, information would have circulated everywhere, good or bad as it may have been. That whole day was the proof of this.

I talked about attitudes and I didn't know that shortly afterwards I would have opened a can of worms: some of the people who listened to me in Marentino with evident deference and apparent devotion were extorting suppliers of parts, plant, and services through a kind of "organized" racket, from which they received bribes amounting to 3 % of turnover, a very large amount, given the large sums in play. The practice had been going on for some time, maybe for a long time. Then came my new "dialectic" organization with Purchasing and Production, which both kept an eye on one another, each with its clearly defined role. The "alternative organization" hit a crisis and began to make a few mistakes. I realized that something was wrong by putting together small details, apparently innocuous particulars if taken individually, but which acquired a disturbing significance when viewed as a whole: I hadn't been living company life for a quarter of a century for nothing.

Cautiously, I began to collect information, laid a few traps, increased the cross checks, received a few tip-offs, and in the end I obtained irrefutable proof, a very rare event in that field.

I knew what sort of things were going on, but I took a cold pleasure in getting my hands on a flourishing network that was operating to the detriment of a Company in crisis. Moreover, the fact that they were doing this so close to me turned my stomach. One day in August 1985, with the offices deserted for the holidays, I summoned the head of the "alternative organization", the "boss", as he was called in the jargon of his gang, and sacked him on the spot.

"You've come to the end of the line" I told him. "Time to get off now".

He looked at me in amazement; I handed him a sheet of paper prepared beforehand: “This is your resignation; sign it”.

He did not ask me why, but “What happens if I don’t sign?”

“You will be reported to the police tomorrow morning and we will do our utmost to make sure you wind up in prison”.

“I have to talk this over with my family. How much time do I have to think about this?”

“You should have talked it over with your family before, now it’s too late”.

He signed there and then. He never set foot in the Company again and, I believe, from then on many people in Iveco and outside it realized that I was in deadly earnest.

The TurboStar

In September 1984 in Strasbourg, we presented the TurboStar, a lorry that was to become the symbol of Iveco’s rebirth.¹⁴ (Fig. 5.4) It had been made ready in a rather makeshift manner, with simple product specifications conceived without the support of many analyses and with rapid development times, followed by only a few tests: yet the outcome was a satisfactory vehicle. Strange as it may seem, before this Iveco did not have a real TIR-class lorry. Giancarlo Boschetti told me that he had decided to get the design of the TurboStar underway as soon as he had realized, shortly after his arrival, that the European sales network could not do without it. In other words: the number two European lorry builder had not understood that it had to get into the long-distance heavy-vehicle road sector if it wished to survive, until the arrival of a manager from the paint industry. This was an ulterior, clear example of the extent of improvisation and decay of the “old” Fiat, between the late Seventies and early Eighties, which our “new generation” found itself having to tackle in that historical period.

As far as Iveco was concerned, I intended to make a radical change of course, as I announced formally during the Meeting held in Marentino on 1 March 1985. The practical implementation of this policy led to the gigantic project I shall discuss in the next chapter, which in a few years was to change all of Iveco’s factories and products.

¹⁴ It was a vehicle whose conception and genesis were international: designed in Ulm and assembled in Turin, it had a 13.8 L engine that pumped out 330 HP, or a 17.2 L version good for 420 HP, produced respectively at Bourbon Lancy in Burgundy and in Turin, also the base of the engine design department. About 150 engine designers, with great experience in fluid dynamics, worked in Arbon, Switzerland; this was a centre that Manina had wisely bought from Steyr not long before; I arrived in Iveco just in time to prevent its closure under the pressure of the emergency.



Fig. 5.4 G. Garuzzo presents the TurboStar, Iveco's first "TIR", to the European commissioner in Strasbourg

The Libyan Talks

Sometimes events took an amusing turn.

Among the many talks in connection with his new role, the Head of the military department of Iveco, Riccardo Ruggeri, came across a curious one that occupied him a great deal but came to nothing. Giorgio Manina maintained that it might be possible to sell thousands of lorries to the Libyan army¹⁵ and tried to promote a mega-order that would have brought in profits sufficient to solve, in his opinion, the problem of Iveco's accounts; yet again, his commercial spirit and his background in mass retailing prompted him to give preference to the quest for a major coup rather than considering the organization of the industrial structure. So he committed himself heart and soul to the talks. What's more, he recruited a wholly special intermediary: a sort of Mata Hari by the name of Liliana Cuk who was believed to have important connections in Libya and who did not pass unnoticed when she turned up at Iveco at nine in the morning dolled up as if for a gala evening.

¹⁵ Iveco kept up good relations with Libya as a consequence of the entry of Libyan capital in Fiat in 1976 and had a 25 % stake in the Libyan Truck and Bus Corporation (LTBC), an assembly company that put together European components in the factory at Tajura, near Tripoli. But LTBC produced normal road vehicles or those for building sites; military trucks are very different heavy vehicles, suited for very demanding working conditions and constructed using wholly particular materials and specifications and with very high costs (and prices).

Ruggeri and I thought the order was a pipe dream and the lady a dreamer, but we did not want to leave any stone unturned, given the stakes in play. So we did everything that it was necessary to do, helped by the Italian Army and government bodies for exports. And so, for example, we met a person who Ms Cuk introduced as Gheddafi's namesake and cousin, who lived in a vast suite in the hotel George V in Paris. He treated us well and promised us nothing. Then, after an exciting drive through the streets of Tripoli accompanied by a military escort with sirens wailing, we met the Libyan general Jallud in his headquarters.¹⁶ We negotiated at length with colonel Hanesh, head of Libyan procurement: a man who was really on the ball and in comparison with whom my buyer Alessio Lucca or Volkswagen's famous Lopez looked like rookies. He realized we really needed to sell and in the course of an interminable session in Tripoli, waving the swagger-stick he always carried with him in the English fashion, he managed to wring prices from us that were incredibly favourable to him, on the basis of which on 17 April 1985 we signed a contract for the supply of almost 4,000 heavy vehicles, equivalent to over 400 million dollars of sales revenue, the said contract being subject to approval on the part of the respective national authorities.

All that was missing was a small detail: the conditions of payment.

We tried in every way to get hold of funding: by law, SACE, the Italian state body for export credit insurance, could not insure credit for more than two years, with the result that we could not find foreign backers; in Libya the Oil Minister refused to grant a barter arrangement.

Weeks and months went by and cash was not forthcoming.

In the end, a laconic telegram from Hanesh announced that the Libyans considered the contract to be expired. The Libyan army was left with the old vehicles it had (none of which were made by Iveco...) and if Iveco wished to save itself it had to consider doing this on its own account, without any extraordinary magic wand, but with hard, daily work.

As for Madame Cuk, she could not resign herself to the fact that the fabulous commission on which she dreamed of constructing her future had vanished. She immediately accused us of having bungled the negotiations, then she took us to court, asserting that the contract had been effectively finalized by Iveco but that the vehicles had been delivered clandestinely with the aim of denying her the commission due by contract. The public prosecutor of Turin, Sandrelli, dismissed the case after due investigations, but she did not give up; she turned up again for many years every time she read some sensationalist news in the press with regard to Fiat, until ten years later she wrote to the public prosecutor Antonio Di Pietro, who had me questioned on the affair.

¹⁶ Jallud was Libya's only general: nobody could attain a rank higher than that of Gheddafi, who was a colonel, after his seizure of power.



Fig. 5.5 The dinner for 3,000 *dirigenti* at the Iveco convention in Turin in 1986

The Second Management Meeting

Six months after the first one, on 27 September 1985, we held the second Management Meeting in Turin’s *Museo dell’Automobile*. By then I had a historical perspective regarding the “damage suffered and ground lost” by Iveco in the previous decade, the first since its foundation.

On the market level, whereas we have [...] maintained our share in Germany, we have lost about a quarter of our presence in France [...] and likewise in Italy [...].

On the economic level overall losses have exceeded 600 billion lire, which the shareholder [Fiat Holding] has had to reintegrate with fresh money. The partner that had begun the joint venture with us [Klockner Humbold Deutz] has withdrawn, making a capital gain... which has brought the input of fresh capital on the part of our Group to a sum in excess of 1,000 billion.

The flow of funds between Italy and abroad has exceeded one billion marks towards Germany, and almost one billion francs towards France.

Three large factories have been closed, as have several other smaller entities, with a consequent reduction in production plants of half a million square metres... out of two million.

Personnel has fallen by one third, from 52,000 to 35,000 units.

But the future would not be like this: “What remains... of the Iveco experience? [...] IVECO remains!”. And I cited products, factories, sales networks, a break-even point that was now very low and, above all, management: “Among those present in this room, who represent almost the totality... of management, about 6 out of 10 were not in this company ten years ago [...] and about 4 out of 10 [...] have been in their current positions for less than three years”.

On 24 and 25 May 1986 we celebrated the tenth anniversary in Turin with a huge convention (Figs. 5.5, 5.6, 5.7). Three thousand two hundred people came

Fig. 5.6 G. Garuzzo with G. Agnelli at the convention



Fig. 5.7 G. Garuzzo with Ella Fitzgerald at the convention



from all over Europe, by special trains and aeroplanes. Gianni Agnelli and Cesare Romiti came and brought their greetings and their message. That evening a gigantic dinner was served and the tables took up the entire exhibition room in the Valentino motor show building. Ella Fitzgerald was the star of the show and I was

moved by her capacity for transformation: on taking her by the arm to accompany her to the stage she seemed to be a minute, frail, elderly person; when she took the microphone in her hand she turned into a panther and instantly conquered the space and the auditorium of that immense room.

Obviously, that pomp had a purpose: to ensure that the men and women who worked far from Turin, especially the non-Italians, felt proud to belong to a great entity whose prospects were guaranteed.¹⁷

¹⁷ An entity avowedly financed and managed from Italy. The vice president of Personnel, Giovanni Morello, suggested to me the following criteria for participation in the convention: all the Torinese *quadri*, many from the rest of Italy, some representatives from outside Italy. At that time this was the Group's concept of internationality! He was lucky I didn't toss him out the window. The criteria had to be the complete opposite: all the foreign *quadri*, many from the rest of Italy, some representatives from Turin. Certainly not out of hatred for the city: those based far away were the ones most in need of news and reassurance. I had even forbidden the use of the term "foreign", how could you consider "foreign" a person with Iveco Magirus or Iveco Unic? Iveco was a pan-European company.

Chapter 6

The Strength of Iveco (1985–1990)

Iveco in China

Gianni Agnelli went to China in the Seventies, more or less at the time of US President Richard Nixon's historic visit. Agnelli's journey could not be defined as a business trip but befitted his personality: it satisfied his curiosity and his constant search for new experiences and, at the same time, it contributed to promoting his image, projecting it into a politico-historic dimension with international connotations. For the Fiat Group this certainly triggered some beneficial spin-off: the precocity of the contact spread a positive aura around the name of the Group in a world that was still closed and isolated, an effect whose entity and consequences are impossible to assess *a posteriori*.¹

In 1984, shortly after my arrival in Iveco, there was a sudden heightening of interest on the part of the Chinese and many delegations made up on the basis of criteria unknown to us began to visit Italy (Figs. 6.1 and 6.2). Among others, there came Chen Mu Hua, then Minister of Foreign Trade, who was later nominated governor of the Bank of China, and after her there arrived a Minister of Labour, a very old man whose name I do not recall, who had lunch with Romiti and me in Corso Marconi, and to whom we also introduced his Italian counterpart of the time, Gianni De Michelis. Maoist observance was still formally respected by the Chinese, for example in the monastic cut of their clothing, but one realized that developments were underway whose outlines were indecipherable for us.

“China is like a huge pot, into which everyone dips their bread but into which no one ever pours anything; soon it might be empty”, said the Industry Minister, who talked in parables in accordance with the national tradition. “But it will not go on this way any longer: we will get rid of the scroungers; anyone wishing to dip into the pot must first have poured his contribution into it”.

¹ From then on, and for many years to come, an Iveco functionary by the name of Viettone followed Marco Polo's route in a less sensational but more functional manner, back and forward thirty times, without any apparent result if not that of keeping open channels of communication whose influence on the events that followed is still difficult to establish.

Fig. 6.1 A Chinese delegation visiting an Iveco plant in 1985



Fig. 6.2 Chen Mu Hua (minister of foreign trade) on a visit with by G. Garuzzo and the two functionaries F. Viettone (*left*) and F. Amerighi, who paved the way for the talks with China



It seemed to us that the minister did not communicate at all with his Italian colleague, who talked to him about the right to strike and was not bothered about who put what into the common pot.

Gradually, it became clear that the Chinese were looking for a technology supplier in the field of light vehicles (lorries and vans) and were taking Iveco in serious consideration, in competition only with the Germans and the Japanese, in whom they had little trust because of political reasons. We later found out that they had secretly subjected vehicles of different brands to comparison tests and had appreciated our Daily model more than any other.

Chinese decision-making processes were unknowable to us then, and were also to remain so afterwards. It was just as well, therefore, to take a clear position right

from the start; and then things would go as they had to. Right from the first signs of a negotiation I held to the tactic, which I defined “Russian-style”, of repeating ad nauseam the same concepts to all the visitors who came, Chen Mu Hua included, without knowing if or how they might have some influence.² Talks were exhausting but in the end they concluded in a most favourable manner. We went to Nanjing for the signing ceremony on 27 March 1985.³ The journey there was not yet an easy one. On arriving from Hong Kong we spent the night in luxurious, enormous rooms in a villa in Shanghai that had served as guest quarters for supreme Party leaders, Mao Zedong included. I had never stayed in such a vast place: on waking up, the following morning, I had to wander from one room to another shouting for Marco Pittaluga, in charge of trading relations for the Holding Company, who was lodged in the same accommodation. For their misfortune, other colleagues had been put up in a hotel and had several comments to make about this, not exactly pleasant ones either (Figs. 6.3 and 6.4).

Life in Nanjing was spartan. Neither motor cars nor shopping. In the only shop for foreigners, where you paid in dollars, local citizens were not allowed and from the inside you could see them looking at you with their faces squashed up against the windows. You felt like a fish in an aquarium. We stayed on for a week and they had us eat and drink in lavish quantities; we found the cuisine excellent and realized that there was some interest over and beyond the undoubted spirit of hospitality: our own hosts had taken the chance to gorge themselves. One day, oddly, they gave us a break for a trip. They took me as far as the Yangtze and had me go down the steps that led to the enormous bridge spanning the river. I couldn't understand

² My messages were roughly as follows. First. We had given them as much modern know-how as we possessed, then and later, offering them the new TurboDaily from the day of its launch in Turin 1984, with the 92-HP direct injection engine, at that time unique in its category throughout the world. Second. They were not to put us in competition with the Japanese: we knew perfectly well that vehicles of oriental origin cost less; but our products were better in terms of sturdiness and performance and these qualities would have remained for vehicles built in China, while costs would have become “Chinese”, in other words low within that country. Third. Our government would have guaranteed a line of credit similar to those of other competing countries. The lobbying apparatus in Corso Marconi (with Cesare Sacchi, Montanari, and others) got underway immediately and with its customary efficiency obtained what was necessary: a promise of 100 million dollars between non repayable funds and soft lending and the same sum in normal export credit. In that period Italy was spending a fortune in aid to developing countries and with regard to the criteria for disbursement there were many suspicions that sometimes led to judicial proceedings. Iveco never paid any bribes either for the contract with China or for other aid for developing countries, and I am not aware of any illegal payments made by the Holding Company. The aid I am talking about was, in my view, very positive and in perfect compliance with the spirit of the law. Fourth. We were not interested in collecting royalties, i.e., payment for the know-how supplied. We would not have sold our best technology, utilizing countless hours of work by our technicians, nor would we have transferred the complete project for the vehicle and all its macro-components, the engine included; in short, we would not have trained a possible competitor for the coming century, merely to collect a few tens of millions of dollars. We wanted a different reward: the pre-emptive right to sell our products in China.

³ The definitive contract was dated 12 September 1986: in China, things moved with enormous slowness.

Fig. 6.3 The signature in Nanjing on 25 March 1985 of the joint venture between Iveco and Nanjing motors



Fig. 6.4 The toasts were made, according to tradition, with wine, beer or liqueur, at the inviter's choice



why they had taken me there and from that lowered perspective I looked up at the spans stretching as far as the eye could see across the immense river. Near the bank stood a gigantic pier that supported nothing. I asked why it was there (Fig. 6.5).

“A few years ago” they answered, “the Russians promised to build a bridge over the river at their expense, in token of friendship. But they left us in the lurch for political reasons and the only finished element was that pier. Then we built the bridge by ourselves. But we didn’t use their pier, which we left in its place for future reference”.

“Message received” I thought, and I smiled at the parable as I replied: “The Italians will not abandon you while work is in course; no unfinished pier of ours will remain in your midst”.

Then began the Chinese pilgrimage to Turin. Several hundred of them came starting from spring 1987 and we put them all up in the Bonafous, a villa on the hill equipped as a college, including the technicians and the political commissar who accompanied them to decide which reading matter was suitable and which

Fig. 6.5 The bridge on the Yangtze in Nanjing, with piers made by the Russians, left unused after political disputes with China



was not (the latter category included the weeklies “Panorama” and “L’espreso”). They all spoke a little Italian that they had learned at the university of Nanjing and had all been rigorously selected.

That was an important contribution to the spread of the reputation of Italian industry in China: terminology, references, know-how...; an imprinting “inoculated” into people who probably would become important executives in their country’s industries. I would have liked it if all of them could have been followed individually after their return home and the diaspora that would have followed, to keep in constant touch with them through a catalogue of “friends of Italy”. Unfortunately, this was beyond Iveco’s possibilities and I found no state body able to take on such a task: support from the Directorate for Aid to Development had proved very useful but limited in terms of time; instead, what was lacking altogether was any form of organized continuity and any political interest in setting up such a system.

The TurboDaily was intended to replace a model produced in Nanjing, based on a Russian design of 1938: China had a real need for a modern light vehicle, which constituted a necessary product of prime importance given the geography and the economy of that country. For this reason, the government headed by Deng Xiaoping launched an investment plan amounting to 260 million dollars, gigantic for that time and that place, with very ambitious production volumes: 60,000 Dailys and 80,000 Sofim engines per annum, far more than Iveco’s European production. The Iveco project turned out to be a success both in the short and the long run. The government loan was spent entirely on purchasing machinery in Italy, none of which was supplied by Fiat: the orders and the money all went to the machine tool industry. For Iveco, my concept of offset worked: the licence was paid for by the Chinese through the purchase of products in the space of a few years. I do not have up-to-date figures, but I believe that in the final balance the value of exports, what with finished vehicles and components, was far higher than originally agreed (one hundred million dollars); if I had to suggest a figure, I would tend to say something in the region of one thousand billion lire. The initiative laid the groundwork for the establishment in China of part of Iveco, which many years later succeeded in investing capital in the local company to acquire an important shareholding and to develop further in that country-continent.

The TurboDaily

The real star of the Chinese adventure was, yet again, an excellent product: the Daily. It had come into being in the late Seventies as a joint venture between Alfa Romeo and Fiat, which also sold it with the name Grinta, under the OM marque. The joint venture for the engine included Renault, hence the name SOFIM given to the factory in Foggia, constructed ex novo to produce the diesel engine: Società Franco Italiana Motoristica.

The Daily and its engine had some terrible moments in the first years of their existence. Especially the engine.

Already during the design phase, in the mid-Seventies, disputes were circulating surreptitiously in the usual way typical of Fiat, until Umberto Agnelli eventually heard about them. He asked me to make investigations. The Sofim engine was considered very heavy and expensive compared to a diesel originally intended for cars, known as the Lampredi engine, from the name of the designer who had conceived it. Its weight reduced its attractiveness for use in motor cars. But without the volumes absorbed by the auto sector, the factory in Foggia would have been economically unviable. My knowledge of engines was decidedly insufficient to reply to a query of this importance. So I called in Dante Giacosa, the legendary designer of the Fifties and Sixties, who, despite being well on in years, ran a small consultancy office in Turin, and I relied on his experience. I had not met him before, in his heyday, and I felt uncomfortable when I asked the man who had fathered many models that had made Fiat great to sit down in front of my desk in Corso Marconi.

“The Lampredi is fine for a diesel-engined car, but for a lorry you need the Sofim”, he told me.

I was to remember that simple judgement many years later.

At the beginning of the Eighties, the new Daily vehicles enjoyed instant success, but almost all the first customers experienced breakdowns. The cast iron engine block was furrowed by tiny, invisible cracks. Between ten and thirty thousand kilometres of use, the cracks became chasms and the engine stopped forever. The initial success led tens of thousands of customers to go through this unpleasant experience. Few products would have survived such a catastrophe. The Foggia factory, with insufficient work, lost a lot of money; Renault refused to contribute to recapitalization and withdrew from the joint venture, while continuing out of necessity to mount the engine on its own diesel cars and commercial vehicles. When I arrived in Iveco, three or four years after these inauspicious events, the reputation of the Daily was still clouded by that original blemish.

Later, Ghidella began to maintain that in future light vehicles, vans in particular, would have all been constructed with auto technology, that's to say with pressed metal monocoque frames, the production of which could be automated, and not using lorry technology, with longitudinal frame members in steel. Ghidella showed himself to be the usual great expert in production, but, as sometimes happened to him, he sacrificed customers' needs in favour of those of the factory. My view was that there were two types of clearly differentiated customers for light vehicles.

There was certainly a demand for a cheap, very light vehicle, intended for short trips: the Ducato, built by Fiat Auto almost like an automobile, was perfect for the trader who wanted to take his flowers to the market. But there were also those who racked up sixty thousand kilometres a year with heavy loads, uses for which you needed a real truck, even though a small one: hence Iveco's Daily, with its Sofim engine, regarding which I mentioned the teachings of Dante Giacosa. The important thing for Iveco was to be able to recoup the high production costs through the sales price, and this was the goal I set Boschetti and his salesmen.

Our industrial strategy was successful. Thanks to the two currents of production with their relative organizations and alliances (with Peugeot and Citroën for the Ducato and with Renault for the Sofim), in Europe the Fiat group came to dominate the very important market segment of light commercial and industrial vehicles, a position unknown to the general public as well as to financial analysts.

Despite the disengagement on the part of Fiat Auto, which built the light diesel engine derived from the petrol version according to Dante Giacosa's prediction, at the end of the Eighties the Foggia factory reached the engine production volumes for which it had been calibrated ten years before and which had seemed a mirage: 750 units a day; new investments and more employees had to be found: the engine was constantly updated until it reached 135 HP and vehicle production was automated as much as possible, thanks to highly innovative assembly line robots constructed in Brescia to produce the chassis.

In the beginning of the Nineties, I asked the engineers to do their utmost to prolong the life of the engine and the factory where it was built and I fell in love at first sight with a project conceived by the Fiat Research Centre and Magneti Marelli. The new system was based on single injectors fed by a common fuel rail, and promised to improve the performance of the Sofim engine even more by changing only the cylinder head, and hence safeguarding most of the existing production equipment. In 1995, shortly before I left Fiat, I approved the contract that led Bosch to take control of the development of the common rail system. It was with something of a heavy heart that I took the decision, which was proposed to me by the *direttore centrale*, Luigi Francione, but it was clear to me that Fiat was unable to carry on alone: the development costs and the investments still to be made were enormous, it was necessary to guarantee a very broad sales base if the cost of the product was to be reasonable and, on its own, Fiat Auto was unable to bear the burden of the onerous testing of the system required for application in the car business.⁴ I did not stay with Fiat long enough to witness the outcome of the

⁴ Moreover, Fiat Auto's support for the project was lukewarm, owing to the poor relations between Paolo Cantarella with the head of the Fiat Research Centre, Giancarlo Michellone, and his boss Luigi Francione. Subsequently, with results already obtained, some talked of selling the project off to Bosch at a knockdown price (the price had been 27.5 billion lire in cash, as well as taking on a debt amounting to 14.2 billion, at a 4 % royalty on turnover for another 32.5 billion), but it's hard to make a judgement on this even after the conclusion of the initiative: the doubt lies in judging whether Fiat would have managed to clinch the deal on its own in an economically acceptable manner, given the Group's circumstances in the second half of the Nineties.

project, but, as is known, the common rail system enjoyed amazing success throughout the world for applications in fast diesel engines. As for the TurboDaily, it's enough to look around the streets of the world to realize that this and other initiatives made it possible for it to extend its working life well into the 21st century: when, on the roads of Europe or Asia, I come across the outline of the vehicle, with that rounded bonnet so familiar to me (a "nose" that certain Chinese chauvinists complained was too "western"!) I cannot resist recalling some of the episodes of its existence, troubled but laudable; I believe that it has every right to earn a place in that Salon of the glories of Italian engineering that I mentioned earlier.

Fiat Auto Fails to Make a Deal with Ford

The negotiations to merge Fiat Auto's and Ford's operations in the European car market, a well-known story owing to the coverage devoted to it by the press, were underway between 1984 and 1985, and I had no part in them, busy as I was with sorting out Iveco. But, however, an unforeseen consequence came along: the tabling of talks with Ford to acquire its European activities in the lorry sector, talks that very soon took on a life of their own and that, unlike the original negotiations, came to a successful conclusion.

Vittorio Ghidella had studied a merger plan between the two automobile firms from which the prospect of immense synergies emerged. In Europe there were six manufacturers customarily called "generalists" because their product lines extended to mass-market vehicles: Fiat Auto (Alfa Romeo, Fiat, and Lancia), Ford, General Motors-Opel, PSA (Peugeot-Citroën), Renault, and Volkswagen-Audi. The six were pretty much the same size, each with a European market share of around 10 and 12 % in terms of units sold. If two of them had got together the resulting entity would have acquired a gigantic competitive advantage as it would have been twice as big as each of the others. It is perfectly true that this would have required a rationalization process of the technical and commercial structures so demanding that it would have severely tested the nerve of even the smartest managers, but this was Ghidella's meat and drink.

At a certain point it looked as if there were no more obstacles regarding the success of the talks: in August 1985, the members of Fiat Auto's Steering Committee were sent off on a study holiday in America to brush up on their command of English, a sacrifice they faced with due stoicism. But, in autumn the initiative was aborted; at the last moment it emerged that the two parties had opposing ideas about a clause of no mean importance: each one maintained that control of the joint venture was their right. Romiti told me that Fiat's leadership had been taken for granted following a meeting that he and Gianni Agnelli had had at the start of the talks with Ford's top management (I imagine Chairman Peterson, President "Red" Pauling, and perhaps even Henry Ford Jr.), a meeting that had confirmed the principle "Europe for the Europeans". But, with the talks all but concluded, Romiti told me, Ford observed that Fiat (Holding) would cease to be

a car builder, whereas Ford (USA) would continue to be one; hence control was an American prerogative. They granted a three-year initial period to be spent with Fiat as the responsible party and with Ghidella in charge; then control would be handed over. It was bizarre: the Americans expected Fiat to undertake the thankless task of rationalization only to gobble it up once the job was done. I accepted Romiti's account, strange as it may have appeared, and I was even more convinced later because the attitude of Ford in Detroit was ambiguous and inconsistent also during talks held with me a few years later. But I never received any confirmation of that version from the counterparty.

Romiti also told me that Ghidella would have liked to proceed all the same and accept Ford's conditions, putting his own personal interest in heading the new colossus before the shareholders' interest in not losing control. In fact, in an interview with "L'Espresso" on 2 February 1992, Ghidella stated: "Probably, also in the light of experience, [giving up control of the company on the Agnellis' part] this would have been an intelligent, astute, far-sighted decision".

This was the first time I noticed a chill in Romiti's relations with Ghidella, a deterioration that was to culminate in the clash between the two and Ghidella's dismissal in November 1988. Until then, Romiti, the *amministratore delegato* (CEO) of Fiat, had not only shown complete faith in his principal Sector Head, but had never missed the chance to shower him with undisguised recognitions of autonomy, respect, and authoritativeness, verging on ostentation, an attitude also shared by Gianni Agnelli.

... but Iveco Does

I met the Chairman of Ford Europe in a hotel in Paris where the talks on the auto deal had been held.

"Bob Lutz mentioned something about lorries", Romiti had told me, "see what he wants".

Lutz maintained that the European industrial vehicle market was structurally depressed in terms of prices and that the leadership of Mercedes Benz was unsailable, also because it was backed up by the enormous profits flowing into the Stuttgart-based manufacturer from car sales.⁵ The coexistence of these two conditions, he said, had convinced them to withdraw from the sector. They were prepared to cede us Ford Truck's European activities on the condition that we freed them of all worries regarding the matter.

⁵ There was some truth in that analysis. For a long time, Mercedes Benz favoured maintaining its dominance of the industrial vehicle market over profit, and so it lost money for many years to follow; its dealers did not like or did not care about lorry franchises, but were obliged to sell the product in fixed quantities if they wished to continue receiving motor cars. Lutz's error lay in his belief that this situation was unchangeable. In economics nothing is unchangeable: change is the driving force of the market economy.

Fig. 6.6 G. Garuzzo at the wheel of a Ford Cargo, after the acquisition of Ford truck in the UK in 1986



It was the first time I had met Lutz, who enjoyed quite a reputation, and I was curious to get to know him, also because in the Seventies Gianni Agnelli had mentioned him as a potential replacement for Nicola Tufarelli as head of Fiat Auto. The approach that Bob Lutz adopted with me on that day in Paris, apart from a certain haughty detachment typical of some American businessmen, did not strike me as particularly astute: by telling me that Ford's top management had decided to get out of the lorry business, he gave me an edge in the talks and made life tough for Alex Trotman, who replaced him as head of Ford's European operations and who took over the talks from him. In this way I could easily shoot for the lowest price, because I knew that for them it was better to give us the Company for free than face the costs and the unknown factors regarding a closure that had already been decided.

Ford was the leader in the British industrial vehicle market, but its strength was rapidly waning. From a historic level of 24 % (still in 1980) its share had decreased to 18 % by 1985, a loss of position of almost 25 % in five years, and the prospects were even worse. But the network was still very strong, integrated as it was with sales of cars and the Transit van, but the confidence of dealers and customers was weakening: a phenomenon that was no surprise, given the opinions expressed by top management with regard to that business. Ford Europe realized that their domination of the British medium-sized vehicle market, where it had a 30 % share thanks to its Cargo model (Fig. 6.6), was insufficient to sustain structurally its presence on the European continent; after the failure of its TIR lorry (the Transcontinental), the product range was incomplete and did not generate sufficient margins to ensure renewal, far less expansion; the downward spiral was underway. There was no room for recovery, even by investing a lot of money, in a

European market where competition was at fever pitch. Things being as they were, they were right to wish to withdraw, apart from their ingenuousness in coming to tell me about it.

I had no doubt that Ford's offer in those terms was a stroke of luck for Iveco's strategy. Our share in the UK, around 3 % of the market, was laughable; it was kept on its feet by the efforts of Alan Fox, the Sales Manager we had hired from Ford itself, by means of lethal mega-discounts concerning which we closed both eyes in order not to have to order the withdrawal from such an important country. The prospects of improving the situation were zero, without sales networks and without reputation. As for Iveco's belonging to Fiat, better not to mention that, given the image of terrible quality attributed to the Italian company in the UK.

The list of contributions that Ford presented to us was exciting.

Adding Ford's share to what little Iveco had before, meant that the latter could exceed 20 % of a national market (measured starting from 5 tons of total weight), which was the biggest and most sophisticated in Europe, also because the UK's railways, historically highly developed and widespread, served only passengers and almost never goods.⁶ In this way, Iveco almost completed its global presence in Europe, considering the position it had already held in France, Germany, and Italy.

I could see only one risk, but it was a very, very big one. Who in the UK would have put their faith in the unknown Iveco brand, linked to Fiat's reputation for shoddy quality? Wouldn't they all have fled, dealers, customers, and collaborators, from the tide of denigration that the opposition would have unleashed, competition that bore illustrious names such as British Leyland, Mercedes, Volvo and Scania? It was easy for my imagination to conjure up such a disturbing flight.

So I went back to Bob Lutz with my response. In order to start talking about the deal, he first had to accept a preliminary condition: we would have taken on the burdens of management and the balance sheet results of the purchased Company, but the initiative had to look like a real joint venture; everyone had to believe that Ford was putting up an equal share of the capital and its badge, the famous oval, always had to appear together with that of Iveco, on the vehicles, in the dealerships, on letter headings... everywhere. Lutz agreed immediately,⁷ out of pride and because Ford UK's Chairman, Sam Toy, liked the idea. Ford was far more market oriented than Fiat and, more than this, it attached importance to the

⁶ It was like this in Japan, too. To my mind, it was a question of a comprehensible policy: railways are inefficient as far as goods handling is concerned, because delivery at the station, loading, unloading and final delivery are too costly, especially regarding the widespread distribution called for by modern logistics. On the other hand, the railway is ideal for passengers, who get on and off under their own power. Obviously, I did not openly support this theory when I was Chairman of Fiat Auto.

⁷ For aesthetic reasons, which I gleaned from some critiques in the press, I divided the capital for the joint venture at 48 % for Iveco and 48 % for Ford, entrusting 4 % to Credit Suisse First Boston in an arbitral position. But the CSFB quota was also a *portage*.

mood of the sales network: it would have done anything rather than make its own dealers unhappy. With my proposal not only did Ford save face and reassure its dealers, but it also showed concern for their interests, by lining up alongside the existing vehicle (the Cargo) a far broader range of products, and forging an encouraging relationship for the continuity of their work in the future. In reality, Ford's "equity" in the so-called joint venture was a mere *portage* financed by us at zero interest, and the decision-making powers of its representatives on the Board were absolutely nil.

On 2 December 1985, two months after the inglorious end of the talks with Fiat Auto, Ford President Harold "Red" Pauling's DC9 landed in Turin. The sole purpose of his visit, Alex Trotman told me later, was to get a look at the maniacs who intended to invest in lorries in Europe, and to understand their real intentions.⁸ I subjected him to a long and detailed presentation of our strategies and he, flying back home, gave Trotman the green light. In the delegation I noted the absence of the man who had started up the talks with me not long before: shortly afterwards, Bob Lutz moved to Chrysler with Lee Iacocca⁹ and was replaced by Trotman (who proceeded on his way to the top job with Ford).

Trotman drove a hard bargain and talks aimed at defining the purchase price went on for a long time, 16 months in all, with various ups and downs.¹⁰ Refined analyses were carried out, complex formulas studied, then one day Trotman called me and, blunt as usual, he said: "Let's cut this short". We agreed there and then on 20 million pounds, a trivial sum for a business that brought Iveco additional sales of 20,000 lorries a year for 250 million pounds and a leading position in Europe's biggest market. The signing ceremony was held on 14 April 1986 in Ford's grandiose headquarters at number 4 Grafton Street in Mayfair. In the official photo of the event you can see the two signatories, Sam Toy¹¹ and me, our backs protected by two frowning guardian angels: Whipple for him and Cesare Romiti for me (Fig. 6.7). When I reported on the operation to Fiat's Executive Committee, I said that the overall outlay for the Fiat Group might have risen to as much as 200 billion lire had there been tremendous costs for restructuring and

⁸ "They can't possibly be coming just for lorries" Romiti said to me when I announced the planned visit. "They have something else in mind". I had to disillusion him: that of the automobile was a closed case.

⁹ Iacocca, after having reached the top of the Company, had been kicked out by Henry Ford with the justification: "I don't like your face". The statement, although disagreeable, supplied at least one explanation. Iacocca went to Chrysler and reorganized it. I met Bob Lutz again years later at my house in Turin, where I proposed that Chrysler and Iveco jointly acquire the American truck manufacturer Navistar, which interested me for its diesel engines. He turned the proposal down.

¹⁰ My principal aide, always discreet and intelligent, was the administrative vice president Umberto Quadrino.

¹¹ Formally, the operation was signed not by Ford Europe but by Ford UK; its chairman, Sam Toy, was nearing pensionable age and was the idol of English dealers; for them, his presence at the ceremony was a guarantee.

Fig. 6.7 Sam Toy, the Chairman of Ford UK, and G. Garuzzo, the CEO of Iveco, under the eyes of K. Whipple, the Chairman of Ford Europe, and of Romiti, the CEO of Fiat, sign the contract for the acquisition by Iveco of the control of Ford truck in the UK on 14 April 1986



operating losses.¹² In reality, I was unsure how much the operation was really going to cost us; but I did know that structurally things looked extraordinarily favourable and that the Ford name was with us; and that was enough for me. As things turned out, apart from the modest price paid for the acquisition, we paid out nothing else; Iveco Ford UK Ltd, which began operations on 1 July 1986, was already earning by the following year, instantly recouping the 22 million pounds it had lost during the first six months of its life. The welcome on the part of the dealers and customers was excellent: after a short time the market share exceeded the sum of the shares previously held by Ford and Iveco.¹³ Just to put the icing on the cake, demand, which had been depressed for years, rapidly picked up.

This success was witnessed by an amazed William Ford jr, the future Chairman of the Ford Group, who was in Europe at that time to gain experience and was a member of the Iveco Ford Board, in which he took part as a spectator with no powers and no dividends. Then the mother company in Dearborn, Michigan, sent a commission of enquiry to investigate what by then they suspected had been the sale—at a knockdown price—of a valuable branch of the company. Luckily, Trotman was not blamed for this, a consequence that would have been undeserved because Ford's exit had saved the firm from infinite costs and troubles.

Our initiative triggered a chain reaction with regard to the rationalization of supply. General Motors, which owned Bedford, encountered the same problems as Ford. In the past, it had tried to pursue the opposite strategy, that of expansion

¹² In a note to Cesare Romiti of 28 February 1986, I hypothesized an annual loss of 30/40 billion lire for 3/4 years if everything went badly, in accordance with the most pessimistic plans that the Administration had prepared for me, but I held out the prospect of a reasonable probability of achieving far better results; I maintained that in any case the direct and induced advantages that the operation would have brought us would have more than justified the operation. On re-reading the note, too long to be reproduced here, it appears to have been very far-sighted on a strategic level. It had been appreciated by Gianni Agnelli, who had made it known that he was "happy about it". I knew that I had moved with excessive prudence, but I had to do so for the future in order to protect myself from the criticisms of many who had not expressed an opinion so far but would have been the first to start yelling "I told you so" had things gone badly.

¹³ Thanks also to the local head, Alan Fox, whom both Boschetti and I backed up in real time.

through acquisitions, but things had not gone well. The German establishment, headed by Mercedes, blocked the sale of MAN, with my connivance,¹⁴ and the Spanish government refused to sell Pegaso. At the end of 1986 they closed down and Bedford became a dead letter.

British Leyland, which twenty years before had been one of the biggest lorry manufacturers in the world and had behaved so haughtily in its relations with Ford and Iveco in Mike Edwards' day, also slid into crisis. An attempted merger with General Motors/Bedford in early 1986 having failed, it attempted to oppose Iveco Ford's success in the market through big discounts along with advertising and promotional efforts; but by so doing it spiralled down even more and in February 1987 it was bought by the Dutch DAF firm with the blessing of the British government, which threw in a dowry of 680 million pounds. Later, the complex came to the verge of bankruptcy and broke up. The UK, which had dominated the sector in Europe and the world, no longer possessed a nationally capitalized industrial vehicle manufacturer worthy of note.

The outcome of the story demonstrated, therefore, that the Ford Truck operation had been extremely rational on a structural level: for many years, the lorries sold in England bore the Iveco badge together with the Ford oval, and the British remained convinced that Iveco was connected with Ford, which was almost felt to be a national brand.

Iveco in India

One thing leads to another: the acquisition of Ford Truck contributed to projecting Iveco's influence towards India.

The market in the sub-continent was hermetically closed to the importation of industrial vehicles, an agreeable condition for the two local manufacturers: Telco, a company owned by the Tata family, with a minority shareholding and technology courtesy of Mercedes, and Ashok Leyland, a listed company. When the British government sold British Leyland to DAF, as I mentioned earlier, it retained the 39 % controlling share package in Ashok Leyland, perhaps by request of the Indian government. In June 1987, the shares were auctioned off with only the briefest of advance notice. This haste and the speed of our reactions allowed us to seize the opportunity at highly favourable conditions.

¹⁴ The episode dates from 1984, shortly after my arrival in Iveco. The Chairman of Daimler Benz, Edzard Reuter, had taken his private plane and came to visit me in Turin with great urgency and secrecy. His aim was to verify whether Iveco, in its quality as a German constructor, was displeased with the sale of MAN to the Americans of GM, confirmation of which I gave him immediately at a confidential dinner for two in Villa Sassi. The family who owned almost half of MAN shares gave up on the deal in order to avoid damaging the general interests of German industry: the unity of that people was capable of working miracles! That very evening marked the beginning of my excellent relations with Reuter.

I maintained that Iveco could not take on this operation on its own because it was faced by two obstacles, both insurmountable: the Company was still too weak financially to commit more capital to a high-risk venture, in addition to the bets already made in China and in the UK, and—organizationally speaking—it was too weak to run a company that was so different and so far away. I had to find a partner who might contribute cash and a knowledge of the sub-continent; I needed a rich Indian and I had to find one before 30 September, the final date for the irrevocable offer. In record time, we made a deal with the Hinduja family group and with their aid our victory seemed almost certain; the British had promised the Indian government to sell Ashok only to a reliable partner capable of supplying capital and technology, and among those who qualified in this sense the supremacy of our pairing was undeniable.

Our offer went through as expected: it consisted of 26 million pounds sterling, of which Iveco had to provide 7.8, a trifle. Some latecomers tried to invalidate the auction, but they could no longer do anything: if anything they should have complained about their indolence. In this way Iveco got its hands on a more than respectable Company, which (together with its subsidiary Ennore Foundries) possessed 5 factories with 15,000 employees and sold 16,000 lorries in a market of 55,000, turning over more than 300 billion lire, with profits of over 7 billion.

In the years that followed I wondered if I had been right to bring partners into Ashok.¹⁵ But this was hindsight, and these tardy scruples derived precisely from the initial success of the operation: if things had gone wrong I would have criticized myself for the opposite reason. In those days of 1987 I had taken on a big responsibility in opting for an investment in difficult times, given that my only probative element was the consideration that Ashok ought to be a decent company if it had paid dividends over the years even though it was more attached to the spirit of survival of local management than to any interest they may have had in British shareholders. We had had neither the time nor the opportunity to follow any of the usual procedures for acquisitions (due diligence, business plan, etc.) and we hadn't even visited the factories!

I was very curious to see the factories, products, and men of the new properties when, in December 1987, I flew for the first time to Hosur and Ennore together with the Hinduja brothers, who were known by their initials, S.P. and G.P., as is

¹⁵ The shareholders' agreements ensured many rights for Iveco, including essential ones regarding technology and supplies from Europe, but the relative majority and, with this, control of the company, was in the hands of the Hinduja; Iveco possessed only one third of Ashok Leyland's 51 % (at first, the capital held through the Luxembourg LRLIH finance house was around 40 %, but then I increased that quota to 51 % through acquisitions on the stock exchange to avoid the risk of hostile takeover bids) and therefore a good part of the increase in value that this participation would have registered over the years would have enriched the other shareholders; if one day Iveco should have wished to consolidate its own presence to the point of obtaining the majority it would have had to buy at a dear price a share package whose value it itself had contributed to increasing.

Fig. 6.8 G. Garuzzo visiting a plant in Madras, after the acquisition by Iveco jointly with the Hinduja family of the control of Ashok Leyland



the Indian custom (Fig. 6.8). The factories reminded me of European factories of the Thirties. Traditional and generic machinery, a large workforce but also organization and good management in the British style. As we proceeded on our visit through the assembly lines, we found ourselves at the centre of an unexpected phenomenon. Spontaneously, the workers left their posts and followed us; after a while we had a huge crowd of thousands of people walking behind us in deferential silence, as if ours were a papal visit. I was moved by this sight, and my two Indian partners even more so as they entered the world of industrial manufacturing for the first time.

Iveco in Spain

Iveco's talks with Ford UK were held without sensation and the same held for the initiative in China; the acquisition of Ashok in India went unnoticed, even though this was the result of a public auction; but the case of Enasa, the Spanish owner of the Pegaso lorry brand, sparked off a free-for-all that involved not only the competitors, but also the governments concerned.

On the part of Fiat, even Cesare Romiti took to the field with great determination.

Pegaso's cash flow had been negative since 1979 and the income statement customarily showed major losses: in 1987 they had squandered 12 billion pesetas, equal to 12 % of turnover. Habitually, the money lost was put up by the Spanish government, which for this purpose had earmarked 5 billion pesetas in 1986 and 96 billion in 1988; but in this last case the European Community had stepped in with an ultimatum: it would have waived the rules that prohibited unfair competition through public subsidies on the condition that this would be the last time. The Spanish government had to commit itself formally. The shortcut of making Spanish taxpayers cover its losses having been blocked, Pegaso had either to close down or sell. Luckily for José Claudio Aranzadi Martínez, the Industry Minister, and Jorge Mercader Miró, the Chairman of INI (the Instituto Nacional de Industria

was the Spanish equivalent of IRI in Italy), the European lorry market was going strong in 1989: it was the right moment to look for a buyer.

Structurally, Pegaso was dead and buried; operating almost solely on the domestic market, it was too small to sustain its own product range. A recently announced heavy vehicle, the Troner, was clearly the last of the species, so much so that in order to put it into production Pegaso had been obliged to use the same cabins as its competitor, DAF. Production facilities were immense and unexploited. The Madrid factory, located in Barracas, close to the airport on the big road running westward towards Guadalajara, had been built in the early Fifties along the lines of the grand style of Fiat's Mirafiori factory in Turin, and in the eyes of Spaniards its value was not only spectacular but also symbolic: it was like a flag that flew over the last autonomous bastion of the national automotive industry after the hapless fate that had befallen Seat. But by now it was only an emblem with no substance.¹⁶ Pegaso's attractiveness lay exclusively in its sales network and its market share in Spain, where it still held a respectable 40 % with a strong presence in heavy road vehicles. This was all that remained of the one hundred percent monopoly of the market, when the national industry was protected from imports prior to Spain's entry into the European Community.

Strictly speaking, there was no formal auction for Pegaso but those who wished to, came forward. The Swedish manufacturers Scania and Volvo took part, but the most tenacious suitors were the Germans. I am convinced, immodestly but advisedly, that Iveco's progress, having passed in a short time from a position of chronic weakness to that of a profitable and aggressive player, had alarmed Edzard Reuter and Helmut Werner, who were determined to block any further progress on its part: the heads of Daimler Benz and its subsidiary Mercedes Benz could not accept that their leadership in Europe might be threatened. Appealing to the cohesion of German industrial circles, Mercedes mobilized a supporter, that same MAN which, having been saved from the ambitions of General Motors, had now come within the orbit of the Stuttgart-based manufacturer.

Iveco's position was less cut and dried, and even my own opinion was uncertain. There had been a time when I liked to maintain that the decisions that every manager is called upon to make can be classified in three categories. I defined as the "first kind" those cases in which the decision effectively influences the

¹⁶ All you had to do was go down from the offices on the first floor, lined with dark wainscoting, and visit the interior of the industrial buildings to realize how much they had been reduced to empty sheds: immense spaces in which to assemble a few thousand vehicles a year. The engines still had a minimum of technical validity inherited from the past, but this was destined to disappear with the progressive increase in the sophistication of anti-pollution devices; the factory that produced them was pathetic. The factory in Valladolid was entirely unused but the workforce was untouchable, given the underdevelopment of the area, and no one knew where the crisis was going to lead. Then there were two factories in Barcelona whose condition was less critical, only because they were located in a less depressed area. Personnel, although reduced from the historic peak of 12,000 units, still amounted to 6,000 hands, with a ratio per vehicle produced that no longer made any sense. On the other hand the average age of the workers was high while economic and normative treatment was above European averages.

company's future, in a positive or negative sense. Other problems belong to the "second kind": whatever your decision may be, you do well and the quality of the decision is irrelevant, as long as you move fast. Finally, there are decisions of the "third kind": damned if you do, damned if you don't.

The Pegaso case was of the "third kind". If we had left Spain to the Germans they would have increased the gap in terms of size between us. Commentators of the future would have observed that during my period as head of Iveco I had had the chance to conquer the Iberian peninsula but didn't do so, thus losing it forever. Contrariwise, if Iveco bought Pegaso, the result would not have been only the burdens of acquisition and restructuring. The impact would have been far more serious: Iveco's entire structure in terms of manufacturing locations was involved and, in part, disrupted. In Europe, Iveco owned 21 rather sub-optimized factories.¹⁷ I had only recently started up the SPR programme, which I will deal with later, a project that involved gigantic operations of reallocation and investment. The addition of another four production units made it necessary to change the entire project. It's easy to see how the consequences engendered by the acquisition of Ford Truck in the UK, three years before, had been light and easy to tackle in comparison.

I chose the path of intervention, after much thought and uncertainty. Cesare Romiti immediately took that same path, spurred on by a spirit of revenge for the Seat deal. The big Spanish car builder had grown over the decades as a creature of Fiat Auto: the same products, the same methods, the same organization. Like Simca in France it had been conceived in the period of expansion abroad that the Fiat Group had undertaken in a distant past, in the Fifties, a policy of which traces or memories lingered on pretty much everywhere in my day: in the United States, in Australia, in South Africa, in Turkey, and even in Korea. It would be worth making an academic study of what happened after the first decade of the post-war Italian economic recovery, and to understand why Fiat's thrust towards globalization petered out between the Sixties and Seventies, with the abandonment of many positions won abroad.

Can the cause for this withdrawal be identified in the extraordinary growth of the Italian market of those years, which made it possible to attain enormous production volumes and great profits in the domestic market, thus deviating attention from foreign markets that were far more laborious to tackle? Or can it be traced to the ideological-political attack unleashed as from 1969 against big industry in Italy, an attack that damaged the capacities for initiative previously devoted to expansion? Or was it the gerontocracy in power at the end of Valletta's management that saw any initiative not located in the province of Turin as unattractive? The structural development of big companies is governed by complex parameters and it is possible that all the above-mentioned hypotheses made their contribution to Fiat's implosion towards the domestic market, after promises that had

¹⁷ In France: Bourbon Lancy and Fourchambaud; in Germany Ulm (2) and Weisweil; in Italy Turin (2), Brescia, Piacenza, Milan (2), Luzzara, Modena, Valle Ufita, Bolzano, Vittorio Veneto, Suzzara, Foggia, and Bari; in the UK Langley and Manchester (data from 1990).

been sown in days gone by, and far tougher days at that. Sometimes, I mentally compare the case of Fiat on the foreign market with that of the Nordic peoples who had colonized Greenland since medieval times, only to abandon their colonies and fade into the cold of the Arctic night, losing interest in their own destiny.

In Spain, Ghidella had tried to take the automobile situation in hand once more after years of neglect. He had sent his men to Seat and had suggested the right measures: personnel cuts, efficiency, automation, financial aid... The reaction of the Spanish government, the majority shareholder, was indignant, and this led to a furious row. Fiat was perfectly right but also showed total incapacity in terms of human relations: Romiti-Ghidella were a lethal pair as far as diplomacy was concerned. The outcome was that Fiat's break with Seat was a highly unpleasant one and the firm was bought by Volkswagen; the Spanish granted the Germans everything they had refused to give Ghidella's team, and all over Spain an excessive resentment spread with regard to Fiat and its men, a resentment that was still decidedly present at the time of my talks with Pegaso.

As I have said, the Enasa/Pegaso talks were begun by Volvo in the first half of 1989 and were later pursued with arrogance by Mercedes Benz. We came in late and found ourselves having to regain lost ground. The talks lasted until the end of the year, as the stakes were constantly upped. All the interested parties came to make written offers that brought into play figures of the order of 700 or 800 billion lire, and we offered no less: the result was that the competition boosted the value of a Company that was a black hole in economic, financial, and industrial terms!

At this point political strings began to be pulled. The Swedes, who had the necessary apparatus, set up contacts between monarchs. The Germans used a heavy hand, on the level of the Chancellor and the Minister of Defence. Romiti committed himself personally; for example, he came with me to Spain to meet Aranzadi. Then he tried to get the backing of the Italian government, in the hope that it might exploit the debt of gratitude that bound Felipe Gonzalez to the socialist brotherhood; but, as far as I know, he got nowhere. On the occasion of Aranzadi's visit to Rome, his Italian counterpart made him wait from morning until evening before granting him the planned meeting, arousing his understandable irritation. In a note I made on 11 October 1989, I find:

Romiti called [me] from Rome to tell me that according to Craxi¹⁸ a deal had already been closed [on a political level] between the Spanish and the Germans. But Martelli,¹⁹ who had been down there last week, thinks there is still a possibility. [...] I am drafting a final letter with the long-term prospects; and [I am preparing] my [co-workers] for the worst. By now, the final letter is an act of affection. Probably, whereas I was stone cold about the Pegaso deal at first, I was growing fond of it. And on 17 October:

¹⁸ Translator's note: "Bettino" Craxi was an Italian politician, head of the Italian Socialist Party from 1976 to 1993 and Prime Minister of Italy from 1983 to 1987; after being involved in the "Clean Hands" scandal, he went into exile in Tunisia, where he died in 2000.

¹⁹ Translator's note: Claudio Martelli, at the time Minister of Justice, was one of Craxi's leading collaborators.

Shall we go over the Pegaso Memorandum, that is [the final offer] with Romiti [...] ²⁰? Romiti is still doggedly determined. But he is becoming too haughty, and stubborn about the details, losing the overall view of matters and ruining, or at least neglecting, human relations in the talks. And he no longer listens to analytical considerations about the “atmosphere”.

We lost the tender. On 1 December 1989 the Spanish Council of Ministers assigned Enasa/Pegaso to the concert party made up of Mercedes and MAN.²¹ In my archives, for that date, I found this handwritten note of mine:

Romiti is slipping [...]; he has been high-handed in the negotiations – I mean by laying claim to everything for himself – but with detachment – in other words devoting very little time and attention. And all this against the Germans. And he has lost.

At that time I didn't know that the defeat was one of the biggest strokes of luck I had ever had in my career as a businessman.

Aranzadi's official letter of refusal arrived immediately afterwards. Romiti dictated a sharp reply, full of indignant reproof. I blocked the letter and replaced it with another, most generous one.²² The worst having come to the worst, it was pointless to be offensive, and it was better to seek some merit in a country where we nonetheless intended to sell cars, lorries, and tractors; every good salesman knows, when an order slips through his fingers, that the worst thing he can do is show that he is mad at the customer: another opportunity may always come along.

I had experts in community legislation in Brussels check out the contract with the Germans and the reply was univocal: it was illegal, and the Community could not accept it in the terms in which it had been drawn up. Article 85-1 of

²⁰ On 21 July 1989, in Madrid, I met the men of the Spanish company, accompanied by Clemente Signoroni, then head of Fiat's planning department, and Luigi Michetti, the Fiat representative resident in Spain. Then, so that something would remain in black and white about an operation that concerned a public body, on 7 September 1989 I wrote to Chairman Juan Molina Vivas setting out the general lines of an industrial plan that offered Pegaso a clear and important “mission” within Iveco's pan-European organization. The memorandum of 17 October offered 36 billion pesetas for 80 % of Enasa and committed Iveco to a gigantic industrial project: a long series of promises, including 10,000 heavy lorries, 15,000 engines, and 2,000 tons of foundry work per annum to be produced in Madrid, promises that called for 38 billion pesetas of investment between 1990 and 1994 and guaranteed work for 5,600 persons.

²¹ Sixty percent of the Enasa shares went to MAN and 20 % to Mercedes (INI kept 20 % and bought an 8 % holding in MAN); the two German firms intended to divide burdens and benefits between themselves, but everyone knew that Mercedes was the one leading the dance, as the events that followed were to demonstrate.

²² I wrote a letter to Aranzadi, signed by Romiti: “While I read your letter with some regret, I would like to remind you that in recent months I have often brought to your attention Fiat's interest in the development of your country; in this circumstance, too, I wish to reiterate the fact that our position will not change: our intention is to continue to consider Spain a country deserving of the particular attention and potential [...] of our Group; I am in fact convinced that Fiat possesses all the requisites to give an important contribution to the development of your country”. The letter, dated 4 December 1989, was made public and aroused the most positive resonance in the Spanish press.

the Treaty of Rome explicitly specifies that two competitors cannot make common cause in order to gobble up a third: this was exactly what Mercedes and MAN had done, joining forces to make Pegaso disappear. I sat and waited for the verdict from Brussels, but it soon became clear that in order to block the operation the German anti-cartel office, the *Bundeskartellamt*, would step in beforehand: the Germans could not permit themselves the humiliation of seeing something stopped in Brussels that they had approved on their home ground. Mercedes decided to drop MAN and to take on the initiative entirely by itself, which therefore became a far more onerous operation. In the months that followed, the counterparties discussed the contractual details and, despite absolute confidentiality, the postponement of the signing of the definitive contract led one to believe that something was not going as it should.

In August 1990, I was on holiday in Alaska with my family when, after a day spent rafting in Denali National Park, I received an urgent call: Aranzadi had asked to renew our contacts in great secret. And so a few days later I left the glaciers for a warm summer's day in Paris, where I found myself in the Champs Élysées having lunch in the garden of the restaurant Lasserre with the emissaries of INI, on a covert mission. They brought me up to date on the situation. The secret talks during recent months had resulted in many changes in the conditions of the contract award. The price of the acquisition had been reduced to zero following the collapse of the lorry market, but there was still a commitment to maintain personnel at 5,500 units, as compared to the current 6,000. Then had come the straw that broke the camel's back. Mercedes had asked to cut staff by another 500, in addition to what had previously been agreed. The Germans had overstepped the mark and now the Spanish had had enough, and reacted with all the resentment they had repressed over those months of constantly wounded pride. It was the Seat crisis the other way round. The Spanish emissaries wanted to know if we were still prepared to move in under exactly the same conditions agreed on with Mercedes, with the sole exception of the last request for further staff cuts. I told them I needed a week's time before giving my answer. Then I flew to Mercedes in Stuttgart, together with Giancarlo Boschetti, to meet Helmut Werner and his sales director, Peter Fietzek. I wanted to know which way the wind was blowing.

"My guess is that you're having problems in Spain", I said to Werner. "The word is out that they might bring us back into play". He didn't think so. "If they ever contact us", I said, "I wouldn't want to play the pacemaker and get involved in a new free-for-all".

They were evasive and thus saved me from the risk of some new potential violation of article 85-1.

Two days later, the last Friday of August, I met with Mercader in the countryside near Madrid, in a wooden chalet that looked like a Russian dacha transported to an unlikely place. I was bringing the reply to their question, whether or not we were still willing to close the deal under the new conditions, but before revealing our intentions I wanted to be sure that Mercader had the power to sign the agreement with me, there and then, in the event of my reply being positive.

If we didn't sign right away, I said without mincing my words, they would have called the Germans again and used us as a pacemaker. And even if they had not chosen this tactic deliberately, German political pressure would have been stepped up again and would have obliged the Spanish to go back on their decision. We would have been duped. Losing the same deal twice would have left Fiat looking foolish, not to mention me. I wasn't prepared to play that game.

Mercader professed the utmost good faith, but said that in order to sign he needed a government document that would have required some time to obtain. The talks had begun at nine in the morning and by one in the afternoon we were still at the same point: I was repeating the same concepts over and over again, "Russian style"; my interlocutor was reacting more and more feebly. Then he asked me to stay there and wait for him and he went back to Madrid. Around five in the afternoon they summoned me to the IRI headquarters in the city, where I found the entire staff of the Institute sitting at an enormous table, plus a dozen ministerial advisers. I realized we had won. Mercader, standing, declared that if Iveco were to make a positive decision then he and his associates would commit themselves on their honour to sign with us two days later, the following Monday, as soon as the legal formalities were completed. Was this commitment enough for me? I said it was enough. Big hugs followed all round.

My associates remained in Madrid and over the weekend they prepared the contracts and the administrative checks in the fastest and strangest way the world had ever seen for a deal of such dimensions. Their work consisted of passing on one by one all the documents piled up in some boxes and using correcting fluid to white out the name Mercedes wherever they found it and replacing that with the name Iveco. The following Monday the agreement was definitively signed.

On Wednesday the German delegation sent to sign the contract arrived in Madrid only to be informed that the wedding ceremony had already been held two days previously with another suitor. I would have liked to have been a fly on the wall on that occasion. They told me that the German ambassador had exploded, with a lapse of style that was worlds apart from the grace we had shown the previous December. A long time after, Edzard Reuter, the head of Daimler-Benz, told me that Helmut Werner, his associate and head of Mercedes was furious with me. In fact, after that case our relations were no longer as good as they had been in the past even when we met at the Motor Vehicle Manufacturers Association, although both of us took great care to keep up appearances.

A few months later, I was nominated COO of Fiat and I left the executive management of Iveco, of which I remained Chairman, and the task of integrating Pegaso fell to Giancarlo Boschetti. As in the case of Iveco Ford, the central staff of the Company also stepped in immediately in the case of Iveco Pegaso, but their job proved to be a tough one. The cyclical crisis afflicting the market that raged in the early Nineties made everything so much harder.

Again years later Gianni Agnelli asked me: "How much did Pegaso cost us?", and then "Did we do well to buy it?"

Fig. 6.9 In 1994, G. Agnelli, G. Garuzzo and the local *dirigenti* accompany King Juan Carlos of Spain on a visit to the Pegaso factory in Madrid, following the acquisition by Iveco in 1990



It was easy for me to reply to the first question, giving the price of about 1,100 or 1,200 billion lire.²³ As for the other, I tried to explain my theory about decisions of the “third kind”, the ones where no matter what you do you get it wrong²⁴ (Fig. 6.9).

Iveco and the Extinction of European Manufacturers

Iveco’s research centre had counted 51 lorry manufacturers active in 1961, a number reduced to 15 by 1985. I maintained, nonetheless, that the European lorry industry would soon go through a period of transformation. It did not require a great deal of knowledge to foresee this. The market was cyclical, with fluctuations in demand in the order of 50 %. By definition, the customers travelled, and so they constantly exchanged information on the performance and prices of their vehicles. Among themselves, lorry drivers love to talk about two topics above all, when they meet at truck stops: women and engines. If a product is of poor quality all the interested parties come to know about it in the blink of an eye: there is no way a manufacturer can conceal mediocrity. (As for the first topic, it is not pertinent here.) Then, in the Eighties, haulage contractors began to merge with one

²³ Most of the cost derived from initial running losses and so almost half was recouped by tax savings in Italy, without counting residual tax credits in Spain. Not considering fiscal benefits, the final balance of the Pegaso operation was as follows (in millions of lire): payment for the acquisition: zero; initial indebtedness: –380; losses over the three-year period 1991–1993: –1,036; reimbursements from INI: +287; others: –40; total: –1,173.

²⁴ The role of the critic of the initiative was later played by Boschetti, who stated several times, even in far-off 1997, to the “Financial Times”, that “he had said” that the deal was to be avoided: I do not know the reason for this stance taken so far ahead of time. In fact, one day in August 1990 Romiti had asked Boschetti point blank: “Would you buy Pegaso?”, and he had replied: “No!”. But this was the sole manifestation of refusal on his part after all his participation in the talks; I had interpreted it as caution with regard to the future, given that Romiti and I were already completely committed in a positive sense.

another even in different countries, and large fleets came into being: bodies that bought hundreds or thousands of vehicles every year and whose buying power was extremely strong. It was no surprise, therefore, that after every dip in the cycle of demand some manufacturer went to the wall.

The Fiat Group, through Iveco, contributed a lot to rationalization. In the Sixties, it had put together Unic, Magirus, and the three Italian companies I have already dealt with (Fiat, Lancia V.I., and OM). In my day, as well as the acquisition of Ford UK and Pegaso, it was necessary to take into account the effect of our initiatives on British competitors. In addition, two minor manufacturers entered Iveco's orbit: the British concern Seddon Atkinson and Astra, whose headquarters were in Piacenza.

During the period of my management the number of European manufacturers was halved, slipping from 15 to 8.²⁵ As can be seen, the trend towards concentration began in the lorry sector far before many others, and this happened because of the precocious opening up of the markets and the mobility of the vehicles and their users. The Fiat Group took the lion's share at the cost of an immense effort outside Italy. And it is precisely this effort that I have tried to outline through the account of initiatives undertaken, also because the acquisitions were made possible by a day-to-day management commitment of which it is almost impossible to convey a precise idea, as always happens when you have to describe painstaking, serious, ongoing work done by thousands of people day after day.²⁶

A New Iveco

Finally the time came to renew products and factories in their entirety. It is not easy to describe the Standard Product Range (SPR), the line of products and factory innovation that replaced everything that had existed previously in Iveco.

Imagine you own a dozen companies located in six different European nations, each with its own history that goes back a long way, in some cases as far as the 19th century. You possess the same number of products, some good and others weakened by the passing of time. You want to integrate these companies, merge them into a single, large, competitive one able to take advantage of economies of

²⁵ The 15 producers of industrial vehicles in Europe in 1984 were the following. With a complete range and wide geographical coverage: Mercedes and Iveco. Only top of the range and wide geographical coverage: Volvo and Scania. With a complete range and local geographical coverage: Renault, Leyland, Pegaso, Ford, and General Motors (Bedford). Only top of the range and local geographical coverage: MAN and DAF. Marginal or local producers: Astra, ERF, Foden (Paccar) and Seddon Atkinson. Pegaso, Ford, Astra, and Seddon Atkinson were absorbed by Iveco. Bedford was closed down, DAF merged with Leyland and both failed. The survivors, therefore, numbered eight.

²⁶ In that period I also attempted to set up a collaboration with a Japanese industry, Nissan Diesel, in preparation for some future developments in the very long term.

scale. You realize immediately that you need to make a completely new range of products, not to add them to the previous range so as to have an extra one, but to scrap all the old lines and keep a single modern one.

Now imagine that the range is made up of many models that go, say, from 6 tons of overall weight all the way up to the maximum permitted by the rules of the road, in other words lorries weighing 24 tons or tractors that pull 44 tons or heavy vehicles used in quarries or building sites that can weigh as much as 56 tons. You are obliged to look for standardizations, in other words to create similar components for all the models.

But you find yourself on the horns of a dilemma. If you use few pieces common to the different models, you will end up with few volumes to be produced per each piece and you won't save much. On the contrary, if there are too many components in common each piece will have to be utilized for many different performance requirements and small vehicles will come to weigh and cost like big ones, with the result that no one will buy them. So: you have to mediate between standardization, which procures large volumes, and specialization, which optimizes every model in itself; you need to look for the best possible compromise, not an easy matter, which requires in-depth analysis and competence. Every lorry has in its guts a half dozen complicated organs that I used to call macro-components.²⁷ In order to equip all the models in the range you need whole families of macro-components, with many members able to cover all the needs of size, power, torque and so on, arranged in scale from large to small like children in photographs of the numerous families of the early 20th century.

In order to save on investments and costs, you need to be able to use the same production machinery, in other words it is necessary to make every plant capable of producing every member of its own family, large or small as it may be. Components must therefore have the same shape while only their size varies, as if seen through a zoom lens, a characteristic known in Iveco as "homotheticity". Obviously, none of the macro-components of the past can be salvaged: homothetics means that everything must be redesigned all together because the shape of every member of the family must descend from a single archetype, like the image of a Platonic idea.

If the task is to be completed, you have to renew production machinery, but our ten companies possess a score of factories accustomed from the start to constructing macro-components in-house. Maybe badly, but everyone does a bit of everything, and enjoys doing so. In the new industrial philosophy it is unthinkable to multiply investments and you need to assign to every factory a unique responsibility, a "mission" that holds good for the entire Group in Europe. There are no more generalist manufacturers who make a bit of everything, but specialists who do only one thing and do it well. This is the only way to save; but by doing this you wipe out a part of the activities considered to be the historical prerogative of the

²⁷ For personal convenience, I classified the macro-components of a lorry in seven families: cabins, chassis, engines, gearboxes, front and rear axles, 4 × 4 torque converters.

various local companies. Many professional skills are no longer of any use. Many technicians and managers are made redundant. Many prerogatives of regional pride are destroyed. The unions rebel.²⁸ Management must stick to its guns and press on: the trade union religion defends tradition, the past, the status quo; it is up to the managers to defend the competitiveness of the factories. After the ritual protests, the unions understand and, if they are as they should be, they fall into line and collaborate. What else can they do?

But the factories are located in six different European countries! It doesn't matter: you need to carry on all the same as if a united Europe existed, even though to move a design or a component from one country to another you have to make out an invoice and change the currency and put up with thousands of other iniquitous taxes invented by imaginative bureaucrats and preserved in the heritage of every nation state, even though you are caught in the middle not only of local pride but even patriotism, and even though it's hard to make yourself understood amid the Babel of languages as well as company and fiscal regulations.

It is obvious that by renewing factories and machinery you try to do so in the most modern way possible: there wasn't to be another SPR for a few generations to come. This realization leads to accepting risks on a technical level. But if you exceed in modernization and make mistakes, the penalties to pay are enormous because there are no more watertight compartments, each one independent of the other, with which to save the ship. If you get things wrong, the entire production of the entire Company will sink like a stone. Production technologies pose epoch-making questions: in what direction will automation develop and to what extent should new factories apply it? Production flexibility is expensive: what is the correct amount that will make it possible to follow cyclical market fluctuations, and to make variations in production among the members of every homothetic family?

These and many others were the problems facing management in the structural morass that went by the name SPR. A gigantic but fascinating tangle, whose resolution represented the most delightful moment in my entire career as an engineer.

Five Years and Five Thousand Billion Lire Later

The name SPR had already been coined when I arrived in Iveco in 1984, but that name was all there was. In those days Iveco had neither the money nor the organization or the spirit to get involved in such a programme. It didn't take long for me

²⁸ For example: with the SPR the Brescia factory become Iveco's most important production site for cabins, chassis, and assembly anywhere in the world, chock-full of work and at the technological cutting edge; yet the local trade unions protested because they were losing a decrepit and inefficient department that produced gearboxes; the slogan was: "they want to 'rob' Brescia of mechanical manufacturing!" Alas, the problem of slogans, how much damage has been done by replacing reasoning with slogans, and by reasoning *with* slogans.

to realize the nature of the situation, thanks to my past experience: for seven years, between 1964 and 1971, when I worked for General Electric and Honeywell, I had conceived major projects and got them into production. Experience had taught me that it was very easy to underestimate the timing and resources, human and economic, necessary for the development of a systemic project of the dimensions of SPR, even with colossal proportional errors. I decided to put the grand project on hold, until better times came along. I left the preparation of a theoretical basis for the future in the hands of a small group of systems scientists, a half dozen people who, well led by Felice Cantarocco, calmly worked on defining a conceptual model. In the meantime, the management team sought state financing for planning and design (from the law for the promotion of innovation that Romiti had championed and obtained). For my part, I also wrote a preliminary outline in which I explained the “reference targets”. But, basically, SPR remained in hibernation for three or four years.

The sign that we were ready for the SPR effort came to me following the annulment of Iveco’s financial debt. I did a few sums and realized that we were in a position to find the 5,000 billion lire or so that I held was required for the programme over five years, most of which was to be self-financed with sustainable loans to cover the remainder. The year in which the SPR project started can be considered 1988. On 8 and 9 July that year, in the usual conference centre in Marentino, I asked all the interested parties to come and take part in a detailed analysis of the related technical and economic problems. I dubbed this analysis the Program Review, and it was the first of many to follow. Shortly afterwards, on 6 September 1988, I set up the Program Office, which was to co-ordinate the efforts of the entire programme.

Some may imagine that enabling the set-up of a programme of such dimensions, destined to affect Iveco’s fortunes well into the 21st century, would have required in-depth analyses and discussions with the Holding Company. But this was not so. At that time, the sole manifestation of Fiat Holding in the industrial field was expressed in a formal letter, written by Cesare Romiti’s staff and signed by him, which arrived around 15 or 20 February every year and contained some objectives of the Sector only for the year that had already begun, by which time it was impossible to change almost anything for the year in question. My letter for that year duly arrived, but it wasn’t enough for me. I wanted the Holding Company and Romiti to be involved in the macro-project in the long term. This did not serve to protect me from any accusations of bad management in the future but it did have a didactic purpose: I wanted the Group to understand the importance of the Industrial Vehicles Sector within its own portfolio of products and to give a little thought to its problems, distinguishing them from those of the Auto Sector. Lorries, as for that matter agricultural tractors and other Fiat products, were always considered by Gianni Agnelli to be less noble than the motor car. This was not a matter of an opinion based on sales volumes (car turnover was roughly three times greater than that of lorries), but of a judgement that derived from considerations of power and image, and this judgement, or prejudice, imbued the Holding Company in its entirety: at that time and afterwards it was

not allowed to admit that, in its sector, Iveco was far bigger, more competitive, international and profitable than Fiat Auto was in its own.

I pursued my propaganda campaign obliging Romiti and all the principal *dirigenti* in Corso Marconi to spend an entire Saturday in autumn 1988 in a room in the Marentino conference centre, where I subjected them to a massive dose of charts presented by the vice president of Iveco who illustrated the SPR from all points of view: technical, commercial, ecological, ergonomical, and so on. Almost five years later, at an Iveco Board Meeting held in Munich on 21 May 1993,²⁹ I was able to announce the end of the programme³⁰:

The basic objective of the Long Term Industrial Plan (1988-1992) was to enhance Iveco's competitiveness by developing a new modular product line from 6-tonne G.V.W. (Gross Vehicle Weight) upwards so as to take advantage of the large volume of Iveco's sales across the full range. The new product [...] is now fully available on the market. [...] The first step in the announcement of the SPR was taken in April 1991, when the new Medium Range vehicles from 6- to 10-tonne GVW were launched with the commercial name of "EuroCargo". In October 1991, the EuroCargo Medium range was extended to 12-15 tonne GVW vehicles. During 1992, the new announcements concerned the "EuroTech" Heavy on-Road vehicles, the 17.5-tonne Medium-Heavy models and the "EuroClass" bus and coach version. The SPR has now been completed with the Heavy on-Road range called "EuroStar" and the Heavy off-Road range called "EuroTrakker", launched on May 6 and 7, 1993.

A description of the product, the factories, and the reasons behind the SPR would require at least the equivalent of a whole day spent in the Marentino conference centre, and so I won't go into this any further here.

How to Judge the Standard Product Range?

The trade names of the new models had been derived from those of the most successful products of the previous years, but to all of them I had added the common prefix Euro in order to convey the unitary nature of the range. I was convinced that Iveco had every right to boast a brand name connected with a supranational idea, given the supranational character of its designs and production.³¹

Personally, I took pride in the fact that I found a remarkable correspondence between actual figures and forecasts, after a five-year lapse of time (plus the

²⁹ I was now Chairman of the Board and Giancarlo Boschetti was the CEO; almost all the board members had remained in their posts for the duration of the development of the SPR.

³⁰ English as in the original report to the Board.

³¹ The name EuroStar, assigned to the most important vehicle, had other admirers. In Iveco I chose it in order to associate the prefix Euro with the memory of the TurboStar, which had been a symbol of rebirth in 1984 and had enjoyed commercial success (overall, more than 60,000 units were produced). Shortly after registering the name, I received a letter from the chairman of the consortium for the Channel Tunnel in which he asked me if he might use the same name for the train destined to connect Paris and London. Subsequently, the Italian railways also used the name, but I don't know if they asked anyone's permission.

acquisition of Pegaso). The final balance showed that investments in fixed assets were (in lire) 2,616 billion as against the 2,965 forecast. R&D had cost 1,553 billion as against the 1,634 forecast. To sum up, instead of 4,988 billion in investments, R&D, set-up and training, we got the job done with 4,895 billion.

The sum served to pay (on average) 2,267 technicians employed for the entire five-year period, especially in Italy and Germany, without counting the large apportionments in the world of suppliers and consultants. I don't think anyone doubts the social importance of innovation, but seeing it work concretely on a grand scale was not something that left me indifferent.

Iveco launched the programme in 1988, with 122 billion lire of credit in the bank, and ended it in 1992, with a debt of 1,226 billion. Not bad, all things considered.

It would be interesting to draw some conclusions on the overall range and complexity of the project, but I do not possess sufficient elements regarding what happened afterwards, and so I would not be the right person to judge. I don't think that anyone can doubt that the SPR product, or something similar, was indispensable if Iveco was to become a unitary company (with respect to its multifarious historic components) and a modern one (in comparison with the product range offered by the competition). I also believe that it was impossible not to tackle the problem in its entirety, involving not just the product but also the factories. Any doubts can regard only one particular aspect or another.

In 1988, Iveco was earning a lot, and I knew it would earn even more for a few years to come, until the beginning of the inversion of the market cycle (which in fact arrived between June and October of 1990). If all that money had ended up in Fiat Holding how would it have been used? There were two probable alternatives: either it would have gone to the auto sector, where Iveco's contribution, generous as it may have been, would have been marginal in the great cauldron of that business; or it would have gone into some extemporaneous initiative: construction, large-scale retailing, or goodness knows what other disorganized use that the fertile imagination of Romiti and his advisers might have dreamed up... So wasn't it better to utilize the largest possible part of the resources it generated for the lorry sector? At least I would have known where and how the money ended up. I also felt I had done well by the final shareholders, those of IFI and the Stock Exchange: not only did I ensure that Iveco paid good dividends, but I also made certain that they would have owned a competitive Company whose value would grow steadily over the years. I had this profound conviction when I made the most important and costly decisions for the SPR. I haven't the slightest proof, but I believe that the same state of mind influenced Vittorio Ghidella when he decided on the investments for the factories at Cassino and Termoli. As I have already said several times, in Fiat there was no serious process regarding the allocation of financial resources to the various products and markets, represented by the respective Sectors. Nor did there exist any yardstick for the return on investments, far less a strategy based on considerations of the profitability of the capital invested. Decisions, even those of macroscopic, epoch-making dimensions, were left to the Sector Head, a personage

Table 6.1 Competitive situation in Europe for the lorry market (full range above 3.5 ton gross vehicle weight, 1984–1990)

		1984 (%)	1987 (%)	1990 (%)
1.	Mercedes Benz	23.2	22.2	22.8
2.	Iveco	16.4	20.0	22.0
	+Fiat auto (Ducato)	0.1	2.2	1.5
	= total Fiat group	16.5	22.2	23.5
3.	Renault Véhicules industriels	11.9	11.0	11.9
4.	DAF (+British Leyland)	3.4	7.6	7.5
5.	MAN (+Steyr)	6.3	4.7	5.8
6.	Volvo	6.1	6.4	5.6
7.	Scania	4.3	4.6	4.1

who wielded a power so great in his own territory that it justified the analogy with feudal power I suggested previously.³² And I, as a feudatory, intended to leave an illustrious and lasting memory.

Seven Years with Iveco: Profits and Market Shares

The year 1990 marked the end of an important phase in my professional life. After almost seven years spent at the helm of Iveco it was possible to make a precise judgement regarding what my team and I had managed to build. When I analysed the progress we had made and compared it to the ruthless analysis I had made before my colleagues assembled for the first time at Marentino in 1985, I felt rather proud of the results. Iveco was the company that had grown most in Europe: its overall market share had increased by one third compared to the starting point.³³

The Fiat Group not only could boast Iveco's absolute second place, but could even have maintained that it had surpassed Mercedes Benz if it had added Iveco's figures to those of Fiat Auto, which contributed to light 3.5-ton vehicles with the top-of-the-range Fiat Ducato model. I never revealed these figures publicly, to avoid any provocation triggering a price war with the Germans for the title of the continent's leading producer: I remembered all too well the battles for the conquest of France I had had to remedy in some fashion seven years before (see Table 6.1).

³² As I have already mentioned, the Sector Head received a simulacrum of *Management by Objectives* (MBO) based almost exclusively on an objective of annual profitability and indebtedness. The objective was "negotiated" starting from the actual accounts of the previous year, without any comparison either with the investments made or with the competition or with the market. The Sector Heads immediately learned how to "negotiate" by constantly lowering their offers because their incentive was conditioned by the outcome of such talks and not by the effective result of their Sector, which in the year of validity of MBO was in fact already set.

³³ I provide some tables of recapitulation in Document 4 in Chap. 14.

Even in the heavy vehicles sector, in which we had had our first competitive product with the TurboStar only in 1984, our position was by now of major importance.

After the Iveco Ford initiative in the United Kingdom and Pegaso in Spain, our presence was balanced in every European country. We had not grown in Germany but had maintained our market share even after unification with the East.³⁴ In Italy we had finally stopped the erosion that dated from the time of Iveco's establishment in the mid Seventies, successfully maintaining a most important market share.

Our reputation had picked up enormously; the times in which Iveco was considered the sick man of Europe and in which the financial press wondered about its imminent demise now seemed as if relegated to prehistory. "Catalyst in European market", was how Kevin Done defined us in the "Financial Times" on 16 November 1989. I had predicted to Cesare Romiti that I was a lucky man, and I was as good as my word: in the second half of the Eighties the European lorry market was going through a period of steady growth.³⁵ Obviously, Iveco's sales increased more than the market average because of acquisitions and improvements in market share.

All in all, Iveco's results were affected by four beneficial aspects each of which mutually reinforced the other: the managerial improvements that were applied to every area of the company's activities, acquisitions, the disappearance of some competitors, and the growth in European demand. In 1989 we earned almost 600 billion lire (which would have been nearly 1,000 if we had not wisely accounted future costs for the SPR).³⁶

Our indebtedness, which had rapidly diminished, remained low despite investments and despite that fact that, in the end, Iveco paid good dividends to its own shareholder, the Fiat Holding company.

From the start of my mandate and for a long time after, we were forced to make staff cuts in every country and at all levels, from managers to workers. Just when I thought the end of restructuring was nigh, I had to begin again on account of the

³⁴ We intervened very promptly in East Germany immediately after the fall of the Wall. The Potsdam dealership was the first initiative of its kind and the birth of a private company was a novelty that assumed political and symbolic importance, so much so that the inauguration (1990) was attended by the Transport Minister, the mayor and, from the West, a swarm of journalists and photographers (Fig. 6.10). The ceremony had the rural flavour of days gone by: roast game turning on spits, pub tables with chequered table cloths, girls in regional costume. "Remember this day" count Lambsdorff said to me. He was the former Economics Minister and chairman of the Liberal Party. He added: "It's the end of an era: if you come back in a few years you'll find hostesses in miniskirts". I had great esteem for Otto Graf von Lambsdorff, who in 1985 I had nominated chairman of the *Aufsichtsrat* of Iveco Magirus, where he replaced Liebe of the KHD, and I also brought him onto the Board of Iveco N.V. His image was highly beneficial and his grit and competence helped us on several occasions.

³⁵ Some analytical data are found in Document 5 in Chap. 14. I knew perfectly well that the crisis would have come along sooner or later. Historically, the cycle repeated itself roughly every five years, and you had to be prepared for the inevitable. The inversion of the trend arrived punctually in mid 1990, as I shall say later.

³⁶ See Document 4 in Chap. 14.



Fig. 6.10 The Iveco dealership in Potsdam was the first private company to set up in the East Berlin area after the fall of the Wall: it was inaugurated in 1990 with solemnity by the East German minister of transport, by the mayor and by count Lamsdorf (Chairman of Iveco Magirus and former economy minister and chairman of the liberal party), in the photo with G. Garuzzo (*right*) and W. Keller (*left*)

arrival of newly acquired companies. And, every time, the number of lorries sold pro capite increased; a rough and ready yardstick of productivity, but an efficacious one. When the market picked up again as from 1987, it was finally possible to start hiring once more, to my great relief. I employed lots of young people: 2,400 in 1987, 4,100 in 1988, and a few thousand more in 1989. Their number included many newly-graduated persons, some of whom I hoped would go on to become leaders in the new century: 248 people, half of them Italian and the rest from the various nationalities that made up Iveco. As well as knowing English, all were expected to speak Italian or had to be prepared to learn it as soon as possible. This rule served to facilitate communications within the group but was also intended to be a test of the psychology of the non-Italian candidates: a foreigner had to really appreciate our country in order to commit himself to such an onerous task, and things worked as foreseen (except for the English, who seldom managed to express themselves decently in a language that wasn't their own...).

Seven Years of Iveco: The International Experience

In that period Iveco really became a company with pan-European connotations (Fig. 6.11).

Iveco's central management became involved in the industrial themes of every major European country including industrial, social, and trade union aspects, unlike what was happening in many Fiat sectors, especially Fiat Auto, which operated in accordance with a markedly Italian logic. This "diversity" created friction between me and the staff in Corso Marconi, whose attitude was often terribly provincial,



Fig. 6.11 In the UK, another domestic market for Iveco and, later, New Holland, the Fiat group became the country's biggest industrial exporter that was not British owned. This role allowed a Fiat representative (M. Carello) to gain entrance to the CBI (Confederation of British Industry). In the photo, G. Garuzzo and his wife at Buckingham Palace, with Princess Anne and Jackie Stewart (1990)

and also led to a few involuntarily ironic turns. Sometimes, for example, I was summoned along with the other Sector Heads to the central meetings of the Holding Company, during which they presented statistical data on currencies and on the international macro-economic parameters culled from the press of the official bulletins of the Central Bank. The Head of Economic Studies (a person often destined to enjoy a brilliant career elsewhere, as was the case with Davide Croff and Franco Bernabé³⁷), tended to assume a professorial attitude, as if revealing arcane truths to ignorant listeners. My colleagues and I spent our days immersed in the real problems of the international economy. No one was as aware of the economic situation as our clients the haulage contractors, and the direct management of the factories in Europe and elsewhere obliged Iveco to deal on a day-to-day basis with the effective condition of the world's most important economies. Without any fear of committing the sin of presumption, I thought that the information in our possession, true and extremely up to date, would have been very useful to the office of Economic Studies and even to the Central Bank. In reality, the meetings in Corso Marconi served to allow Cesare Romiti to show Gianni Agnelli (by then an assiduous participant) that Fiat was paying attention to the macro-economy: it mattered little that it was a question of concepts that anyone could read in every financial daily every morning.

