

The reasons that led the Italian manufacturing industry to delocalize abroad in the past are fading: low cost of labour, tax breaks. These days the challenge is called internationalization, as revealed by a surprising survey con-

Internationalise to stay alive

MADE IN ITALY

edited by Federico Ferraro

ducted by Fondazione Nord Est (northeastern foundation) reporting on the main obstacles that need to be overcome in Italy. And which confirms the conviction of Adam Smith, according to whom ...

Faced with the internationalization of the economy and its repercussions on the socio-economic system of its area, the business community of the northeastern part of Italy seems divided and is finding it difficult to identify common operational strategies.

The past delocalization of parts of the manufacturing process and the present internationalization trends have raised serious questions concerning the effects on the local social and economic system and the most suitable manner to possibly control and regulate the processes underway.

The absence of a common opinion shared by the entrepreneurs from the Italian northeastern district was confirmed by their answers to the first questions they were asked during the latest survey conducted by Veneto Banca. Regarding the increasing relocation of parts of the business activities abroad, just less than half of the interviewed (45.9%) believe that a passive attitude should be taken, a kind of wait-and-see approach, leaving market forces free to take their course. This stance, which openly relies on an invisible hand that should regulate

market operations also at international level, clashes with those who, on the other hand, are concerned by what is happening and hope for an institutional effort aimed to curb, if not stop, this phenomenon (36.1%). In contrast, those who acclaim reallocation of parts of the production process abroad account for less than twenty percent (18%). According to these entrepreneurs, the process underway is not to be feared and should be supported even more actively and strongly to ensure a better central government and to fully exploit the potential. *Table 1*

1. WHAT DIRECTION SHOULD BE TAKEN CONCERNING THE CURRENT PROCESS OF BUSINESS RELOCATION ABROAD?	
No action should be taken and market forces should be left free to take their course	45,9
Attempts should be made to try and stop this process from progressing	36,1
These processes should be supported and fostered	18,0
Total	100,0

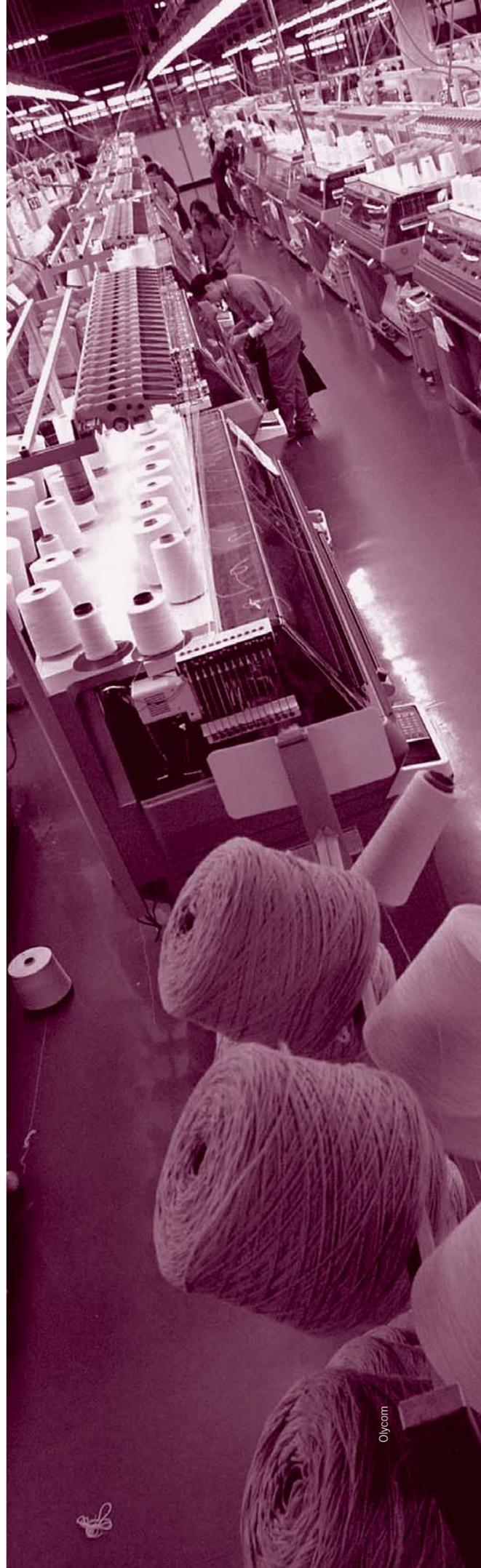
Source: Fondazione Nord Est, November-December 2004 (185 cases)