For me, one agreeable part of the international experience gained in my time with Iveco came from the industrial and economic milieu of Germany, a milieu that was

³⁷ Translator's note: the former became *amministratore delegato* of the Banca Nazionale del Lavoro and the latter Chairman and CEO of Telecom Italia.

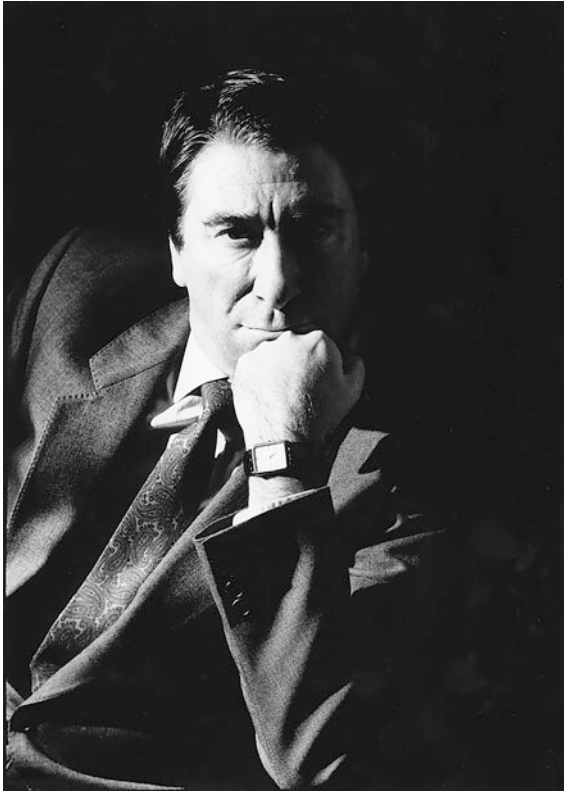


Fig. 6.12 Iveco's performance was appreciated above all in Germany, where the publication "Industriemagazin" devoted an extensive article to the success of Mercedes' major competitor in the lorry field (December 1986). Such shows of interest in specific managers were not looked on kindly in Fiat unless they concerned G. Agnelli or C. Romiti and were totally suppressed after the dismissal of V. Ghidella (1988), accused of having carved out excessive space in the media. On account of Iveco's international development and, later, of New Holland, G. Garuzzo became better known abroad than in Italy, and this fact emerged in the phases of the judicial inquiries of 1993 (see [Chap. 9](#)) and his dismissal from Fiat in 1996 (see [Chap. 12](#)). (Photo by Antonin Kratochvil for Industriemagazin)

inscrutable from the outside. That world, lived from within, was a revelation for me, and I had due admiration for it (Fig. 6.12). The social organs of companies, with their two levels: namely the Supervisory Board (*Aufsichsrat*) and the Management Board (*Vorstand*), fulfilled their purpose wonderfully. The board meetings were attended actively by all the members of the *Vorstand*, in other words the heads of the main company functions, and then the members of the *Aufsichsrat* could make a personal judgement about each one of them. The consequence that derived from this was an integration and mobility of managers that gradually became a part of a very close-knit elite on a national level. I could not fail to notice the difference with the secretive and superficial Board Meetings held in many Italian companies.

It was very interesting for me to watch the trade unions at work. The councillors nominated by the union in the *Aufsichtsrat* were equal in number to those nominated by management; it was foreseen that in the event of a deadlock that the Chairman, who was nominated by the shareholders, would have a deciding vote, but clashes never got to such an excessive point. Instead, people worked in a climate of mediation behind the scenes that could exist only in a country with oligarchic leanings such as Germany. In its turn, mediation contributed to increasing the degree of cohesion, in a process of reinforcement that permeated industry as a whole. This was not a matter of irrelevant subtleties. For example, the presence of the union on the Board made it possible to favour orders of national origin even in the absence of any protectionist regulations. No member of the *Vorstand* would have had the courage to boast to the trade union members that they had made savings by transferring the purchase of components or services to alternative foreign sources; the unionists, who also sat on the *Aufsichtsrat* of the abandoned German supplier, played a determinant role when it came to his salary and career³⁸! This practice allowed Germany to present itself on a European level as the champion of absolute economic liberalism, unlike countries presumed to be “protectionist” such as France or Italy, with the certainty of not risking an excess of imports.

Collective work contracts were negotiated on a *Land* level following talks with the unions that sometimes seemed to take on very tough tones; in reality everything was agreed on from the start; the conclusion came at the right time and everyone fell into line without protesting, even in those cases in which mistakes were made.

The *Aufsichtsrat* meetings were held amid an aura of dignity and rituality that gave participants the feeling they were performing a primary duty, highlighting the social importance of the individual who had been called to play that role.³⁹

Two examples can give the sense of the practical *modus operandi* of co-management in the German manner. The most tenacious supporter of the salary increase for the head of Iveco Magirus, Wolfgang Keller, was the union representative Hans Rieger, whom I opposed in order to avoid binding the German union to the treatment of a man who was part of the central (and supranational) nucleus of Iveco. “If he decided to leave us” Rieger told me, “we would all be seriously damaged. He has to receive a suitable remuneration, corresponding to the standards of our country for a man in his position”. And the standards of the country were more than respectable.

³⁸ Informal, secret but highly efficient protectionism caused some damage in the very long term; for example, Piech, the chief of Volkswagen, had to turn to the Spaniard Ignacio Lopez to lower the price of components, and this was so unusual that it made news in the press. My decision to introduce a foreigner, the Italian Alessio Lucca, in the Iveco Magirus *Vorstand* to oversee the acquisitions of the German firm, which happened long before Piech’s innovation, was revolutionary to the verge of provocation; the local managers suffered terribly.

³⁹ The efficiency of form: the highly experienced, tough Italian manager, whom I mention in the previous note, was moved to tears in the course of the ceremony for his admission into the *Vorstand* while, standing in front of the ranks of Board members, he listened as Chairman Otto von Lambsdorff read out the details of his past achievements.

Iveco had a good head of Employee Relations, a member of the *Vorstand*. One day, a bigger company asked me if they could hire him. Lambsdorff told me that, according to German practice, such decisions were made within the establishment of which the union was a part. It was unthinkable that someone would oppose this, nor did I do so, in compliance with local customs. But I found it extraordinary that heads of Employee Relations could do their job in the knowledge that their future careers were conditioned by the attitudes of trade union members.

The unionists of Ulm, headed by Hans Rieger, gave me a farewell gift when I left my direct role in Iveco at the end of 1990: a stone sparrow with a twig in its beak, the symbol of the city.⁴⁰ Bearing in mind the way in which Fiat dispensed with my services a few years later, that remained the only token of farewell I was to receive from Iveco in commemoration of seven years spent as the head of the Company.

Ecology and Business

The lorry is a very sophisticated technical product. It is a machine tool that serves to generate income for haulage contractors. All the many innovations conceived for the motor car in the Seventies and Eighties were also applied to industrial vehicles.⁴¹ In that sector, such innovations often found a use even more congenial to their own characteristics; as a consequence, vehicle performance made giant steps forward from all points of view. Many other innovations were developed specifically for heavy road vehicles.⁴² In those years Iveco played its role in this field very well, and this aspect of the job was a source of real pleasure for me. I am sorry to be unable to dwell any longer on this delightful topic and I limit myself to telling the curious story of the genesis of the “Euro” anti-pollution regulations.

The events of the Eighties had led to the domination of the European lorry market on the part of four marques: two with a complete range (Iveco and Mercedes) and two specialized in heavy vehicles (Scania and Volvo). Despite tough competition in

⁴⁰ According to the legend, when they built the city walls of Ulm, the inhabitants could not pass through the narrow walls carrying the bundles of wood gathered in the nearby forests; they understood how to do it only when they saw a sparrow which put a twig in its nest by turning it lengthwise.

⁴¹ From the turbo charger to the intercooler, from the ABS to anti-skid systems, from plastic materials to electrophoresis (sheet metal protection), from electronic control modules to climate control systems.

⁴² Variable geometry turbochargers, waste gates, retarders (engine brakes), gearboxes with twelve or sixteen gears, single-reduction rear axles, pre-heating systems, pneumatic suspensions, the generalized use of aluminium components, air-cushion seats that are adjustable in every situation (the driving seat of a lorry costs as much as the engine of a compact car).

the markets, among the heads of the four companies⁴³ there had been established a climate of mutual respect that often led us to compare notes on topics of a general character. One of these was ecology, and I never tired of telling my colleagues that we ought to make every possible effort to reduce the atmospheric pollution caused by our vehicles. Obviously, this concerned people's health, those people that we and our families were also a part of, but it was also necessary to prevent public opinion becoming hostile to us, and rightly so, had we resisted improvements. I was well aware of the criticisms directed at Ghidella in Europe when he had delayed the introduction of catalytic converters in Italy, a regulation that penalized the Fiat Auto range, entirely oriented towards lower dimensions. Iveco, luckily, had a balanced market share in all parts of its range, in line with the foremost competitors; following the success of the TurboStar, the acquisition of Pegaso and the SPR had reinforced heavy vehicles, which had once been our area of weakness. According to me, we should have been the ones ahead of the times, to take our courage in both hands, and propose some very ambitious regulations. And this was a matter of pure business: the weaker competitors were not in a condition to develop such sophisticated engines and had to get out of the market or depend on the major players. In order to recoup the enormous costs that had to be met, we could still have fallen back on price increases, but without changing the relative balance of power by doing so.

The four of us soon reached an agreement, and the European Union commissioner Martin Bangemann was more than happy to go along with our un hoped-for offer. After a little playacting to prepare public opinion, he "imposed" the regulations we ourselves had worked out,⁴⁴ with the bureaucratic names "Euro 1" and "Euro 2". This was not mere hot air⁴⁵: Iveco was taking a big risk, because design heads Filippi and Biaggini were faced with no mean task if they were to bring our decades-old engines up to that level. But I was sure that they would get it done in time. And I was also sure that with those regulations our old engines would have come to the end of the line.⁴⁶

⁴³ Helmut Werner (Mercedes), Steve Langenius (Volvo) and Lev Oestling (Scania).

⁴⁴ The norm 91/542 was approved by the Environment Council on 18 March 1991.

⁴⁵ In particular for Euro 2 with CO limits at 4.0 g/kWh, HC at 1.1, NOx at 7.0 and particulates at 0.15.

⁴⁶ Then and later (as Chairman of the European Manufacturers' Association) I spent a lot of time trying to impose a reduction in the level of sulphur in diesel fuel, but the oil lobby put up total resistance and I got nowhere.

Chapter 7

Ghidella is Kicked Out of Fiat Auto and Garuzzo Conquers New Holland (1989–1990)

Ghidella is Fired

The second half of the Eighties was an excellent period for the Fiat Group's consolidated accounts. The most dramatic problems (including, above all, those of Fiat Auto and Iveco) seemed solved or about to be solved thanks to the work of the feudatories of that time, or, metaphors aside, thanks the work of the generation of managers who had been identified at the turn of the previous decade. Even though they had not contributed directly to industrial results, Gianni Agnelli and Cesare Romiti could boast the gigantic historic merit of having chosen those men and letting them work in peace. If Cesare Romiti had given up his responsibilities in 1988, on reaching sixty-five, as happens to all chief executives in all modern broad-based shareholding companies, he would have retired with great glory and would have avoided going through, and making the Group go through, some unpleasant moments. Instead, while I was up to my neck in recovering and relaunching Iveco, there unfolded the drama of Vittorio Ghidella, an event that was to influence the destiny of Fiat and also my own professional life a few years later.

After Ghidella's dismissal, the press made a legend of his work in tones that were clearly anti-Fiat and anti-Romiti, and the latter took it out on his own press office, then headed by Nicoletto, for having promoted the image of the head of Fiat Auto too much.¹ In reality, Ghidella had breathed new life into Fiat's reputation in almost ten years of work. Not only did he lead the construction of successful products like the Fiat Uno, the Lancia Thema, and the Fire engine, but he also

¹ One day, a few months before Ghidella's departure, Romiti called me to his office and solemnly communicated that my image would have to appear more outside the Group. I replied that this would have to be in favour of Iveco lorries and not of any gratification on my part. Romiti discussed the matter with the head of the press office, Alberto Nicoletto, but as I foresaw, progress was very lukewarm; a couple of terrifically dull technical articles came out and that was that. Romiti did not bring the argument up again. This deliberately unassuming attitude of mine favoured the attempt Romiti set up, from 1994 onwards, to erase all traces of my passage in Fiat, as I shall tell in [Chap. 12](#).

had Fiat Auto rediscover the capacity and the taste for technical skills that had gradually dimmed during the Seventies. Moreover, he introduced Fiat Auto into the new world of advanced automation well ahead of the times, as the factories in Termoli and Cassino were there to demonstrate. He changed the atmosphere in the field of purchasing and relaunched the professional motivation of people who worked in all the company's functions. And he made the "March of the Forty Thousand" possible.

After his exit he received more or less explicit criticism on a professional level for his excesses in the field of automation, criticism that came above all from his successor, Paolo Cantarella. As for me, I thought the engine factory in Termoli seemed perfect, well before and far better than the other engine factory that almost ten years later Fiat Auto (under Cantarella's management) remodernized in an infelicitous location in Pratola Serra.

Undoubtedly, Ghidella exaggerated with the automation of the bodywork plant in Cassino,² but this was a question of inevitable sporadic errors in a programme of such dimensions. Had someone examined with critical attention the initiatives I had advocated in Iveco and elsewhere, he would certainly have unearthed equally serious mistakes.

A more serious matter concerned the observations regarding the Fiat Tipo made by Paolo Cantarella in the years that followed. The sides of the car were designed in order to increase the standardization of the components for production purposes, in other words to be used in several different models, but this reduced the torsional rigidity of the body. This led to the origin of the excessive creaking that irritated customers and compromised its success after a really exceptional start.

In fact, Ghidella was sometimes inclined to favour the efficiency of production over customer satisfaction, but his performance should be considered in the light of the overall context. And in that context Ghidella was without a doubt the most outstanding personage who had the most important impact on the Fiat Group from the Seventies onwards. He deserved a place in the hall of fame in the hundred-year-old history of the Group and Italian industry in general. Instead, he was sacked in mysterious and ambiguous circumstances.

I noticed a rift in relations between Ghidella and Romiti immediately after the failure of the Fiat-Ford talks at the end of 1985, but I thought I was mistaken. During the annual meeting of Fiat top management of 12 December 1986 Gianni Agnelli made it clear that Ghidella was to be Romiti's successor. He related an account of how he had met Ghidella in 1963 and, using that rhetorical figure known as paralipsis, he said that he was not about to make any public comment on Ghidella's great merits in order not to make him blush.

² There were two well-known cases. One involved a pointlessly complex automated system for coupling the engine and gearbox; the other concerned a robot equipped with sight (used for mounting wheels) that was too far ahead of the times. In addition, the accusation of having constructed an entire plastics department that was used only for the rear door of the Fiat Tipo and then dismantled strikes me as one of those disagreeable episodes that are inevitable in the business, when technology takes unexpected paths.

A few months before, Ghidella had been co-opted onto the Board of Fiat SpA, an honour until then strictly beyond the reach of Sector Heads.³ One month later, on 26 January 1987, Ghidella organized a big show for the launch of the Fiat Tipo, but at that time rumours were already circulating about a conflict underway. I had no professional reasons to get involved and I did not frequent the water coolers in corso Marconi enough to be informed about what was going on; the word was that the clash concerned some industrial entities owned privately by Ghidella, which led people to presume a conflict of interests regarding the Fiat companies that he ran.

One day, in early July 1988, Romiti invited me to lunch and asked me if I knew anything about the supply companies owned by Ghidella, about the responsibilities of one of his trusted men, and about programmes for expansion underway within an engineering company. This was a problem for me because the first two elements were common knowledge: I risked passing for reticent had I made a denial; on the other hand I had no direct knowledge of the affair and, as usual, I had no intention of doing a disservice to a colleague. On that occasion, I coped as best I could.

The conflict surfaced violently during the *comitato di coordinamento* (Co-ordinating Committee) of 27 September 1988.⁴ In his extremely brief sermon after the meeting Gianni Agnelli stigmatized with unusual vehemence “certain conduct that had exceeded the limit of ethics and aesthetics”; he mentioned no names but everyone knew who the attack was aimed at, also because Agnelli turned visibly towards Ghidella, who was seated far away, at the opposite end of a table at least 12 m long. And so this little speech was transcribed, in a milder form, in the minutes of the meeting distributed to the 34 participants.

*L'Avv.*⁵ Agnelli mentioned how the press had recently renewed attacks on the Group. One of the reasons for this was connected with relations with Suppliers who, in some cases, out of imprudence and negligence, appeared to be at the limits of the non-aesthetic and the unethical.

In the meantime, Ghidella was stripped of the hereditary investiture pompously bestowed on him less than two years before. The written record, without a shadow of doubt verified and modified down to the last comma by Romiti, is the expression of a logic that is a masterpiece of contortion and incongruity:

L'Avv. Agnelli, who had already seen fit to point out how the arrangement of a guaranteed succession within top management constitutes one of the Group's strong points, communicated his intention to remain responsible for Fiat for the next six years and, if necessary, longer. He added that Dr Romiti has reconfirmed his willingness to remain in his position for the same period. His feeling was that it is appropriate to have cleared up all perplexity or doubt in order to put an end to all conjecture.

³ Except for the *amoveatur* of Tufarelli, which I mentioned in a note to [Chap. 2](#).

⁴ “la Repubblica” of 28 August 1988 ran the headline *Gran lite alla Fiat* (“Big row in Fiat”), including the news of an enquiry into suppliers of Fiat Auto decided by Romiti unbeknownst to Ghidella (picked up again on 11 September by “Panorama”).

⁵ Translator's note: as already said, the title *Avvocato* was commonly accorded to Gianni Agnelli.

Contortion and incongruity, yes, but extreme clarity on one point: Romiti's position was ensured until 1994, when he would have turned 71. If necessary, longer.

Gianni Agnelli had expressed himself during the meeting in a way and using a tone that I had never heard him use either before or after; his attitude was frankly insulting. I expected some reaction, but Ghidella sat motionless and didn't bat an eyelid. I did not understand that passivity until the story of the shareholding in Ferrari SpA emerged.

Some years previously, Ghidella had obtained rights to a 40 % share package in Ferrari as a reward for the results he had achieved. Now it was necessary to attribute an effective value to the shares that Fiat had to pay for in cash to regain possession of them. The battle of those months, of which Agnelli's remarks during the meeting were merely the tip of the iceberg, hinged on that very concrete topic: Ghidella was hammered by the heavy artillery so that he would let go. In the end they agreed on a price that, according to the data brought before the Fiat Board Meeting in December 1988, corresponded to a net tax free capital gain of roughly 80 billion lire for Ghidella.

Later, face to face, Romiti asked me what I thought of the affair. "As a professional" I replied "the matter does not concern me; as a man, it shocks me". I was referring to the fact that, in the collective imagination, the severance package created an aura of immense opulence around payments made to Fiat management, damaging normal people, in other words all those who were far less fortunate. It is clear that the payment made to Ghidella was extremely high in absolute value and also excessive as a remuneration for the admittedly great things he had done in Fiat. But the price paid to him for his stake in Ferrari was inadequate in relation to the real value of the Company, as was demonstrated years later when it was listed on the Stock Exchange. Romiti passed the responsibility onto Gianni Agnelli who, in his view, had personally accorded Ghidella the privilege because he was afraid of losing a most valuable co-worker; he had been duped: "You know how naive l'Avvocato is, in matters such as this...".

The announcement of Ghidella's departure was made at the conclusion of the end-of-year meeting in Marentino. The *dirigenti* present, over a hundred of them, burst into thunderous applause for him. The acclamation began with Fiat Auto personnel but spread to all the others and lasted many minutes, which seemed interminable; the longest applause, and also the most spontaneous, I have ever witnessed.⁶

⁶ A minor event happened then, which I mention here because it helps to understand the totalizing impact that Fiat had on the private lives of its managers in the small world of the city of Turin. In that very period my wife had organized a party in palazzo Barolo to be held at the beginning of December to celebrate my fiftieth birthday, and all Fiat's top managers had confirmed their presence. Following the announcement in Marentino of Vittorio Ghidella's dismissal, the head of Employee Relations, Enrico Auteri, called me: "You'll have to postpone your party so that it doesn't look as if you're celebrating Ghidella's departure". I replied that the party was for my birthday and that Ghidella had nothing to do with it; if top management did not want to come they ought to telephone my wife to decline and apologize; he called and top management did not come.

Ghidella's exit was followed immediately by a purge. The companies incriminated, starting with Roltra, the firm from which the first suspicions had arisen, were either bought up or passed on to third parties. This cleansing operation was led by Carlo Callieri, who used as his instrument Gilardini, which he headed at the time. Callieri, the former head of Employee Relations at the time of the "March of the Forty Thousand", was Ghidella's bitterest accuser and his attack on him was couched in tones reminiscent of Robespierre. Having too much on my plate to pry into matters, I did not know in detail what Callieri did with that accumulation of small industrial entities. On 13 November 1988, the daily "Il Sole 24 Ore" published a schema of the companies within the holding company called Serfid, of which Roltra was a part, information that was too precise to have emerged by chance. In that article there was mention of the Sefi company:

It operates in Pisa, where the Piaggio factory was bought, and holds 49 % of the new company that manufactures the seats, already upholstered, for the Fiat Croma and the Alfa 164 for a turnover that amounted to roughly 50 billion lire at the end of 1988.

Precisely because of Sepi, Romiti inferred the existence of a widespread plot to Fiat's detriment, because Sepi constituted a bridge that connected Ghidella with the shareholders of Piaggio, i.e., Umberto Agnelli on behalf of his son Giovannino, and Gustavo Denegri, a businessman who had recently bought into Piaggio capital. Sepi was acquired by Gilardini without any strategic justification, because the factory worked solely for third parties and was devoid of any know-how of its own, so much so that years later I had to struggle to find a buyer for it.

Romiti broke up the entire Fiat Auto management group that had been in Ghidella's orbit. The press also reported on a consultancy that Ghidella had allegedly been offered by Ford, bound by a pact of non competition for a year. In order to block this initiative, Romiti wrote personally to the Chairman of Ford, Donald Petersen, and in any event he asked me to break off my contacts, then very active, with the American car builder until matters were cleared up. Obviously, I didn't break off a single thing.

The Ghidella case provided me with some food for thought. In the first place: was the accusation levelled at the head of Fiat Auto true; or, as was maintained in several quarters, had Romiti made use of something he had known for a long time, pulling it out of the hat at the moment most suited to his designs? Ghidella said that he had informed Gianni Agnelli about what he possessed and, subsequently, when he had sold Roltra.⁷

I don't know the truth, and probably I'll never know it, but I have some suspicions. If getting rid of Carlo De Benedetti was easy because he resigned on his own initiative in 1976, if Umberto Agnelli had been kept at a distance on several occasions with ever greater difficulty (in 1993 the manoeuvre cost the sharing of power in Fiat with shareholders outside the family), and if even I, who by choice had decided not to bother anyone, was shown the door in 1995 without any indication of a fault and not even a reason, is it not possible that the "ethical and aesthetic" argument had been deliberately pumped up in order to get rid of a potential antagonist such

⁷ For example, in a letter of his published in full in "Avanti!" of 16 March 1989. The Italian edition of "Fortune" of July 1989, in giving the news of the sale of Sept to Gilardini, relaunched that news.

as Ghidella, who was tough, antithetical, and capable? Then there was a more general aspect. I was still irritated by the way in which in Italy they talked about the retirement of Agnelli and Romiti. All over the world, even in companies far bigger than Fiat, when the previous executive chiefs, chairmen or CEOs, reached retirement age, the Board nominated new ones. Turnover was frequent, roughly every seven or eight years, because every boss left his job at the due time, when he or she reached 65 or 67. Texts on company organization held out the hope that there was a suitable plan for encouraging an orderly transfer of responsibility and this happened fairly often. It is true that shareholders argued behind the scenes and power games were played, but the problem never took on epoch-making aspects as it did in Fiat. In other companies, the new chief was introduced as the expression of the Board, which had interpreted the needs of the Company in current times and in the interests of the shareholders, not as a charismatic personality chosen on the basis of an unction that most people could not understand. Nowhere was there any trace of the biblical tones in which the succession at the top of Fiat was predicted in Italy, year after year.

To sum up, why was it that in Fiat the subject of pensioning off old people took on the connotations of a dynastic succession? The media certainly had an interest in blowing up the subject for obvious reasons of profit; there was also the Italian custom of not subjecting the expressions of industrial and financial power to critical analysis but representing them in a mythological light. I suspect that there were also more personal and more recondite reasons. Gianni Agnelli always liked to be surrounded by a legendary aura, and the prerogative of choosing the successor and pointing him out to society befitted that image. In the meantime, Romiti worked to smother pretenders in the cradle, before their teeth grew in.

Ghidella's Heir, Romiti

I had been with Iveco for almost five years and my clique saw in me the successor to Vittorio Ghidella. In effect, in many poly-sectorial companies it would have been almost automatic that the person who had done well in the number two sector would go on to run the number one sector at the first opportunity.

For a while, I posed myself the question whether I was interested in the promotion. It would have been a very interesting professional challenge and a hugely prestigious position, but I would have been unhappy about leaving the projects undertaken in Iveco unfulfilled and I would have had to adapt to a new unit, at the cost of no mean personal effort. Measuring up to the heritage left by Ghidella was a task that would have scared anyone with a minimal sense of responsibility.

In the end, I couldn't understand if the matter attracted me or not and I took no further interest in it; and I did well, because shortly afterwards the news came that Cesare Romiti, nominated ad interim in emergency conditions, intended to stay on and run Fiat Auto personally in the position of CEO.

I was amazed by this decision, which struck me as absurd, even though I could not have imagined that two years later I would be the one to suffer the

consequences of that same decision. At sixty-five years of age and without any technical experience Romiti did what Carlo De Benedetti, a forty-two-year-old engineer of very different industrial worth, had not felt up to doing.⁸

Instead of the homogeneous work group with one operative chief as a unitary reference point that Ghidella had constructed in 1979, Romiti set up a schema based on two lieutenants to whom he transmitted management and strategic responsibilities. The organizational directive of 25 January 1990 is a masterpiece of contortion: there is a single General Management but “entrusted to P. Cantarella and L. Francione. The general managers ensure, in relation to the powers received from the chief executive officer, C. Romiti, the unitary management of the Sector”. Three persons in one, as dogma commands. This complicated configuration, with a Romiti who directed the Group but also Fiat Auto, with two general managers in a single General Management, caused Fiat Auto the enormous damage I shall be dealing with in [Chap. 8](#), and it was dictated only by the “fear of raising another Ghidella”, according to the honest explanation given to me by the head of Organization and Employee Relations, Enrico Auteri, when I expressed my surprise to him.

At first Romiti really went to Mirafiori and took part in formal meetings, but in fact he carried on doing what he did before. Then, gradually, he reduced the number of his visits, so that Paolo Cantarella took all power in Fiat Auto, subjected to very few administrative controls and no industrial ones, also because (unlike his colleague Francione) he enjoyed his boss's total confidence.

Romiti's wrath followed Ghidella even outside Fiat. When Ghidella bought the Graziano company, a good medium-sized Torinese concern that produced gears, Romiti ordered the Fiat sectors to cut all purchase orders. Graziano's biggest customer was Fiat Agri, which in 1990 was under my responsibility, and its operative head, Riccardo Ruggeri, told me that it would have cost us a great deal to homologate other suppliers for tens of billions of lire of product, providing we could manage to find one who was just as good in terms of quality and price. I put the companies' interests before interpersonal rivalries and disobeyed Romiti's order: I left the orders where they were and I sent the same instructions to Iveco, another user of Graziano's products.⁹

A Sector Head Redoubled

At the end of 1989, as a consequence of Iveco's success, I received a proposal I was not expecting: Cesare Romiti wanted me to take charge of the Tractor and Agricultural Machinery Sector, while remaining head of the Industrial Vehicles

⁸ See [Chap. 1](#).

⁹ This episode came back to mind in the days preceding my own ouster, 8 years after Ghidella's, and I predicted to Gianni Agnelli that Romiti's wrath would have raged against me, trying to harm me, pursuing me outside Fiat even afterwards. It wasn't a hard prophecy to make.

Fig. 7.1 In 1989 Iveco's success convinced C. Romiti to entrust to G. Garuzzo the tractor and agricultural machinery sector, which had substantial structural problems and had previously been run by G.C. Vezzalini, who appears behind Garuzzo and Romiti in the photo (from 1987) at the Iveco factory in Bourbon Lancy (with him is U. Quadrino, then Chief Financial Officer of Iveco)



Sector. In point of fact, Gian Carlo Vezzalini, for many years the head of Fiat Trattori, which then became Fiat Agri, then Fiat Geotech, was reaching retirement age and it was hard to find a successor for him (Fig. 7.1)

I could not avoid thinking a few bad thoughts. Things in Fiat Auto were going well after Ghidella had improved the company's fortunes? Romiti would keep that, or at least that's how it had to appear. The situation in Fiat Geotech, which I described in [Chap. 4](#),¹⁰ was frightful? Better to pass the hot potato to someone else, especially if that someone had shown he knew his job...

I accepted immediately. Mine was not adventurism. I believed it made good sense to run lorries and tractors closely together. Not only was there an obvious synergy in the use of diesel engines, but there were obvious similarities and common factors in many company processes, from design to sales and customer service. It was possible to think about giving Fiat Geotech a hand by having it work side by side with Iveco. Perhaps one day it might be feasible to have the set of two companies listed on the Stock Exchange since they operated in markets with economic cycles that partially compensated for each other. So I remained CEO of Iveco, but I was also given the title of *direttore centrale* of Fiat, which I had already held years before for other responsibilities. The result was a Fiat top management that was obviously unstable, and in fact it lasted less than a year (see [Table 7.1](#)).

¹⁰ I remember that: (1) Fiat Agri was strong only in Italy and France but did not even have its own sales network, operating respectively through Federconsorzi and a few importers; (2) the European market was undergoing an epic collapse; (3) presence in agricultural machinery was weak because Hesston in the USA had little to do with the product sold in Europe; (4) the heritage of Fiat Allis had been followed by the Fiat-Hitachi joint venture, in which we were dependent on Japanese technology; (5) all things considered, Fiat Geotech, as the complex of the two branches was now known, no longer had the means to keep up a complete global range.

Table 7.1 Fiat operating organisation chart under CEO Cesare Romiti as from 1 February 1990

Responsibilities	
C. Romiti	Directly in charge of Fiat Auto
G. Garuzzo	Directly in charge of Iveco Indirectly in charge of Fiat Geotech (with G.C. Vezzalini)
C. Callieri	Indirectly in charge of Fiat Avio (P. Torricelli), Gilardini (U. Quadrino), Magneti Marelli (A. Barberis), Comau (C. Mangiarino), Teksid (G. Rigazzi), Fiat Ferroviaria (G.C. Cozza), Snia BPD (D. Corradi), Equipment for Defence (P. Zannoni)
F.P. Mattioli	Indirectly in charge of Affari Finanziari (G. Merlani), Toro Assicurazioni (B. Salaroli), Itedi (E. Auteri), Fiat Impresit (A. Mosconi), La Rinascente (G. Tramontana), Fidis (G.L. Garrino), Telettra (R. Palieri), Internazionale Holding Fiat (G. Merlani)

The Grand Design and New Holland

Around mid 1989, I set up around Iveco and Fiat Geotech a grandiose and complex project, a “Grand Design” that was based on five guidelines: (1) to acquire a minority share in Ford’s truck business in the USA; (2) to have Ford acquire a minority shareholding in Iveco equity together with Fiat; (3) to produce Ford diesel engines, a large part of which were supplied by Navistar, thus constituting under Iveco’s control the biggest company in the world for the production of diesel engines and of other macro-mechanical components for lorries; (4) to move into the great American engine company, Cummins, with the justification of defending it from an attack by raiders who wanted to take it over; (5) to create a joint venture with our important competitor, Scania, in order to introduce onto the European market diesel engines equipped with new, advanced injection systems, thus breaking Bosch’s near-one-hundred-year monopoly.

In the overall complex of the Grand Design, Ford was supposed to pay Fiat a compensatory sum but instead it offered another initiative, the sixth: to swap Iveco shares with shares in Ford New Holland, a very important industrial group that contained two historic businesses, Ford’s agricultural tractor line and that of the New Holland brand, world renowned for its agricultural machinery.¹¹

¹¹ I find the first trace of Ford’s proposal in a handwritten note of mine dated Thursday 23 November 1989: “The Ford lorry operation is looking good. We take 20 % of them in the USA [...], they take 20 % of us [...], we set up a powerline company [i.e. engines, gearboxes, axles, etc.] with us in the majority [...] But... there is a but. And Trotman telephoned it to me in a strange message [...]: 20 % of Iveco is worth a great deal. They have to pay a compensatory sum and they don’t feel like it, after the expense of Jaguar [...]. So? [...] Alternative: let them give us the tractors in exchange. [...] Incredible! Shall we manage do this? There are at least some probabilities”. Ford had only just bought Jaguar, in exchange for a price that was universally considered excessive: on the ground floor, in the World Headquarters building in Dearborn, there was a Jaguar on display that according to a currently fashionable quip was not red as it seemed, but solid gold.

The gigantic project took giant steps forwards, thanks also to the support of my old acquaintance from the Iveco-Ford days, Alex Trotman, whose ascent to supreme power had so far led him to become head of Ford North America, but which came to a sharp stop from one day to the next on account of hostility on the part of certain Ford managers, which is why it is not worth dwelling on the topic here. The only thing left standing was the chance of the Ford New Holland deal, which was so far from the automotive world that it did not disturb Ford's internal equilibrium.

For me, the determinant factor was the visit I made at the end of February 1990 to Ford World Headquarters in Dearborn (Near Detroit). On the 26th of that month, returning towards London on the night flight, I went over the complete terms of the entire talks regarding the Grand Design, and it was precisely the part about New Holland that gave me no sleep: I chewed it over constantly, gradually filling up sheets and sheets of notes.

Thinking of acquiring a company with a four-billion-dollar turnover is not something to be taken lightly in general, but in this case the prospect was even more demanding. This was a matter of taking control of an American company, and everyone knew that many European firms had come to a sticky end after bold attempts to conquer companies on the other side of the Atlantic: this had been the case with Olivetti and Underwood, Fiat and Allis Chalmers and, just to stay in the lorry field, with Renault and Mack. The agricultural sector was in deep crisis, and so those who could do so took to their heels, after having witnessed the disappearance in less than ten years of two thirds of demand, in Europe as in the USA; there wasn't a single banker or financial analyst in the world who did not turn up his nose at the mere mention of such things. Ford's strategy in this field also failed, even though it had been conducted without scrimping on expenses. In the end, this was a market dominated by a prestigious leader, namely John Deere, which had outclassed once renowned names such as Massey Ferguson or International Case, now languishing in serious difficulties.

I was not so pessimistic about market trends. Production capacities had to be reduced overall and brought into line with the structural level of demand, but I was convinced that once this level was reached the prospects would have shown themselves to be good and, above all, steady: the market would have lasted as long as there were mouths to feed in the world. Could we perhaps feed six billion people by going back to oxen and scythes? On the other hand, if we had not seized the opportunity represented by Ford New Holland, Fiat Agri would have continued on its way towards a long and painful involution; it would soon have disappeared from the number of independent industrial entities and in the meantime it would have contributed with serious losses to Fiat's consolidated annual report. Nor was it conceivable to find a buyer prepared to take it on; other competing companies were being proposed to whoever made the best offer and Fiat Agri had little in the way of sex appeal: it did not even have its own sales network on the domestic market. Even less attractive was Fiat Geotech, which included what was left of Fiat Allis and Earthmoving.

In the rapid night between Detroit and London, what fascinated me as I went over the numerical data was the realization of the extraordinary way in which Fiat

Agri and Ford New Holland fitted together; I had never seen such a perfect match before.¹² Almost one tractor in four in the world would have been produced by the new entity, the great New Holland, which would have fought on equal terms even with John Deere.

The figures were impressive, but I was obsessed by the questions I posed myself. Would we have been able to handle the first contact with the sales network and customers scattered throughout the most solitary, conservative, unreachable places where tractors are used? Would we have been able to dismiss one third of the 30,800 employees working in a dozen countries without creating unbearable crises? Would we have been able to run the complex in an integrated and, at the same time, decentralized fashion, to come into line with geographical dispersal? Then I tried to imagine what we would have had to do operatively had we gone all the way with the deal, and I drew up the outlines of what the reorganized New Holland would have become, filling up a half dozen sheets of notepaper during the transatlantic flight.

There was, for example, the problem of the headquarters of the new complex, an office that had to be located in a place that was as far as possible neutral with respect to the three spirits that flowed into the new group: Ford, Fiat, and New Holland. The capital of the new complex had to be barycentric between the principal centres of production and design (Lancaster in the USA, Basildon near London, Antwerp in Belgium, and Modena in Italy), to have convenient air connections, to be attractive or at least acceptable to managers of different nationalities, offering them and their families a wide range of choice in finding homes and schools. The designation of a non-Italian city did not spring from a lack of patriotism, but from the absolute lack of such prerequisites in my country. Above all, Italian legislation and practice in the fields of labour and taxation prevented any real multinational from considering the idea of locating its own directional headquarters in Italy. No norm in the criminal code that may have explicitly forbidden such an eventuality could have constituted a more efficient deterrent than what was already guaranteed by the tangle of regulations and impositions, allied to bureaucratic inefficiency at state and local levels, and the factiousness of hostile political minorities. I could only choose London. When, months afterwards, my decision was made known, mutterings were heard in the corridors of Fiat, but no one dared contradict me.

I also decided that I would have made radical changes to Ford's organizational schemata and I imagined a new structure that assigned each nation in the Group its own internationally valid "mission", a structure that later proved to work very well, as facts were to bear out.

The last of the sheets I compiled during that night flight ended with an essential conclusion: "Ford New Holland is in better case than Fiat Geotech". All things considered, we were buying a company that was not only bigger than our own, but

¹² On 26 September 1990 I presented the initiative before the Executive Committee of the Fiat Board, showing the extraordinary data I reproduce in Document 5 of [Chap. 14](#).

stronger too. When I landed in London on the morning of 27 February 1990 I was convinced that we had to take possession of Ford New Holland at all costs.¹³

But how could we hold on to the loyalty of the network, especially the American one, decentralized over an immense territory, where Italy's industrial image was evanescent? Sometimes, during my travels I had been obliged to spell the name out: F-I-A-T; and not only to ignorant customs officers. Often, the stereotype of Italy was frankly a negative one, also as a consequence of the kind of news that arrived over there from Italy. I determined that I would spend a lot of time explaining personally who we were and what we intended to do to all the people I met in the United States. In the week beginning on 22 April, I visited Lancaster, in Pennsylvania, and between one meeting and the next I tried to present the new master in the best light, talking to management and a large number of dealers, assembled for this purpose. The trip was a success and as I was crossing the pleasant region that from the river Delaware and its bay runs down towards the Susquehanna and Chesapeake Bay I felt free of the doubts of some months before and I caught myself fantasizing about Fiat's future now that it had landed on those shores: I felt as if filled with a missionary zeal with regard to my Company and my country.

But the problem of the price still had to be solved. Previously, I had agreed to pay for Ford New Holland a price higher than the book price, that is to recognize goodwill, because this was a matter of a share swap among the diverse components of the Grand Design: as we used to say, the exchange would have been "cats for dogs", i.e., a form of barter agreement. Once the Grand Design talks were interrupted, there was nothing left to exchange. We would have had to pay cash and Ford New Holland's results did not show a profit that justified goodwill above the net assets. The expert reader can imagine the contention and the contractual battles that unfolded in those days with regard to those topics.

The situation was complicated by the fact that Alex Trotman was not dealing with the affair any longer, because the agricultural sector was not under the control of the North American automotive sector: Ford's plenipotentiary in the talks was now Phil Benton, recently nominated president but close to retirement age and hence a transitional figure who wanted very much to look good as far as the deal was concerned, as it was probably going to be the last one in his career. For

¹³ Starting from the end of February 1990, some joint Fiat-Ford work groups developed studies and analyses related to the new entity, which would have emerged from the merger between Ford New Holland and Fiat Geotech. A memorandum in this sense was signed by Cesare Romiti and Harold "Red" Pauling on the 14th of that month. It was unusual for the seller to take part in such an exercise together with the buyer, with the aim of forecasting the organizational steps that would have been taken after the sale; but for us it was handy to know the Company purchased as well as possible so as to be ready to make our moves right from the first day, and Ford had an interest in ensuring that no problems of ours had negative repercussions on it in future (even only in terms of image!). Above all, unlike the UK lorry operation of 1985, in this case the managers coming from Ford had no choice: they had to follow the fate of the company in which they worked. On 6 April a joint communiqué gave the news to the world: "The Ford Motor Company and the Fiat Group announce that talks are underway that could lead to agreements on a world level regarding their activities in the tractor and agricultural machinery sectors".

him, this meant ensuring goodwill. On that topic he became adamant. Romiti, for his part, was just as inflexible: not a penny. There was a meeting between the two intractable ones in Cologne, Germany, which came to nothing. I was very worried because the situation was rapidly deteriorating among the operative branches of the delegations and the companies. I managed to break the stalemate with a little trick. I acknowledged Benton a goodwill value of 20 million dollars, which made him happy, but I got that sum back by coming to an agreement with Ford negotiators on some minor clauses in the contract, which made Romiti happy. Benton and Romiti signed the agreement binding both parties on 26 July 1990. That marked the beginning of a long process that led to the drawing up of the voluminous definitive contract, to the approval of the anti-trust authorities and finally closure, which brought with it a series of consequences I shall be discussing later.

After my nomination as *direttore centrale*, I had split responsibility for Iveco's everyday operations between two people: Giancarlo Boschetti looked after the lorry side of things in the strict sense of the term, while Riccardo Ruggeri saw to the other activities. But now the signing of the contract for the acquisition of Ford New Holland made it necessary to choose the best man to lead the process of integration with Fiat Geotech, taking it from the drawing board into actual practice. It was not an easy decision. I wanted a person with his head firmly on his shoulders who would not claim to take the place of competent management, but impose the strategy I had identified, following the guidelines scribbled down on my sheets of paper that night while flying over the Atlantic, and who at the same time would prove able to cope with differing psychologies and requirements. These were the reasons that induced me to designate the former head of Employee Relations, Riccardo Ruggeri, as the new CEO of the future New Holland, and I was sure that he would have held faithfully to the outlines of the plan I entrusted to him.¹⁴

The Sufferings and Transfiguration of New Holland

Between the signing of the preliminary agreement for the acquisition of Fiat New Holland and closure, i.e., Fiat's effective taking possession of the latter, ten worrying months went by. The definitive contract had to be drawn up and this required

¹⁴ When I informed him of the choice of London as headquarters of the new unified Company, Ruggeri refused to go. He raised no doubts about the correctness of the decision but stated that he was unable to move there to carry out the role I was asking him to do because he knew no English. I started to laugh: "Learn it". He told me that as a youngster he had had a stammer, and that even now he would stumble when he was under a lot of stress and that this created a psychological block so strong that it prevented him from learning any foreign language. We discussed the matter at length; in the end he accepted, on the explicit condition that his post there would be a brief one: "I have sworn to my wife that I shall be back in Italy no later than the end of 1992", he told me. "I ask you never to ask me to fall short of this commitment". On his own account, Ruggeri did not respect the deadline he had set himself and fate, through the intervention of the Milan public prosecutor's office, ensured him the position, with Gianni Agnelli's approval, as I shall be saying in [Chap. 12](#).

countless tiring meetings between lawyers and accountants in order to prepare the enormous dossier required. An even longer and more complex process involved getting the green light from the American anti-trust authority, because by combining New Holland's presence in that country with that of Hesston, already owned by Fiat Agri, we arrived at quasi-total market shares in some units involved in the treatment of hay and forage. As we foresaw, the Department of Justice made its approval dependent on our selling Hesston, so that we were obliged to find a buyer in great haste, in a manner that certainly was not optimal: fortunately, a suitor stepped forwards, the Agco company that, by putting together struggling brands (such as Massey Ferguson) and the remains of other companies (including Allis Chalmers), had built up a certain position on a world level in the field of agricultural machinery.

In that space of time, between July 1990 and April 1991, Ford New Holland was left to its own devices, and I was going mad at the idea of the deterioration that might have derived from this, because the first months of an international merger are extremely delicate, especially from the standpoint of personnel motivation. But we were paralysed by Ford's lawyers, who prevented us from sticking our nose into the Company's internal affairs, asserting that any intervention on our part before the resolution of the anti-trust problem would have been considered a violation of the laws of the United States, with very serious legal consequences. After the abundance of information we had obtained and the joint planning we had been developing for months, all connections were cut off as soon as the contract was signed. This attitude struck me as excessively zealous, but in Ford the lawyers were in control and it was impossible to make them listen to reason.

Towards the end of 1990 the agricultural machinery market deteriorated, especially in the United States, and we got the impression that Ford New Holland was not scaling down as it should, perhaps to avoid the costs of restructuring having to be paid by the old ownership, but we were given no precise numerical data, a fact always justified by the anti-trust bogeyman. It was only in early April 1991 that we received authorization from the Department of Justice, and Ford's men asked me to close the contract in the middle of the month, in advance with respect to the agreed terms whereby the date fixed was the last day of the month. This haste made me even more suspicious, and so I refused and rapidly sent off one of my men, Sergio Portacolone, to investigate.

The phone calls he made me from the United States were alarmed and alarming. Then I decided to start up new talks with Phil Benton but his reaction amounted to a vehement no. Telephonic contact between us became frenetic as the end of the month gradually drew near, until he handed me the ultimatum, after one evening during the weekend when I had had his wife drag him bodily out of the shower: either we clinched the acquisition on the 30th of that April, as per agreement, or he would have taken us to court for breach of contract. He assured me that the forecasts of losses for the current year, which had got constantly worse month after month, had stabilized by now: "We'll earn something in June or July" he said to me; and it was the second time I had heard such a chancy prophecy, after Giorgio Manina's prediction in Iveco.

I found myself faced with a dramatic dilemma. If I respected the contract I was going to saddle Fiat with burdens of unknown entity. Otherwise I could abort closure and face a suit for breach of contract, accompanied by a request for damages. It didn't take long to make a decision, because these struck me as important, but not structural considerations: the strategic objective that had led me to promote and back the initiative was more valid than ever and it had to prevail over any other contingent consideration of expediency. The initiative should be completed because the conditions of structural competitiveness of a year before had not changed, if not for the worse: otherwise Fiat Geotech was finished. I said nothing and asked nothing from anyone, to prevent anyone stepping in and creating obstacles, and I personally assumed all responsibility: I gave Portacolone instructions and closure was celebrated on 4 May 1991 with the payment of the agreed price.

Riccardo Ruggeri and his team immediately threw themselves into the mammoth task of the merger. The guidelines for their work were those laid down before deciding on the initiative and the plans had been drawn up during the waiting period. Ruggeri did his bit.¹⁵ The New Holland operation gradually transformed the slow, lingering death of Fiat Geotech into an industrial triumph.

Fiat Versus Ford

I still had one task left to carry out: I believed that Ford ought to give us back some money because the months spent waiting in the blackout conditions imposed by its lawyers had objectively resulted in damage to Fiat; it had taken a lot of courage on my part, on 30 April 1991, not to scrap the whole deal. Chairman Red Pauling and president Phil Benton opposed my complaints totally; perhaps they feared that the slightest sign of weakness would have amounted to an admission of guilt and hence paved the way for requests for huge damages; but the more they resisted, the more determined my attack became.

Seeing no chinks in their wall, I determined to take the big step and requested arbitration. It was a risky decision; if word had got out it would have aroused the interest of the media worldwide: Fiat vs. Ford! The functionaries in corso Marconi followed me in amazement; neither Gianni Agnelli nor Cesare Romiti said anything, they neither opposed nor supported me: they simply waited to see how things would turn out.

¹⁵ Years later, Riccardo Ruggeri published a book (*The New Holland Case, Written by its Management*) that told of the merger, restructuring, and relaunching. The author's imprinting in the field of employee relations emerged in certain tones that were rather too lyrical for my taste but, once the text is purged of these rhetorical and psychological connotations, the list of the steps taken can be read in a substantially correct manner, which spares me any need to dwell on this argument any further here.

The outcome was difficult to foresee.¹⁶ I was sure that I was right on a moral level, but in legal terms our position was somewhat uncertain. If I wanted to have some chance of success I had to go nuclear. On the advice of our lawyers in New York I decided to accuse Ford top management of mismanagement and fraud. Those who know the world of American business will realize the enormity of the matter. For an American top manager reputation is, rightly, a terribly serious matter, which has enormous implications regarding his social position and his income. If the arbitrators had decided in our favour, Ford's shareholders could have sued the personalities involved for damages. I knew that by doing this I would destroy relations built up over a lifetime with Ford, and in fact neither Red Pauling nor Phil Benton ever forgave me. But Fiat had been damaged and had to be compensated, and that was what counted. I don't know if Ford top management were in any way directly to blame for what happened, but they had given their pack of lawyers carte blanche, washing their hands of the consequences, and the result had been a mess that was objectively to the detriment of the purchaser.

The procedural skirmishes of the arbitration went on for over a year. Then the surrounding scenario began to change. After the losses recorded in 1991, 1992 looked better for New Holland and it was clear to me that in 1993 good profits would have come along: this would have weakened our position in the eyes of the arbitrators because of an obvious psychological impression: what were we complaining about to the seller if the acquisition was a success for us? The risk of a journalistic scoop on the matter was a real and serious one. Legal expenses were mounting exponentially. In October 1992, Alex Trotman became chairman and CEO of Ford, thus acquiring total power in the company. I could not argue with my old friend as I had done with Pauling and Benton. We both knew we had to reach an agreement. The meeting was scheduled for January 6 in New York airport. I had spent New Year's Day in London, from where I flew across the Atlantic in the grip of a violent attack of influenza. During the flight, one eye swelled up monstrously and began to secrete a yellowish pus that filled up handkerchief after handkerchief, something that gave me a deep sense of repulsion. Kennedy airport was lashed by a blizzard and a minus-20 degree wind and I found myself waiting for Alex Trotman in a deplorable state of health in a cold, squalid motel, while he circled above my head waiting for a gap through which his private plane could come into land.

When he finally came into the room he stared at me in amazement: "Giorgio, you're in some state, what's happened to you?" He gave me some eye-drops he

¹⁶ The contract was enormous and contained no clauses that were explicitly breached; the net value of the asset had been lowered, but this case had been foreseen and involved a refund of Ford's part, which in fact happened; the level of stocks in the warehouse was high, but was still within permissible limits. The problem lay in the fact that Ford management had deferred the slowing down in production and the staff cuts that market conditions would have required, letting all costs accumulate at our expense along with those of the merger. This was understandable; what was intolerable was that Ford had kept us in the dark about what was going on with the argument (or the pretext) of the anti-trust authority, leaving us faced with a *fait accompli*. Ford had not behaved like a "good family father" in its management of the Company during the transitional period and had concealed knowledge of reality from us.

always carried with him, then in five minutes we reached an agreement based on the maximum he could offer and the minimum I could accept: Ford paid us back 62.5 million dollars. I immediately boarded the return plane, where—all the way to Milan—I spent the worst hours of my travelling life. It took months before my bronchial tubes returned to normal.

Quality According to Cesare Romiti

But let's leave my Sectors, Iveco and New Holland, to go and see what was happening elsewhere in the Fiat Group and especially in Fiat Auto, following Ghidella's dismissal. At the end-of-year meeting of the Group's top management held in Marentino on 17 and 18 November 1989, Romiti launched with great fanfare what was defined as the challenge of quality. The goal was praiseworthy and would have deserved my total support; unfortunately, in my opinion the methods chosen were counterproductive beyond the limits of self-imposed damage.

In Iveco, the problem of product quality was not as dramatic as it was in Fiat Auto. Lorries were more like machine tools than mass-market consumer durables such as cars, and over the years this characteristic had led Iveco to pay greater attention to customer requirements. But the situation concerning Fiat Auto's product was serious if compared to that of the competition, and many factors contributed to this, both internal aspects such as R & D and production and external problems caused by suppliers.

In the mid Eighties, Vittorio Ghidella had tackled the problem head on, but in a unilateral manner. His weapon had been automation: in his view, robots programmed for continuous "on process" control would have eliminated the problems at the root. In fact, this technology improved Fiat product quality as compared to the situation in the Seventies, full credit for which was not given to Ghidella following his sacking. On the other hand, his detractors accused him of having put the machine before man. It's true that Ghidella sometimes tended to consider human work with a certain distrust; yet his concept was successful in many fields, for example in that of engines, and laid the groundwork for the steps that followed. Ghidella's approach, however, was not conclusive, and the problem had not disappeared. Fiat knew perfectly well, thanks also to a large number of internal reports, that Fiat Auto's products were among the worst on the market, and often the very worst.¹⁷ It was therefore wise and necessary to tackle this enormous and vital problem with a macro-project integrating R & D, acquisitions, production, plant design, customer service, training, etc., which involved the entire industrial

¹⁷ A single example, from among many, taken from the "New Car Buyer" of 1990: in the first three months of use of every vehicle the few customers of Fiat's three marques in Germany complained about 1.89–2.89 problems; the same statistic was from 1.08 to 1.24 for the French brands, 1.16 for Volkswagen, and for 0.55–0.71 for the Japanese.

process and was based on the recovery of the values and the interpersonal relations within the factory and with suppliers.

But the methods chosen by Romiti suffered from two drawbacks that made them unacceptable in my view. First of all, in order to build the future he denigrated the present. No company in the world ever devoted itself as much as Fiat to convincing public opinion that its own products were rubbish. This negative propaganda was to a good end, but for the time being it was merely made known on the market, while the competition pounced on this un hoped-for source of assistance. As soon as customers came across the slightest problem they recognized the truthfulness of Fiat's masochistic statements: "Even they say so...". None of the two *direttori generali* of Fiat's sole *direzione generale*, Paolo Cantarella and Luigi Francione, had any experience in selling mass market products. Cesare Romiti, as I have already said, was not very sensible to commercial topics, and so he developed the campaign of persuasion in favour of quality using bureaucratic and political language, without worrying about the consequences on world markets. This was one of the causes, and not the least important, among those that caused the crisis in Fiat Auto, which, having remained in incubation for two years starting from 1988, exploded in the autumn of 1990, causing the enormous losses in market share and money that I encountered in the December of the same year, on my return to corso Marconi.

Regarding the launch of the quality campaign in Marentino, I find an indignant handwritten note of mine dated 16 November 1989:

In Marentino they all want to smear our name in chorus: our products are rubbish – to justify the quality programme! I refuse – and they say I'm "different".

Different? Romiti's Fiat, which had not deigned to consult beforehand with any Sector Head on the topic, demanded total homologation.

Another note, dated 1 December 1989, when the second round of the meeting was held,¹⁸ goes on:

The message is: superficiality – improvisation – self-damaging behaviour – provincialism. Management [...] falls into line Fiat-style, because this is Romiti's new frontier. [...] Then I have to console my foreigners [i.e., the many Iveco staff that came from outside Italy], regarding the dominant self-flagellating Italianism.

There was a second modality in Romiti's quality programme that I did not like: the markedly political and public colouring attributed to an argument that should have been eminently industrial and internal. Almost ten years after the "March of the Forty Thousand", perhaps Romiti hoped to find a chance to pull off a coup that might give him just as much prestige. But in the meantime the blend of denigration of the product and the politicization of the topic sparked off an explosive mixture, also because it was inevitable that both trade unions and parties would get

¹⁸ That same day, in the afternoon, I flew to Milan in a helicopter with Gianni Agnelli and Cesare Romiti, to listen to the historic speech given by Mikhail Gorbachov, which the prime minister, Giulio Andreotti, and the chairman of Confindustria, Sergio Pininfarina, had organized for the benefit of five hundred applauding industrialists.

involved in the political row with highly unpleasant consequences for the fortunes of Fiat Auto.

Many initiatives were undertaken in the name of quality, often with purely verbal connotations, according to the fashion of the moment, but in general the results were disappointing. There was also a great deal of confusion between the two concepts, connected but distinct, of quality in the strict sense (understood as the reliability and the aesthetic aspect of the product, which constituted Fiat's most conspicuous problem) and of total quality (understood as the optimization of all company processes, including the costs and use of capital, according to the philosophy that the Japanese were spreading). Romiti was fond of a metaphor he frequently repeated for many years to come, and whose real significance I never managed to grasp: there was a "quality train" that passed by, which we all had to board and on which we would always have been able to find him, in person. The improvement in Fiat Auto quality had to wait for a few years, until the profound changes that Paolo Cantarella and his men succeeding in making around 1993 with the Fiat Punto, starting from the brand new factory in Melfi. But even that was to remain an isolated case, because the range was too broad and the problems too deep-rooted to allow of a rapid, overall solution.

To sum up: Romiti tried to tackle head-on a problem whose solution was essential for Fiat's destiny, but the counterproductive way he chose to implement his project made the entire initiative inefficient or harmful. In the past, I had not always shared his decisions, but I had always recognized his commitment to the Group. I began to see his *modus operandi* in a different light when Ghidella was sacked. The few meagre notes I still possess regarding the Enasa/Pegaso deal and, above all, those on the quality programme betray an erosion in my confidence in him. In a note dated 2 January 1990 I analysed the recent defeats, including the failure of the talks Romiti had led to buy Saab, a particularly burning defeat in corso Marconi because until the last moment everyone was convinced that this was a done deal, owing to the presumed good relations between Gianni Agnelli and the Wallenberg family, owners of the Swedish car company. It was only on the evening before the formal Saab board meeting did it become known that General Motors had won the day. In my note I laid the blame on "Romiti's old age":

His wishes must come true of necessity. He cannot delegate, even though he doesn't have the time to follow things in depth. He doesn't think to inform [...] He does not [feel the need] to watch his back. He gets mad for nothing and makes scenes [at our people] as if [such scenes] served [to influence the counterparties].

Attested Qualities

Although I could not imagine it, towards the end of 1989 a cycle was coming to an end for me, a cycle that had seen me first as Sector Head of Components in 1979 and then with Iveco in 1984, with the recent addition of New Holland.

On a personal level, the seven years spent as head of Iveco had been exciting but also stressful. Enrico Auteri, the head of Employee Relations, used to talk about the existential solitude of the top manager, and I think he was right in general; but in Fiat the pairing Agnelli-Romiti excluded the participation of any other interlocutor and prevented the coagulation of any top management team, accentuating the phenomenon more than anywhere else. In an impromptu note of mine dated 24 November 1989 I find a curious, and sincere, echo of my state of mind in those days:

Sometimes, like this evening, I am very tired. The fact is that I pay too much attention to the human aspect – I throw myself into it too much [...]. This is a mistake. Romiti, for example, is way ahead of me. For him everything [...] is a function of himself alone. And so it gives him no problems. The interesting thing to note: that people – counterparties [...] like him like that, they expect him to be like that, they want him like that. And so he is successful, without too much effort; he gratifies them. Perhaps it's because he is old, and hence distilled. I hope this is the explanation.

A few days after that private confession of mine Romiti summoned me early one morning to his apartment in corso Stati Uniti, one of Turin's great eighteenth-century avenues. He had me take a seat on a divan and informed me with great simplicity that he intended to nominate me *direttore generale* (Chief Operating Officer) of the Fiat Group, to oversee all Sectors with automotive content: Fiat Auto, Iveco, the enlarged New Holland, Magneti Marelli, Comau, Teksid... 80 % of turnover and employees, in short. He had taken that decision "even though we had had occasional differences of opinion", he said with the overt intention of attributing me with the merit of independent judgement and himself with far-sightedness and tolerance.

I thought he had begun a procedure for his detachment and wanted to give the Holding Company a more industrial role than it had ever played. Otherwise why invent that position and sent me to occupy it?

Romiti immediately accompanied me to Gianni Agnelli, who had this to say to me: "My dear Garuzzo, regarding the satisfactoriness of your professional qualities I cannot make a judgement, but Romiti has attested to them for me", and here Romiti gave a big nod of agreement. "As for your moral qualities, it's different: I must and can be the judge of satisfactoriness. And in your case I don't have the slightest doubt".

Chapter 8

The *Direzione Generale* During the Fiat Auto Crisis (1991–1993)

Problems for the Team

I did not discuss the nature of my new responsibilities with Cesare Romiti, far less did I negotiate with a view to obtaining any assurances regarding my future. Fifteen years of working with him sufficed for me to trust him and to know that written stuff would have served no purpose. All that remained was to get down to work. The news of my nomination was given to the press on 12 December 1990, in a minor key, so that Italian and international newspapers reported only a few sober comments. This beginning, certainly planned by Cesare Romiti, who carefully reviewed all press releases destined for the world outside the Group, was fine by me because it wasn't celebrity I was looking for. A few weeks afterwards there was the presentation in the temple that was Mediobanca. Romiti accompanied me to Milan to Enrico Cuccia, who I had never met before then, and we lunched together in via Filodrammatici.¹ There was some gossip about current affairs. Raul Gardini² had just nominated his twenty-year-old son Chairman of Ferruzzi and Cuccia seemed scandalized. "The emperor Caligula made his horse a senator", the elderly Cuccia had remarked to his associates that morning, and the cultivated quotation had been highly successful. Vincenzo Maranghi and Maurizio Romiti³ repeated the *boutade* several times, complacently. But with Cuccia nothing else worthy of note happened and after that I took no interest in relations with the man who was considered to be at the centre of Italian economic power.

I had two important reasons for not appreciating Cuccia the man and his work. The first reason, which I have already dealt with in [Chaps. 1](#) and [3](#), was his

¹ Translator's note: the headquarters of the Bank are located on the side of Teatro La Scala in Milan, hence the old street name; now the address has been modified to *piazzetta* Enrico Cuccia, 1.

² Translator's note: Raul Gardini, a tycoon well known for his dealings with Montedison, Fondiaria and Enimont.

³ Translator's note: both close aides to Cuccia, the second one being the eldest son of Fiat's CEO, Cesare Romiti.

indifference to research and development, a policy that had led to the ill-starred sale of Olivetti's Electronic Division to the Americans of General Electric, a few years before electronics supplanted the old electromechanical technologies. The second reason had to do with my international contacts. Abroad, it was difficult for me to explain the real nature of Cuccia's role. A shareholder in Mediobanca? No, he never held a share. A member of the Board or a partner? No, only an "honorary" position. A functionary? Even less so. So what was the source of his great power? He was the trusted man of the trusted men who he himself kept in key positions in the Italian economy. A friend of friends, therefore. A definition that dumbfounded the people I spoke to.

As far as I was concerned, I had other things to think about. First of all I had to set my hand to the internal organization of Fiat's new *direzione generale* (COO's office). During the conversation in which Romiti had offered me the promotion, he had asked me if I was in agreement with two important choices. Was I prepared to accept that Paolo Cantarella, until then one of the two *direttori generali* of the single *direzione generale* of Fiat Auto SpA, would be nominated the Sector Head of the car division and hence *amministratore delegato* (CEO) of Fiat Auto SpA, becoming my most important co-worker? Was I prepared to accept that Francesco Paolo Mattioli, who still reported directly to Romiti, in his role as *direttore centrale* with responsibility for Diversified Sectors (publishing, construction, aviation, railways, etc.), would also co-ordinate the administrative and financial aspects of the entire Group, including those regarding the Sectors in my charge?

I had known Cantarella since he had been in short trousers, metaphorically speaking, when he was assistant to Franco De Benedetti. I had followed his work in Comau and Fiat Auto from a distance. I knew he wasn't a man given to deep analyses, with enlightened vision and capable of envisioning far-sighted projects. Quite the opposite. But the strategic stance, absolutely indispensable for a company of the dimensions and with the problems of Fiat Auto, could and should be inspired by a team effort led by the Holding Company, and I imagined that I had been called to the new position of *direttore generale* together with that of chairman of Fiat Auto precisely in order to tackle this responsibility, as I had done in Iveco and New Holland. Further, the day by day management of Fiat Auto would have benefited from Cantarella's drive. He would have brought, I believed, a breath of aggressive fresh air to an environment that still favoured discourses made up of solemn commonplaces. With his notoriously impulsive and arrogant character he would have managed to penetrate the recesses of Fiat Auto's everyday operations and master them, an extremely difficult task in which only Vittorio Ghidella had succeeded, among those I had known. This was the reasoning behind my assent to the nomination of Paolo Cantarella.

The second subject, that of Mattioli, seemed more delicate to me. If I accepted Romiti's request, the Group would have had two controllers, one for my area and one for Mattioli's, but my man would have disposed of few instruments because the administrative functions and the entire financial area, treasury included, would have remained beyond his (and my) authority. I saw big risks in this subdivision because my freedom of information and action would have been reduced and

subject to external conditioning. On the other hand, I thought that, finding myself in charge of 80 % of Fiat's business, I would have sufficient work on my plate, and I did not aspire to any further positions merely out of a taste for power; moreover, Romiti would never, and I mean never, have given up his direct control of aspects of administration and finance through Mattioli, who for him was more than an emanation, but almost a bodily extension. The situation was similar to that of 1976, when Gianni Agnelli did not want to grant Carlo De Benedetti full responsibility, obliging him to refer to his "colleague" Cesare Romiti regarding financial and administrative aspects. I had also got on with Mattioli, and I imagined that neither he nor I would have caused those tensions aroused by the two cocks in the same coop fifteen years before. So I readily accepted Romiti's second request too.

In recomposing the management team of the *direzione generale*, I determined to stick to the customary policy I had already followed in 1979 in Fiat Components and in 1984 in Iveco: to change only what was indispensable and to select people with a view to matching the professional qualities of each one to those required by the position, without prejudice towards individuals or submissiveness towards the concert parties. But, unexpectedly, I immediately ran into a few problems.

The first surprise came from Carlo Callieri, who was *direttore centrale* in charge of the Intermediate Sectors.⁴ I had every intention of reconfirming him and did not foresee obstacles, because Callieri had already worked with me and I knew him well. In 1983, when I was still running the Components Sector, Ghidella had asked me to take him with me (and Romiti had championed the request) to get him away from the position of head of Employee Relations in Fiat Auto, which had become difficult, awkward, and emblematic after the success of the March of the Forty Thousand. I had accepted willingly, nominating him CEO of Gilardini and at that time our collaboration had been entirely calm and normal. During my time with Iveco he had risen to that largely non-operational position of *direttore centrale*, which I had unwillingly occupied for less than one year. Instead, Callieri refused to remain a part of my team, declaring to Romiti that he felt that the idea of not reporting to him directly anymore was insulting. After this statement he went into self-imposed exile in an office at the farthest side of the eighth floor in corso Marconi, and shortly afterwards he agreed to hole up in a liaison job between Fiat and Confindustria, where he was later nominated vice-president. I had no trouble in replacing the defector with Luigi Francione, one of the two former *direttori generali* of Fiat Auto, a man with long experience of factory and production, whose industrial competence I appreciated.

Another unexpected event gave me a more complex problem to solve. As controller of the companies that referred to my office, I counted on Luigi Arnaudo who was already doing this job in corso Marconi. As I had known him for some time, I knew that he was not in the habit of sticking his head in the sand and was

⁴ For the definition of "Intermediate Sectors" see [Chap. 4](#): in that period they were Magneti Marelli, Gilardini, Teksid, and Comau.

able to make people listen to him. These characteristics had not won him general benevolence, yet it was precisely for this reason that I wanted to have him with me, because I was still faithful to my habitual policy of constructing organization charts with a strong dialectic tension among the company functions. But he turned down the offer. His logic led him to believe that it was inconceivable to have two separate control entities within Fiat and, further, that the administrative apparatus should be directly in the hands of a single controller. Basically, Arnaudo was challenging the structure that Romiti had imposed on the Holding Company. His refusal upset the team game I had in mind.

I tried everything to make him change his mind, and with me Gianni Agnelli also did his utmost. Agnelli never had a really clear grasp of what a controller's task actually consisted of. Not being particularly expert in company accounting, he attributed something special, almost magical, to those who could take those figures and infer something about the phenomena that originated them, and he was never completely convinced of the fact that engineers like Vittorio Ghidella or me could reasonably know something about that science. Arnaudo came from RIV,⁵ he had worked in both the Car and Industrial Vehicles Sectors, he had company tradition behind him, recognized drive and an internal renown that Ghidella and I had promoted, and this was enough to make Agnelli my most powerful ally in the task of overcoming his reluctance. I believe that Luigi Arnaudo beat every record for stubbornness; I know nobody else who could have resisted the powerful and fascinating Chairman of Fiat who, egged on by his new COO, said: "Come, Arnaudo, accept, please, accept...". The picture that day was a decidedly unusual one, with Agnelli entreating and the three of us standing nervously next to a window that overlooked Turin stretched out at the foot of the Chairman's office on the eighth floor of corso Marconi. But there was nothing doing, and Arnaudo left Fiat in early 1991, leaving two awful legacies: he left a vacancy in a role that was fundamental to my management and in IFI⁶ he reinforced the front of Umberto Agnelli's followers, to whom he supplied ammunition for the war against Romiti and Cantarella, a war that, as I shall describe later, was to rage over the following two years. Unfortunately, Arnaudo's analyses, which I had hoped might represent a stimulus and a guide if expressed in the right place, changed into the fuel that fed interpersonal conflicts in an anomalous context.

I replaced the defector with Umberto Quadrino, who I had known since the time, fifteen years before, when he had been a very young *direttore adetto* to Cesare Romiti. After that, he had joined Enzo Amapane and me in the small group of assistants to top management, and then he joined me in Iveco as CFO.

In the other areas of the Sectors and the Holding Company there were neither problems nor novelties, and so the new organization chart of the Fiat Group saw the light (see Table 8.1).

⁵ Translator's note: RIV was a manufacturer of ball bearings, owned by the Agnelli family for a long time, and sold to the Swedish SKF concern in the '60s.

⁶ Translator's note: IFI was an Agnelli family holding, in charge of its Fiat shares.

Table 8.1 Fiat organisation chart as from 10 December 1990

Position		Responsibility
G. Agnelli	<i>presidente</i> (Chairman)	
C. Romiti	<i>amministratore delegato</i> (CEO)	
G. Garuzzo	<i>direttore generale</i> (COO)	Automotive sectors: <i>Fiat Auto, Iveco New Holland, Teksid, Comau, Magneti Marelli</i>
F. P. Mattioli	<i>direttore centrale</i>	Diversified sectors—control, administration and finance

The Tragedy of the Auto Sector

In January 1991 I came for the third time to occupy that zone on the eighth floor of corso Marconi, facing Gianni Agnelli's office and the sala Nasi, which I had already known in 1976 and 1983. And immediately I found myself immersed in a tangle of terribly serious problems.

Fiat Auto was in an extremely severe crisis. The structure of the Fiat, Lancia, and Alfa Romeo range had been inadequate for a long time, but this precariousness was now further heightened by ageing models, shortcomings in quality, the deterioration of the sales network and the dreadful reputation of the brands on the market, especially foreign ones.

Matters were aggravated by the fact that the import quotas on Japanese cars, far more competitive in terms of economy and quality, would soon be abolished.

The Fiat company system showed itself to be rather inefficient and expensive, penalized as it was by a burden of indirect personnel, white collar workers, and managers, who were far more redundant than the factory workforce.

The whole thing had got worse because of the scant attention paid to it by the Sector Heads in recent years: Vittorio Ghidella, during the difficult final period of his stay, and then Cesare Romiti, who was busy with other matters.

And again: Fiat Auto's cars were almost all produced in Italy (except for the Fiat 126 and the Fiat 500 that came from Poland, but whose contribution to profit margins was zero) and precisely in that period the country's terms of trade with the rest of the world were getting worse by the day, plunging towards the abyss from which they were to emerge only with the abolition of the mechanism that index-linked wages to inflation (the so-called *scala mobile*) in 1991 and with the maxi-devaluation of the lira in September 1992.

The numbers mercilessly reveal the entity of the crisis affecting Fiat Auto: (1) industrial margins were shrinking; (2) overheads were increasing; (3) market shares were steadily decreasing. Italian public opinion, even its least attentive segment, realized that something was not right owing to this last parameter, whose monthly results could not be concealed. Even though the data published were touched up to look better, as I shall explain later, market share was dwindling so fast as to have very few historical precedents. In the first semester of 1992 all Fiat marques together accounted for only 43 % of the Italian market, as against an

average of 57 % in 1989: fourteen points lost in less than three years! In segment B of the Fiat brand the Uno had slipped to under 30 % (from 43 %) and in segment C the Fiat Tipo stood at 25 % (from 45 %).⁷

The worsening of the other two parameters, the gross industrial margin and the incidence of overheads, was no less serious. Fiat Auto had made a lot of money in the mid Eighties, in the heyday of Ghidella's management, when peace had returned to the factories, the market was flourishing and the Fiat Uno was successful: the operating results of the Auto Sector had grown from 1,071 billion lire in 1984 to 2,362 in 1989. By taking on in person the responsibilities of the Sector Head, Cesare Romiti expected to enjoy the same profitability in the years after 1988, and Fiat Auto kept its car prices high even when internal and external conditions became unfavourable. Like a narrow blanket that when pulled at one side leaves the other side uncovered, the push for profit drove sales into crisis and, consequently, market shares too.

The Company stuck to its guns for too long, then suddenly yielded in October 1990, with an operation called "repositioning" that consisted of a generalized and dramatic reduction in list prices. If it was mistaken to erect an artificial dyke before, demolishing it in the blink of an eye was just as damaging: the car business is so vast and complex that it cannot tolerate violent shocks. The erosion of market share did not stop, but company margins collapsed: even though enormous profits were recorded in Brazil (whose liquidity was however difficult to transfer to Europe), and operating results slumped from 907 billion in 1990 to 160 billion in 1991. Three months after the "repositioning", Romiti appointed me to the *direzione generale* of Fiat and to the *presidenza* of Fiat Auto, while he made Paolo Cantarella CEO of the Sector: he had chosen the right time to quit!

The other major Sectors in the Group were also going through a hard time. Iveco, which had reached the final and most expensive phase of its effort to develop the new product range and recompose the factories, found itself at grips with the problems and costs of integrating Pegaso, precisely when the European industrial vehicle market was about to take a nosedive, following its traditionally cyclic nature. New Holland was preparing to merge the two pre-existing companies into a single whole, but in doing so it encountered exceptional burdens, worse than foreseen, because the Ford component arrived at the wedding ceremony with a situation that had deteriorated.

Matters were complicated by the explosion of the conflict between Umberto Agnelli and his entourage on the one side and Cesare Romiti and Paolo

⁷ These were the quarterly results:

Fiat Auto's market share in Italy (1989–1992, in %)

1989 full year	1990, by quarter				1991, by quarter				1992 I
	I	II	III	IV	I	II	III	IV	
57.7	55.4	53.1	52.0	49.4	47.7	47.4	45.1	46.1	43.7
<i>of which the Fiat segment B (Fiat Uno)</i>									
43.3	41.0	41.0	38.8	35.1	34.5	34.2	31.2	32.5	29.9
<i>and Fiat's segment C (Fiat Tipo)</i>									
45.9	42.0	38.8	37.6	37.5	30.1	27.9	29.9	31.5	25.6

Cantarella on the other, with constant battles that made me waste a lot of time and hampered industrial intervention insofar as every initiative immediately took on a “political” colouring in the eyes of the two opposing ranks, compromising the influence of my co-workers and forcing me to adopt a wearingly cautious stance. When, in the autumn of 1993, the war ended with the triumph of Cesare Romiti and his allies from outside Fiat in Mediobanca, the victor immediately turned against me.

It was on this poisoned cake that public prosecutor Antonio Di Pietro and his colleagues spread the explosive icing in the judicial inquiries on 1992 and 1993, inquiries that damaged only a few weeks of my work (as I shall be explaining in [Chap. 9](#)), but which deeply involved Cesare Romiti, distracting his attention for a long time from all other responsibilities and undermining his psychological equilibrium, as was inevitable for a seventy-year-old subjected to such stress.

Later, I shall return in greater detail to the story of these events that were so decisive for Fiat’s destiny and my own professional life, but for now I want to give a brief advance outline of the tangle of problems that Fiat then found itself having to face and that piled up around my desk as COO of the Group starting from that month of January 1991.

Marques, Models and Networks in Fiat Auto

At this point I must make a digression concerning Fiat Auto’s product range seen in relation to the three marques available (Fiat, Lancia, and Alfa Romeo), and to the needs and opportunities of the European market. I believe that this digression is indispensable for an understanding of the competitive potential of Italy’s biggest industry in the Nineties and for a grasp of some behind-the-scenes events of that period in Fiat and elsewhere.

The European car market and the position of each competitor, that’s to say its market share, were (and are) measured by the number of vehicles registered. This is a widespread practice, which is nonetheless not very instructive regarding the reality of the business, because what really counts is turnover and, above all, profit margins. The demand for cars in Europe was (and is) highly varied in terms of dimensions and characteristics, and was subdivided into an infinity of models and niches, but it was easy to identify three large segments with high concentrations both of volumes and margins. The three segments in question were designated with the letters B, C, and D. As you proceed from segment B towards C and D, with the increase in the size of cars the numbers absorbed by the market decreased, but unitary values increased, and so segments B, C, and D constituted three reservoirs of potential margins whose dimensions were roughly equivalent, each capable of feeding the group of producers active on the European market to the tune of 15,000–20,000 billion lire. Every constructor who succeeded in holding a 12 % share in Europe in one of the three abovementioned segments therefore earned a gross margin of between 1,800 and 2,400 billion lire.

Well: in the early Nineties each of the six major “generalist” European producers⁸ had at least two, and often three, models in that position, models that ensured them gross margins ranging from 3,600 to 7,200 billion lire. These were the cornerstones on which each company based its economic results in the long term. To these essential products each constructor added other models that brought in less important sums, pleasing but not determinant, because they were far smaller than the primary ones.

Fiat Auto was an exception because it possessed only one rich model, the one in segment B. In that segment it could design and construct the right products and had a network and a reputation suited to selling it, as had been demonstrated by the Fiat 127 before and the Fiat Uno later. But Fiat Auto had never managed to break into segment C, either in the days of the Fiat 128, or with Nicola Tufarelli’s Fiat Ritmo, or with the Fiat Tipo. This last, which Ghidella had launched with great enthusiasm in 1988, got off to a good start only to falter prematurely because of the quality problems that had emerged. Fiat was absent from segment D because the Fiat Tempra was a camouflaged C, built over the Tipo’s C platform, and customers had spotted this right away. In a few words, Fiat was in trouble because it was limping along on one leg instead of running on two or three like all the others.

But there was worse. In segment B the family competitor, the Lancia model, was not excessively “cannibalizing”, because Ghidella had managed to invent a niche for the Y10, for which he got a high price, sufficient to make up for lack of sales, few and all of them concentrated in Italy. Fiat’s share in segment C, already small because it did not go beyond 7 % of the European market (an average measure between a good share in Italy and a laughable presence abroad), was fragmented into many models as well as the Fiat Tipo, all marginal in terms of volumes: the Fiat Tempra, Lancia Dedra, Lancia Prisma, Alfa Romeo 145 and the Alfa Romeo 146. With production in the order of 30–40,000 units per annum each, these cars were secondary players on the European stage, where the prima donna Volkswagen Golf triumphed with 600,000 units a year.

The problem of product fragmentation got worse in the mid Eighties as a consequence of the acquisition of Alfa Romeo, an initiative that proved very onerous from the standpoint of the structure of the range, because it added four models to manage (164, 154, 145, and 133), all with negligible market shares outside Italy. Cesare Romiti, the master of power games down in Rome, had fought hard and won with cunning the struggle to prevent the Milanese car builder falling into the hands of Ford, but on a strategic level the sole justification lay in the protection of the autonomy of the Italian market. In addition, three big factories were acquired (Arese, Pomigliano, and Val di Sangro). These plants were technically outdated and with dreadful work habits, without the existence abroad of a sales and customer-service network worthy of the name and, as I have said, with very low production volumes for every model.

⁸ Apart from Fiat Auto (including Alfa Romeo and Lancia), also Renault, PSA (Peugeot and Citroën), Volkswagen-Audi (including Seat), and American Ford (including Jaguar) and General Motors (with the Opel and Vauxhall brands, including Saab).

Vittorio Ghidella paid very close attention to production issues and had tackled the question head on. He had the factories overhauled and designed a common set-up for the six models of the three marques in segment C by building all of them over a single platform, i.e., over the same metal structure. The programme, which was much publicized and appreciated, was intelligent from an engineering point of view but not very efficient on a business level.

It was not possible to exploit synergies among models that much because the components that influenced the “personality” of each marque had to remain distinct, a fact that prevented savings on the cost of supplies. Moreover, despite caution in this regard, the character of each marque emerged a little diluted and blurred; in particular, it wasn’t possible to increase the content of Lancia and Alfa Romeo with respect to Fiat to the point of being able to expect a better price for brands of such (presumed) prestige. In Italy, such marques were surrounded by a historic aura, which was handy, but abroad things were the other way round: Lancia and Alfa models were sold at lower prices than those of Fiat, with consequences on margins that were easy to imagine given the small quantities produced.⁹

So far, I have not dealt with segment A, that of the super compact cars, where Fiat was historically pre-eminent, covering on its own almost the entire European demand in the segment, through the Fiat 126 and the Fiat Panda. But this position involved an economic disaster. The aphorism “small cars, small profits”, which had been coined in the distant past, was becoming truer every day. Production costs are proportional to the dimensions of vehicles only for the parts in sheet metal or cast iron. On the other hand, the value of onboard devices is almost independent of size, and this is all the more true the more sophisticated such devices become. Think of ABS braking systems, air bags, electrically opening doors, air conditioning and a thousand other gadgets more and more commonly in use; their function, and hence value, is almost the same in any vehicle of any size. The coup de grace for profitability in segment A derived from devices that were made obligatory to reduce pollution: catalytic converters and electronic injection turned out to be real bloodsuckers as far as compact car margins were concerned.

Thanks to its predominance in the small car segment, for thirty years Fiat distorted the Italian market, polarizing it on compact models and orienting local demand towards a mix unique in the world. Fiat was a winner on the domestic market but inconsistent abroad. The legend of the family “runabout”, which was wisely created in the *Italietta* (“poor little Italy”) of the Fifties, was kept alive in the Sixties, by which time it was obsolete in the world’s seventh industrial power, perhaps as a consequence of the conservatism that characterized the final phase

⁹ In France, for example, Lancia was considered a poor linked brand of Fiat. Later, Paolo Cantarella had to withdraw the marque from the UK. The problem became enormous when Fiat launched the Bravo and the Brava without either Alfa or Lancia having equally worthy models. The Volkswagen boss, Ferdinand Piech, told me one day about the enormous efforts he demanded of his designers in order to ensure that the perception of Audi models was always greater than that of the corresponding mass market models by VW, for example by using aluminium or magnesium even when they could have done without them, thus pursuing a strategy that was the opposite of the one Fiat was obliged to follow with Lancia and Alfa Romeo.

of Vittorio Valletta's interminable management; Italian tax legislation, which had been steered in that direction, fossilized that conservatism even afterwards.¹⁰ In this way, Fiat did itself double damage: the first time because its minimalist policy impoverished its own principal market (it accepted, for example, to "cannibalize" the Fiat Uno by offering customers the Fiat 126, which made for drastically smaller margins), and the second time because the structure of domestic demand, thus castrated, did not stimulate the creation of larger models suited to meeting export demand. As usual, this insidious and prolonged protectionism reduced the competitive capacities of an industry and damaged it in the long term.

In December 1991, the arrival of the new Fiat Cinquecento¹¹ perpetuated this distortion. To sell the new vehicle without losing out too much it was decided to construct it in Poland, where labour costs were 15 % of those in Italy. But despite this, unitary margins were negligible and the success of the car, luckily not overwhelming but in any case considerable, disturbed the model immediately above it: yet again they gave up on a Fiat Punto, which would have brought in 4 million lire, in order to sell a few Fiat 500s that boosted numbers and market share but contributed a minimal gross margin.

The regulations for the protection of the environment led Fiat to a paradoxical situation. Its compact cars polluted less than the big cars made by other competitors because they were less powerful and consumed less. Fiat's production mix, shifted downmarket, caused less damage to the environment not only with regard to manufacturers of luxury cars such as Mercedes or BMW, but also with regard to other generalists, whose presence was more marked in segments C and D. This argument was unknown to European public opinion because Fiat and Fiat Auto were incapable of creating a decent information campaign for the product and the brand outside Italy, while their lobbying in Brussels was not efficacious.

On the contrary, international regulations measured pollution emissions in comparison with the kilowatt-hours delivered: the rules permitted a 100-HP engine to consume twice as much and pollute twice as much as that of a 50-HP unit. Instead of launching a campaign to inform public opinion and persuade politicians to reward the factories with a more economical product mix (as the United States had one with its CAFE programme), in the Eighties Fiat had attempted a desperate rearguard defensive action and had opposed strict anti-pollution measures, with very poor results. All it managed to do was delay the introduction of catalytic converters to Italy, but in exchange it brought on itself a reputation for "dirt" that had

¹⁰ Two examples: to establish the price of road tax they invented the *cavallo-fiscale* (taxable horsepower), a measurement that was not physical but bureaucratic, linked to cylinder capacity; while a huge VAT supertax was slapped on engines of more than 2.5 L, because Fiat did not have a suitable engine.

¹¹ Patrizio Bianchi, in charge of a study centre run by Nomisma, saw things correctly: The decision to invest 1,000 billion to produce a super-compact car in Poland [...] tells us that Fiat intends to maintain a position in the lowest segment of the market with a poor product [...]; this is a sign that it is struggling: there's still a long way to go before Fiat returns to competitiveness" ("The Independent", 11 December 1991).

damaged it in Germany and in other ecologically more sensitive countries, where the competition had skilfully collected all possible traces and commercially denigrated less skilful constructors.

In my thoughts I tried to imagine what would have happened if Fiat had ignored segment A, leaving it to someone else, and had produced at Polish costs a mass vehicle for segment C, with which to attack Europe. But when I arrived in the *direzione generale* and the *presidenza* of Fiat Auto, the short-term game had already ended some time before and talking about these things was entirely useless, if not downright harmful.¹²

To sum up: structurally, in Europe Fiat Auto could count on a parcel of gross margins equivalent to one half or one third of those of the five main competitors, margins that derived from a single primary product, the Fiat brand's B offering, whereas the other competitors had two or three apiece in their own portfolios. Yet in corso Marconi it was held for a long time that Fiat Auto was the number-one European producer, and Gianni Agnelli had shown himself to be very proud of that fictitious position, until the year in which Volkswagen/Audi overtook Fiat also in terms of the number of cars sold!

So far I have talked about gross margin, in other words what is left to the company after having paid direct production costs; but the fragmentation of the range was far more damaging than appears from this simplified analysis. In fact the costs of development and distribution (which those margins ought to have financed) were proportional to the number of different models, not to the number of units sold. Moreover, with all those projects to supervise, the attention of Fiat Auto (and of its suppliers) was dispersed in thousands of small streams, so that it was not possible to attain good quality despite Cesare Romiti's "railway" rhetoric. Investments in the network and in advertising were not enough to support every brand and every model around Europe. For certain cars, in some countries Fiat did not manage to win so much as the minimal measure of fame that suffices to attract the attention of potential consumers. And nobody buys anything whose very existence is unknown to him. The majority of European motorists grew old without even learning the name of many Fiat models.

Faced with this enormous, far-reaching problem, those in charge of Fiat Auto and the Holding Company stuck their heads in the sand. It was impossible to tackle that issue without being accused of defeatism. Absurd as it may seem, the basic themes of business, including that of the product range, were considered matters for specialists, entrusted to the responsibility of the Sectors, while top management was busy with "general" and "institutional" topics and relationships, economics, politics and, above all, power in Italy. The problems of the product range were internal to the fief and hence appertained exclusively to the feudatory,

¹² Years later I fought against the idea of investing 1,500 billion on an entirely new vehicle to renew the Fiat 500, cash that would never have returned, until in 1995 Paolo Cantarella finally ceased to propose the initiative. We also gave up on producing the Smart, which Nicolas Hayek (the creator of Swatch) came to offer us insistently: we left Mercedes to get into that mess, with the enormous losses that were to be derived from it.

while the central empire had neither the power nor the competence or the desire to stick its nose into such matters.

As soon as I took over my responsibilities as *direttore generale*, Cesare Romiti devoted himself even more to external questions that had little or nothing to do with Fiat's business. As far as concerned Fiat Auto he limited himself almost exclusively to participating in the formal meetings held periodically among the functionaries of the Holding Company and the Sector Heads, meetings during which final balances, budgets, and plans were presented. But in the Nineties, unlike the past, Gianni Agnelli had also become an assiduous participant in these meetings because, on growing older, he had given up the nomadic existence that had kept him far from corso Marconi for decades.¹³ When Agnelli was present, Romiti adopted an attitude aimed at reassuring the Chairman regarding the solidity of the Company and his own capacity to run it, and this climate meant the loss of any possibility of discussing the effective contents of the business because it became impossible to make even the slightest critical observation or ask any question that might be deemed impertinent. Even the functionaries called upon to explain matters that fell within their competence limited themselves to playing a part. It was even worse than the Steering Committee meetings of the Seventies, in which I had taken part as Secretary.

In order to be able to talk freely, apart from the pre-existing formal meetings I had to attend a series of other encounters referred to as “appertaining to the *direzione generale*”, without the presence of Romiti or Agnelli. But any unpopular decision became more difficult. Unfortunately, given the evident signs that as far as the supreme authorities were concerned things were going fine just as they were, Paolo Cantarella took advantage of the situation to favour Fiat Auto's absolute autonomy, also and especially with regard to the *direzione generale*.

The person who had identified with great clarity and competence the problem of Fiat Auto's range, brands, and networks, and who had raised that same problem with vehemence, was Umberto Agnelli, whose position was supported by the data that Luigi Arnaudo prepared for him privately. But he stepped in at the wrong time.

In 1991 Fiat Auto was in such deep trouble that it was unthinkable to tackle a structural issue of that magnitude at that time. I calculated that if we had put our hand to restructuring the brands and doing away with non-competitive models, in the first instance we would have suffered losses amounting to 150 or 200 thousand vehicles a year, something absolutely unacceptable, even though turnover of that kind brought in scanty margins or none at all. The sales networks were in revolt, the factories were far from being utilized to the full, inefficiency was rife, and the

¹³ In 1984, on the occasion of Umberto Agnelli's fiftieth birthday, Romiti, Ghidella, and I were invited to a family get together in the villa at Villar Perosa. Gianni Agnelli, in the course of a little speech, thanked us for the work we were doing in favour of the incomes of those present (“take the dividends” he said “and leave the managers to work in peace”), then, on noticing the respective wives among the onlookers, he couldn't resist a quip and prophesized for us three too a similar return to more domestic values as we grew older.

company machine was committed to developing the Fiat Punto and building the factory at Melfi; the entire company system was on the verge of collapse and could not have survived major surgery. Umberto Agnelli himself seemed inconsistent: he had no faith in what Cantarella was doing, as I shall be saying later, yet he criticized him for not doing enough.

I thought that the first thing to do was to work on short-term survival and the most accessible structural aspects, and only after modifying the organization of products and markets. *Mutatis mutandis*, I had pursued this strategy six or seven years before with Iveco and its SPR. The decision to put off long-term steps regarding the structure of the range made my relations with Umberto Agnelli difficult for the time. He had kept silent for many years, when he was Chairman of Fiat Auto SpA, and could have easily spoken out. Now that he had gone into self-imposed isolation, leaving the position to me, he was raising the problem in a peremptory manner, as an instrument of his total antagonism to Cesare Romiti and Paolo Cantarella. I understood his reasons but I disagreed both with the timing and the attack on my co-worker. I had to support Cantarella in the efforts he was making in the short term and I did so by speaking to Umberto Agnelli about this on countless occasions, in meetings or in private encounters, where I defended Cantarella's ongoing intervention in Fiat Auto to remedy the most pressing problems and I also defended the status quo of the range, even though I was convinced in my heart of hearts that something had to be done about that as soon as possible.

The structure of the range and the brands stayed as it was for three years. In December 1993, when Fiat Auto was back on the right track, I decided that the time had come to act; but, as I shall be saying in the next chapters, it was too late for me, and Romiti put a stop to everything.

The Melfi Factory and Post-industrial Turin

The problem of the "structure" of the range and the brands having been shelved unsolved, the renewal of individual models was something that could not be put off. Whereas segment B had been the only one to prop up the fortunes of Fiat Auto in the past, now there wasn't even that: the Fiat Uno had aged and could no longer hold the market. At the start of my new job in 1991, the common hope of saving segment B, the Company's only leg to stand on, lay in a car that Fiat Auto was developing and was to come out in 1993 with the name Fiat Punto. Inside and outside the company many people understood that the failure of the new model would have spelled the end for Fiat Auto as an independent car maker. This situation was crystal clear to me.

But it was not just a matter of the Punto. Fiat Auto had decided to build a completely new factory in which to produce the model and had chosen Melfi, a city in Lucania. The decisions regarding the new plant preceded my nomination as *direttore generale* and *presidente* of Fiat Auto, and the company made the information public roughly in those same days. I tried to document myself on the subject as

best I could and as soon as possible in order to understand and adopt a stance on the matter. After weighing the pros and cons, it seemed to me that the initiative, albeit risky, was opportune. In a new factory in southern Italy labour would have cost less than in Turin, at least for a certain number of years, and this was no mean consideration: costs in the other Italian factories were by then beyond all limits, as I shall be saying later. Another reason, even more important: this would have been the first factory within the Group built to “make” quality with young people, hence physically and psychologically robust, well trained and motivated, not ruined either by age or the anti-industrial propaganda of the Sixties and Seventies, hired to work three shifts six days a week. In that period, the Japanese seemed invincible thanks to their new, low-cost European factories: well, in Melfi Fiat too would have its “transplant”.

The decision to build the new factory involved important aspects of economics and industrial organization.

I was not afraid that the choice of southern Italy might damage the economy of Turin. No modern northern city could base its future on assembly-line metalworkers, as had been the case in Turin for the previous hundred years. In the Fifties and Sixties poverty had forced people to emigrate towards Turin, coming down from the hills or moving up from the south. In my early youth I had witnessed at first hand a part of that epoch-making migration. Until the Fifties, the mountain folk of the town where I was born, in the province of Cuneo, had lived terrible lives of toil and hardship without anyone taking any interest in them. Then the factories on the plain had offered an unexpected escape route. It was hard work on the assembly lines, but incomparably less so than work in the mountains; in addition, one received a guaranteed pay packet. For some time the new workers from the mountains resisted the call to put down roots in the city: they rose at dawn as they had always done and, instead of walking up the mule tracks with a pannier on their backs, they took the buses for the factories down on the plain, from which they returned only late in the evening. Then, after a few years, they took the big step and abandoned their previous lives altogether. No one had obliged them to do this, they were merely attracted by the desire to improve their condition, as was borne out by the conquest of a small but decorous flat in the city, equipped with facilities worthy of the gentry, such as a toilet in the house and central heating (I am speaking from experience: for the entire period of my childhood my family had had neither one nor the other).

The immigrants’ hard work also attained another goal: to give their children a reasonable level of education. Now these youngsters would not have to endure the rhythms of the assembly line: rightly, they aspired to less laborious tasks, which the economic progress of the country promised and permitted. A new wave of immigration to Turin was not on the cards. The future of young people in the city had to be built on new roles. It was essential that Fiat not only preserved in Turin but developed to the maximum the extensive nucleus of the central services, bodies with specialized know-how, among which stood out the planning of products and plants, informatics, logistics, finance, and marketing... It was these things that management should have committed to, and not to maintaining at all costs assembly lines destined to migrate to places where costs were lower.

Then there was the problem of the maximum utilization of plant that had required high capital investment, a problem that had been neglected in the Eighties.¹⁴ Now things were changing; I had made this issue my hobby-horse in Iveco, then it became essential for the entire Group.¹⁵ The utilization of the factories: and the workers? I was never convinced that night shifts were a calamity as they were sometimes described, especially if people were given suitable recovery times. The model adopted in Melfi, the so-called 6×6 , by virtue of which people worked for six hours six days a week, and periodically enjoyed five straight days of holiday, probably marked an improvement from the human point of view: youngsters immediately got used to this and appreciated those sabbaticals that the module frequently granted them.

But this was not the central point. Towards the end of the Eighties I visited many factories in the USA. I returned highly impressed and brought back to Iveco a simple message, precise and tough: either we tried to move closer to our competitors who never stopped production or we would no longer sell on international markets. It was easy in those days, when you didn't have to sell thousands of products day after day all over the world to customers who rightly had an eye to prices, to thunder from the stages of rallies and from church pulpits against work practices defined as inhuman, and to acquire in this way merits for this life or the next. Those who found themselves on the wrong side, running companies, lived in perennial anxiety: either they utilized factories on a level with the best of international competition, or they lost market share and opened the door to de-industrialization and unemployment. Which choice was to be blamed?

But let's skip the generalization of the problems and go back to Melfi. Given the situation, I thought that if Paolo Cantarella and his associates had succeeded in making the factories work intensively and to make the hands work well, not only would this have brought momentary relief from the troubles that afflicted Fiat Auto but it would also have served as an example to the other factories, thereby implementing a silent revolution that would have had an influence on the working methods of the entire Group.

Umberto Agnelli was not of the same opinion. According to him, Fiat Auto would not have been able to build the new car and the new factory at the same time and still respect the time scales foreseen while offering suitable quality: it

¹⁴ One little example: Fiat Auto measured the saturation of the factories with a highly sophisticated computerized system, but it set the use of 220 days a year as equal to 100; those in charge were stunned when I asked for the bar to be raised to 365 days (366 on leap years).

¹⁵ It's easy to understand why. Suppose, for example, that you invest 5,000 billion lire in new factories with a view to remaining or becoming competitive (as Iveco did with SPR); the consequence of this is a gigantic cost in terms of depreciation and interest, something like 1,500 or 2,000 billion per annum. If the factories work only 80 hours a week (16 h per 5 days) instead of 144 per week (24 h per 6 days) the quota of financial cost that every unit of product must take on itself increases by 80 %, a gap that cannot be recovered in another way: it makes the difference. On analysing the accounts in detail, you could see that Fiat Auto could try to obtain from a better exploitation of the factories a value roughly equal to half of the margin that it lacked owing to the inadequacy of the C and D models I have described above.

was a task that exceeded the capacities of the Auto Sector. The result would have been the ruin of the Sector and, consequently, the Group. Every time I met Umberto Agnelli, and this happened very often, he would return to the topic, so that I was obliged to defend to the utmost both the projects underway and the men who directed them. Luckily, Paolo Cantarella had mobilized an excellent team for Melfi, and similar excellence characterized the work of the designers of the Fiat Punto, led by Stefano Jacoponi. Cantarella, who was showing himself to be totally unwilling to delegate, personally contributed to the car, almost in every detail. The Melfi factory became operational in record time, and the Fiat Punto was launched less than thirty months after the approval of the styling model, another record, and not only for Fiat. In this way Italy could boast another technical-industrial creation to add to its show of extraordinary successes.

The Renewal of the Fiat Auto Range

Cantarella organized a renewal plan for all the models in the range based on the “5 × 2” principle: every five (or six) years each model would have been replaced by an entirely new version, not a simple restyling, but starting from a pre-existing platform; this would have been changed every two cycles, in other words every ten or twelve years. The plan was justified by the realization that the frequency of renewal of Fiat models had been too slow in the past and that partial restyling was by then of little use on the market. On the other hand, a far longer life span was foreseeable for that part of the car the customer does not see because it is beneath the bodywork, and requires great investments... Unfortunately, the effort required to apply the new strategy to all the models of the three marques, Alfa, Fiat, and Lancia, was so great that it would have necessitated an enormous outlay in terms of investment. All that was necessary was to take a look at the table showing the range: it was a cornucopia that abundantly made up for the dearth of the second half of the Eighties. But this topic led back to the problem described in the previous section, namely that of the structure of the range, the marques, and the networks that I was determined to bring up later, as soon as conditions made this possible. Bound up with the problem of renewing the models there was that of improving product quality. As I have already said, Fiat Auto possessed strictly confidential numerical data, which substantiated a fact well known to everyone, an open secret: the Italian marques were the worst in Europe. The campaign launched by Cesare Romiti at the end of 1989 was more than justified but the methods chosen had not permitted important results, if not that of attracting the attention of the media and the public, which no longer intended to accept from Fiat Auto what it had accepted for decades. Starting from 1991, Cantarella’s management racked up some limited short-term successes, but no really important improvement came along until the arrival of the new Fiat Punto and the new factory in Melfi, both suitably conceived right from the start. Nevertheless, the models to be renewed were so many that it was impossible to devote the same attention to all of them.

The Network in Revolt

At the beginning of 1991 Fiat Auto's sales network in Italy was in revolt. Behind this lay a complex matter whose origins were lost in the past. In the period in which Vittorio Ghidella was in charge of the Auto Sector, he had convinced himself that Fiat's Italian dealers had got rich during the boom and had invested in other businesses the money earned in the Fifties and Sixties, when Fiat dominated the domestic market, diverting cash and attention from cars. He feared that by doing this the dealers had become lazy and inefficient. This was a widespread opinion within Fiat, shared also by Cesare Romiti who, by way of proof of this idea, liked to cite a few examples known to him personally. Ghidella had used a heavy hand; in many cities he had replaced well-known dealers with far tougher, often unknown newcomers. He had sidelined, rather unceremoniously, old entrepreneurial families who considered themselves integral and noble members of the Group because they had known, in the Thirties and Forties, Giovanni Agnelli¹⁶ (who they still called the "Senator") and Vittorio Valletta, and whose number included locally important personages who attended Rotary Club dinners and the meetings of the industrial associations. The new dealers were more active but, unlike their predecessors, they had few financial resources and no attachment to the company. These shortcomings made themselves felt even more as Fiat products went up in price and lost prestige in comparison with those of the competition. In an attempt to save profits from this process of erosion, the functionaries of Fiat Auto adopted an oppressive attitude to the network. The informal but evident guideline was: "If Fiat does not make money, why should its dealers do so?" Fiat's Auto commercial culture was limited and people did not understand that a dealer who loses money is a dead dealer, and that dead dealers do not sell anymore.

In these conditions, between the Eighties and the Nineties, the network was hit by serious repercussions and the number of dealers who gave up became very high, a fact that also contributed to damaging after-sales service and the reputation of the marques in the eyes of the customers.¹⁷

One of my first requests to Paolo Cantarella was that he give priority to remedying that critical area, but he, who had never managed nor even seen a large national sales network from close up, was unable to take account of the problem and put up total resistance to my requests. Then, one day in the spring of 1991, during one of his first real encounters with the network, he unexpectedly found himself facing an

¹⁶ Translator's note: Giovanni was Gianni's grandfather, who ran Fiat from its foundation up to the end of the war. He had been made Senator by Mussolini.

¹⁷ This was more evident for Fiat than for Alfa Romeo and Lancia, whose dealers had not been quite so decimated by the reforms, while most of them still belonged to the historical nucleus. Iveco's trading policy had been different. We had been aware of the problem, so that in the seven years of my management only a few good dealers had been lost and relations had remained good in general. From our standpoint we could see what was happening in Fiat Auto; the vice president for sales, Giancarlo Boschetti, who was often out and about to test the mood of the dealers would, on his return, tell me his criticisms of Fiat Auto gathered from those dealers authorized to sell both lorries and cars.

enraged crowd, literally prepared to throw tomatoes at him. Shocked, he came back and told me that he had feared a physical assault. Such was the level of exasperation towards Fiat management. Then Cantarella speedily took corrective measures. This was the first case of a paradigm that was often repeated in relations between Cantarella and me during the five years in which he was my principal co-worker. He not only refused to accept precise instructions from me, but also any criticism on my part. He judged any intervention of mine to be undue interference in the Sector Head's autonomy, so much so that it seriously undermined his leadership within "his" Company, something that in his view would have jeopardized unitary leadership and operational functionality. It was the umpteenth display of that personalistic attitude that was so deep rooted in Fiat after sectorialization. In Cantarella's view I was on the part of the Empire and had to deal with external and "political" events. Fiat Auto was his feudal possession, from which I had to keep my distance.

I had absolutely no intention of relieving the Sector or its head of their responsibilities: my experience as a Sector Head for four years with Fiat Components and seven years with Iveco had gone in the opposite direction. But I repudiated the principle of absolute independence: it was true that the Sector Head who made mistakes could be dismissed, according to Romiti's habitual affirmation, but such measures came by definition when the damage had been done, when it was too late and the Company was ruined. With the globalization of markets and aggressive competition, there was no more room for posthumous recoveries of the kind I had been able to lead in Iveco, when time was almost up.

I discovered immediately that Cantarella's idea enjoyed Cesare Romiti's unconditional support as he, as usual, abhorred getting involved in Fiat's core business, and so he unreservedly championed the structure and the traditional feudal practice.

If Cantarella refuted the existence of the problems I put before him, as he had done in the case of the sales networks, then I tried to send him adequate documentation and to sow around him a multitude of messages. After a certain period of time, he saw for himself that things were as I said, he convinced himself, internalized the problem and took steps, almost always with imagination, drive, and efficiency. I didn't know if I should admire his capacity for action or be annoyed about all the time wasted in order to convince him. It was a wearing exercise, even though it worked in the end.

In the case of the Italian network, Cantarella proposed to allocate 650 billion lire for a plan to recapitalize the dealerships that were generally well over their heads in debt. In order to obtain the money, the dealer had to pay a sum from his own pocket equal to the one Fiat was offering, and he had to repay the latter through a share of the commissions that he would have made from future sales, even though it was obvious to everyone that this presumed repayment served only to keep up appearances. I immediately approved the measure, which was implemented in a very short time and included in the annual balance. The results went beyond pure financial value, improving relationships and motivation: mutual trust was re-established between the Company and the network, while it was accepted once and for all that dealers' profits were not to be considered sinful, that the

dimensions of dealerships had to be suitable and that businessmen had to risk real money if they wished to carry on. All concepts that those competing with Fiat (and Iveco) had, generally speaking, learned and applied, but that represented an important turning point for Fiat Auto.

The Inconsistency of Fiat Auto in the Rest of Europe

If the Italian sales network was in revolt, in the rest of Europe it was falling to pieces. This malaise had ancient roots. Overall, market shares were of inconsistent size in most European countries and appeared negligible, if measured in their own segment, because they were spread over different models from three different marques. In the past, only the Fiat Uno had attained acceptable sales volumes. This structural situation put the survival of dealers at risk. Some decisions taken in the past struck me as incomprehensible because they seemed to ignore the basic weakness. For example, the mandates of the three marques, Alfa Romeo, Fiat, and Lancia, had been kept strictly separate, presumably to ensure that each had a different image, but this had prevented any synergy in services. Despite the high expenses, it had proved impossible to give each marque a clear personality in the eyes of the European public, also because the management of advertising had been improvised, without coherent and decisive long-term messages.¹⁸

Poor quality had done the rest. Let one sensational case stand for all the others. One ill-fated day in the early Eighties, three thousand Lancia Betas were delivered to British customers after having spent months languishing in the vast lots facing the Channel. The quality of electrophoresis, the system used to protect bodywork panels, was still very poor in the factory in Chivasso, and the UK-bound Betas, attacked by rust, were falling to pieces. The destruction of the marque's reputation was complete and irreversible, also owing to the smear campaign spread by the competition, so much so that the term "rusty" was inexorably associated with the brand. Cantarella had to decide the total withdrawal of the Lancia marque from the UK, after vain attempts at recovery and despite the investment of tens of billions of lire required to equip all the versions with right-hand drive.

The troubles of Fiat Auto's sales networks abroad started with top sales management. The heads of the franchises were almost all Italians transplanted abroad,

¹⁸ For example, in the early Eighties, Fiat's advertising campaign had aroused the indignation of the British: the UK had been plastered with posters that informed its citizens that the engine of the Austin, the only manufacturer that was still British, was "medieval" in comparison with Fiat engines. This copy, which revealed a poor understanding of British psychology, aroused the slumbering nationalism in what was Europe's most open market, and it also aroused civic conscience with regard to an attack deemed unfair, a most serious blunder, as the Argentinean general Gualtieri was to discover not long after in the Falklands war. Little old ladies rose up in rebellion and the newspapers were bombarded by letters from offended citizens. Years later, a TV advert showed the British a duchess as she made a present of the Fiat Uno to her butler who had served her so faithfully. And I could go on with other examples of this counterproductive style.

often very modest people who in the headquarters of Fiat and Fiat Auto were deemed to be of secondary importance as compared with functionaries operating in Italy: the bureaucratic management of personnel did not recognize the difficulties encountered in sales, but measured the importance of every position in terms of the number of units sold!

As soon as I was back in corso Marconi, I began to travel around Europe to meet with those responsible for the local activities of the Sectors.¹⁹ On those occasions it was easy for me to assess people, on seeing them in action in their own work environment, and I was convinced that the situation was hair raising. Every time I mentioned the problem with Cantarella, I would arouse his wrath at my “interference” in Fiat Auto’s affairs. Until one day he wrote me a letter of formal warning regarding a contact I had had in Germany. Never had a CEO been so disrespectful towards his Chairman, a fact that was as unacceptable as the condition of Fiat Auto’s foreign business was pitiful. I related this matter to Cesare Romiti, who blanched visibly. We were in the middle of the great war with Umberto Agnelli, which I shall describe later, and a public clash between me and Cantarella would have been disastrous for him. I reassured him: “I have told you this out of a desire for transparency in your regard, but you don’t have to do anything; I’ll see to it”. I called Cantarella and faced him with an alternative: either he withdrew the letter and pretended that it had never been written or sent, or he would have to prepare himself for the consequences that would ensue. He withdrew the letter. The following morning I went to Romiti’s house in corso Stati Uniti to refer the matter to him. He drew a huge sigh of relief: “I didn’t sleep a wink all night thinking about this business”, he told me; and I felt a certain affection for him, because I sensed a glimmer of humanity under his thick skin, if it was true that the potential clash between two of his principal co-workers had moved him sufficiently to admit to even the slightest weakness. The conflict ended there, but Cantarella took immediate action regarding the sales network. He speedily changed almost all the men in charge of foreign branches in Europe, thereby improving the situation. Even after that I continued tirelessly to harp on about foreign sales, in ways best suited to respect the man’s thin skin, and I had some satisfactions, but we never found a definitive solution.

¹⁹ The ceremonial included a general meeting for all *dirigenti* during which the consolidated annual report and the situation of the Group in the country were illustrated, which was followed by the discussion of topics of common interest. Then I visited the factories, met the national authorities and invited the local top management to a select dinner. There was nothing extraordinary about any of this, it had been customary practice for any multinational for a long time, but for the Fiat Group this was an unheard of innovation. It worked well for the four years of my tenure. I also got first-hand experience of one of the oddest paradoxes in the organizational structure of the Fiat Group, which I discussed in [Chap. 4](#). In every European country they had transplanted the same schema as in Italy, with a tripartition of presences. There were the operatives who reported to the Italian heads within each Sector, there was a representative of the Holding Company who reported to the Fiat Holding staff in corso Marconi, and there was an office of the function of central Administration and Finance, whose direct *longa manus* reached everywhere. The three currents communicated so little among themselves that often the *dirigenti* of the Group present in the same country met in person for the first time on the occasion of my pilgrimage to their country.

For his part, Romiti still neglected to deal with foreign affairs, more sensible as he was to matters in Rome. I find in my archives a handwritten note dated March 1991, dashed off on my return from a visit to Berlin for the inauguration of an exhibition. Romiti, to whom I had many things to report regarding relations with certain German personages I had just met, gave me the cold shoulder for the entire return flight aboard the Fiat jet:

On the return [flight] Romiti and Annibaldi, a little excited, did nothing else but talk about... Roman matters: subways and big shots; Berlin had not taken their minds off the deep south.

Ambassador Ruggiero and Internationality

In the early Nineties, Fiat Auto began to look for areas of development that were not penalized by the structural handicaps of the product range, the sales networks, and the image of the marque, and became more active outside Western Europe. The most important initiative of that period was the acquisition of the Polish licensee FSM, which manufactured the super compacts almost all of which were exported to Italy. This was an appropriate initiative, even though, as I have already said, I would have preferred use Poland to produce vehicles that were more appealing to rich markets.

It was in this context that a curious episode occurred. On 28 June 1991, amid general surprise, Renato Ruggiero, an illustrious personage who had been both ambassador and cabinet minister, was nominated to a position whose origins and rationale nobody understood: he was co-opted onto the Board of Fiat SpA with “the task of directing and co-ordinating activities regarding the Group’s international business interests”. The letter that Cesare Romiti sent to me on 18 October 1991 continued as follows:

In order to permit ambassador Ruggiero [...] to intervene in a concrete fashion in these matters, it is necessary that the Sectors in your charge provide a suitable briefing on their international initiatives, with particular reference to extra-European countries.

It was an odd request. Fiat’s three big Sectors, not to mention the others, had hundreds of initiatives underway in as many countries throughout the world and had at their disposal powerful management structures devoted to this purpose, since international activity constituted a substantial part of their work. In fact Iveco and New Holland were true multinationals. I, too, devoted a large part of my activity to the “rest of the world”, together with my co-workers in the Holding Company. How could this enormous mass of activities be “directed and co-ordinated” by a poor soul catapulted without any preparatory training from the civil service to an office on the seventh floor of corso Marconi? Simple, Romiti’s letter to me continued:

It will be ambassador Ruggeri’s concern to identify with you [Garuzzo] those working methods considered suitable for the coherent and efficacious development of the Group’s actions in the countries where the initiatives will be implemented.

In reality, Romiti could barely stand Ruggiero, who had been imposed on him. He told me that he was a formalist always ready to invoke the literal aspects of

the circulars of appointment. But I appreciated him. I found him intelligent and dynamic, a happy exception in the civil service from which he came. But this esteem on my part complicated matters. I would have liked to get him involved, but I didn't know how to do that.

As was to be expected, things did not work, and Ruggiero became discontent. There was an abundance of *casus belli*. For example, one day an Iveco functionary, Cesare Sandretto, who was in charge of sales in Eastern Europe, signed in Moscow a protocol of understanding with the State of Kazakhstan for a lorry factory. Ruggiero read about this in a newspaper and took umbrage because he had neither been informed nor even invited. He ran to Romiti, who summoned me. I, too, had learned about the matter from the same newspaper, but I also knew that Iveco frequently signed protocols of that kind: no small country with a centralized economy ever bought one hundred vehicles without boasting about a local co-production, which at most consisted of mounting the cargo bed and a few minimal accessories. Routine stuff that not even the Sector Head Boschetti knew about, as I immediately ascertained. As for giving Sandretto a dressing down, as I was asked to do, I never gave it a thought: all he had done was his job on that day, and he had done it well.

The episode demonstrated the imprudence with which a person had been included in Fiat top management simply because he was liked, I don't know by whom the most, by Gianni Agnelli or his brother.²⁰ Another case of a striker hired because the press spoke well of him, and so it was prestigious to have him. Fortunately Ruggiero showed he could cope. He made a speedy exit, and with great success, something that made me happy twice over, for the fact that he had left and for where he had gone (I knew both of Ruggiero's competitors for the chairmanship of the World Trade Organization: the Mexican Carlos Salinas de Gortari, when he was still president of his country, and the Korean finance minister Kim-Il-Sung; apart from my esteem for and friendship with Ruggiero, I must say that he towered over both of them in terms of eminence).

Fiat's Reputation from Luca Cordero Montezemolo to Cesare Annibaldi

At that time the Italian press was devoting constant attention to Fiat that, in the papers not directly controlled by the Group ("La Stampa" and the "Corriere della Sera", plus a few less important ones), was couched in tones between criticism and pessimism, which often became transformed into frankly disparaging remarks. For me, reading

²⁰ On 1 March 1993 Umberto Agnelli invited Renato Ruggiero and me to dinner with the evident intention of getting us to agree. "You will be" he said "my two principal collaborators, one with an internal role and the other outside the organization". I wrote in a note: "[Umberto Agnelli] is really naive in his attempt to do good and I'd like to gratify him, but Ruggiero stubbornly insists on considering "international", hence subject to his "role of coordination and direction", everything outside Italy. I cannot manage to make him discern the complexity of the Group around the world, and delimit but deepen the sphere of his activities".

the press review every morning and having a bilious attack was one and the same. I stuffed the sheets into the bottom of a drawer, for future reference: it wasn't long before I filled it and they began to spill over, to the point that I found many of them again four or five years later, when I was preparing my last removal. The attacks in the press concerned management and men, but they also had it in for the product.

The politicians agreed; for example the deputy Prime Minister, Claudio Martelli, declared:

Since [Fiat], now that it is modernized, thinks it is a modern industry. But that's not how it is. [...] Thanks to state aid ten years ago Fiat emerged from the crisis, renewed its range of cars and won back domestic and foreign markets. [...] All you have to do is go to the Frankfurt Motor Show to see that the others have moved on and we haven't. [...] Fiat contented itself with that rescue and this is a policy worthy of a petty clerk, and not of great industrialists.²¹

The analysis was partly correct, but think about the effect that such a lecture could have had on those who intended to buy a new car on that day. Was there a "political" reason for all this ferocity? I began to suspect there was one, but if there was I did not know it then nor do I know it today.

In a note I wrote to Cesare Romiti on 18 December 1991, taking stock of my work in the first year with the *direzione centrale*, I complained about the "degradation of the external image of the Company/Product that was gradually joined by that of [the image] of operational Management". I attached no importance to the personal attacks aimed at Agnelli, Romiti, myself, or anyone else. The fact was that the campaign cast a sinister light on the product range and damaged sales.²² Lorries and tractors are machine tools and the generic image plays a small part in the decision to buy, which is almost exclusively determined by the product/service offered and its price. It's not the same with cars. I hope that nobody will feel offended if I say that many potential customers are not able to distinguish, never mind to judge, the performance of vehicles when these are similar, as often happens. And aesthetic judgement is not an absolute value rooted in the customer's spirit. On the contrary, market research shows that judgement is dramatically influenced (albeit unconsciously) by what is known as the appeal of the *marque*. This is a complex and elusive characteristic, as hard to define as it is to direct; in any case it is a valuable asset to which maximum attention must be paid. Nobody willingly buys a car that has been in some way connected with a generic image of disrepair or bad management, things that are associated with the stereotype of the "loser".

²¹ "Corriere della Sera" of 11 November 1991.

²² The phenomenon of self-denigration was deeply rooted in Italy. The "National Geographic" of December 1992 published the following statement by Silvio Berlusconi: "The great Italian businesses, both public and private, have found themselves in difficult situations substantially because of bad management and a lack of ideas". Broadly speaking, this was true and could be agreed with, but why go and say it there of all places? I pointed this out to the Steering Committee of Fiat's Communications Project: "considering the circulation (eight million copies), the readership (twenty million) and the authoritative magazine's capacity to create mass stereotypes in America, it seems to me that the interview stands out for its extraordinary content of [self-deprecation]".

Neither Gianni Agnelli nor Cesare Romiti seemed to be worried, and I reacted with surprise and anger to what struck me as an abnormal insensitivity to business, feelings that grew when I went to international meetings and met the chairmen of competing manufacturers and noticed the attention that they paid to safeguarding the image of their marques down to the slightest details.

In the Seventies, Fiat had been a primary political target precisely because it symbolized the country's great private industry. This condition had attracted a flood of accusations, like a lightning conductor. Conflict with the unions was a daily occurrence, and this provided the left with a pretext for constant ideological attacks. Serious as they were, these socio-political disputes did not arouse commercial worries because the image of a good carmaker and that of the exploiter and repressor of workers' rights were not mutually incompatible. This kind of accusation did not put customers off: "They are bastards with the workers; but they know how to build cars...". Instead, what was far more harmful was the stereotype that portrayed Fiat as a somnolent pachyderm, archaic, with a mediocre body of managers. This perception (which had also influenced me before I saw things from the inside) was getting worse and worse by comparison with the impression of modernity and efficiency transmitted by foreign competitors, Germans and Japanese in particular. The reality was very different: Fiat had huge management problems, which I have described remorselessly in these memoirs, but one could also find a dynamism and competence on which no one bestowed any recognition. Above all: at that time, nothing better survived in Italy. I believed it was essential to convey this message to people in a scientifically programmed way, following the dictates of the modern doctrine of communications. But in Fiat there wasn't a trace of a modern communications office.

In far-off 1976 I had raised the problem of Fiat Auto's image with Carlo De Benedetti, finding him in agreement with my opinions. Armed with his approval, I began to look for a person responsible for Communications and Image that within the Holding Company was not very distinct from the function of External Relations. An international head-hunter introduced me to the candidate with the perfect curriculum: the director of communications of IBM Europe. I met him in Paris and he immediately struck me as the ideal type: of Italian origin, with American professionalism and a reference from IBM, an excellent company that was perceived as even better than it really was. He was enthusiastic about the idea: "It's anomalous that Gianni Agnelli has such a strong personal image while his Company has such a weak one; it's an appealing task for a professional to bring the second up to the level of the first", he said. He had hit the nail on the head. All the opinion polls held in Fiat over the following twenty years confirmed the veracity of his analysis. And on many occasions these polls were shown to Gianni Agnelli with a wealth of details and numbers by Cesare Annibaldi and others, without receiving the slightest reaction: apparently he was interested in his own image, not in that of Fiat; as I have already said, many clues led me to think that he himself agreed with Fiat's mediocre stereotype.

The professional from IBM then added: "I have three requests to make. First: you must never ask me to falsify information; it will be my job to present every

aspect of Fiat in the best possible light, but I will never lie. Second: I must take part in the most important meetings, not to contribute to the substance of decisions but to orient their form. Third: If you have bribes to pay, have someone else do that, not me". I started to laugh at his frankness: "Okay to all three requests", I replied in De Benedetti's name, and I reported to him the next day. But De Benedetti left in the sudden manner I have already described and I had to call IBM in Paris and tell the candidate that I was very sorry but that now there was nothing doing. In this way we lost a good chance to modernize the function that should have promoted Fiat's image.

A few months later I learned that Luca Cordero Montezemolo had been appointed to External Relations. The nomination of a man who was not yet thirty and with no experience speaks volumes about the consideration in which the position was held by Agnelli and Romiti. Everybody knew of the existence of highly refined techniques, subjects taught in every Master's course, which modern multinational companies used to create and spread their image in international markets, yet Fiat continued to believe that heading promotion and image was a job for inexperienced youngsters, hired to acquire experience. Despite his improvisation, Montezemolo brought a wave of imagination to the field of image. The slogan coined under his management, "the will to carry on²³", was decidedly positive, even though it reinforced the perception of Fiat as a political institution that set itself up as a barrier to subversion. The message, however, was exclusively oriented towards Italy, because as far as foreign buyers were concerned the idea that the Group had that will was absolutely unimportant, the result being that the image of Fiat abroad remained for many years to come without suitable copy and lost itself in a limbo devoid of any precise rating in the eyes of the public.

Montezemolo did not stay for long. After him, the function got by on a day-to-day basis and Fiat's image remained at the mercy of impromptu events that (in Italy at least) reinforced it with the "March of the Forty Thousand" and the success of the Fiat Uno, but diminished it again towards the end of the Eighties with the Ghidella affair, with the masochistic self-denigration of the quality programmes and with the press attacks I mentioned earlier.

At the beginning of the Nineties the central function responsible for Fiat communications was integrated with that of Industrial Relations, in other words with the function whose task was union negotiations. It was a most serious mistake to assign the same individual to oppose workers' requests and at the same time make the company agreeable to the outside world. This schizophrenic task was put in the hands of Cesare Annibaldi, who was a person I held in great esteem. I believed him to be the best professional around in labour relations for his competence, for his tactical capacities with the counterparties, and for his strategic approach regarding the terms of confrontation. And I appreciated his capacity to keep up connections with the world of politics of which he was an attentive and well informed observer.

²³ Translator's note: in Italian, *la volontà di continuare*. The "will" in question, of course, referred to the political turmoil and the Red Brigade attacks in Italy in those times.

I was not the only one who thought this, because in the fields of politics and the unions Cesare Annibaldi was Cesare Romiti's most important collaborator, and Romiti considered such aspects exclusively pertinent to his own responsibilities. But there was one detail that didn't fit: Cesare Annibaldi was not cut out for marketing as far as the general public was concerned. His taste for paradox led him to note and highlight the critical or comical aspects of situations almost to the point of making them the sole elements worthy of being taken into consideration and divulged. His intellectualism persuaded him that the objective of promoting the image of the Company, its products and its staff was an undue manipulation of other people's free will, an affront that should be spared all thinking people, whatever their social extraction or cultural level may be: his was certainly a subconscious attitude, but all the more dangerous precisely for this reason. Since 1991, I tried to persuade Cesare Annibaldi and his boss Cesare Romiti to take some steps, and I was referring to them when during the Institutional Meeting held in the Lingotto on 4 December 1992 I stated: "The market rewards reputation; reputation is a value that translates directly into profit margins. [...] Every diminution or even denigration of our reputation as product and producer translates into loss of profits whether it comes from the press or, even more so, when it comes from our dealers or, even worse still, from within the Company". This was a self-evident truth but one ignored in Fiat at the time, and so the results of my efforts were meagre and initiatives half-hearted, decided on more to keep me sweet than to conclude something of serious importance.

I also maintained that, in Italy, Fiat ought to make a greater effort to emphasize the fundamental message regarding the contribution it made to the welfare of the country. In a world dominated by market logic it is not true that reasons of national interest have no value. On the contrary, the inhabitants of every region in the world, be they entrepreneurs or workers, prosper or languish depending on whether they can or cannot express entities, that's to say their companies, capable of competing on a world level. If Fiat, in this global game, was an asset for the whole country, the message had to be disseminated and tinged with the legitimate pride of those who know they are striving to attain serious and concrete objectives. Italians, like Germans, were free to buy the products they wished; and that's how things had to stay. But they also had to understand what the Germans knew very well, that buying an imported product had an adverse side effect, causing collective damage, justifiable only in the presence of proven motives and real advantages. At that time a self-destructive idea was being spread by certain vociferous politicians and journalists, according to whom it would have been desirable to free the country of Fiat's excessive power. On the other hand, Fiat's opposite attitude, which consisted of trying to camouflage itself, was also mistaken.

Cesare Romiti gave a partial response to my constant prodding with the launch of a programme of interpersonal contacts with prominent figures from the world of politics and the media. These people were invited to pay visits to Fiat that unfolded according to a pre-established ritual, save for minimal variations. The interested party, sometimes accompanied by close associates, went to the Centro Stile, in the area occupied by the Fiat Auto factory in Mirafiori, where in a room they found a collection of models based on the 5×2 principle available at that

time. The mock-ups of the cars were covered with tarpaulins of different colours for the various marques and the testers proceeded, in an atmosphere rather like a striptease, to uncover them one by one. The ceremony had its appeal, which few of the guests could resist. Most of them agreed to discuss whether they preferred the Lancia model planned to replace the K or the Alfa scheduled to replace the 164. All of them enthused wildly about the Fiat Coupé or the Fiat Barchetta, not to mention the Alfa Spyder and the Cabrio, all very beautiful cars. The innovative Fiat Punto line amounted to a general surprise.

Some participants got carried away by the automotive memories of their youth. Paolo Canterella illustrated the principles of Fiat Auto's structural planning and I explained Fiat's general situation. Lunch was served in the entertainment facilities in corso Cairoli. The mock eighteenth-century style was a little kitsch, but all in all the surroundings were pleasing and functional, and the service was superb. The illustrious visitor was invited to sit between me and Romiti and diverted with pleasant conversation together with the others at table who usually included Francesco Paolo Mattioli and Cesare Annibaldi. Gianni Agnelli would come for the highest ranking guests. The list of those invited included the entire elite of Italy at that time.²⁴ Giulio Andreotti, then prime minister, came²⁵ and, later, Massimo D'Alema and Romano Prodi.

This was not what I would have wished for the promotion of Fiat among the masses of potential international customers: it was still an exclusively national and political initiative, the mirror image of Romiti's mind set. Anyway, things were going in the right direction, and I pitched in willingly, as did all the others.

Then one day Romiti called me to his office and said: "I have decided: I intend to relieve Cesare Annibaldi of his responsibilities with... union relations. You can see to that in the *direzione generale*". I was left speechless with surprise: Romiti was sending Annibaldi away from the sphere for which he was born and bred, and in which he excelled, and was keeping him in the job for which, in my view, he

²⁴ Among the many, I find the following in my notes: 22 January 1992 Paolo Cirino Pomicino, the Budget Minister, on 13 February Claudio Rinaldi, the editor of "L'Espresso" (a magazine that in those days published very harsh criticism of Fiat), on 9 March Rainer Masera, the COO of IMI, on 30 March Vincenzo Scotti, the Home Secretary, on 1 April Giovanna Cattaneo Incisa, the mayor of Turin, on 2 April Redento Mori, editor of the weekly "Il Mondo", on 15 April Patrizio Bianchi of Nomisma (a think tank founded by Romano Prodi, then Chairman of IRI), on 13 April Andrea Monti, the editor of "Panorama", on 23 April Guido Venturoni, the Chief of the Navy General Staff, on 11 May 1992 Roberto Mazzotta, the Chairman of the Casse di Risparmio delle Province Lombarde, on 18 May Luigi Abete, the new head of Confindustria (he had just replaced Sergio Pininfarina), on 22 June Carlo Ripa di Meana, EEC commissioner, on 26 June Gianni Locatelli, editor of "Il Sole 24 Ore", on 13 July Ennio Presutti, the Chairman of Assolombarda, on 28 September Claudio Vitalone, Minister for Foreign Trade, on 12 October Raffaele Costa, minister for Community Policy, on 16 November Paolo Liguori, editor of "Il Giorno", on 1 February 1993 Mino Martinazzoli, the leader of the Christian Democratic Party, on 12 February 1993 Mario Pandinelli, editor of "Il Messaggero". Luciano Benetton came accompanied by the photographer Oliviero Toscani, who, in the presence of Agnelli, said without mincing his words what he thought of the Group's image.

²⁵ On 21 March 1992; he did not stay for lunch.

was constitutionally unsuited: image promotion. Romiti gave me no explanation and I never understood why he had taken that unexpected decision. I hurriedly nominated Michele Figurati as head of Industrial Relations (i.e., union relations), which was transferred within the ambit of my responsibilities.

Only later did things improve a little and the excesses of denigration finally ceased, but the active boosting of the Group's reputation was something that was never achieved.

The Japanese Threat

Starting from 1991 I began to get more and more worried about the threat that Japanese car manufacturers represented to our position, so much so that my anxiety levels soared to an exaggerated extent, if they are judged in the light of the events that followed at the end of the decade. To understand the reason I have to go back to the situation at that moment. The Treaty of Rome that had instituted the European Common Market had also incorporated the pre-existing bilateral treaties between European countries and third party countries. Among these there was an agreement dated 1956 that limited the annual exchange of cars between Japan and Italy to roughly three thousand units, an agreement that, ironically, had been requested by the counterparty to protect its fledgling industry from Italian aggression. As time went by, the quota imposition remained, even though the quantities permitted had increased.²⁶ In 1991 only protectionism prevented Japanese manufacturers from winning a greater market share in Italy, but there was no doubt that they would have made sweeping progress as soon as frontiers became permeable. The potential they could have aimed at, according to my fears, amounted to 30 % of the market, as had been demonstrated in truly open countries, such as Switzerland. In fact, the Japanese had a large number of rather good, fairly inexpensive models, spread over five or six marques, the elevated value of the lira over the yen made imports even more competitive, their image was excellent and appealed strongly to potential customers, especially young people.

European community regulations meant that liberalization was imminent precisely at the least suitable time for Fiat, which could field only blunted defensive weapons such as the Fiat Uno, born many years before, or the Fiat Tipo, which, as I said earlier, was in poor shape. It was absolutely necessary to defer the disagreeable moment of the end of quota restrictions on Japanese cars, shifting it to the end of the decade, when Fiat would have had at its disposal the new range and the Melfi factory working at full capacity. It was not a simple objective. The European Community seemed to have embraced the idea of abolishing all trading restrictions and was backed up by free trade doctrine, community law and, above all, pressure from the German lobby.

²⁶ Also through the so-called EEC "free practice". In 1990 57,000 Japanese vehicles entered Italy, equal to 2.3 % of the market, included in the figure are off-road and other special vehicles that were not subject to quotas and made up over half the total. There was also the phenomenon of "parallel imports" from other EEC states, partly constituted by fake second-hand vehicles.

Why were the Germans pro-Japanese? First, because Germany sold more to Japan than it imported, both in the car business and in general. Second, because German customers were still extremely loyal to the national product even in the presence of better offers from outside the country.²⁷ There was also an even more solid third reason: the Japanese themselves limited car sales to Germany keeping them strictly within 15 % of the market, thanks to a gentleman's agreement that Otto von Lambsdorff had made with them ten years before, when he was the Economy Minister, an understanding that ran with clockwork efficiency.²⁸ I had learned to my amazement that the European Community did not allow bilateral agreements in violation of the Treaty of Rome, but cheerfully accepted understandings as long as they were not formalized: hypocrisy was not an exclusively Italian vice.

I suspected that a certain part of the German economic intelligentsia was pleased that Italo-French industry was being kept in a condition of weakness, even if this meant supporting the Japanese, according to the Germany *über alles* outlook I describe in [Chap. 7](#). I often teased my German friends, ironically maintaining that they were the most fervent champions of the free market... in other people's houses, an attitude they had in common with the Japanese.

As far as the British were concerned, there was no escape: they were free marketeers par excellence, the "Financial Times" most of all,²⁹ also because they no longer had a national car industry and hoped in the developments of the Toyota and Nissan "transplants" that were being set up in their island, likened to an "aircraft carrier" turned towards continental Europe. In any event it was very likely that they too had an unwritten agreement that assigned 11 % of the national market to the Japanese.

What could be done? We could not ride the protectionist wave: we would not have attained our goals and we would have attracted the usual denigration. I had to learn from the Germans and behave like them: to hail the free market but work to hinder its implementation, at least for a few years, in order to give Fiat Auto the time to get prepared. In Rome, the topic was the province of the Ministry of Foreign Trade, which I was obliged to attend frequently as I was a member and, subsequently, chairman of the Association of European Constructors. In the past

²⁷ A market analysis commissioned by Fiat Auto showed that in Germany, among all the potential purchasers of cars, at least one person out of two did not so much as consider imported products. This quota diminished to one out of three in France but slid to one out of five in the UK, by then devoid of its own car industry. In Italy the possession of a foreign car sometimes worked in the opposite way and was seen as a status symbol, a reversion that had been facilitated by Fiat's mediocre offer and by the aura of scarcely innovative economy cars that surrounded it.

²⁸ It was the same Lambsdorff, who I had invited to become chairman of Iveco Magirus, who informed me of the agreement.

²⁹ The newspaper's opinion was expressed clearly on many occasions; see for example 23 September 1991: "The problem of European industry is that of too many obsolete and costly factories that have survived solely thanks to subsidies and protection. If European car producers try to elude the Japanese challenge, they will not only damage the European market and its economic welfare, but will also sign their own death warrant". The sermons came from a reliable pulpit: a country that had once possessed a world famous automotive industry that no longer existed.

I had seldom visited ministries, places I was unwilling to frequent; I understood the difficulties encountered by politicians trying to govern, but it was a world I did not understand and preferred to avoid. In this case I got nowhere.

Some serious support for our position came from Paris. On this topic I found myself in perfect agreement with Raymond Levy and, later, with Louis Schweitzer, the *président directeur général* of Renault, and, as a consequence, with the French government. The stance adopted by Jacques Calvet, the head of PSA (Peugeot-Citroën) was so extremist as to create a few headaches on account of his unpresentable protectionism, but it came in handy for me because I could make Fiat appear as a moderate mediator. Then, in early 1992, Pierre Bérégovoy, the French Finance Minister at the time, also made a deal with Toyota and Nissan whose terms were kept secret, but which probably self-regulated even imports from the transplants.

Devoid of support in Italy, I was forced to develop an enormous quantity of contacts throughout Europe, a task that was prolonged over the following years. The battle, seldom perceived by the public in its effective terms, was long and complex, so much so that it is impossible to go into further detail here. On 31 July 1991 the European Community and Japan reached an agreement. The European market, Italy included, was to be liberalized and the pre-existing quota restrictions were to cease on 1 January 1993. This was the beginning. But there was a transitional period. Japan would have self-regulated its deliveries until 31 December 1999, the year in which it could have reached 1.23 million cars, of which 380,000 towards Italy (5.3 % of the national market). Including the products from the transplants, Italy could expect roughly 8.8 % of Japanese market share.

With hindsight, I am still convinced that in those years Japanese industry knowingly aimed at destroying the weakest European car industries, Fiat included, and at setting itself up as the world supplier of automotive product. Some people in Brussels understood the threat, thanks to a certain extent to my efforts at disseminating information. Perhaps in Germany some realized that opening the doors of the Latin markets to the Japanese would have done more to dislodge the Germans than to subjugate the local industries. The incontrovertible fact remains, however, that I learned at first hand just how much European states were prepared to fight behind the scenes in favour of their own industries.

After many years, today I must admit that the free marketeers were not all wrong: fear of the Japanese threat caused a shock that had a salutary effect on the entire European car industry, and not only Fiat.

The Myth of “Alliances” for Fiat Auto

The crisis affecting Fiat’s reputation and the Japanese problem aroused a great deal of conjecture centred on the topic of “alliances” for Fiat Auto. Whereas in the lorry and agricultural machinery sectors the Fiat Group had grown very healthily through acquisitions, a similar development was not possible in the car sector. I saw nothing dramatic in this. Car constructors, of which there were thousands at

the beginning of the twentieth century, had been reduced to sixteen,³⁰ not an excessive number of participants to vie for a slice of a cake constituted of over thirty million cars a year worldwide. Regarding the future, one could foresee possibilities for long-term growth in many populous markets, such as those of Eastern Europe, India, China, and South America. Naturally, if two of the sixteen manufacturers were to unite they would have gained a powerful edge over the others, but the problems to be resolved in order to merge would have been enormous, and this would not have been the end of the world for the other fourteen.

That said, in my opinion Fiat should never, and I mean never, have renounced sovereignty of its own car sector merely out of a desire to attempt an “alliance”. Gianni Agnelli did not miss a chance to announce to the world the need to find a partner for Fiat Auto, and this emphasis, accompanied by (an apparent) lack of interest in whoever would have led the combination, contributed to damaging the reputation of our marques: these must have been really weak, if even their illustrious proprietor was trying to get rid of them. When I faced the press I was bombarded with questions from Italian and international journalists who wanted to know the reason for the Chairman’s attitude. Every time, I had to refute this in a manner that was polite and vague, but also as resolute as possible.³¹

The point was that in the car industry, and in industry in general, there is nothing that resembles an “alliance”. Two states can agree to make war on a third one, while maintaining their own independence, but this is not the case with two industries. When an “alliance” between two companies is announced, everybody knows that this is a euphemism, and everyone tries to understand who’s buying and who’s selling.

³⁰ Three Americans (General Motors, Ford, and Chrysler), five Europeans (Fiat, Volkswagen/Audi, Peugeot/Citroën, BMW, and Mercedes Benz, without considering Rover, which was then connected with Honda), five Japanese (Toyota, Nissan, Honda, Mitsubishi, and Mazda, apart from other smaller entities) and three Koreans (Hyundai, Kia, and Daewoo, apart from the intention to start up on the part of Samsung).

³¹ For example, on 11 June 1992, during the most heated period of the attacks that followed the announcement of the closure of the Chivasso factory, all the Italian newspapers duly prompted by the Fiat press office published my radical statement: “The term alliance in company economics means nothing: either you buy something or you get bought. Neither one operation or the other is underway in Fiat Auto [...] if what I have heard said is true, that there are trade unionists who would like to see Fiat Auto in foreign hands, I must disappoint them. [...] Luckily, Fiat Auto has two million customers who every year believe in the company; it is very serious if some unionists do not believe this”. At the institutional meeting at the Lingotto of 4 December 1992 I thundered: “One of the most harmful [attacks on our reputation] concerns the rumour about the so-called “strategic alliance” we are allegedly negotiating. [...] This rumour is pernicious, because it attacks in a subtle but powerful way the basis of the appeal of our Car Sector. (1) We would be unable to carry on alone, admitting in this way that our situation is worse than that of all the others; (2) the Japanese would be better carmakers; (3) we would therefore have an internal management incapable of running the company without external chaperones [...]; (4) the explicit consequence of this would be a desire on the part of Fiat shareholders to detach themselves from Fiat Auto. It is obvious that, at this point, a potential customer may be induced to purchase an original Japanese car right away, while waiting for this to be produced by Fiat Auto”: I hoped that a veiled accusation of commercial defeatism would put a brake on Gianni Agnelli and the unions and their incautious statements.

For Fiat Auto the problem of acquiring someone, provided that a candidate could be found, lay in the lack of cash with which to finance the operation and the scant attractiveness of Fiat shares that would permit a “paper” transaction, i.e., through share swaps, a fact deriving from the structure of the shareholdings, blocked by the control exercised by the Agnelli family through IFI.

According to my strategy, Fiat Auto should have taken on the enormous investment plan required to sort out the range and favour new initiatives in developing countries, taking no interest in any macro-alliance until profitability and the asset structure were in good shape. Once that was done they could talk about other plans.

The talks with Ford, in Vittorio Ghidella’s day, had come to nothing because, as Cesare Romiti maintained, the price to pay was loss of control of the company. Then, during 1990, negotiations were held with Chrysler, about which I know almost nothing because they began and ended before my return to corso Marconi in December of that year. Later, Romiti publicly regretted not having clinched the deal, and this was understandable, given Chrysler’s recovery and the conditions under which it was bought by Daimler Benz in 1998. But the decision to give up appears less mistaken if we go back to 1990.³² Fiat Auto was decidedly in difficulty, so much so that there were fears for its survival. How could it have taken on a company that, for at least twenty years in the USA, had been deemed by all an incurable case? In the past, Chrysler had survived only because its competitors General Motors and Ford needed a third actor on the national market in order to keep the antitrust authority at bay. Subsequently, after the Japanese had eliminated the threat, the United States government had lent a hand to Lee Iacocca and Chrysler, and it was unlikely that any US government would have been equally enthusiastic about helping a European company. On 7 February 1991 the “New York Times” informed its readers:

Standard & Poor’s has lowered its assessment of Chrysler’s debt to the state of junk bonds for the first time since the car builder nearly went bankrupt in the Seventies.

Frankly, I doubt that at the end of 1990 Fiat Auto would have been unable to take Chrysler on itself, managerially and financially.³³

³² The Italian newspapers of the period had some information about the conclusion of the talks. “Fiat ‘loses’ the agreement of the century. The Chrysler deal is off”, ran the headline in “la Repubblica” of 4 November 1990; the paper in question was always ready to show Fiat affairs in a negative light.

³³ One day in 1990, on bumping into me by chance in a corridor on the eighth floor of corso Marconi, Cesare Romiti mentioned the existence of the Chrysler contact and asked me what I thought about it. I told him that it struck me as a highly risky initiative, and that was all I could say about the operation. On 21 May 1998, in an article by Paolo Madron (“And the Avvocato said: soon because it’s late”) “Panorama” magazine stated that Fiat did not acquire Chrysler because of opposition, or rather a “refusal”, on the part of Luigi Arnaudo and me. This was a canard because, at the time of the talks I was busy with Iveco and New Holland and could not have, as in fact I did not have, any contact or information or role or influence in the matter. I wrote a formal denial that the newspaper published two weeks later. According to the writer of the article I allegedly described Chrysler as a “dead man walking”. I do not recall whether I used that image during the only fortuitous conversation I had with Romiti on the subject; it’s possible, because the opinion I had of Chrysler in those days was of that kind.

I adopted the same caution shown by Romiti with regard to Chrysler when, shortly afterwards, I had contacts with Rover. For some time, I had had a good interpersonal relationship with George Simpson, then Chairman of the British company. In the course of a visit I made to his office in Birmingham on 29 September 1992, Simpson gave me a detailed account of relations with Honda, which had de facto control of Rover. The Japanese held 20 % of the British firm but the contract contained a pre-established mechanism, an escape clause that allowed them to opt out. Now that they had established their own sales network in the UK parallel to that of Rover they no longer needed a local stronghold for the battle for Britain and had decided to give it up. "They have added new lustre to our factories" Simpson told me, "but we don't have sufficient design capacities or sales volumes, no chance of surviving alone". And he added: "A purchase on Fiat's part would be seen favourably; it would be accepted in a very friendly way by management too".

The proposal gave me food for thought. The UK was opening up to foreign capital, as the cases of Toyota and Nissan had shown: the two Japanese companies had chosen the UK as the location for some of their European transplant factories. Fiat's initiatives regarding the former Ford factory in Langley (Iveco lorries) and in Basildon (New Holland tractors) had proved to be or were proving themselves to be successful. The local Fiat representatives (first Dino Panizzo and then Massimo Carello) had established excellent relations with the country's establishment. Emotionally I had always been in tune with the Anglo-American world. I foresaw an even more substantial and important possibility: Rover could have solved the problem of what to do with Lancia, because identical cars could have responded to the appeal that our marque still enjoyed in Italy while being sold under the Rover brand elsewhere, in places where Lancia was unknown or denigrated. I wrote to and talked about this with Gianni Agnelli and Cesare Romiti, with some qualms. They did not react. I talked about it with Paolo Cantarella, who shared my doubts. After some hesitation, I decided to let George Simpson's proposal drop.

Perhaps I was wrong. Just as I had had the courage to launch Iveco on the British venture with Ford in a very difficult moment, so I could have tried now with the car sector. But I felt insecure: the dimensions of the results of Fiat Auto made public in that period were dramatic; a great war was raging within top management and, in the absence of unity, it is difficult to undertake the management of a complex company merger with any chance of success. I did not have complete trust in the management of Fiat Auto, pressed as it was between the colossal commitment to Melfi and the range and Paolo Cantarella's psychological contortions. At the end of the day nothing was done and, as far as "alliances" involving Fiat Auto were concerned, as long as I remained with the Group, people did no more than talk about them.

The Great War

Umberto Agnelli's protests were not limited to the structure of the range and the marques but extended to a bleakly pessimistic view of Fiat Auto's future and the capacities of its head, Paolo Cantarella. For many years Umberto had not held any

executive position in Fiat, but now he had also given up on his own initiative all formal positions (especially that of *presidente* of Fiat Auto SpA, a position that had been passed on to me, even though I would have preferred to do without it because it involved loads of purely ceremonial tasks). Umberto's redoubt was the IFIL,³⁴ and it was from that position that he constantly brought new problems to the attention of Gianni Agnelli, who passed them on to Cesare Romiti, who asked me to explain matters to him and what steps we might have taken for the future.³⁵

Umberto Agnelli maintained that the figures periodically released by Fiat Auto were deliberately doctored in order to make things look better and thus to conceal the dramatic nature of the situation. Romiti believed that this suspicion had been sown in his mind by Luigi Arnaudo, who was now working with IFI and who, according to Romiti, made improper use of certain internal documents that he had taken with him. The topic of forged figures aroused a lot of attention, to the point that the public prosecutors of Turin, Maddalena and Sandrelli, asked me about this again in January 1996.

As far as concerned management accounting, there was nothing to make me think that the accusations were true. Certainly, the official accounts of Fiat Auto could not be taken as models of prudence. Every administrative functionary knows that it is possible to draw up accounts with results that look rather different according to the degree of caution adopted, even while fully respecting formal rules and conventions. I was accustomed to the super-reliable accounts of Iveco's recent prosperous years, accounts that oozed reserves everywhere, and I suffered when I saw Fiat Auto's meagre accounts. But I did not feel it was correct to say that they were false.

What did not correspond to the truth was the market share that Fiat Auto attributed to itself in Italy. The official statistics of the *Ente della Motorizzazione Civile* (Driver and Vehicle Licensing Centre) for the registration of new vehicles were published months and months late, by which time they held no interest for anyone. For years there had been a widespread custom whereby national constructors and importers exchanged data regarding the delivery of their own vehicles at the end of every month during meetings held at ANFIA (the Italian Association of the Automotive Industry). Cantarella maintained that Fiat Auto was not the only one to cheat by pumping up the figures before declaring them, but I thought that if competitors had an interest it was the opposite, to play things down: usually, a producer of industrial goods (not just cars) tried to keep a low profile, when working outside its home country, in order to minimize the impact in terms of image on the leading national competitor and to avoid counter offensives aroused by publicly wounded national pride. I protested to Cantarella because I had always maintained that false data did more damage to the one who supplied it than the one who received it: on too many occasions I had seen businessmen believe in

³⁴ Translator's note: IFIL was a public listed company within the Agnelli galaxy, controlled by IFI, but independently managed. In 2009 the two were merged into Exor.

³⁵ Conversely, IFI, which was headed by Gabetti on Gianni Agnelli's account, maintained a neutrality steeped in disquiet during the war.

the very figures they themselves had invented, act in consequence and thus ruin themselves. The diatribe on the authenticity of market shares went on for a long time, and I did all I could so that the competent authorities might put an end to that ignoble situation, with scant results. The unreliability of the official statistics was derided by the chairmen of the European manufacturers who I met at the meeting of the International Association, and this irritated me: Italy gave proof of its unreliability even in trivial matters. After much insistence on my part, one day, Cantarella unexpectedly paid me a visit and asked me to approve Fiat's withdrawal from the data exchange system with our competitors, a unilateral initiative. It was the right solution and I was happy about it. There would have been some confusion for a while, but just as soon as the press discovered it could no longer find up to date information, the public bodies in charge would have had to put their house in order under the pressure of the scandal. In fact, things gradually got better until they were regularized within a year.

Linked to the problem of the false quotes there was that of fake "CCF"s (certificates of conformity). Certain dealers had always been in the habit of declaring that vehicles still in their possession had been sold, paying Fiat the relative price with a view to reaching the threshold necessary to obtain the maximum incentive discount. The phenomenon of "anticipating" sales worsened during difficult times, when incentives became determinant for the dealer's economic equilibrium. As they had always done, dealers requested the Company for the CCFs they needed in order to register the car, but they registered them under the names of inexistent customers.

Afterwards, they tried to sell those cars as if they were second-hand. The disruption that resulted in the market was not measurable but was considerable. In March 1992 I managed to get an idea of the dimensions of the phenomenon: in the last quarter of 1991, 45,000 vehicles had been "advanced", equal to roughly 1 % of the Italian market. Yet again, I found myself faced with one of those cases of improper trading that I detested, as had happened to me almost ten years before with Magneti Marelli batteries and spark plugs.

Apart from those I have already mentioned, there arrived in corso Marconi a mass of accusations and protests—sent by Umberto Agnelli or sources close to him—that covered the entire range of Fiat Auto's activities and management. In simple terms, Umberto Agnelli and his associates maintained that Romiti and Cantarella knowingly deceived Gianni Agnelli about the true substance of Fiat Auto's problems and the real possibility of solving them. Gianni Agnelli was "led by the nose", they used to say, according to what Cesare Romiti told me himself. Romiti shot back by accusing Umberto Agnelli of being surrounded by a "gang", one of whose members was Antonio Giraud, his assistant at that time, and Gustavo Denegri, a Piedmontese businessman who he had brought into Piaggio. And Romiti did not mince his words in choosing the terms to describe the presumptive conspirators. The two groups faced each other before Gianni Agnelli and the ultimate object of contention was, obviously, whether Romiti would stay on or not.

My job became terribly difficult, and I often wrestled with authentic problems of conscience between what was correct and what was expedient. I shared a good

number of the criticisms made by Umberto Agnelli's team regarding the situation of Fiat Auto, and I had some of my own, although I did not divulge them.

In my view, at the end of 1991, Cesare Romiti had left the "Fiat Auto system" in ruins. But it seemed to me that the projects launched by Paolo Cantarella, under my supervision, were going in the right direction. Cantarella had not taken any action that I deemed mistaken, something that would have aroused my opposition; vice versa he was putting his hand (relatively rapidly) to almost all the measures I felt were indispensable. Moreover, inside Fiat Auto he was inoculating an innovative drive that had not been seen in the Company since the first period of Vittorio Ghidella's management, ten years before. If this effort had been interrupted in midstream the situation would have spiralled out of control, with dramatic consequences for the emergency afflicting the company, and with many initiatives underway. Consequently I spent a lot of time and effort in activities that, properly speaking, were not to do with business as such but could be charitably defined as "company relations": presentations, discussions, replies to memos and so on. It was a task that I found fatiguing and unpleasant, but which was up to me, or so I believed at least.

Two particularly difficult meetings were held on 30 April and 1 May 1991 in the headquarters of IFI. Apart from the Agnelli brothers, Cesare Romiti, Paolo Mattioli and me, additional speeches were also made by *dirigenti* from corso Marconi. Umberto Agnelli had brought a list of questions of this tenor:

The economic and financial situation is subject to rapid and highly consistent deterioration. The gap dividing forecasts (regarding plans and budgets) is of worrying dimensions. How can this phenomenon have occurred and what steps have been taken? What are the results and what are the future programmes with regard to this deterioration?

Or:

What is the explanation for the unforeseen, violent drop in the Italian market share [of cars], with its obvious consequences? What is the margin of contribution in Italy? What are the shares, the margins, and the perception of quality of our product in the European market? Some structural problems are still awaiting a solution – brand policy – foreign networks and the consequent product range as well as the age-old problem of components. How are they being dealt with?

And so on. As Cantarella was heartily disliked and Romiti a litigant, I was the only one who could authoritatively explain the plans for the future and ask for confidence, something I did with determination.

The following November, Gianni Agnelli received from his brother Umberto a highly detailed and critical study on the performance of the car Sector. Gianni Agnelli passed the document on to Romiti and he passed it on to me. In my written reply I confirmed the troubles of Fiat Auto in no uncertain terms, but I made no accusations³⁶; now we were making repairs, they had to let us work in peace! This position of mine was not diplomatic with regard to either of the litigants. Cesare Romiti did not tolerate the idea of Fiat Auto's problems being admitted in the presence of Gianni Agnelli. Umberto Agnelli saw opposition to his attacks. But I could do nothing else but follow my conscience and my profession.

³⁶ The text of the letter is given in Document 9 of [Chap. 14](#).

In the first half of 1992 the clash became even fiercer. Anonymous letters began to circulate³⁷ and I received disquieting messages. From the outside, Jacques Calvet declared that Fiat's wooing of Peugeot/Citroën was "almost permanent", but that the French group was reluctant, "worried above all about the power struggles agitating the Turin-based firm", according to press reports in February 1992; in any event "Fiat is talking *avec tout le monde*".

The Executive Committee and the Board meetings of 28 January 1992, which examined the woeful figures for the last quarter of 1991, were very tense: "a leaden silence, gloomy" I noted in the margin of my diary. I wondered what to do. In a note I made in the margin of one of the anonymous letters against Cantarella that the journalist with "la Repubblica", Salvatore Tropea, had delivered to Cesare Annibaldi, I found the expression of a question I had secretly posed to myself, whether to ditch Cantarella and take control of Fiat Auto myself, or whether to carry on supporting him because he was "smart and active". I decided to stick to my guns: the structural programmes underway had to go ahead, they had precedence over everything.

On 12 February 1992 Umberto Agnelli produced a document, probably drawn up by Luigi Arnaudo, which began like this: "Starting from the middle of the year [1991] the analysis of the final balance data has given rise to doubts regarding the significance and representativeness of basic operational progress". Thirteen pages of doubts and criticisms followed.

By 25 February 1992 it was clear that Romiti would not have left Fiat to replace Sergio Pininfarina as Chairman of Confindustria, a hypothesis that no one within the Group accorded even a minimum of credibility, but which had been publicized by the press, especially those newspapers controlled by Fiat itself. That day there was an extraordinary meeting of the Executive Committee, the minutes of which said: "The Chairman [...] did not believe that the Fiat group could deprive itself of the guidance of Mr Romiti". In his turn, Romiti "pointed out [...] that the next two years would be most demanding and with more disappointments than satisfaction; the time, therefore, had come to keep our nerve and work with strong determination in order to overcome this period as soon as possible". The Committee "shared the decision itself and the need for Mr Romiti and the management of the Group, in affirmed confidence and without any kind of interference, to expend their best energies and commitment on the attainment of the company's difficult goals and invited the Chairman to communicate the decisions taken [here] both outside and inside the Group".

"Without interference of any kind"! The reference to Umberto Agnelli's objections could not have been more explicit. Despite the affirmed confidence, the war went on.

On 23 March 1992, during a meeting of the Executive Committee, Umberto Agnelli asked for the preparation of an "emergency plan" for Fiat Auto and New

³⁷ A very long one was published by the satirical magazine "Cuore" in January 1992. Another one arrived directly on Gianni Agnelli's desk. The tone of the letters was violent towards Cesare Romiti and Paolo Cantarella, blander against Giancarlo Boschetti; I was always spared but presented as being prevented from acting.

Holland, a plan that Romiti commissioned me to draw up in a letter dated 1 April. The following year, on 2 February 1993, again by letter, Cesare Romiti informed me that Umberto Agnelli had made a formal request that a statement of his dissatisfaction be added to the minutes of the Executive Committee meeting of 28 January:

The *presidente* (Chairman) [Gianni Agnelli] gave the floor to the *direttore generale*, Mr Giorgio Garuzzo, who illustrated the budget for 1993 and the plan for 1993/1997. [...]. Mr Umberto Agnelli then asked several questions requiring explanation to which Mr Giorgio Garuzzo replied providing the necessary clarification. Then Mr Umberto Agnelli expressed his puzzlement concerning the attainment of the goals for 1994/1995.

I had countless personal meetings with Umberto Agnelli, always trying to convince him that we were on the right track and always defending Paolo Cantarella's work.

I contrived to convey the same message to the shareholders of IFI, the heirs of the founders of Fiat, who numbered over a hundred by then. Every year, at the end of November, they got together for their Assembly and, during the 1991 meeting, Romiti asked me to illustrate the Group's situation, which I did without concealing anything about the crisis, but stressing the planned solution for every problem. This was a rather difficult exercise given the puzzled mood of the audience, which was expecting a cut in dividends. Evidently I inspired a certain confidence because my speech on that occasion became a custom that was repeated for five years.

I spoke to Fiat *dirigenti*, both in Italy and abroad, about the same topics, which involved a great number of official or interpersonal meetings, and I talked until I was hoarse with financial analysts, bankers, and all those who might be useful and were prepared to listen to me.

But the most intricate talks of all were those I had to hold with Gianni Agnelli. He summoned me frequently and, every time, he asked me something about a criticism or an accusation that he had recorded goodness knows where and that he did not explain explicitly, leaving me to mentally reconstruct the possible context. He was constantly in search of reassurance, and I gave him what he wanted. The Fiat Punto would come out on time and it would be a good car, the Melfi plant would have worked, and so on. This was no easy task, because out of principle I never gave incorrect data. Consequently I had to be very convincing in presenting the solutions that were being prepared for the future, aimed at solving the problems that were clearly emerging in the present. Above all I had to defend Cantarella as a man and as a car man: it was clear that Gianni Agnelli was bombarded with rather unpleasant messages on this subject. It was not hard for me to counter this. I knew the principal managers in charge of competing companies throughout the world and I could compare our man with the most eminent of them.

It was paradoxical that I was sacked a few years later, precisely when those initiatives I had championed had borne fruit, initiatives that had been met with incredulity or, at least, general uncertainty. The war also had a strange consequence regarding my financial future. Some details of the clash underway had found their way to the newspapers, which were printing rumours on the imminent arrival of Umberto Agnelli's men at the head of Fiat. In the light of this I asked Romiti for protection in case I was kicked out before pensionable age. I was sure that Cesare Romiti knew something I didn't know, if he insisted so much on describing the

danger represented by the “gang”, and I was convinced that I was personally at risk: I would have been at the mercy of vendettas when Romiti was no longer there. Romiti agreed and, for my benefit and that of Francesco Paolo Mattioli, he had the Executive Committee approve an indemnity to be paid in the event of premature dismissal, an indemnity that—contrary to practice—was to decrease with the passing of time until retirement age. Effectively, this insurance worked, but for reasons and in ways that I certainly could not have imagined at the time.³⁸

Italy’s Competitiveness and Index-linking

Fiat Auto was therefore sucked down into a vortex of long-standing structural problems, among which stood out the splitting up of the portfolio of brands and products, excess personnel, and the inconsistency of the distribution network in the rest of Europe. Superimposed on these matters was a degenerative process of more recent origin that sprang from the careless management of the late Eighties that had led to the ageing of the models, aroused the revolt of the Italian sales network, and plunged the Company’s reputation as an acceptable car manufacturer into crisis.

The problems came to a head in the early Nineties owing to an external cause. Just as when the water level drops in a strait, suddenly revealing enormous cliffs that, although they were there before, were submerged and invisible, so the general condition of the Italian economy went into a sharp decline and could no longer cover company shortcomings. The Italian economic system became suddenly and dramatically non competitive, and hence unable to compensate for the internal troubles of its own industries.

At the beginning of 1991, Fiat prepared the multiyear planning cycle, the first since I had taken up my responsibilities as COO. The Sectors put into it all the initiatives for improvement of which they were capable and a good dose of optimism too, but all was in vain: the figures showed without a shadow of doubt that Fiat could not have carried on for the three years covered by the analytical forecasts. It was calculated that the prices of cars and other goods produced in Italy would not have increased at all, because they were faced in all markets, Italy included, with foreign competitors operating in countries with low inflation who were able to transfer onto

³⁸ I shall be discussing this in chapter 12. Pino Nicotri, the author of *FIAT. Fabbrica Italiana Automobili e Tangenti* (1997) states that at the time of the Clean Hands inquiry the document was found during a search of the home of Luigi Arnaudo, who had nothing to do with it and worked for Umberto Agnelli, and which the investigators studied to see if there might be some connection between the unusual contract and the bribe system. But, at the time the document was dated, no one had the slightest suspicion of what was to happen later, and the justification Cesare Romiti gave to the judges—according to the minutes recorded in the same book (*op. cit.*, p. 209)—was wholly correct. Besides, it sufficed to read the clauses that required an indemnity (which was to decrease over time) in the event of a possible dismissal. I knew nothing about the investigation and learned about this only when I read Nicotri’s book, from which I also learned that the benefit had been extended to Cantarella and Boschetti, who were my co-workers, too: Romiti’s customary dissimulation.

the market 2 or 3 % points of efficiency per annum, while keeping prices in their own national currencies unchanged. Since the exchange rate of the lira with these currencies was also fixed, nailed by the European “money snake”, even our prices in lire could not increase. On the other hand, in Italy, labour costs (for workers, clerical staff, and *dirigenti*) were growing by 9 or 10 % points per annum. If this had continued for the successive three years, as had happened in the four preceding years, the prices/costs scissors would have spread in a way not otherwise compensable. Iveco and, better still, New Holland were geographically dispersed and hence were less sensitive to terms of trade, but Fiat Auto, wholly Italian,³⁹ was lost, as the “repositioning” of prices in October 1990 had dramatically shown.

The phenomenon of the erosion of the country’s competitiveness had been going on for some time, but it was hard to find statistics on this. Data that were publicly divulged were distorted to support contrasting political opinions. Many compared the growth in labour costs with inflation inside Italy and concluded that things were fine like that. But this was a pernicious error on the part of ignorant people or those in bad faith. In a system of stable exchange rates, Fiat’s sales prices were imposed by inflation in France, Germany, and Japan! The government, the press, and the Bank of Italy seemed to see things from a standpoint that did not cross the divide of the Alps. I had at my disposal a very accurate and sensitive instrument with which to measure the phenomenon of competitiveness in real time. Since 1984 I had been requesting quarterly data regarding the true cost of man hours worked in the factories that Iveco and, later, New Holland, possessed throughout the world. Few people in the Holding Company paid any attention to these figures: unbelievable as it may seem, in order to judge the state of health of the Italian economy the Sector Heads in corso Marconi were periodically shown studies published by the Bank of Italy in Rome, which were hard to interpret and arrived late.

In 1989 the cost of a man hour in France, a country roughly as efficient as Italy, fell below that of northern Italy for the first time, and the gap rapidly widened after that, persuading minor and flexible entrepreneurs to abandon Piedmont in favour of transalpine regions, only a few dozen kilometres away. Soon, the hourly cost in Germany, whose productivity per man hour was much better, fell below that of Italy.

In order to balance the bewildering plan of 1991, I took a risky decision: I ordered changes to the estimated indexes of the dynamics of labour costs for the years to come, halving the annual rate of growth with respect to the historical average, lowering the parameters from 9/10 % points to 4/5 per annum. One person who agreed with me was Cesare Annibaldi, in charge of relations with the unions and politicians: external parameters could no longer constitute an assumption independent of the budget process but had to become an objective of the budget itself, to be attained through our drastic intervention, which had to be seen as one of the most ineluctable objectives if Fiat was to survive.

³⁹ As I have explained previously, the production of compact cars in Poland was unable to contribute in any way. Only Brazil was very profitable, even though it was hard to know how long things would last, given the volatile nature of that country’s economy.

The heart of the problem lay in the fact that in Italy the system of index-linking salaries (the so-called *Scala Mobile*), caused labour costs to rise automatically, in parallel with inflation. When, very frequently, they held contract negotiations with the unions on two levels (national and company), it was inevitable to concede every time a few more further points of increase, in such a way that it was mathematical that the sum of the rises reached nine or ten points per annum. I am convinced that the phenomenon came in very handy for Italian governments, because inflation increased the income from fiscal and social burdens more than proportionally, thus causing progressive rates to increase beyond simple proportionality, while devaluing the previous public debt. Italian politicians often tried to distribute wealth by decree, without troubling themselves about whether it had already been generated or not. That it was a very good thing to improve the standard of living of the workers was obvious, but if that praiseworthy objective had been feasible simply by index-linking salaries Italy would not have been the only industrialized country in the world to follow that path.

In reality, there are no absolutes in economics. The market makes constant and perennial adjustments to relative values, by definition; if unalterable constraints are imposed somewhere, the result is similar to overly rigid structures during earthquakes: in any event, tensions will be released at some point, and explosively. For many years the stress that derived from the pressure of the *Scala Mobile* could be released through the escape route of variations in the exchange rate of the lira with respect to other currencies, in other words through devaluation. This possibility having been blocked by the European money snake, there was nothing left but the breakdown of the system, in other words deindustrialization. Some economic circles and the Bank of Italy maintained that the fixed rate of exchange would have served to make trade union behaviour virtuous, but this simply did not happen and industry and employment had to foot the bill.

In these circumstances we prepared Fiat's multiyear plan in early 1991 in the manner I have described. On the conclusion of the process for the deliberate modification of the basic parameters, on 13 February 1991, I sent Cesare Romiti a letter that I hold to be one of the most important texts of the thousands I wrote over the years.⁴⁰ I presented the figures in the clearest and most striking way possible, and I observed:

The problem of labour costs is therefore the most dramatic one we find ourselves facing in the short term. In particular, the cost of white-collar labour has taken on a very serious connotation. [...]

It is therefore vital for Fiat that from now on labour costs in Italy increase at the same proportion with which they increase in the rest of Europe. [...]

The existence of the problem in all its gravity, however, seems in some way to have been "removed" from the attention of public opinion. [...]

I therefore believe it to be indispensable to define a plan of action in order to tackle the problem with due clarity and resolution and, in preparation for its implementation, to launch a communications programme both inside and outside the Group.

⁴⁰ See Document 6 in [Chap. 14](#).

Cesare Romiti's reaction was immediate and brief. He called me instantly and said: "You're right; we must act straight away". He went into overdrive and was extraordinarily efficient, as was his habit when he tackled a problem of that kind head on. Such things were congenial to him and he got to work on all fronts simultaneously: industrial affiliations, the union and political counterparties, and the media. I did not take a direct part in the battle because I had other work to attend to. Only once did Romiti ask for my help: it was to convince Sergio Pininfarina of the goodness of the cause, just as I had convinced him. He added that the industrialist, then head of Confindustria, was not held in high esteem in corso Marconi⁴¹ and his constant hedging aroused fears that he would give in at the first battle. Romiti himself made the appointment on my account and Pininfarina came to see me in my office in corso Marconi.

For the occasion I had prepared an argument I considered irresistible, given that much of Pininfarina SpA's turnover came from Fiat. "Sergio" I was going to tell him, "from now on you can forget about price increases from your client Fiat. Inflation for our suppliers cannot be greater than that which our customers grant us, in other words that of car prices in the area dominated by the deutschmark, in other words zero". But there was no need for the pep talk. As soon as Pininfarina sat down at my desk, I realized he was just as motivated as I was and was far from giving up. I substituted the speech I had prepared with an extempore quip when the time came to say goodbye: "Sergio, if you lead Confindustria to the result we have set ourselves you will become so illustrious that your son Piero will request the family surname to be changed and will call himself Piero Sergiopininfarina".⁴² Flattered, he smiled. On 8 March 1991 "la Repubblica" ran the text of an interview couched in unequivocal tones, right from the headline: "Pininfarina shoots point blank at the economic policy of the "cricket"⁴³ Pomicino"⁴⁴.

The battle was long and complex but, with hindsight, the resistance of the counterparty was not dramatic. I imagined that the trade unionists had realized how things really stood and, responsibly, they sensed that it was right to yield. "But when will they come to ask us with a toughness sufficient to make us give up?", the shrewdest among them were wondering, according to me.

The story of how the preliminary agreement was reached in mid 1991 and the final one in 1992 is well known: during the chairmanship of Sergio Pininfarina, in 1991, the suspension of index-linking was obtained; on 2 June 1992, in a surprise move Confindustria presented a detailed document that called for the disappearance of every automatism (Luigi Abete had been in charge for only six days).

⁴¹ It should be said that Romiti and Agnelli never had any consideration for the Chairmen of Confindustria that Fiat itself contributed to electing. Moreover, Romiti was always sparing with positive appreciation of industrialists while he was always very deferential towards top state bureaucrats, as was the case with Guido Carli and Carlo Azeglio Ciampi, even when there was perhaps something to object about with regard to their work.

⁴² Obviously, I was alluding to the decision he had made to change the original family surname, Farina, by adding to it the name of his father, the famous coachbuilder nicknamed Pinin.

⁴³ Translator's note: with reference to the fable by Aesop "the ant and the cricket".

⁴⁴ Translator's note: Paolo Cirino Pomicino was then Minister of Economy.

Without that solution Italy would have come to a bad end, a very bad end.⁴⁵ I believe that among the many who contributed to that result due credit should be given to Cesare Romiti and Sergio Pininfarina. As for my role, I attribute nothing to myself other than what I did: I saw clearly what was happening, I underlined the problem to the right people in the right place and at the right time, contributing to set in motion a process that spread in a steady flow. But the facts of the matter were these: just as I had identified them, so had others.

The Maxi-devaluation of the Lira

For Fiat and Italian industry, the abolition of the *Scala Mobile* represented a determinant step towards salvation, because it kept down the dynamic of abnormal labour costs with respect to that of competing countries. But what remained intact was the unfavourable differential that had accumulated over the last three or four years. A devaluation of the lira would have restored the status quo; in effect, tensions over the rate of exchange became evident in the spring of 1992, and boiled over in June of that year. Fiat could do nothing one way or another, but this did not stop me from supporting the reduction in rates of exchange.

Instead Giuliano Amato and Carlo Azeglio Ciampi, respectively the prime minister and the governor of the Central Bank, did not see things the same way, and they defended to the bitter end the official rates of the European money snake. A vice governor of the Bundesbank told me later that on two occasions the Germans had offered Italy a realignment of the parities, respectively at 912 and 920 lire for one mark, but both times the Italians refused “for reasons of prestige”. It was a very dubious concept of prestige that led to the defence at 740 of an exchange rate that a few weeks later was to shoot up to 1,100. On that indefensible front Amato and Ciampi sacrificed a large part of hard currency reserves and all their international credibility. Yet, it sufficed to take a look at the evolution of the rates of exchange in the preceding years and the desperate situation of national industry to realize that devaluation was inevitable, as well as desirable.

I don't know what was going on behind the scenes in the financial speculation of those days. Public opinion loves to believe in conspiracies, and those in charge of economic policy pander to that credulousness to avoid facing up to their responsibilities, but no conspiracy could have been so powerful as to impose its will on the currency of the world's seventh industrial power if there had not been all the preconditions, accumulated over a long span of time and well known to experts. When the conditions exist and are evident, then speculation becomes inevitable and general, because all financial operators put on sail either to safeguard their own past investments or to make money on future trends, both legitimate intentions. Gradually, what is set in motion is a shock force sufficient to produce the effect of an avalanche that feeds on itself, and if some paladin was so naive as to try to defend his national

⁴⁵ One year later, the reasons were also accepted by public opinion; see for example the article by Giuseppe Turani in the “Corriere della Sera” of 31 May 1992, “Scala Mobile congedata”.

currency to the death then his career as a financial boy scout would not stand up to the first onslaught. I do not believe at all that on that occasion the role of the financier George Soros was determinant, as some maintain; if instead I was wrong, and if the landslide was effectively due to him, then Soros ought to be considered a benefactor of Italy and would deserve a statue in the central square of every town in the Republic, along with that of Garibaldi, with the motto “to He who did the most to encourage the employment of Italian workers”.

In the Committee of Fiat’s *Direzione Generale* every week we followed the development of the situation with understandable attention. During a meeting in June 1992, I permitted myself some comments that amounted to very heavy criticism of the Bank of Italy which wished to maintain an unsustainable exchange rate at all costs, comments that I requested be recorded in the minutes for future reference. Cesare Romiti read the phrase, called for me and reprimanded me, something he had never done before: “As COO of Fiat you cannot assume an attitude of this sort” he said. I was amazed, because while it was true that I had laid it on thick, it is also true that the document was absolutely internal and confidential. I understood later why Romiti had found so much to complain about: in those very days (around the middle of July 1992) he was plunging Fiat into debt for an exchange equivalent of three or four thousand billion lire, in marks! He had met with Ciampi who had told him: “We won’t give up”. On the authority of that assurance, two months later Fiat lost six or seven hundred billion lire. Not long before, on account of a case of monetary speculation and a similarly large deficit, Carl Hahn had had to give up his position as head of Volkswagen ahead of time, but Romiti’s control of communications regarding Fiat was too strong for the information to leak out, and none of the Company’s organs of control ever knew anything about it. The debt in marks rested on the credit capacities of Fiat Auto and Iveco, and the heads of the two Sectors came separately to me to protest about the matter. I told them to go to the devil: they should go to complain to the one who had decided on and implemented the operation unbeknownst to me, even though I was Chairman of both Companies. They refrained from doing that, but the losses were detracted from the sum of the result that served to calculate their end-of-year bonus. The event gave an idea of the autocratic way in which Romiti managed Fiat’s finances.

In mid September 1992, the lira reached the upper level of the band of fluctuation of the European money snake, and the Bank of Italy fixed its value at 740.00 against the mark: two decimal zeroes. Technically, it was a ridiculous situation, which made it known to the whole world that there was no longer a buyer for the lira in the market, apart from the Central Bank. So I feared for my own personal investments and changed everything I could into marks: about 500 million lire. I arrived late on Friday and the bank gave me only a part of the sum, but I salvaged something in the weekend of devaluation.⁴⁶

⁴⁶ At the time of the Clean Hands inquiries the transaction was thoroughly examined by the investigators, who examined my bank accounts in detail. The operation was entirely legal and regular, but it aroused a sensation and was the subject of gossip: my bodyguards told me that there was talk about it among the former *carabinieri* who served as escorts to personalities in the city; poor management on the part of state powers easily causes unpleasant consequences for private citizens who are trying to get by under difficult circumstances.

The Policy of Competitiveness

So the problems were many and great and they formed an intricate tangle in which it was difficult to tell which were structural and which were contingent, those that had sprung from inside the Company and those that had been induced by the external context. In that situation, I thought Fiat needed a theoretical reference, a kind of Bible that, ideally, would serve as a guide in every circumstance. For the ninety years of its past existence, Fiat's culture, like that of many traditional Italian and foreign industries, had been based on a set of values profoundly rooted in the consciousness of the company as a whole, values seldom and scarcely formalized but for this reason even more vigorous, because they were widely spread thanks to a process of internal osmosis supported by example and interpersonal relations, with an essential contribution that came from middle management and intermediate bosses.

In the mid Seventies, Umberto Agnelli and his consultants equipped Fiat with its first modern instrument for the creation and the dissemination of explicit values to be applied to the company-universe: the Isvor (Istituto per lo Sviluppo Organizzativo, or Institute for Organizational Development) training centre. It was set up near the town of Marentino, in an eighteenth-century villa in the hills above Turin, transformed into a highly functional and pleasant conference centre, where thousands of people came to be initiated into Fiat culture. At first, Isvor's teaching methodology had markedly theoretical-sociological overtones, a fact that was soon challenged by pragmatic managers such as Carlo De Benedetti and Cesare Romiti. Gradually, the teaching became more concrete and efficient. I came to love the centre in Marentino and spent hundreds of hours there holding conferences and seminars.

As soon as I could, in 1991, I thought to draft a document that constituted the ideological basis of the training provided by Isvor, and it then became the Group's ideological guide. This marked the birth of a "policy", indeed the mother of all policies, which I wrote in my own hand and endeavoured to circulate and make known as widely as possible. I came up with two messages that, in a nutshell,⁴⁷ went like this: Fiat had to be competitive at all costs; competitiveness was in the interests of all, shareholders, co-workers, and the country in general. And what was required to be competitive in a practical sense? It was necessary to launch major plans for renewal that I called, as I had already done in Iveco, "structural" projects.

Today, such a document would make one smile, but then, in the transitional period towards a global market economy, plenty of people were wondering about basic strategies and the reasons for them.

⁴⁷ The text is given with a few comments in Document 7 in [Chap. 14](#).

Daring Investments

At the end of 1991, Fiat Auto, which had then begun to accept and internalize the concept, could state that it had 20 structural projects underway, almost all of great importance. A couple of these became renowned outside the Company. The “integrated factory” and its UTEs (*Unità Tecnologiche Elementari*, or Elementary Technological Units) rightly drew attention even outside trade union circles and those of the sociology of labour, where they were widely debated: it was a matter of making profound innovations in production methods, also by making workers jointly responsible for productivity and quality, and together encouraging team work and individual contributions. There was nothing new about this, because Fiat Auto joined in after the world had moved in that direction under the thrust of the Japanese model, but the initiative was praiseworthy and courageous, a boulder thrown into the pool of Italian industry. Equally important was the reduction in time-to-market, in other words the development times of new models, which provided excellent results with the Fiat Punto.

Fiat and Fiat Auto did not solve all their problems at a stroke, but the structural projects constituted an instrument that helped the Group and its principal Sector to make a quantum leap, whose positive effects emerged as from 1994. There was a price to pay for the great activism that Fiat Auto was facing in the project concept to solve the crisis of the early Nineties and to make up for lost time: an enormous volume of investments for the renewal of the range, for the new factories and, for the first time in the post-Valletta years, for the sales network. Roughly, in each of the years 1984 and 1985, Fiat Auto had paid off cash flows for investments in fixed assets to the tune of about 1,000 billion lire, a sum that grew to 2,000 in the period spanning 1986 and 1991. The portfolio of commitments made towards the future exploded in the course of 1991, so much so that it reached 12,000 billion by the end of the year. Of that mountain, already in 1992, 4,411 billion had been spent. Gianni Agnelli, who was in the habit of adding to his substantial *laissez faire* an agreeable *savoir faire*, stated publicly that Fiat had made a “daring” choice of investments.

I had approved and determinedly supported this course, which was repeating five years later and, on a wider scale, Iveco’s SPR programme, but I had strong reservations owing to the excessive extension of the product range, which caused a huge burden. I knew perfectly well, as with Iveco’s SPR, that that money would have had to flow back with interest into the Company’s coffers starting from the second half of the Nineties, a period that would have been dominated by the subject of the rate of return on investments. But, unlike the SPR, few of Fiat Auto’s models were capable of worthily performing their duty as “cash cows”.

Between Overheads and Restructuring

One of the most critical aspects of relations between the *Direzione Generale* and Fiat Auto was the one regarding cuts in overheads. It was known to all that Fiat Auto’s overall efficiency was very low. The measures taken in 1980 and the

conclusion of the March of the Forty Thousand had allowed the management of Fiat Auto to regain control of the factory workers and their productivity, but managerial and clerical staff had been barely affected. The office personnel and people's habits, stratified over decades, had reached a point of redundancy that, in private, was recognized by the interested parties themselves, when they felt like being sincere. The hard part was to judge what to cut and where. This assessment involved a full, direct knowledge that could come only from within Fiat Auto. Nonetheless, Cantarella would not hear of extraordinary measures: he was afraid that the result would cause such disruption that it would jeopardize the results of the projects underway for the Fiat Punto and the Melfi factory. Luigi Arnaudo had worked on this topic during the period he had spent in corso Marconi before my arrival. As ex controller of the Auto Sector, he knew many things, possessed the right technical instruments of analysis, and had a taste for criticism that was useful in such a situation. It was precisely because of these characteristics of his that I had tried to have him with me, to the point of causing Gianni Agnelli's pointless courtship of him, which I described at the beginning of the chapter.

With Arnaudo gone, it was necessary to find someone who would take the trouble to make the figures talk in favour of a drastic restructuring. I had hoped that Umberto Quadrino, less intractable and more diplomatic than Arnaudo, might get on the same wavelength as Cantarella and cooperate with him on the question. But I was wrong. Very soon I witnessed the formation of a constellation of unpleasant attitudes. Quadrino pointed out the absolute necessity of taking stricter measures, with prudence and courtesy, but firmly. Cantarella showed that he couldn't stand him any longer and expressed a lack of confidence in his work. Under other circumstances I would have appreciated a similar dialectic between two co-workers, trying to bring out a mediated and pondered line of action, but this case was different because Romiti supported Cantarella's position without reservations and got irritated with me if I so much as mentioned the existence of the problem.

I could understand Cantarella's reasons, when—with regard to any consideration of restructuring overheads—he gave priority to the objectives connected to the new cars and the new factory. What was at stake was the fate of Fiat Auto and the Group, and his own personal future too, given Umberto Agnelli's lack of esteem for him. Cantarella, who had never experienced the climate of tough restructuring, and hence did not yet know that during drastic personnel cuts (if things are done rightly) operational efficiency increases rather than diminishes, did not feel like taking any chances.

Conversely, it was not at all clear to me why Cesare Romiti, who was reputed to be a tough nut, shrank from any hint, no matter how bland or partial, of tightening the purse strings with regard to the management of Fiat Auto. There was no doubt that Romiti was influenced by Cantarella, but I also imagined that he did not want the emergence of any shortcomings in the Company that he had directed, at least nominally, after Ghidella's dismissal. In effect, no one dared breathe a word regarding that period, despite the critical nature of the situation on all fronts, and despite the historical evidence. Perhaps Romiti did not want to admit to Gianni Agnelli that Umberto Agnelli and his adviser Luigi Arnaudo had been right when they accused the management of Fiat Auto of costing too much.

I realized that if I did not move quickly, Umberto Quadrino was at great risk, because Cantarella's influence in determining the judgements of Fiat's CEO was enormous. I believed that Quadrino was a "resource" of great importance for the future. For years I had been boosting his image with Gianni Agnelli and Cesare Romiti and I could not allow him to be plunged into crisis now, on the eve of a career I felt he was destined for in the interests of the Group, which could not permit itself the luxury of throwing away the few people of his calibre. I grabbed at the chance represented by organizational changes that attributed more responsibilities to my Office, as I shall be saying in the next section, and in the blink of an eye I got Quadrino out of that dangerous scrimmage in front of the goal, where they could have beaten him up.

For the post of controller I thought of Francesco Torri, who was then head of Toro Assicurazioni.⁴⁸ He had the right attributes, really sound administrative training allied to operational experience, matured as COO of Magneti Marelli first and of Piaggio later.

He returned to me very willingly, he was a restructurer by nature and, *rara avis*, he enjoyed the trust of Umberto Agnelli and Cesare Romiti. And he was anything but inexpert in terms of his capacity to manoeuvre, which gave me real hope that he would have navigated skilfully in the midst of the sharks. But the milieu and the circumstances proved to be too tough even for his proven capacities.

The problem of Fiat's overheads dragged on this way until the spring of 1993. Then I thought the time had come to apply pressure, but the unexpected intervention of the public prosecutor Antonio Di Pietro, which takes up the entire content of the next chapter, interfered with my plans and restructuring was deferred again until the end of that year.⁴⁹

⁴⁸ Translator's note: an insurance company belonging to the Agnelli group via IFIL (now part of Assicurazioni Generali).

⁴⁹ Two extraordinary measures to reduce overheads and fixed costs were implemented before the substantial step taken at the end of 1993. One, highly unpopular, was decided by me on 19 March 1992, when I informed the Sector Heads that all salary increases to the Group's *dirigenti, quadri*, and clerical staff in Italy were to be suspended. Any company would have blocked white collar salaries long before reaching Fiat's condition at that time. Yet the move aroused strong resistance from the Sector Heads, especially Paolo Cantarella. He dragged along Giancarlo Boschetti, who was under his influence and who was worried about not being considered independent enough of the Holding Company, unlike his more important colleague. Cantarella feared an impact on people's motivation, but this was down to inexperience; I had gone through a sufficient number of company crises (the first at my own expense as a young engineer with Olivetti) to know that people understand and accept financial sacrifices when the going gets tough. Then in May 1992 Fiat decided to close the factory in Chivasso, once the pride of Lancia. This involved the dismissal of 3,600 workers, laid off in *cassa integrazione* at zero hours, and 2,000 white collar staff, these last without any promise of reintegration. In July Cantarella invented the transformation of the huge shed into a centre for components companies entrusted to the ownership of external suppliers, with an approach typical of his imagination, extremely skilful as he was at getting out of any blind alleys in which he might find himself. On 2 July an agreement was signed with the unions: about 1,700 people would be re-employed at Mirafiori and Rivalta, while another 1,250 would be re-utilized at Chivasso.

Internal Motivation and Institutional Meetings

In this bedlam of problems and projects, and faced with nightmarish denigration from the outside world, it was essential to boost the motivation of the managerial body, and this objective entailed excellent internal communications. Paolo Cantarella immediately implemented a programme of management meetings for Fiat Auto similar to those held in Iveco since 1985.

I tried to suitably re-adjust an instrument that had existed for some time but which I felt did not function as it should. Since the early Eighties, between November and December of every year, a conference, known as the “Institutional Meeting” was organized. This two-day event was attended by all the principal *dirigenti* of the Group, over 400 people. The “Marentino Conference” of 1988 hit the headlines because of the shock caused by the defenestration of Vittorio Ghidella. In the years that followed, journalists pricked up their ears trying to imagine what might have happened there and, in the absence of real news items, they created several bogus ones. Cesare Romiti set to riding the wave of this occasion, so well suited to his personality cult, deliberately leaking some news in advance and circulating eulogistic press releases, as had happened in 1989 with the message about quality. Unfortunately, in this way some dirty linen that any serious multinational would have washed at home was washed in public, and so the world outside the Group received a distorted image of the concrete topics that were tackled in that lecture theatre, coloured by the bland paternalism of the pep talks with which Cesare Romiti and Gianni Agnelli concluded the sessions.

While the external image of the Meetings was impossible to change, I nonetheless managed to introduce substantial improvements. In the Eighties, themes of an Italian national character enjoyed a virtually absolute exclusive, as if Fiat designed, produced, and sold in Italy alone. From my standpoint in Iveco, and even more so after the New Holland operation, I found this dismal: the non Italian *dirigenti* came from far away to seek motivation on seeing the community of the great international group to which they belonged... and then they found it embroiled in the midst of the political, economic, and trade union micro-problems typical of small-time Italy. They didn't understand a thing and got bored to death. The matter was also morally harmful for Italians who, on those occasions, heard again and again the same provincial stereotypes they read in the papers every morning. I immediately began to influence the agenda and to suggest a treatment for every topic from a viewpoint of international comparison. I frequently stepped into change the vocabulary. It was a job for a proof reader: but how was it possible to use the term “foreigners” for the Germans of Iveco Magirus who considered Iveco Magirus a German company, having had its headquarters in Ulm for a century, and therefore felt fully at home in their job?

At the 1990 meeting, which was held on 23 and 24 November (and was repeated with other participants a week later), I took part as COO designate and was finally able to give the slant I liked best to my extremely long speech on “restructuring and permanent repositioning”, and, more generally, on all the topics of the meeting. This was a matter of international business scenarios and precise industrial aspects, with clear and meaningful figures. I illustrated for the first time

some essential management parameters, which I was then to follow from year to year for another five years, and, for the first time in Fiat history, such a numerous assembly of *dirigenti* learned in real time the true data of the current management without any cosmetic adjustments. I was not disturbed if a strongly didactic intention shone through. I prepared my texts and selected the figures personally, together with my closest collaborators, and I was to do the same in the years that followed. Anyone who was to take the trouble to listen to the recordings of my speeches of those years, and to observe the tables I presented, could faithfully reconstruct the path taken by the Fiat Group in that period.⁵⁰

The Acme of the *Direzione Generale* at the End of 1992

On 18 November 1992, preceded and followed by intense press exposure, an organizational directive was introduced that entrusted me also with those few industrial Sectors that still did not fall within the ambit of the *direzione generale*: the Railways Sector (i.e., Fiat Ferroviaria Savigliano), the Aviation Sector, and Snia-BPD (which had swallowed up Sorin Biomedica). I believe that the decision, which I had in no way solicited and which came as a surprise, had been suggested to Romiti by Paolo Mattioli. In any event, the modification was rational because it made it possible to place under a single umbrella not only those activities in some way connected to the automotive sector, but all of the Group's industrial operations.

The new organization was little different from the previous one and so I did not expect the great emphasis with which it was divulged, much greater than that used on the far more important occasion of my nomination of two years before.⁵¹ The extension to the Industrial Sector with respect to the Automotive Sectors alone involved a difference of a few percentage points in the value of turnover in my charge, yet it took on an emblematic connotation.⁵² The sum of events allowed of an evident interpretation: my work over the previous two years had been appreciated

⁵⁰ The topic of the section is extended to 1992 in Document 8 of [Chap. 14](#).

⁵¹ “*Fiat / L'uomo del future: date a me quel che è di Cesare*” (Fiat/The man of the future: give unto me that which is Caesar's), was the headline of a long article by Tullio Fazzolari that “*l'Espresso*” devoted to me on 29 November 1992 and which I consider one of the most generous pieces ever written about me, and also the one that presented me in a way that was nearest to what I really was or, at least, how I would have liked to be. “Innocuous truths or the beginning of a cult? *Vade retro*”, I noted in the margin of the press cutting. The mark was decidedly overstepped by the full-page spread devoted to me by “*La Stampa*” on 17 December 1992, accompanied by a 32-centimetre photograph, within which were set two passport-sized photos of Gianni Agnelli and Cesare Romiti. Transient glory, given that three years later the paper was to completely forget that I existed (see [Chap. 12](#)).

⁵² Romiti also handed me the running of the Human Resources function, which was headed by Enrico Auteri. The substance of things did not change because my relations with Auteri had been excellent for fifteen years and he was still completely devoted to supporting the entire top management, Romiti first of all, but in this case too the formal significance of the change was unequivocal.

and recognized. This message, which would make even more unexpected for me and for everybody else the sudden opening of hostilities against me by Cesare Romiti, barely eleven months later, did not pass unobserved: “An ace in the Avvocato’s new hand of poker”, was how I was defined by the “Financial Times” of 20 December 1992. The article hazarded an interpretation:

Aside from naming his brother Umberto as his successor, the Avvocato has kept everyone guessing as to the future shape of the management team. By being given the new post of chief operating officer with control over all industrial operation, the 54-year-old Garuzzo has been fingered as the man most likely to take over as chief executive officer from Cesare Romiti.

A Sad Beginning to 1993

Despite this recognition, the first months of 1993 were among the unhappiest of my period as *direttore generale*. It seemed to me that all the things that I and the other managers had planned over the previous two years had been put in jeopardy. Until that time, demand for cars in Europe had held up, contrary to what some had tried to make Italian public opinion believe in order to provide excuses for the troubles of Fiat Auto, but now the climate of the market was becoming decidedly negative and this reopened some of the problems I had believed were on their way to being solved. The legal actions that went down in history under the name of the “Clean Hands” affair had reached Fiat, thrusting its reputation in Italy and the world down into the pit of the darkest years. Personally, I was dramatically affected by the vicissitudes of those Fiat *dirigenti* who were imprisoned because it seemed to me that they were persecuted and made to pay for the sins and interests of others.

Romiti had abandoned every active role and spent his days in a huddle with the lawyers, communicating with the outside world solely through Vittorio Chiusano and Ezio Gandini, respectively the trusted criminal lawyer and the head of Fiat’s internal legal office, from whom I thought I perceived some scraps of self-satisfied arrogance for the leading role that fate had held in store for them towards the end of their careers.

I was certainly no legal expert, but good sense seemed to indicate that the strategy that Vittorio Chiusano had worked out for Cesare Romiti was dangerous: to deny everything flatly and to tackle the judges in Milan head on. Chiusano maintained that the “political” storm would soon pass and “legality” would be restored; then the trials would have followed inexorably and every admission, made during preliminary enquiries, would have been paid for dearly. The strategy failed, because, despite the sacrifice of the many Fiat men who received arrest warrants, Romiti himself, although he narrowly avoided sensational consequences on the Milanese legal front, could not escape a sentence of 26 months in prison meted out to him by the court of Turin.

At the beginning of 1993 I did not have the slightest suspicion that after a few days I would be personally involved in the whirlwind, but for all that I was not light hearted. On 2 March, on a sheet of stationery in a hotel in Geneva, I noted:

A fascinating argument from De Rita⁵³ this morning in the Social Policy Committee.⁵⁴ All the intermediate organisms (the civil society) [...] would have failed. This leaves a total [...] “horizontality” where the only things implemented are destructive actions of anger, aggression and destruction (sometimes revenge, too). It’s not a revolution, because there is no model to construct, and hence feedback. In this swamp roam the media, which do not mediate, far less carry out political action in the sense of construction: only circuses and the blood of Christians for spectacles ever more devoted to pleasing the thirsty crowds. The judges—or, rather, De Rita says, the public prosecutors (because the real judges to decide between the accused and the accusers are yet to come) do their part because they are, in fact, a horizontal presence, that’s to say tending to be ubiquitous and without a top [...] A frightening picture, which in the space of a few months has already scotched the alternatives: the movements (which go back to being parties), the cross-parties shared aims, the rediscovered role based on western models of the establishment (who goes to prison or is put in the stocks). And hence the return of the party political form with everything that means a return to the past.

A picture that I shall leave today’s reader to judge. At that point, I returned to my issues:

But we have competitors to fight and mouths to feed. What must we do then? Also because in the coming years unemployment will strike 600,000 people and, for the first time, in the services sector and of intermediate age.⁵⁵

On 16 March 1993 I left for an eight-day trip to Germany, packed with meetings and conferences, in the usual style of my pilgrimages outside Italy, which continued implacably. I had no idea I would have to rush back before the planned end of the visit to face the storm in my turn, following the warrant issued on 22 March for the arrest of Riccardo Ruggeri.

⁵³ Translator’s note: a well-known social scientist and political commentator.

⁵⁴ It was a committee set up by Romiti months before to have a chance to obtain contacts with external personalities in the world of social studies.

⁵⁵ The notes continue the next day: “There’s little reason to be happy in Geneva today at ACEA [The European Vehicle Manufacturers’ Association]. The markets are collapsing [and] I’d like to cry this out to public opinion, together with the staff cuts [coming our way] in future years. But, indiscriminately, everyone, Germans, French, and British is in opposition: their fear is that people, alarmed, may buy even less. And the recession spirals down, for lack of confidence. But for the first time at Geneva the Japanese are not so aggressive with new models: it seems as if they wish to pass unnoticed, in obedience to the MITI directives. They say that only Toyota’s imperialist characteristics have remained evident. By now I’m the oldest nominee in ACEA, but today events in Italy have diminished my authoritativeness, won over these years. The country’s label today is no longer of much quality”.

Chapter 9

The Judicial Issue (1993)

The Return of the Fugitive

Fiat's Falcon 30 jet landed at Linate airport on schedule, ten in the morning, and taxied up to the terminal. Two policemen climbed the passenger steps and entered the cabin, where I was waiting for them. Then, kindly but firmly, they accompanied me down holding me by the arms, as if they were afraid I might make a run for it across the airport grass and runways.

Obviously, they were playing a part for the TV cameras, summoned by goodness knows who in time for the "secret" landing.

The policemen had me sit between them in the back seat of a car that set off at high speed towards the airport gates. I immediately spotted the TV film units lurking in strategic positions and wondered if I should hide my face. I decided I had nothing to be ashamed of and I smiled at them through the windows, at the risk of passing for impertinent.

What had happened that was so terrible in those months as to transform the COO of Fiat into a personage worthy of TV crime reports?

With regard to those events there is a legal "truth", as reported in court records. In this book I do not intend to reopen affairs that have already been consigned to the archives. In a case of such epoch-making importance and complexity, truths that differ from those legal ones must emerge in the long term, when it will be possible to "historicize", explain and assess them with greater serenity and objectivity.

And with regard to the cases of the so-called "Clean Hands" investigation, we are still a long way from the realization of such conditions. In my account, therefore, I shall hold scrupulously to accounts already known, enhanced only by my personal notes.

The Iveco Dealers' Rule

Starting from 1992, some Fiat *dirigenti* had been involved in the investigation carried out by the Milan public prosecutor's office that the media had dubbed *mani pulite* (the "Clean Hands"), or *tangentopoli* ("Bribesville") operation. In early 1993, the investigators maintained that the time was right to aim at Fiat top management, and on 22 February 1993 they ordered the arrest of Francesco Paolo Mattioli, the *direttore centrale* of Financial Affairs and Diversified Activities, and Antonio Mosconi, who shortly before had replaced Francesco Torri as the head of Toro Assicurazioni. Both men were faced with charges in relation to the running of Fiat Impresit, a civil engineering and construction company, and to other non-industrial subsidiary companies within the Group.

In the month of March they also involved me in an investigation concerning the sale of buses in Milan. Around 1986 or 1987, when the events I was charged with occurred, for many years Iveco had been entrusting the sale of buses in Italy to a dozen dealers, each responsible for a well defined geographical area. Each of them used their own money to buy vehicles they needed from the factory and sold them to their customers, almost always regional or municipal authorities.

There was nothing special about that organization, because almost all of Iveco's products were sold through a dealership network: at that time there were 662 private businesspeople working in this area throughout Europe.¹ The use of an indirect network was typical of the auto industry all over the world, because "little bosses" scattered around the territory ensured better service and more discerning control of distribution costs. In the case of buses the indirect network provided an ulterior advantage: it screened Iveco from commercial relations with Italian public administrations. No one possessed or looked for proof, but it was common knowledge throughout Italy that very few public tenders were assigned without the payment of bribes to the appointed officials, either directly to them or their political party. Why should buses have been an exception? The presence of dealers exonerated Iveco from any worries in this regard. The scheme had been set up, I believe, around 1978, during Bruno Beccaria's management, and from then on the discount foreseen by contract guaranteed the dealer plenty of room for manoeuvre.²

¹ There were also 53 direct subsidiaries, operating in places where it had not been possible to find the right kind of dealer, and 2,004 sub-networks, i.e., customer service points.

² Originally, the discount was 15 % of the list price, equal for all dealers. Often, however, the end client managed to obtain higher discounts and the dealers involved complained to Iveco that, after much argument, accepted the burden. Even in this case the dealers remained in possession of a considerable sum, with which, after having paid their own running costs, they did as they wished. Towards the mid Eighties, Riccardo Ruggeri, the vice president of the Divisions, had introduced a modification and had transformed the discount from a theoretical percentage of the price list to the real value of net sales. He had reduced the figure, coming down from 15 % equal for all to a sum between 10 and 12 %, which differed from one case to another. Ruggeri was proud of his initiative, with which he had improved Iveco's margins in a division that had always produced losses, right from the construction of the large factory in Valle Ufita, whose failure to work at full capacity had weighed on company accounts; the saving had added to the improved efficiency that in the second half of the 1980s had made it possible to rescue Iveco.

Knowing the organization, I was not worried when on 25 July 1992 I read in the newspapers that the Iveco dealer for Lombardy, one Luigi Caprotti, was involved in the inquiry concerning kickbacks paid to the parties in his region. Caprotti's arrest was ordered by the Milan public prosecutor, Antonio Di Pietro, and he was able to return home only after several days in prison and after having admitted his responsibilities.

The judicial machinery got underway once more regarding Iveco's affairs, when Di Pietro decided the time had come to renew his insistent attack on Fiat. Under a pretext, he had Luigi Caprotti arrested again, ten months later, and he kept him inside for a long time. All those who had the misfortune to undergo this experience considered it an unbearable tragedy to have to go back to prison for a second time. Caprotti, who was elderly by then, was unable to bear prison and the questioning, both of which were very tough. He admitted that the money he needed to pay the bribes had been paid into a Swiss bank by Iveco, and that the *dirigente* Riccardo Ruggeri knew about this. At this point Ruggeri could have stopped this chain of informing, if he had decided to accept all responsibility. Instead, from London, where I had sent him to manage New Holland, Ruggeri made it known that he would have immediately passed the blame onto his superiors (Romiti and me), because he would never, ever have accepted to pass so much as one day in prison. To show that he was serious he nominated a lawyer of his choice, Alberto Mittone, without consulting Vittorio Chiusano, Romiti's lawyer, who defended Fiat's CEO and also—reporting directly to Romiti—defined and co-ordinated the Group's entire defence strategy.

If Riccardo Ruggeri would not interrupt the series of successive involvements that trickled down from Luigi Caprotti, it was up to me to do so. I didn't think for a second of implicating Cesare Romiti. So I found myself faced with one of the most difficult problems of my life: how could I officially "admit" responsibility for the crime I was about to be blamed for, without ending up in jail?

It was not just the unpleasantness of the place that worried me. Over the months that followed, while Italian prisons were becoming ever more frequented by a better class of people, in March 1993 an arrest still seemed to decree the end of a manager's career. When Mattioli was in prison, Gianni Agnelli frequently summoned me to his office, just for a little chat. I found him very downcast and, like all of us, it seemed to me that he had good reason. Yet, even in that moment he was concerned above all about his own image. "An American friend has called me", he said, "and he asked me why I keep a crook like Mattioli so close to me. You will understand how bad that makes me look...". He said the same thing to me many times, and I, who was suffering for my incarcerated colleague, would have liked to yell at him that the "crook" was not in jail because he had looked after his own interests, but for having looked after those of Fiat and the Agnellis, and to blaze with his snooty friend on the other side of the Atlantic. These confidences left me with few doubts about the fact that my thirty-two years of honourable service in the world of industry would not have served to protect my future in the company had I spent some time in jail.

In addition, one had to take into account the psychological devastation caused by prison conditions, an effect that many cases in the Clean Hands inquiry amply demonstrated.

With Antonio Di Pietro on the warpath, my problem was analogous to squaring the circle. I immediately opted for the strategy of trying to persuade Fiat to cooperate with the Milan judiciary. The first note in my diary, which I kept in those days, refers to that very moment.³

Day 1: Sunday 28 March 1993: “When It’s Your Turn, It’s Your Turn”

On that day they held a meeting in Villa Frescot, Gianni Agnelli’s house in the hills above Turin. I took part in this meeting, together with Gianni and Umberto Agnelli, Gianluigi Gabetti, Cesare Romiti and Cesare Annibaldi. Other participants were the lawyers Chiusano, Pisapia, Mittone, and Gandini. Other similar meetings must have already been held previously, in the course of the attacks that had been made for months on Fiat management, but it was the first time that I had taken part, following Luigi Caprotti’s testimony. From that encounter onwards I sensed some disagreeable sensations whose outlines were to become clearer later, anticipating the climate and the behaviour of the weeks to come.

First of all, there was a vague sensation of disorientation, of powerlessness, or more precisely, to use the term I instantly felt was more apt, of apathy. At that time I did not know it, but I was not the only one who had sensed that atmosphere. Two months afterwards, Giuseppe Turani, who was believed to have informers close to Umberto Agnelli, in an article in “la Repubblica” of 28 May 1993 (“Fiat and the Ides of Cesare”), wrote that in the top echelons of Fiat “there is only rotten luck and destruction”, and talked of a “panicky chicken coop” and of “a personal eighth of September,⁴ a blend of rage and desperation”.

From then on, above all in the presence of Cesare Romiti, they held interminable meetings with the lawyers, to examine down to the slightest detail the various aspects of the inquiry and to decide on countermeasures. But there was never any analysis, any brainstorming, with a view to making a strategic assessment of what was happening and to look for an answer in general or “political” terms. At least, that’s how it always was when I was present.

In the second place, Romiti had adopted a new and curious line of conduct. In the presence of others he was silent, as if absent and detached: from the primadonna, which he had always been before and which he continued to want to be afterwards, he had turned into a stone guest. This was, I interpreted, the “hard-nosed” tactic.

³ I numbered the days as from 28 March 1993. From my notes of that period it is clear that some were taken down at the time while other comments were added later, but still close to the time of events.

⁴ Translator’s note: 8 September 1943 was the date of the armistice signed by the Italians with the Allies at the end of the last war, a date commonly considered to signify a national disaster.

Finally, one had the most disagreeable sensation that those who found themselves involved in the public prosecutors’ inquiry were not only instantly isolated from their colleagues, but were in some way deeply disgraced, considered lost by the collectivity of management, handed over to the lawyers like a plague victim to the corpse gatherers, irrespective of any possible responsibilities and irrespective of the reasons that had justified them in the interests of the company and its shareholders. I was immediately reminded of the aphorism *A chi la tocca, la tocca* (approximately: “when it’s your turn, it’s your turn”), regarding the plague in Alessandro Manzoni’s *The Betrothed*.

The following is a verbatim account of the notes I made that day:

Meeting at Villa Frescot, in Agnelli’s house. I explain the following concepts with frankness:

(1) we are on the wrong side [...];

(2) we are looking far worse [than we should] with respect to the real misdeeds that we have likened, for example, to those of ENI and its enormous foreign pot [of money] for the use of political parties;

(3) we are going to lose in any case: they’ll pick us off one by one...[...]

So, peace or war, but not apathy.

They all seem to agree, and Pisapia is entrusted with a specific task, so that he will do nothing, as I will soon understand. It all looks to me like a coterie of old men, and that the world of the future can no longer belong to them. I wonder who, in their number, was dragging his feet behind the scenes. Certainly Chiusano, the lawyer, but I think the one who really does not want [to take any initiative] is Romiti”.

Day 2: Monday 29 March 1993: “I’m Not Going to Prison”

That day I flew from Turin to Hatfield airport in London, where for many years I had been in the habit of landing with the company jet. Riccardo Ruggeri came to pick me up and take me to a meeting in a squalid motel nearby, in the north of the city. He struck me as a man possessed. According to him, the epoch-making events of those days would mark Fiat’s disappearance: “The Fiat in which my father worked on the factory floor, the Fiat you and I have known, no longer exists. By now it’s every man for himself”. Above all, the leitmotiv: “I’m not going to prison”. Later, his London-based co-workers told me that in the preceding months, foreseeing the development of events, he had fallen victim to a psychological crisis that had obliged him to stay in his home in Rutland Gate for many days. So why had no one come to tell me about this? His co-workers shrugged: “Ingegner Garuzzo, try to understand us”.

Ruggeri’s Italian lawyer, who I met in the hotel, tried to make him see reason. I asked Mittone to counsel his client to find an English lawyer who would keep an eye on him with a view to preventing any rash acts when he was alone in England. But I asked him not to say where this suggestion had come from, because otherwise he would have suspected goodness knows what kind of plot. And so there cropped up a certain Brepner, who apparently had to protect Ruggeri against us, without the latter’s imagining that the idea came from me to protect him from himself.

I told Ruggeri about the peace mission entrusted to Pisapia during the meeting of the day before in Villa Frescot, but he refused to believe in any possibility of success, with good reason, because I discovered shortly afterwards that Fiat had absolutely no intention of coming to terms with the public prosecutors. It was really probable that if he had tried to resist without shifting the blame onto others he would have been incarcerated for a long time, as had happened to Mattioli.

Day 3: Tuesday 30 March 1993: Thus Spake Mattioli

After thirty-eight days in prison, it was necessary to get Francesco Paolo Mattioli out of prison at all costs. The *Corte di Cassazione*⁵ was imminently expected to hand down a decision regarding the appeal against preventive custody, but hopes were few and far between because we were in the middle of the uproar in the press and on television, something that no one dared oppose. Vittorio Chiusano told me that Antonio Di Pietro had issued an ultimatum: in order to be released, Mattioli had to confess to at least one fact with reference to one of the sectors that did not depend on him hierarchically, something he had never done until then. The investigator's aim was obvious: if Mattioli had been involved in events related to the entire Fiat Group then the path was clear for the next step, because "Romiti could not not know" what his direct collaborator co-ordinated with general legitimacy.

Here is the record of the statement made by Francesco Paolo Mattioli dated 30 March 1993:

I confirm that I have never dealt directly with matters concerning Fiat Iveco and I was able to know a little more about the situation regarding bribes around the year 1987 on the occasion in which the then CEO of Iveco, Mr Giorgio Garuzzo (currently COO of Fiat SpA) came to ask me for some advice insofar as at that time I was *direttore centrale* of Fiat SpA. Garuzzo and I were and are friends and colleagues and he pointed out to me that his structure had informed him of the need to make cash payments in the Milan area in order to obtain orders for buses from ATM (the Milan public transport company). Garuzzo explained to me that this was necessitated by the fact that our refusal would have permitted the entry of another bus producer, Mercedes. Garuzzo also said to me that [Ruggeri—name erased and replaced by an illegible one in the photocopy in my possession, maybe Caprotti] had told him that the need to pay cash was also due to the worry that the public administration might shift the funds among various items of expenses and thus thwart any chance of acquiring orders.

I then suggested to Garuzzo that if he really had to give in [to this] then it would be opportune to do so through absolutely foreign transactions, something that was possible for Fiat Iveco insofar as it was a company subject to Dutch law.⁶

Mattioli's statement reduced the risk of Di Pietro taking measures with regard to Romiti: Luigi Caprotti had asked Ruggeri for money, Ruggeri had come to me, I

⁵ Translator's note: Italy's major court of last resort.

⁶ If they had read this statement, Gianni Barbacetto, Peter Gomez, and Marco Travaglio, authors of the book titled *Mani pulite. La vera storia* (Rome, Editori Riuniti, 2002), would not have said that I was the one who involved Mattioli in things (p. 183).

had gone in my turn to ask Mattioli's advice, but "because he was a friend". He had replied to me "how lucky you are, with Iveco behind you, an international company that has no problem with paying bribes through non-domestic transactions". It was not a matter, therefore, of a functional directive, but of a casual, private event.

The statement set me up. First: I knew that the operation served for the payment of kickbacks, and I could never have stated that that cash had been given to Caprotti for other purposes. Second: the bribes favoured Iveco against Mercedes.

Mattioli's account could have aroused some doubts and some questions. At the time of the controversy, I was running a multinational company that moved outside Italy three quarters of its eight-thousand-billion lire business and had factories in five or six countries. The subsidiary company FinIveco held, in the Dutch Antilles, four hundred million dollars that served to finance the sales of lorries in dozens of different countries; every day, merely to keep going, Iveco transferred one hundred million dollars to subsidiaries, suppliers, and dealers all over the world. In the light of these considerations, what sense would it have made for me to go to Mattioli only to be advised to use a mere half million for "non-domestic" transactions?

Iveco sold 500 lorries every day in Europe through hundreds of dealers, and I was supposed to get excited with a Mr Caprotti for a few dozen buses in all?

The mention of Mercedes was also questionable. At that time the bus market was protected, and in every European country they sold almost exclusively vehicles of national origin. Moreover, there was a very accurate product specification, valid only for Italy, which had been prepared by Federtrasporti. Mercedes simply did not have a suitable vehicle, and if ever it had decided to spend all the money required to produce one, with the sole aim of selling a few units in Milan, it would have taken years, without considering the risk of reprisals in Germany on our part. Finally, it was frankly bizarre to suggest that the Milan "public administration" might shift the funds to some other item of expenses and buy no more buses, thus leaving the citizens on foot.

But those were chaotic times, and no doubt was raised regarding Mattioli's account. Di Pietro had got himself another link in the chain. The lawyer Vittorio Chiusano conveyed the information on the event to me with nonchalance, as if it were a trifle, having me read the statement in his notes and confirming it as he stood beside the door of his office. By now I, too, was involved: if I had denied it no one would have believed me. "Top managers are paid for this kind of thing, too!" I told my wife when she protested because I was preparing to take all the responsibility on my shoulders.

Day 4: Wednesday 31 March 1993: My New Barrister

In the past I had never needed a criminal lawyer and Chiusano could not defend me because he already represented Romiti and Mattioli. Many other colleagues of his in Milan were busy with the defence of the various Fiat *dirigenti* under investigation, and so I turned to Cesare Pedrazzi, a reliable and influential professor working

in that city. Pedrazzi made an uncertain impression on me: he struck me as highly competent and dependable, but I would have expected more initiative. It was clear that good lawyers were at their wit's end, because every procedural tradition, all professional credibility, and every certainty of jurisprudence had been lost. Lawyers limited themselves to waiting, their knowledge was in fact entirely useless.

In any case, Pedrazzi's advice was wise, very wise, given the situation. He suggested that I present myself immediately to Antonio Di Pietro because, pinned down as I was between the "confession" already made by Paolo Mattioli and the impending one by Riccardo Ruggeri, I would soon have been subjected to the attentions of the Milan prosecutor's office, with all the methods they employed. Pedrazzi sent a colleague from his practice, Francesco Mucciarelli, to make an appointment for me. Di Pietro refused, saying that "he didn't want any more cynical statements from single individuals". It was obvious that he was trying to trap Fiat as an institution and to get to its highest executive officer.

That same day I gave a speech at a conference held in the Milan Polytechnic, in which I dealt with topics such as competitiveness and globalization, both of which were dear to my heart. The students asked me questions about the kickbacks and I got by as best I could: "96.2 % of the Fiat Group's turnover is made on the free market [...]; only 3.8 % [...] derives from relations with public bodies".

Then, as reported by "il Giornale" on 1 April 1993: "Fiat, Garuzzo makes it understood, does not belong to that area of businesses (small, medium and large) that Fumagalli⁷ defines as born and raised thanks to collusion with political parties".

Day 5: Thursday 1 April 1993: Di Pietro Wants the Generals

For a second time, Francesco Mucciarelli tried to persuade Di Pietro to receive me, and for the second time he was turned down, even more bluntly than he had been on the previous day. "It's time Fiat stopped throwing the colonels in at the deep end: let the generals make an appearance", he said. And he added: "I have a bunch of Fiat *dirigenti* in jail or self-confessed offenders, a number more than sufficient for a charge of criminal conspiracy".⁸ In fact by that time Antonio Di Pietro had prosecuted six or seven Fiat men. The threat was most serious because, had it been implemented, it would have justified on his part entire roundups of *dirigenti*, with little or no need for formal justification.

Mucciarelli also learned, perhaps from the GIP, or investigating judge, Italo Ghitti, that an arrest warrant was ready for me on the sole basis of Mattioli's statement, because Ruggeri was yet to be heard.

⁷ Translator's note: an Italian political commentator.

⁸ Translator's note: *associazione a delinquere* usually refers to the mafia, against which the law was originally intended. The prosecutors made a lot of use of this in the "Clean Hands" affair.

Day 6: Friday 2 April 1993: "Now I Have to Go"

Ruggeri showed up in Milan and made his statement like a good fellow:

Garuzzo told me that we could satisfy Caprotti's requirements by paying his commission (which had been set at 9 percent of the value of the order) partly through an official invoice and partly through payments to be made abroad.⁹

I thought that things had gone badly for Di Pietro because I was not the one he wanted; now all he could do was pressurize me with the same method he had used on Caprotti and Mattioli. I imagined that, if I went to prison, I would not have been released for a long time and Fiat would have tossed me on the scrapheap because I was no longer of use, ruined, and forgotten. It was in that state of mind that I attended an extraordinary meeting held in Villa Cairoli, in order to avoid arousing curiosity in the headquarters in corso Marconi. On one side of a long table sat Gianluigi Gabetti and the two Agnelli brothers, then came Romiti, with me on his right; opposite us sat the lawyers, including Franzo Grande Stevens and Cesare Pedrazzi. Everyone wore gloomy expressions and no one said a word.

So I spoke up. I said that the judges wanted the big game. They had bagged important names from politics and public industry, now they were aiming at those of Fiat. Their sights were trained on the rhinos (and goodness knows why that animal came to my mind as a metaphor), namely Romiti and Agnelli. They would have knocked us all off, entrenched in a useless defence, and then they would have shot them down and hung up the trophy above the fireplace. It was necessary to collaborate, granting them what they needed to continue their cleanup: our recognition and our support. At that time public opinion still valued such goods; later on they would no longer be worth anything. Gianni Agnelli grasped what I was saying and came up with a similitude with Hitler, who could no longer find anything to offer the victors by the time he was down to his last bunker. No one could or would say anything different.

The threat made by Di Pietro to Mucciarelli was an extraordinary one, but those were extraordinary times. Romiti, sitting on my left, did not utter a word. The proposal to instruct Grande Stevens, a civil lawyer, to seek contacts in Milan, was put forward and accepted by all only with a view to getting out of that unbearable assembly, even though everyone knew it was not going to be of any use. Once more, I had that feeling of cynicism and powerlessness: "when it's your turn, it's your turn". And it was my turn. "Now I have to go", I said, and everybody

⁹ I do not possess a copy of Riccardo Ruggeri's statements; I take them from a very well informed article in "l'Espresso" of 25 April 1993 whose headline was *Qui Londra, a voi Torino* (London here, you have Turin), which also maintains that "Romiti should have been succeeded by Garuzzo, today under investigation. Umberto should have taken Gianni Agnelli's place. But the Clean Hands storm has upset plans for the future". There's more: "Garuzzo organizes a strategy full of irregularities and Ruggeri obeys, in an official statement: 'Garuzzo passed on the operative task to me'. Riccardo Ruggeri's line of defence, worked out with his lawyer Brepner, clearly achieved its goals.

knew why. I got up, shook hands, and left. It struck me that I did not sense much emotion in the air; only chilliness and tension. I go into the car with my wife and left for the Côte d'Azur.

The journey gave me an odd feeling, as if I were living a fragment of unreal life. At the frontier near Ventimiglia, a uniformed customs' officer was standing in the middle of the motorway. Rosalba fell silent and moved closer to me as I drove. The idea that a law enforcement officer of my country could strike fear into me—to me of all people who since childhood had felt a (quasi maniacal) respect for law and ethics, and had been a (perhaps excessive) advocate of the virtues of individual work for the destiny of my country—seemed improbable to me, incredible, yet something to be accepted, to be rationalized: certainly that was not my life, I was living someone else's life... The uniformed officer gave a nod and stepped aside to let us pass.

Day 10: Tuesday 6 April 1993: Exile in London

After spending three days in Roquebrune, I got back into the car and drove alone straight to Milan, where Pedrazzi had me sign a plea asking the public prosecutor's office to receive me. This was useful to me later, as we shall see, in order to prove that the prosecutors wanted not only to hear what I had to say but also wanted my detention. Then I flew to London, a place where I had two good reasons to go. First: in England the judgement of a citizen was considered a terribly serious matter, and there was *habeas corpus*. I believed that before extraditing me they would have studied my case and evaluated the degree of equity that awaited me in Italy. Second: I could not spend my time playing golf on the Côte d'Azur, whereas in England I could carry on working without any need to hide.

Day 11: Wednesday 7 April 1993: The "Financial Times"

This was an essential day for the continuation of the affair and for an understanding of what was going on during that period. Since the trip to Roquebrune I had been rationally aware of the situation and its developments, but on a psychological level it seemed impossible to me that all this "could have happened" or, even, "was happening". I was living and acting in a disassociated way, like a person who obliges another himself to carry out logical actions that the other himself absolutely did not believe he had to do.

On the morning of 7 April 1993 I went to work as usual in the offices in Berkeley Square. No information arrived from Fiat Italia. Later that morning I thought that an English lawyer might have given me some useful suggestions; after all, I had already called one for Riccardo Ruggeri. I telephoned Sarah Panizzo, a friend, and explained the situation to her: it took all her English

unflappability not to collapse. When she recovered from the shock she told me she was a solicitor, while I needed a criminal lawyer, one, as they say, “admitted to the bar”; she knew a barrister who also spoke Italian and who would be glad to give me some advice, just in case... She made me an appointment for that very afternoon with Laurence Giovene.

I had almost arrived in Lincoln’s Inn Fields, when the car telephone rang. Sandro Casazza, of the Fiat press office, informed me that the afternoon television news would announce the news of the arrest warrant issued in my name. And so it happened, even though (presuming that the confidences I received later were true) the investigating judge, Italo Ghitti, did not sign the warrant until later, well into the night; perhaps the Milan prosecutor’s office had not wished to miss the early evening audience. My request to Giovene for advice was transformed into a request for a defence assignment as I went up the stairs to his office, and I still hadn’t even met him.

From that moment on the sense of unreality I had been feeling for some days vanished altogether and I felt lucid, efficient, and alone: I had been working for thirty-two years amid the responsibilities and the ups and downs of life, I was healthy, adult, and serene. Looking at Fiat, I was pleased to perceive the affection of those who wished me well and respected me both professionally and personally; I was slightly irritated by the contrived sympathy of most (but “when it’s your turn, it’s your turn”); I assessed with detachment the cynicism of top management and the huge void they had instantly created around me, especially Romiti and his legal entourage, interested solely in putting up resistance (“when it’s your turn, it’s your turn”).

The first thing I had to do was to defend my reputation outside Italy. I had a lot of personal credibility, built up over decades of serious professional relations with countless German, French, English, and American business and company men. I possessed no businesses of my own, I was a functionary and hence my professional reputation was my sole asset. Fiat was backing out and I had to fend for myself. It was essential for me not to disappear altogether, to recount my version, and to communicate with the people I knew. Nobody was going to call me a crook.

By then it was late afternoon, the television broadcast was instantaneous: I had only a few moments in which to act. I traced our man in the London press office: call the “Financial Times” right away, I’ll give them an exclusive statement, but they must commit to publishing it in its entirety and they must wait before putting the newspaper to bed so that I have time to prepare it. I was asking a lot, but for a decade I had been talking frequently to the “Financial Times” and I had never deceived them. The answer came immediately: okay.

And so, having only just met Giovene, instead of preparing my defence, I wrote my statement for the newspaper. The “Financial Times” redid the front page that had already been written up, deleted the correspondence on the affair they had received from Rome, and put in its place what I wanted:

Mr Garuzzo, number three in the Fiat hierarchy after the *presidente* (Chairman) Mr Gianni Agnelli and the CEO Mr Cesare Romiti, said yesterday evening that the action of the magistrates “could be very harmful to the Fiat Group in general and especially to Iveco, because we do business all over the world”.



Fig. 9.1 From the first page of the Financial Times of 7 April 1993, news of the involvement of G. Garuzzo in the “Clean Hands” inquiry

Speaking from an undisclosed London address,¹⁰ Mr Garuzzo said that he was “extremely surprised” when he heard about the arrest warrant. “I can only think that, as has recently happened to a certain number of persons, the Italian investigative authorities prefer to hear people after their arrest”, he said.

“Only last Tuesday (1 April) and again the following day, I specifically asked through my lawyer to be heard by the public prosecutor concerning aspects with regard to which I could be of service in their investigation into Iveco’s affairs. I was told that they were not interested, even though they had been in possession of my written request to be heard since Tuesday” (Fig. 9.1).¹¹

The statement was picked up in Italy by the agencies and the next day all the papers carried it with emphasis. The move achieved the goal of defending my reputation, especially abroad, and I was proud of that. But Vittorio Chiusano was not happy: in his view I was “pissing the judges off”, making them even angrier with Romiti; Chiusano still thought he could cajole and mollify the investigators who would not have dared to attack the top echelons: that line had caused Paolo Mattioli and many others to be sacrificed; now it was my turn (“when it’s your turn, it’s your turn”). Chiusano criticized me harshly before Agnelli and Romiti, and I was well aware how, in such chaotic moments, the observations and opinions of the lawyers could label a person forever, regardless of the dedication he had shown in countless years of work and also in such situations. And the lawyers’ criticisms came easily, partly because of nervous tension and partly because of their pride in a role that the moment favoured and glorified.

¹⁰ “Undisclosed” simply because they had not asked me.

¹¹ “Financial Times”, 8 April 1993.

Day 12: Thursday 8 April 1993: Preconceived Ideas

The foreign press published almost nothing more about my affairs: the news had been defused on the first day and presented in the way least damaging for me; above all I had given the impression of a person who was not hiding and facing the situation and the circumstances openly.

The attitude of the Italian press was also very cautious, in general. The news was given prominence, as was obvious, but all reports highlighted the fact that the objective was a more global one.¹²

On the other hand, I suffered damage on the TV front. As from the evening of 7 April the TV launched an unremitting campaign: for days and days every television news programme was to describe me as “on the run”, complete with background shots of the “palazzina” at Mirafiori and the blue rhombuses of the Fiat logo. The television medium, with its apparent detachment, did not permit any in-depth discussion, and so all positions were reduced to the tough level of a felonious image. I realized how television can construct monsters without any difficulty.

The Milan public prosecutors were annoyed about my appearance in the “Financial Times”. One of them, Piercamillo Davigo, “visibly irritated”,¹³ said to journalists:

Not even the fact of actually presenting oneself excludes the possibility of taking preventive measures, far less the intention to do so. The problem is another one. On the day when they stop paying bribes or behaving in such a manner as to permit [others] to pay them, the problem will solve itself. I don’t see why we should treat the Chief Operating Officer of Fiat any differently than the Administrator of any business.¹⁴

When my lawyer Giovene learned about this statement he gave a whoop of satisfaction: “the public prosecutor has publicly expressed preconceived ideas about the procedure, now they’ll take him off the case”.

¹² All the newspapers, even those left-wing ones less favourable to Fiat, highlighted my operative past in industry, sparing me political connotations. In some cases they even gave me good publicity, describing my years of work and presenting me as Cesare Romiti’s successor-designate and the man who would lead the transition towards the new, all accompanied by nice photos. “il Giorno” ran a headline: “Fiat, another blow to the heart”, and in the article on page 7: “[Garuzzo] a tireless worker who shuns the social whirl”. “L’Unità”, beneath the headline: “A reserved mountain man, tenacious and obdurate”, regaled me with an authentic funeral oration written by Michele Costa. Almost the same line was followed by Paolo Griseri in “il manifesto”, beneath the headline: “Fiat director arrested. Sorrow in corso Marconi as Agnelli loses another heir”, and then: “The man called to represent the transition [from Romiti’s power group], Garuzzo, is under investigation in his turn. Romiti’s and Agnelli’s successors are a question mark once more”. The “Corriere della Sera” described me as a “calm Piedmontese, who doesn’t raise his voice. Convinced that there is a rational solution for every problem”, and attributed to me “the signature below the great foreign deals”.

¹³ AGI news agency of 8 April, at 19:35.

¹⁴ AGI news agency of 8 April, at 12:29 and ANSA at 12:57.

I looked at him in amazement: did he think Italy was England? A serious reaction came from Giuseppe Gargani, the Chair of the parliamentary Justice Commission:

Currently, the law does attribute the role of accuser to the public prosecutor, but at the same time it entrusts him with the task of seeking out all circumstances that may be favourable to the accused. This is why the public prosecutor should not anticipate judgments. This is why the public prosecutor has a delicate and important function that is all the more solemn the more he is reserved and discreet.¹⁵

Gargani had the courage to make a clear expression of his ideas on the deviancy of preventive custody in “Il Sole 24 Ore” of 13 April 1993:

In the case of organized crime we have approved exceptional measures, precisely in order to tackle a bloody phenomenon.¹⁶ Laws at the limit of constitutionality, which cannot be applied to other crimes, to be followed with respect for the formal rules, with proceedings set in motion by a notice of offence.

That day it became known that Massimo Aimetti was also wanted. Aimetti was the *direttore amministrativo* (Chief Financial Officer) of Iveco, a good Christian, a very worthy person, capable and mild mannered. It would have been enough to call him and he would have recounted all that was required of him, but the public prosecutors did not go in for such subtleties and they decided to arrest him. At that time, Aimetti was in China supervising an ongoing operation for the licensing and sale of lorries with Nanjing Motors, and was entirely unaware of what was going on. Fiat’s personnel department went into action to stop him in Paris, on his way home.

Day 13: Friday 9 April 1993: A Check

In my extemporaneous diary I noted:

Gandini and Chiusano come [to London]. Chiusano asked me two things that struck me as trick questions: “What do I think: 1. Should Romiti appear before the magistrates? 2. Should he go first or should I?”. Why is he asking me these questions if he has known my reply since 28 March? Does he think that he can hoodwink my lawyers here in this way, bringing my defence into line with his strategy?

I give him a frank reply: Romiti must go right away, otherwise they’ll get him, sooner or later: I must go afterwards, I am entirely secondary.

I believe that the visit from the internal and external lawyer served to assess the extent to which I was holding up psychologically, and to inform Agnelli and Romiti. What they actually reported I do not know; but I was left with the doubt that they did not convey my thoughts correctly: perhaps I was conditioned by the English milieu, but the pair had reminded me of Shakespeare’s Rosencrantz and Guildenstern.

¹⁵ AGI news agency of 8 April, at 18:47 and ANSA at 19:57.

¹⁶ Translator’s note: i.e. against organized mafia.

It was true that, if Romiti had appeared before I did, I would have avoided prison, but this was not the main point. If my sacrifice had been sufficient to save other people within the Group, I would have gone along. The point was that if Romiti had not stepped forward, the Milan prosecutors would have destroyed other Fiat men, they would have damaged Fiat's image even more and then they would have taken him anyway. According to one of the many theories suggested later (but if things had really gone that way I received no information either at the time or later), that visit gave rise to the resentment that Romiti was to express so ferociously and incomprehensibly in my regard in the years that followed. In that period Romiti lived in isolation in constant conclave with the lawyers, communicating with the outside world only through Gandini, and took absolutely no interest in company business. Things were to go on this way for almost two years.

Day 15: Sunday 11 April 1993: A Word of Advice

Gianni Agnelli called me from Istanbul, where he had gone to visit the Koç family, Fiat's very wealthy partners in Turkey. Since he usually snubbed that family, I thought he had left Italy with a pretext in order to communicate freely throughout the world without being intercepted. I repeated what I had told the lawyers 2 days before and he seemed astounded. At the end of the phone call he seemed convinced of the necessity for Romiti to present himself. He seemed concerned about my misfortunes and he advised me to be "prudent": clearly, the two lawyers who had visited me feared goodness knows what rash act on my part after the "Financial Times" affair. Umberto Agnelli also contacted me and declared explicitly that he agreed with my idea. Romiti never called me, either then or afterwards.

It seemed to me that Fiat had finally begun to move towards the idea of collaborating with the "judges", abandoning the "hard-nosed" strategy.

Day 16: Monday 12 April 1993: Berkeley Square

For the entire time of my stay in London I went regularly to the office in Berkeley Square, working almost normally. That day I prepared some letters, carefully worded so as not to offend the "judges", letters that explained to our associates throughout the world what was happening in Italy. I was obsessed by the idea that non-Italian management might lose the faith they had in the Italian bosses and that all I had worked for over the years with regard to our "foreign" associates might be lost.

The circumstances could reinforce the negative stereotypes about Italy's industrial soundness and provide food for thought regarding the disagreeable condition of dependence on an Italian capitalized company. In fact, at that time the risk was a great one. Later, the "political" nature of the inquisition underway became clear to all, the foreign press lost interest in the matter and our men also put their minds at rest.

Day 17: Tuesday 13 April 1993: Spontaneous Testimony

The *comitato di coordinamento* (Co-ordinating Committee) consisted of a meeting attended by about forty people in charge of Sectors or Fiat Offices: too many and too diverse to represent much more than a high Mass. They would meet two or three times a year for similar ritual ceremonies. Unlike previous encounters, however, the Committee meeting held in Turin on 13 April 1993 was a dramatic one. From my exile in London, I could not know the details, but I knew that the suggestion that Romiti ought to appear before the judges had made progress, and that by then the Italian press was also talking about this probability. If Romiti had gone to Canossa and faced the Milan investigators, what would he have said to them? For his part, he had no intention of admitting to having given any cash, either then or afterwards; nor did he intend to admit that he had ever known anything about such things. But he was going to have to say something, if he went.

The Fiat managers who participated in the Co-ordinating Committee were invited to go and spontaneously talk about any cases of extortion of which they had been victims in the past (unbeknownst to the CEO of the Group) directly to Gandini, Fiat's in-house lawyer in charge of collecting confidential revelations. Romiti adopted the position of the one who, from the heights of his authority, had pressed for "spontaneous" testimony in order to take it to the Milan prosecutor's office. This led to the creation of a masterpiece of hypocrisy: the bad apples, or at least the weak, had been those poor souls who had worked for the Sectors; Cesare Romiti presented himself before the judges and public opinion as a supporter of and collaborator with justice. Some of the participants in the meeting, at least ten people, had already been involved in the investigations; almost all of them could have found themselves in the same situation, sooner or later, because they had worked in the interests of the Company with regard to some deals done in previous years. All, with no exceptions, knew exactly how things had gone. Yet they had to pretend that the truth was the version formally and publicly expressed by the boss. An attitude perhaps suited to the intended purpose but, it seems to me, a rather deplorable one on a moral level.

Judging by what I was told, the atmosphere during the meeting was saturated with tension: from the time of its constitution to that of my dismissal it was the only Committee meeting in which I did not take part.

Subsequently, behind the scenes, there began a continuous round of bilateral contacts in order to prepare the dossier or, as I defined it in my notes, the "package". The difficulty lay in the problem of producing something new that might content the Milan magistrates without involving any of the Sector Heads who had remained immune to the contagion until then.

For obvious reasons, Riccardo Ruggeri did not take part in the Meeting, but that day marked the end of the 2 weeks of house arrest to which he had been "sentenced" without trial by the public prosecutors. As for my position, Cesare Pedrazzi went back on the attack yet again with Di Pietro, who repeated to him, to use his words, that "he didn't know what to do with me".

Days 18, 19, and 20: Wednesday 14, Thursday 15, and Friday 16 April 1993: Should I Stay in London?

In the course of those days someone warned me that Interpol had been informed of my name. I never knew if this was true; probably it was a matter of a necessary formality, which was not followed up. My legal situation in England was as follows: had the Interpol warrant arrived, Scotland Yard would have had to look for me and arrest me. Within twenty-four hours of the event, but also immediately if possible, I would have had to appear before a judge who would have freed me on bail. Two British citizens were required to guarantee the payment, and to this end I had inconvenienced Alan Fox, the chairman of Iveco Ford, and his personnel chief, Mel Lambert. They were both proud to give me a hand after the great joint venture in which I had led them five years before, and which had propelled Iveco to the top spot on the English market. The two men promised to be always available so that I would not have to wait if I had been arrested, but then my lawyer, Laurence Giovene, contacted Scotland Yard and explained the case. He left them my home and office addresses and they thanked him: they would have had no problem finding me if a request had arrived from Italy; in exchange, they undertook to show up solely during office hours, in such a way that it would be possible to find both judge and bail guarantors immediately.

The next step would have been the beginning of the extradition procedure. Until a few years before, English judges were permitted to evaluate the conditions of the case, and a request from Italy would have been rejected because of the unreliability of the judgement that I would have encountered in my country. Nonetheless, the UK had recently adopted the European norm that made extradition a purely formal act and, therefore, one not subject to any assessment of merit. Despite this, the lawyers guaranteed me I could stay in England for years: the English judiciary would have tried to get to the bottom of things before sending me away. This prospect horrified Vittorio Chiusano because, in order to prolong my stay, I would have had to go on the attack before international public opinion, and that would have led to a sensational case. The Milan public prosecutor's office would have certainly been even angrier with Cesare Romiti, who was to be protected at all costs.

In those days I had visitors: the first to arrive were Enrico Auteri and Cesare Annibaldi, respectively the heads of Personnel and External and Industrial Relations, then came all the members of my *Comitato di Direzione Generale*, who I took to dinner at Mark's Club in Charles Street. My notes on that day show how greatly I needed affection and protection: I must have felt a little exhausted and I confessed that the visit had been a real pleasure for me.

Day 21: Saturday 17 April 1993: The Turning Point

Paolo Cantarella stayed on in London for the following day and we went to play golf at Swinley Forest. I think he wanted to make a show of solidarity, a rare thing in those days, which I could not fail to appreciate. Just as I was losing the

matchplay, Gianni Agnelli appeared before the press in Venice. According to the journalist Peppino Turani, with “Agnellis and the big bosses, at breakfast in Harry’s Bar, there was also Raul Gardini with a stupendous sun tan”. Agnelli followed the line of pacification with the magistrates.

Agnelli holds out a hand to those judges who he had harshly criticized a few days before. “I believe”—he says—that it is mistaken and misleading to think that the inquiries of the magistracy are part of some plot or obscure political manoeuvres”.¹⁷

Turani continues:

But yesterday, Saturday, all traces of Garruzzo [sic] had vanished. Where had he got to? In reality he had always been in London. And Fiat top management, as is understandable, bombarded him with telephone calls to persuade him to return to Italy and hand himself over to the judges.

Garruzzo, we are led to believe, immediately declared his willingness to board a plane for Milan. But he asked the top men in corso Marconi to change their attitude regarding the judges. No more reticence, no more half truths, no more legal battles. [...]

Garruzzo was not prepared to end up like other Fiat *dirigenti*, forced to spend long periods of detention in order not to reveal what the magistrates had probably already known for some time. In fact, they say that the Fiat COO had maintained this stance since the beginning of the “Clean Hands” operation. [...] But, they explain, he would have been in a minority.

After a long internal debate, top management in corso Marconi supposedly opted for what was later known as the “hard line”. A line well represented by Chiusano, the lawyer. [...] Garruzzo, they say in Turin, had apparently even maintained that Cesare Romiti, as head of the company, ought to have gone to the magistrates to explain what was necessary, thus avoiding the steady trickle of arrests of minor *dirigenti*.

From what we can manage to understand, Garruzzo won the day in the end. And next week Romiti will go to the magistrates to tell what he knows about collusion between Fiat and politicians. A decision that had been put off for almost a year only to be taken into consideration in the course of the last week, with Garruzzo “on the run” in London, during what were probably the toughest seven days for the top men in corso Marconi, by now no longer able to defend a line that would have led to the decimation of their own managers by the hand of the magistrates.

Apart from the gratification of an “r” added to my surname and the improbable existence of a “long debate”, Turani’s observations were correct. I never knew where he got his tip-off from. Nine Fiat *dirigenti* had already ended up in prison. Another four were wanted and I was one of them. My prophecy of 28 March (“Day 1” in my diary) was coming to pass, and the judges were close to shooting the rhinos. On 18 April 1993, “il Giornale” tells of an episode whose real background I never knew, but which had all the air of having been of the highest importance:

Fiat has accepted the preliminary questions of the public prosecutor’s office. [...]

“But what will it get in exchange? [...] The end of the era of handcuffs in corso Marconi. It was judge Colombo himself who let this be guessed involuntarily when he left the office of the chief prosecutor, Francesco Saverio Borrelli, where a summit was still in course, to call the Guardia di Finanza.”¹⁸

¹⁷ “il Giornale” of 18 April 1993.

¹⁸ Translator’s note: a paramilitary police body whose tasks include the prevention of fraud, tax evasion, smuggling and so on. Widely used by the Clean Hands prosecutors instead of police and *carabinieri*.

“Don’t implement it... don’t implement it... wait”, the magistrate said with his mobile to his ear. Thus the Guardia blocked an arrest that an investigator described as of “the highest level”.

Perhaps it was not yet Cesare Romiti’s turn but certainly his time was nigh. That was a day of victory for the pool¹⁹ and also a turning point for Fiat.

Day 22: Sunday 18 April 1993

That day Turani wrote a new article, very tough and subtly destructive for Fiat. Someone had revealed to him the essence of the problem that derived from the meeting of the Co-ordinating Committee of 13 April:

It’s not an easy task. It is a matter of persuading esteemed and respected *dirigenti* that they had strayed from the straight and narrow [in the interests of Fiat shareholders and not in their own], to have their confessions, in short, and then it’s a question of taking their names to the judges [on the part of Romiti, who knew nothing].

Day 24: Tuesday 20 April 1993

The lawyers Chiusano and Pisapia go to Di Pietro to prepare Cesare Romiti’s journey to Canossa.

Day 25: Wednesday 21 April 1993: Romiti Before the Judges

I noted:

Romiti appeared before the judges at 16.15: twenty-five days have gone by since that last Sunday in March in Villa Frescot; and there are another four arrest warrants for Fiat men. There is a growing euphoria about the outcome of the encounter.

I can only imagine Cesare Romiti’s mental tension that day. Until a short time before he had adopted the “hard-nosed” tactic proposed by Vittorio Chiusano: deny everything and that’s that.

For many months he had abandoned all other interests to devote all his vital energies to the lawyers and the legal skirmishes. On the basis of that strategy and that commitment he had sacrificed a dozen *dirigenti* and had jeopardized Fiat’s reputation, but he had not succeeded in avoiding ending up on the threshold of prison.

¹⁹ “il manifesto”, for example, headlined: “Agnelli confesses his guilt, Fiat bows to the judges”; then it goes over the score: “Mr Agnelli reproves Romiti and covers his head with ashes”. And “la Repubblica”: “Bribes, Agnelli admits ‘Fiat, too, has made mistakes...’”.

He was obliged to change his attitude but had no intention of yielding on substance. At seventy, he intended to remain head of Fiat for a long time to come, a very long time... He would have collaborated with the magistrates, but would have continued to declare his extraneousness to the facts. This new tactic, explained clearly in the presence of Gianni Agnelli during the Co-ordinating Committee meeting of 13 April 1993, was extremely difficult to uphold and it was necessary to ensure that the magistrates would accept it. To this end Romiti had to count on two things: the emotion of the magistrates at finding him under their thumb and contrite at their desk and the chorus of applause from the press. These were the only cards he had to play, as was clear since the day when Gianni Agnelli had made his quip about the last defence of the bunker.

The memo Romiti prepared on that occasion spent many words in the attempt to keep the bitter cup as far away as possible:

The necessary consequence of the operative plan [of Fiat's organizational structure] is the complex decentralization of the various companies with the related use to the maximum extent of the instrument of delegation and the correlated assumption of responsibility in the various operative sectors. The work of the respective *dirigenti* is evaluated by the Holding Company essentially on the basis of the results that emerge from the final balances, without examining operative management procedures.²⁰

And Romiti, what did he do?

Basically, the CEO is the link between majority shareholders and the world of the company.²¹

And to clear up any doubts:

On those occasions, rare but important, in which I dealt directly with the Group's business interests with public bodies, no illicit request was ever made by my distinguished interlocutors (I allude to cases such as the sale of the Teksid iron and steel business to IRI, the purchase of Alfa Romeo, the granting of the financing permitted by law for the factories in the south of Italy, such as the factory in Melfi).²²

The memo had words of praise for the poor *dirigenti* in charge of the Sectors,

who have not had the chance to resist the pressures applied to them insofar as they were aware of the serious consequences that would otherwise have affected their companies, plunging into crisis the work carried out by them and by their associates without any of them being the holder or beneficiary of their own interests or advantages in terms of property.²³

Then he pulls out the story of the prosecutions until the convocation of the Co-ordinating Committee of 13 April, where he launches

a heartfelt appeal to the conscience and sense of loyalty to the Group of all those present, so that [...] they might decide to present themselves before the legal authorities.²⁴

²⁰ Romiti-Pansa, *op. cit.*, p. 4.

²¹ Romiti-Pansa, *op. cit.*, p. 8.

²² Romiti-Pansa, *op. cit.*, p. 11.

²³ Romiti-Pansa, *op. cit.*, p. 9.

²⁴ Romiti-Pansa, *op. cit.*, p. 14.

There followed the five new cases that emerged after the heartfelt appeal, taken as propitiatory gifts to the Milan judges, cases I cannot comment on because they were all concerned with the Diversified Sectors, about which I knew nothing.

Day 26: Thursday 22 April 1993

My notes for that day obviously concern the reaction aroused in Italy by Romiti's submission to the judges:

In Fiat everyone says they're content, but a negative reaction is growing. The investigating judge, Ghitti, declares that he's not going to make any deals, and people will first have to spend time in San Vittore [prison].

The investigating judges, whose duty was to represent justice between defence and prosecution, had a tough time of it, often unable to or incapable of resisting the pressure applied to them by the alliance between the investigators, the media, and political attention, and had to get by as best they could also by falling back on improvised measures to be fed to the journalists. For this reason their decisions sometimes caused serious trouble for the unfortunates, perhaps with scant respect for the law, and certainly for common sense.

Day 28: Saturday 24 April 1993

That day Cesare Romiti wrote a letter to the "Corriere della Sera". It read:

Personally, after many years of work, my ambition is to be able to make a contribution that will permit our children and grandchildren to live in a democratic country founded on the ethic of freedom and on transparent competition in both politics and economics.

All very fine and difficult to disagree with. He also said: "Within our Group [...] in some companies phenomena of interference between politics and economics have occurred".

On that same day Romiti sent a memo to the judges, which Chiusano sent me by fax to London, in exchange for a memo that I had prepared for my future statement in which I confirmed the one made by Mattioli.

Day 30: Monday 26 April 1993: The Safe Conduct

Massimo Aimetti, the Chief Financial Officer of Iveco, spent that night in prison, and the event cried out for vengeance.

This mild-mannered person showed up according to the agreements agreed on, admitted everything they wanted and even said that the last payments to Luigi Caprotti had been made when Iveco was already being run by my successor, Giancarlo Boschetti—information he could also have avoided providing, while it gave Di Pietro another link in the chain.²⁵ Despite this compliance, the investigating judge Italo Ghitti refused to sign the release order immediately: Aimetti had to go to prison. On that occasion it was the investigating judge who handed down a “sentence” without judgement and without justice. I don’t know if the anxiety and the shame of that night contributed to exacerbating the cerebral virus that was to strike Aimetti shortly afterwards. We shall never have proof of that, obviously, but I suspected it as the two events were so unusual and so close together. According to the “Corriere della Sera” of the next day the episode led to a violent cooling in relations between Ghitti and Di Pietro.

As for my case, talks were underway between the public prosecutors and the lawyers so that I might present myself the following day armed with a virtual safe conduct that would keep me out of prison. After those of Mattioli, Ruggeri, and Aimetti, my statement was a foregone conclusion, since the “truth” had already been established.

I was no longer of any use to Di Pietro, who was certainly under no illusions that I would have said anything new, unless he had managed to find some other pretext. I imagined that the delay regarding my summons concealed just such a search.

Day 31: Tuesday 27 April: Countermanded

My D-day had arrived, the day of my return to the continent and an audience with the Milan investigators, and I set off early in the morning. Rosalba and I drove from Cottesmore Court in Kensington and, as usual, headed for Hatfield airport to board the Fiat jet. My lawyer, Laurence Giovene, was with us because I wanted his direct and constant presence since I believed that Italo Ghitti and Antonio Di Pietro attached importance to their international reputation, and would have been more cautious if the questioning was carried out with an English barrister sitting beside me.

²⁵ Giancarlo Boschetti later told the judges that I had been the one who had “handed over the power” to him for the financing of Caprotti. Perhaps he hoped to alleviate his position and judged that I had broad shoulders. His expression had a military air about it that the prosecutors liked, but they did not realize that in a company the size of Iveco it would have taken ages to hand over such powers. It was the entire company machinery, with all its functions, offices, and *dirigenti*, which ensured the continuity of the firm’s commitments. The handover of power to me from Manina had lasted no longer than a farewell (Chap. 5); Boschetti had become my successor after being with me for seven years, an important member of the Steering Committee.

But the counter-order arrived before I got to the airport. My diary records the unexpected and radical turn of events:

It is the thirty-first day since the meeting in Villa Frescot: I have done what I could and even more. Now, good luck.

Not a chance...: before boarding, a call came from my lawyer Mucciarelli: Ghitti has no objections, but Di Pietro does. He wants to ask me “other things” and “later”. By 13.01 everybody knows this, via ANSA.²⁶

A clash between Ghitti and Di Pietro, because the latter has hindered “the return of a fugitive”. Aimetti goes home.

I believe that Gian Franco, Fiat’s UK chauffeur, still remembers the sharp U-turn he was asked to make on the North Circular Road. To keep my mental equilibrium intact I had to draw on all the resources at my command. I never knew the reason why Di Pietro put off the meeting at the last moment. Was it because of the clash with Italo Ghitti, widely reported in the press on 27 April? Or was it because he was unwilling to let slip the prey who was so close to Cesare Romiti in the Fiat organization chart? Or did he actually intend to ask me something else? The episode aroused debate in that kind of multinational public inquiry opened in those days with regard to the pool of Milan magistrates; the ADN Kronos press agency, for example, said²⁷:

Garuzzo’s return was in fact expected in early afternoon today and should have taken the form of questioning in the Milan court followed by the immediate granting of house arrest. A treatment that Garuzzo would have “deserved” because before a warrant for preventive custody had been issued he had already said he was willing to make a statement about matters known to him.

Day 33: Thursday 29 April 1993: The Questioning

I had to wait another two days before making my statement. By then, agreements between the lawyers and the public prosecutor’s office having been re-established and without any last-minute counter-orders, I could finally fly towards Linate, to be welcomed by the scene I described at the beginning of this chapter. So there I was in the back seat of a car, squeezed up between two police officers, and heading at high speed towards the police station.

The policemen immediately showed themselves to be likeable fellows brimming with humanity. They joked all the way, in an evident attempt to make my disagreeable situation less unpleasant for me. The butts of their banter were various: they made fun of those among them who owned a Volkswagen, but above all they really cut loose at their superior, a woman who was sitting in front with the driver. She parried their thrusts and pretended to be aloof, but you could she was taking part. I would never have imagined such openness and cordiality.

²⁶ Translator’s note: the main news agency in Italy.

²⁷ 27 April 1993, at 12:13.

Even after that the patrol did their best to alleviate the embarrassment of the visit and the procedure. I was particularly worried about the ceremony of having my fingerprints taken, because of all I had read about the psychological impact that usually derived from it. But the novelty of the operation took my mind of things; afterwards they gave me a paste that instantly cleaned the ink off my skin. “If you have to kill your wife” said one of them who looked like the Italian comic actor Renato Pozzetto, “remember that we’ll have your prints here forever”. “Yesterday a criminal bashed his head in against the camera so that we’d send him out: watch out because it’s all broken”, another one said.

In court I was received first by Italo Ghitti, who was extremely affable. We made small talk for a long time. Then, rapidly, I admitted the charges, as expected; he, as expected, asked me the trick question: “Did you ever speak of these matters with anyone in corso Marconi...?”. I instantly confessed to my presumed “outburst” against Mattioli, “just out of friendship...”, and that was all.

It was tougher with Antonio Di Pietro, and we soon found ourselves at loggerheads, even though I had immediately admitted the official version, with details already supplied by Aimetti three days before. Making payments directly from one of Iveco’s non-Italian companies could hardly be legally contested: Iveco (Italia) had ordered FinIveco (Dutch Antilles) to make the payments on its account; it had then recorded a debit regularly entered in the balance sheet to be paid at the earliest opportunity.

FinIveco had instructed an offshore bank to transfer the funds to Fiat’s Swiss bank, UBS, and then to pass them on to Caprotti. Di Pietro wanted to put on record the term “black money”, but I resisted this strenuously: how could he call that money “black” only because it was outside Italy, being the property of non-Italian companies like Iveco N.V. and FinIveco? In that case all foreign companies operated with black money! He gave in almost immediately. Then he attempted to fall back on false accounting fraud for Iveco Italia and, to demonstrate the method, he dictated a proposed statement, but he hesitated and that crime also disappeared from the files.

While his perspicacity did not make much of an impression on me, his physical vigour and passion struck me as extraordinary. I wondered what the effect of his threats and loud voice would have had on an accountant or an elderly dealer, rather than a manager who had got through forty university exams before and scores of tough business deals after.

But for all my training things could still have gone badly for me, had an unexpected event not occurred. Shortly after six in the afternoon the news arrived that the television was about to announce the outcome of the parliamentary vote regarding authorization to proceed against Bettino Craxi.²⁸ Di Pietro’s collabora-

²⁸ Translator’s note: this is how Wikipedia reports the facts: Craxi was to receive the first of his many prosecution notices in December 1992. Many more followed next January and February until the Court of Milan explicitly asked Parliament for authorisation to bring Craxi to trial for bribery and corruption (at the time, in Italy MPs were immune from prosecution unless Parliament gave its authorisation). The authorisation was denied on 29 April 1993 after Craxi gave an emotional speech.

tors swarmed into the room and a small TV set appeared, but it wouldn't work. As an electrical engineer, even though an obsolete one, I got to work to improve the technical situation and the images arrived just in time to hear the announcer: authorization rejected.²⁹

There was a roar. Di Pietro leapt to his feet: "Ingegnere" he yelled in his thunderous voice. "What do these people want me to do? I've got my hands on the money, Craxi's money is over there! Do they want us to keep it?". And his co-workers: "We'll get him all the same, Sir, he won't give us the slip". They lost interest in me, they didn't even ask me the ritual question if I had anything else to say. Only: "Sign here".³⁰ On the basis of that statement all charges against me were dropped and I was no longer at risk of criminal indictment (in fact some charges were later withdrawn and others merely left to lapse, without any other consequences for me).

When we both went out into the corridor, Di Pietro had recovered his calm. He slung his arm over my shoulder and accompanied me for some time, jovial. "How come you've got such a tan?". "Well, you know, golf". Then he apologized: "I have to give you two days of house arrest, just two days, to avoid criticism". "But couldn't you...". "No, I really can't, try to understand...".

We left each other like two old friends, amid the rejoicing of a dozen onlookers, some of whom seemed to be journalists. The policemen saw me return with unconcealed happiness, the deputy chief of police invited me into his office, as they were seeing to the papers required for my release, and he complained. "These magistrates are playing the policeman and what is there for us to do? We're drivers and escorts! What's happened to professionalism? I've seen the boys, they're really good; and they're on escort duty...". The boys had already complained to me before, escort duty was just not acceptable to them.

Eighteen Days Later

I was held at home not for two but for eighteen days, until Monday 17 May. Every day Francesco Mucciarelli pressed for an answer and Antonio Di Pietro put him off: "There are other things that Mr Garuzzo must tell me". What was he thinking about? I heard it said that he was examining defence affairs and I was worried because Iveco had won big orders in that field. Who would have believed, in those stormy days, that Iveco had paid nothing for the contract for the Centauro armoured car, a trifle worth more than one thousand billion lire? Yet, that's how it had been: to the best of my knowledge Iveco had never paid kickbacks in military circles.

²⁹ The House granted authorization to proceed against Bettino Craxi for the hypothesis of corruption limited to Rome, but rejected the hypothesis of corruption in Milan and of graft both in Rome and in Milan.

³⁰ The record of the questioning is extraordinarily brief and is summed up in three sentences that run to fifteen lines in all: "I authorized the operation in question", "I passed on to Aimetti the task of finding a way"; "The idea of using the absolutely non-domestic transaction channel was given to me by Paolo Mattioli".

Di Pietro granted me the freedom to leave my house between Thursday 13 and Saturday 15 May so I could attend the meeting of the European Automobile Manufacturers' Association, held in Stuttgart. I was grateful to him, because I attached great importance to my name and that of my country in the eyes of the chairmen of the various car manufacturers, but it was odd that he had granted me the opportunity to go abroad for a few days, given that house arrest ought to serve to prevent the person under investigation from tampering with the evidence. I took advantage only to play a round of golf over the Solitude course.

My colleagues, chairmen of car manufacturing companies, were dying to hear my story and had a world of fun listening to it: they told me it was far better than they expected. Then other inquiries took over the front pages of the newspapers and finally the *carabinieri* sergeant from the station in corso Moncalieri in Turin (my jailer, as I called him, feeling a bit like Antonio Gramsci's grandson³¹) arrived all cheerful to give me the documents regarding my freedom. The television "forgot" to broadcast any news of this, with or without the blue rhombus logos, so much so that certain relatives who lived far away still thought I was under house arrest two months later. And so I emerged from the Clean Hands scandal, with a lot less sensation than when I had got involved in it.

Apology for My Behaviour

I have recounted the facts (following the lines officially known) and I shall leave the reader to decide. I was involved, clearly, in a gigantic game that went far beyond my work. I tried to emerge from it with my reputation intact, especially abroad, where such things are very important and, also, to avoid prison. I am rather happy with the way I succeeded in both intentions. I never thought of shifting any responsibility onto my superiors, and by doing so I kept them, my predecessors, and my colleagues out of it. I did not do this out of any code of silence: I was sincerely convinced that I was acting for the good of that great Group of which I was COO at the time of the inquiry. I did not even ask myself whether I should have behaved differently.

Cesare Romiti never showed me the slightest gratitude, nor did he ever talk to me about it. I was the one who brought up that story on only one occasion, two years after the events, towards the end of 1995, during an advanced phase in my forced ouster from Fiat. He reacted brusquely to my remark, saying that those were things that everyone had to sort out for himself, as he had done. In other words: when it's your turn, it's your turn. It was true, but there were a few differences: he was nominated Chairman of Fiat, I was fired.

³¹ Translator's note: Antonio Gramsci, a founding member and onetime leader of the Communist Party of Italy, was imprisoned by Benito Mussolini's Fascist regime, and died in jail. His letters are recorded in his "Prison Notebooks".

Collective Awareness and Managerial Responsibilities

In these memoirs I shall not hazard any judgement of merit regarding the great topics of corruption in Italy and the judicial inquiries that were their consequence in the 1990s. It is a subject that goes beyond my knowledge and terms of reference. But I do feel able to offer some personal considerations on the matter, justifying my boldness with the fact that Fiat was implicated in the inquiry at the time in which I was one of its top managers, and that I too had a hard time of it, ending up involved in things that went far beyond my effective responsibilities.

First consideration: I think that all Italians were aware, at least in general, of the existence of the bribery system. I am sure that everyone remembers at least one case of payments made either personally or by others in order to attain a goal, often with a view to obtaining duly required administrative acts. The “representative offices” or the sales offices working with state bodies that almost all companies (Italian and foreign) kept up in the capital also served that purpose; and it was no different in the provinces. Almost all the citizens, in one way or the other, gave their offering to the system. This was talked about everywhere, but in an undertone. I am not saying that the widespread awareness of that problem reduces its importance, either on an ethical or juridical level. But it seems to me that the indignation with which some reported and commented on the outcome of the inquiry was hypocritical, if not downright suspicious. Was it really possible that so many members of the Italian ruling classes of every sector and political allegiance could be so astonished? Had certain judges or prelates or journalists never frequented so much as a society gathering? The hypocrisy did not make it any easier to have people understand and evaluate the facts in a rational manner, in such a way as to make it possible to take the most suitable measures for the future. Public opinion gets easily heated on matters such as morals, especially if there is a fire-raiser around.

That the bribery system was well known is an obvious consideration, which is often repeated. But a less exhaustively treated subject is that of managers’ responsibilities regarding illegal payments. First of all you need to try to identify who gained an advantage from the kickback system. The primary question that the magistrates should have asked is the canonical “cui prodest?”.

It is clear that there was an interest on the part of those who received the contributions, be they individuals or political parties, while the same holds for the shareholders in the companies that benefited thereby. What is less clear is the interest on the part of those who were managing industries. The vast majority of them held no shares in their companies and therefore made no monetary profit from the order for which they paid kickbacks.

An indirect profit could perhaps come from the incentives for company results, where these existed, but usually such sums were small, even imperceptible in the case of Fiat’s industrial Sectors. The memo that Cesare Romiti presented to the Milan judges was very correct on this point.

According to me, managers had acted under the thrust of two main drives. The first was defence. The loss of an order might have been considered a defeat, inside and outside the company in question. Even worse, it would have been disastrous if

payment were not made within the terms established by the invoice once the order had been completed. When this happened, and it was the rule with Italian state bodies, during every management control meeting the finger was pointed at overdue and unpaid invoices, and the in-house administrative officers made harsh criticisms of the hapless manager, and rightly, too, from their standpoint as controllers. If this unpleasant problem were to happen again, the manager risked being replaced; instead, if he paid bribes things went smoothly, he was not criticized either inside or outside the company: it was a matter of a normal, if disagreeable tax. This is a fundamental point. For decades, Italian civil justice had taken no interest in overdue payments on the part of the public administration, insensible to the fact that good companies, which had done a good job and were not paid, were doomed to bankruptcy (let's remember the 20 % interest rate paid for bank loans). Should criminal justice have been surprised if business people were once more obliged to compensate for this with the means at their disposal, or ask their managers to do so?

From this defensive position it was easy to move on to a more active one, especially on the part of the best managers. A company manager is motivated to increase his own earnings and to further his career, but these things are not enough: the success of the business for which he works is the mainspring, the primary reason for satisfaction, and this is all the more true when the man is good at his job. I recall, many years ago, the disappointment of American managers in the Earthmoving Sector when they lost orders in Middle Eastern countries, in compliance with American laws that prohibited bribery even outside the USA. In some cases they went so far as to employ artifices of international corporate structures in an attempt to leave no space for European industry, which was more permissive in this sense. It is precisely for this characteristic that managers who build a career are selected from many candidates, at least in successful companies where serious selection criteria are applied, just as thoroughbred horses are selected for the most important races. Hence: if the bribery system was part of current practice, why not use it to make the company entrusted to your care prosper just as you would use other marketing tools³²?

To sum up, as far as regards normal industrial activities, the conclusion is inevitable: the bribery system benefited politicians and shareholders. Managers used the system in professional terms just as they would have used any other "device" in their arsenal of business instruments. When they were involved in the inquiries, many managers felt exploited and deceived, insult added to injury. When a kickback was paid, not even Don Quixote would have dared report the matter to the magistracy, because this would have meant a suit for defamation, the loss of orders, being held professionally inadequate and dismissed; and all this without

³² From the findings of the maxi-inquiries of the early 1990s, there emerged cases of gigantic import, in which certain businessmen obtained extraordinary benefits from the unscrupulous use of equally extraordinary sums. In these cases there is an enormous difference with regard to the "normal" management that was established in the country in those years. According to me, popular sensibility grasped the difference, but this was never classified in law nor discussed by "opinion makers" or analyzed academically. And many of those entrepreneurs were "state" entrepreneurs.

any chance that the slightest measure would be taken against the politicians. Now, at the moment of the “revolution”, the same managers were shown to the television audience in a shady light, while companies distanced themselves from their work and from their persons.

The Improper Use of Prison

As is known, and as I experienced at first hand, the members of the Milan prosecutor’s office obtained their results in large measure thanks to the unconscionable use of preventive custody. The procedure applied at the time was described perfectly, also with the precise terminology then in use, by Giuseppe Frigo³³ in “Il Sole 24 Ore” on 16 April 1993:

The model was of elementary simplicity. In the course of an investigation, on the basis of evidence, held to be serious, into a crime (often a call from somebody also liable) a person was remanded to prison in preventive custody, because otherwise—it is stated—he could tamper with the evidence and carry on with his criminal activity or perhaps... the bird might have flown. In prison he is questioned and at first denies the charges.

A few days go by, perhaps weeks and, since nothing happens and prison weighs on him more and more, he decides to accept the “messages” that arrive from various directions (not excluding his own defence counsel) and in a successive interrogation he confesses to the crime he is accused of. But nothing happens all the same.

It’s true—they have him understand—that after that confession (which has cost him in any case) he can no longer tamper with the evidence; but, if he were free, he might commit crimes of the same kind again. To get out of prison he must do something more, make himself “untrustworthy” in criminal circles. And the only way to do this is to confess to other crimes of which he has not yet been accused and, by “grassing”, a perfect way to involve and accuse others. As soon as he decides to do this (in current terms they say “to collaborate”) he earns the paradise of freedom, perhaps after a little spell in the purgatory of “house arrest”, while the inferno of prison welcomes those he has accused, with which the cycle recommences. This is not an occasional schema, used sporadically by some magistrate who feels like some minor inquisitorial excesses, but is the model systematically and habitually employed in today’s penal procedures, especially in those concerning financial crime and politico-administrative corruption, where the persons under investigation, on account of their social background and individual qualities, are particularly sensitive to the immediately punitive form of suffering caused by what is still called “preventive custody” to this day.

According to Frigo, this trend had already been described by Cesare Beccaria³⁴: it is enough to replace the term “torture” with that of “preventive custody”. And things went exactly like that in all the Fiat cases I know about.

There is a paradox in this, too. It is beyond doubt that having unmasked the world of rampant corruption in Italy was a meritorious act. The picture that emerged from the inquiries shed light beyond any reasonable doubt on a dramatic

³³ Translator’s note: an eminent lawyer, professor and judge of the *Corte Costituzionale*.

³⁴ Translator’s note: an eighteenth-century Italian writer and prison reformer.

and unsustainable situation, and I am convinced that things went better after the “Clean Hands” operation. For example, no real manager, that’s to say one who does business in a normal and correct fashion, could still permit himself to lightheartedly use the instrument of bribery that was universally tolerated previously. Those who commit this act today, after the inquiries, not only know they are breaking the law but also that now it is no longer an “acceptable” practice in the eyes of the community.

It is equally true that the use of preventive custody by the magistrates, on the request (or by the imposition) of the public prosecutors, was often specious and illegitimate, I do not know to what extent in the letter of the law, but certainly in the spirit of people’s constitutional rights. This practice would have been execrated in any country with a barely normal civic and legal conscience. And rightly, because it resulted in abnormal consequences, some of which have yet to come to light. If what I experienced was the shock wave that the judicial inquiry unleashed within a private group such as Fiat, I can imagine how much more profound its repercussions were on a level of national institutions. Everyone had sinned, either by commission or omission: politicians, private managers and, in grand style, public managers. A great distinction was immediately made between those who were caught out and those who were not.

It is easy to imagine the distortions, and perhaps even blackmail, permitted or caused by this dualism within private and public institutions.³⁵ The essential question is still this: was Clean Hands a case in which the end justified the means? If the answer to the question is yes, then the morality of the country was not restored by the Milan public prosecutors but, on the contrary, was more at risk than ever. I asked myself the question, but I never knew what to reply.

³⁵ This was a substantial paradox, a dichotomy from which it was hard to find a way out. On the one hand, if it made it possible to protract the sequence of inquiries endlessly it would also have permitted the perpetuation of the clandestine game of blackmail to the detriment of those who had some political or industrial responsibilities in the 1980s and were yet to be discovered; in other words everybody. On the other hand, an amnesty would have remedied this corrupt situation, but would have involved impunity even for serious offences that cried out for vengeance in the eyes of public opinion. Perhaps, I try to imagine, they should have granted an official pardon conditioned by acknowledgement of the facts, like a kind of amnesty for the infringement of building regulations. I know I seem anti-conformist, but I think that those who destroyed a collective good for all generations to come by building an immense condominium where natural beauty had reigned for millennia, are far more deplorable than the Iveco dealer Luigi Caprotti, the only consequence of whose act in the long term was that the citizens of Milan travelled on buses manufactured by their fellow countrymen. Yet Caprotti personally suffered a harsh punishment whereas construction speculators settled their score by filling in an anonymous form and paying very little. It is the price of democracy, where crimes committed by a few persons in a specific job, if they are discovered, count for more than collective crimes, because of electoral algebra. But I do not wish to go beyond the sequence of “better” and “worse”, which makes it possible to justify almost everything. Only the recollection of what happened on the part of those who knew how the facts really unfolded can help to put matters in the correct historical perspective, and *pace* to those who pocketed the money and those who paid the price.

Fiat's Attitude Towards Its Men

I don't think it would have been possible for Fiat to set up a "crisis committee" to manage the emergency aroused by the Milan magistrates, as Riccardo Ruggeri would have wished.³⁶ If nothing else, there were juridical obstacles connected with personal liability regarding the criminal events. But there is a great difference between this impossibility and the way in which company men involved in the inquiries were isolated. Fiat managers reacted to the crisis in different ways, but almost always with composure and responsibility. Men such as Massimo Aimetti, Giancarlo Cozza, Paolo Torricelli and others assumed their responsibilities and there the matter ended. Some did this in a positively heroic manner, such as Francesco Paolo Mattioli, Enzo Papi, and Bebetto Zunino, paying in person with prolonged and devastating spells in prison. Nor can we attach too much blame to those who tried to get out of trouble by denying everything or shifting the responsibility onto others. But, in the hottest moment of the crisis, Fiat made a clear distinction between those who had been caught out and those who still hadn't been, in line with Gianni Agnelli's attitude towards "crooks".

All my notes from that period often return to a topic that greatly disturbed me: the policy of "when it's your turn, it's your turn" was a direct consequence of the "hard-nosed" tactic. All the Fiat Sector Heads, before or after, in one way or another, had played with the rules of that game in the past. Otherwise, as I have said before, they would not have been good managers. To brand those who had been discovered was an injustice on the level of human relations, which must always be safeguarded, between the individual and the organization to which he belongs, and it was also a mistake on the level of the internal atmosphere, because it introduced an element of explicit cynicism that contradicted and thwarted all the motivational speeches that formed the basis of years of managerial training regarding loyalty to company values.

This moment marked the definitive separation of my way of understanding industry from that of Cesare Romiti. It came as a surprise to me that Gianni Agnelli did not know, did not want, or could not act if not in tow with the decisions made by his CEO, thereby isolating himself, too, from the rest of Fiat. If this was the rock on which my journey with Fiat abruptly ran around two years after the facts related here, and after twenty years of fair winds, I am not sorry in the slightest.

³⁶ This was one of the fundamental points in the theory of the "disappearance" of Fiat, which Riccardo Ruggeri had outlined to me on 29 March 1993 (day 2 of my chronicle).

Chapter 10

The Restoration of Cesare Romiti (1993–1994)

A Team for Umberto

Towards the end of June 1993, Umberto Agnelli asked me to his house, in La Mandria, a large park near Turin (Fig. 10.1). I saw nothing odd about such an invitation, which I had received other times, but I soon realized that it was a special occasion. Agnelli went straight to the point: “As you know” he said, “Romiti will be leaving next year; I have to prepare the succession. I have decided to bring Gabriele Galateri¹ onto the Fiat Board, to take up the place that Professor Monti has left vacant”. In fact Mario Monti, the future European Commissioner,² had recently resigned from the Board of Fiat SpA without any apparent justification, leading Gianni Agnelli to suppose that he did not want his immaculate reputation to be connected with those guilty of bribery within Fiat, an act of cowardice that had cancelled in a second the consideration with which Agnelli had gratified him until then. “Galateri” Umberto continued, “will also become a member of the Executive Committee with responsibilities in the administrative area, given Mattioli’s difficulties and his intention, which everyone has always known, to leave Fiat together with Romiti”.

I was so surprised that I did not react immediately to the information. I thought it over and asked for a second meeting. Umberto Agnelli agreed immediately and invited me to dinner in his house in Sestrière. One splendid sunny afternoon in late June I drove alone to the alpine resort. The conversation, held sitting by a window with a glorious panorama of pastures and mountains before us, was frank but tense.

“Everybody” I began “will interpret the Galateri move as the first step in his rise to the position of Fiat CEO”.

He took on a seraphic air “It’s possible that this might happen”, he said with the look of one who wishes to convey: “This has been decided”.

“And what will happen to Garuzzo?” I asked.

¹ Translator’s note: Galateri was at the time *amministratore delegato* of IFIL.

² Translator’s note: and later prime minister of Italy (2011).

Fig. 10.1 Umberto Agnelli and G. Garuzzo



He continued in this detached vein: “It’s obvious: you will head Fiat Auto in person”. “How can you think”, I replied, “that Galateri, who has exclusively financial experience and who has never had direct responsibility for any company, can handle the two primary roles in Fiat currently held by Romiti, as CEO, and by Garuzzo, as COO?”

“The time has come for the Holding Company to exclusively retain the direction of general policies and strategies”.

“All the industrial synergies among the Sectors will be lost”, I objected. Agnelli thought for a moment and came up with a solution that struck me as having been improvised on the spot: “You, Garuzzo, from Fiat Auto will continue to play a role of industrial co-ordination with regard to the other major Sectors, using the staff in the central offices of Fiat Auto or a network of suitable committees”.

I tried to analyse the situation coolly, but a swarm of contrasting stimuli crowded into my mind. First of all: not only had Umberto Agnelli not sacked me, according to Romiti's gloomy predictions, but was offering me one of the most important posts in his future team. And the opening came after I had spent thirty months opposing the attacks he had led on the running of Fiat and Fiat Auto. I could hardly fail to see his conduct as that of a real gentleman and was flattered by the consideration shown to me, just as I appreciated the gift of sensitivity that led to his perceptive intuitions, as I have observed previously.

As for Galateri, I had little to complain about: I appreciated the young man; I maintained that he was more efficient than Francesco Paolo Mattioli and, for the future, I thought he would end up in some prestigious position as a merchant banker, perhaps with IFI or Mediobanca—and it came as no surprise when, a few years later, he effectively attained both of those positions. But it struck me as inconceivable to nominate him, at his age and devoid of the slightest experience of operative management, as CEO of an industry of the size and importance of Fiat. Moreover, if I had agreed to run Fiat Auto and co-ordinate the industrial aspects of the rest of the Group, I would have taken a big risk. The feudal system would have been perpetuated, with the Holding Company interweaving business and politics in the most disparate fields leaving me to deal with the chore of running what had always been Fiat's true core business, only to be kicked out if I didn't manage to do well, or perhaps even if I did do well, as had been the case with Ghidella and, basically, De Benedetti, too. Nonetheless it was hard for me to mount any opposition, if that had been the shareholders' decision: it would have looked like a personal matter and, like a good manager, I could make any personal decision regarding my own destiny but I could not challenge the shareholders' will concerning that of Fiat.

Then there was the matter of Cantarella. "The position of head of Fiat Auto is occupied", I said to Umberto Agnelli, "by Cantarella, what do you want to do with him?". Agnelli made an expressive shrug and continued in a hard-headed vein: "In times of difficulty the best resources have to go to where the battle will be decided". In his view I was the person best suited to run a complex as big as Fiat Auto. In fact, he depicted Cantarella's work in the harshest terms I had ever heard him use in all the previous years. His basic criticism with regard to Cantarella was, to put it in his own words: "scant attention to the 'bottom line' of the profit and loss statement". From the original sin of neglecting profit, stemmed other pernicious characteristics: the aprioristic and unjustified optimism that led him to believe that objectives not yet fixed had been attained, as if all were easier said than done; the lack of transparency, which led to concealing data that did not coincide with expectations in order to avoid disturbing the ostensible optimism as the ship sailed on towards the rocks; finally, there was Cantarella's irascibility with co-workers and colleagues unwilling to see things his way, which induced all of them to keep silent about problems, while he chose only yes-men.

I was reluctant to disavow the choice of the person I had accepted thirty months previously on Romiti's request. I told Umberto Agnelli that I firmly believed in

the organizational principles on which I had always based my choice of staff. Managers could be divided, I maintained, on the basis of two great categories of the psyche: those whose spirit was oriented towards development and those who were more suited to restructuring. The former, the optimists, try to make a profit without cutting costs but by increasing returns. Contrariwise, the latter try to earn by saving on expenses. These last, pessimists by nature, possess a rare professionalism: they accept to live constantly in a disagreeable condition of permanent contraction. But they can become dangerous on account of their unrelenting drive to prune, just like overzealous surgeons when they cut out healthy together with unhealthy tissue.

It is extremely difficult to find managers with an “amphibious” character. For every business it is therefore necessary to choose the individual best suited to the exigencies of the particular historical moment and to back him up with the “strong presence” of someone with the opposite mental characteristics, who will make up for the aspect that is wanting. Fiat Auto had to face the immense task of making the new cars well, because those in the current range were no longer selling. That objective, in that specific moment, was more important than cutting costs. And I did not know anyone with a finer taste in cars than Cantarella, who had imagination and drive. It was not necessary to replace him, but to back him up with a “restructuringer” of merit. I failed to convince Umberto Agnelli with this speech, but I had followed my professional conscience.

Over and beyond people’s personal characteristics, I believed that what was at stake was Fiat’s future as an industry: I decided there and then to follow my conscience in that direction, too. Italian industry had been, over a span of forty years, devastated by men of finance, or those presumed to be such, incapable of strategic vision and interested solely in particular short-term profit. Fiat had almost saved itself because it had had men of industry such as Vittorio Ghidella, me, and others. Romiti had not had any direct merit in this sense, but all the same he had shown an important gift: he had let us work; at times, in fact, he urged us to work. Now that Romiti had to retire, it was time to take advantage of this to eliminate the Group’s residual extra-industrial conditioning; it was not the time to turn back. Fiat was an industry and that was what it had to become once more, over and beyond any external conditioning: in other words, politics, power, and other deviations. Financial dealings were a task for IFI and its associated companies. Was I perhaps arrogating to myself a task that was not my province when I supported this theory? But if I did not bring this matter up, in my role as COO, who else could or should have done so? Who would have defended the historic nature of Fiat as an industry, if its chief operating officer hid himself?

The meeting with Umberto Agnelli at Sestrièrè struck me as analogous to the one in November 1990 in which Romiti, in his house in corso Galileo Ferraris, had offered me the position of COO: by now everything seemed decided. Only later did I understand that things were not like that and that Umberto Agnelli had not covered his back. I do not know what to think of those incautious remarks of his:

perhaps he had received some sign, perhaps he had simply trusted in his brother's statements. In fact, Gianni Agnelli, on 24 November 1991, in an interview granted to Arrigo Levi in "L'Indipendente", replied to the courteous question "Who will be your successor in Fiat one day?" by stating verbatim: "I have absolutely no doubt. I have a brother 15 years younger than me who is perfectly prepared and suited to take over my responsibilities. I repeat: he is perfectly equipped, and has the advantage of being 15 years younger than me³".

A few weeks before my trip to Sestri re, on 6 June 1993, Andrea Monti and Renzo Rosati of "Panorama" has asked the same Agnelli: "You have said that in '94 you will hand over the helm to your brother Umberto. Will this intention be respected?". And, without hesitating, he shot back:

Yes. And it doesn't happen in all companies that such an announcement is given so far in advance. We have done so precisely to avoid misunderstandings. Besides, the statute does not permit me to remain beyond June 1994. So, within this year, I must set the scene for my brother, who is the pivot of the succession. I want to devote these twelve months to matters that must be handled with great tact: it is a matter of ensuring that the handover of power in Fiat will be effected without trauma [...].

The journalists: "Cesare Romiti has said publicly that he too will leave...". Agnelli: "But Romiti has always taken this for granted". Romiti himself had confirmed this in an interview with Italy's Channel 5 TV news, denying only that Gianni Agnelli and he would have quit before mid 1994: "I would feel like a coward if I left my men in a moment of serious difficulty⁴".

This is what Gianni Agnelli had said, and it's no surprise that his younger brother had believed him. I, too, would have believed him.

I immediately told Cesare Romiti about my conversation with Umberto Agnelli. Later, some were to judge me naive for causing a short circuit. I do not agree with this assessment. First of all: until then my relations with Romiti had been excellent and, if I had not told him about such an important conversation, this omission would have taken on the connotations of a plot behind his back. In the second place: I was not dealing with kids or second-rate wheeler-dealers but with the most important leaders of Italian industry and finance. When Umberto Agnelli had told me what he did, it was not up to me to verify whether or not he had the credentials to assume the role he claimed when he spoke to me.

³ In fact the years were 13, not 15. On 26 November 1991, the "Financial Times" referred to that interview: "Agnelli ensures that Fiat stays a family affair", while "The Wall Street Journal Europe" printed a sly and irreverent headline: "Agnelli Chief Says Brother Will Head Fiat? Someday". None of Gianni Agnelli's designations for the succession ever came about: in Fiat, gossips were in the habit of making ironic quips about the hoodoos of the *presidente's* prophecies about the succession.

⁴ Radiocor, 27 May 1993.

Cesare Romiti immediately accompanied me to Gianni Agnelli and thus began a kind of ballet for four.⁵ July 1993 was studded with a series of meetings: Romiti and I, Romiti and Gianni Agnelli, Gianni Agnelli and I. In a dramatic scene, with all the actors present, Romiti told Umberto Agnelli to his face that, for the time being, as long as he – Romiti – was there the Holding Company would remain industrial, and only afterwards would Umberto be able to do as he wished, always providing that he – Umberto – were to become Chairman. Amazed, I looked at Umberto Agnelli, expecting him to throw the table at him; instead Agnelli said absolutely nothing in reply, to my great surprise. It was one of those cases in which I noted an extraordinary acquiescence on the part of one or the other Agnelli brothers with regard to the functionary that they themselves had installed as head of Fiat.

Enter Mediobanca

After a few weeks the situation was still fluid. This is how I expressed my concern in a note:

I can't think that for almost a year [before Romiti's departure] that Fiat can be run in this condition of uncertainty: everyone taking their measures, everyone losing touch with leadership, everyone gossiping at home and elsewhere, everyone looking after number one in the middle of the worst crisis of the post-war period and with the investment projects we have underway and with Fiat's image in Italy and the world that has only just begun to rise again from the depths of the abyss.

⁵ I also met Cantarella and tried to persuade him to pay more attention to the bottom line of the profit and loss statement, by having him flanked by a “restructuring”. At the time I noted: “Cantarella and I have dinner, in the handsome corner room [of the company flat in Villa Cairolì] and the conversation is calm and friendly; but he is stubborn as a mule. He agrees, he tells me, to have more frequent talks with me about the troubled topics of the strategy of range product and network; but he rejects as “delegitimizing” any idea of a committee; and, above all, he is very restrictive regarding the internal organization of Fiat Auto: it would be enough for him [to have with him Roberto [Testore], a promising youngster that I would have sent to run Comau and who he considers his protégé. As usual, he favours people he knows he can control (“non-threatening”, as Auteri would say) over persons who are more incisive but harder to manage. [...] I flatter him a little calling him a “car man” and father of the Punto, which everybody thinks is beautiful and destined for great things right from the cradle. Above all I come down heavily on the situation, and I have with me the documentary proof, all papers generated by Cantarella himself: the dramatic results of '93, which were to be even worse the following year; the debt, of 5,000 billion, as against a similar sum that had previously been in the coffers; the loss of market share outside Italy, at its historic minimum of 4.2 in August, despite the [Fiat] “Cinquecento”; the improving trend in product quality, which had been reversed, dramatically in the case of Alfa Romeo. Nobody wants to give him all the blame, but the risk for Fiat as a whole is so high that it is inconceivable to bet everything on a single man; he ought to be the one to ask to share all decisions with others; in fact, with all those who can give a hand; in fact, without anyone so much as thinking of backing out (and if the cap fits, wear it). All useless: he holds his ground, and I realize I have to fall back on strong measures; but then it would be better to have Romiti take a hand, accustomed as he is to the role of domineering father”.

I asked Gianni Agnelli for clarification within September 1993 and he, shortly afterwards, transformed my request into a public statement: he would reveal the mystery of the succession before the end of the current year. But according to me the structural solution should have been decided instantly, and shortly before the summer holidays I wrote a letter regarding the organization of the Group that was, I believe, the most daring of the countless missives that had emerged from the typewriters in my office in many years.⁶ In that moment I felt myself to be the expression of Fiat, both of the historical company, as heir to the operative management of past generations, and of that to come, like a bridge between the past and the future that I envisioned as rich in innovative and ambitious projects.

In reality I was well off the mark and, as I was writing and pondering, Cesare Romiti was acting. On 28 September 1993 they announced an increase in Fiat capital of 4,285 billion lire,⁷ a substantial amount but not an enormous one in relation to the size of the Group. Just enough to change the Group's ownership structure. Assicurazioni Generali (2.4 % share), Deutsche Bank (2.6 %) and Alcatel Alstom (2.2 %) joined Mediobanca (3.1 %) as figureheads. These four partners, which together held about 10 % of the equity, entered the supervisory board on a par with IFI and IFIL, which agreed to "sterilize" a substantial part of their own package, equal to 33 % of shares with voting rights! This expropriation of the family's power was signed by Gianni Agnelli in order to avoid his brother taking the place he had destined him for in his prophecies and in order to allow Romiti, seventy by then, to stay on for another five years as head of the Company, a rare example of gerontocracy among the great industries listed on the stock exchanges of the advanced western world.

At this point, on thinking over the difficulties my controllers and I had encountered in our attempt to take drastic steps to cut costs in Fiat Auto, an impellent question arose in my mind: had Romiti hindered for many months, perhaps for some years, the restructuring of Fiat Auto with a view to weakening the Group's accounts and thereby causing the intervention of Mediobanca, the powerful ally that permitted him to hang on to his personal power at an advanced age by reducing the space occupied by the Agnelli family? Such Machiavellian far-sightedness on Romiti's part struck me (and still does) as incredible, but, even if there was no will in that sense, the delay helped the cause: as usual, Romiti had turned the circumstances in his favour.

The incontrovertible fact remains that, on the financial level, the increase in capital was not so large as to justify the reshuffle of the share system. All we

⁶ See Document 10 in [Chap. 14](#).

⁷ The operation included 3,234 billion lire of capital increase (two new shares as payment for every three owned), plus 194 billion for shares to employees, collectible within 1993, and 857 billion in warrants, collectible one year later; after subtracting 220 billion of intercompany, the net figure was 4,064 billion. The package was presented as 5,000 billion, because it included other financial operations, including the sale of Rinascente, which deconsolidated 865 billion in debts. But Fiat did not have financial problems because, according to the data that Guido Merlani periodically presented, the uncommitted lines of credit were utilized very partially while the committed ones had never been touched.

need do is think that a few years later Carlo De Benedetti had “scraped together” over 2,000 billion lire for Olivetti, a company six times smaller than Fiat and in far worse shape, without granting the new shareholders, almost all Americans, so much as a seat on the Board. A few years after that Romiti himself had New Holland listed on the stock exchange, a Sector that I had regenerated and contributed less than 15 % of the Group’s consolidated turnover, at a far greater value than that of the entire capital increase of 1993.

Two years later, in the course of the discussions I was obliged to hold with Gianni Agnelli, I returned to this topic and told him with complete frankness that, if he continued to comply with Romiti’s will, he would go down in history as the man who handed Fiat over to Mediobanca.

The Change in Cesare Romiti

With the arrival of Mediobanca and the restoration that followed I immediately perceived a change in Cesare Romiti’s attitude to me, even though I did not realize its import at the time. In a note dated October 1993 I find an observation which I neglected then, but which takes on a clear coloration on subsequent rereading:

This time no church was constructed and dedicated *ob adventum regis*⁸: the reconfirmation, Romiti’s quasi-return, was not greeted by ovations, nor, honestly did he expect them: he simply tried to take everything back, as if nothing had happened.

Without letting me know, he started calling meetings on substantial matters, obviously with Fiat Auto, and obviously upsetting my plans.

The Fiat Assembly held to ratify the new control system was called for 15 November 1993, and the new course was immediately evident. At the end of the Assembly, held as usual in the Centro Storico Fiat building in via Chiabrera, in a little room behind the main stage of the Great Hall the Executive Committee convened, now renewed with the presence of Enrico Cuccia in person. I was expecting to go in with the board members to discuss new initiatives and the company’s progress, as I had done since 1991 until then, but this time Romiti nonchalantly told me to wait outside. I thought that some personal topic of his was on the table, and I remained in an adjacent room; through the poorly soundproofed partition wall I heard Romiti explaining to his colleagues the data I had prepared, data of which he had a rather cursory knowledge. From then on I continued to attend Board Meetings but never those of the Executive Committee, and the presentations I prepared were made either by Romiti or me, depending on which meeting was held. I was convinced that Romiti wanted to keep all the glory for himself in the eyes of his elderly mentor, Enrico Cuccia, and I did not worry.

⁸ This motto can be seen on the façade of the church of Gran Madre di Dio, built in Turin in 1820 to celebrate the restoration of the Savoia family after the defeat of the usurper Napoleon Bonaparte.

Shortly afterwards I spotted another symptom of my boss's change of mood in my regard. I held that the time had come for Fiat to continue along the path I had laid out with the policy of structural competitiveness, and so I thought to divulge a charter of the fundamental principles that ought to inspire behaviour in every field of company activity, as many multinationals had been doing for some time.⁹ I personally drafted a document that on 5 November 1993 I sent to Cesare Romiti for an opinion. He returned the papers to me together with a very formal letter:

I do not think it opportune to subject the document to the approval of the next Fiat Board Meeting insofar as, given the particular moment the Group is going through, I maintain that board members old and new want to hear first and foremost about company progress, consequent measures, and hence arguments strictly connected with company activity.

It was a rather unpleasant note. I had seventeen years behind me to demonstrate that I did not neglect business-related topics in favour of formalities, and until then Romiti had always taken care to manifest his respect for all my proposals. I did not get alarmed for so little and I thought it had been a moment of irritation on his part. For two years the man had put up with terrific stress, which would have destroyed any individual even in the prime of life: there wasn't anything surprising about a mood swing in a person of his age.

A Rigged Consultancy

I soon understood that I was going to have to worry about far worse interference. At the end of 1993, the most urgent problems were on their way to being solved, and after having waited for and prepared the moment, I judged that the time was finally ripe to tackle the structural problems of the range and the map of Fiat Auto's product/market, which I discussed in the preceding chapters. I tabled the subject with a programmatic document dated 18 November 1993, a document to which I attached an extreme, epoch-making importance for the destiny of Fiat Auto. I explained the substance of the problem in numerical terms and suggested no solution (even though I had in mind some well defined suggestions for one), but I asked that an in-depth study be implemented. I delivered the letter to Paolo Cantarella in person and sent a copy to Cesare Romiti for his information.

That text—which I quote in its entirety in Document 11 in [Chap. 14](#)—is, I believe, the most important one I ever wrote. It had been pondered for a long time,

⁹ At the height of the Clean Hands affair, Romiti issued a policy document on the ethical conduct of the Company, prepared by the lawyer Franzo Grande Stevens. In my opinion, the text contained many lacunae, but above all it was polarized on company top management, without giving any assurances to the operative management. I offered my comments in this sense, but did not receive so much as a reply. I thought then that the aim of the policy was merely cosmetic. The policy with which I am dealing here was another matter: it concerned the whole of company activities, of which those that represented some risk of "improper" payments were absolutely marginal.

for months on end, while I waited for the development of the right conditions in which to tackle the problem. Once this came along, I felt I had to act in haste. The document caused a meeting that was held around mid-December 1993; the outline of my speech is schematic but explicit:

14:30. First meeting with Cantarella after Romiti's "return", in the latter's presence.

I table the subject of Fiat Auto's network/brand/product structure.

So: we are losing a pile of money, more than the other competitors, despite our favourable costs [following the devaluation of the lira]. How can they dispose of so many resources for discounts, advertising, and so on, and be in such good shape? On account of the product/country mix, they *structurally* dispose of from 1,000 to 3,000 billion more than we do. We are only Italy and only B (the Uno, the Punto); they are everywhere and also present in C, D, and E (the A segment is to be overlooked because it brings in no income at all). To this is added a figure that is at least similar and *cyclical* in origin, for the differences in price caused by the devaluation of the lira, and only partly compensated by the differences in cost. We are constantly losing ground: European share (down from 6 to 4 %); networks with double and triple brand sales contracts, now in Italy too (putting the exploitation of marketing [strategies] of products in which we have made enormous investments in the hands of private entrepreneurs); Lancia out of the UK (no more right-hand drive); always last in the rankings of reputation...

The Fiat Cinquecento and the Alfa 155 have served for nothing, as will be the case with the new Lancia Delta.

He, Cantarella, always puts the blame on those who came before him [Ghidella], for the unsuccessful products in the Tipo family. But who will guarantee that the one who comes after me will not blame *me* for *his* decisions? I want a project that might give me some reassurance.

For example: producing the Y11 in great haste to support the Lancia network means spending money on a product that won't sell abroad (owing to the non-existence of a network) while in Italy it will cannibalize the Fiat Punto, still a very new product.

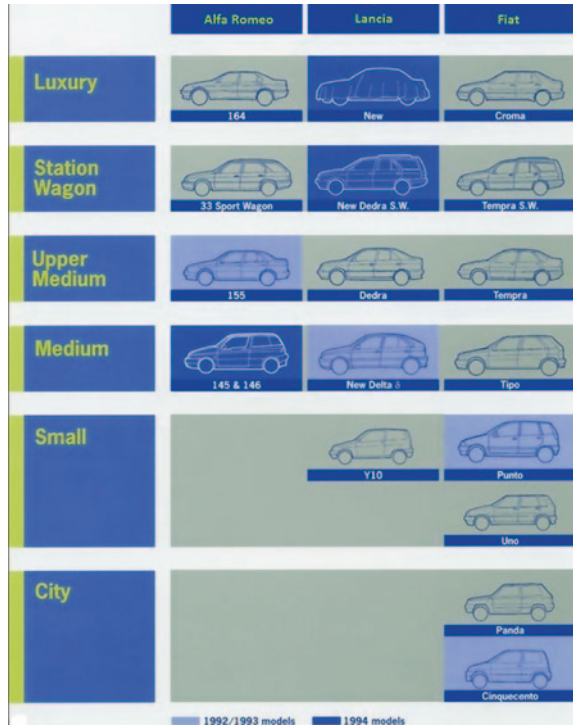
I had not understood that Romiti's attitude towards me had changed radically and I still thought he would back any initiative of mine, as he had done for the previous seventeen years, since that time in 1976 when I gave him the figures for the confidential salaries in Gilardini. But things were no longer like that. After the meeting, and completely unbeknownst to me, Romiti summoned an external consultant, Gian Filippo Cuneo, and asked him the question: "Is Fiat able to maintain the current breadth of range, should the multiyear plan in force be implemented?"

After a few weeks the consultant gave his fateful verdict: "yes". If the hypothesis of the plan was true (that Fiat Auto could produce in Europe 1.6 million vehicles per annum, corresponding to a market share of 11.5 %), then, in that scenario, Fiat Auto could have permitted itself the luxury (in other words it would have had sufficient margins) to pay for all the models planned (Fig. 10.2).¹⁰

It was a cryptic answer to a trick question. The consultant did not hazard an assessment as to whether the hypotheses (regarding the number of vehicles produced, the market share, and the profit margins) were realistic and did not so much as mention the matter of returns on the investment made in the range. Simply, when asked a question, he replied. My worries sprang from an opposite standpoint:

¹⁰ Except for the Alfa Romeo 33 and the big people carrier U60, the Fiat Ulisse, owing to an excessive burden of investment, but by then both had been paid off already.

Fig. 10.2 An outline of the structural problem affecting Fiat Auto. It was mostly selling small cars, but the range was spread over three marques and a large number of models competing with one another (note that the upper medium and medium versions were built over the same “C type” platform). The cost of development and management was very high, care and quality very low and it was impossible to inform foreign clients of their existence



we were absolutely not certain of that 11.5 % of European market share (in units sold, because in terms of turnover or of real margins the share was much lower). We had to maximize the probability of making it and to have a reasonable return on investment. We needed, therefore, additional margins not to be squandered on useless models. The competition enjoyed higher margins than we did thanks to the concentration of models, and used those margins to overpower us. We wasted effort and resources on useless cars, sold in minimal quantities, when we were not cannibalizing ourselves with similar models. Ghidella had put all the cash (and there was plenty) into factories; we were putting it all into product (and we had little cash).

Romiti informed me of the outcome of the consultancy after the fact, and following this piece of sophistry he considered the matter closed. Dumbfounded, I called Cuneo to my office and he arrived with the functionary who had carried out the study and who I knew was highly critical of the situation as it stood. The pair sat down in front of me, clearly ill at ease.

“What the devil have you come up with?” I began.

“We limited ourselves to replying to Romiti’s question as it was formulated: the plan is internally consistent”.

“You both know perfectly well that the plan is like that because it was constructed like that. Your answer is a tautology. The problem isn’t the plan, but managing to realize it: it’s necessary to face reality, the competition”.

I looked the consultants in the eye but their attitude was imploring: “*Ingegnere*”, those looks said, “we have families to feed”. Never had a great multinational entrusted such an essential topic for its survival in such a superficial, distorted and disagreeable fashion. I let them go, and shortly afterwards Gianni Agnelli called me: “Romiti has told me that even the consultants confirm that our range is fine as it is”.

From then on that verdict became dogma for Agnelli, who was unable to assess the topic by himself, unlike his brother Umberto, and so it was a case of “glug glug glug” as poor Enzo Amapano would have said.

In seventeen years with Fiat my proposals for structural change, which I launched after long consideration, had often passed, but not always. No harm done. This was the first time a proposal of mine had been shelved unprofessionally. Not only had I been defeated but I had been shown in the eyes of the Chairman, not very accustomed to the subtleties of industrial strategies, as insufficiently competent and unreliable. Cesare Romiti had implemented a practice attributed to state industry in its worst moments. I realized that with the Mediobanca operation he had once more reverted to being the functionary devoted to the management of power and uninterested in the economic reality of industry.¹¹

Fiat Auto between Restructuring and Development

In the same period, Fiat Auto finally put into effect the programme for staff cuts, indispensable for too long and deferred for too long. In early 1993 I was determined to overcome the resistance of Paolo Cantarella and Cesare Romiti, also because the figures supplied to me by Francesco Torri admitted of no doubts, but

¹¹ But I was still far from supposing that I had immediately lost all appeal to my boss, so on 21 December 1993 I permitted myself a risky initiative. The day before, the *Comitato di Direzione Generale* had been presented with (for its information, insofar as it referred to aspects not of its direct competence) a Fiat initiative to candidate itself as the number two mobile phone operator in Italy with the Consorzio Unitel (a joint-venture between Fiat and Fininvest), in competition with Omnitel, the consortium between Olivetti/Bell Atlantic and Mannesman/Sprint. I opposed the initiative which I thought was misleading and wrote a formal letter to Romiti in this sense, in which I said: “This [initiative] flies in the face of all the statements of principle that we have made, in all possible places, regarding the Group’s industrial strategy; and it strikes me as harmful from every point of view. [...] [What’s more] we will look as if we want to stick our noses in everywhere in areas that are not ours and then we risk looking very bad if we lose the tender”. I received no reply and Fiat took part in the tender. As usual, Romiti missed no chance to deal with every event or venture in Italian economic policy, while he neglected cars, lorries and tractors around the world (in the hands of Sector Heads who were “not to be disturbed”). Mattioli told me that we could have made money by simply proposing ourselves for mobile phones and then getting paid for withdrawing. This struck me as a kind of blackmail unworthy of a world car manufacturer. Fiat lost, as was predictable, but Romiti endeavoured to have the tender invalidated as long as he could snatch the prize from Olivetti, which he identified with the detested Carlo De Benedetti. His attempt failed.

Table 10.1 Fiat Auto's and Iveco's sales volumes decrease (4-months 1993 vs 1992, in %)

Compared to the previous year	Italy (in %)	Europe (total in %)
Auto	-20	-19
Iveco	-42	-35

Antonio Di Pietro prevented me from acting until the month of May. On the 6th of that month, obliged to stay at home by the public prosecutor's punishment, I resolved to write a peremptory letter.¹²

I have seen the April sales results: they are dramatic, proof of a four-month period whose equal I have never seen in the past (see Table 10.1).

The prospects for the immediate future do not strike me as likely to permit any hope of improvement, both in Europe and – above all – in Italy [...].

In my current situation I do not possess the analytical figures but I feel able to judge that the position in your Sectors, and hence, all in all, Fiat's general position *is at great risk*.

The two meetings (Iveco and Auto) scheduled for 12 and 13 May are of essential importance.

I ask you to hold these meetings even in the *eventuality of my enforced absence*: Torri and Auteri will see to the technical aspects of the Holding Company. And I ask you to explain on that occasion the measures of *extreme emergency* that you intend to implement. [...]

I think that the time has now come for public opinion – and the unions in particular – to know the gravity of the situation. Any window dressing, even if intended to avoid damaging listed securities and borrowing capacity, leaves us open to criticism either for scant external information, or – worse – of poor far-sightedness on our part.

A copy of the letter was sent to Agnelli and Romiti for their information. The text had some unforeseen readers because, a few weeks afterwards the Turin public prosecutor, Sandrelli, ordered a search of my home looking for documents regarding the bribes paid by Fiat, as had also happened to other *dirigenti* within the Group. The officers of the Guardia di Finanza found nothing compromising, but they came across the manuscript of the letter and confiscated it. When the prosecutor's office, with profuse apologies, gave the document back to me, I was told they had kept a copy. I do not know what the prosecutors did with it, but in that way they registered the missive in an incontestable fashion.

Cantarella finally accepted the need for a radical reconstruction that was put before the Fiat Executive Committee on 8 July 1993:

The Chief Operating Officer, Mr Giorgio Garuzzo, with reference to discussions that took place during the Committee Meeting of 28 May 1993, introduces the subject by pointing out that what shall be proposed by Mr Cantarella [calls for] the attainment of [Fiat Auto's] break-even point by fixing the limit of production [in Italy] to 1,300,000 vehicles per annum, or sales of 1,600,000 vehicles a year (taking account of vehicles imported from abroad). [...] Mr Umberto Agnelli asks to be able to reflect upon the figures and the data presented.

But Cantarella asked me to defer the intervention until after the launch of the Fiat Punto, in order to avoid spoiling the event. "Okay", I replied, "but let's not wait

¹² In that period I was forbidden to communicate outside the firm by telephone but not in writing, and so I worked almost normally, passing on manuscripts to my efficient secretary, Anna Maria Spinazzi, who made copies of them and distributed them to the recipients.

Fig. 10.3 The presentation of the new Cinquecento to pope John Paul II in 1992, with G. Agnelli, C. Romiti, P. Cantarella and G. Garuzzo. The apostolic blessing was not enough to render such a small and economical vehicle profitable, even though it was produced in Poland, the pope's native land, where labour costs were less than a fifth of Italian ones



too long after that. Otherwise it will seem that the new car is not doing well on the market". In this way, during the months that followed June 1993 the two preparations became intertwined: the marketing celebrations that began on 3 September, and the restructuring effort that was announced on 23 November 1993.

For the launch of the new car Fiat Auto chose the city of Turin, a decision that appeared like a veiled criticism of Ghidella's decision to launch the Fiat Tipo at Cape Canaveral. All the world's dealers came to the presentation conference that was held in successive phases in the new Lingotto complex, and they were invited to the gala dinner enlivened by entertainer Renzo Arbore and the Orchestra Italiana. The city took part in the event with great enthusiasm, over and beyond the rosiest expectations, through popular events held in the streets. The launch was effected with remarkable professionalism and it was immediately clear that the new car was going to meet with great success.

At first the Fiat Punto came out in limited numbers from the Mirafiori factory in Turin, but soon the Melfi plant kicked in with all its productive capacity, in full respect of the programmed time scale, and so the new product and the new factory became one and the same in the eyes of public opinion, as was right. At the end of 1994, one year after the launch, 600,000 exemplars of the car had already been produced, almost 50,000 more than foreseen. Thanks to the Punto, Fiat Auto once more became the queen of the compact car section of the range: in 1994, the market share in segment B rose to 47 % in Italy (as against 33 % the previous year) and to 17 % in Europe (as against 10 %), and also the ranking of the best selling cars in Europe in the segment, in the course of the Punto's second year in production, 1995, was prodigious (Fig. 10.3).

In a different field, that of restructuring, Fiat Auto showed just as much professionalism. The first announcement concerned a structural redundancy of 3,800 white collar employees (over 1,000 people in Sevel, Campania, the van-producing joint venture with Peugeot); to this figure, it was said, it was necessary to add a "temporary" staff surplus to be managed through the *cassa integrazione*: 5,800 people in Turin and 1,000 outside the city. The progressive closure of the Alfa Romeo plant in Arese was to increase redundancies from the initial 2,000 or 2,500–4,500. In reality, in the end the cuts were far greater, as we shall see. The people to be dismissed were chosen with

a radical criterion: immediate termination of employment was the fate of all those who fell within the terms of the law regarding the so-called *mobilità lunga* ("long mobility"¹³) since they had reached 53 years of age. Subsequently, steps would have been taken to recompose the staff of every office. Things could not have been done any differently: a method based on meritocracy, for example, would have been impossible to manage with regard to the thousands of *dirigenti* and clerical staff. Moreover, in this way the door was open to early retirement, a solution that minimized the social impact, even though there was still the impact, not measurable but certainly dreadful, on the psyche of each of the 6,800 men and women involved in the measure, 30 % of the active force of clerical workers and intermediates (without counting the workers who were already in normal *cassa d'integrazione*, the form known as "weekly" because it was programmed from time to time on the basis of sales results).

This led to heated debates that hinged above all on two aspects of the operation. The first concerned the lawfulness of state aid to a private company, aid that was transmitted by the *cassa d'integrazione* (redundancy fund) and the INPS pension funds. My opinion was that if the state prevented the sackings, then it necessarily had to make a contribution, because a private company was not able to print money: if it lost more than it possessed, it went bankrupt. According to me, the decision made by the government of the day to block the sackings and supply a social safety net, early retirement, was a wisely inevitable choice.

The second debate concerned the example of Volkswagen Audi, which in that very period declared that it did not want to make staff cuts, but to cut working hours, making them flexible. Why did Fiat not do the same? At that time I had the chance to exchange opinions on several occasions with the Chairman of the German firm, Ferdinand Piech, for example in a long meeting I had with him in a room in Munich airport. VAG had made that choice for reasons very different to those made public.

According to German law the sackings were possible, even easy. But the legal regulations scrupulously specified the criteria: the first to be dismissed had to be young bachelors, in other words the best workers, almost all Germans; on the other hand the old had to come last, especially those with families to support, who were almost all immigrants, people with lots of children. Really an unacceptable prospect! In addition, every dismissal would have cost over one hundred thousand marks a head, a figure to be multiplied by the ten thousand cases, and this amounted to a cost that the company could not afford to pay (on a pro-capita basis, the Fiat dismissals cost the Company on average a quarter or a fifth of that figure; even so, almost one thousand billion lire was spent and recorded in the accounts for 1993 and 1994). Volkswagen, therefore, had to play for time and make the cuts gradually and without clamour. It should also be said that Volkswagen's gross margins, far higher than those of Fiat for the reasons I have explained to readers today just as I pointed them out to Cantarella and Romiti at the time, allowed Volkswagen to act with far greater serenity in a critical situation: a company that is doing better than the competition is more comfortable for those who work for it even in hard times.

¹³ Translator's note: a euphemism for the social safety net for workers made redundant: they were expected to look for a new job (mobility) but had the right to receive compensation from the state up to retirement age (long).

For the first time in Fiat the staff cuts of 1993/1994 hit white collar workers hard, and a lot of worry arose regarding the consequences of this novelty. It was said that if the “quadri”—the allies who did most for the success of the March of the Forty Thousand—had had to pay dearly they would have dropped all loyalty to the Company and would have fled en masse under the wing of the unions. This hypothesis analysed labour relations according to a model that had made sense during the political clashes of the previous decades but had lost all value by the Nineties. In fact, absolutely nothing remarkable happened and the employees did not lose their faith in the capitalist system, also because everybody knew that there were pockets in the Company where people did not work very much or were taken up by unproductive tasks.

That period, between 1993 and 1994, was very important for Fiat Auto. In the past the Company had gone through phases of development and phases of restructuring but in that moment both of these aspects were coexisting and co-operating to build the future: new models were launched and new factories were getting underway; at the same time, costs and staff were reduced. Inside and outside the Group, I tried to spread that message on countless occasions. And it seemed to me that my listeners paid attention to and had faith in what I was advocating.

The thought of all those people left unemployed made that period a sad one, already difficult for me for other reasons. In my computer I noted on 14 January 1994:

This year, too, I don't want to give up Christmas dinner with my direct collaborators. It is a tradition that goes back uninterruptedly to 1979, my first year as head of Fiat Components. [...]

But today we're living in a climate of economic emergency and for the first time there is dissatisfaction within my team and divergences of a personal nature that are sometimes very serious, some of which involve me directly. Despite this, I didn't want adversity to win the day, by giving up a custom to which I attached and still attach a symbolic value of humanity, warmth, unity, almost of brotherhood. [...] So here we are, like last year, eating hulled wheat and lentils [...].

As chance would have it, the dinner coincided with the deadline we ourselves had set for the talks on the redundancies in Fiat Auto. The news of the break off in negotiations between the delegates and the ministry arrived when we were at table and, while it was expected, it added despondency of the dinner-party.

And on 20 January 1994 I wrote:

On the problem of redundancies we're under attack from all sides, like deer torn to pieces by a pack of hounds. Mayors, journalists, unionists, intellectuals, young volunteers, old men, politicians, prelates, not one of them misses the satisfaction of taking a bite.

We are paying the price for our total lack of communication, and so very few of the charges laid at our door have a basis in truth, but nobody knows this – and above all nobody takes into account the desperate search for competitiveness to which we are committed on all fronts.

Another one paying the price is Cesare Annibaldi, left speechless by the baying pack of those carefully trained to maul their opponent on the TV programme *Milano Italia* [...]. The attacks are continuous, daily, incessant [...]

I see even Romiti doubting if he can make it against everyone, despite the apologies of the Vatican Secretary of State who in private censures the accusations that the “Osservatore Romano”¹⁴ hands out to us in public.

¹⁴ Translator's note: the semi-official newspaper of the Holy See.

[At present] I see no alternative to sticking to our guns: time is not working against us, our results, soon to be published, will be a shock [...] and above all, what else can we do other than what we're doing already?

31 January 1994:

The (new) Board takes note of the terrible results of 1993 and of the budget for 1994. The atmosphere is bleak.

I try to explain the riskiness of forecasts for the Auto division, without rubbing it in. In fact I do not see big problems for the others, and even some opportunities for New Holland and, maybe, Iveco. But the Fiat Auto budget is frankly unbelievable.

I concluded with an observation that did not portend anything good:

Only Romiti remains inscrutable-unbending. He continues to refuse to talk with me about the basic issues as I have been asking him to do for some time. What can he have in mind?

Relations with Romiti did not help to improve my state of mind. Following the entry of Mediobanca he had finally espoused the policy of restructuring Fiat Auto but he did not want the delay that marked its implementation to be highlighted. On 4 February 1994 he sent me a note that amply illustrated the climate of formal coldness he had now established in my regard:

To i. [*sic*¹⁵] Garuzzo,

I have had the Auto sector send me a summary of the outgoings "employed" in the three-year period 1991-94.

They are very substantial sums both absolutely and in percentage, and do not correspond to what you stated to me two days ago.

Romiti

I was irritated by his attempt to rewrite recent history. I replied, vexed:

Turin, 8 February 1994

Note for Mr Romiti

With reference to your note of 4 February [...] please find my comments here below:

1. I confirm that Fiat Auto has implemented the reduction first of workers and then of clerical staff and in the mildest way, and hence with inferior accumulated percentages, with respect to the other principal Sectors [a graph followed]; obviously, the tempo of reduction for Fiat Auto will be very rapid in 1994.
2. This has been justified by objective conditions: a) the European car market, not in crisis until the beginning of 1993, b) work underway for the renewal of the range. [...]
3. I confirm that we have also had resistance of a subjective nature, deriving from a diverse psychological attitude in expectations for the future, of which I have often been a witness together with some of my co-workers. [...]
4. Currently Fiat Auto fully shares the goal of cutting staff in order to lower the break-even point, as shown for example by the presentations made by Cantarella and Magnabosco at the Conference of the *dirigenti* of 4 February; hence there is no longer any further necessity on my part to push in that direction; it is merely a matter of maintaining the normal level of control.

¹⁵ Translator's note: the initial for *ing.* (*ingegnere*), as Mr Garuzzo was often referred to. The shortening is a sign of shyness.

Fiat Auto's trade union operation ended happily in a very short time with respect to the most optimistic forecasts and with laughable ease; on 5 February 1994 I was able to note with relief:

[The trade union negotiator, Mr.] Figurati called me at home to give me news of the talks that, far from the spotlights and the press, were almost concluded. [...] I sense that he is pleased to give me the news, and he's proud of it. This reconciles me a little with those things that are going on around me in Fiat, without my being able to intervene as I would like to.

At the same time Iveco, too, was going through the trying experience of restructuring, but the cure was less drastic, as it had begun earlier; moreover, for the Italian subsidiary it was possible to apply solidarity contracts, with an agreement signed on 27 January 1994 that reduced salaries and working hours.

Little by Little the Accounts Improve

Eight months after the reversal of November 1993 Fiat's accounts started to improve because we began to gather the fruits of the efforts made over the preceding three years. I realized this immediately from the figures that got to me in real time. On 20 June 1994 I noted:

In May [1994] for the first time in living memory no Fiat company lost money. Not everything that glitters is gold, because while New Holland is going very well and Iveco has clearly [returned] to the structural break-even point, Fiat Auto is still doing very badly in Europe, even if less so than last year, and has been saved by Brazil, whose future is precarious, as always in those latitudes of the economy. But, all things considered, as I commented [...] at the Committee of the *Direzione Generale*, "better this than [nothing]".

On 24 September 1994 things went even better:

The Board approves the half-year report, which is rosier than the rosiest of their expectations, with 782 billion lire of profit as against the 900-billion loss of the year before. Romiti is clearly euphoric.

And I added a summary of Romiti's work over the years, the substance of which I still feel like subscribing to to this day, apart from the rather colourful tones that were the reflection of my everyday tension at that time:

On the front of industrial facts, the ones that really count, his [Romiti's] presence and his action have delayed those decisive interventions on the part of Fiat Auto that Iveco and New Holland undertook two or three years before. Weakness on the product front is also a consequence of the period in which he dealt directly – or rather took no direct interest – in that Sector [...]: Ghidella has been gone since 1988, six years. What happened last year cannot be laid at his [Ghidella's] door, as some try to do at times (as is Cantarella's habit). Even the excessively negative image of the Group in past years is a consequence [of the fact that] the CEO [did not understand and took no responsibility for] the slightest exigencies of public opinion with regard to a modern company. Yet he has used these circumstances [so efficaciously] as to turn them into a debacle for his archenemy Umberto Agnelli and has grasped the extraordinary opportunity to cling to power at an age in which his longest-lived contemporaries throughout the world have left their boardrooms for at least six years in favour of golf courses or long-stay hospitals.

As for the turnaround, merit should go to Boschetti and Ruggeri for the restructuring of their Sectors, and to Cantarella, the car man, for the excellent way in which he created Melfi and the Punto, whose presence are more than enough to have him forgiven for his low mark for managerial incompetence and that shi... character of his.

And a little [merit] should also go to Garuzzo, who has dauntlessly carried on his company philosophy in times of constant difficulty, has tirelessly woven his web even in the face of those who were resistant or reluctant, Romiti first of all, before getting where he always wanted to go. Tirelessly, but with a little more suffering than previously.

... and Romiti “Takes the Company in Hand” Once More

Following the diatribe over the car range and the sham consultancy that ended it, Romiti’s war against me became systematic and more and more bitter as the accounts gradually improved and the Fiat group emerged from the abyss in which I had found it in early 1991. The first thing he did was to try to break off all personal relations with me, avoiding as far as possible calling me or passing on information. If he met me outside the office, and even in the homes of friends, he neither spoke to me nor greeted me. Unfortunately for him I was still Chief Operating Officer of Fiat and I dealt directly with many things. For the previous three years he had left in my hands every aspect of the Group’s operational management. He was therefore obliged to keep up a series of important formal relations with me although he would willingly have done without them, as was evident when he had to sit beside me at official meetings. Above all there was an aspect to which he was deeply committed: he had to give Gianni Agnelli a sense of his [Romiti’s] indispensability, and for this reason he could not admit he had abandoned the supervision of concrete matters for a long time. To use his own words, which Gianni Agnelli reported to me fifteen months later, it was necessary for him, Romiti, to “take the Company in hand once more¹⁶”.

The restoration of Romiti marked the end of dreams of renewal in Fiat, Fiat Auto plunged back into the drab days following Ghidella’s exit in 1988 and two years of an absurd war of attrition against me began.

¹⁶ From this perspective you can understand the creation of a new, completely useless committee. On 13 January 1994 Cesare Romiti wrote to the head of Personnel, Enrico Auteri: “On Monday 24th of next January at 10 o’clock, there will be held the first meeting of the Group Committee with renewed goals and participants. I believe that in this very difficult moment it is indispensable to create a mechanism that allows us to intervene with continuity regarding the problems and, at the same time, to provide all the Function Heads of the Holding Company a constant reference point from which to follow the emergency situation we are going through”. No one felt a need for a new use of his own time in the very moment in which, after three years, we were beginning to glimpse some light at the end of the tunnel, but the periodic meeting chaired by Romiti was intended to allow him to receive the merit for the umpteenth rescue in the eyes of Gianni Agnelli, who frequently took part. Substantially the committee, formal and wary, a real “sung Mass”, served no purpose, also because I continued to hold my direct meetings with the Sectors, as always, and because the “mechanism” created “to intervene on problems” was already in existence and had continued to function in the three difficult previous years, namely the *Comitato di Direzione Generale*.

Renault Blocked

Cesare Romiti's hostile attitude to me caused the failure of an important international deal. Teksid, one of Fiat's Intermediate Sectors little known to anyone except the experts, was traditionally one of the Group's strong points. It had been set up in the early Sixties together with the other Sectors, but at first all the attention had been focussed on the steelworks, which monopolized the interest of the firm's first chief Ferdinando Palazzo. After Romiti sold the iron and steel business to the state and sacked Palazzo, the Sector could concentrate on the foundries, a field in which it possessed excellent know-how and was gradually developed by some professionals who kept a low profile but who were truly very reliable, such as Alessandro Barberis, Ruggero Ferrero and Giorgio Rigazzi (who had arrived in that position following the diaspora imposed by Romiti with regard to Ghidella's former colleagues in Fiat Auto). Major clients were the Americans of General Motors, Ford, Chrysler and Cummins, which acquired from Teksid most of their requirements for cylinder heads, fantastic proof of confidence in Fiat and Italy. Foundry technology, old as it is, is sophisticated and difficult, a blend of everyday practical experience and superfine theory, two gifts that the Company had nurtured in a group of highly qualified persons, led by the super-technician Sergio Gallo, an undisputed world authority in the field of aluminium. Traditional work already of good quality was improved by ultra-modern technologies and this had enabled the firm to maintain its edge over the best competitors, the result being some true masterpieces.

In early 1994 it was this climate of excellent international reputation that led to the idea of bringing Renault's foundries into Teksid. It was a fantastic project. It would have spelled the birth of the world's biggest complex in the unit,¹⁷ from which almost all the principal car- and lorry-engine producers bought their castings. Savings in general costs would have been enormous, to the benefit of both partners both as customers and shareholders. It was probable that, in future, around the large producer it would have been possible to bring in other factories of different origins.

The *direttore centrale* Luigi Francione and his co-workers in Teksid were highly appreciated by their colleagues in Renault and my relations with the French top management, which began in Georges Besse's day, had become very good with Raymond Levy and Louis Schweitzer after him, and so talks proceeded very rapidly. Renault saw the operation as a way to improve the situation in its factories, not of the first order, and to have at its disposal better and cheaper cast components. It therefore accepted both of the conditions I had set as indispensable to the joint-venture. First: Fiat would have owned two thirds of the Company for

¹⁷ The united company would have had the following dimensions: in cast iron, a turnover of 1,200 billion from 9 factories in 5 countries and 8,600 employees, of whom about 3,000 were in Italy; in aluminium, a turnover of 800 billion lire from 9 factories in 6 countries and 4,300 staff, of whom 1,500 in Italy.

aluminium and half of the one for cast iron, but it would have been responsible for the running of both of them. Second: all the central management (and in particular all the functions of designing the products, processes and administration) would have been concentrated in Turin, leaving Paris only with commercial management, for reasons of logistical convenience. This corresponded to that role as advanced service industry that I imagined for Piedmont in a “post-industrial” epoch, when the factories would have been delocalized in developing areas, which was inevitably going to happen sooner or later.

The deal came to its final phase in early June 1994 and I determined to submit it to the approval of the Fiat Board meeting scheduled for the 8th of that same month. At the last moment, unexpectedly, Cesare Romiti created a few problems for me and I shifted the date to 30 June, for the Board Meeting that would have followed the Shareholders’ Assembly. I saw no problems for the approval of the initiative, not only because of its evident advantages, but also because I had always kept everyone informed about the progress of the talks, Romiti included.

On that very 8 June I called Schweitzer about a completely different problem and found him in an odd mood. At the end of the conversation he said: “Giorgio, what’s happened about the foundry?”. I was astounded and tried to play for time in order to understand what he meant. Shortly afterwards a highly alarmed Luigi Francione dashed into my office: “In France they’re saying that the deal’s off because Romiti took a hand in matters: he called Schweitzer and told him that the foundry initiative had been cancelled”. For months Romiti had been following in person some confidential contacts aimed at making Fiat the majority shareholder in the privatization process of the Renault car factories. As well as Romiti, two merchant banks, Mediobanca and Lazard, which had been doing business together for some time, had been scheming. Some joint studies had been prepared and I had contributed nothing to them because Romiti and Mattioli considered those talks as their own personal hunting ground. In this kind of business you have to avoid too many primadonnas appearing on the stage; I had other things to do and, having guessed which way the wind was blowing, I took no interest in the matter. This absence on my part and the embargo on information that Romiti had put in place in my regard prevented me from knowing with any precision what was really going on. What’s certain is that none of the French had ever made any commitment until their government decided to break off ongoing contacts in May 1994. The failure of his hopes for the success of that initiative deeply disturbed Romiti, who hoped to pull off a major deal and, perhaps, to give a boost to his image after the Clean Hands affair. He put all the blame on Louis Schweitzer, wrongly, because the operating chief of the French company could have had no power in deciding the fate of the *Régie*, which was publicly owned.

For Romiti, the idea that I had concluded an initiative smaller than his, but one crowned with success, was simply unacceptable. He picked up the telephone, called Schweitzer and told him more or less as follows: “You didn’t want to make the car deal? Then there’s nothing doing for the foundry deal you are negotiating with Garuzzo”.

As for that cancellation, Romiti “forgot” to inform me, Luigi Francione and Teksid. In order to cover his back, Romiti told Gianni Agnelli that a joint-venture in common between Renault and Fiat (Holding) would have compromised any future alliance between Fiat Auto and other competing car manufacturers. An excuse that did not stand up for one second, because in the car world there existed exchanges that went far beyond components in cast aluminium or cast iron. Teksid was already supplying many producers worldwide, and any suitors of Fiat Auto would have found in Teksid a strong nucleus to which they could add their own foundries, if they had any.

When I heard the news from France, it was only a few minutes before the Board Meeting of 8 June, and Romiti was already in the sala Nasi, right in front of my office door. I dragged him towards me and, beside myself, I told him I was fed up with his behaviour towards me. He could not reply, because the meeting was beginning. Contrary to my usual practice, I said nothing; I made an extremely brief report and without looking anyone in the eye; at the end I left without saying goodbye to anyone. After a while, Cesare Romiti came to me. At first he tried to deny everything, then he admitted to his call to Schweitzer and looked at me with a defiant air, as if to say: “So what? Try to react, if you can”. I looked at him, too, and for the first time, I had the impression that something was wrong with him: by then he was a prey to compulsions I was no longer able to understand.

The definitive meeting on the matter was held shortly afterwards. My notes from that time sound like this:

We met on Tuesday to discuss the Teksid-Renault case. Discuss is a euphemism: Rigazzi and Francione present the initiative, I support it. But Romiti pays no heed to the arguments and does not give an inch from his position as a self-destructive seeker of vendetta. [Once the meeting was over], I inform him that I’m taking indefinite leave, until he thinks it possible to have a resolatory talk between us, I put this in writing [...]. I cancel those appointments that can be cancelled and on Wednesday I leave for London, the elective destination of my periods in exile.

This time I’m far more pissed off and depressed than the other time: with Di Pietro I could fight against errors [and] incomprehension [...], but not against my own companions.

I think things over at length, but with time my determination does not diminish, quite the contrary. [...]

The certainty of my determination is not equal to the clarity about the tactic to adopt. Running for cover is very attractive, but experience teaches that it never led anyone to victory: the absent are always wrong.

Louis Schweitzer asked me what needed to be done to attain our goal: “Wait for Romiti to go” I replied. And in fact the Teksid case had a happy ending, because the alliance with Renault was cultivated in secret before being brought back to light and coming to a successful close in 1999, two years after Romiti had left the Group. But his many and abominable interventions contrary to company interests aroused my bitter resentment towards him. When, in early 1996, I told the journalist Alan Friedman that I did not agree with his [Romiti’s] approach, everyone thought only about the bribery system. At this point my detachment was far deeper and involved the entire practice of our common profession.

What to Do

I decided on the tactic to follow a few weeks later, as I was sailing aboard a friend's boat, a detached and pensive passenger at the expense of a crew striving mightily in a regatta in the Strait of Bonifacio. There was nothing I could do for the time being: I had no ally. Umberto Agnelli had been sidelined by Romiti's plotting against him together with Mediobanca. The members of the family took no part even in the slightest decision, giving Gianni Agnelli a completely free hand: they showed up to collect the dividends, when there were any, as he had explicitly ordered them to do ten years before. The Fiat Board was never consulted about anything, and that was just fine by its members, happy to have all that prestige and no problems. My industrial plans could not interest the media, which in any case could have easily been controlled by Romiti, if they had ever tried to dig up any dirt. I looked on with deep displeasure as Fiat's affairs continued in their involution, especially those of Fiat Auto, now that Paolo Cantarella had gained his longed-for independence, empowered by the support Romiti gave him absolutely acritically. Every innovative proposal of mine was given the thumbs down simply because it came from me, as had happened with the study for the Auto Sector, the Renault-Teksid project and many other cases: it was better to keep a low profile and not propose any new idea, but to look after everyday management as I waited for better times.

Romiti was not Fiat, and time was on my side. He was 71, I was 55. Gianni Agnelli, the *deus ex machina*, showed attention and trust in me every day. With time, if he had lived long enough, perhaps he would have made the right decision. And in any case that was the only possibility. Romiti never did anything by chance; if he provoked me explicitly it was because he wanted me to react; he wanted me to go; well, I was not going to leave, at least not of my own free will. I would stick to my guns. I wrote in my notes that my motto should have been what Shakespeare has Viola say in *Twelfth Night*: "What else may hap to time I will commit". After the events recounted here, in the years 1994 and 1995 Cesare Romiti's persecution of me began to look like a guerrilla war,¹⁸ which lapsed into tones reminiscent of operetta every time a public event was involved. My diary brims with notes about this. On 24 January 1995, for example:

Everything was ready in Hosur for 14 February 1995. The Brahmins had consulted their texts and established that the most auspicious hour fell at ten thirty in the morning, for the inauguration of one of the most important factories in India, built from scratch to produce Cargo, the subcontinent's most modern lorry, fruit of co-operation between one of the most important multinational producers (Iveco), one of the most important local

¹⁸ In spring of 1994, when I realized that Fiat's results were improving, I gave my co-workers Paolo Cantarella and Giancarlo Boschetti a rise in compensation that was limited but substantial, which followed years of total abstinence, justifying it with the results recently achieved in their Sectors (all the other Sector Heads had been treated better in that lapse of time); as for me, Romiti reserved worse treatment, without giving me any explanation. His behaviour was more than unjustifiable, coarse, but while I pointed this out I had not protested.

entrepreneurs (Hinduja), and the country's most important financial institutions, with an investment of several hundred million dollars: and to blazes with the most important Euro-Nippo-American competition.

But the holy books could not predict the unpredictability [...] of some of the most important personalities on the Italian scene.

The Italian Minister for Foreign Trade (Bernini – who lasted seven months in the job) had assured his presence, together with the Indian Finance Minister, the President of the state of Tamil Nadu and other worthies. So Ashok [Leyland] thought to invite Agnelli and/or Romiti, offering to organize for them in parallel other top-level meetings and promotional initiatives for Fiat of maximum impact. The invitation passed through Boschetti [the head of Iveco] who handed it directly to Romiti, without saying anything to me.

Total ingenuousness.

Romiti immediately saw a chance to outflank me: he ran to Gianni Agnelli and said: "India is too important. Either you or I have to go". Then he took a successive step: "But it's the car [sector] that counts. To show we're serious, we'll organize for you the signing of some automotive memorandum with Doshi, the probable future Indian partner". And he concluded: "So, naturally, Cantarella will have to go too". As usual I was informed late and through indirect channels [...].

I thought about [and agreed] to sacrifice Boschetti and Iveco to a role of secondary importance with regard to Cantarella and Fiat Auto (basically, they had asked for it!). And I had my staff prepare my important meetings, to be held without sensation with the industrial and financial world of Delhi and Mumbai, with which I [had] had relations since the time of the Ashok Leyland deal.

Ill became of it.

[Agnelli] hedged until today, as fervent preparations were going on in the meantime, and today he said no. Romiti? No way. As for the Minister for Foreign Trade... there isn't one in Italy anymore! The chosen candidate had done a disappearing act a few moments before the swearing-in of the new Dini administration, and his interim, the Industry Minister, made it known that he had no intention of going that far away. The Indians were mortally offended, they have pulled out one after the other, and the inauguration... will no longer take place.

13 March 1995:

Agnelli has a passion for certain ex greats, and he coddles them: Kissinger, Davignon, Carli... and – now – Gorbachov. They no longer count for anything, and now that they don't count, they love Fiat and its boss. I have never understood if the *Avvocato* is attracted by the decadent appeal of these people or by the spin-off in terms of image that he thinks will benefit him, or by both things. The fact is that he set them up in agreeable positions within Fiat and around it.

Gorbachov, who has become a regular contributor to "La Stampa", is invited to see the new car models at Mirafiori, then to lunch and, in the evening, to a debate at the Regio.¹⁹

And they don't even tell me, I read about it in the paper: Romiti keeps watch and disposes. But things go badly for him: I decide to participate in the visit in my capacity as head of Fiat Auto, whereas he vanishes at the last moment, because inspectors from the Guardia di Finanza are around [sent by the Turin judges who are investigating him], and so I arrive at Mirafiori with the *Avvocato* [Agnelli], who picked me up in his car (sitting beside him when he's driving is a happening: sudden accelerations, incomprehensible braking, stopping at green lights, going through the red while a lorry is coming the other way...).

In the end I wander round the cars with Raissa as Agnelli makes his escape with Gorby: he takes him, without warning, to watch Juventus training. I think he invented this

¹⁹ Translator's note: the main opera theatre in Turin.

drôlerie to divert the attention of the journalists from other events [legal proceedings against Romiti] and to show them his sovereign calm in this situation.

16 March 1995:

I discover that for a long time the minutes of my COO's meeting, which I always send to Romiti, have not been forwarded to Gianni Agnelli or Gabetti like those of the other meetings (Group and main Sectors), even though they are far more important than these. The attempt to rub me out is also extended to the details.

From now on, the two will receive the minutes directly from my office.

3 July 1995:

The AMMA, the association of metalworkers and related activities, has its fiftieth anniversary after post-war reconstitution, and I am invited by its Chairman De Valle, who is straightforward and on the ball and makes an excellent speech: [Gianni] Agnelli is also warm and efficient, as he always is when he talks about his grandfather and history. At the gala dinner (in via Fanti, industrial Turin is present *au complet*) there is a funny mini-incident. I meet Sergio Pininfarina and a general in command of the *Carabinieri*, and together [with other friends] we take up a good part of one table. When we get back from the buffet we find a dismayed Romiti sitting at the opposite end of the table from me [...]. He's stuck and can't get away: he ignores me completely, as usual, and avoids looking at me for the entire evening, while I stare at him almost constantly. At a certain point in the conversation, the general, ingenuously, defends Di Pietro, former persecutor now persecuted; and Romiti completely loses control: "He's a liar, a liar, I know that, I know that", he blurts out in a choked voice. The hapless general blanches and makes a tactical shift of 180 degrees. I had never seen my boss like that before then and, frankly, he seems off his head. I would even feel almost sorry for him, and could maybe even help him, if he hadn't got on my damned back [... so much].

On 7 September 1995, in Verrés, in the Aosta valley, they inaugurated a factory run by Meridian, an initiative sponsored by Teksid, which had bought an equity in that Canadian firm with a view to acquiring it in the long term, something I had strongly supported in order to add magnesium technology to those of cast iron and aluminium. I had attended the ceremony of the laying of the first brick of the factory only fifty-one weeks before, and by now it was already in production. Obviously, I was invited to inaugurate the factory together with some worthies from the Vallée, but my name did not appear in the account published by "La Stampa" on the following day: the inauguration was attributed to the Canadian ambassador Marchand de Montigny. Every Fiat press release, even the smallest, had to pass through Romiti's censorship. "The factory that inaugurated itself", my friends joked. What a difference compared to the climate of the year before, when the same newspaper published full-page photos of me.

Instead, that number of "La Stampa" highlighted the story of SuperGemina,²⁰ and Romiti divulged his ideas on full commitment to the automotive industry

²⁰ Translator's note: an attempt in 1995 by Cuccia (Mediobanca) and Romiti (Fiat) through a Fiat subsidiary to get control of a substantial part of the Italian economy in many different fields (including the Corriere della Sera publishing company, "RCS"), which failed because of public outcry and balance sheet shortcomings. Later, Fiat granted Romiti a controlling shareholding in what remained of Gemina, as a golden handshake.

only, exactly what I had been maintaining for five years and that he had opposed in practice until only a few months before, for example by trying to make Fiat the number-two mobile phone company in Italy. All I knew about SuperGemina was what I read in the papers, but Paolo Mattioli offered me an episode from real life; on 11 October 1995, I wrote:

The Gemina problem is raging, and Mattioli is under investigation again. This time it's worse, he says, because his professional reputation has been destroyed. Yet Gemina had no role with or means of control over RCS: how could he know about the holes in the balance sheets? In particular, he had no part in RCS, because Fiat could neither interfere nor command. The management was responsible *in toto*. But why doesn't he say this and defend himself publicly? So as not to pass for the one who isolates himself from the others under investigation and looks after himself. [What a fool] – I think – to put one's trust [in such others].

Old Dirigenti... Out!

In order to “take the company in hand once more”, Cesare Romiti, between mid 1994 and early 1995, removed two important *dirigenti* from the active scene. For twenty years these men had been among the most influential persons in the complex world that was Fiat: Enrico Auteri and Cesare Annibaldi. In both cases I am unable to tell the whole story because some circumstances were deliberately concealed from me.

Enrico Auteri, for many years the central head of Personnel, was not much loved and much feared. He was accused of cynically using a secret power with which he could make or break careers at his pleasure and, above all, of serving as the instrument of capital punishments decided by top management, whatever it was. Instead, my judgement of him was more rational and positive.

Auteri's point of departure was a precise, declared statement, according to which Fiat's top men had to be backed and supported at all costs because that was in the company's best interests. Consequently, if top management decided to take someone out, he played the executioner. But it is absolutely true that, before hanging the wretch, he tried to give him a hand in any way possible, as no one else dreamed of doing, in a community in which those who fell into disfavour at the imperial court were abandoned by all, vassals and vavasors alike. In exchange, Auteri was not soft on that same top management, because, while professing maximum submissiveness, he set himself up as the “voice of Fiat”, and in confidence he would tell even the most important personages what they ought to be told. In this way, as long as he stayed in command, he managed to prevent, or at least mitigate, a good number of dirty tricks on their part. In fact, Auteri promoted his own dismissal by suggesting he might quit before time, an idea that Romiti jumped at, and I found myself having to write:

Auteri has made a serious mistake and has paid for it with his premature exit. [...] But his mistake has cost me a lot, too. Romiti has succeeded in removing from my side a person

who had been a great support to me, despite a few slips and his existential crisis [...]. He has freed himself of a censor who he knew represented a problem for his delirium of omnipotence and eternity. He has obliged me to choose an inconvenient successor at an inconvenient time and with an inconvenient procedure. [...] Perhaps for the first time in his life, Enrico was not up to the situation.

Shortly afterwards, a similar fate was reserved for another long-established figure in the area of employee and union relations. On 31 March 1995 I wrote:

Romiti informs me and Mattioli that he has replaced Cesare Annibaldi with [Paolo] Panzani, formerly COO of the Unione Industriale in Turin. He says it's not a question of age, because at sixty today you're still young... and then he has a little girl (*sic*, she was studying at Milan's Bocconi University) and still doesn't have a pension...; instead he makes muddled but explicit references to the Lingotto operation.²¹ This initiative, underway for years for the re-utilization of the ex-factory, has always been managed in a personalistic way by Romiti. It is a typical example of the things he had always liked doing: getting himself in between politics and business, appearing in the press and at conferences, wielding petty power, not having to account to any of the institutional and/or internal organs of the holding company and, above all, staying away from the industrial and international core business. Given the case, it was obvious that Cesare Annibaldi served him as a *longa manus* and confidant. Now it has emerged that the Lingotto has an immense cash deficit, 500 or 600 billion lire they say, and Fiat has had to provide it with a capital increase of 450 billion. [...] Romiti has immediately identified the only scapegoat possible, and with the extraordinary cynicism of this extraordinary moment in his career, he has liquidated him. He will remain on the payroll as *direttore centrale* for culture and industry (!) and will continue to look after palazzo Grassi.²² [...] Chronos has gobbled up another of his sons.

The two persons ousted had been the only ones who, while remaining greatly devoted to the Company and deferential towards top management, did not supinely accept the attitudes of the born-again boss and enjoyed sufficient authority to condition him. Moreover, with their removal he [Romiti] got rid of the two managers who knew most about what had gone on behind the scenes during the judicial affair.

In the same period I also had to do without the controller Francesco Torri. He was the third man, after Arnaudo's refusal and the sacking of Quadrino to protect him, who was unable to hold to the most difficult of positions. I had hoped that good relations would have grown up between Torri and Paolo Cantarella and that the former might even have been transferred to work in the Auto Sector. But Cantarella, who accepted only affiliative co-workers, did not care for Torri and this marked the outbreak of an undeclared, covert war, waged behind the scenes, which further exacerbated the tense atmosphere in which his predecessor had already had to work. Given my relations with Romiti, I was sure I would have been unable to

²¹ Translator's note: the big Lingotto plant in Turin, built in the 1910s and 1920s, was transformed into a major multitask real estate complex, but Fiat did not make much profit out of it, as reported here.

²² Translator's note: in its heyday (1983), Fiat purchased the splendid Palazzo Grassi, on Venice's *Canal Grande*, to hold art exhibitions. It was later sold to the French entrepreneur Pinault.

protect Torri, who would have got the worst of it. In his case, too, I did not want him to suffer personal harm, wiping out merits won in the field over twenty years, and I let him return to Toro Assicurazioni, whence he had come.

None of the three men dismissed, Auteri, Annibaldi and Torri, had been my protégé, because I did not have protégés; but the disappearance from corso Marconi of persons of importance and experience freed Romiti and Cantarella of any residual conditioning and increased my isolation.

Intimacy with Gianni Agnelli

The more Cesare Romiti's behaviour became hostile towards me the more my relations with Gianni Agnelli improved, almost as if there were a desire for equilibrium. Three or four times a week Agnelli received me in his office and I told him about how things were going in the Company, on my initiative. Then he would ask me questions, some of which were always the same: how was Cantarella doing, how much had Pegasus and New Holland cost, how much would we have earned or lost the following year, how was people's morale... Or he would digress and ask my opinion on the most unexpected and difficult things. We would stay together for an hour or more and I would always try to bring him concrete, real facts. I think he liked the ritual, given that he called me so frequently. This affinity, together with the results the Group had achieved in the period of my responsibility, persuaded me to think that Agnelli would have treated me with a certain regard even if Romiti had won his war against me, as was probable. I find a curious note dated 25 June 1995:

We meet in the Avvocato's bedroom [...]. The fact is that the poor soul has fractured a lumbar vertebra in a fall, and is suffering terribly, but time is short and we must prepare him for all the thorny questions of strategy and management.

The question is: will he manage to attend the shareholders' meeting in ten days time? I think he will make a show of great stoicism, as in wartime and – he says – if he manages to be there, under anaesthesia (“these days the doctors can do so much that it's easy to keep you without pain for four hours...”) he will also hold the traditional press conference: he has thus rejected Romiti, who was already trying to cancel it anyway.

To tell the truth, Romiti exaggerates the state of the Avvocato's health, a man who – according to Romiti – already had one foot in the grave. And this right from the time of the operation in May. I find Agnelli very well, even cheerful, even though he is suffering all the pain that a fractured vertebra can cause. I suspect that Romiti wants to give credence to the image of a weakened Avvocato, and that it's right for him to step aside and leave him [Romiti] his position. Perhaps I am thinking nasty thoughts, but – these days – if you think nasty thoughts you're seldom mistaken.

I look with curiosity at the place in which I find myself, and where I never thought I would have entered. The aspect is welcomingly rich and *démodé* as is the rest of the house, with heavy wallpaper, a bed in enamelled iron and brasses, [...] very fine, I think eighteenth-century French like the two chests of drawers, the floor covered with mats, and lots and lots of paintings, even temporarily on easels, which he perhaps admires in his intimate moments as I do with the fireflies and the linden trees in via Lanfranchi. I tell him – in advance – that May has gone well and Fiat Auto has made a profit even in Europe for the first time.

New Legal Problems for Romiti

As this war of attrition was developing against me, Cesare Romiti had once more started to present himself as the man with clean hands.

Even a minor episode of bribery would have deeply disturbed me. At my level I have had contacts with the highest levels of politics and government and I can say that I have never been subjected to pressures of this type. I thought that these contacts were a defence.

This was his statement to TG5 news on 27 May 1993. And again:

I have my problems, my conscience. I have my co-workers who I defend, because even if they have made a mistake, they did so at their personal risk, thinking above all of the Company.

That same day he made similar statements to Salvatore Tropea of “la Repubblica”:

As for the managers, of course they should have come to tell me [that they were paying bribes]. But if they had done so I would have stopped all suspicious operations and they would have seen the deal go up in smoke. So they told me nothing.

Despite this attitude, things continued to be difficult for Romiti as judicial fronts began to open up in front of him one after another. Above all, the dust having settled in Milan and Rome, proceedings were implemented by the Turin court that were to lead to the conviction of 1996. Of these and other episodes I knew nothing more than was printed in the papers, and so I shall avoid discussing them. The fact remains that Romiti spent a lot more time with the lawyers fighting his legal battle, devoting constant attention to it with such tirelessness as to arouse amazement, because it went on for years. I had lived in such conditions for a couple of months and I could imagine the psychophysical stress that this caused a man of over seventy. Despite this obligatory lack of attention on his part, and despite his intention “to take the Company back in hand”, my normal work in Fiat continued practically as before, even in the years of his enmity towards me, until the last days of my time in the Company. But it was impossible for me to implement the major, extraordinary reforms I had in mind.

Chapter 11

Good Outcomes from the *Direzione Generale* (1994–1995)

The Results Arrive

Romiti's timing had been exceptional. During the darkest moment (the end of the 1990s) he had called me to corso Marconi where he gave me *carte blanche*. When the corrective measures were in an advanced phase but there had not yet been time to record the improvement in results (September 1993), he had arranged an increase in capital of which there would have been no need if he had waited a little longer. Thanks to this, to put it as Gianni Agnelli was to relate to me some months afterwards, he had decided "to take the Company in hand once more", just in time to enjoy the fruits of success (Fig. 11.1).

In fact, in 1994 and 1995, the situation was gradually but steadily improving. Profits were increasing constantly in all Sectors, Fiat Auto included. New car models were flowing out continuously and this renewal, which was to be added to the very recent complete Iveco range and the triumph of New Holland, could have transformed the Group's opaque image once and for all. Fiat Auto was again making a run towards Europe and other developing areas. In view of goodness knows what future agreements, I explicitly used my two years as Chair of ACEA, the European Automobile Manufacturers' Association, to improve relations with all the major players in our business around the world, travelling frequently and all over, and was generally greeted with expressions of esteem and recognition. It could have been a moment of great satisfaction for the *Direzione Generale* had it not been for Romiti's attacks of ill temper, which prevented me from putting my hand to profound changes that had been put off for too long and that the new times would have been able to accept.

The Figures of Success

Fiat's figures were getting better every day, and the world noticed this. One example may serve for all: those backbiters of the "Lex Column" in the "Financial Times", usually rather unkind and highly sarcastic about Fiat and Italy, on 30 September 1994

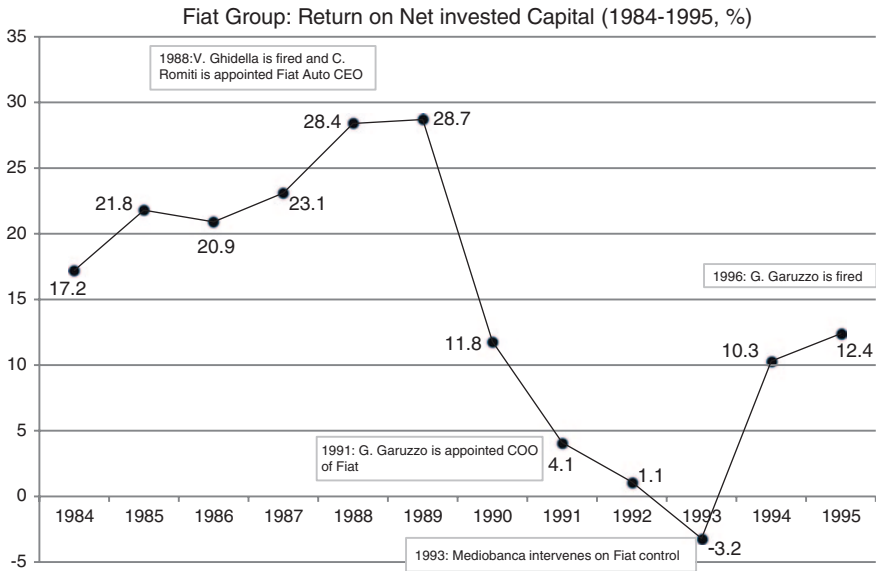


Fig. 11.1 Four events are highlighted in superimposition on the diagram showing the return on net invested capital of the Fiat group which G. Garuzzo presented in October 1995 to the Advisory Board Meeting held in Venice. 1988: Fiat’s profitability was very high and V. Ghidella was dismissed. 1991: the situation was dramatic and G. Garuzzo was appointed COO. 1993: Mediobanca takes de facto control of Fiat. 1995: profitability had returned to reasonable levels and Romiti decided to “take the Company back in hand”, dismissing G. Garuzzo

published an excellent profile of the situation, in which they stated: “Fiat management is to be congratulated for having extricated the company so quickly from the most wretched period in its history”. The news gradually spread, thanks also to my journeys (Fig. 11.2).¹ We decided it was time to boost internal morale, but not to lower our guard: the Institutional Meeting at the Lingotto at the end of 1994 received the explicit motto “The turnaround is behind us: towards development with austerity” (see Table 11.1).

I cannot look at the results of mid 1995, the last actual data in my possession, without feeling satisfaction for the work done in those four years since, in the dark days of the end of 1990, Romiti had appointed me to head the

¹ Despite everything, the consolidated annual report of the Fiat Group had shown a loss for only one year (1993); in the first six months of 1994 it already recorded a profit of 727 billion lire. I had stated to the “Financial Times”: “We are obviously satisfied with the results achieved, both for the speed of recovery and because it was better than our long term forecast”. In the course of 1995 the good results became known to all. “Italy’s Fiat Posts a Stunning Turnaround” was the headline of the “Wall Street Journal” of 3 February 1995, showing lots of diagrams. On the same day, the “Financial Times” headline read: “Fiat on course for \$1.08 bn profit”.

Agnelli letter tells of a healthier outlook for Italian carmaker, writes Andrew Hill

When Mr Gianni Agnelli, chairman of Fiat, tells Italy he has some good news, the whole country smiles in anticipation.

Last Thursday, smiles broke into grins when Mr Agnelli announced in his traditional letter to shareholders – a sort of industrial state-of-the-nation address – that initial estimates of Fiat's performance in 1994 were better than anyone outside the company had expected.

The 1994 figures are indeed impressive. At a pre-tax level, the group is set to achieve a £3,000bn (£1.8bn) turnaround, converting a loss of £1,384bn in 1990 into projected profits of £1,750bn before tax for 1994.

At the same time Fiat has cut its net debt to £2,200bn, less than half its level a year previously. Analysts had been groomed to expect good news, but not this good.

Some even believe Fiat has stored away some extra profit against the next cyclical downturn. Forecasts for Fiat's 1995 pre-tax profits were promptly increased to more than £4,000bn.

The last time the Turin-based group achieved such results was in the late 1980s. In 1990, however Fiat employed more than 300,000 people and had only just begun to think about updating its age-

Cheer from Fiat heralds advent of la dolce vita

(components) are taken into account.

Certain non-core businesses – such as La Rinascente, the retailer – were sold as part of the package of cash-raising measures in 1993, but Fiat still owns substantial interests in the manufacture of railway rolling stock, insurance, publishing and construction. Fiat says they are still an important defensive part of the group. But, as Mr Lorenzo Colucci of NatWest Markets in London points out, "It's clear now that these other businesses are marginal".

As a motor vehicle group, Fiat knows it cannot afford to place its hopes on the domestic market, or even the European market, for much longer.

In 1985, the group will be helped initially by its increased market share in the Italian car market, which is lagging the European recovery. Having dropped by 20.4 per cent in 1990, the Italian market shrank a further 2.7 per cent in 1994, and recovery is expected this year.

To anchor its revival, however, and protect itself from the inevitable political and economic hiccup of its home country, Fiat is placing increasing emphasis on foreign markets, including developing regions such as Latin America, eastern Europe and

	1993 (£, bn bn)	1994 (£, bn bn)
Turnover	54,556	65,000
Operating cash flow	2,017	5,500
Net debt	5,247	2,200
Investments	6,659	4,600
Research and development	2,246	1,900
Pre-tax profit (loss)	(1,384)	approx. 1,750
Employees	260,500	248,000

Source: Fiat

Share price (£, bn)

1990 91 92 93 94

Source: Datastream

Gianni Agnelli

Fig. 11.2 The “Financial Times” of 6 February 1995 ran a good-natured headline: “Cheer from Fiat heralds advent of la dolce vita”

Table 11.1 Fiat group’s staff cuts (1990–1994, data from the institutional meeting of 6 December 1994)

Staff as of 30 June 1990	305,000
Cuts	
Fiat Auto (Western Europe)	–33,000 (equal to 29 %)
Iveco	–13,000 (equal to 31 %)
New Holland	–11,000 (equal to 37 %)
Marelli	–9,000 (equal to 29 %)
Others	–9,000 (equal to 11 %)
Total	–75,000
Variations for change of perimeter (i.e. acquisitions or sales of firms outside the Sectors)	14,000
	244,000
In Cassa Integrazione Straordinaria (redundancy fund)	5,000
Staff as of 31 December 1994	249,000

Direzione Generale, and despite all the extraordinary things that had happened inside and outside the company in the meantime (Fig. 11.3). Gross margins had recovered but the greatest impact had been achieved on the overheads front. The combination of the two parameters, one of which improved the profits while the other reduced the costs in the income statement, had brought

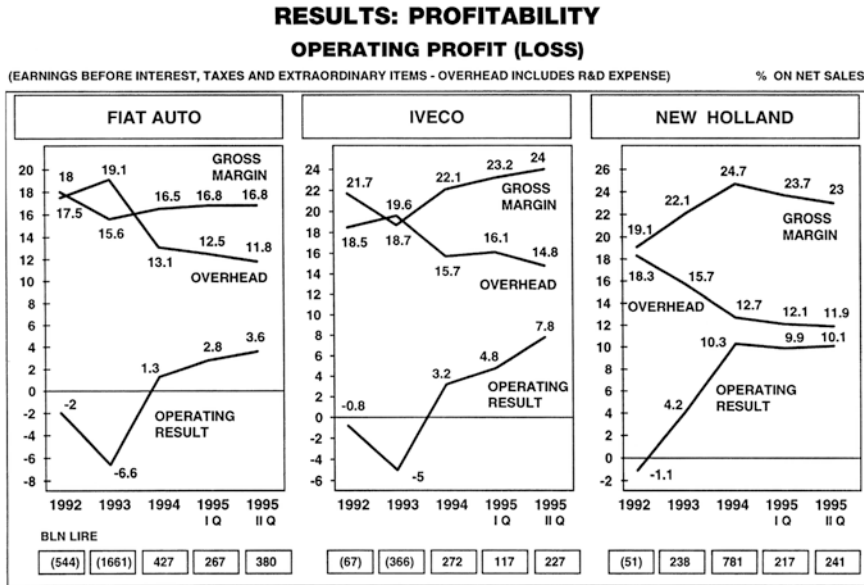


Fig. 11.3 The chart which G. Garuzzo delivered to the financial analysts in October 1995 shows the enormous savings made by Fiat Auto in overheads and hence the improvement of the operating result. Iveco had also overcome the cyclical crisis deriving from the collapse of the markets in 1992 and 1993 and the availability of the SPR had made it possible to make a consistent reduction in overheads. New Holland exceeded 10 % of net operating results

operating results back to dignified levels.² The best performance was that of New Holland, with a good 10.1 % on turnover from a loss of 8.7 % that had been recorded in the year of the merger, 1991.

Then came Iveco, with 7.8 % (it had shown a 5 % loss in 1993). Fiat Auto posted 3.6 % (in 1993 it had recorded a 6.6 % loss). Recoveries with respect to the

² The data that follow are taken from a series of meetings I held in the course of 1995, including the meeting with the institutional investors in London on 3 October, the Advisory Board in Venice (also in October), the presentation made to the IFI shareholders of 30 November and the Institutional Meeting of 11 December. In 1995 gross margins reached 16.8 % of Fiat Auto’s turnover, 23/24 % for Iveco and New Holland. Good progress after the collapse at the beginning of the decade, when cars gave a margin of 15.6 % (in 1993), lorries 18.5 % (in 1992) and tractors 19.1 % (in 1992). Despite this, we were still a long way off the historic peaks of the Eighties, with 26 % for Fiat Auto under Ghidella, 30 % for Iveco under my direction and 25 % for tractors under Vezzalini. Times had certainly changed, but I was optimistic about the trend, in the sense that the programmed initiatives were working as they should. The turnaround appreciated by the international press came about above all because of savings on overheads. Fiat Auto was now spending 11.8 % after growing to an incredible 19.1 % in 1991. Iveco, which had almost reached 22 % on turnover in 1993, had gone back down to 14.8 %. New Holland, which in the days of Fiat Geotech had reached 18.3 %, was now stable with overheads at 11.9 %. Consequently, Fiat Auto’s operating results, which had been negative at 6.6 % in 1993, were back in the black at 3.6 % (647 billion lire earned in six months). Iveco touched 7.8 % (344 billion in six months), far from the minimum of 1993, 5 % in the red. New Holland beat them all, with 458 billion earned, equal to 10.1 % of turnover.

Table 11.2 Fiat group's international nature (1990–1994, also considering acquisition or dismissal of companies): staff (in units)

	On 31/12/1990	On 30/9/1994	Difference
North Italy	183,000	119,000	−64,000
South Italy	58,000	48,000	−10,000
Total Italy	241,000	167,000	−74,000
Europe	37,000	58,000	+21,000
North America	3,000	7,000	+4,000
Rest of world	26,000	31,000	+5,000
Total outside Italy	66,000	96,000	+30,000
Total	307,000	263,000	−34,000
Percentage outside Italy	21 %	37 %	

minimum were therefore in the order of 10/12 % points on turnover (almost 20 points for New Holland).³

An important part of the savings had been made through staff cuts: about 75,000 persons less than the initial 305,000, a huge number!

But not all the cuts were harmful. In the decade 1985/1995, the average age of Fiat personnel had remained constant at around forty-two. In other terms, it had been sufficient to employ, over the period, one new person for every two who left, to avoid ageing the population. Between 1991 and 1994, 34 factories were closed (of which 6 each for Fiat Auto and Iveco and 4 for New Holland) and about 30 business lines had been discontinued, with a view to rationalizing the product portfolio, corresponding to an annual turnover of roughly 3,000 billion lire.⁴ Total overheads, which were 10,700 billion lire in 1992, had dropped to 9,500 in 1994, but the effective reduction was 2,400 billion, if we consider the unfavourable effect of the conversion into lire of expenses paid in currencies that had been revalued in the period. Only by growing abroad could the Fiat group reach dimensions sufficient to contain international competition and, in this essential field, too, I felt rather proud of the results achieved in a short time. In five years, Fiat employees outside Italy had grown from 21 to 37 % of the Group's overall workforce, and sales outside Italy had reached a volume never seen before (Tables 11.2, 11.3).

Shutting down factories... sacking people... This was not the task we were trained to do as young engineering students in the Fifties, myself and many of my colleagues. How we recalled the Sixties with pleasure, when factories were springing up

³ The results were even more remarkable if seen in proportion to the invested capital: my missionary zeal with regard to "return on investments" began to bear fruit. At the Advisory Board meeting of October 1995, in Venice, I presented the ROI forecast for the whole of 1995: 10 % for Fiat Auto, 20 % for Iveco, 140 % for New Holland and 9 % for the other industrial Sectors. To the IFI shareholders and at the meeting in the Lingotto of December 1995, where I presented results and strategies only a few moments before being shown the door, I said that the consolidated ROI for 1995 would have been 13 %, not a sensational figure but an extraordinary one for the Fiat tradition of recent years. The diagram can be seen in the photographic insert.

⁴ They included the sale of Rinascente and Cogefar-Impresit, the total of disinvested turnover rose to 10,000 billion lire.

Table 11.3 Fiat group's international nature (1990–1994, also considering acquisition or dismissal of companies): product sales

Allocation of sales (in percentage)	Italy	Rest of Western Europe	Rest of world
Auto (units)	37	26	37
Iveco (units)	22	37	41
New Holland (units)	8	20	72
Other auto products (turnover)	47	28	25
Ferrovioario (number of trains including options)	32	63	5

like mushrooms and people came running from the mountains of the north or from the south in search of fortune and, in their own small way, finding it. Now this was the sacrifice to be made so that Fiat might remain competitive, a value for the community, for its shareholders and its employees, as I had written years before in my policy document. When, rarely, I discussed these things with my colleagues, to keep their morale and mine up I used to say, accompanying the phrase with a sigh: “Nobody gets to choose the times in which they live...”. But it seemed to me that the efforts were repaying the sacrifices. And there was a positive reward that rediscovered competitiveness could offer: so many important, international things to do on the development front...

Fiat Auto's Range is Renewed

Following the Fiat Punto in November 1993, the years 1994 and 1995 overflowed with announcements of new cars, in conformity with the plan that had been prepared in the early Nineties. Fiat Auto launched a large number of new car models, including the Lancia K, the Alfa Romeo 145, GTV and Spyder, the Fiat Barchetta, Coupé, Bravo, Brava and the Alfa Romeo 146. On 3 June 1994 I noted:

Barcelona will see the launch of the Alfa Romeo 145 (the three-box version was called the 146 at the last moment). It is a very touching moment: the dealers are hopeful, the legend of the old Alfa is in the air. Unfortunately it is also a very provincial moment, a bit like when [groups of fellow townsfolk] meet up and slap one another on the backside. Because these cars, good ones too, will barely dent the European markets, in the absence of a network and given the European reputation of the marque.

On 8 December 1994 the Lancia K came along:

The presentation of the Lancia K to high state authorities has been cancelled, because of the flooding in Piedmont. This leaves only the traditional reception in the Grand Hotel, which can't be put off because there's no time to stop the guests, who come in large numbers and – so it seems – like the car. A car regarding which they themselves constitute a primary market target.

The text continues with a note on habits:

Unfortunately I have to put up with the drive from the hotel to [Ciampino] airport in a car with Romiti. A real physical and mental torment, which I always try to avoid, when I can. He loves that way of driving – absurd and boorish – and eggs the drivers on. And so we make the entire trip at insane speed, in the lane on the wrong side of the road,

zigzagging like madmen, hurling ourselves against those coming the other way, squeezing through the narrowest and most fleeting of gaps, scattering the pedestrians. I am ashamed of underdevelopment. Worse, I don't know any country as underdeveloped as to permit such a disgrace. But for Romiti that is the maximum expression of power and arrogance, in the style, I imagine, of the dictators of the past, South Americans or Communists.

Romiti permitted himself that whim every time he went to Rome, a rather frequent event. Similar behaviour was not possible in Turin because that kind of driving would have caused an accident or a scandal. In the north, therefore, he had to content himself with having his driver use a standard dose of indiscipline and bad road manners. In the capital, evidently, they have been accustomed for millennia to shows of the arrogance of power, and some even provided him with an escort, complete with a police warning sign held out from the windows and a flashing light attached to the roof of the car. As a citizen respectful of civil conduct I was embarrassed, and I feared for Fiat in the eventuality, anything but improbable, of an accident: we did not need any more negative publicity.⁵ Today I think that behaviour, pointless as far as business was concerned and reprehensible on a level of civil coexistence, was a mirror that reflected the man's profound disquiet, or perhaps anguish.

The culmination of the announcements of new cars came with the presentation, between 29 August and 2 September 1995, of the model that was to replace the Fiat Tipo in the C segment, in an attempt to do better than it had done in the market:

The celebrations for the launch of the [Fiat] Bravo and Brava begin on Sunday with a conference on colour at the Lingotto [...]. The city [of Turin] is in colourful, festive mood, with groups of entertainers on the streets. For Cantarella these are days of great glory. It is inevitable and right, and I am old enough to remember similar moments for Tufarelli with the Ritmo and Ghidella with the Uno, moments by now cloaked in the oblivion of years gone by. The Avvocato [Agnelli] is delighted. This is right, too, for one who embodies the essence of Fiat in the eyes of the world. In Palazzo Reale he reminds us that Turin is an eponymous city, and Fiat is the only car company to include the name of the city in its own name.⁶ I fear he may lose touch with the reality of the facts and I show him the data on market shares. With the [Fiat] Punto we hold 20 percent of the segment in Europe and are above 10 in many countries, including Germany and the UK: good progress and a fine result. But in the C segment, that of the Bravo/a, we have only between 4 and 5 in all, and mere traces in many countries. We must get up to 9 or 10 percent. Whose space shall we take away? How will the competition react? What will those who have the same problem and the same intentions as us do, such as Renault with the Mégane [just announced]? Yet

⁵ Something of the kind happened in Mercedes, in Rome. Its chief of production, Niefert, when he was drunk, loved to drive. In that condition, driving a minibus, he crushed a tourist (a German, as it happened) against a wall as she was passing by. The company machine immediately orchestrated a cover up, substituting the driver before the arrival of the police and instantly sending the guilty party back home on a plane, but "Der Spiegel" found out what had happened and came out with the news, probably thanks to a tip-off from the inside. I pondered the furore that would have followed if a Fiat man had done something similar in Germany, and so I thought to have the episode picked up by the Italian press in order to give the opposition a little healthy denigration, but Mercedes had some good arguments to employ with the press, and almost nothing came out.

⁶ Translator's note: *Fabbrica Italiana Automobili Torino*.

success regarding the mix and north [Europe] is the key to our future. He understands everything immediately, and the message becomes the nucleus of his speech to the *dirigenti* in the Lingotto.

In that report there was no lack of mention regarding Cesare Romiti's guerrilla war against me:

At the Lingotto, [Romiti] plays me a really dirty trick, leaping to his feet at the end of [his] speech and dragging Cantarella towards Agnelli and then all three of them out at top speed, leaving me alone and embarrassed in the first row in front of two thousand people. A bit by nature and sometimes by force of circumstances I generally stay in the background: my name is carefully censored in all press reports, in Stalinist style they try to wipe out all traces of my existence, past and present. I don't think any *presidente* of a great car manufacturer had ever had a lower profile in the history of car launches anywhere in the world.

On 17 November 1995 they announced the new Lancia Y:

Never has a class vehicle been launched in such a subdued manner. If anyone had any doubts about the superfluity of our marques and the impossibility of managing them all, it would have sufficed to come to Rome for the launch of the Lancia Y to understand how things really stood. The conference pavilion of the EUR decked out a bit like a small-time circus, disgusting food, some psychedelic music, a few coloured globes. Yet it's a very pretty little car. I thought: if one of our competitors had had it...

The Lancia Y marked the beginning of the end of the sweeping programme of renewal of the range set up in 1991. A few more models in the second half of the Nineties and then we would have to begin the second cycle of the 5 (or 6) × 2 plan.⁷ Since Iveco's lorry range had been renewed by the SPR project and New

⁷ A table I presented at the Institutional Meeting at the Lingotto on 11 December 1995 showed the actual figures: in 1991 the models of Fiat Auto's three marques in the four main segments (from B to E) had an average age of 5.8 years; in 1996/97 the age of the 13 cars available in those segments would have been 2.7 years. Apart from these, 8 niche models (for sport or leisure) had been added. Too many, but at least they were modern. I struggled to the bitter end in my attempt to tackle the problem of Fiat Auto's range. On 8 November 1995 my stay in Fiat was a matter of days, yet I did not give up: "Long discussion with Cantarella and his people on product costs. Cantarella does not initiate or even permit internal dialogue, and I have to do so from outside. Today I believe I influenced matters sufficiently: between gross margin on the one hand and overheads on the other in Fiat Auto there was a no man's land amounting to one thousand billion of unsaturation that can never be saturated by accounting definition. Even more serious was the fact that the gross margin of the medium Alfas (with Lancia even worse) is much lower than that of the [Fiat] Bravo/Brava (2 million against 3), even lower than that of the [Fiat] Punto, in absolute value: when someone buys a car of one of our prestige marques, he spites us. But the accounts are even worse, because the unsaturation effect – mentioned here above – affects the other cars, but not the Punto at Melfi and the Bravo/a at Cassino". The concept of saturation was a pettifogging one but nonetheless of the greatest importance; it was a matter of an accountancy ploy actuated by Fiat Auto to make things incomprehensible, which I could explain roughly like this: estimated standard costs of low-selling products were budgeted as if they were mass products; in this way costs seemed low and hence you justified the development of the model; then, at actual evidence, when effectively the cars sold in quantities far below the estimate, the loss of margin that followed was recorded as being due to the saturation of the factories, that's to say not the fault of the model but of the market. Regarding the second concept, that of the poor margins of many cars, I have already talked at length.

Holland's range was first class, the three engine sectors of the Fiat group (four, if we include railways) found themselves at the end of 1995 in possession of one of the most modern product portfolios in the world. And the other Sectors also did their part, including those not concerned with engines that had been recently entrusted to me by Romiti when he still thought well of me.

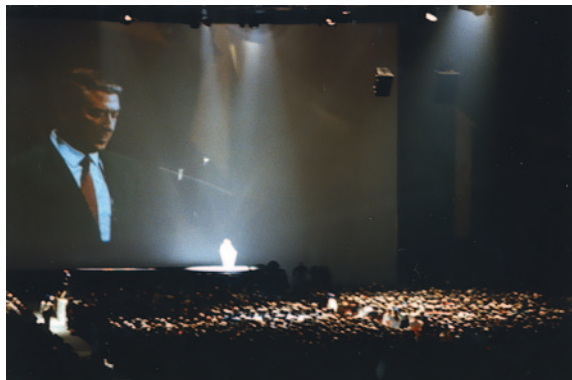
The Triumph of New Holland

On 22 January 1994 London hosted a great convention to ratify, almost like a collective rite of passage, the completed unification of Fiat Geotech and Ford New Holland. According to the press, the dinner at Earl's Court was "the biggest to be held in the United Kingdom since 1925 with all guests served at table" (Fig. 11.4). I noted:

We bring 5,200 people to London, almost all the dealers in the world [...]. 2,200 come from North America, 200 from Italy alone, eleven languages, products for all applications... if this isn't internationality, what is? I tell the audience that the company still hasn't made a penny out of the billion-dollar investment, but we're happy all the same, because we are strong, and will soon be earning. In fact in 1994 the agricultural sector could be the most profitable of our businesses [...]; success is in sight for the initiative I undertook in that delicate year 1990, in which I never doubted, but for three years had everyone looking at me with suspicion if not with authentic disapproval (the *Avvocato* fondly hoped we would make it, but could not conceal a deep anxiety...)

The London event, which came a few months after the New York transaction, thanks to which we had closed the dispute with Ford, allowed me to take stock of the cost of the entire operation. The price paid for the shares was a trifle: the theoretical 120 million dollars of the contract had been reduced to less than 50, for accounting adjustments and for the refund I had obtained from Alex Trotman. But we had to take on 250 million dollars of debt and, above all, we had returned losses over three years, mostly due to restructuring costs: I felt it was honest to include these figures in the value of the initiative and therefore declared an investment of about 1 billion dollars in all. Not very much in comparison with the value

Fig. 11.4 A moment on the 1994 New Holland convention in London, with the speech by the chairman G. Garuzzo



of the great new unified Company, one of the two world leaders in the unit, which turned over 4 billion dollars (without taking into account the losses that Fiat would have had to bear from Fiat Geotech, if it had remained alone).

As from 1994 New Holland started to make money, rapidly making substantial profits. Despite my perennial caution about the future, my notes from that period do not conceal a deep satisfaction for the success achieved. On 16 September 1994, I observed that the Amsterdam Board took note of “an enormous profit on the part of New Holland, after the black holes of the first years following its creation—at least 250 million dollars at the end of 1994, 400 billion lire, 8 % of turnover”.

8 May 1995:

In the meantime things [in the United States] are going very well, they are proud to be with us, over the moon, and good too; we are earning money and market. John Deere holds us in consideration and fears us, we have outclassed Case. The only Italian industrial initiative I know of to have had a great success over there [...]. I can't help feeling proud.

Projects for the Future

It certainly was not the time to rest on our laurels: on the contrary, it was necessary to forge ahead with structural projects for the future. A good initiative came from Fiat Auto in the direction of Europe. On 10 November 1994 I wrote:

Fiat Auto has presented me [the project relative to the] large European urban centres. It will cost us 860 billion [lire] of investment over around three years, in order to tackle the situation head-on in 31 principal cities [outside Italy]: where our share today is lower than the average of the relative country, an absurdity. It will be expensive and difficult, but we have to get there, now or never. Otherwise we shall carry on pumping loads of money into pieces of iron (products and factories) and then not managing to sell them.

It really was an absurdity that Fiat Auto sold more in the provinces than in the big cities of France, Germany and Spain. This anomaly, which brought with it high distribution costs and limited margins, was caused not only by the characteristics of the range, centred downmarket, but also by the incapacity to find dealers in places where large investments were required for properties. If an entrepreneur possessed a lot of capital he was not going to invest it in a dealership for an Italian marque of cars that enjoyed scant prestige. It was necessary to broaden the search for entrepreneurs with talent but few resources, asking them to finance the inventories and the working capital, while we supplied the expensive premises in the cities. In this way dealers still risked enough of their money to oblige them to commit themselves totally to making a profit; our investments were important but not very risky because the properties were destined to last over time in quality sites, where we would always have to be present in any case.

It would be impossible to describe here the content of all the industrial projects of a large international group like Fiat, merely a list of them would take up several pages. Curiously, the considerable time I had spent with the company ensured that entire cycles of company life had ended before my eyes, examples of the occurrences and recurrences of history.⁸ Some of these echoes concerned companies that in times by

⁸ Translator's note: an ironic reference to Giambattista Vico's recurrence theory of history.

now remote I had run from the Components Sector, as was the case with Gilardini, the company that almost twenty years before had led Carlo De Benedetti to glory and me to Fiat. On 16 September 1994 I signed its disappearance.⁹ Then we sold the battery unit, which I had wanted to concentrate in Ceac,¹⁰ and we made a handsome profit.

On 7 November 1994 I relived for a moment my past in the world of components, and I permitted myself a little satisfaction, which I had been wanting to do for fifteen years: I received a visit from the top managers of Bosch, to confirm that in future they were going to follow the guidelines I had drawn up a long time before in the field of diesel injection (one of the pieces of the Grand Design I mentioned in [Chap. 7](#)): future heavy engines would have a unit injection pump and not the traditional in-line pump on which Bosch had built its monopoly for many years.

The Last Contribution for Iveco

There was still something left to do for Iveco after the SPR. The old and glorious engines that had stood up so outstandingly well to the new times, as I say in [Chap. 5](#), were nearing the end of their many years of useful life. Now that diesel injection technology had taken a clear direction, I could plan the first heavy engines of the new generation and not, as I had feared a few years before, the last of the previous

⁹ From my notes: “In the morning [...] I approve definitively and without any possibility of reversal the merger between Magneti Marelli and Gilardini. From the stock exchange standpoint it’s a good operation – Paolo Mattioli, who knows about such matters, also recognizes this – but for me it has a far broader significance, like a marriage between two old friends, because I had devoted my time, commitment and concern more than once to both companies. This is a cross-roads in my life as well as a piece of Italian industrial history, both of which deserve a paragraph entirely for themselves”. The two merged companies turned over 5,000 billion lire, with 23,000 employees and 50 factories worldwide. Product lines included instrument panels (3.9 million vehicles, 1st place in Europe); petrol injection systems (1.23 million, 2nd place after Bosch, a great satisfaction for my Autronica, whose establishment in 1979 I related in [Chap. 3](#)); headlights (3.8 million, 2nd place); rear view mirrors (2.5 million, 2nd place); alternators (2.39 million, 3rd place); starter motors (2.05 million, 3rd place); silencers (1.08 million, 4th place). Then there were other lines still to be rationalized, but Alessandro Barberis and, later, Domenico Bordone were to see to this. For the first time in 1994 Magneti Marelli began to supply Volkswagen with electronic injection apparatus, with a contract for 450,000 systems per annum. A lot of water had gone under the bridge since the hard times in which Giovanni Germano and I had been so committed to its rescue.

¹⁰ Ceac, an international group of battery producers, was palmed off—*obtorto collo*—to Romiti by Pierre Suard of Alcatel, via swaps with Telettra shares when Fiat sold that company to the French in 1990. I refused to stick Ceac into Magneti Marelli, where it would have been lost, and opted instead to force through the opposite operation, whereby Marelli sold Ceac its battery sector. In exchange, Marelli got more money and less complexity. This was met with grumbling in corso Marconi, for having shifted the headquarters to Paris and promoting French and German managers (Jacques Leclerc even became Sector Head), but no one dared say anything to me directly: in those days Romiti let me do whatever I wished. Thus was born a new Sector in the Group, visible, European, pre-eminent, and profitable. These qualities were good enough to merit an offer from the boss of Exide, Mr Hawkin, an aggressive and picturesque character who bought Ceac for a high price.

generation. Within the end of the Nineties three families of 7.8, 10.3 and 13.0 L, all with six cylinders in line, would have replaced four previous families. With an incredible performance of 42 or 45 HP per litre (30/40 % more than their predecessors) they would have pumped out power ranging from 240 to 540 HP. Weight per HP would be reduced by 25 %. Emissions had to respect the limits imposed by future regulations, well beyond those called Euro 2 in force for new registrations after 1 October 1996. To achieve these goals it was necessary to turn to the most advanced innovations, including that of the variable geometry turbocharger and the unit injector. The top of the range versions had to last 1 million km (travelled by the vehicle) without any need for servicing—and this number gives an idea of what it means to run a high-tech company such as Iveco: it takes years just to test an engine prototype with swarms of test drivers at the wheel day and night, and then to make modifications and do another test.... On presenting the project to the Board on 9 December 1994, with a predicted investment of almost 600 billion lire, I said with pride that over the previous 85 years the companies that had become part of Iveco had produced 12 million diesel engines, of which at least 3 million were still operating: the time had come to give our contribution to future generations. Then I effected an act of authority, which I had been thinking about for some time, to put the field of medium diesel engines in order, a field which I believed to belong to the basic technological core of the Fiat Group: I obliged Iveco and New Holland to agree to plan a new diesel engine for tractors and light lorries, objective 2001.¹¹ These programmes also marked the end of my twelve-year contribution to the life of Iveco.

Towards “The Rest of the World”

As from 1991, every year Paolo Cantarella presented the Holding Company a budget that prophesied increased market share for Fiat Auto throughout Western Europe but, as Umberto Agnelli pointed out every time, it was a matter of unreliable promises.

¹¹ I made this note on 31 May 1995: “I assemble Boschetti and Ruggeri (with co-workers Stefano] Decio, [Andrea] Simoncelli and [Claude] Arragon around the table, and for me the moment is one of those fundamental occasions, in which decisions are made whose effects were to make themselves felt ten years later. With time, the memory of these events will be lost, but their consequences will be indelible and will be taken for granted by future generations, as if ineluctable [...]. Whereas there had been someone who had thought about them and wanted them. I love these moments. I consider them the sublime instant in the realization of the managerial profession. I let them describe to me their respective programmes for engines, which follow different paths. Iveco is flirting with Cummins to persuade the latter to grant a licence to produce their B engine in Turin as a joint venture, as [Iveco] does not have the volumes sufficient to replace the old and glorious Iveco 8,000 with something new. In this way Cummins would crown its twenty-year dream of breaking into Europe, and Iveco, the leader in the medium segment with a third of all the lorries sold in the Old Continent, would be their Trojan horse. New Holland doesn't give a damn, because for the time being it has no need to replace the [Ford] Genesis, old as it is, [...] produced in Basildon with archaic means, even

In fact the European market was fossilized among the competitors and, even if we wish to overlook the constant threat of growth on the part of the Japanese and the Koreans at our expense, Fiat Auto did not have special cards to play against the other constructors: it could only aspire to recovering its historic position in the B segment when the Fiat Punto came out, as in fact happened. The North American market was inaccessible as it, too, was blocked by three irremovable presences: the American producers, the Japanese, and Mercedes and BMW luxury cars. Nothing doing. I maintained that Fiat Auto ought to develop its presence outside Italy if it was to avoid the fate of being sold to others, as had happened to many Italian industries in the past that proved unable to globalize, and I could see only two directions in which it was possible to move: in Europe, as I have said several times, in the C and D product segments at the expense of the useless A segment; outside Europe, in those areas I defined as “the rest of the world” (in which I did not include North America).

Regarding the first line of development my attempt to rationalize the brand/range/network nexus had failed because of Cesare Romiti’s obstructionism, and this meant that all we could do was put our faith in the far more modest Fiat Bravo/a operation and the project for the major urban centres.

As for the second line, my intention was to reconstitute the compactness of the presence of Fiat’s entire automotive portfolio in those countries where some of the

Footnote (Continued)

though (for now) still economical. So, one day it will suddenly find itself without suitable engines and – not having any design capacity – will fall prey to either Cummins or Perkins. I tell them I will never accept this abomination. Did we spend thousands of billions [of lire] to build up Iveco and New Holland only to lose independence with regard to the central know-how [of engines]? Shall we retreat without a fight from the exclusive league we have managed to remain in – or to enter – exclusive company, with only John Deere on the one hand and Mercedes, Scania, Volvo and a few more on the other only to fall in with the clients of mercenary engine manufacturers? I’d rather sell New Holland now – while it is profitable and competitive – before it finds itself at the mercy of suppliers. Or better, I have them understand, I shall impose a solution over their heads, as I did with Weber and Marelli at the time of electronic injection, in 1979 [Chap. 3] – and it was too bad for those who didn’t agree. They are very shaken. [...] I take them to the dinner table and in the end I conclude: some form of partnership between Iveco and New Holland will be created in order to develop the new engine, objective 2001. If it wants to, Cummins can also take part, as long as it doesn’t insist on covenants on the total industrial property of the new project on the part of all the partners, in an independent manner and on a worldwide level. [...]. They will have to take the necessary measures. We will allocate the necessary means. The programme must be ready by June”. The matter was followed up shortly afterwards: “Iveco and New Holland are coming in, and what I elaborated on 31 May is moving towards a grandiose project. They have chosen Arbon as the central locus of the joint development, from where the applications will then branch off on the dual track Turin-Basilidon. I really like the chosen solution. It will cost 400 billion in development and the same figure in investment, but it’s worth the effort, because the future of a good chunk of Fiat depends on it”.

Sectors were already active and strong (such as the car sector in Brazil¹² and Poland,¹³ or Iveco in India and China¹⁴), or where Fiat’s historical presence dated from the distant past of Valletta’s day, as was the case with Argentina¹⁵ and

¹² In Brazil, as I said in [Chap. 2](#), Fiat had invested a lot of money during the Seventies. Overall, the capital injected in Fiasa amounted to 757 million dollars, corresponding roughly to 2,500 million dollars in 1995 value. Despite this heap of cash, Fiasa lost money from 1977 to 1983, it more or less broke even between 1984 and 1989, and lost again in 1990 and 1991. Fifteen years after the start, Fiasa exploded: a profit of 138 million dollars in 1992, 337 million in 1993 and 800 million (!) in 1994. In that year the Brazilian operation also had a positive influence on the Italian business, though the exchange of products. Fiasa found itself in a privileged position thanks to the passing of the law on the “*automobile popular*”, which provided tax advantages for cars with less than 1,000 cc of engine capacity, a model of which Fiat was the sole producer for a long time. This fortunate condition was, in my opinion, proof of the farsightedness and efficient lobbying of the Fiat *dirigenti* in the field but, in deference to the Fiat style of preventing the names of any internal managers from earning fame in Italy, men such as Silvano Valentino and Eugenio Alzati, the originators of this success, never became known outside the local milieu.

¹³ As I said in [Chap. 8](#), after the fall of the Berlin Wall the idea began to gain ground that we could intervene directly in Poland by purchasing a factory that years before had been granted a licence for the production of the super-compact Fiat 126. When I arrived in the *Direzione Generale* in 1991, the initiative, by then in an advanced phase of realization, struck me as interesting and positive for the long-term future, even though I thought it was a pity for all that financial commitment and the use of such a cheap workforce (in 1991 one man-hour of work in Poland cost the Company 17 % of the going rate in northern Italy) went into the production of a compact car that brought in absolutely no profit.

¹⁴ Initiatives described in detail in [Chap. 6](#).

¹⁵ In years long gone by, at the end of the Fifties, Fiat had attacked Argentina, winning high market shares for cars, lorries, tractors and railway materials to the point that in that country Fiat wielded a power that was even greater than it had in Italy, but without managing to make better use of it. In Cordoba, Fiat’s status was not dissimilar to that which it enjoyed in Turin and, moreover, the entire region had been populated by Piedmontese immigrants at the beginning of the century (“They’re all Piedmontese over there”, Gianni Agnelli—who had heard the story from his grandfather—told me several times “even though those who emigrated from here to South America were the most easy-going ones”). The story of the rise and fall of Fiat’s Argentinean empire would deserve a book to itself. The collapse of the political-economical system of that country in the early Seventies destroyed all that had been constructed and the wave of industrial xenophobia left Fiat with no prospect of survival. Those were times of folly for the country, under the thrust of the most unrestrained demagoguery, which instead of controlling and regulating foreign companies, kicked them out. In this way it fell out of the “frying pan of the multinationals into the fire of the voracious local wheeler-dealers”. “Give us back the Piedmontesi” was the slogan that appeared years later on a banner at the Cordoba factory. The Fiat group had to sell at a loss to national entrepreneurs, who were hand in glove with the politicians, everything it had inherited from the company’s forebears. On the divestment front Cesare Romiti did a good job, just after he was hired by Gianni Agnelli in the mid Seventies. Fiat lost all its factories but managed to recoup a lot of money through operations that Fiat’s financial function conducted brilliantly, exploiting insane laws promulgated under the impetus of ignorance and speculation. (Similarly disastrous laws were promulgated later in Venezuela). A stratagem, known in jargon as “the bicycle”, worked in this way. Fiat (like any other entrepreneur able to operate internationally) brought fresh capital from abroad into Argentina and changed the dollars into pesos at

Turkey.¹⁶ But each of these projects would have required greater cooperation between the Sectors than Cantarella was prepared to accept for Fiat Auto, and when I left the Group many of these projects were merely sketched out, when not downright wishful thinking.

The Manufacturers’ Association

In January 1994 it was Italy’s turn to chair the European Automobile Manufacturers’ Association (ACEA). In our country there was only one independent constructor left, so I would remain in the position for both years of competence, unlike my colleagues in France and Germany who divided the respective period. This long duration was accepted gladly by the competitors, but paradoxically it later caused some embarrassment at home, so that in the final months of my permanence, towards the end of 1995, Gianni Agnelli would sometimes ask me, with all the ingenuousness of which he was capable: “How much longer will you have to remain as head of ACEA?”. On my precise response he came up with some recondite thought of his regarding the forthcoming extradition from his Group of the current chairman of the continental association.

Footnote (Continued)

the real rate of the day, favourable to the dollar. Immediately afterwards it changed the pesos back into dollars at a lower rate, imposed and financed by the government in a wholly artificial manner. The dollars were thus miraculously multiplied before being instantly re-exported (in the form of claimed previous credits recovered from the local subsidiary company, credits that a previous measure had sneakily blocked). The “bicycle”, a wholly legal instrument, had not been invented for Fiat but to favour goodness knows which interests of goodness knows which persons, and in my view it represented the extreme degeneration that occurs when rates of exchange are forced on the market by state control under the thrust of demagoguery and lobbies. In 1995, almost twenty years after abandoning Argentina, it seemed possible that Fiat might recover its independence in that country thanks to a fortuitous series of events in connection with talks with the Macri group, the licensee of Fiat and Peugeot, which had acquired so much power and wealth in Argentina as to even attempt a takeover bid for Fiat Brazil. Things in Argentina were still fluid when I left my operational responsibilities in the Group, at the end of 1995.

¹⁶ Our company forefathers had left us an important inheritance in Turkey: Fiat was the leading producer of cars, lorries and tractors. But there was a major problem: everything passed through the licences and the minority shareholdings in the joint venture with the Koç group. Vehbi Koç (the eponymous founder, ninety-four at the time) and his sons Rahmi and Suna considered themselves in terms of fame and wealth to be the Agnellis of Turkey, a comparison that Gianni Agnelli did not appreciate, but which would have gone in their favour if measured in real profits. In my view, Fiat’s position was at risk because the globalization of markets and hence the opening of the country to trade with the European Union was leading us to a conflict of interests with our partner. I tried to acquire control of all the licensee companies (Tofas for cars, Otoyol for lorries, Turk Tractor and Mako, too, for Magneti Marelli components) with a view to integrating them in the international organization of the Sectors. If that were not possible, I intended to regain control of our freedom of action. I tackled the talks as best I could, with much personal commitment, but when I left Fiat matters were still unresolved.

The organism that had preceded ACEA, that is the CCMC (*Comité des Constructeurs*), had ended ingloriously. Its statute called for decisions to be taken unanimously, but the presence of Jacques Calvet, the absolute boss of Peugeot/Citroën (PSA) and the enfant terrible of the constructors, prevented that situation from ever coming about, thus stalling the organism continuously. The irritation of the other members, especially the Germans, grew excessively. In the course of the car negotiations between Europe and Japan, an agreement that Jacques Calvet opposed in a total and violent manner, it appeared indispensable to make the body of common representation functional once more and, in November 1990, there was a *coup de main*: all the members, unbeknownst only to Calvet, agreed to withdraw their companies from the CCMC, of which Peugeot/Citroën remained the sole member. In February 1991, immediately after my nomination as *presidente* of Fiat Auto, I received a visit in Turin from the head of BMW, Eberhard von Kunheim, encharged by the German industry to weave the web for the constitution of a new organism. We instantly agreed on two innovative principles. First: participation in the association was to be extended to non-European constructors, as long as they had “real” factories in Europe; this opening made for increased representativeness, bringing on board General Motors, Ford, and the Scandinavians Scania and Volvo, and leaving out the Japanese “enemies” whose factories in the UK were only “transplants”. Second: decisions were to be taken by majority vote to avoid the deadlock produced by unanimous decision making in the old CCMC.

On 20 February 1991 an informal meeting was held at the BMW Haus in Munich with the participation of all the Chairmen of the European houses, Jacques Calvet included. The meeting was entirely devoted to persuading Calvet to accept the majority vote and to understand the necessity of talks between the European Community and Japan but he, resentful about the way he had been fooled about the CCMC, put up stern resistance. Then it was decided that two of us, considered his friends, would try for a final mediation, and so Carl Hahn of Volkswagen/Audi and I took the intractable Calvet into a room and blandished him for two hours without getting anywhere. The articles of incorporation of the *Association des Constructeurs Européenne d'Automobiles* (ACEA) were drafted and signed in the space of a few weeks, prompted by the urgency of talks with the Japanese: only PSA was missing. The work of the Association, albeit not extraordinary, was useful as far as the Brussels Commission was concerned; the acceptability of the agreement with Japan of 1991, and of the successive monitoring process, was due in good part to the lobbying carried out.

Three years later, in January 1994, at the beginning of my chairmanship, I was one of the oldest remaining founder members, and other topics had been placed on the table. By way of a first move I determined to have the prodigal son Jacques Calvet and Peugeot/Citroën return to the fold. An agreement was reached after a few months of talks and I was glad that my diplomatic activity had made ACEA fully representative once more. I devoted little time but a lot of attention to the tasks required of the chairman of ACEA.

In every field the Italians often neglected to contribute to the functioning of international organisms, perhaps out of idleness, or an imperfect mastery of

foreign languages, or a limited familiarity with democracy, or because such a commitment did not increase their personal power in Italy or, more probably, for all of these reasons. But whatever the reason may have been, this negligence had always been harmful to the country. It's true that representative organisms are slow and inefficient, all the more so when they have different requirements, if not even conflicting interests, but in the long term they contribute to moulding and spreading the concepts of industrial policy and creating the commonplaces, the stereotypes, which the newspapers use to guide international public opinion. Even when you find few advantages in taking part in the work of such bodies, at least you avoid the damage that derives from not being present. In my case I am proud to have done a good job, mediating between the French and the Germans and hence giving Fiat an importance far greater than its own objective strength would have justified. As well as monitoring the Japanese, my office had to handle matters such as selective distribution, the *volet interne*, anti-pollution regulations, relations with Korea and others, all too complex and technical to be discussed here.

Apart from the specific topics, it was very interesting for me to observe from the inside the workings of the community mechanisms. For example, in my note dated 1 March 1994, this is how I described what I saw:

A meek [commissioner] Bangemann,¹⁷ at the Brussels dinner in the [restaurant] Cigno. [...]

The institutional situation of the Commission is ambiguous. They [the Commissioners] don't have to answer formally to anyone, and so wield an apparently immense power; in reality they are subjected to very powerful lobbies and hence their power can only be exercised at the cost of long and tedious mediation. It's obvious that when negotiating with the Japanese, so determined, so united and unscrupulous, they [the Commissioners] (and we) are losers from the start. In effect, MITI is the modern version of the Council of Ten, which ensured the supremacy of Venetian trade in the Mediterranean for one thousand years. With its own particular methods and without much publicity. The problem is that the lobbies with most influence are also the most demagogical, [petulant] and numerous: the greens, the consumerists...; and the local governments, but above all the Germans; now the European Parliament, too, an authority parallel to theirs and one even more at the service of international demagoguery than they are; the potential origin of conflicts whose solution could lead to indescribable [lengths of] time and mediation... [...] In all this future, Italy has no further part to play. The state isn't present, through its political and technical organs, but neither are the banks, finance, and most of the industries; above all the intelligentsia is missing, permeated as it is by extraordinary ignorance about everything that happens outside the national boundaries. Abroad, Fiat's representative offices do what they can; as far as concerns top management, the international presence... there's me.

On 1 March 1994 in Geneva I chaired the ACEA Board for the first time. Calvet returned that day and we founded a new organism to facilitate technical work in common, Eucar. On 26 May 1994 they held the annual Assembly of ACEA in the Fiat Centro Storico in Turin, and I had the official dinner organized in the spectacular setting of the Hunting Lodge in Stupinigi (Figs. 11.5, 11.6). I noted:

It's fascinating. Mrs [Gianna] Calvi [the head of Fiat's public relations], has had the floral decoration created in harmony with the frescoes. Torches are burning in the garden, as in

¹⁷ European Commissioner for industry and telecommunications.



Fig. 11.5 The chairmen of the European auto manufacturers at the ACEA meeting held in Turin in May 1994 are (from *left*) H. Werner (Mercedes Benz), J. Calvet (PSA Peugeot Citroën), L. Schweitzer (Renault), F. Piech (Volkswagen), G. Garuzzo (Fiat), B. Pieschetrieder (BMW), S. Gyll (Volvo), L. Hughes (General Motors). J. Nasser (Ford) was not present

Fig. 11.6 G. Garuzzo and his wife welcome Gianni and Marella Agnelli at the ACEA reception



the old days. I have invited the Avvocato [Agnelli], who is enthusiastic and identifies with his time with the CCMC in the early Sixties.¹⁸

I made some important trips for ACEA, for example to China and Japan, during which I tried to develop Fiat's network of connections, in preparation for future agreements and developments, providing that the internal situation would have permitted me this.

Since the Germans agreed among themselves before taking part in every meeting of the ACEA, I decided that the Latins should do the same thing. I invited the two French chairmen to dinner three or four times a year and this became a pleasant as well as a useful custom. On 26 September 1994, for example, I noted:

This time we are guests of Renault in the Billancourt plant and I smile to myself when Schweitzer confesses to me that my initiative leads to the sole occasions on which he

¹⁸ Gianni Agnelli was Chair of the CCMC, the precursor of ACEA, for three years, between 1972 and 1975, when he was replaced by Pierre Dreyfus of Renault; Umberto Agnelli also occupied that position for two years, between 1988 and 1990, before Raymond Levy of Renault, and was one of the plotters that sank the organism.

meets Calvet (cat and dog). Schweitzer finds a way to tell me how sorry he is about the sad end of the foundry plan and asks me whether I think that all is lost. I tell him frankly of my disappointment and express my opinion that it was a matter of an excessively emotional reaction on the part of an old man [...]. As for the future, I don't know, but there if there is the faintest chance of getting started again, I will certainly not let it slip.

It would take too long to describe other trips and meetings, even though sometimes one could use them to obtain a few curious views of managerial life in the field. But my time as Chair of ACEA passed quickly, and with it flew the time left to me in Fiat. The matter became evident after the talks I had with Gianni Agnelli in February and March 1995, which I will deal with more extensively in [Chap. 12](#), and on 17 May 1995 I noted:

It's the second [annual] assembly of ACEA I have chaired, the fifth since its foundation: until now I have attended them all but this, probably, is the last one for me. I have chosen Rome to promote Italy and to please the guests, whom I greet from the top of the steps of the Vatican museum. [...] Then I leave them in the Sistine Chapel, after walking past the tapestries and the geographical maps, led across hallways, into private lifts and past Swiss Guards to rush to palazzo Doria Pamphili in time for the arrival of Lamberto Dini, the Prime Minister. I had asked Romiti to invite him to the evening gala dinner, almost certain that he would have accepted: an opportunity for him to touch that world of the European economy that his predecessors of the First Republic [...] would have snubbed. With Romiti we wait among the paintings by Velasquez and Caravaggio in the gallery, and Romiti cannot avoid talking to me and [my wife] Rosalba, as we waited: he makes the best of a bad job and entertains us with a barrage of that detailed and universal gossip that has now become his *raison d'être*.¹⁹

¹⁹ From my notes: "Assigning the places at table is [for me] an exercise in high diplomacy [because of difficult interpersonal or intercompany relations]. To Dini's left there is Romiti, who in this way feels in the fullness of power – in the absence of the *Avvocato* [Agnelli]; then, further left, M. and Mme. Calvet (last year Romiti had Schweitzer beside him; now it was necessary to change [because the contacts with Renault for Fiat Auto had come to nothing] but I could not choose anyone whose language was English [which Romiti spoke badly], and the Calvets struck me as a just punishment for him); then comes the area for the lorry men; to Dini's right I put German power, that's to say the Werner couple, and after them the Hughes of General Motors. I sit in front of Dini, together with Rosalba, and to my right the Piechs (sufficiently far from the detested Opels, *soi disant* fellow countrymen [Opel, of General Motors, had amazed Germany with a full-page newspaper advert in which they congratulated their 'fellow countrymen' of Volkswagen]) and the Schweitzers to the left (this was so they won't be in front of the hated Peugeotts, real fellow countrymen); further along, the minor car men, Porsche and Rolls-Royce. [...]. Mrs Piech is an amusing companion: she must be [eccentric] like her husband, with whom she had her third child eleventh months ago – but her husband already had another ten children from other wives; 'my house is a real mess', she tells me with a merry laugh. It was on this occasion that I resolved the situation in ACEA in Calvet's favour: "The next day at the Board meeting in the Grand Hotel [...] I have a private talk with Werner: [...] what a problem he had created for me in Frankfurt: both of us had promised the Chair to Calvet – he confirms – and I'm accustomed to keeping my word; now Calvet is backed by Chirac; isn't this Piech not a bit heavy handed in saying that he wouldn't believe Calvet even if the latter made a formal commitment? We risk a war between France and Germany and I, too, would be extremely embarrassed. Let's think things over well first... I speak to Calvet in private: I have heard it said that people are worried about his written and verbal sallies, which might cost him the coveted Chair. Why doesn't he keep quiet, good God, what's the use of these rantings? He tells me I'm right, but that's the way he is – thanks, however". And in the end Calvet had his Chair.

Lamberto Dini's presence at the dinner caused a curious coda:

The [Fiat] press office asks me for news about the ACEA meeting in Rome for the agencies, and it struck me as opportune to say something about the car wars in progress between Japan and the United States, a note of disapproval for both – just for once, given that they are both protectionists. ANSA comes out at 15.30 and Asca and ADN Kronos²⁰ pick up the item at 16.21 and 17.41 respectively. The big chief sees, understands, and steps in with great promptness: at 18.37 Radiocor makes it known that “at the dinner etc., Cesare Romiti was also present” and “had the prime minister at his table as a fellow guest” and that the “high table was enhanced by the presence of the Chairman of Mercedes, accompanied by his wife”.

My time was running out, in both ACEA and Fiat. On 11 September 1995:

[I reach] Frankfurt and dine with Calvet, who I try to steer as best I can towards the chairmanship of ACEA: “Don't take everything with too much pride”, I tell him, “the chairmanship is well worth a little diplomacy”. The next day I chair the Board for the last time.

A Pilgrim for Fiat

As internal affairs in Fiat gradually improved, I tried more and more to involve Fiat's international structures in the company's spirit and message and to raise its reputation abroad. My notes from 1994 and 1995 brim with summaries of journeys and meetings outside Italy, far more than those involving ACEA, of which the most important were the international trips devoted to institutional investors, the roadshows, a term that in those days was known only to a few in Italy, but was soon to become fashionable as Italian companies opened to international markets.²¹

²⁰ Translator's note: news agencies in Italy.

²¹ For example, on 3 June 1994, I left with colleagues from finance and administration and with Paolo Cantarella. I noted: “A *tour de force* in London and Paris to meet financial analysts and brokers. I require a presentation on industrial (and not only financial) bases, very organic and [complete] with reference to strategic concepts and aspects. But I show my cards even with the accounts, with basic and expressive charts: those that show the past and future progress of the break-even point. I get the usual grumbling in the corridors; even the *Avvocato* [Agnelli] voices his opinion (not in my presence), to the effect that ‘you need to give numbers and not concepts’, he who had never made or received a presentation of this kind and thinks that we are all like him in paying attention to the exterior aspects of the show, and – especially – to the exterior aspects of the individual who makes it; they tell me that Romiti is afraid that people will get up and leave... Nobody dares say anything directly to me, also because if I [don't go they wouldn't know who to send in my place], (Mattioli is held up in Italy by the developments of his [legal] ‘problem’; I go my own way, and I do everything myself: the text, the [tables to be projected], briefing Cantarella about what he should say. The result was an excellent presentation. It was quite long, but compact and absorbing. It wasn't difficult, given everything we really had to say. Nobody got up to leave. In London, at the Barbican and then in Pemrose Street, we clash with Daimler Benz, which had held a similar meeting just before us: and they didn't say anything. We look good in comparison. I'm more worried about Paris, because the French are more convoluted. Instead, at the Hotel Bristol, with the *Société Générale* as my host, I find myself at my ease. [...] The little green and blue booklet that inculcates the ‘Twelve Things We Would Like

I had always criticized Fiat for its poor communications and lack of transparency towards its own collaborators and towards the international financial community. Communication was not considered a gratifying activity by the management of a Company in which what counted was to look good to Agnelli and Romiti, neither of whom were particularly interested in throwing the windows open to the outside world. Now that I had an important responsibility, I felt honour bound to do what I could and held literally hundreds of meetings. One non-marginal aspect of Fiat's communications concerned its language. I am convinced that this topic is neither formal nor superficial, because language conditions the way people reason, and the clarity and completeness of communication are a mirror of the clarity and completeness of the thinking that directs the future of a Company. Anyone who took the trouble to read the balance reports of the Fiat Group until the end of the Eighties would find texts written in a tone more suited to an institution or a bureaucratic body than a company open for business. These reports begin with Italian politics, as if it were not a question of a company, and an international one at that, but a public body. All references to economic and trade union matters are strictly local. The use of language is toned down and contrived, with an abundance of useless adjectives, including the use of the term "significant", employed so haphazardly as to signify nothing. There is great confusion between the Auto Sector and its market and the

Footnote (Continued)

You to Know About Fiat' has come out excellently: innovative formula, simple and essential beauty, [linearity] of presentation, rapidity of use. I wanted it and made it with my own hands, on the basis of the one I had made for my tour of England and Germany a year or two ago; even the graphic design has always been under my extremely fussy control. To the title, taken [from the earlier one], I added a blandly Shakespearian flavour. [...] We round off the roadshow with Frankfurt and Zurich. [...] For the first time, Paolo Mattioli, free of his commitments, also takes part but his contribution is minimal: he is not a great communicator at the best of times, never mind now. On 8 October 1994 we took the roadshow across the Atlantic: 'Saturday, London; Sunday, Los Angeles; Monday, San Francisco; Tuesday, Boston; Wednesday and Thursday, New York; on Friday evening I should return home, but an engine of the [Alitalia] jet caught fire over the Atlantic and we have to go back to where we started [...]. Sheer drudgery. Nineteen meetings, one hundred people in all, what with brokers and financial analysts. All get the same explanation, with variations that depend on their previous knowledge of us. One or two hours of presentation and questions and answers. Questions almost always pertinent, often aggressive. Sheer drudgery. Luckily our trend is so favourable and the things [we have] done so numerous and so well that the climate is good and hence it's easier to resist mentally. In fact, the risk is the opposite one, that they expect too much from you; but I've been in this business too long not to know that the more I invoke caution the better I look. We look good in general and for Fiat this is as useful as it is tiring for me. Many of them understand Fiat for the first time, with its composition and its strategies for restructuring and development. Some presentations come off particularly well for me [...]. Distrust of Italy as a country is great and widespread. Mattioli thinks that the Jewish lobby might have influenced things a little with respect to a pseudo-Fascist country. But, knowing the Americans, I see no need to invoke shadowy plots: it suffices to consider the statements and daily about-turns made in the light of day by our ruling classes. [...] It's strange, but in almost twenty years with Fiat, this is the first long trip I've made with Paolo Mattioli. I appreciate his extraordinary mildness. I realize how he could have ended up [crushed] between Di Pietro and Romiti, and he doesn't hold a grudge against either one of them".

other Sectors in the Group. No industrial explanations are given and strategic guidelines are not illustrated, far less the reasons that underpin the decisions. Similar characteristics are the keynote not only of balance reports but also more or less all Fiat printed matter, internal or external.

I committed myself totally and in person to fight against this way of making (or not making) written communications. I began to rewrite the reports and personally prepared presentations, coming out into the open with the speech that Gianni Agnelli gave during the Fiat Assembly of 30 June 1993. The printed text, which was published on that occasion, was still characterized by the old style of the internal bureaucrats, but Gianni Agnelli illustrated the facts and the figures following the tables and texts I had drafted for him according to the standards of international business and that appeared projected on a screen above his head. This novelty was immediately noticed by the perceptive Umberto Agnelli, who complimented the Board, thus showing a marked sense of fair play, considering the war he was waging on the internal front in that very period. From then on Fiat communications gradually improved as far as the presentations of the road shows I mentioned earlier. Cesare Romiti was disturbed by the origin of this innovation, and in 1995 he moved to prevent me from writing any more official texts for the Holding Company. In order to succeed in his intention he chose the curious path of drafting the reports personally, the first time that the seventy-two-year-old CEO had tackled this responsibility, and with good results I must admit.

Which Objectives?

The five-year period 1991–1995 had been characterized by the concomitance of the Group in two great processes: that of development to close the gap on the industrial and commercial fronts with respect to international competitors and, simultaneously, that of restructuring to cut costs, lowering the break-even point and getting back into profit. At the end of 1994 it was clear that the strategy had been successful. The operating results and the circumstances were so favourable that the time had come to dare and to think of major changes. It was possible to replicate the Iveco experience: rescue followed by aggressive development.

But for me it was a total impasse. I had in mind innovative, revolutionary ideas, but I knew they would have been rejected *a priori*, as had happened a year before with the rigged consultancy about the car range. Romiti, for his part, made no contribution to internal planning but possessed a veto that he automatically used against my proposals, unless they matched the expectations of Paolo Cantarella, the person who by then possessed the key to his heart. I do not know if the evident privileged connection that was being established between my boss and my co-worker had been explicitly agreed on behind my back, or if it was developing gradually day after day, but the fact remains that my relations with Cantarella became more and more difficult. I could not talk to anyone about my ideas and

Table 11.4 Fiat Auto: comparison of the product mix with the competitors (market share in Western Europe in %—1st semester 1995)

Segment	B	C	D	Market total in %
VAG (VW-Audi-Seat-Skoda)	12	24	22	16
General motors/Opel	12	17	10	13
PSA (Peugeot-Citroën)	15	16	11	12
Ford	14	14	14	12
Fiat Auto	20	5	5	11
Renault	19	7	9	11
Market (in millions of units)	3.5	3.5	2.7	11.8

had to limit myself to singling out concepts that were generic enough to be presented without arousing violent opposition.

During the Institutional Meeting of 6 December 1994, I laid out the strategic topics of the five-year period 1995–1999 on two fundamental lines that constituted the logical development of the preceding ones: it was necessary to obtain a good result on capital invested and to be a success on international markets.

The first topic was hard to tackle, also because Fiat had always been somewhat superficial when it came to the use of funds. At the Lingotto I monopolized the audience for a long time in order to recount the entirety of the effort that had been made. Between 1992 and 1996, the Group had invested an extraordinary sum in its future: 45 billion lire. Of that sum, 11,000 had been spent on the income statement for Research and Development, 28,000 had been capitalized in fixed assets, 4,000 on new initiatives²² while 2,000 had vanished in restructuring. Did we now wish to exploit this cash as well as possible? Yet the return on net invested capital had been inadequate so far. In 1994, as I have already said, things were getting better, but we were still a long way from excellent figures. Deep down, I was betting on at least a minimum of 15 % even in the most critical Sectors (read Fiat Auto), but I never stated the figure explicitly. This objective would have taken the whole of the Fiat group well beyond 20 %.

As for the second fundamental line, that of the development of our presence on the international market, I had devoted an interest that had grown gradually since far-off times, from my time in charge of Fiat Components to that of Iveco, to New Holland and finally to Fiat Auto. I saw the successive five-year period, towards the new millennium, as that of the great leap forwards. On 11 December 1995, when there were literally only a few minutes left before my abrupt dismissal, for the last time I explained our weaknesses before almost 500 *dirigenti*, complaining especially about the market shares that were insufficient in the C and D segments and laughable for the minor brands in every European country outside Italy: the figures highlighted in bold in Tables 11.4 and 11.5, shown here as I showed them

²² 900 for Fiat Auto in Poland, 1,200 for Iveco in Spain, 1,600 for New Holland, 300 for the acquisition of Shiley by Sorin Biomedica.

Table 11.5 Lancia and Alfa Romeo market share in Western Europe (in %, 1st semester 1995)

	Lancia	Alfa Romeo
France	0.5	0.2
Germany	0.3	0.4
Italy	7.1	3.9
Spain	0.8	0.8
UK	=	0.1
Total Europe	1.3	0.7

at the time, speak for themselves. The improvement of those figures was destined to remain the biggest unrealized dream of my professional life.

But I could not go any further than those unpleasant numbers, and even today it is absolutely pointless to describe the projects and the extraordinary measures I had in mind to launch the Fiat group towards the 21st century, which could not be subjected to the acid test: it is a topic that does not concern the history of what had been but the fantasy of what might have been.

Chapter 12

The Days of the Final Confrontation (1995–1996)

The Family Shareholders

As from 1990, Cesare Romiti asked me to present Fiat’s data and strategy to the IFI shareholders during their annual Assembly at the end of November. By 1994, my presence, indispensable in the difficult years I described in the previous chapters, was no longer in tune with Romiti’s intention to “to take the Company in hand once more” and to present himself as the saviour of a crisis that had struck Fiat from goodness knows what external source. This state of affairs caused a curious episode that I described in my notes on 30 November 1994:

Today, the date of my fifty-sixth birthday, [I should have gone] to Paris for the Ertico¹ conference, scheduled months before; and I am the Chairman of Ertico. But I changed my plans at the last moment, [because I discovered, by chance, that today] was the very day chosen for the Assembly of the IFI shareholders [...], a chance for an encounter with the Three Great Families: the Agnellis, the Nasis, and the Cameranas. The offspring of this lineage already numbered over one hundred a few years ago and continues to multiply non-stop. The most representative, the most loyal, the most “in” never miss the Assembly. [...] They are given a picture of IFI’s most important activities, but the high point is – obviously – the part about Fiat. [During the three previous years] the atmosphere had been tragic. Results were in perennial decline; Umberto sought allies against Romiti and divided the family; [...] his epoch-making criticism could hardly fail to have a profound effect on the audience; 1993 involved the capital increase, the entry of new, important partners alongside the Family, the reappointment of the *presidente* (Chairman) and the CEO beyond the age limits; and for everyone, young and old, men and women, the worst thing that could happen: there wouldn’t be any dividends! Romiti’s credibility was in tatters; he was relying on external partners, to whom he gave in exchange some of the prerogatives of the Family itself; it took all the weight of Gianni’s leadership to maintain discipline, and it was no accident that Umberto was going around saying that the *Avvocato* was – as they say – being led by the nose: [read: soft in the head].

¹ Ertico (the European Road Transport Telematics Implementation Co-Ordination Organisation) was an association for the development of electronics and informatics in the sphere of transport, in whose constitution a part was played by Umberto Agnelli and whose chief executive was, at that time, Filippi, my vice president at Iveco engineering.

In this climate, for three times in three long years, it had been up to me to tell the assembled Family how things stood and what the devil we were up to. Despite Romiti's feeble attempt to oppose this, I had not concealed the true situation to any great extent; and I had also described the actions for ongoing development and restructuring, basing myself largely on the material prepared for the Institutional Meeting at Marentino. Cantarella could not be mentioned, far less present: the hatred and denigration that Umberto and his entourage were spreading made this wholly inadvisable. I served both as a professional and a guarantor [...]. This year, everything is different. Romiti makes absolutely no mention of the event to me: he can't exclude me, but I find my speech diluted among the others in the programme that Gatto sends to me. Precisely when I should be in Paris for Ertico.

[I send] a note to Romiti: "It seems right to me that [for the first time] Cantarella should be there, too, now that things are going well this year, but what must I do?". He seizes the opportunity: not to worry, someone else will present [...] your part! While greatly displeased for Ertico – and on account of my maniacal habit of honouring my commitments – I decide that my absence at the meeting would be extraordinary. Romiti appears vexed, makes a feeble attempt to have me go [to Paris] just the same, but then he has to accept.

The Ritual really deserves my presence: there are all the '95 car models, each more handsome than the next; there is genuine emotion; there is even Umberto Agnelli, the first time for ages, smiling and cordial.

[When the time came to explain the data], Romiti wants to speak first, he wants to appear in the centre, he wants to announce that the [Fiat] Punto has won the Car of the Year award, he wants to wind up the meeting. He claims all merit for himself. He tells the story of twenty years of Fiat and places white arrows [on the tables of the presentation] to mark the moments of his epoch-making interventions: the spin off of Fiat Auto (who knows why), the March of the Forty Thousand, the launch of Total Quality. [He boasts] about increased turnover, the growth of the net worth. No hint of mistakes or weaknesses. He gets worked up and even loses control: he proclaims that in the moment of emergency "*I ordered collaborators* to cut costs"; he forgets that Iveco and New Holland began to make cuts in 1990, while he was still backing Cantarella and Fiat Auto, which didn't want to know about cuts; in that battle I lost first Quadrino and then Torri, until my letter from house arrest, in May of '93, and the decision to take action after the first deliveries of the [Fiat] Punto in November 1993.

He emphasizes "ordered", frequently uses the term "collaborators", which the company lexicon had banned for some time in favour of the more participatory "colleagues". He says it with an emphasis that transforms the term into "subordinates". It's clear that he sees himself on the side of the owners and not of management.

It's difficult to reconcile all this with the memorandum Romiti gave to the "Clean Hands" judges: "Basically, the CEO is the link between majority shareholders and the world of the company". And also:

The necessary consequence on the operative level [of Fiat's organizational set up] is the complex decentralization of the various companies and the associated utilization to the maximum extent of the instrument of delegation and the correlated assumption of responsibility of the various operative sectors. The work of the various *dirigenti* is assessed by the Holding Company essentially on the basis of the results that emerge from the final balance, without checking up on the operative modalities of management.

But the IFI meeting took an unexpected turn for him, according to my contemporary account:

There are five chairs [beside the lectern with the microphone and the slide projector], on which [Romiti] came to sit with us [managers], after his final speech [even though it is evident that he would have preferred to sit in the front row with the bosses]. To one side, five managers sitting on five chairs; facing them, one hundred bosses in ranks.

The *Avvocato* [Agnelli] goes to the lectern [and] draws on all the intuition and peerless finesse he brings to bear in extraordinary moments. [Addressing the five managers, he benevolently praises] Bodo [the Head of the Office for Economic Studies] (“he stays in the cabin and says what the weather will be like”) and Gatto [the *direttore amministrativo*, or Chief Financial Officer] (“he does the monitoring”). But – he says – all the merit goes to the men who effectively manage [in other words the other three men sitting there]: Romiti, Garuzzo, and Cantarella; because – he says – “it was easy to know what to do; extremely difficult to do it”. And so Romiti is sent back to us in the place he belongs. The shareholders wander round the cars with enthusiasm. The old ones weep. In tears, Nuvoletti² says to me: “If only the Senator [Agnelli] were still alive! He would have cried too!” I stay for a while at the table – they have put me with Umberto and Tiziana Nasi³ – then I say goodbye and leave for Paris. But I’m glad I came. And I had fun.

I can’t deny that I was influenced by the singular mention of merit, which confirmed my naive faith that Gianni Agnelli and the “family” would never have abandoned me, never mind dupe me. This conviction was reinforced even more owing to the attention Gianni Agnelli devoted to me during the talks we had in the first months of the following year, when I finally decided to express my discontent.

This is how it went.

A Life Decision

I put up with the attitude Cesare Romiti had adopted towards me, which I have described in the preceding chapters, without ever protesting (except with Romiti himself, especially after the Teksid-Renault case) for over fifteen months until February 1995, waiting to see what would happen. I stuck to the loyalty that I had always shown in his regard. At that point, given that for one year Romiti had turned down all my calls for explanations, even when I made formal written requests for such talks, I felt I had had enough. I therefore determined to talk about the situation with Gianni Agnelli and this happened on 13 February 1995, according to the account in my diary:

I ask *Avvocato* Agnelli to invite me one day without any hurry in order to have a fairly long off the record chat about personal matters. I arouse his curiosity and he wants to see me this very afternoon.

I say: I’m sorry to talk about personal matters with him for the first time in twenty years in Fiat but for the first time in twenty years with Fiat I have a problem with Fiat. My problem is Romiti.

I say: some terrible years have gone by since they called me to corso Marconi (in December 1990). Years in which many things got done, all the things that are now bearing fruit, the “projects” for Fiat Auto, Iveco, New Holland... at that time Romiti gave me a totally free hand. There was the conflict with [Gianni’s] brother Umberto and Romiti called me to his

² Translator’s note: Giovanni Nuvoletti was married to Clara, a sister of Gianni Agnelli.

³ Translator’s note: Tiziana Nasi, a third generation descendant of the founder of Fiat, Giovanni Agnelli.

side. Then came the terrible year of legal persecution, with Fiat attacked on ten, twenty fronts, on all sides, and Romiti closed up for a year in his bunker with the lawyer Chiusano to resist the assault. In the meantime I was keeping the show on the road, I had *carte blanche*. I say: everything has changed owing to the change in the shareholding structure, in November 1993. Romiti has resurfaced with the desire to take the helm once more.

[At this point Agnelli surprised me by interrupting]: “I recall that Romiti said something like that: ‘Now it’s time to take [the Company] back in hand once more’”. [I resume] my account: since then it’s all been about sidelining me. A single sensational episode, that of the Renault foundries: how he had brutally broken off the talks without even telling me, as I found out from the counterparty. He asks me if [the deal] should have been made; I say yes. He asks me if we would have been conditioned by it; I say no because competitors work together to make engines or models, never mind pieces of cast iron.

I say: how harshly he mocked me and my credibility in Schweitzer’s regard. He says yes, that I was right to get angry about that. [I continue: there are] constant daily episodes of exclusion. Does he recall, for example, this morning’s meeting and the account Romiti gave about talks with the three leaders of the Italian trades union confederations? I don’t play politics, but that is my job [Romiti had handed me responsibility for trade union relations at the end of 1992] and he didn’t even tell me he was going to meet them. Does he remember my battles in the [Fiat] executive committee during the troubled years? I don’t regret those times, but they didn’t even introduce me to the members of the new voting syndicate [which meets at the same date with the Board]. Does he remember the break-even objective that Romiti had proclaimed at the Lingotto? It is a mistake [for Fiat Auto to set the objective of maintaining the level] of 1994, [as Romiti had formally requested, because instead] we must reduce it even further, but he didn’t even discuss this with me and I was unable to correct matters in time.

I say: I work just the same, I remedy matters, I manage them. I have no problems with the Sector Heads. Even the most difficult of them, Cantarella, knows that I appreciate his imagination, his enterprise, and his constructive passion for cars and afterwards he does what I want with regard to things to do, the networks – for example – the major centres... Where I want people to get to they get to sooner or later. I shall also manage to upgrade the mix of Fiat Auto products, three, four years but I’ll get there. That’s not where the problem lies. I am the problem: if they want me to stand aside, let them simply tell me so, and I’ll stand aside. But let them not [destroy me] bit by bit. I am fifty-six years old, I can do other things elsewhere. So, please, LET THEM TELL ME SO.

He asks if people have noticed. Certainly yes, regarding the Renault affair, but as for the rest [I don’t know]. [...]

He sums up an hour of talk in a single phrase, to let me understand what he has understood, and he has understood everything.

He says he’ll think things over, he doesn’t know yet if he’ll talk to “him” directly. If Romiti finds out, he’ll try to destroy me for as long as he lives. He’ll almost certainly find out. The *Avvocato* is too transparent about these things. Perhaps Romiti will succeed in destroying me.

This was an easy prophecy, but what else could I do? My diary continues on 24 February 1995:

Agnelli wants to see me immediately after [the] pastoral visit that took me this time to [Magneti] Marelli in Poirino [near Turin]. He says he has thought about what I said. He says it’s right that I know one thing: Romiti will have a successor and it won’t be me. I reply saying that my concern is not about succeeding Romiti tomorrow but about being able to work well today. My goal is to make things happen in Fiat, the rest is his business. But he wants to open a discussion about my future: would I be interested in running New Holland? That was something I had invented. I had always adored London. I would have a lot of autonomy. I would leave my current position with dignity because the affair would be presented as a “life choice” (leaving Italy, etc., etc.).

Gianni Agnelli was answering a question I had not posed him. I had never proposed myself as Romiti's successor and I had always pushed that idea firmly to the back of my mind even when the press suggested it. I knew perfectly well how chancy these things are and I had never schemed behind the scenes to obtain any position.⁴

At this point Agnelli told me that Romiti's successor would have come from outside the Group but, to his chagrin, the new person would not be available for one year.

I got the impression that he needed to free the position of Chief Operating Officer, my job, in order to give it to his candidate as soon as he arrived, before promoting him to Romiti's position.

The New Holland idea was feasible. It was true that my responsibilities over the last four years had been far greater because they concerned the entire Group, but I was not bothered about prestige. New Holland was a fine, strong Company that one day might have detached itself from Fiat. The problem was that I could not accept a hypothesis of this kind as long as Romiti was still working and still nurtured a hatred of me: if I left the *Direzione Generale*, he could have easily have me kicked out of my new position well before my successor arrived. Instead, it should have been this last to offer me the New Holland job, had he wished to. For this reason I was non-committal in my conversation with Agnelli and I did not give him a precise reply. But matters didn't end there:

25 February 1995, Saturday.

They strike while the iron is hot. Today is Saturday but on my return from a round of golf at the Roveri club I am summoned to a three-man meeting, with Romiti present. Gianni Agnelli and I arrive in the lift at the same time and we present ourselves together in his [Romiti's] office.

The meeting is difficult. They immediately take it for granted that I shall leave my job. It is a matter of establishing where and how [I should leave]. They weigh up certain hypotheses, but there aren't many of them. Chief Executive of New Holland? But then I would report to the new CEO of Fiat; will he agree? Won't he want to be the one to choose? Won't I create some embarrassment? There is thought of the committees of which I was the chief and of which I would be a member [...] "External" Chairman of New Holland? But then I would have no power... Romiti admits [...] that recently he has sometimes excluded me from relations with the Sectors, almost solely the Auto sector, but it's clear that my complaints are a dead letter and the future is [black].

I reiterate that Fiat must remain an industrial holding company. This was my position when Umberto wanted to send me to the car sector and make [Gabriele] Galateri CEO. This was my position now. They immediately say I'm right.

We leave one another without having decided anything, except that there is no more talk of life decisions.

It became clear to me during that meeting that the New Holland idea was, if we wish to be charitable, a case of wishful thinking, a generous desire on Agnelli's part. Not only did Romiti not support the idea but had seemed, for the entire

⁴ Except for the role as head of Iveco, which in 1984 I had seen as a way to escape from the *Direzione Centrale* in corso Marconi in order to return to an operative industrial role.

duration of the conversation, so brusque that his attitude seemed to reject any suggestion of my collaboration with Fiat as long as he counted for anything.

26 February 1995, Sunday

I ask to talk with the *Avvocato* [Agnelli] and he receives me in Villa Frescot at five o'clock.

I remind him of my work in Fiat, whose structure I have designed almost everywhere: Comau in '76, Components, Iveco, New Holland, and – most recently – the structural problems of Fiat Auto.

Protecting my reputation coincides with protecting that of Fiat. And protecting mine means that I can only leave as a result of a *real* change in the topmost *group*: the concept that I call the *simultaneity* of the announcement and the event. In this way the matter would not refer to me personally, but to an overall generational decision. I want to go out – I say – reviewing the guard of honour, banners fluttering in the breeze, like a general leaving his post to a successor as in a normal changeover. He agrees.

It seemed to me that I had been reasonable: when Romiti left on the arrival of his successor, I would leave too.

27 February 1995, Monday.

I want to tell Romiti about my conversation with the *Avvocato*, in order to avoid accusations. He says: OK but I'm not leaving Fiat: the new CEO will arrive before the natural expiry of the Board and so I – Romiti – will become *vice presidente* (Deputy Chairman). Only to become *presidente* (Chairman) shortly afterwards, obviously. This marks the end of the concept of simultaneity, and in fact there will be no generational change: *mutatis mutandis* everything will remain as before, except for my departure, replaced by the "Unnamed".⁵

On 28 February 1995, I asked Gianni Agnelli to receive me in Villa Frescot where I spoke to him at length. I reminded him of Fiat's condition in December 1990, when I had been appointed, and I described this to him in detail. Now, instead, all the Sectors were in profit. It seemed to me that it was neither rational nor moral to send me away. I reminded him of the countless contacts, internally and externally, which I had established over those five years in order to divulge the concepts that were now triumphing. What would all those counterparties have thought? I reminded him of his speech to the IFI Assembly. What would the shareholders have thought?

I did not want to be intrusive or presumptuous but, in the event of a solution in favour of an external nominee, he would have to avoid depending on the decisions of Mediobanca, which had no background in industrial management, or method, or history. Would it not have been better, instead of taking a chance on an unknown, to make the most of those who had already been tried and tested, such as Cantarella and me, and to pave the way for his nephew Giovannino,⁶ because by now it was time to introduce him to the fundamental workings of Fiat in order to prepare him for his future? I ended my peroration, which lasted several hours, by stating that five years previously, when things were going badly, he had had immense faith in me, effectively entrusting me with the responsibility for decisions

⁵ Translator's note: an oblique reference to Alessandro Manzoni's "L'Innominato", a powerful character in his novel *The Betrothed*.

⁶ Translator's note: Giovanni Alberto Agnelli, of whom more will be said further on, was the son of Gianni Agnelli's brother, Umberto, and his first wife Antonella Piaggio.

that were to condition Fiat's future. He himself had said that "there wasn't going to be a second chance" for a salvage job. Now that things were going well, he was going to take someone from outside and get rid of me. Was that rational? Was it moral? In the end Agnelli remarked: "You are talking like someone who feels himself an integral part of the Company". I stared at him in amazement.

On 9 March 1995 I received a visit in my home from the Chair of IFI, Gian Luigi Gabetti:

He says: I, Gabetti, count for nothing with the *Avvocato*, I am merely the mirror for his inner reflections, twice a day (usually early in the morning) plus weekends.

He says: the *Avvocato* has spoken to me [...] and I sensed that he was firmly convinced that Garuzzo should stay [in Fiat] but must leave [the *Direzione Generale*].

He says: the *Avvocato* recognizes all that Garuzzo has done, and that all this was good and right.

Good God – I say – In that case don't you think there's something out of place? Or that there's some monkey business going on somewhere that I don't know about?

After that day and for many months there was no more talk of the matter and I carried on working as if nothing had happened, tackling Romiti's boycotts on a daily basis, as I recounted in the previous chapter. I stood by the window and waited. Until that time none of Agnelli's statements regarding the "succession" had come to fruition, as the cases of Vittorio Ghidella and his brother Umberto bore witness. Who was the New Man? Would he have made it? And if he had, would he have been able to fulfil his role? Running Fiat without having ever worked for it was no push-over. You needed years only to begin to understand how things worked. Perhaps I might have been useful to him in some way.

Giovanni Alberto Agnelli

On 28 July 1995 a minor French weekly, "Le Nouvel Economiste", as part of a series of articles titled "Les héritiers" (the heirs), ran an article that the Fiat press office fed to all the Italian dailies, with a front page leader followed by full-page spreads on the inside pages, conferring upon them a significance that was far more marked than what emerged from the original article⁷: Giovanni Alberto Agnelli, "Giovannino", was destined to lead the Fiat of the future (Fig. 12.1). I commented in my diary:

A part of the news is obvious: Giovannino is the only member that the family can trust. Still only thirty-one, he is praised by all and I, too, immediately had a good impression as soon as I met him, years ago [...]. The risk is of making him fodder for the glossies before he can learn how to be a manager. [...] Even now they are already talking about the boy's girlfriends while they wait to talk about his industrial enterprises.

⁷ The "Corriere della Sera" of 28 July 1995: "Fiat, Giovanni jr is the designated heir. The *Avvocato*: 'He has the approval of all of us to prepare himself for major responsibilities in the group'". "La Stampa": "The *Avvocato* and Umberto confirm the investiture: yes, the heir is Giovanni junior". "il manifesto" and "la Repubblica" came out with same headline: 'Giovannino, all this will be yours' (with a photo of robogate). Fiat's manipulation of the press was aimed at giving the news maximum emphasis.

Fig. 12.1 G. Garuzzo and his wife with Giovanni Agnelli jr (“Giovannino”), son of Umberto Agnelli, in 1987



One part of the news is ambiguous: when will the changeover take place (in '96 or '99)? What will Romiti do in the meantime: that is, will he play the *deus ex machina* of the transition or will he finally retire? [...]

Another part of the news is wrong: Fiat is not wholly owned by the Agnellis but is a listed company with a broad-based shareholding and important third-party shareholders, which in their turn are large listed groups. This kind of decision making and this way of communicating, outside boardrooms, is open to criticism.⁸ If an underdeveloped country did something similar it would be criticized and derided.

On 24 August 1995 I drove down to Tuscany alone for a meeting of which I have a profound and moving memory, recorded in my notes of that day:

Giovannino Agnelli greeted me in shirtsleeves coming down from the loggia of the sixteenth-century villa on the estate at Varramista, in val d'Arno, a splendid house that Michelangelo had designed for Pier Capponi. “Do you remember” I say to him “when you came to visit me in Iveco, six or seven years ago?” Now he is thirty-one, but was twenty-four at the time [of his visit to Iveco]. “I have come to return your visit, sir”. In Fiat the old guard are on first name terms with Giovannino, Romiti, Mattioli...; but I can't do that [...]. We sit down in the corner drawing room and he overwhelms me with his youthful enthusiasm for telematics, design, and marketing: recently, he has spent a few days at Stanford [university]⁹ and is still wholly imbued with these concepts. I like his enthusiasm.

I say: “I've come to talk to you about two topics: one general and another very personal one”. He becomes serious and listens to me.

And so I tell him Fiat has no written macro-strategy, despite the complexities that would make this necessary, because of the idiosyncrasy of Romiti's character. “That's true”, he says, “Romiti can only live on a day to day basis”. But there is a strategy, which I have created over the years and divulged widely on every occasion and with all possible instruments. It is based on *structural competitiveness* as the supreme value, by now internalized to the point of banality, inside Fiat and out; from this derive very important consequences, some of which are taken for granted, others merely stated but not in fact accepted and, finally, others [that are] openly opposed. [...]

⁸ The members of the Fiat Board were not informed about anything. On 31 July 1995 I visited Weiss, the representative of Deutsche Bank: “I meet Weiss at Salò and tell him what is going on, in a fabulous gazebo of his overlooking the lake, a place where the spirit of Gabriele D'Annunzio hovers, between a visit to the Vittoriale (D'Annunzio's home) and dinner at the Rosa. The shareholders [who are part of the voting syndicate] know nothing about it, and they read about Giovannino in the papers. I told Weiss about my [terrible] relations with Romiti but he knew nothing about that either.

⁹ Translator's note: the young Agnelli had graduated from Stanford University, years before.

I am aware that I am covering in two hours all that is known about the company, I deliberately impose this tour de force and I don't expect comments from him; I find Giovannino not only well-disposed but very much in consent. I disclose the topics on which Romiti opposes me, more or less intentionally, especially those deriving from his Roman implosion, in other words his constant slipping back towards the provincial, scheming milieu that made his fortune in the past.

Giovannino understands me like a shot, because [he is] a man of the world and the future. So much so that I find myself having to defend a topic close to my heart, namely Fiat's [irreplaceable] role as a bridge between the world that is forever changing and advancing and the reactionary conservatism of Italy's ruling class, of all political stripes. For a moment I feared that the young man was too rootless and unmindful of this thankless and unacknowledged task of [serving as a bridge] that is our duty towards the country as its largest private company.

Then I move on to the second topic. His recent designation as successor to Avvocato Agnelli requires him to make a suitable entry in Fiat. I have heard it said that they are proposing a role for him connected to internationality. For him, this would be a con trick, because in concrete terms such a role doesn't exist since internationality is an integral part of the operational life of every sector, hence it falls totally within the ambit of the normal responsibilities of the Sector Heads. If anything, he would be given a role as a representative, an ambassador, outside time and power: as abundantly illustrated by the recent case of ambassador Ruggiero. I find Giovannino in complete agreement. "Just imagine", he says to me, "if in the small world of Piaggio¹⁰ someone were to come in from the outside to deal with what we do outside Italy? I'd kick him out, or I would assign him to some innocuous representative role". "And I", he adds, "have no intention of travelling the world cutting inauguration tapes of auto shows". I realize he has understood and that what I have said has merely served to reinforce and rationalize his opinion.

"Well", I say, "one or the other: either you stay outside Fiat until the day when you come in as number one, or you come in with a role that allows you to *see things from above*. A role of this kind does exist and it's finance. No one could object if an Agnelli, designated as the future leader, were called as of now to supervise the ledgers. Finance will permit you to stick your nose into everything, from day-by-day operations through the treasury and credit on sales, to strategy through the analysis of returns on investment, to the international dimension through the requirement of resources coming from new initiatives. In finance, Fiat has estimable but disoriented persons, because Mattioli is worn out and Romiti is decrepit". (I tell him about the cases of the acquirement of Deutsche marks a few weeks before the Italian lira macro-devaluation of '92 [and] the recent campaigns against the debts of the Sectors that no longer have any, launched to distract attention from the cash deficits of Gemina and the Lingotto: extra-industrial charges from 400 to 500 billion lire each). Co-workers will all follow him immediately with a light heart; as for me [in my role as COO, obviously] how much I could use an interlocutor like him.

Giovannino seems dumbstruck by what I tell him, above all perhaps because of the frankness of my discourse.

I discover curious things. The interview with the Avvocato [Agnelli] that officially designated him before the world had neither been agreed on nor arranged beforehand, as happens in that second-rate French paper. The article was supposed to be a banal retrospective on the Family. The Avvocato expressed himself about the succession as if it were obvious and the Fiat press office used his words to drag in the Italian newspapers; the outcome was a thick pile of press cuttings. The old chap was only concerned about the deletion of his incautious reply to the journalist regarding what had been the toughest times for him: "Not those of the Red Brigades, who shot at you, because you knew who

¹⁰ Translator's note: the young Agnelli was CEO of Piaggio, the producer of the Vespa motor scooter, owned by the mother's side of his family.

they were and why they did it, but today, when the magistracy is firing on you, you don't know either one thing or the other".

"And the Family", I ask, "what is the Family's position?"

"What Family?" he replies. "The Family simply doesn't exist".

He means that the Family is the *Avvocato*.

"Be that as it may", I say. "Now, as far as everybody is concerned, you are the *nominee*; you didn't want this but it's happened and you must behave accordingly".

I realize that he understands perfectly.

He tells me he has asked his father for advice and that he, too, had spoken to him about finance. [...]

I am explicit all the way: "No CEO would be happy to have someone reading over his shoulder about how he generates and uses capital".

I ask him if he ever talked with Romiti and for a moment I sense that he is disoriented [...]. He says that four or five months ago Romiti proposed that he come to work as his personal assistant. I laugh at the sequence [of Romiti's Assistants]: Garuzzo – Cantarella – Quadrino – Galizia – Marietti – Agnelli...

At this point he gave me a fixed, serious look: "Basically, no one has any intention of handing me any real power", he said to me. He truly had understood everything. My notes continue:

It's as if I'm up for examination for future years, and if I do well...

I rebel: "The exam theory is okay for thickheads and it should be kept for them, but to all intents and purposes watch out if you accept it: you are the *nominee* and you have to behave as such right from day one. If you don't, they'll eat you for breakfast... And so you must be clear right from the start with your Uncle".

He'll think it over, we'll talk about it again and I can also back the idea with the *Avvocato*, but only if he [Giovannino] makes the first move.

He shows me around the house and the estate – one thousand hectares of woodland and wild boar. "A nice little *garçonnière* for a single" I say. He smiles: "I'm seldom alone". I understand what he means to say, but I think that he really is alone [...].

I return home consoled; perhaps one day Fiat will have a worthy chairman, he has the prerequisites, now it's necessary to avoid making mistakes so that the dark forces do not prevail.

On thinking over the confidences received, I wondered why Romiti had handed the Fiat press office the news of Giovannino's designation, which would otherwise have been passed over unobserved. The only explanation I could come up with was that in this way Romiti provided a glimpse of a long-term solution to the succession at the top echelon of Fiat, a solution that, given Giovannino's youth, left him with a good span of time in which to wield his power before the young man reached maturity.

Little time had gone by since my conversation: before the end of August, Giovannino called me to say that he had thought things over, that the matter was fine by him, and that he had talked about it with his uncle.

4 September 1995

Uncle gets straight [to the point] when I go to meet him on Monday morning: "I know you've been talking to Giovannino..."

I tell him first of all that the news in the French paper has been taken by everyone as something natural, yet well accepted. That there is curiosity about which paths will be taken for the introduction. More importantly, the boy runs serious risks in this phase, because he has the nomination but not the power. The one who will have to command everyone cannot be subordinate to anyone else. To be alongside someone, but without a

precise role would be embarrassing for him and the others (“Like a chum you meet on a cruise”, [Gianni Agnelli] agrees. Outside and above is the right way, but difficult.

Giovannino has led me to understand that he would like the financial area (I put it like this), and I find the idea absolutely right. No one could object if a shareholder, an administrator, an Agnelli, the nominee, asked to see the account ledgers. In America it’s normal for administrators to intervene from outside through committees: international practice is safe. From the financial observatory Giovannino can stick his nose everywhere he wishes. The alternatives – the personnel area, strategy, internationality – should be discarded, the first owing to the person’s youth, the second to the impalpable nature of the subject, and the third for the non-existence of the role.

He takes me by surprise by asking me if two days a week are sufficient for the purpose and proposing to me the nomination of a new CEO for Piaggio. I reply OK to the first question and suggest a gradual approach to the second suggestion: a young COO, who would gradually take over from Giovannino without the latter having to quit immediately (I fear the condition of a John Lacklands...¹¹).

Now I’m very curious to know if Romiti will find out where the idea comes from and how he will react to prevent its implementation.

In those days Romiti was busy on other fronts. He had spent some time on a boat but had not gone further than the waters off Elba to put the finishing touches to the deal the press called SuperGemina. I read about the initiative in the papers, on 2 September 1995, and commented to myself:

Cuccia invents the Gemina operation. Romiti and Agnelli are amazed that it is not well received and that the “Economist” and the “Financial Times” slate it¹²: the fault of “enemies” (for the occasion, the *Avvocato* [Agnelli] dredges up the memory of the wicked journalist Friedman). The idea doesn’t cross his mind that times have changed since they were young... In effect, Gemina becomes an accumulation of unrelated businesses in diverse stages of structural competitiveness and globalization. It reminds me of the croquettes at college that [...] we used to call “summaries”: if you had an expert eye you could identify all the dishes of the past week by Thursday evening (the next day was meatless). Similarly, if you had an expert eye you could identify the residues of all the balls-ups made by Cuccia over thirty-five years, from the nationalization of Edison¹³ onwards. It may be that all is not yet lost but who will manage the *industrial project* implied [by SuperGemina], whose dimensions were enough to put the fear of God into anyone? Who will guarantee this unknown supreme manager the necessary powers, among the banks, the politicians, the unions, but – above all – the old and unethical¹⁴?

For a few weeks nothing happened. Then Giovannino Agnelli called me to say that he would come to dinner at my house, in Turin, on the occasion of the Fiat Board Meeting

¹¹ Translator’s note: John Lacklands (b. 1166) was the mocking nickname his father gave to King John of England, because it was thought he would never inherit substantial lands.

¹² The international press was ruthless. “The Economist” (9 September 1995), beneath the headline ‘Only in Italy’, spoke of “conjuring tricks”, “monstrosities”, “a disproportionate influence on the economy”, “chronic aversion to international involvement”, and “a great capital rolled up on itself”.

¹³ Translator’s note: the electrical utility was nationalized in 1961, and the large sums paid to its previous shareholders were rapidly dispersed, without contributing to Italian business development.

¹⁴ I learned later from Mattioli that this “supreme manager” of SuperGemina should have been Maurizio, Cesare Romiti’s eldest son.

scheduled for 23 November, to agree on how to proceed. That day, during the meeting held in the sala Nasi in front of my office on the eighth floor of corso Marconi, he felt unwell and I saw him go white as a sheet. Stoically, he held on until the end, but then he excused himself saying that he had taken all he could, and he withdrew. Food poisoning due to the mushrooms he had eaten at villa la Mandria the evening before, it was said immediately afterwards. But I cannot avoid thinking that it was a sign of the illness that was to lead to his premature death in less than two years. Immediately after that episode, many things happened rapidly and I never saw him again alone.

What do you intend to do?

In November 1995, I was less active than usual because of my wife's health problems, which required my presence elsewhere. This did not stop me from attending the traditional meeting with the IFI shareholders on the 30th, exactly one year after the curious meeting I dealt with at the beginning of this chapter:

The usual meeting with the Family shareholders at the Centro Storico. The same ritual as the year before. Romiti is resigned to my presence. In comparison with last year he is more resigned in general. He speaks only once, doesn't brag too much and says, again only once, that he had given orders to the "collaborators". Then he comes out in the press to say that he might remain in Fiat but in another role. The vice-presidency? Will my liege's desires come to pass, as was revealed to me in March? Who knows.

I am disgusted by such behaviour, similar to that of the worst politicians, applied to Fiat.

I sit down at table with Umberto [Agnelli] and Samaritana Rattazzi.¹⁵

I spent the following days with the doctors in New York, but, when I discovered that my wife would not be operated on until 15 December, I returned to Turin in order not to miss my speech at the Institutional Meeting at the Lingotto on 11 December 1995 (title: "Development in the uncertainty of the markets: our competitiveness"). I knew it was the last one for me, even though I didn't imagine what was going to happen a few hours later.

The meeting was reduced to the minimum, a session from 8.30 in the morning until 2 p.m., certainly to prevent me from getting the lion's share as had happened the year before; it had not been so brief for many years. Opening the meeting, the head of human resources, Giuseppe Alessandria, offered Cesare Romiti and Paolo Mattioli the solidarity of one thousand Fiat *dirigenti*, in view of the request for committal for trial from the Turin public prosecutor's office. The purpose of this was to leak the news to the next day's newspapers. Alessandria did not reveal that he had called the heads of human resources of all the Sectors to solicit signatures and that among the population divergences had emerged: solidarity, perhaps, but certainly no heartfelt pleas for Romiti to stay on in his job, as was explicitly requested. Then came my observations on the strategic lines [to be followed] in view of the coming year 2000, which I have already described in the previous chapter. Towards the end, Romiti gave his little speech, as usual. He recalled his message of '89 about total quality, with the usual metaphor of the train, and said that management had to "wind itself up like a spring". He also talked about

¹⁵ Translator's note: the second daughter of Susanna, Giovanni Agnelli's sister.

communication, and clarity. As usual, Gianni Agnelli made the closing speech. He said that fifty years ago Valletta, Camerana and his grandfather, the Senator [Agnelli], had all been victims of the purge¹⁶ and, after this chancy comparison, he acknowledged that it would be better if the Turin court dispelled all doubts, as Romiti's trial would certainly make it possible to do "for the good of the city".

Then he spoke about the succession: "At 75 years of age cardinals can no longer vote for the pope", he said. He often repeated to himself: "Remember you're not seventy anymore".

At that point the revelation came: "After me Romiti will come, for a short time, because he's not a *masnà* anymore either". The Piedmontese present translated the dialect expression: a little boy.

Then it would be up to the young. "I see Cantarella here", he said, looking with a prophetic air at the interested party in the first row.

Not so much as a mention of his nephew Giovannino, far less of me. I shot a furtive look at Romiti who was sitting on my right but he didn't bat an eyelid. No one understood from Agnelli's words when the changeover would have taken place and it was a surprise for everyone when they learned shortly after the conference that the matter was to come into effect immediately.¹⁷

At this point it was clear that everything Agnelli had told me in February about the coming of the New Man had either been a dream or a cock-and-bull story and that in a few weeks something determinant must have happened: only seventeen days before, on 24 November 1995, "The Wall Street Journal", in reporting that in 1995 Fiat would have doubled its profits for a total of 1.26 billion dollars, had interviewed Agnelli: "I have every intention of quitting when it makes sense and will be useful. Nonetheless I don't think the right time has come yet".

With Romiti as head of Fiat, my time was running out but I did not have a chance to worry about that because on Wednesday 13 December I had to rush back to the Memorial Sloan-Kettering Cancer Hospital in New York. I decided to travel in the afternoon via London, instead of taking the direct flight from Malpensa airport, so

¹⁶ Translator's note: a reference to the questioning of senatore Agnelli about his fascist connections, after the war and shortly before his death in 1945.

¹⁷ Many in those days thought that the haste derived from the new judicial questions concerning Romiti, namely the re-opening of the Intermetro case in Rome on 5 December 1995 for new testimony (see for example Radiocor for that day) and, above all, for the request for committal to trial, issued by the Turin public prosecutors Marcello Maddalena, Giangiacomo Sandrelli and Giancarlo Venati Bassi on 7 December. All the events of those days seemed the fruit of improvisation. On the other hand, for some time Gianni Agnelli had been asking me when my stint as chairman of ACEA would end, with the evident intention of proceeding with the operation of my dismissal (kicking out an incumbent chairman would have been rather anti-aesthetic). Strangely, the new nominations had been "guessed" since 8 April 1985 by "la Repubblica" and since 11 April 1995 by "MF", which headlined "Cantarella Fiat CEO"; yet at that time Gianni Agnelli was telling me far different things. The journalists of "MF" (Rosario Dimiti and Laura Penitenti), who were not talking about me at all, cited "authoritative banking sources" for the news. Odd. But the same paper, in another article by Alessandro Rossi, in defining me as "A Romiti man but without enthusiasm, one who prefers to devote himself to work rather than the game of company politics" stated that I was "the man most in the public eye".

that I could stay as long as possible in the office. On the morning of that day Gianni Agnelli's secretary called my secretary to know when I was going to leave because her boss wanted to talk to me. Anna Maria Spinazzi¹⁸ confirmed that I could not stay after midday. Gianni Agnelli's summons arrived 10 min after 12, by which time I was already running towards the lift on the eighth floor of corso Marconi.

As soon as I sat down in front of him, Agnelli said to me in kindly tones: "it has been decided that Romiti's successor will be Cantarella". A pause, then: "What do you intend to do?"

I smiled: "For twenty years I have made a lot of decisions for Fiat; but this one is no longer up to me".

He mumbled something in a vague manner and I did not reply. He seemed saddened by the way the conversation had gone. "Go", he said, "we'll talk about it on your return". I left, running in order not to miss the plane.

My little family, my wife, my son and I, reunited for a while in New York and I had other things to think about.

The Final Talks

When matters in America came to a successful conclusion, I worked out my strategy. It was obvious that they were going to send me away from Fiat, even though I did not know why. All that remained for me was to try to obtain a little cash and some honour: both could serve me for the future, the first so that I would not have to depend on anyone, and the second to be able to do something useful. As for the money, I would have negotiated the best deal possible; as for the honour, I was struck by an idea that might sound bizarre today. Knightly orders had always left me indifferent and I had treated the episode as a joke when, years before, Romiti had called me to his office, in the presence of Enrico Auteri, to hand me the insignia of an honour that he himself had had assigned to me, the nomination as *commendatore della repubblica* (Knight Commander of the Republic). But now it was different.

I needed something to show to the thousands of people with whom I had worked with over many years that I was not being dismissed for unworthiness. As Cesare Romiti and Vittorio Ghidella had been nominated in the past, now it was my turn to be awarded a knighthood as Cavaliere del Lavoro.¹⁹ It was the only honour that struck me as having a universally recognized value, and I felt I deserved it after thirty-six years spent in positions of responsibility around the world, where I had done a lot for Fiat and Italian industry.

I called Gabetti so that he would tell Agnelli that I would be back soon, and I also called Cantarella to give him my best wishes. I sensed he was dumbstruck and

¹⁸ Anna M. Spinazzi was my assistant for my entire period with the *Direzione Generale*. For all that time she made a great contribution to the complex running of the office.

¹⁹ Translator's note: the highest Italian honour for services to industry, awarded by the President of the Republic on proposals made by previously nominated members.

this was the last personal contact we had after his nomination. He did not matter that much to me but I thought that now he directly conditioned the fate of a million people. My good wishes were directed at Fiat and to the people who lived on its success, as I had written five years before in my policy document on competitiveness.

I returned from New York on the 18th and discovered that while I was away the news had been given of Cantarella's nomination as CEO. The papers were full of paeans for "the man of humble origins", according to the definition that Romiti had given of him a short time before, in a Group Committee meeting in the presence of the interested party. The bulletins of the agencies and the press had received their material from Fiat, with the current organization charts and the prospects of the people in the top positions, such as Giancarlo Boschetti, Riccardo Ruggeri, and Umberto Quadrino. But my name no longer appeared alongside those of my three ex-musketeers. "La Stampa", the house organ that until a year ago had devoted dozens of articles and photographs to me, did not mention me even once and almost all the other [papers] did the same. It was not abstinence from the press that irked me. For many years I had avoided notoriety and tried not to figure outside the circles of my peers. What gave me a strange, indefinable feeling of unease, almost of nausea, was seeing the evident action underway aimed at wiping out my presence and my history, as if I did not exist, in fact, as if I had never existed.

Cesare Romiti had assembled Fiat Auto's Steering Committee, to inform its members that were going to have a new *presidente* (Chairman). As for me, the current *presidente*, not so much as a mention, or a briefing in the absence of the outgoing Chairman, as if he were a crook. On returning, among some colleagues I found surprise, dismay, and fear. No one had understood the reason for all this haste after Gianni Agnelli, only two weeks previously and without any prompting, had stated to "The Wall Street Journal" that there was still need of him. Everybody withdrew into their shells as they awaited events.

On 19 December Romiti called me: "So", he said, "given that you wish to leave, go to Alessandria and have him do the calculations". Giuseppe Alessandria, my colleague since the time when I was running Fiat Components in 1979, was the person I had nominated as head of human resources for the Holding Company when Romiti had made Enrico Auteri take early retirement. My nerves got the better of me. I yelled at him that I did not accept this brush-off after all I had done and put up with for Fiat, the Clean Hands affair included. He replied curtly, saying those things had happened in the past and that was that: when your turn came, your turn came. He had sacrificed himself for everybody!

I observed that there was a big difference: now they were making him Chairman, while I was getting kicked out. Absolutely beside myself, I went on, saying that the contract he had had the Board give me was no longer enough. That contract should have protected me from the bastards, to use the epithet he had once employed, but it was not enough to repay me for all the wrongs he had subjected me to. He ended the argument by saying he would speak to Agnelli. He added that Gianni Agnelli's proposal regarding New Holland was not feasible, because that position was occupied by Ruggeri who could not be sent away for "obvious reasons" (read: until he made a deal with the Clean Hands judges about

the Caprotti affair). What's more, I myself had promised Umberto Quadrino that he would be the future CEO of New Holland. I could hardly go back on my word. I would have had to content myself with the non-operative chairmanship. (It was true that I had thought of Umberto Quadrino for New Holland and I had discussed this some time before with Agnelli and Romiti, but I had never made him any promise because I was not in the habit of making promises in advance.)

I have reasons to believe that from this conversation, Romiti, who was very good at denigrating outgoing [managers] as he had shown with Carlo De Benedetti, Umberto Agnelli and Vittorio Ghidella, took his chance to spread the rumour in Fiat that I had made requests tantamount to blackmail when the time came for me to leave, rumours that were believed by those who wanted to believe them.

Having no interlocutors with whom to negotiate, given Romiti's attitude and Agnelli's evanescence, I asked the latter the favour of nominating a mediator of good sense and I proposed the lawyer Franzo Grande Stevens.²⁰ Gianni Agnelli called me at home on 23 December to tell me that Grande Stevens accepted. On that occasion he informed me that even the non-operative chairmanship of New Holland had been excluded so as not to disturb Riccardo Ruggeri's serenity. That's exactly what he said, "Ruggeri's serenity". I would remain, he said, chairman of Iveco.

On 27 December I met with Franzo Grande Stevens in his office in via del Carmine and, over 2 h of conversation, I gave him a picture of the situation. He seemed distraught. All Gianni Agnelli had told him was that I wanted to leave Fiat in order not to depend on Paolo Cantarella. Nothing happened for a few days because Grande Stevens went down with influenza and Agnelli had gone to Saint Moritz. As soon as he felt a little better, but still convalescing, Grande Stevens invited me to his house in corso Vittorio Emanuele and, with evident embarrassment, he informed me of Fiat's proposal, certainly prepared by Romiti with the assistance of Alessandria. I was immediately infuriated, but cold, because the figures concealed a trick.

The figure offered to me by way of a transaction did not include only the severance pay owed to me by law, and the months of salary (about thirty) that Fiat usually paid to managers who left before the normal expiry of contract, but also included a large sum that the Company owed me for back pay, numerous salaries as yet unpaid. In this way it simulated a generosity towards me that looked far greater than what it was effectively offering.

This fabrication was obviously aimed at influencing Gianni Agnelli, who had little familiarity with numbers and rights. (Agnelli later told me that he was displeased about the cash loss that Fiat allegedly had to accept in order to pay me off, even though it was a matter of money that was already mine. In this he was like many other bosses I had known, to whom the evangelical precept of paying wages to workers was always a disagreeable exercise.)

Grande Stevens confirmed to me that at the beginning of the year Gianni Agnelli had been thinking of a foreign CEO and of my coexistence with this person; moreover he acknowledged that, after that, he had offered me worse solutions

²⁰ Translator's note: a leading lawyer in Turin, he handled all Gianni Agnelli's family affairs; at the time, he was secretary of the Fiat Board.

every time. Then he confessed to me that he did not like his role as mediator and said he believed that Agnelli was obliged to accept unwelcome decisions “because of Milan”, in other words Mediobanca. In corso Marconi Stevens was unable to speak as he would have wished because of the agitation that reigned there and advised me to ask for a written contract with which to safeguard myself, a contract he was prepared to draft, because I could trust his or Gabetti’s word, but in the current situation.... I said that I would think it over, but I returned the next day and refused. That evening I noted: “Then I hold the [meeting of] the *Comitato di Direzione Generale*, we talk about work and everybody looks at me as if I were their boss. Even Cantarella”.

In Defence of My Reputation

At that point, and after an enormous delay, I decided to do something to safeguard my reputation outside the company somehow and by way of a first step I wanted to understand which way the wind was blowing in the world of the media. On 10 January 1996, at eight in the morning and under pouring rain, I went to Carlo De Benedetti’s house in San Vito, on the hills above Turin, to ask him about the possible attitude of Eugenio Scalfari and his newspaper “la Repubblica”. I had not seen De Benedetti for a very long time and I found him with a great tan, in total contrast with the weather outside, just back from a holiday in the Philippines in good company. He admitted that some journalists with “la Repubblica”, who had been in the front line during the campaign of denigration of Fiat and Romiti at the beginning of the Nineties, so much so that the latter labelled them as part of the band of Umberto Agnelli’s supporters, had recently changed their colours in a suspicious manner. Yet, he said to me, the editor hates Romiti and that [Massimo] D’Alema²¹ could not stand him either, despite attempts to make peace. That said, he advised me against doing anything: no Italian paper would have taken an interest in a banal news item about business management. I would have had to pull out bigger news, but this would have destroyed me first of all, and I certainly had no intention of playing the martyr.

“Everyone dislikes Romiti”, he concluded, “but as long as Agnelli backs him up, nobody will ever dare to say a word. And Agnelli will always back him up, for reasons of his own”.

Olivetti had just wrapped up, highly successfully, a capital increase wholly underwritten by private investors, almost all Americans. I asked De Benedetti: “Did Cuccia give you a hand?”. His attitude became cautious: he had found the shareholders but Mediobanca had guaranteed to cover non-underwritten shares, an essential condition for the launch of the operation, in exchange for a 4-percent commission, over 80 billion lire. It seemed to me that he, too, had had to fall into line under the weight of the problems facing his Company. De Benedetti

²¹ Translator’s note: a notable former member of the Italian Communist Party, at this time he was general secretary of the Democratic Party of the Left (PDS).

immediately made me an offer to go to work for him. I had a real need of a show of trust and I was most grateful for this one, but I did not feel like making any decision and I did not commit myself.

I took steps to meet some people who I had known and esteemed for some time so that they would learn directly from me what was shortly about to happen. In substantial terms it was of no real use but it protected my reputation a little and damaged that of Agnelli and Romiti a little. I kept few notes about those meetings, also because the reactions were pretty much identical: enormous amazement. I also met Umberto Agnelli in his office in corso Matteotti. I asked him: “But the family, damn it, why has it put Fiat in that man’s hands?”. He wore a saddened air: “The family counts for nothing, the only ones who count are Gianni Agnelli and ‘that man’ [Romiti] has him in the palm of his hand, and so everyone is powerless”.

The Talks Get Tough

I returned to the office to learn, from the agitated telephone calls I received from abroad, that unbeknownst to me Cesare Romiti had cancelled my plenary meetings already scheduled for two weeks later, in the four main European countries, despite the practice consolidated over many years. Indignant, I called Franzo Grande Stevens who was left speechless and advised me to write to Gianni Agnelli, which I did in a letter of 11 January 1996:

Does Romiti think that instead of final balances, budgets or strategies I would have talked about indelicate topics? Or that I would have refreshed my image to the detriment of his personality cult? [...] Yet again, I find confirmation of Romiti’s incomprehensibly and pointlessly ferocious and provocative attitude towards me.

[...] An attempt is emerging aimed at wiping out my history with the company and my personal identity, something that obliges me to abandon the reserve that I have so far imposed upon myself.

We shall see how I would have implemented my threat later on. Agnelli called me immediately. I noted in my diary:

Agnelli calls me and in effect says that things have not been handled well. I am not to worry about the money owed for my departure, everything is sorted out. To safeguard my image, I should make my usual trip around Europe, with Cantarella: I would take the credit for the past and launch him towards the future.

Shortly afterwards, Grande Stevens called me to say that Agnelli had understood and that, concerning money, he would meet me half way regarding my last request (“further” [than this], he stated peremptorily, “Agnelli did not intend to go”). I accepted and wrote in my diary:

I come back home from Grande’s [office] and wind up negotiations.

It strikes me as a reasonable compensation. [...] But I still have a bitter taste in my mouth.

The point is: I was doing well and going strong, the results are there to prove it, lots of plusses and not one minus; the same held for my relations around the world, built up over twenty years of continuity. Tossing everything away screws me damnably, in a bastardly

fashion the like of which has never been seen in the car world, and it damages Fiat damnably too, in an absolutely and incomprehensibly idiotic manner.
 So, for Christ's sake, why?
 Nothing is of any use; it is a decision taken a priori and beyond; the bitterest feeling in these days is one of inanity.

The Goodbyes

15 January 1996 had come along:

The last five minutes as chairman of ACEA [in Brussels]. Calvet succeeds me and behaves very well, belying all predictions. Measured and efficient. [...]

At the Febiac [the Belgian automobile association] reception in the evening I wander around the rooms of the town council building in the Grand Place and inform colleagues [chairmen of the European car manufacturers], one by one, of my departure. Their jaws literally drop and they look at me without knowing what to say. The same thing happens hours before in [Commissioner] Bangemann's office, where I asked him for a few minutes to discuss personal matters.

"Ne le faites pas", Calvet says: he means to say don't go. Lots of them tell me the same, but they don't know that my position will no longer exist. Werner [the head of Mercedes Benz] asks me if I'm all right for cash: German pragmatism. Hughes [the head of General Motors Europe] asks me how old I am. He is 46 and stressed out. Not at all, I prophecy to him, you'll be the next number 1 at GM. Yes – he says – that's how it'll be at 50, but at 55 what will I ever do again? I look at him, dazed [...].

It seems to me that I'm violating the principle of reality, recounting something that cannot be true, that didn't happen to me. I shall never see many of these men again, ruthless competitors they may be but they look at me with respect: I've been in the business longer than them, I have never cheated, and over the years a subtle but very human rapport has been built up. These feelings soothe my pride regarding my expulsion on [...] Romiti's part, but they increase my sense of bitterness.

On 18 January 1996 I was back in Turin:

I learn from gossip that the Fiat Auto meeting will be held on Tuesday and that the new CEO will be Testore. Poor Francione [to whom Testore reports because he is currently head of Comau] tells me that Cantarella has not even spoken to him and that, when he asked Alessandria, he learned that for Comau they will give him Marinsech [Fiat Auto's man in Poland]. "Give him", if he is still in his job.²²

At that time Roberto Testore was head of the Comau sector, and I held him in high esteem, so much so that I had thought of mapping out an important career for him. Very young, he had never worked for a big company, and had never had anything to do with cars, or great industrial complexes, or sales in international networks. To make him head of Fiat Auto, Italy's biggest industry, was a decision that involved an extraordinary, unacceptable risk, a decision justified only by the company's haste to conclude the business of my dismissal and by the fact of his previous service under Paolo Cantarella, who thus hoped to ensure himself a

²² Francione was forced to leave immediately after my departure.

“puppet government” in Fiat Auto. I thought that Testore would have been the one who that premature nomination would damage most. I had to send another letter to Gianni Agnelli to prevent any future misunderstandings:

I learn this evening from Mr Alessandria, who tells me he is speaking in a personal capacity, that during the plenary meeting of Fiat *dirigenti* scheduled for tomorrow, the announcement will be made of Testori’s designation as successor to Cantarella as the CEO of Fiat Auto S.p.A. I have been (for five years) the Chairman of the Board of Fiat Auto and nobody has informed me about this matter; to the best of my knowledge none of the other board members have been informed. Certainly this confirms “Romiti’s incomprehensibly and pointlessly ferocious and provocative attitude towards me” of which I already complained in my letter of the 11th of this month. Moreover I believe that a minimum of formal correctness regarding the functioning of the Boards of the companies in the Fiat Group should be maintained at least on a level of appearances, to justify their existence when this is convenient.

At this point my diary reads verbatim: “[Agnelli] will then say that I am right. For two years he has continued listening to me and saying that I am right—and then he sticks it up my...”.

On 31 January 1996 I took part for the last time, and without speaking, at a meeting of the Fiat Board. Carlo Gatto explained the figures for the past and the future, which I knew so well. Paolo Mattioli described the last act in the New Holland operation, Fiat’s call on the remaining 51 % of the North American company responsible for managing credit, an option already foreseen in the original contract. The cost was 28 million dollars, less than one year’s profit, and it was predicted that in future returns would have greatly increased, when funding would have become independent of Ford’s. I wrote down in my notes: “[Buying] a [credit] company with loans outstanding of 2.5 billion dollars in the world’s most important market at that price] is an extraordinary deal. There is reticence [in the course of the meeting], because matters concerning New Holland are too closely linked to me, and even though they can’t be deleted, they can at least be undervalued”.

Surprise!

On 19 January 1996, a Saturday, two officers of the Guardia di Finanza rang my doorbell and, with all courtesy, they invited me to present myself on the following Monday at 10 a.m. before the deputy prosecutor of Turin, Giangiaco­mo Sandrelli, to answer questions concerning Fiat and Iveco insofar as I was a “person acquainted with the facts”. In the course of the previous year the public prosecutor had already heard many Fiat *dirigenti*. For example, in June he had summoned about thirty people, mostly former managers, and asked them whether they had received salaries abroad in the past. I had not been called then and it was evident that this time it was a matter of something less specific and more important.

I immediately made an appointment for Sunday morning with my lawyers in Milan, Cesare Pedrazzi and Francesco Mucciarelli, who had defended me at the time of the Clean Hands affair. Then, in the evening, I went to the auditorium in the Lingotto,²³ where the pianist Maurizio Pollini was to give an eagerly awaited concert, and there, in the seat next to mine, I found Vittorio Chiusano, Fiat's, Romiti's and Mattioli's principal lawyer throughout Clean Hands. I did not even think of saying anything to him but I found the matter extremely amusing: there's the tricks of fate for you!

Pedrazzi and Mucciarelli advised me to go the magistrates alone, without their accompanying me, because the form of the summons suggested that I was not the one under investigation. "Moreover", they said to me, "be careful: you will certainly be under surveillance. Don't think of getting in touch with anyone beforehand and, even more so, stay well away from via Bligny", i.e., from Chiusano's office in Turin. I smiled, recalling the concert of the evening before. Gandini, Fiat's in-house lawyer, later told me that this obvious and sacrosanct precaution of mine had been deemed a betrayal by the interested parties: Romiti was kicking me out in a mean fashion after two years of suffering but, according to him, I should have broken the law and risked the due penalties by agreeing upon my statements with his lawyer, Chiusano.

The long, five-hour interview with the Turin judges was frank and at times even cordial. The head of the Prosecutor's Office, Marcello Maddalena, got started with a little speech the gist of which was as follows: "We know that you have been shoddily treated by Fiat, after many years of work and success. In your state of mind you will finally agree to breach the wall of silence surrounding Cesare Romiti and to answer our questions, telling us how things really stand regarding the kickbacks paid by Fiat. In fact, more precisely: we already know many things for sure but we want further proof. We need your authoritative confirmation in order to face Romiti with his responsibilities".

They never got that confirmation from me and I said nothing that could harm Romiti or others, apart from irrelevant things, such as [the fact that] Romiti and Mattioli had joined Fiat together and holidayed together.

Instead I talked about the practice regarding "undocumented expenses", which the public prosecutors had explored for a long time during the previous months and was recorded in the official minutes of the Boards of the companies concerned. Under this accounting label, every year almost all the companies in the Group pay a sum equivalent to a few thousandths of their own turnover to Mrs Olga Carbonatto. This lady, who had an office on the seventh floor of corso Marconi, had been Vittorio Valletta's secretary in the Seventies, I believe, while now she devoted herself exclusively to her duties as confidential cashier. The Board of each of the companies provided their own CEOs with a formal disclaimer, including a clause imposed by the Legal Services of the Holding

²³ Translator's note: a concert hall in Turin, designed by the architect Renzo Piano, and dedicated to Giovanni Agnelli Sr.

Company that excluded any kind of use that might make anyone think of a violation of the law regarding wage payments. The sums paid out were not deducted from income tax returns and so the tax authorities had no objections; in point of fact the operation cost the company twice the nominal figure. During the year those who needed to make “confidential” payments went to Mrs Carbonatto and withdrew what they required in cash. The disclaimer procedure was obviously known to all the board members who succeeded one another in dozens of companies for about twelve years, and the sequence of withdrawals was likewise known to the CEOs and to their numerous co-workers: a large number of people, well above a hundred. Many Sectors paid out far more than they withdrew, as I confirmed to the public prosecutors had been the case with Iveco under my management. Out of good manners, the Fiat *dirigenti*, the Board members and the Auditors never asked, once what had to be paid had been paid, whether any cash was left and, if it was, where it ended up.

When the system was introduced, in the early Eighties, I was head of the Components Sector and I tried to oppose it. It seemed absurd to me, also because of my training in multinationals run on Anglo-American lines, that even in the most formal and constant documents of every company, the minutes of the Board meetings, the fact was recorded that there were “undocumented expenses”. In the future somebody might have been curious to know about what had happened to that money and I imagined that this could have been a source of embarrassment to management. But my opposition met with no success. The head of the legal office, Ezio Gandini, came specially to my office in via Campana and he told me to keep quiet about it. At that time I accepted the system as did all my colleagues, but when the Turin magistrates investigated the use of that money, Cesare Romiti ran into several problems. In fact in the Nineties the investigators arrived at a rather accurate assessment of total disbursements made over the entire period. Some newspapers reported, without receiving any denial, that Romiti had given the following two principal justifications: paying journalists and engaging in industrial espionage. The international financial and economic community consider both such actions, above all the second, as ethically far more reprehensible than paying kickbacks to obtain orders. Kickbacks are certainly not approved of but are tolerated as an inevitable evil also because they are often more a matter of extortion than corruption. On the other hand, industrial espionage is execrated everywhere and those who practice it automatically place themselves beyond the pale. I cannot imagine why Fiat could have need of espionage, how it would manage to practice it or what use it could have been. I find it odd that Romiti’s self-accusation, if he really made it, went almost unnoticed in Italy and wholly without any consequences. Perhaps, from his point of view, it was a good idea to involve the gentlemen of the press without identifying them by name. Unfortunately the Fiat Group came out of this looking very bad indeed abroad, where its reputation was already compromised. In my assessment, it would take years to recover.

Sandrelli plied me with questions for many hours; his skills as an investigator were far superior to those I had experienced with Antonio Di Pietro three years

before (even though the Turin prosecutor's office never permitted itself those coercive, efficient but highly debatable procedures that had been the practice in Milan). In the end, Sandrelli and Maddalena began to show concern about what seemed to be my inexplicable loyalty to Romiti. If I maintained an attitude that might strike them as a code of silence (the public prosecutors must have known many other things about which they were seeking confirmation) then why was Romiti sending me away instead of rewarding me? What was behind this? What was the true nature of my relations with him and with Fiat? As far as I was concerned, the monstrous danger was looming that my role as COO of Fiat might be misunderstood and misinterpreted, distorted in goodness knows what way. All I could do was describe my various duties in the Group and I must admit that, once I left judicial terrain to move on to industrial matters, I did so in a frame of mind that was midway between amusement regarding the curious situation and a personal gusto for the fact that I was obliged to say what I said. While Cesare Romiti had tried to wipe out my identity and deny my existence, as I had written shortly before to Gianni Agnelli, destiny was offering me the extravagant opportunity to put that identity and that existence on record for future reference, in the eternal archives of a court. It did not matter to me if my testimony would be divulged at a later date. Had Cesare Romiti perhaps shown me any respect? I said:

I believe that I have made an extraordinary contribution to the fortunes: of Iveco [...]; New Holland [...]; and Fiat Auto, of which I have been Chairman since 1991 [...]. Wherever I have been sent, and they were extremely difficult situations, I finished my mandate with successes for the Company. This is why I believe it is unjust and inconvenient for the Company to decide not to assign me to any further role, a decision that I hold stems from Mr Romiti.

And further:

[Fiat's financial sector] is controlled by Mr Romiti, whose experience and knowledge makes him the most competent man in this field. But he is less competent in the industrial field (I do not recall any industrial project that sprang from Mr Romiti's initiative, while I have noticed that some statements made by Mr Romiti – expressed as his own – are the result of ideas put forward by those in charge of the various sectors, or by me).

Excessive? Perhaps. But after the vicissitudes of the last few years and those of the last few months, what reserves of fair play could I still count on?

After these statements, a relaxed atmosphere was established in the office and I found myself talking to the magistrates in an almost private manner, as men of the world curious to reason about and understand the psychology of the circumstances. Together, we put forward suggestions regarding the reason for the reversal of Romiti's attitude towards me in the autumn of 1993 and analysed the degree of probability of each. I had the impression that the judges, in some unspoken fashion, sided with me. The fact remains that the questioning had a paradoxical outcome. I, who had been subjected to shoddy treatment on Romiti's part, did nothing to worsen his position on the substantial level, namely the criminal one. But I said terrible things about him in human and professional terms, things that

could not be used against him in court but that certainly “hurt, and hurt very badly”, as a writer about Fiat matters commented on reporting the story to the public.²⁴ Without a doubt, I took his hatred of me to critical levels, this time, I must admit, with some good reasons.

At the end of the interview, Sandrelli asked me to return the following day accompanied by my lawyer because he had to ask me for information concerning Iveco in connection with the proceedings that Antonio Di Pietro had implemented in my regard 3 years before. On 22 January 1996 they held the annual meeting of Fiat Auto *dirigenti* at Mirafiori. The central part of the first row of seats, in the great hall used for the assembly, was reserved for Gianni Agnelli, Cesare Romiti, me, and Paolo Mattioli, in that order. And so I found myself sitting beside the personage about whom I had expatiated for such a long time with the magistrates the day before. As usual, he did not say a word to me but after half an hour I was the one to lean over and tell the two on my left, him and Gianni Agnelli, not to be surprised if I left before the end, because I had to continue my testimony before the judges of the Turin court. Romiti reacted like a man obsessed without thinking over what he said. The judges should not interrogate me, he said vehemently; I should not present myself; and he would have the testimony annulled. It was obvious that nothing had come out so far, that he had not foreseen this move and that he did not expect anything good from me. Then he turned to Agnelli and said to him in harsh tones that he was fed up with suffering and paying for everybody. I left.

I immediately understood the reason for the second round of questioning. Giancarlo Boschetti, who I had nominated as my successor as CEO of Iveco, had sold a good number of heavy lorries to the Cementi Ravenna²⁵ company some years previously. In order to succeed in this, he had agreed to bill the vehicles to the customer with a surcharge on the agreed price and to transfer the difference to him in Switzerland. I was glad when Boschetti, very proud of his work, had told me about this commercial success, because until then Cementi Ravenna’s total preference for our competitor Mercedes Benz had been a source of regret to me (and I don’t have the slightest proof, but not even the slightest doubt, that the Germans had used the same transfer procedure previously). Giancarlo Boschetti did not know the use his customer would have made of the money abroad until, in the course of the Clean Hands inquiry, it emerged that the group headed by Raul Gardini had dipped into “black” funds from many sources in order to pay kickbacks in Italy. When he found himself under investigation, Boschetti could not come up with anything better than to seek an interview with the head of Cementi Ravenna, but his was a naive decision, because the investigators had put a “bug” under the table with which they recorded everything he said, and trapped him. Boschetti explained to the judges

²⁴ Andrea Pamparana: *Cesare Romiti*, Tullio Pironti, Naples 1997.

²⁵ Translator’s note: a large cement factory, controlled by Raul Gardini.

that the sum had been paid through a non-domestic transaction and had come from the German company Iveco Magirus in its capacity as a manufacturer of heavy vehicles, a manufacturer that had granted an extra “discount” as long as it sold its products.

Without ever mentioning this matter, Sandrelli questioned me at length about Iveco’s intercompany billing systems. I explained to him that normal supplies were regulated by a price list of internal transfers, the transfer prices,²⁶ which were in the memory of Iveco’s central computer and were automatically attributed. Everyone knew about this practice, not only common to all multinational companies but obligatory for tax reasons. Then I explained that exceptions were made when large numbers of lorries were to be sold (implied: as was the case with Cementi Ravenna):

In extraordinary cases there are negotiations with the producer [implied: Germany] and the seller [Italy]. An agreement is reached. Such negotiations concern not only the discount, but also the details of the order.

The sentence confirmed the possibility that there had been a transfer in Switzerland from Germany, as stated by Boschetti. And the next sentence completed the picture:

The [sales] network then bargains with the producer [...]. And between the producer [read: Germany] and the network [in this case Italy] an agreement is made about a new share-out of the margin. [...] Normally the producer is the one with greater flexibility.

These sentences provided Boschetti, on a silver plate, with support for his argument regarding the German origins of the foreign funds destined for Ravenna and I had absolutely not lied to the judges by making a distinction between what normally happened and what could happen in exceptional cases. The judges had asked me nothing about the specific case but only about theoretical considerations. On the basis of this testimony a story was cooked up within Fiat that, as we shall see, was used against me for an ulterior and most unpleasant vendetta.

An Encounter in Davos

At the end of January 1996, I took part in the World Economic Forum in Davos, with a different spirit to that of the previous year. On Sunday I was met by Masoero, a member of the Fiat Press Office who had to accompany me to a round table held by “The Wall Street Journal” in which I participated as a

²⁶ The national manufacturing company was remunerated by the selling company on the basis of a predetermined price list, officially drawn up for tax purposes. In its turn the latter delivered the product to the dealers, so that any discounts granted them were recorded in the selling country, not in the manufacturing one.

speaker. The press room of the Palazzo del Congresso was tiny and unbelievably packed, plainly insufficient for the increased size of the event. When, together with Masoero, I emerged from the lift on the second floor, it was inevitable that in the cramped space we physically collided with a somewhat portly gentleman who was trying to get in. We all squeezed up but had to bump into one another, and it was impossible for my poor companion to pretend he had not recognized the person.

Clearly embarrassed, he said hello and introduced me. “Pleased to meet you, Alan Friedman”, he said in heavily accented Italian.

I looked at him in curiosity: I had never met the devil before. And for Agnelli and Romiti the American journalist really was a reincarnation of the spirit of evil, after he had dared to investigate certain past affairs and then describe them in some successful books. Friedman stared at me, trying to locate me in the map of his memory; we made a little small talk and went our separate ways to the obvious relief of my guardian angel.

After I had explained my recipe for definitively solving the problems of Eastern Europe to the participants in the round table, I went back to the hotel and let Masoero return to the airport because I did not want to get a good person into trouble. Only then did I retrace my steps. Friedman was sitting in a little room measuring two metres by two, with a glass door, busily writing on a portable computer. He saw me on the other side of the glass and understood immediately.

“Why don’t we exchange a few ideas” I said to him.

“Let me finish my article for ‘The International Herald Tribune’ which is about to go to print; at ten this evening I’ll be at your hotel”, he replied.

At three in the morning and after five hours of conversation, Friedman had received a brief but complete account of my story as I have told it, at greater length, in this book. In exchange, I learned a small part of his life experience. It was the first time I had exchanged simultaneously so much private information with a journalist I had just met. Friedman did not strike me as the bugbear that Agnelli and Romiti usually described, but as a sensible and amenable individual, open to dialogue. Inevitably, we became friends. We decided we would keep the information I had given him to ourselves, as we awaited events. But I had attained an objective that not even the Turin judges had been able to guarantee me: my authentic version of the story was now known to the international media.

Negotiations are Deadlocked

Before the middle of January, I had accepted the conditions of my departure proposed to me by Franzo Grande Stevens, yet one month later I still had not managed to have the written contract that he had seriously advised me to require. I was sure that there was some deception behind the delay and this unpleasant feeling

made me very anxious. Owing to this delay, before leaving for Davos I had had a meeting with Gianni Agnelli in which I had been frighteningly tough, so worked up that I forgot to leave any trace of it in my diary. I wanted to know why I was being dismissed in such an unpleasant manner if, as he said, he held me in esteem and if, as he also said, not even Romiti had ever spoken badly of me to him. It was clear, I said to him, that he was being blackmailed, as was maintained in well-informed circles. At this provocation, I expected to be hurled from the eighth floor. But nothing happened.

And by 7 February my contract had still not arrived:

Ultimatum to Grande Stevens: 48 hours for my exit contract. He says I am right not to be trusting, that he doesn't understand the reason for all this ferocity towards me (he says: according to Machiavelli, your enemy "is either to be killed or blandished, but you don't make him become ferocious"), that nobody had even spoken badly about me, that I shall have a shining future (and Fiat would have to help me in this sense, if it no longer wanted me). All nice things. I tell him about the summons to appear before the judges (he knew) and my furious outburst with Agnelli (he hadn't said anything to him).

8 February:

[The head of Human Resources,] Alessandria arrives with his usual contrite air and says he can't give me my contract because it has to be seen by the Board. Romiti's game is to impose it upon me like a diktat, inalienable and unmodifiable, and to keep me on tenterhooks until the last moment. I tell Alessandria everything I think and ask him to convey it to the interested party without any rephrasing.

Those board members who, I was told, were held to approve my severance package, had taken absolutely no part in the far more important decision to dismiss me and had been informed when the matter was a *fait accompli*; perhaps they had got the news from the press. On 9 February:

They're worried: Agnelli calls me and in my presence orders Alessandria to bring the draft of the letters. In this way [...] I discover that they contain a five-year non-competition clause that prohibits me from engaging in any activity throughout the world, in connection with all of Fiat's countless activities and conditions almost half of the price of my departure.

It so happened that the letter of 2 April 1992, which offered me an extraordinary parachute during the "Great War", contained a non-competition clause. At that time I was paying so little attention to my personal affairs that I had not noticed. Now the clause had been lifted from the original text in a repressive manner, i.e., to cover a large number of units (all those in which Fiat's major Sectors operated), throughout the world and for a good five years' duration. A contract of that kind would have been legally untenable anywhere, and especially in English-speaking countries, because it effectively excluded a person from the possibility of working according to his capacities and experience: in America the duration could not have exceeded three years while product and geographical coverage would have had to be partial; but in Italy the civil courts were not easily accessible on topics of this kind. The contract that precluded me from working for 5 years during the final part of my career, between 57 and 62 years of age, certainly could not be considered preferential in terms of my pension package: it was a payment in exchange for my non-competition, a large payment but one whose

overall convenience for me was debatable.²⁷ When I reacted to the news, Agnelli's attitude was a model of inconsistency.

"You can hardly want me to find you running John Deere or Ford Europe", he said, scandalized, "they would say I have damaged the Company".

"But if I'm worth something, doesn't sending me away damage the Company?". No reply. It was obvious that he had been primed because, to all my proposals to reduce the drastically tough terms of the non-competition clause, Agnelli interrupted and took his cue from the new duo at the top together in Romiti's office. I felt a physical pain on thinking that, in the next room, Paolo Cantarella was using his talents with a view to preventing me from working again.

I said as much to Agnelli: "Cantarella: I have always spoken well of him". Agnelli corrected me: "Always thought well". But now Cantarella no longer showed his face and seemed worried only that I might go who knows where in the Third World to compete against him. On 14 February I had the umpteenth meeting with Agnelli:

During the latest meeting with Agnelli, as usual, I do not mince my words, and the presence of Grande Stevens is a help. With that contract [of non-competition] Romiti will crush me, wherever [I go] and whatever I do. I remember the directives he issued to destroy the companies in which Ghidella had invested his money: Graziano, for example, directives that from Iveco I had not followed because they damaged Fiat in order to damage Ghidella. I make a counter proposal that seems reasonable to me [...]. Otherwise they should give me more money. I also ask for 3 years and not 5 [of duration of the clause] ("amnesty for Fiat's centenary!"²⁸).

Gianni Agnelli was curious to know what I had said to the judges, because at that time all that was known were only leaks in the press. Had I spoken so badly of Romiti? But the thing that irritated him most was that I had revealed Umberto Agnelli's total lack of esteem for Cantarella. I reaffirmed that no one, judges included, understood why they were getting rid of me and everyone thought that there must have been the devil knows what behind this. Apart from revealing nothing relevant against Romiti on a legal level, I could not praise his performance before the public prosecutors without their imagining who knows what recon-dite deception. I did not tell him that I had also permitted myself a good deal of satisfaction.

The meeting came to nothing because Agnelli had to speak with Romiti and Cantarella. On 20 February we were still at the same point:

I meet Alessandria and Gandini. There is no way to have the contract, even though I propose the usual formula of subjecting it to the Board's approval. Romiti and his perennial arrogant attitude: he wants to keep me on tenterhooks all the way. I run through my story for the benefit of my two interlocutors. Gandini says, please don't get us involved in this,

²⁷ I was informed that Romiti immediately gave Paolo Cantarella and Giancarlo Boschetti a contract with an extremely high remuneration, with five years' duration and devoid of any connection with company results. The practice was unusual for Fiat managers, the duration was extraordinary and, above all, by avoiding any form of incentive connected to results, it was a contravention of a policy that we had set up with great determination in Carlo De Benedetti's day, a policy that Romiti himself had espoused and took every opportunity to boast about regarding the accomplishments achieved in the field of the entrepreneurial approach to management.

²⁸ Translator's note: Fiat was established in 1899.



Fig. 12.2 The front page of the “Herald Tribune” of 22 February 1996

I am almost a colleague of yours, we could have been on first name terms; and put your mind at rest: against Fiat individuals count for nothing.

The International Herald Tribune

Alan Friedman published the news of my stormy exit in “The International Herald Tribune” of 22 February 1996, ahead of the effective date of 29 February, something we had agreed on to avoid the impact being diminished by the communiqués that would have arrived at the end of the month about Romiti’s committal for trial and his taking over as Chairman of (Fig. 12.2).²⁹ The headline of the front-page article read: *Fiat Fires No. 3 Officer, Days Before Agnelli Goes—Embittered Garuzzo Is Credited With Firm’s Return To Profitability*. Alan Friedman gave the news immediately in his characteristically concise style:

In a bitter company reshuffle in one of Europe’s major car manufacturers, the Fiat Group has dismissed a top manager who helped it return to profitability in recent years.

²⁹ The news had already been mentioned by Griffith in the “Financial Times” of 30 January 1996 with some essential elements. But the press office had managed to avoid the item being picked up in Italy and in any case the article lacked the depth that Alan Friedman gave to it.

Friedman's article then reported some words of mine:

"I am leaving against my will," Mr. Garuzzo, 57, said in a telephone interview Wednesday. "Romiti didn't want me here and Romiti had me fired. I was given no explanation for my removal. I love Fiat and I have done my best for the company these past 20 years. While Mr. Garuzzo said he was fired without explanation, court documents show that he told the Turin prosecutors last month that he had been "torpedoed" by Mr. Romiti, who had been "cold and hostile" to him for the past two years."

And further:

In the interview, Mr. Garuzzo said, "Romiti and I have a different approach to life and to business, and I am very proud of my work at Fiat."

After having cited Romiti's legal problems, the article continued like this:

European automotive analysts were unanimous Wednesday in their praise of Mr. Garuzzo, who is widely credited with having steered Fiat back to its core vehicles businesses in recent years.

Before the publication of the article, Friedman, ever cautious, had contacted seven or eight financial analysts throughout the world and all, no one excluded, had spoken highly of my work to him. Needless to say I was enormously pleased when, once this was done, he quoted names and comments. The words of the analysts that gave me most pleasure, perhaps worth a lifetime of work, were those of Dagmar Bottenbruch, an analyst with Credit Suisse First Boston, who in the early Nineties had been a ferocious critic of Fiat's shortcomings³⁰:

He [Garuzzo] was very popular with institutional investors because he came across as very honest. He had a lot of credibility.

These words cost Ms. Bottenbruch an immediate telephonic rebuke from Romiti, as she told the journalist years afterwards.

I admired the precision and accuracy of Alan Friedman's report because among the things I had told him he had cited the most expressive ones, memorizing them with such meticulousness that I could have put my name to them. Above all I appreciated the fact that he had repeated with my exact words two things I had told him with great conviction: that I wished Fiat well and that I did not agree with Romiti's concept of business or with his understanding of life. Words that caused a sensation.

Previously, Friedman had called Ernesto Auci, the head of the Fiat Press Office, to listen, as was proper, to his version of the facts. But without results. To the key question as to why Garuzzo was out the answer had been:

"The shareholders decided this".

"Why?"

"Because they did".

On that occasion, Auci had failed to grasp the concept that even the shareholders must have a reason and are obliged to provide some explanation, especially if they control a listed company with a small majority, and act unbeknownst to all

³⁰ For example, in 1990 Ms. Bottenbruch said to the press: "Poor quality production [could] reveal itself to be the end of Fiat [...]. If people buy a car, especially a luxury car, they don't want to find screws all over the carpets. And they go crazy if the wing mirror falls off after three months and then the car breaks down on the road before it's one year old".

Corriere della Sera

ECONOMIA

Intervista del direttore generale all'«Herald Tribune». Stupore in Corso Marconi: un'uscita che non riconosce i successi del gruppo

L'addio polemico di Garuzzo alla Fiat

«Romiti non mi voleva e mi ha licenziato. Visione opposta di vita e affari»

MILANO — Giorgio Garuzzo se ne va. E lo fa in modo polemico: il direttore generale della Fiat lascia il gruppo e sceglie le colonne del quotidiano internazionale *Herald Tribune* per annunciare la rottura del rapporto fiduciario con Corso Marconi. Un'uscita clamorosa. Che fa un gran rumore anche perché avviene a una settimana dal consiglio d'amministrazione che dovrà ratificare i cambiamenti decisi da Giovanni Agnelli ai vertici della holding torinese, con Cesare Romiti alla presidenza e Paolo Cantarella nella poltrona di amministratore delegato. Non a mesi termini, Garuzzo. E sbatte la porta. «Me ne vado contro la mia volontà. Romiti non mi voleva e Romiti mi ha licenziato».

Da un mese almeno si parlava del probabile addio del direttore generale. Nessuno, però, si aspettava una rottura tanto traumatica. E soprattutto un intervento pubblico così denso di toni polemici. Tant'è che, ieri, molti

tore delegato sarebbe stato qualcun altro. Quindi, il direttore generale parlava da quasi un anno che non avrebbe fatto il grande salto. E dopo la designazione ufficiale di Cantarella si era creata nei fatti una sovrapposizione di competenze: una situazione delicata, come ammette la stessa Fiat, ma che «a parte della normale filologia aziendale» e che il gruppo stava cercando di risolvere. Evidentemente, qualcosa nelle trattative non deve essere andato per il verso giusto. E Garuzzo ha anticipato l'annuncio ufficiale della holding, che certamente sarebbe stato più sensato apparendo la sua verità dalle pagine di un quotidiano internazionale.

Gli atracci della conversazione telefonica riportati dall'*Herald Tribune* sono intercalati dalla posizione ufficiale della Fiat ma anche da opinioni raccolte qua e là tra gli analisti. Lo stupore, a Torino, cresce. Garuzzo, per esempio, viene presentato come l'autore dei successi di au-

IL PERSONAGGIO

E il piemontese taciturno parlò in inglese

«Romiti non mi voleva e Romiti mi ha licenziato». Così, secco. E poi ancora più pesante: «Io e lui abbiamo una visione completamente opposta della vita e degli affari». Giorgio Garuzzo, questa volta, ha fatto quello che nessuno a Torino si sarebbe mai aspettato. Tanto meno da lui, piemontese fin nel midollo, tiglio e schivo ai limiti del parossismo. Non ha soltanto anticipato sei mesi termini l'annuncio di dimissioni del direttore delegato e prossimo presidente della Fiat. Ha accreditato con il suo sfoggio affidato alla prima pagina dell'*International Herald Tribune*, l'investigazione etica che in Corso Marconi si legge da sempre: i dissidi, quando ci sono, si risolvono in casa. Senza polemiche e soprattutto senza abbondanti rinvii alla stampa.



A sinistra: Giorgio Garuzzo. Qui sotto, Paolo Cantarella e, in basso, Vittorio Ghidella

«Giuglia una prima avvisaglia dei disastri riferita dal Financial Times — ma un quotidiano internazionale come l'*Herald Tribune* è tanto più se l'intervistatore non è un giornalista qualsiasi, in tanti avevano cercato Garuzzo. Lui ha scelto Alan Friedman: per chi non lo ricordasse, tra l'altro l'autore di Tutto in fami-

e sagliente di fronte alla rottura di un rapporto fiduciario. L'uomo concreto, riservato, all'apparenza persino timido, alla fine ha posto una carta degna delle più abili carte di Palazzo. Che nessuno, appunto, si sarebbe aspettato. D'altro parte, che segnalare avrebbe potuto dare l'intero suo curriculum. La lezione, a me pare

di Carlo De Benedetti, era suo assistente alla Ghidellini quando l'ingegnere approdò in Corso Marconi per quelli che sarebbero passati alla storia come i suoi cento giorni alla Fiat. Poi De Benedetti rompe e già il Romiti ha il suo peso, ma Garuzzo resta. E quando passa all'Avco fa il grande salto.

E 194 i settori industriali fatturano 4.500 miliardi e ne perdono 150. Sei anni dopo le vendite sono a quota 8 mila e gli utili a 605. Il nome Garuzzo continua a dire poco fuori dalla porta dei delegati ai lavori, ma il si conoscono la sua forma di risolutezza e manager di statura internazionale. Sono proprio Agnelli, Cantarella e Romiti a riconoscerlo i meriti, nel '90 arriva la proposta di assumere il direttore generale. E il 2000, nel '92 la nomina a



Al centro: Paolo Cantarella. A destra: Vittorio Ghidella, amministratore delegato di Fiat

Fig. 12.3 The reprise from the Corriere della Sera on the following day, with the pun “The taciturn Piedmontese who spoke in English”

the others: basically, the person who had signed the decision (Gianni Agnelli) held in all about 7 % of Fiat's ordinary shares (Fig. 12.3).

The Italian press cut loose: with regard to a news item of this kind that came from abroad, censorship could not work.³¹ The next day I wrote in my notes:

³¹ “l'Unità” (Dario Venegoni) noted that “with Garuzzo, Fiat is depriving itself of one of the originators of its recovery, as happened several years ago with Vittorio Ghidella”. And further “Garuzzo, who joined Fiat several years ago with Carlo De Benedetti, whose personal assistant he was, has proudly emphasized his independence for years. He was not a ‘Ghidella man’ nor, certainly, a ‘Romiti man’. He was a champion of the Piedmontese school, of those ‘who work and that’s that’”. “l'Unità” continued by suggesting that matters had to do with my testimony before Sandrelli (“scant solidarity towards the number one before the judges [...] is a grave sin in Turin”). The “Corriere della Sera” devoted a five-column article to me (“And the reserved Piedmontese spoke in English”), even sweeter: “Garuzzo, the unassuming Garuzzo, has had recourse to a most subtle and mordant response to the breakdown of a fiduciary relationship”. Raffaella Polato put it just like that. And the capacity for introspection of this journalist, who I never met, is remarkable. “It is anything but Piedmontese to have chosen the press in order to give his reasons free play openly. All the more so if the press is not the Italian press — which a month ago had already let slip a first sign of the disagreements reported by the “Financial Times” — but an international daily such as the ‘Herald Tribune’”. And further: “The slap in the face dealt by that interview-accusation of Romiti will not earn him the approval of the establishment”. It was absolutely true and it was something I had taken into account. The Turin daily “La Stampa”, in an article signed by f.man., was most cautious. It published my photo, something that hadn't happened for months after the abundance of the good years, and it stated that Friedman had attributed me (in a “ridiculous” fashion) with the credit for the success of the Fiat Punto and the Fiat Bravo and Brava “unquestionably Cantarella's creations”. But Alan Friedman had absolutely not written or said anything of the sort.

Echoes in the Italian press, of all kinds and types. The goal has been attained: I emerge looking good, more or less, but twenty years of my past has not vanished like a soap bubble. It is established that I existed.

The Conclusion of the Talks

Immediately afterwards, Gianni Agnelli called me again and I found him with Enzo Gandini who went straight to the point. Why had I dared to ask for a written exit contract? Why had I dared to say they had kicked me out? Why had I dared to provoke Romiti, a man who never backs down when it comes to a fight? Why had I talked to Friedman? Then he got down to brass tacks: I had to sign a letter of rectification with regard to my testimony before the judges. Some time before, following one of my furious outbursts, Gianni Agnelli had decided a move on his own initiative and, concerning my severance package, he had added three billion lire not bound by any non-competition clause. Now Gandini, in Agnelli's presence, made the payment of this sum a condition of my signing a letter of rectification to the judges. I treated them like psychopaths. Did they want me to vanish like a bubble of soap? Yet with some blandishment they would have saved half of my severance package and all my insults. Agnelli, with understatement, admitted that the talks could have been conducted better.

The conversation continued shortly afterwards on the telephone with Gandini. I had never connected my exit talks to any episode of the Clean Hands affair: I wished to be paid for what I had done over 20 years and because I could no longer have worked in the automotive sector. If he wished to behave differently and connect the things let him keep his damned three billion. Not to put too fine a point on it: I had never engaged in blackmail but I was not prepared to accept it either. I wrote in my notes:

He doesn't back down, very tough indeed. He almost goes as far as to make my [entire] severance deal conditional on the signature of the letter of rectification to the judges, pretending to be unaware of the agreements already made with Gianni Agnelli and Grande Stevens. This last was right when he told me that if I had found myself dealing with the duo Romiti-Gandini the shit would have hit the fan.

Only once does he become almost human. He tells me that Romiti wanted to sue me when he read the court testimony. He is – he says – furious. But the fault is mine, you don't counter company decisions, you submit to them. He, for example, is 67, he knows that if Clean Hands finished today he would be shown the door immediately and if Romiti met him in the corridor he would no longer even say hello. Certainly – he lets slip [...] Romiti's age is beginning to make itself felt...

The business of the letter of rectification was not clear to me. As I have already mentioned, I had said nothing to the judges that could add to Romiti's troubles and that was not already public knowledge. Now Fiat's lawyers were concentrating on a phrase in the testimony whose venomous import had eluded me. I had no intention of changing anything; yet I could agree to rectify the interpretation that somebody might have made. I would not, therefore, sign the letter addressed to Sandrelli that

had been presented to me, but I would have drafted another one addressed to my lawyers with statements they had prepared for me and that could have been used in case of need, with a view to specifying my thoughts in detail in case of future misunderstandings. I never knew if this letter, so cryptic in its obviousness, had been produced later in some way, and, if it had been, with what outcome.³²

29 February 1996

I finally received my contract³³ and the last day came together with the last dirty trick. Gianni Agnelli told me that Giancarlo Boschetti and “another twenty Iveco managers” were terribly angry with me about my statement to Sandrelli about Iveco’s intercompany transfer prices. So I could not remain as chairman of that Company and would have to “content myself” with Teksid, which they deemed far less important. This accusation was contemptible, as I explained previously when I reported the words of the Court testimony, but by now Romiti was riding the wave of general agitation and using denigration in the same way he had done with all his previous victims. I left Agnelli’s office and summoned Giancarlo Boschetti who arrived shortly afterwards and sat down in front of me.

“What did you say to Agnelli?”

“You have damaged Iveco and me with your statements, destroying the line of defence I had agreed on with Chiusano”.

“That’s not true. Do you know what I said? Have you read the testimony?”

“They showed me some of it in Chiusano’s office”.

I looked him in the eye but he was looking out of the window, down from the eighth floor towards the roofs of Turin, in the direction of Mirafiori. I was totally discouraged, I no longer had any desire to say anything, all I wanted was to get out of there.

Everything as Before

It is not hard to imagine what happened to the proposal to have me knighted for services to industry, a proposal that Gianni Agnelli had effectively pursued, by sending—on 21 December 1995—my curriculum to Alfredo Diana, the chairman of the Federation who was a member of the New Holland Board and with whom I had

³² I relate this in its entirety in Document 12 in [Chap. 14](#).

³³ All in all, apart from the severance agreement and the back pay, the contract stipulated: the payment of 30 monthly salaries; the annuity of 555 million lire net per annum, provided I did not work in any way for 5 years in the prohibited countries (all the most important ones in the world) in all automotive fields; the chairmanship of Teksid for 5 years, with an annual retribution of (around) 200 million net; plus an additional one-off payment of 3 billion lire.

excellent relations based on mutual esteem. My name was included in the proposal sent to the Prefect of Police of Turin the following spring, but Romiti wasted no time and the nomination was immediately vetoed, to be replaced by the candidature of Paolo Cantarella, with so much audacity that the *cavalieri* of the city, who had the right to approve the names to be sent to the President of the Republic for the decree, took umbrage: “He could have at least waited for him [Cantarella] to complete a year as CEO”, they observed. And so Cantarella’s turn came the following year.

As usual, the most lucid analysis of the situation came from Umberto Agnelli on the next morning, 29 February 1996, when they asked him what had changed:

“Except perhaps for one person, and I don’t know what he is doing today [!!!], I feel like the overwhelming majority of us: as always, we carry on with our commitment to work for Fiat. Including my son who is working in Pontedera”. In this way Umberto Agnelli, jokingly, replies to those who ask him news of the day after in Fiat.³⁴

³⁴ AGI news of 29 February 1996, at 14.58 h. Radiocor (15.00 h) expunged the reference to me. ADN Kronos (16.09) observed that “with his customary punctuality, Gianni Agnelli, entered the offices in corso Marconi. No change, therefore, in his life on this first day as “honorary chairman”.

Chapter 13

Epilogue

An Extraordinary Experience

Despite the tempestuous conclusion, the 20 years I spent in Fiat were a fantastic period for me. I am enormously grateful to the Company that gave me such an extraordinary opportunity, and the reader of this book knows perfectly well that I do not identify Fiat with anyone in particular, not even with Gianni Agnelli, far less Cesare Romiti (an identification that both of them tried to establish on several occasions). For me, Fiat is all the men and women who have worked or work for it, as well as the two personages mentioned above; they all deserve their collective identity to be recognized, like that of the inhabitants of a serious, active nation, an identity wholly independent of that of the leader of the moment. For my part I tried to respond suitably, expending literally all the energies at my disposal to contribute to its prosperity and growth.

One aspect prevailed over all the others, making my experience a rare case: I always fought on the front line of industrial achievements. Often I endeavoured to expand the area of the Group's activities through acquisitions and joint ventures. Even more frequently I had to deal with complex technologies, factories and products, many of them bold and advanced. Here and there in the book I have mentioned some fruits of Italian ingenuity that I consider worthy of remembrance for future generations, works that I have ranked in an ideal national "Hall of Fame" (in Document 13 of [Chap. 14](#) readers will find a list of the cases I knew about from first-hand experience, for the benefit of anyone who might wish to integrate them with cases they know of in a broader picture of Italy's industrial history). I haven't the slightest intention of claiming for myself the credit for any of those enterprises. Whereas in some cases my involvement was deeper and more significant, in others it was merely marginal; in any case it was always a matter of

collective achievements, to which a large number of people made their contribution, some of whom I have tried to mention by name in these memoirs.¹ As an engineer and an Italian, I am proud of those achievements and having been present in the places and at the time in which they came to fruition, and having been able to make my contribution, large or small as it may have been, is something that fills me with satisfaction.

But it gives me even greater pleasure to remember the large number of persons, many of them extraordinary in one way or another, who I came to know. The people of Fiat, including those who worked in Fiat's orbit, constituted a universe of competence, reliability, and dedication unique in the context of the country, and hard to find elsewhere anywhere in the world.

The Fiat *dirigenti*, in particular, contrary to the current stereotype and the assessments that Gianni Agnelli seemed to make of them in the past, as I said at the beginning of the book, were in my first-hand experience dynamic and open to new adventures, international ones, too, more so than the average of their colleagues in other companies, American, German, French and British concerns included. If this had not been the case, none of Fiat's achievements in the years covered by my account would have been possible. In the course of my countless trips and visits to the Company's enterprises throughout the world, I never ceased to be astonished by what had been done and how it had been done.

On the negative side of the scales, in my judgement of Fiat management, I cannot avoid mentioning a widespread and excessive submissiveness in the face of hierarchical spoon-feeding, blind compliance with the boss's orders, a certain hypocrisy. In private, people understood the situation perfectly but stuck closely to the official line, just as it was expressed in the communiqués and, for the people of Turin, as it was divulged to the city by the company organ "La Stampa". This derived, I believe, from a selection system that did not appreciate any open confrontation of ideas and proposals, despite the solemn statements to the contrary made in the pep talks on official occasions; and this was all the more true the more you made progress in your career.

My vision for the future of the Group, if I had been able in some way to make some further contribution to it, foresaw a strictly "industrial" and "automotive" Fiat, capable of serving as a nucleus of the aggregation and management of other similar international enterprises. I believed it was possible to do for the car what I had succeeded in doing for lorries and tractors. It was necessary, however, to greatly reinforce Fiat Auto and to abandon the provincialism and the culture of power that bound the top echelons of the Group to petty national economic policy. This was the sense of my letter of 1993, at the time of the polemic with Umberto Agnelli. I am convinced that if the Company's top men had been gifted with a

¹ The first draft of this text contained an endless number of names that no editor of good sense could have accepted in a book destined for the public. I was obliged to shift many names to the apparatus of notes and documents (Chap. 14) and to "forget about" others. I apologize but I really could not do anything more than this.

courageous and open-minded long-term view, and if they had had the capacity to abandon the oppressive climate and stimulate constructive dialectic and open confrontation, the future of the great Company, with the large number of well-trained personnel that it possessed at every level, could have been really impressive.

A Question and Suggestions for an Answer

This book is an autobiography and so, by definition, nothing is more important than it was important for the protagonist. In my view, the essential question, which still remains unanswered, is why Cesare Romiti, in the autumn of 1993, changed his attitude to me so suddenly and, after showing me great esteem for seventeen years, to the point of promoting me to the highest levels in the Group, abruptly moved to the opposite extreme and persecuted me implacably, in a pointlessly absurd and vulgar manner. So we can try to repeat the exercise I found myself involved in one day together with Marcello Maddalena and Giangiacomo Sandrelli in the public prosecutor's office in the court of Turin, in other words to attempt to weigh up like good investigators the hypotheses, the evidence and the motives.

The first hypothesis, let's call it "hypothesis 1" is that it was discovered, albeit after a delay, that I was unsuited to do my job, or (a variant of the same hypothesis), that I had been suited to it until November 1992, when I had my last, highly publicized promotion, but that I was no longer suited to it just over a year later. I think we can easily discard this suggestion. Fiat's results were becoming good, in comparison with the awful results prior to my arrival in the *Direzione Generale*. And nobody had ever reproved me for anything: if I really had been inept, someone would have politely pointed this out to me, instead of taking pains to maintain the contrary, as Gianni Agnelli did until the last moment. A further consideration invalidates all the plausibility of this hypothesis: it does not explain the dogged ferocity that was reserved for me. If I had been (or had become) unsuited, Cesare Romiti would have some sought some honourable way to remedy an error that was more his than mine, given that he had known me for almost two decades. He would have had no reason to show me such hatred.

The second hypothesis is the one that Gianni Agnelli sometimes tried to float, without much conviction to tell the truth: that I had done very well but it was my position that had to disappear; I was no longer of service in changed circumstances. This is certainly a canard. After my departure, Agnelli, Cantarella and Romiti continued to do exactly the same things they had done before, albeit with different labels, but my role and my contribution were no longer there, good or bad as it may have been over the previous five years. The situation was summed up by Umberto Agnelli, with his customary sagacity, in his sally of 1 March 1996, which I quoted at the end of the past chapter. And all the more so with respect to the first hypothesis, in this second one I should have received some offer of a solution-reward within Fiat's vast empire, from IFI or Mediobanca, perhaps in the international field, and certainly not expulsion from the register of those practicing the profession of manager, as a consequence of a non-competition clause.

The third hypothesis presumes that I had committed some grave company sin, perhaps unwittingly, as might have happened in ancient Greece when one offended supreme and unknowable divinities. Could my hidden sin concern Antonio Di Pietro and his inquiries in 1993? At that time I had been dragged in by Paolo Mattioli and then by Riccardo Ruggeri and I had confirmed their version to the magistrates, without looking for any way to get off the hook and to shift responsibilities onto others, but gratitude is not a virtue typical of powerful men. On the other hand, I had not supinely accepted the extreme sacrifice of prison, as Mattioli had done. On the contrary, I had battled as much as I possibly could to come to an honourable peace with the Milan magistrates. But it is equally true that I had done everything I could to avoid more serious consequences for the entire Fiat group and its rhinoceroses. Romiti himself recognized that the path was the right one, and that they had saved themselves at the eleventh hour. In conclusion, I believe that this hypothesis is possible but not probable. More probably it is a variant of the third hypothesis, the one whereby my unspeakable sin derived from Umberto Agnelli's proposal in the summer of 1993, which saw me survive in a pre-eminent position in the post-Romiti team. In this case, too, I had behaved with absolute transparency, perhaps even excessively so, as far as Romiti was concerned. But Umberto Agnelli's appreciation of me was a stain that could not be removed from my professional soul, subject to perpetual excommunication.

The most favourable hypothesis for me, the fourth one, came from those who esteemed me: my presence irritated (and, according to persons best disposed to me, even scared) Romiti insofar as it offered a potential alternative. I had never done anything to provide an opportunity for this interpretation. As far as Romiti was concerned, I had always behaved with extraordinary loyalty. When I did not agree with his decisions or attitudes, either I discussed it with him personally or said nothing to anyone else. I even abstained from any irony in his regard, not even that benevolent and normal sort used with superiors, which even his most trusted collaborators occasionally permitted themselves. I had never set myself up as his successor-antagonist, accepting not to figure outside the company so as not to put his manic desire to be at the centre of attraction in the shade. So, if the fourth hypothesis was the true one, it should be ascribed to the man's shortcomings in terms of judgement.

The worst hypothesis for Romiti was the second one, according to which, simply, I had become totally uncongenial to him. If this were so, we would be faced with the involution of a manager's personality, perhaps engendered by excessive stress for a man of his age, which had not only disrupted any sense of gratitude but even any sense of responsibility.

This leaves us with the hypothesis of backbiting, of some scheming on the part of someone who found fertile ground in a man whose capacity for judgement had been damaged by two terrible years, a man who by then divided the world into friends and enemies. Romiti, too, had ended up in the ranks of those who Enzo Amapane, my friend of twenty years before, used to parody with his elbow raised: "glug, glug, glug...". This is a path I do not wish to follow because every suspicion, just like the search for anyone who might have benefited from it, would lead to treacherous ground.

Perhaps the truth is a mixture of all these hypotheses: I had not let Di Pietro ride roughshod over me, Umberto Agnelli held me in a certain esteem, I did not share the Romano-centric philosophy of the manipulation of power or that of the Milanese merchant banks, I represented a theoretically practicable alternative and on this fertile terrain someone had scattered his poison. In an embittered spirit and a rusty mind, that was all it took.

Another Question Without an Answer

More interesting for the story in general would be the answer to a second question that many have certainly asked themselves. Why was Gianni Agnelli so attentive in my regard to the point that he went so far as to deal directly with my case when I was about to leave? He could have very easily done without this, given that it was Romiti who had appointed me and entrusted me with all the responsibilities that he had done: notoriously, it's the one who causes problems who has to solve them. Romiti was well known to be the man who pulled Agnelli's chestnuts out of the fire, but in this case the opposite had happened.

And why did Agnelli drop me in the end so swiftly and without any alternatives?

Basically: why did Agnelli show himself to be such a slave to Romiti's wishes that his attitude became contradictory and disagreeable?

This question borders on another, even more general one; namely, why did Gianni Agnelli keep a man so well on in years in Fiat's most important position, an unusual event in a country with an advanced economy, while showing a trust in him that verged on authentic subjection? Yet, by that time, this person was beginning to make substantial errors of evaluation, as in the cases of the exchange rate losses of 1992 or in that of SuperGemina in 1994, or permitting himself inconceivable attitudes, such as in the Renault-Teksid deal. In my case, too, Romiti had committed a gigantic error, one detrimental to Fiat, an error I would have considered unacceptable if one of my co-workers had committed it: little by little he had infuriated me, but instead of liquidating me "with two pats and a bit of cash", as I had written in my notes, in the end he had the Company pay me to stay at home and do nothing, wasting the shareholders' money and exposing him to my last-minute reactions destined to leave their mark even on him. I leave readers to give the answer they wish to these final questions.

Chapter 14

Documents

Document 1: The Structure of the Fiat Components Sector in 1976

The Components Sector was structured on the basis of six “Clusters”.

The first Cluster, later named Comind, united four Companies that produced car bodywork parts: Stars owned a large modern factory in Villastellone, near Turin, specialized in plastic parts, such as instrument panels, steering wheels, seats and the like; soon it was also manufacturing bumpers in SMC (a new “plastic material”) instead of metal ones; Siem, a producer of headlights and rear lights, was located in the area around La Venaria, the House of Savoy’s old hunting village, in a factory that had once belonged to Snia Viscosa; Ages, also located in Villastellone, was specialized in rubber parts; Cavis was in Felizzano, in the province of Alessandria, co-owned by the Codrino family, and it produced wiring, steering column switches (those complex affairs fitted around the steering wheel) and other contraptions that were not very congruent among themselves.

The second Cluster was an expansion of Gilardini; it included two different areas of product/market. In the field of automotive products, with a specialization in engines, we have: Savara in Beinasco (thermostats, filters, fuel and oil pumps), Cromodora in Venaria (whose serious problems I have mentioned in a note to the text), Weber with factories in Asti and Bologna (carburettors), Motofides in Marina di Pisa (oil pumps for lorries and various mechanical parts). As for products for industry there were the companies from the De Benedetti family: Flexider in Settimo Torinese (flexible metal hoses, expansion joints and other steel frameworks), Industriale in Genoa (piston rings for large marine engines), Sureco in Pero, near Milan (accident prevention); recently I had bought Castagnetti, in the field of water treatment; to them I had added the glorious Whitehead torpedo factory in Livorno.

The third Grouping was constituted by Magneti Marelli. The objective of this Company was opposite to that of the others; it had to give autonomy and know-how to its own operative divisions: rotating electrical motors (onboard alternators

and starter motors for cars), batteries, spark plugs, small motors (windscreen wipers, window winders, etc.). This objective was hard to achieve: in the central building in Sesto San Giovanni, near Milan, there were holed up a swarm of clerical workers and *dirigenti*, with a great yearning for violent and self-destructive unrest; and the big factories in Crescenzago and San Salvo were also virtually unmanageable monsters.

The fourth Grouping was the union of Aspera Frigo in Rive di Chieri and in via della Cacce in Turin (compressors for refrigerators) and Aspera Motors (small lawnmower engines).

The fifth Grouping was made up of Borletti SpA, which produced both auto parts (especially onboard instrumentation and climate control units) and fuses for military use. In [Chap. 3](#) I discuss its particular organizational situation, on the borders of the inside and the outside of the Fiat Group.

Then came IVI, located in Quattordio, in the province of Alessandria (paints for cars) and Fiat Lubrificanti (engine oils) in Villastellone, whose scant synergies somehow allowed a further sixth Grouping “oils and paints”.

Sepa (then located in the lungo Stura area in Turin) remained independent because I did not know with whom I could pair it: its characteristic as a sophisticated (and costly) electronic systems specialist made it a case in itself.

The project I have briefly described contained two serious errors.

I was well aware of the first, but could do nothing to avoid it. The “great Gilardini” grouping made no sense the way it was. Why put in the same container the automotive spirit and the plant-engineering one, which were as different as chalk and cheese? Why contaminate the corporation stock exchange listing with an excessively close dependence on Fiat in its dual role as shareholder and customer? Indisputably valid questions, but with Carlo De Benedetti I was unable to get my way: Gilardini, the cradle of the family, could not be broken up, far less make it smaller and distance it from the auto sector after the experience with Savara. “How could I tell my father this?”, De Benedetti objected when I insisted on one occasion (at the time his father was over 80 and Carlo had the utmost respect for him). I was unable to propose anything by way of compensation for the loss and so I had to accept De Benedetti’s diktat, but this original sin of the “great Gilardini” fostered its disappearance as an independent entity, a disappearance that I myself signed almost twenty years later ([Chap. 11](#)).

I discovered the second error only when it was too late. I had seriously underestimated Weber. This was a superb company, without a doubt the best in the Components Sector’s stable. It possessed enormous know-how in the field of carburetors, and was one of the world leaders, not only in comparison with European competitors (Solex in France and Pierburg in Germany) but also with the American firm Carter. And know-how in carburetors was an extraordinary complex affair: it was a question of managing the turbulent (almost chaotic) motion of a gas at high temperature, with reference only to the parameters permitted by that law of physics known as the Venturi principle, with the (contradictory) aim of low fuel consumption and low pollution; by comparison, electronic injection, then still to come, was far more manageable because you had more parameters to

act on (the beginning, the end and the pressure of the jet, for example) and electronics was capable of controlling them at will. Weber sold its products to all car manufacturers worldwide (Fiat made up less than a third of its turnover, the big customers were Ford and Renault) and all carmakers gave Weber the prototypes of their future engines so that they would be tuned with the carburettor. They trusted that Weber would not have revealed their secrets to the competitor Fiat Auto even though it belonged to the same owner. And Weber respected the consignment! Weber was profitable, although it invested a lot in research, and it had always been very independent of corso Marconi. Until the end of the last war it belonged to the eponymous industrialist of whom no trace was found once the conflict was over. (Who knows if some reinterpretation of the confused period that immediately followed the end of the war will ever help to solve the mystery surrounding the disappearance of Edoard Weber?) Fiat had been called into remedy his absence but the company's original independence had been saved thanks to its distance from Turin, and to the Holding Company's lack of interest in such a technically sophisticated product and its profitable balance sheets.

Then I had come along and tossed this gem into the sea of the great Gilardini, in an ambience absolutely unsuited to its character. The old and wise Francesco Bellicardi, who was the chairman, had written a heartfelt letter to Gianni Agnelli and I had drafted a reply in the latter's name that said more or less: "Orders are orders". But a doubt had been sown in my mind and on my visits to the factories, which I began immediately after 4 May 1976, I took care to put Bologna at the top of my list. I met Bellicardi, I analysed everything and I did not sleep for a few nights regretting my mistake. But by then the Fiat machine had been set in motion to realize my project for clusters without any modifications and even the confirmation written by Agnelli had endorsed the ineluctability of the process: I was no longer able to stop the course of events I had started.

Weber effectively passed under Gilardini but towards the end of 1976 I managed to change my project, freeing Weber from the slavery it abhorred. During my weekly pilgrimages to the Fiat factories I happened to visit a plant that Fiat Auto owned in Caivano, in Naples. I was at my wits' end. The factory was immense and gave work to over 3,000 people; but the Auto Sector had excluded Caivano from its production strategy for the future; all that remained there was only a kind of residual work, with a low content in terms of technology and capital and a high content in terms of manpower (wiring, for example). Third World stuff. It was necessary to attempt an upgrade and, in the Fiat Group, only the Components Sector could take charge of that. Nicola Tufarelli, the head of the Auto Sector, instantly agreed with me about transferring, while the Components chief Franco Debenedetti was less enthusiastic about receiving. Then I visited the Fiat Auto plant in Bari, another enormous factory, which produced brakes under licence from Girling and diesel injection pumps under licence from Bosch. Here the situation was worrying for another reason. The total absence of its own know-how made the factory certain to collapse at the first change in technology: no licensor had made any commitment to continue with the successive generations of product. In fact, Bosch had already stated that it would never, ever, have renewed a contract

that it considered an imposition it had been obliged to accept in the past. (At that time, Bosch's imperialism was total: with Teutonic inflexibility it defended its world monopoly on diesel and petrol injection systems. Enormous capacities and research expenses and the immediate cancellation of any competitor from the market at all costs were the weapons of the great German company). It was therefore necessary to find a future for the Bari factory. I engineered a substantial modification of the cluster plan that had already been set in motion. Weber left the Gilardini cluster to form the seventh Cluster, which also included the Bari plant, dubbed Altecna for the occasion; the refined skills acquired through the Bosch licence in the manufacture of injectors could, perhaps, been exploited by Weber, which would also have had access to the concessional sources of funds available to southern Italy, in order to finance its expensive development programmes for the development of petrol injection systems. The Napoli-Caivano factory left Fiat Auto and joined Comind under the name of Comind Sud, to produce the plastic destined for the car factories in the South, as well as wiring and other minor details that served to maintain employment levels in that troubled area. In the end, Franco De Benedetti was happy, as was Nicola Tufarelli, and even the head of Gilardini, Giovanni Germano, did not object to the loss of Weber: at the end of the day that technological morsel worried him and he felt freed of a burden when it was no longer his.

Unfortunately, the other mistake (which Carlo De Benedetti had induced me to make out of sentimental reasons), namely assigning two incompatible missions to Gilardini, could no longer be rectified by me.

Document 2: Outline of Iveco's First Management Meeting of 1 March 1985: The Achievements of the Preceding Months

An Ideological Premise

In those years we were living midway between the transition from the anti-capitalist ideology of the Seventies and the global economic liberalism of the Nineties, which was destined to triumph, as was evident to anyone who had been travelling the world since the mid Eighties. My introduction to the conference seems odd and redundant today, when the concept of profit is widespread and accepted. But in Italy and in Fiat at that time things were not yet like that; perhaps it's worth the effort to re-read what I said in order to understand the spirit of those times: "For 1984 Iveco's absolute priority has been the problem of organizing an attempt to recoup, over a roughly two-year period, the eight or nine percentage points on turnover of losses that amounted to the company's results [...] in the first four-month period [of 1984]. An attempt obviously based on short-term measures and placing no trust in hypotheses regarding market volumes [...]. Today it is no longer so common as it was some years ago to find people who do not realize how essential it is for a company operating on the free market and in a capitalist regime to show profits on the balance sheets, or at least not to show losses. The bitter reality of things has dealt justice to wishful thinking and vagueness on the part of persons who would not have risked a penny of their own money in activities that were less than sure things, but for whom companies should have been able to pursue their own activities when recording losses, as if it were possible to repeat the miracle of the loaves and fishes instead of necessarily having recourse to the more modest and day-to-day effort of creating goods and wealth. Not many years before, it had happened to me, in developing programmes for turning round the fortunes of another company [Magneti Marelli] to find myself in conflict with some members of the company management who recognized the need to balance the books but maintained that the methods that required to be applied in order to attain such a balance [i.e. restructuring] would have destroyed the Company in the medium to long term. Decades of wellbeing, economic growth and ideological distortions had disaccustomed that management to the idea that in order to develop its own future a company has need of resources and that if in the here and now those resources are not created but destroyed, those said resources will be unavailable for the company's future development; and hence the principle prerequisite, certainly not sufficient, but certainly essential for the future development of the company is that of not destroying resources in the present. Today, the company I am talking about is fortunately prosperous and developing, and luckily this concept has by now become accepted by a generally widespread culture. [...] In other words, the concept of break-even is an affirmation of company freedom, a factor that ensures company management the maximum degree of professional autonomy in defining and pursuing their own development programmes".

Savings on Purchasing

The first part of the script of the Meeting was devoted to examining the achievements of the preceding months and drawing some lessons from them for the future.

I began with an area to which I had devoted much attention and that had aroused a good deal of internal dialectics: “A reduction [has been achieved] in the real cost of materials acquired from external suppliers, thanks to an overall percentage increase from the beginning to the end of the year that was very low in current values [...], also [with] substantial price reductions obtained from some suppliers, some of them foreign. This is one of the most important contributions to the short-term task of lowering the break-even point. Regarding this matter of suppliers, some clarification is indispensable. The moment we set company break-even as an obligatory point of passage towards our company profit, it would be absurd and cynical to set ourselves a goal aimed at denying suppliers the just profits they deserve in their turn; cynical for obvious reasons, absurd because by depriving our suppliers of the chance to develop independently, we would damage our own development. The problem lies elsewhere: it is that of orienting suppliers to seek maximum efficiency within their own concerns, shunning the easy path of passing increased costs on to us, and urging them in their turn towards improved productivity from the workforce, automation, capitalization, and entrepreneurship. Our men in sales know how hard it is to sell today and we know how our customers push us to the limits of our professional capacities to make good products at low prices. We don’t see any reason why we should not urge our suppliers to take this path, too”.

Iveco was buying (product) worth 2,500 billion in the lira of those days from 2,350 suppliers, for 80,000 different components. Having frozen purchasing prices in a year in which the country’s rate of inflation was measured in double figures was the measure that, taken in isolation, had done the most for the company’s gross margin. The masterpiece was the work of Alessio Lucca, the vice-president of Purchasing. Lucca’s youthful “imprinting” had occurred in the days of the *Compagnia dei Tubi Flessibili* under “old” Rodolfo De Benedetti and perhaps it was from him that Lucca had acquired a particular professional gift, namely that of always asking and never giving an inch. Within the Company some foretold that Lucca’s intransigence would have ended up by causing a stoppage of production but I let him carry on and production never stopped. In reality I never understood why Iveco should continue to increase the prices paid to its suppliers in line with inflation while if it wanted to sell a few lorries it had to accept from its customers ever more modest prices, under the thrust of the competition: sacrifices had to be made all together.

A long time after, in the Nineties, when the European car industry slumped into a general crisis because of the Japanese attack, the Germans discovered the role of purchasing as the driver of suppliers’ efficiency that people such as Carlo De Benedetti, Vittorio Ghidella and I had implemented well before them. The Chairman of Volkswagen/Audi (VAG), Ferdinand Piech, said to me one day with a superior air: “Oh yes, you could use a man like Lopez”. He was referring to the purchasing guru who he had brought in from General Motors in the early Nineties

to readjust his company's accounts, for a fee of 20 million marks (to me, Piech maintained that this figure had been pumped up by the press; I do not doubt his denial but the real figure could not have been very much different: German top managers, like the Americans, always knew how to get themselves well paid, much more than their counterparts in Fiat at the time). I thought that I had already had a Lopez with me for many years and one who had cost much less.

Earnings on Sales

From purchasing I moved on to deal with sales; the script of 1 March 1985 went like this: "We have attained an improvement in sales margins in Italy where we are the market leader, with a rather important reduction in average discounts. In other countries, too, we have developed this policy of recouping margins. [...] We certainly do not want to be defeatist in the market; but we must take into account with realism that strong pressure for increased market shares on our part would be suicidal for us at a time when there is production overcapacity on everybody's part while competition is distorted by the fact that many of our competitors are financed by the state [Renault Véhicules Industriales in France, Pegaso in Spain, DAF in Holland] or obtain cash from other product lines that are particularly profitable [Mercedes]. An excessive conquest of market shares would unleash on their part a discount war aimed at regaining lost ground with the result that we would all find ourselves at the same departure point, but at lower prices. On this point not only have we achieved the results that Boschetti has shown us but we have also earned greater credibility in the market, borne out by the fact that all our competitors have more or less fallen into line with our statements. We shall certainly be on our guard to ensure that this constructive attitude of ours does not turn to our detriment in the sense of causing us to lose market shares; but wherever possible we shall continue to look for further margins".

Military Contracts in Italy

Still on the subject of the results achieved in the field of sales, at Marentino I lauded the constitution of the Consortium to supply the Centauro and the Ariete to the Italian army, which occurred on 17 April 1985: "[...] for us much importance lies in the creation of the Consortium with Oto Melara for the production of tanks and armoured cars, through an agreement on the division of quotas for design and production. [...] It is important that our presence has been relaunched in a [...] sector in which Fiat had once played an enormous role, one that had gradually faded over the years. [...] A few days ago, for the first time, the Italian military saw our V12 engine deliver 1200 HP..."

The importance of the event had been realized even abroad. "The move marks Italy's intention, and in particular that of Fiat, to challenge Great Britain, France

and Germany as a designer, producer and exporter of military vehicles” James Buxton wrote from Rome for “The Financial Times” of 7 September 1985. “The project signifies a substantial step forward towards the concentration of resources for Italian industry. [...] Italy wants [...] to become an equal partner in any multi-lateral project [among NATO countries]”.

Despite the evidence of the 1200 HP, there was still much work to be done before moving from the agreement in principle to a contract with the army and the definitive project. My contact in Oto Melara, Ricci, died prematurely of leukaemia in 1986. The credit for the bridging of that gap, which took some years of work, goes to Riccardo Ruggeri, who I had appointed as the first chairman of the Consortium.

Other Short-Term Initiatives

As the Meeting went on many other improvements were described, some already achieved, others still in progress, which concerned factory productivity, warehouses (down by 24 % in terms of finished product units) and various expenses. Among other things, the day after my arrival in Iveco, I had blocked all jobs entrusted to third parties in the field of design (“All services performed by third parties must be authorized by the CEO pending preliminary examination by the Purchasing Service, Lucca”, according to the minutes of the meeting). These jobs were many and were declared inalienable: even the bills of materials of the products were in the hands of outsiders, something that struck me as untenable, logically speaking. (The bill of materials of a product is the document that describes its composition, completely and accurately, so that it can be produced correctly by the factory). My veto did not cause any apparent damage. This reconfirmed my idea that the more you transferred design work to external sources the more requirements grew, a phenomenon I suspected since the days when I had bought UTS for Fiat ([Chap. 2](#)).

Staff Cuts

In a single year, and without violent crises, staff had been considerably reduced, especially those working on indirect jobs. In the course of the same Meeting, the vice president of Human Resources, Giovanni Morello, showed the figures for the month of December in the years 1983 and 1984.

Iveco's staff cuts (December 1983 vs. December 1984)			
	1983	1984	Variation (in %)
<i>Dirigenti</i>	611	565	-7.5 %
Clerical	11,084	10,435	-5.9 %
Workers	27,540	25,043	-9.1 %
Total	39,325	36,043	-8.1 %

The Break-Even Point

Following the actions described, the attainment of my first and priority objective in Iveco was near: “The combined effect of the measures I have described to you [is such that] I feel we can confirm [...], in the course of 1985, the attainment of the monthly break-even point at average sales volumes of around 8,500 units per month, that is, 94,000 units [per annum] at the current product mix and market mix”. In fact, the break-even point in March 1985 was reached with the delivery of only 8,300 vehicles.

Document 3: Outline of Iveco's First Management Meeting on 1 March 1985: Structural Plans for the Future

Vehicles and Engines

In 1985 Iveco had its tenth anniversary but the unification of the original ranges of the five companies that had been brought into constitute it (Unic in France, Magirus Deutz in Germany, Fiat, OM and Lancia Veicoli Industriali in Italy) was far from realization. Scant unification equals no synergy: “The product is marked by the coexistence of many models of many generations [...]. We still have the Lupetto, the 682 and the 619; we have the TurboStar or the TurboDaily, [...], across a whole series of intermediary stratifications that cover, in a way [...] that derives from history and not an organic organization, the enormously differentiated product-market mix in which we operate: Europe, the USA, the Third World; road, construction, and military [vehicles]; small, medium and large [vehicles]. This [reflects] on the rationalization of the [macro parts production]: gearboxes, axles, engines. To these last are added applications for tractors and industrial use. [...] We have a large number of models [and] variants. [...] It is not that the number of models and variants is a bad thing in itself; on the contrary, this can be a major factor in the promotion of sales; it is a bad thing when there is no standardization or a basic predisposition for the differentiation of the models based on a common standard”.

For every company entrusted to me I always maintained it was essential to try to optimize the breadth of the product range. The problem consists in calibrating the two terms of an equation regarding the approach to the market, terms that can be antithetical: the range must be as complete as possible, broad and articulated, to respond to demand from customers, but on the other hand it must be compatible with a stable break-even point, i.e. with a cost structure that will stand up even in moments of crisis and therefore must be minimal and compact. An imbalance towards excessive extension sooner or later leads the company to losses in the balance sheets; contrariwise, every shortcoming opens breaches in favour of the richest competitors, causes losses in market share, and risks an involution of accounts in a vicious circle. (Henry Ford used to say of the model T that you could have one in any colour, provided it was black. This product strategy would have ruined him if he had applied it in the 1980s). It strikes me as correct to use the term “range sustainability” for this fundamental dilemma. I had often encountered the problem before and I was to tackle it subsequently on another two occasions, on a macroscopic scale and with different outcomes: following an in-depth analysis of the product/market situation, in 1990 I gave rise to the New Holland initiative; instead, the prospect of introducing an equal degree of clarity with regard to Fiat Auto had been precluded me by Cesare Romiti in 1994 ([Chap. 10](#)).

In Iveco it seemed evident to me that there was only one path to follow: “Solving the problem by giving up on models or generations of products is not possible today: we would have to give up markets and hence lower production

volumes while reopening the hunt for even lower break-even points. As an example [...] of this assumption I can cite the extra-European markets: [...] these are responsible for the continuing existence of an entire series of products [...] outside standardization. That notwithstanding, they are markets from which come volumes and above all margins of enormous interest to the Company”.

There followed the first public mention of a new range, the Standard Product Range (SPR), destined in future to absorb enormous resources from Iveco but also to forge its future, in a desire until then unequalled in the world industrial vehicle sector: “Our end goal is to entirely renew our product line in all its applications [...]. The effort is enormous, both in terms of money and professional commitment, and [...] all the more so [...] if we wish to integrate the product with production systems in order to achieve the maximum result”. To keep faith with this commitment, I immediately set up a group of systems engineers, under the leadership of Felice Cantarocco, to define the essential specifications of the SPR, in such a way as to start at full speed in 1998 and obtain the first product results in 1993.

Automation

Those were the triumphal years of Vittorio Ghidella's management of Fiat Auto and his bet on massive automation. The term robot, until then the exclusive prerogative of science-fiction stories, became part of the everyday lexicon of trade unionists, politicians and journalists. Fiat Auto was renewing the factory in Cassino to produce the Tipo there and the Termoli plant to produce the Fire engine; both of these were great achievements in applied engineering. The second, in particular, has an important place in my virtual exhibition of the excellent products realized by Italian engineering, which I have already mentioned several times. Later, some were to criticize Ghidella for his “excesses”. Paolo Cantarella, in particular, frequently complained about the mistakes made by his predecessor, perhaps to please Romiti who adored hearing denigratory comments about those he had classified in the list of his enemies. But in the mid Eighties, at the time of my Management Meeting, Ghidella's influence was such that not only the Auto Sector but even the Holding Company were swept by a gust of technological euphoria. (At that time, Paolo Cantarella was running Comau, which supplied Fiat Auto with automatic equipment, and took good care to avoid creating difficulties regarding massive automation). The Seventies had witnessed the rejection of production topics, considered bothersome and inferior and at times even dangerous; the ideological stereotypes of the far left had contributed greatly to the “archaization” of the Italian factory on worker-oriented¹ positions that the rest of the world had done away with for some time; now production was back in vogue, thanks to robots.

¹ Translator's note: in the 1960s, an extremist movement called *operaismo* maintained that blue collar workers should be free of the bonds of official parties and unions, and even of production duties.

In order to consider moving into automation Iveco needed a specially conceived product range (which would have been one of the goals of the SPR) and a lot of money. Later, we probably went too far with automation but in those days we had neither sufficient funds nor the right mind set. One thing I mentioned during the meeting served to pay homage to my illustrious colleague and to avoid the accusation of insensibility on my part with regard to the legend of the moment: “We are convinced that we must automate our production: but we cannot follow, for obvious reasons, the enormously innovative path [...] taken by Fiat Auto. Our path leads towards integrated and flexible production solutions [...]”

The Factories

I immediately divided the Iveco factories into two categories: those that could be saved and those that couldn't. The first would have been subjected to complete technological modernization and a reallocation of production on a European basis. The second would have to be closed: this was the fate of the factories in Trappes, Milan, Ulm (number 2) and Fourchambaud (in Burgundy). “Workforce saturation [...] is currently good for Turin, Brescia and factory number 3 in Ulm, even though [...] the plant design is still well in excess of requirements. [...] The layout of these factories has suffered from successive stratification regarding production that ceased in the past [...]; the recovery of optimal layouts will take time, expense and effort. [...] All the other factories, none excluded, have basic strategic critical points that include current and potential overmanning, sometimes in zones where the problem takes on connotations of total rigidity. [...] The Foggia factory, which employs almost 1,600 people, is partly unsaturated [...] The forklift trucks are produced in Bari by over 800 persons; it is necessary to think about supporting the current product with more modern transport systems [...]. Valle Ufita and its over 1,400 persons: in 1985, too, the factory will remain closed for a long time, because the market is what it is, [...] Fourchambaud: 400 people in the factory which today has serious problems of saturation and strategic dimensioning. Bolzano, 1,400 people: it has recently been oriented almost totally towards military production; but we have some structural superfluities [...] Milan, a factory with 1,000 people, with structural problems owing to the transfers already carried out towards the Rockwell factory in Cameri and other problems [...]. Suzzara, 840 employees: it will have a problem of overmanning insofar as upon termination Fiat Auto will not take any further deliveries of the 900 E van [...]. Ulm: has a problem with factory 2 which employs over 1,600 people and will shortly be unsuited to our ends”.

The case of the Trappes factory, built just outside Paris only eight years previously to produce 100 lorries a day, was emblematic for me, because the 1,300 staff produced only 25 vehicles a day, with astronomic costs. Disconsolate, I reported at Marentino: “[Another] measure [...] has been the success of the closure operation at the Trappes factory, from which the last vehicle produced left on 30 October 84. [...] The closure [...] was a disappointment to everybody. A disappointment on a

personal level, as an engineer, to strike off from the number of active producers not a glorious factory from the distant past but a modern factory of today; sorrow for the loss of an important, I could almost say historic asset, with regard to Fiat's presence in a country with which Fiat itself has close bonds; sorrow for the blow inflicted on our image in France".

In the course of my years of work, I had to close several factories. I always did it with a sense of great bitterness. A person decides to become an engineer, and is trained at university, to build and not to destroy; unfortunately, however, nobody can choose the times he lives in or what the times oblige him to do.

The Suppliers' Contract

The subject of suppliers introduced the need for profound structural reforms in that field too: "The company added value is low. The expectations of making further savings involve, over and above the short-term measures effected or imposed during the two-year period '84/'85, automation, investments, innovations, and development among Suppliers. [...] Moreover, our pool of Suppliers requires rationalization: the Suppliers are too numerous while there is no alternative regarding many crucial items [...]. The programme that Lucca has explained to you about the rationalization of suppliers passes, to be brief, through the selection of Suppliers: then the establishment of relations with the Supplier (and hence with the Purchasing Department) far further upstream in the process of development of our products; in addition, we plan to introduce multi-year contracts, which on the one hand will protect the Supplier's relations with us, but on the other will oblige him to make a commitment in terms of performance, i.e. quality, prices, and service".

The idea of multi-year contracts came seven or eight years ahead of the new fashion of the Nineties, which would have been considered revolutionary by organization theorists. Vittorio Ghidella had introduced Fiat Auto to the principle of equal increases for all suppliers but had retained the practice of constant revision of sources of supply; Iveco now recognized that in many cases it was illusory to think of changing supplier in the course of his services: between the components producer and the assembler a de facto partnership was established and so it was just as well to recognize this situation practically, in the common interest. One of my "guidelines" of 20 May 1986 stated: "It is Iveco's policy to develop wherever possible multi-year contracts with the most accomplished suppliers". Out of caution, I limited the maximum duration to three years; it was possible to acquire 100 % of our requirements from a single supplier, but the contractual bond could not exceed 75 %. With his customary speed, Lucca immediately closed several contracts of the new kind.

Equally modern was the concept of planning the materials, something I hoped for: "The management of materials must be seen from a standpoint I would define as 'intelligent', that's to say an articulated assessment of the typology of each component coming in from the outside and then a planning methodology

diversified in accordance with the necessities intrinsic to the component and correlated with the impact that the component itself has on the exit flexibility of the finished product". For the management of material reorders, Iveco was attached to the concept of the periodic "explosion" of the bill of materials, very burdensome and complex. The theory I was backing struggled to make itself accepted and in fact the functionality I desired was never attained.

On the subject of supplies I touched on a sensitive spot: "By the way, I would like to introduce an important point: the situation I have described to you excludes any desire on Iveco's part to transfer further production of basic lorry components to third parties". In this way I brought in a radical change to company strategy with respect to the past. By his nature, Giorgio Manina shied away from subjects such as planning and production, betting everything on the fields of sales and image that were congenial to him. His philosophy was therefore that of outsourcing even the vehicle's essential macro-components. He had succeeded in this for rear axles, thanks to a contract with Rockwell whose conditions were awful for Iveco; he would have done something similar even for engines, if and when he could have. Cummins, which knew this weakness, was hovering like a vulture over its prey. I considered this position to be a calamity. Iveco had three major competitors: Mercedes Benz, Scania and Volvo. All of these managed the fundamental macro-components in a strictly captive manner, in other words by keeping under their direct control both design capacities and production plants. In the USA the situation was different: some big macro-component manufacturers such as Rockwell (front and rear axles), Cummins (engines) and Eaton (gearboxes), obliged vehicle manufacturers to accept their decisions, thereby robbing them of added value and relegating them to the role of assemblers, stuck fast between the owners of the know-how upstream and the bargaining power of buyers with large fleets downstream (something similar to what was to happen years afterwards to the producers of personal computers). If the four big players (ourselves included) had not shared production volumes with smaller competitors, they would have been obliged to mount older and more expensive macro-components and they would have found themselves in trouble. I was right: very soon, Ford, General Motors/Bedford, DAF, British Leyland, Renault, Pegaso/Seddon Atkinson, and MAN were in crisis and many of them vanished from the scene. At that time Iveco was on the borderline between the two groups of competitors but I was determined that it would end up among the leaders, that's to say in the category of the winners. This primary objective made it necessary for Iveco not to cede captive control over fundamental macro-components. It had the technical capacity to do this with the developers it had at its disposal (in Turin and Brescia in Italy, and in Arbon in Switzerland) and production volumes would also have been sufficient as soon as the range was more standardized. The axles were lost by that time, as I have said. The gearboxes were in midstream, because the heavy ones already came from outside (ZF or Eaton) while the medium-sized ones were being redesigned in a joint venture with Eaton: I immediately saved the latter and after that I set up a very long-term programme to bring the heavy ones back under our control. The other five macro-components still in our hands (engines, axles, cabins, chassis and 4 × 4 torque converters) would have remained that way.

The Sales Structure

I cannot say if it is more important for a company to buy well or sell well. Certainly, Fiat culture was historically strong on the first aspect, less so on the second. This statement of mine never pleased Fiat dealers, and I understand that; I backed it for the best, because I always considered myself close to the sales function; I compared its position with that of the front line in trench warfare; it was subjected to the enemy's machine gun fire and to reproach for every defeat; but, especially, it suffered from all the inefficiency of the company system upstream. I devoted a lot of time to sales problems and I did a good deal to innovate methods, to finance requirements and to motivate personnel.

After the subject of suppliers, at the Marentino meeting I introduced the matter of sales: "Where dealers are big and important the problem is that of augmenting their professionalism and our degree of control and knowledge of the market. Where, instead, dealers are weaker the problem of their survival arises [...]. Our intention is to invest in the Network and to have prearranged plans like the one we are preparing for the French market". I did not want to follow the path that Ghidella had chosen for the auto network. With the intention of pepping up sales, he had replaced many big "historic" Fiat dealers with smaller, more agile newcomers. He maintained that the old ones had become rich and inept, and had tackled the situation in his usual, hard-nosed way. The results had been mediocre because the newcomers had almost always proved to be financially weak. Above all this led to unrest between the producer and its network that exploded years afterwards in a very dangerous manner (Chap. 8). On the other hand, I supported Boschetti's policy of reinforcing existing dealers everywhere possible. The first thing I had to do was to stop the rush to reject Iveco's mandate on the part of the most capable entrepreneurs, a phenomenon that aided the erosion of market share that Iveco had suffered for about a decade especially in Italy, where the phenomenon was visibly evident to anyone who paid attention to the marquee of the lorry he came across on the road.

Industrial vehicles, especially heavy ones, are a means of production for the transport industry, similar to the tractor for the agricultural industry; it is not at all a consumer good, even though durable. It follows that these vehicles are not sold thanks to advertising but to the professionalism of the network. For the entire seven years I spent as head of the Company I shouted myself hoarse repeating on every occasion that "lorries are not big cars". In a guideline of 19 December 1986 I wrote: "Iveco intends to bet selectively on sales and image operations that are aimed as far as possible at its own potential customers; [these], unlike those interested in goods for mass consumption such as cars, are a limited minority of the general public [...] and consequently [the normal channels] of advertising have a particularly inefficacious result/cost ratio. [...] Iveco [...] does not normally indulge in institutional [...] advertising, nor in any other general or product advertising in the media aimed at the public at large". In this way I reassured dealers regarding the continuity of planning, investments and relations between them and Iveco. The launch of the TurboStar, which Boschetti had insisted on, and of the

TurboDaily, whose success was as good as it was unexpected, was a great help in this sense. The terminations of sales mandates ceased altogether.

But there was a more important problem. Relations between Iveco and its network were structurally ambiguous and neglected, according to a historic tradition typical of Fiat, one that had seriously damaged it, especially outside Italy. It was necessary to clean house with regard to supporting measures. On rereading the texts of the guidelines I was promoting at the time I was struck by the effort I had to make to explain the basic concepts required to be able to introduce suitable practices. My approach was didactic more than managerial. Now, after many years, such concepts have become so internalized as to appear obvious, but things were not like that then and enormous confusion reigned. For example: according to tradition the dealer in trouble did not receive cash but guarantees or loans, so that Iveco became his hostage and always wound up getting more and more involved and entangled to avoid contingent losses and problems; the lack of rules made for ambiguous relations between area (or zone) heads and their dealers. With the new way, all aid given was a declared expense recorded immediately in the accounts; above all, aid became structural, through the availability of premises, i.e. centres for sales and maintenance with the necessary equipment. Now the dealer became the hostage, bound to his own performance. The point was revolutionary from another angle: Iveco decided to invest in sales networks in the same way as it invested in factories.

It is worth rereading the fundamental aspects of the guideline I issued on 30 November 1987 because in the Nineties I found an even more serious situation in the auto field and I led Cantarella towards the same solution: “Iveco’s policy is to engage in franchising relations with entrepreneurs who have the financial means for the development of their own activities from a standpoint of profit and industrial risk, [the means being sufficient] both for working capital and for the acquisition or rental of suitable premises”. But people of that kind are rare. Those with lots of money are unlikely to start selling lorries, especially in big cities; those with little money cannot do it. In this way Iveco misses opportunities: “So Iveco can [look for] new dealers, relieving them [...] of the need for capital required for premises, in consideration of the priority objective [...] of having a sales network equipped with all the structures necessary to compete with the rivals’ networks”. In a note of 30 November 1987 I listed the rules to be respected for the financing of the stock, attributing the risk and the relative remuneration and defining the corresponding measures; the subject is extremely important but too technically complex to be dealt with in detail here; my aim, however, was the usual one: to attain efficiency in order to make savings, but above all to attain efficacious development.

Spare Parts

An old components hand like me could not deprive the meeting of 1 March of a treatment on the spare parts problem: “We do not have the margins we ought to have [from spare parts], and that our competitors have, both because of the volumes held in reserve by suppliers of primary equipment (and because of those bought from)

so-called “pirates” [...]. The current margins barely cover the cost of the capital invested, general management expenses, periodic campaigns for the scrapping of obsolescent stock in store, etc. All the more so if we consider the enormous logistical commitment forced on us by the old product lines of the companies that became part of Iveco”. The analysis was excessively pessimistic because spare parts generated gross margins equal to 50 % of their turnover, which amounted to many hundreds of billions (of lire) per annum, and hence they were still very profitable; but that was the substance of my discourse. Iveco managed over 200,000 different part numbers; by law it was obliged to serve customers up to ten years after the end of production of every model and it maintained that commitment, albeit with great difficulty. How can you order from a supplier a few units of a certain design that has been out of production for eight years? The only alternative consists of stocking up a large number of items in one fell swoop (the so-called end of range), locking up a lot of capital and risking throwing away the unused remainder, all elements neglected by standard accounting. On the other hand, where there was profitability, in the so-called fast moving spare parts sector, imitators flourished (Chap. 3).

The problem of obsolete parts really vexed me: every year 30 out of 40 billion lire of stock was written off. At that time they held sales campaigns “for the highest bidder” that were attended by “stockists”, always the same ones, who bought enormous quantities of goods at rock-bottom prices. I had no way of checking whether the useless material effectively included good stuff, but what little I knew, or guessed, from the dealings in those circles left me with few doubts. On 16 January 1995 I issued a written rule that introduced some precise principles: “It is Iveco’s policy to maintain a predetermined spare parts price list, with fixed discounts for the network. The correlation between discounts and quantities [...] must also be predetermined and knowledge of it must be available to anyone who may be interested [...]. It is Iveco’s policy not to hold sales ‘campaigns’ with exceptional discounts [because they do not correspond to] effective market demand (in itself naturally totally inelastic), but serve only to transfer margins to the distribution network. It is Iveco’s policy not to introduce market rigging (or expectations in that sense) through the sale “to the highest bidder” of over-stock and obsolete parts [...]”. As we are dealing with “intrinsically very delicate activities” all materials no longer utilized had to be scrapped in the presence of the Auditors, who would provide written certification of their destruction, for example through the recasting of iron materials in Teksid’s blast furnaces. The rule was strictly applied as long as I remained in Iveco; I never found out what effects really derived from it but I believed I had contributed to reform an area that needed it. And without a doubt a little less obsolete material was produced.

The Problem of Nationalities

At the Marentino meeting I did not want the thorny problem of the various national spirits who coexisted rather discordantly within Iveco to be overlooked or covered up. Iveco Unic in France was fairly well integrated in the supranational complex both for its history and the character of its staff. Things were different

with Iveco Magirus in Germany. Despite very serious problems, the Germans tried to retain not only a separate identity, as was right, but also an operational independence that harmed efficiency and impeded synergies. Contrariwise, in Iveco's Central Bodies there lurked a sense of disrespect for and a rejection of the German world. My impression was that there was an even more serious problem: many Germans were under the spell of Mercedes Benz and judged, deep down, that the national competitor was better, much better, than Iveco, and even Iveco Magirus, because the latter was handicapped by Italian ownership and leadership. The feeling was probably subconscious but deeply rooted and so it damaged technical and sales activities, because it conditioned attitudes and generated a state of mind that was a loser *a priori* with regard to the biggest competitor.

As soon as I realized the existence of the problem I began to take countermeasures. On the level of internal propaganda I lost no opportunity to point out to the Germans, with my customary clarity, the psychological subjection they showed with regard to Mercedes, whose shortcomings I exposed, and they were not insignificant in the field of industrial vehicles. It was the same tactic of denigrating the competition in which the Germans excelled, especially regarding "Latin" industry, a tactic that is not only useful and legitimate, but is even right, as long as it is used fairly, in other words without telling untruths. It was even more important to act on a personal level. The spirit of resistance to integration was symbolized by the head of the Iveco Magirus Board, the *vorstandssprecher* Bernd Kosegarten, and shared by the internal unions, which not only influenced management, as is habitual in Germany, but even behaved like a shadow management, an anomalous aspect even in those circles. With the unions I immediately chose the path of maximum frankness. The Kosegarten problem solved itself: in July 1984, a few weeks after my arrival, he asked me for a personal meeting; he complained about the state of affairs in Iveco and informed me that he was thinking of resigning to accept another job offered to him in Hamburg. This was pretty much blackmail: Iveco's weakness was extreme and the loss of the "spokesperson", namely the head of the *Vorstand*, risked provoking further damage in terms of image in the closed world of German national industry, where everybody knows everything about everybody else. Kosegarten came to see how the land lay and to understand how far he could push his contractual power. I reacted very swiftly to avoid an about-turn: "I won't try to make you change your mind; it would be naive on my part: as you are a German your decision is certainly firm and irrevocable". Stunned, all he could do was nod, even though he was clearly vexed. "I'll keep the matter secret until told otherwise. I'll let you know the name of your successor as soon as possible". As I had had occasion to note in the past, at times a manager's instrumental resignation could turn out to be a two-edged sword against him.

As for their relations with Italy, Germans divide into two clearly distinct categories: those who love it and those who hold it in contempt. There is almost never a middle way. It is easy to spot those who belong to the first category: they speak Italian or are prepared to learn it, something that normally happens within six months with excellent results in pronunciation and syntax. Kosegarten did not speak Italian nor did he study it. I knew one German who openly appreciated our country. Wolfgang Keller was one

of Umberto Quadrino's management colleagues who I had noted and appreciated as soon as I met him. When Kosegarten left my office, I called him and he instantly and enthusiastically accepted the position I was offering him. A few minutes later I called Bodo Liebe, the chairman of the Supervisory Board (the *Aufsichtsratsvorsitzender*) of Iveco Magirus: I informed him about events, I explained my judgements to him, and cut short all his attempts to get involved and set the German consensus machinery in motion; it was a decision already taken by the shareholder.

The operation turned into a success for image: Germans love clear, justified and decisive measures. Far more importantly, Keller did a very good job for many years in his role, which was that of lubricating relations between Iveco Magirus and the rest of Iveco, especially the Central Bodies, explaining the reasons for decisions, passing on information, toning down conflicts, plus keeping me informed about what was cooking in the German pot.

And so I explained the guidelines at the Marentino meeting, sitting beside M. Marc, the national head of Iveco Unic and boss of the French sales network, and Herr Keller, of Iveco Magirus, by then an established part of the new community: "If we on the inside do not think of raising the problem of nationalities, newspapers or unions, our competitors will see to it. I believe that the guidelines we should adhere to are basically two. On the part of the central functions the maximum neutrality in the management of measures [...] with a view to protecting company assets, tangibles or intangibles, wherever these may be. The second guideline, on the part of the periphery, maximum openness, visibility and transparency (to avoid) [...] decisions on the part of [...] management [...] that may be mistaken or unjustified for lack of information". From then on I accelerated moves aimed at attaining a single product brand: things began by adding the local brands (Unic, Magirus, Fiat, OM) to that of Iveco; then slowly but surely this last was to be reinforced until, as soon as the customers got used to it, the first were to disappear forever. Iveco's Image and Advertising department, which was run by the vice president Cesare Palenzona, was never used to promote my image as a manager as was customary in some Italian companies, be they public or private. Perhaps my reserve was mistaken, as was maintained by my friends who accused me of naivety in this, but I was always against personality cults, which distort the way management is practised: I sincerely believed in the meritocratic criteria of private industry.

Document 4: Seven Years in Iveco (1984–1990): The Figures

Trends in Demand for Lorries in Europe

The lorry market is highly cyclical, as generally happens with products destined for investments. You can always make your lorry last another year with a little more maintenance when there is a shortage of money to change it. On the other hand if a haulage contractor foresees the arrival of good orders in the short term he takes care to present himself at the appointment with a new, performance vehicle; and he dashes off to the dealer. In general, market conditions in transport are the same for everybody, and so everybody tends to behave the same way at the same time. This leads to a self-amplifying process that produces rapid, steep variations, similar to those of certain phenomena well known to physicists, who call them runaways.

Trends in the European industrial vehicle market (1975–1989, 3.5 tons and over)

	Year	Thousands of units	Variation (in %)
Previous minimum	1975		
Maximum demand	1979	421.7	
	1980	405.4	−4
Period of drop in demand	1981	361.7	−11
	1982	342.2	−5
	1983	339.3	−1
Minimum demand	1989	333.3	−2
	1985	345.3	+4
	1986	375.7	+9
Period of growth in demand	1987	431.9	+15
	1988	482.6	+12
New maximum demand	1989	512.4	+6

I had told Romiti that I was a lucky man and I kept my promise: the second half of the Eighties was a period of continuous growth in the European lorry market. Obviously, this did a lot for Iveco's accounts.

I knew perfectly well that sooner or later the crisis would have arrived. Historically, the cycle repeated itself over a period of about five years and even though this was not a precise law, one had to be ready for the inevitable. The inversion of the trend came along punctually in mid 1990, as I shall be saying.

Trends in European Market Shares

The Fiat Group became the leader in the European lorry market in 1990.

The competitive situation in Europe throughout the range starting from 3.5 tons (1984–1990, in %)			
	1984	1987	1990
Mercedes Benz	23.2	22.2	22.8
Iveco	16.4	20.0	22.0
+Fiat Auto ^a	0.1	2.2	1.5
=Fiat Group total	16.5	22.2	23.5
Renault Véhicules Industriales	11.9	11.0	11.9
DAF ^b	3.4	7.6	7.5
MAN ^c	6.3	4.7	5.8
Volvo	6.1	6.4	5.6
Scania	4.3	4.6	4.1

^aFiat Auto comes marginally into the rankings because of the 3.5-ton Ducato, which, when introduced, created new demand, but caused Iveco to lose market share, especially in Italy

^bDAF incorporated British Leyland in 1987

^cMAN incorporated the Austrian firm Steyr in 1987

In the heavy vehicles sector Iveco took second place in Europe.

The competitive situation in Europe starting from 16 tons (1984–1990, in %)			
	1984	1987	1990
Mercedes Benz	18.0	18.8	21.6
Iveco	10.6	12.6	17.5
Renault Véhicules Industriales	12.9	12.1	12.0
DAF	12.9	11.3	10.0
MAN	6.1	8.0	10.5
Volvo	14.7	14.6	13.1
Scania	12.3	12.9	11.5

And Iveco's position became remarkable in every country, with first place in Italy, Spain and the United Kingdom.

Iveco's total share in every European country throughout the range starting from 3.5 tons (1984–1990, in %)			
	1984	1987	1990
France	14.6	18.3	19.0
Germany	12.7	12.4	12.6
Italy	69.4	59.8	59.1
Spain	4.4	12.1	24.6
United Kingdom	4.1	22.9	23.4
Rest of Europe	7.4	9.2	9.3
European total	16.4	20.0	22.0

(In 1990 Germany included the ex-DDR; in 1990 Pegaso in Spain is counted pro-forma with Iveco; the UK statistics do not include 3.5-ton vehicles, which Iveco could not sell because of its contract with Ford)

Sales Trends

Obviously, Iveco's sales grew more than the market because of acquisitions and improved market shares (the phenomenon is complicated by export sales outside Europe, which I overlook here, to simplify explanations).

Iveco's sales trend (1979–1989, units)			
	Year	Lorries in thousands	Engines in thousands
Maximum demand	1979		
Minimum demand	1984	90,300	229,500
Period of growth in demand	1985	99,100	257,900
	1986	94,600	261,500
	1987	117,800	282,100
	1988	129,300	287,200
New maximum demand	1989	136,100	300,300

The Economic Results

From the relation I have given of events between 1984 and 1990 it emerges that Iveco's accounts benefitted from the effects of four phenomena that mutually reinforced one another: improvements in management realized in every area of company activity, acquisitions, the rationalization of the market that derived from the disappearance of some competitors and the growth of European demand. The figures speak for themselves.

Turnover and consolidated profit (pre-tax) for the Iveco group at world level (1984–1989, billions of lire)

	Turnover	Profit	Percent on turnover
1984	4,522	−298	−7.1
1985	5,409	+136	+2.7
1986	5,450	+232	+4.6
1987	6,654	+358	+5.4
1988	7,460	+520	+7.2
1989	8,038	+590	+7.5

When I joined Iveco it had large tax credits in many European countries, following the losses of the previous years. I did my utmost to compensate for the profits that followed against the previous losses, avoiding tax credit limitations, especially dangerous in Germany and Italy. I almost completely succeeded in this, I believe without committing serious fiscal irregularities. For this reason, the net results are not that far different from the pre-tax results, which I have listed previously.

Financial Position

Iveco's net financial position (1983–1990, billions of lire)

	End of year debt or cash surplus	Despite fixed assets investments
1983	–1,666	
1984	–1,253	117
1985	–922	130
1986	–850	177
1987	+122	387
1988	+567	487
1989	+363	706
1990	+181	642

Indebtedness, which had rapidly diminished, remained low, even though investment had increased even more swiftly and despite the fact that Iveco, finally, was in a position to pay dividends to its own sole shareholder, the Fiat Holding Company.

Human Resources

For a long time, at the beginning of my mandate in Iveco, I was obliged to cut staff at all levels, from *dirigenti* to workers, and in all countries. Subsequently, the entry of the companies acquired set the process of restructuring in motion every time. The number of lorries sold *pro capite*, a rough but efficient measure of productivity, increased. We had passed from 2.0 vehicles in 1976 to 2.4 in 1983 and arrived at 3.3 in 1987.

Iveco employment (1976–1990, in units)

	Workers	Clerical	Total	
1976	38,500	13,000	51,500	
1980	34,000	12,800	47,200	
1983	27,500	11,700	39,200	Closure of Mainz
1984	25,000	11,000	36,000	Closure of Trappes
1985	24,100	10,400	34,500	
1986	24,600	11,500	36,100	Arrival of Iveco Ford and Astra
1987	24,100	11,800	35,900	
1988	25,700	12,200	38,100	Hired
1989	26,700	12,800	39,500	Hired
1990	25,600	12,600	38,200	

Document 5: The New Holland Initiative in 1990–1991

For Ford, as it was for Fiat, the tractor was a historic product, rooted in company tradition, which was famous and had a good reputation all over the world, especially in Anglo-American countries. Production had been moved from the United States to England when the dollar had risen excessively in the mid Eighties and did not return when the exchange rate returned to normal. (When exchange rates become too penalizing for a country its de-industrialization is not instantaneous: a certain time is required to move the factories; but then the factories never come back: de-industrialization is irreversible; it was an experience I was to live though in Italy a few years later.)

In 1988 Ford decided to buy New Holland, which was then owned by Sperry, with a view to broadening its product portfolio by integrating tractors with combines and hay and forage machinery. Tractors were spun off from the rest of Ford and brought into New Holland. Ford therefore opted to sectorialize this unit almost 2 decades after the reform that Umberto Agnelli had caused in Fiat at the beginning of the Seventies. These moves served to prepare the stock exchange listing of the integrated Ford New Holland company, an objective explicitly declared in the short term. Two hundred functionaries who worked in Detroit had to move to the small town of New Holland, in Lancaster County, Pennsylvania, located in a most pleasant hilly area inhabited by the Amish, an ancient religious group whose customs are strictly ethical and ecological. But the difference between that place and Michigan was too great for the interested parties to appreciate the move and it had proved necessary to motivate them with a 26-million dollar, three-year incentive plan. With the arrival of Fiat, their situation had become potentially explosive: instead of the stock exchange listing under the aegis of Ford's great name, which had been promised them two years before, the unfortunates saw the arrival of unknown bosses from distant cities whose names they had never heard of, such as Turin and Modena. On the other hand the men who made up the historic nucleus of New Holland had no love for Ford, which had borne down on them and had managed them with the arrogance and aloofness that big automotive corporations show to smaller businesses all over the world. We had to bet on them, by showing them that their condition improved with Italian shareholders who recognized that every craft should have its own space and standing, without subordination to the car sector. After the merger, Fiat would have owned one of the three world leaders in terms of turnover in the agricultural sector.

Competitive position worldwide (1989 turnover, billion of US\$)

	US\$ in billions
John Deere	6.2
Fiat Geotech	2.3
Ford New Holland	2.8
Total Fiat + New Holland	5.1
Case/International	5.1
Massey Ferguson	1.3

Fiat + Ford New Holland world market shares (1989, in %)			
	Ford	Fiat	Total
France	7.3	16.3	23.6
Italy	2.3	38.5	40.8
West Germany	1.2	6.1	7.3
Spain	3.2	18.3	21.5
United Kingdom	24.3	2.5	26.8
Rest of Europe	10.4	11.2	21.5
<i>European total</i>	<i>7.8</i>	<i>16.4</i>	<i>24.1</i>
North America	13.0	1.3	14.3
South America	32.6	3.7	36.3
Asia	6.4	17.3	23.7
Africa	16.5	11.6	27.1
Oceania	10.4	8.3	18.7
<i>World total</i>	<i>11.2</i>	<i>11.8</i>	<i>23.3</i>

Fiat + Ford New Holland sales volumes (1989, units)			
	Ford	Fiat	Total
Tractors	63,800	52,900	116,700
Combines	4,900	1,600	6,500
Hay & Forage equipment	19,200	9,000	28,200
Construction machinery	9,500	7,800	17,300

Only the financial results left something to be desired. While the data for 1989 were still slightly positive, those of the current year, 1990, were deep in the red. But this was precisely the reason why the merger had to be accomplished. For example, at the time, 30,800 people worked for the two Companies: 17,700 for Ford New Holland and 13,100 for Fiat Geotech; by integrating the two components there was the prospect of making gigantic savings.

Document 6: Letter from G. Garuzzo to C. Romiti of 13 February 1991 Regarding Trends in Italian Costs

Turin, 13 February 1991

Note for Mr. Romiti

Cost of Clerical Staff and Workers

The dynamic of the unit cost of workers in the course of recent years is far higher in Italy than in other European countries. The actual data gathered in the Group's factories are shown here in Table 14.1, which takes 1987 as its basis of reference.

Table 14.1 Unit cost for the company per worker man-hour (in local currency—Iveco)

		1987	1991	Variations (in %)	
			Budget	Total	Every year
Northern Italy	Lire	19,000	27,200	43	9
Southern Italy	Lire	14,200	21,600	52	11
Germany	D.M.	37.8	45.5	20	5
France	F.F.	92.9	110.3	19	4
UK	GBP	6.0	8.7	45	10

The devaluation of the lira with respect to other European currencies has only marginally corrected the gap (Table 14.2).

Table 14.2 Unit cost for the company per worker man-hour (in lire—Iveco)

		1987	1991	Variations (in %)	
			Budget	Total	Every year
Northern Italy		19,000	27,200	43	9
Southern Italy		14,200	21,600	52	11
Germany		27,300	34,000	25	6
France		20,000	24,600	23	5
UK		12,800	19,100	49	11

[A note not in the original—The CEO of Ferrero, Amilcare Dogliotti, had sent me analogous data from his sector, very different to ours because of different work contracts, and even more sensational: in comparison with 25,400 lire per man-hour in the city of Alba (Italy), labour cost 20,100 lire in Arlon (Belgium), 15,800 in Cork (Ireland), 21,600 in Stadtallendorf (Germany), 16,300 in Villers Ecalles (France) and, incredibly, 8,888 in Cardiff (Wales)] A similar phenomenon occurred regarding the cost of clerical staff, as appears in Table 14.3, already expressed in lire.

Table 14.3 Annual unit cost of company clerical staff (in millions of lire—Iveco)

	1987	1991	Variations (in %)	
			Budget	Every year
Northern Italy	44.4	65.9	48	10
Germany	59.6	74.2	24	6
France	53.9	66.7	24	5
UK	37.8	58.1	54	11

(It should be observed that for clerical workers Fiat's costs are within the Italian national average, but are often higher than the foreign average, as a consequence of the reduced attractiveness an Italian group holds for a professional).

As a consequence of this increase in the cost of one man-hour in Northern Italy, this area is today second only to that of Germany, with regard to which the gap has narrowed a great deal: Italy overtook France in 1989 and now we are 10 % above it; we have exceeded England by 42 % and certainly Spain, too (for which I still do not possess reliable data from the Pegaso factory). If the trend of past years should continue, the cost of Northern Italy would be greater than that of Germany towards the end of the decade. In addition, Italy has higher costs for utilities, electricity in particular, and financing costs: the fiscal burden, too, is among the highest, together with that of Germany. I am having some comparative tables prepared, these too derived from factory actual accounts and operative entities.

As a consequence Northern Italy has become one of the European regions least suited to our type of production (cars, lorries, tractors, components, etc.) and this condition will rapidly spread to Southern Italy if the current trend continues. In the factories, after the great recovery of production in the period 1980/1987, it is unthinkable that we can do better than other European competitors in order to make up for the gap. In the offices, from 1987 until today, the increase in general expenses (planning, administration, sales etc.) has been high (Table 14.4) and largely caused by the increase in unit costs and not by greater employment of staff.

Table 14.4 General expenses in the three main sectors (including R&D—in billions of lire)

	1987	1991
		Budget
Fiat Auto	3,160	4,832
Iveco	1,080	1,496
Fiat Geotech	420	470

The effects on the income statement have until now been compensated by the big increase in volumes achieved during the period, at least for cars (diagram I) and lorries (diagram II); but this is not so for tractors (diagram III) that found themselves having to face ahead of time, with respect to the other two Sectors, the problem of the "surfacing" of general expenses and hence staff cuts (there followed three diagrams on the development of European demand).

But it sufficed for the cessation of growth or the beginning of a slowdown in the market to cause the problem to explode for both Fiat Auto and Iveco (Table 14.5, which refers to the latest data available, i.e. to the fourth quarter of 1990).

Table 14.5 Incidence of general expenses on turnover for the three principal sectors (including R&D)

	1987 (in %)	1990 4th quarter (in %)
Fiat Auto	14.3	20.8
Iveco	16.1	20.8
Fiat Geotech	16.4	19.6

The problem of labour costs is therefore the most dramatic one we have to tackle in the short term. In particular, the cost of white collar work has taken on a very serious connotation.

(All texts shown in italics were underlined in the original.)

The crux of the problem we have to tackle regarding white collar workers (and obviously in a similar fashion for *dirigenti*) can be expressed as follows:

1. The unit cost of clerical workers is increasing far faster than turnover, and hence general expenses explode.
2. Balancing the company books can only be attained by cutting the number of staff.
3. At first, the rationalization of the company can be achieved without excessively sacrificing our competitiveness, through a search for constant internal "optimization".
4. After a first cycle of rationalization, if labour costs continue to increase, we shall find ourselves back to square one and the procedure must be repeated.
5. At this point it becomes indispensable to encroach upon operational capacities and hence our competitive possibilities, which will trigger a "domino effect" of cuts and weaknesses (which we have already experienced in some crucial sectors within our Group, for example in Fiat Allis).

It is therefore vital for Fiat that from now on labour costs in Italy increase in the same proportion as they do in the rest of Europe. To quantify the dimension of the phenomenon, it suffices to observe that Fiat's internal costs (i.e., without considering suppliers who account for 70 % of the cost of the product and for whom an analogous logic holds good) would currently be less than 1,000 billion lire for the whole of the three main Sectors, according to Table 14.6, if from 1987 until today Italy had followed the same trend as France.

Table 14.6 A simulation of total savings in Italy for the three main sectors with the increment in French labour costs from 1987 to 1991 (in billions of lire)

	Effective	Simulated	Difference
Fiat Auto	5,500	4,750	750
Iveco	1,250	1,050	200
Fiat Geotech	350	300	50
Total	7,100	6,100	1,000

This figure gives an indication of how much we will lose in four years if the growing gap is not stopped (and without counting the analogous effect that Italian suppliers will be obliged to pass on to us in some way).

The existence of the problem in all its seriousness seems however to have been “removed” from the attention of public opinion. Even in evident cases, such as the recent redundancy fund for Fiat Geotech and Iveco, no reference is ever made in the press to the cost of labour but only to market dimensions, which in reality have made only a partial contribution to the emergence of the problem. For the above-mentioned Sectors and also for Fiat Auto, the entire solution is put off until the next, inevitable recovery of international markets.

On the contrary, as the diagrams shown above demonstrate, dips in the market in 1990 were almost always slight: even in the case of recovery our problem will not be solved and the impact of any further recession on Fiat’s accounts would be dramatically more serious than it would be for European competitors.

I therefore maintain it indispensable to define a programme of action in order to tackle the problem with due clarity and determination and, in preparation for its implementation, to launch a communications plan both within and outside the Group. In parallel with the abovementioned programme, aimed at matching from now on the dynamics of labour costs in Italy with those of France and Germany, we must develop within the Group those operational measures already set in motion so that all Sectors and the Holding Company may return to the values of 1987, at least in terms of the incidence of general expenses (Table 14.5 for the main sectors).

Garuzzo

Document 7: Policy for Structural Competitiveness

As soon as I could, I thought to prepare a document that constituted the *leitmotiv* of the instruction given at Marentino and then might become, more or less officially, the Group's ideological *vademecum*: a first-level policy. Twenty years before, in the days of Umberto Agnelli and Gianmario Rossignolo, an attempt had been made to introduce a policy system in Fiat. Many specialists had written hefty volumes on this but the whole thing was merely a theoretical exercise that produced a lot of hot air without any effective business sense; the experiment had failed because of the way in which it had been implemented, but the idea that Umberto Agnelli and Rossignolo had explored was substantially correct. According to me policies had to be few, basic and simple and top management had to believe in them and devote a lot of time to their explanation and diffusion. (*Absit iniuria verbis*, there would be no Gospels and no Christianity without Paul of Tarsus and the Apostles.) Travelling frequently around the world and talking often to the Group's operative periphery, I perceived that my interlocutors needed to know where we were going and why. And so I considered the idea of preparing an essential guideline, the mother of all policies, which I wrote in my own hand and strove to divulge and have divulged as widely as possible. The document went back ideally to the ideas underpinning the speech I had made at the Iveco Conference in Marentino in 1985. It was less naive than those ideas, even though the text appears simplistic to a modern reader. The concepts that then seemed debatable, if not innovative, today have become common sense, universally shared inside and outside the Fiat Group. And this was precisely the objective I was aiming for. I truly believed in those ideas: they had inspired my entire working lifetime. Deliberately, I obliged all the people who had anything to do with me, even if only fleetingly in that first period of responsibility in the *Direzione Generale*, to absorb their share of indoctrination according to the verses of the sacred text that went as follows:

Turin, 29 April 1991

Basic objectives for the management of the Automotive Sectors

1. The primary objective for the running of Fiat's Main Sectors is the pursuit of the *maximum degree of long-term structural competitiveness, with respect to the cream of international competition*.
2. In fact we believe that from the abovementioned primary objective there derive directly: (a) the *maximization of value for the shareholders* (i.e. the maximum asset value at all times, the maximum income in favourable moments for the markets and minimum losses in periods of crisis); (b) the *best prospects for the persons* directly or indirectly dependent on the Company (management, clerical staff, workers, dealers and suppliers).
3. The pursuit of the primary objective will occur through the instrument of Total Quality in its two senses: (a) Customer Satisfaction; (b) the use of the least possible quantity of human and financial resources ("Lean Organization").
4. The pursuit of Total Quality in the abovementioned sense involves: (a) the maximum involvement of persons at all levels in the company; this front involves

the management of the Holding Company, the management of the Sectors and the functional line of Organization and Human Resources which act synergically on the diverse company levels; (b) the preparation and implementation of industrial policies valid for all Sectors, the emission of policies, in complete harmony with the Sectors, is one of the Holding Company's primary tasks; (c) the preparation and the implementation of structural plans for those areas of activity that need them and for which more ambitious and more global objectives for improvement will be fixed.

There followed a series of guidelines for the management of the portfolio of the Intermediate Sectors, before winding up with some topics close to my heart:

Great importance will be attached to the aspects, correlated among themselves, of communication and commercial image; it is a matter of overcoming the serious handicaps represented: (a) by Italy's image abroad; (b) by the Italian political practice that uses denigration as an instrument of political struggle, without worrying about the disastrous effects on a commercial level for national products; (c) the need to involve people (according to the principles of Total Quality) in objectives that are universally understood and shared.

Document 8: The Institutional Meetings of 1990, 1991 and 1992

Amid the bedlam of problems and projects, and with the nightmarish denigration coming from the outside world, it was essential to increase the motivation of the management body, and this objective entailed excellent internal communications. Paolo Cantarella immediately started up his own programme for management meetings for Fiat Auto analogous to those held in Iveco since 1985.

I tried to make suitable adjustments to an instrument that had existed for some time but that I felt did not work as it should. Since the early Eighties, between November and December of every year, a meeting was organized, known as the “Institutional Meeting”, in which all the principal *dirigenti* of the Group, over 400 people, took part in a two-day session. The “Marentino Meeting” of 1988 made news because of the shock caused by the dismissal of Vittorio Ghidella. In subsequent years, journalists pricked up their ears to imagine what would have happened on that occasion and, in the absence of real news, they invented several bogus items. Cesare Romiti set to riding the wave of the occasion, so suited to his personality cult, deliberately leaking some news and issuing eulogistic press releases, as happened in 1989 with his message on quality. Unfortunately, in this way the public was shown some dirty linen that any multinational would have washed in private, and thus the world outside the Group was given a distorted image of the concrete topics that were tackled in that room, coloured by the bland paternalism of the pep talks with which Cesare Romiti and Gianni Agnelli wound up the meetings.

While the external image of the Meetings was what it was, I nonetheless managed to introduce substantial improvements. In the Eighties, themes of an Italian national character enjoyed a virtually absolute exclusive, as if Fiat designed, produced, and sold in Italy alone. From my standpoint in Iveco, and even more so after the New Holland operation, I found this dismal: the non Italian *dirigenti* came from far away to seek motivation on seeing the community of the great international group to which they belonged... and then they found it embroiled in the midst of the political, economic, and trade union micro-problems typical of small-time Italy. They didn't understand a thing and got bored to death. The matter was also harmful for Italians who, on those occasions, heard again and again the same provincial stereotypes they read in the papers every morning. I immediately began to influence the agenda and to suggest a treatment for every topic from a viewpoint of international comparison. I frequently stepped in to change the vocabulary. It was a job for a proof reader: but how was it possible to use the term “foreigners” for the Germans of Iveco Magirus who considered Iveco Magirus a German company, having had its headquarters in Ulm for a century, and therefore felt fully at home in their job?

At the 1990 meeting, which was held on 23 and 24 November (and was repeated with other participants a week later), I took part as COO designate and was finally able to give the slant I liked best to my extremely long speech on “restructuring and permanent repositioning”, and, more generally, on all the topics

of the meeting. This was a matter of international business scenarios and precise industrial aspects, with clear and meaningful figures. I illustrated for the first time some essential management parameters, which I was then to follow from year to year for another five years, and, for the first time in Fiat history, such a numerous assembly of *dirigenti* learned in real time the real data of the current management without any cosmetic adjustments. I was not disturbed if a strongly didactic intention shone through. I prepared my texts and selected the figures personally, together with my closest collaborators, and I was to do the same in the years that followed. Anyone who was to take the trouble to listen to the recordings of my speeches of those years, and to observe the tables I presented, could faithfully reconstruct the path taken by the Fiat Group in that period.

At the meeting of the following year, held at Marentino on 5 and 6 December 1991, I was able to deal in a unitary and coherent manner with the three themes of structural competitiveness, structural planning and internal communications. It was, in my view, a very well organized meeting, from which people left with clear ideas. There were speeches about general economic subjects, made by Mario Monti and Renato Ruggiero, suitably paternalistic speeches made by Cesare Romiti and Gianni Agnelli, specific speeches by the Sector Heads (each of the two principal Sector Heads had to expound on a topic in which they were believed to be less knowledgeable: economic development for Paolo Cantarella and quality and costs for Giancarlo Boschetti) and all this fell within a rational frame of reference of company strategy that I outlined in the two long presentations I made: the first, lasting almost an hour, dealt with “guidelines and cases for the development of competitiveness in the automotive sectors”; the second, “priorities and commitments for the Automotive Area”, which lasted over 90 min. I wanted to give the impression that Fiat’s affairs, despite the fact that they were in poor shape, were by then evolving in a framework of stability, consistency and professionalism and I believe I achieved my goal, even though news of the meeting leaked to the outside centred little on business topics and lots on the sensational aspects of the “succession”.

The newspapers were influenced by the political parties and in that period both the Christian Democratic Party and the Italian Socialist Party were violently against Romiti, with a particular ferocity the underlying reasons for which I was and still am unaware of, if ever there were any. As for me, the media all but ignored me, as they also did with all the other most important managers, also because the Holding Company’s press office, as was customary, devoted itself exclusively to the Chairman and the CEO. This was absolutely fine by me, because it allowed me to work in peace, even though I was disturbed by the opinion that this *modus operandi* engendered in the country, namely that Fiat did not have other “good” managers below the two public personages, a fact that was frankly ungenerous towards dozens of reliable, capable and dedicated persons.

During the Institutional Meeting at Marentino of 4 and 5 December 1992, to which 434 attendees were invited, I was able to take stock of some matters, explaining the evolution of the three Parameters that I had put under control before the eyes of the participants, in three successive moments of my speech.

1. Regarding margins: “One of the most worrying considerations I had emphasized in my speech last year concerned the erosion of the gross industrial margin, i.e., how much of the turnover remains to us after having paid the cost of the sold product. [...]. 1992 was certainly not outstanding from this point of view; yet I must point out with, let’s say, cautious satisfaction that the process of erosion has been halted in Iveco or even reversed in New Holland and Marelli [... but not yet], for the time being, in Fiat Auto”.
2. Regarding market shares: “[In assessing trends in margins we must bear] in mind that for all [Sectors] the goal was to safeguard European market shares in 1992, in a structural defence of the networks and the factories, as we had clearly forecast to you last year. And the goal has been substantially attained, at least in recent months. Fiat Auto, which lost about three points [in Europe] in the last few years, has now stabilized its share”.
3. Regarding overheads: “Last year [I had reported the phenomenon] that I defined as the “surfacing” of overheads. [...] The increase in labour costs for white collar workers on the one hand and stagnation or reduction in sales on the other, led to a gradual increment in the effect of general expenses over turnover. [...] This phenomenon has been reversed or at least slowed down in the course of 1992 by all the Sectors thanks to substantial and widespread measures. The values, as you can see from the slides, have now settled at around 17-18 % of turnover. And they are also three points higher with respect to the traditional normal values for Fiat Auto and Marelli. A bit less for Iveco and New Holland, but the acquisitions recently made by these Sectors have the precise theoretical objective of spreading fixed costs over a larger turnover. The measures [of reduction] are therefore destined to continue for everyone. [...] This is a painful decision but an easy one to make. Simply: when the cost of overheads rises to a point where they exceed gross industrial margins and hence when the operating result becomes negative, there is nothing else for it: you have to make cuts”.

Document 9: Note from G. Garuzzo to C. Romiti of 14 November 1991 to Defend the Work of P. Cantarella in Fiat Auto from the Criticisms Made by U. Agnelli

Turin, 14 November 1991

Note for Mr. Romiti

I have examined the document you have delivered to me, received from Mr. [Gianni] Agnelli, regarding the performance of Fiat Auto. The document is made up of two parts of very diverse conceptual import. The first part [...] aims to demonstrate:—that Fiat Auto has lost market share in Italy in 1990/1991;—that Fiat Auto’s financial results have worsened. It is a matter [...] of widely known considerations and no new element has been added to what may be gathered from press reports regarding the results of competitors or from the analyses presented by us in the company reports and explained to the Executive Committee.

If anything, one notices a certain superficiality—in the total absence of an analysis of reasons (the network structure and the Fiat range, quality problems, the attack of competitors, the erosion of competitiveness in Italy, the denigration of the product’s image, etc.) that have instead been studied in detail by Fiat Auto in-house, discussed with the Holding Company and explained to the Executive Committee—in the identification of an almost instantaneous turning point, explicitly indicated at the end of the three-year period ’87/’89 and starting from 1990 when “Fiat has passed from the leading group (of competitors) to that of the tail enders”. For a Group of the size of Fiat Auto, and one therefore possessing enormous industrial and commercial inertia, this corresponds to a superficial distortion of the facts.

The second part of the document deals with considerations on the evolution of the Gamma Plan as inferred from Fiat Auto internal documents from 1988, ’89 and the beginning of the Nineties. This raises questions about the usefulness of a historic “process” when Fiat Auto’s top management is new and therefore unable to identify the aims to be pursued. Apart from these considerations and remaining on a strictly technical level, the analysis seems superficial in comparison with far more profound criticisms that it would be possible to make with current knowledge of the situation: in support of the new, recently approved structural plans what has actually been pointed out is: the assumption of an excessively long working life of the models, toned up by restyling, whereas we now know that it is necessary to aim for faster renewal of the models (the so-called “5 × 2” structural plan); the shortcomings of the product and the network that have not allowed the [Fiat] Tipo to attain the planned objectives, a phenomenon—among all others—that has had the most negative impact on Fiat Auto because it has spread to all 5 models that use the same platform and that will be overcome only with the arrival of the new Tipo in 1995; the assumption that in any event the Tipo, which came out in 1988, could last beyond the span of the existing Gamma Plan, and hence beyond 1998; giving up on specialties, whose return on investment was not thought to be fast enough; the expectation that product quality could be improved more by measures regarding hardware (plant,

automation) than by “software” ones (processes, men); more generally, a long-term policy aimed at emphasizing very high profits and, simultaneously, giving up on the development of the range and commercial presence (especially abroad) that today, with hindsight, would be most valuable.

I have therefore decided not to pass on the document to Fiat Auto for further analysis insofar as: it would lead to doubts concerning the existence of an external “super control” over the institutional role of the Holding Company and one in possession of confidential documents; it would also raise doubts in the current management of Fiat Auto that the structural plans approved by all the competent bodies (i.e., the Board of Fiat Auto and the strategic organs of control of the Holding Company) may not be shared, but kept “suspended” in expectation of an *ex-post* judgement with disastrous consequences for management motivation in the current critical economic/financial state of the Group, international competition, and the realization of ongoing structural development plans; it would be useless with regard to a strategy for the future and contains no constructive proposal of any kind.

Yours sincerely

G. Garuzzo

All very well, but when I defended the clear and violent attack on Romiti (“in the identification of an almost instantaneous turning point, explicitly indicated at the end of the three-year period ’87/’89 [that’s to say with Ghidella’s dismissal] and starting from 1990 when ‘Fiat has passed from the leading group (of competitors) to that of the tail enders’. For a Group of the size of Fiat Auto, and one therefore possessing enormous industrial and commercial inertia, this corresponds to a *superficial distortion of the facts*”) perhaps—I realize today—I was very much a Romiti man and a not very sincere one.

Document 10: A Letter from G. Garuzzo to G. Agnelli, U. Agnelli and C. Romiti of 15 July 1993 on Fiat's Role in the Italian and International Panorama

I have precise opinions that I can sum up as follows:

1. *The aims, the structure and the policies of our corporation must undergo development of major import [...]; please find enclosed a list of "areas" in which [...] change should be more incisive; with regard to each of these I have been working out various proposals for some time (some of which are really innovative) that find themselves in diverse stages of completion, elaboration and hence of conviction; [...] all of them should be [...] subjected to wider comparisons and checks and, if necessary, implemented gradually; [the enclosure listed: (1) The concentration/simplification/reinforcement of product portfolios; (2) The simplification/rationalization of the entire Group (both in industrial areas, in services, and company frameworks); (3) A new "pact" between the Holding Company and the Sectors; (4) A new image and a new style of communication; (5) Continentalization on a European level; (6) A change in the political relations of Italian industry; (7) Extra-European synergization; (8) Structural innovation of the auto sector; (9) Name and headquarters].*
2. *The Group's degree of industrial cohesion must be preserved, while some aspects should be increased and the role of the Holding Company must develop in a manner consistent with this objective. This is for three fundamental aims.*
 - (I) In conditions of fierce competition *all synergies are precious*: it would be absurd to seek external alliances and not exploit internal opportunities [...].
 - (II) The company's success depends on a capacity for long-term strategic vision and on the capacity to make our own fundamental instruments comply with that vision (product ranges, manufacturing locations, sales networks, etc.) without making mistakes, with regard to which room for recovery *a posteriori* is ever more limited. [...] *The existence of two professional levels (Sector and Holding Company) that work with consistency and competence in these matters represents an extraordinarily important guarantee for shareholders.* [...] Naturally, all this is possible only in the existence of sufficient industrial homogeneity among the Sectors of the Group and if professionalism is suitably distributed between the two levels (Sectors and the Holding Company). In the case of a strictly "financial equity Holding Company", professionalism would be different (pure budgetary control at the centre, business competence in the sectors) [...].
 - (III) Historically, the nature of the Fiat Group has always been that of an integrated industrial group; diversification has represented supplementary and compensatory moments, often very useful but always marginal with respect to the consistency of the whole. *This spirit is deeply rooted in broad strata of the Group's population and has proved valuable and appreciated also in the case of more recent acquisitions in distant geographical*

areas [the reference is to New Holland] *and represents a value that it would seem inopportune and dangerous to give up.* And for Companies, as for individuals, spirit lies at the base of every success: according to me, this explains the past success of the Fiat Group that has permitted it to reach (despite all the misfortunes lasting many years) a position that is unfortunately unique in the Italian panorama, which has, moreover, a wealth of participation Holding Companies.

Document 11: Letter from G. Garuzzo to P. Cantarella with Copy f.a.o. C. Romiti of 23 November 1993 on the Need to Undertake a Structural Revision of Fiat Auto

(The tables are simplified with respect to the original, where insufficient market shares, here highlighted in bold and marked with an *, were highlighted in red).

“The prospects of profitability for Fiat Auto are very slim, despite (a) the competitiveness caused by the devaluation of the lira, (b) the low cost of Polish production, (c) the help represented by the redundancy fund in Italy to make labour costs flexible in proportion to market demand and (d) realized or planned cost efficiency. This derives from a *set of structural conditions* that must be analysed, tackled and solved. The following points refer to one of these conditions: the efficiency and the validity of our brand/network/product map as compared to that of the competition.

1. As of 30 September 1993 we hold in Europe a market share of 11.2 % that puts us in 6th place among the six “generalist” brands (Table 14.7); apart from VAG [Volkswagen-Audi], which is markedly ahead of us, the differences between the other producers are not great and so motor vehicle volumes are not very different [...].
2. The total number of vehicles is not the best indicator because it overlooks the effect of the product mix, which is enormously important; if we consider only the B-C-D-E segment, which represent the essential part of the European market, our share falls to 10 % and leaves us well behind that of the others. In more detail (Table 14.8), our position is good, i.e., above average, in segment B alone; our position is clearly inferior to almost all competitors in the other segments. VAG and GM have reasonable or excellent positions everywhere.

Table 14.7 European market shares on 30 September 1993 (in %)

VW	10.4
Audi	2.8
Seat	2.4
Skoda	0.5
<i>VAG Group total</i>	<i>16.1</i>
GM	12.5
Saab	0.4
<i>GM Group total</i>	<i>12.9</i>
Citroën	4.3
Peugeot	7.4
<i>PSA Group total</i>	<i>12.1</i>
Renault	10.5
Volvo	1.5
Renault + Volvo total (subsequent merger failed)	12.0
Ford	11.6
Fiat	8.5
Lancia	1.6
Alfa	1.1
<i>Fiat Group total</i>	<i>11.2</i>

Table 14.8 European market shares per segment (in %)

	B	C	D	E
VAG	9.8	22.1	25.0	8.3
GM	9.0	18.2	12.0	11.2
PSA	19.3	11.2	12.2	4.4
Renault-Volvo	18.2	10.0	7.5	15.2
Ford	15.5	13.1	10.8	3.9
Fiat	17.0	6.4*	7.7*	7.4
BMW			8.9	12.1
Mercedes				23.8

3. In our case even geographical coverage (country mix) sees us lagging behind all the others. We are 6 % below [the others] in all four major markets outside the domestic market; the others are far better balanced; VAG, GM, PSA and FORD are 12 % ahead in at least 3 of the 5 major markets (Table 14.9).

Table 14.9 European market shares per country (in %)

	France	Germany	Italy	Spain	UK
VAG	8.8	30.7	15.1	17.3	5.9
GM	5.9	17.5	7.5	13.5	18.0
PSA	32.0	6.1	8.2	21.1	13.3
R + V	31.6	6.3	8.6	18.0	11.6
Ford	8.8	9.6	12.3	15.2	23.3
Fiat	4.9*	2.9*	39.1	4.9*	2.0*

4. The interesting parameter from a business standpoint is not market share but contribution margin. If on first approximation we presume that all the competitors have the same average contribution margin per segment, we obtain the result shown in Table 14.10. Our share goes down further to 9.1 %. For us, most of the money comes from segment B. Conversely, note the strength of VAG in segments C and D (with an overall contribution margin 3,700 billion greater than ours) and GM's excellent position (also strong in the same segments with a contribution margin 1,700 billion greater than ours).

Table 14.10 Access to annual contribution margin (billions of lire)

Segment	B	C	D	E	Total
VAG	811	2,776	3,296	675	7,558
GM	745	2,285	1,583	905	5,518
PSA	1,598	1,408	1,609	353	4,967
R + V	1,507	1,257	986	1,235	4,985
Ford	1,283	1,646	1,422	314	4,666
Fiat	1,408	804*	1,012	598	3,822

5. In the face of an inferior gross margin, the fragmentation of our range is almost always higher than that of competitors, owing to the presence of the diverse

brands and relative products (Table 14.11). It follows that only the Fiat model in segment B is comparable to our best competitors as far as profitability is concerned; the other brands and segments are almost always at the bottom of the list. It is not easy to bring the analysis down to the income statements below the contribution margin in this kind of comparison, but it is clear that both the level of investments, the cost of the networks and, more generally, the complexity of the company increase in relation to the number of models. This fact, coupled with lower profitability, puts us in an extremely difficult structural situation.

Table 14.11 Contribution margins per brand/model

Brand	Model	Percent of share	Contribution margin
<i>Segment E</i>			
Audi	100	8.3	675
Opel	Omega	7.6	615
Renault	Safrane	6.4	519
Ford	Scorpio	3.9	314*
Saab	900/9,000	3.6	290*
Fiat	Croma	2.5	201**
Lancia	Thema	2.5	201**
Alfa Romeo	164	2.4	196**
Citroën	XM	2.4	193**
Peugeot	605	2.0	160**
<i>Segment D</i>			
Opel	Vectra	12.0	1,583
VW	Passat	12.0	1,583
Ford	Mondeo	10.8	1,422
Audi	80	8.9	1,172
Peugeot	405	8.1	1,067
Renault	R21	4.7	619*
Fiat	Tempra	4.2	551*
Citroën	Xantia	4.1	542*
Seat	Toledo	4.1	542*
Lancia	Dedra	1.9	251**
Alfa Romeo	155	1.6	210**
<i>Segment C</i>			
VW	Golf	22.1	2,776
Opel	Astra	18.2	2,285
Ford	Escort	13.1	1,646*
Renault	R19	10.0	1,257*
Citroën	ZX	6.1	767**
Peugeot	306	5.1	641**
Fiat	Tipo	4.4	545**
Alfa Romeo	33	1.8	222**
Lancia	Nuova Delta	0.3	37**
<i>Segment B</i>			
Renault	Clio	16.3	1,349
Ford	Fiesta	15.5	1,283

(continued)

Brand	Model	Percent of share	Contribution margin
Fiat	Uno	13.5	1,118
Opel	Corsa	9.0	745*
Peugeot	106	8.8	728*
VW	Polo	5.8	486*
Citroën	AX	5.6	464*
Peugeot	205	4.9	406**
Seat	Ibiza	3.9	326**
Lancia	Y10	3.5	290**
Renault	Twingo	1.9	158**

*Contributions 70 % lower than the leaders; ** contributions 30 % lower than the leaders

6. In addition to what has been shown, it is certain that there exist other macro-factors that influence profitability [relative among the brands]. At this time, three of these are very active, two of which are unfavourable to us while one helps us:

- brand “attraction” favours some constructors over others and translates into a different price/discount position; the impact of this factor can also amount to some percentage points in turnover, and therefore has a major effect on the margin; from all the research and measurements made by Fiat Auto, from corporate and external sources, we are constantly in last place among the “six”: the plan for range renewal, the plan for improvement in quality, and the plan for image improvement [...] are intended to bridge this gap, even though this is a matter, if all goes well, of progress that will require a great deal of time, owing to the tendency for stereotypes to endure;
- net prices in Italy are far lower than those of other European countries (between 20 and 30 % according to the segments); [...] and in this case, too, the impact on margin is enormous and negative for us;
- fortunately our production costs are presumably lower than those of most competitors [...].

7. This note is not intended to be and cannot be more accurate and exhaustive, but can only indicate macro-positioning. It therefore suffices to take as good the preceding points (4) and (5), even though our real position at this time is probably worse, perhaps much worse. [...] A solution has to be found for the basic problem. To do this it is necessary to tackle the subject that includes the three closely correlated aspects of *brands, networks and range of models* and (a) carry out an analysis of the situation, (b) define an objective plan and (c) develop a plan of action. To this end, I ask you to set up a project team of the highest possible professional level [...]. This team will have to report to us very rapidly in whatever circumstances we deem most opportune”.

Document 12: Letter to the Lawyers Concerning the Statement Made to the Turin Magistrates, Requested by Fiat Regarding Negotiations for Garuzzo's Exit

Turin, 26 February 1996

Professor Pedrazzi and Francesco Mucciarelli

Milan

I have read with great care the written record of the statements I made at the public prosecutor's office in the court of Turin on 22 and 23 January 1996, also as a consequence of inferences recently reported by the daily press, and I wish to state the following:

1. When I talked about the Fiat Group's "central financial office" I intended to refer to the existence of a centralized treasury that attended to the implementation of financial movements pertinent to individual companies as a Central Cash Fund. As I affirmed in my statement, of necessity recorded in brief, it was obviously the requiring companies that recorded the movements, with the relative reason for payment, in their own accounts.
2. When I stated that "it's absurd to think that, in a sector, 'slush funds' can be set up without the knowledge of the central financial office" my precise intention was to refer to the abovementioned situation regarding which the so-called central financial office can know the financial movements of the operative companies, but not the relative reasons, apart from those that the operative companies themselves [choose to] communicate.

I felt it opportune to bring the abovementioned points to your attention in the doubt that discordant interpretations may emerge in future: my intention is to confirm the authentic interpretation of my words, as set forth hereinabove, in the appropriate court of law, if and when this may prove necessary, obviously with you as my defence counsel.

With kindest regards

Giorgio Garuzzo

Document 13: A Proposal for a Hall of Fame of the Products, Technologies and Complex, Advanced and Courageous Factories, to the Glory of Italy, Its Engineers, Entrepreneurs and Workers

In the course of my working life I have had the opportunity to take part (in a more or less direct manner) or to witness some extraordinary collective creations of Italian ingenuity, enterprise and labour, which are shown in the list that follows. I hope that one day someone will attempt to carry out a census and supply complete documentation of what Italy has constructed over the years, and that a museum may keep track of what physically remains of it, as happens in many economically advanced countries.

A list of collective creations of Italian ingenuity, enterprise and labour, for a tentative virtual Hall of Fame

				Reference to the chapter in the text
ROBOGATE	Flexible automated car body welding system	The 70s	Comau and Fiat Auto	Chapter 2
PENDOLINO	Tilting train	The 70s and 80s	Fiat Ferroviaria Savigliano	Chapters 2 and 11
PACEMAKER and HEART VALVES		The 70s and 80s	Sorin Biomedica	Chapters 2 and 11
ELECTRONIC PETROL INJECTION SYSTEM		The 80s	Magneti Marelli and Weber	Chapter 3
TWIN-BARREL CARBURETTOR		The 70s	Weber	Chapter 3
DIVISUMMA And AUDIT	Printing calculator, able to multiply and divide, and a mechanical accounting machine	The 50s	Olivetti	Chapter 3
ELEA 9003 and GE 115	Electronic transistorize mainframe computers in large (9003) and small (115) versions	The 50s	Olivetti and General Electric Information Systems Italia	Chapter 3

(continued)

PROGRAMMA 101	Personal computer	The 60s	Olivetti	Chapter 3
ARIETE and CENTAURO	Tank and 8 × 8 armoured car	The 80s	Iveco and Oto Melara	Chapter 4
TURBOSTAR	Heavy on-road lorry (tractor and trailer) TIR	The 80s	Iveco	Chapter 4
DAILY/TURBO-DAILY and SOFIM ENGINE	Light lorry and engine	The 70s and 80s	Iveco	Chapter 6
STANDARD PRODUCT RANGE	Range of on- and off-road lorries From 6 tons to the maximum permitted weight, macro-components (gearboxes, axles, cabins, chassis, etc.) and integrated production plants in 5 countries	The 80s and 90s	Iveco	Chapter 6
FIAT PUNTO and the MELFI PRODUCTION PLANT	Motor car and highly automated factory	The 90s	Fiat Auto	Chapter 10

Glossary

General Terms in Italian Industry:

Amministratore delegato Chief Executive Officer (CEO)

Consiglio di amministrazione Board of Directors

Direttore generale General Manager or Chief Operating Officer (COO)

Dirigente A category in Italian labour contracts for top managers

Direttore Amministrativo Chief Financial Officer

Direttore del Personale Head of Employee (or Personnel) Relations

Presidente Chairman

Presidente onorario Honorary Chairman

Quadro A category in Italian labour contracts for middle managers or specialists

Vice-presidente Deputy Chairman

Specifically Fiat Jargon:

Capo settore Head of a Sector or Division within the Group

Vice direttore/Direttore Two management levels above *dirigente*

Direttore Addetto A *direttore* assigned to assist or advise the CEO

Settore Sector or Division within the Group

Settori intermedi Intermediate Sectors: Components Sector, Comau (production systems), and Teksid (foundries and, until the Seventies, steel)

Settori terminali Terminal Sectors: Fiat Auto, Iveco (lorries), Fiat Allis (earthmoving machinery) and Fiat Trattori

Società capo-gruppo Fiat Holding Company

Società capo-settore Sub-holding Company for each Sector

Vertice aziendale Top management

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