The fallout on the region

The delocalization of some production processes abroad almost entirely for cost-reduction purposes has now come to an end. These days the relationship between the companies in the northeast and the global markets tends to follow a more complex and intricate approach. This is based on the careful analysis and study of emerging markets to be targeted, the use of foreign suppliers, the adjustment of production to the specific needs of the destination markets and the creation of sales and customer service networks abroad. This approach is called internationalization, a term that semantically sounds more positive than delocalization in its strictest sense. Our country is increasingly involved in internationalization processes. This is particularly true for the northeastern productive system, with consequences that are still quite difficult to determine and quantify from a social and economic perspective. On this point, the entrepreneurs interviewed feel the need to make a distinction depending on the size considered, whether in social, economic or employment terms.

Almost unanimously they state that internationalization is having, or is bound to have, a very (32.2%) or rather (66.1%) positive effect on those single companies that are reorganizing their businesses at a global level. In brief, the opening to international markets and the development of suitable strategies to face new challenges are the best way for companies to preserve and even increase their competitiveness.

This attitude changes significantly when considering the effects produced by internationalization on local employment. More than three entrepreneurs out of four (79.2%) fear that the international reorganization of entrepreneurial activities may have a negative impact on local employment. What is certain is that the transfer of part of the production abroad reduces the need for unskilled labor. However, at the same time, "internationalized" companies have so far focused on more investments in research, development and marketing activities, thereby creating new employment





2. A GROWING NUMBER OF COMPANIES FROM THE NORTHEAST ARE PRESENT IN FOREIGN MARKETS THROUGH COMPLEX STRATEGIES (USE OF FOREIGN SUPPLIERS, ON-SITE PRODUCTIVE AND COMMERCIAL PRESENCE, AFTER-SALE SERVICES, ETC.). THIS PROCESS IS CALLED INTERNATIONALIZATION. IN YOUR OPINION, WHAT EFFECTS CAN IT HAVE:

	Very positive	Somewhat positive	Somewhat negative	Very negative
On those single companies that internationalize their business	32.2	66.1	1.7	0
On local employment	2.7	19.1	60.1	18.1
On the socio-economic northeastern system	8.2	41.5	38.8	11.5

Source: Fondazione Nord Est, November-December 2004 (185 cases)

opportunities for younger generations that have invested time and money in their education and higher level of training. *Table 2*

On the other hand, entrepreneurs have rather diverging opinions with regard to the consequences that internationalization is bound to have on the complex northeastern structure from a social and economic stand point. Some can see positive fallouts (49.7%) while others are more pessimistic (50.3%). Interestingly enough, the share of those taking extreme positions is quite contained: openly optimistic (8.2%) or pessimistic (11.5%). This caution is probably due to the recent nature of these phenomena for which the effects and consequences on the local system are still difficult to foresee and assess.

Encouraging vs. restraining factors

The opening of companies to global markets originates from various considerations but is also strongly affected by exogenous factors sometimes positively and sometimes negatively. One element that traditionally significantly fosters the internationalization of companies is the cost of production

3. LISTED BELOW ARE A SERIES OF FACTORS. CAN YOU PLEASE TELL US WHETHER, IN YOUR OPINION, THESE ENCOURAGE OR RESTRAIN THE POSSIBILITY FOR COMPANIES TO ADOPT BUSINESS INTERNATIONALIZATION STRATEGIES

	Very encouraging	Somewhat encouraging	Quite restraining	Very restraining
The cost of production factors abroad	51.9	44.8	2.7	0.6
The existence of an emerging demand in some foreign markets	31.5	65.7	2.8	0
The geographical proximity of the destination countries	16.3	74.2	7.9	1.6
The professionalism of workers abroad	3.3	25.6	66.7	4.4
Mentality, habits and attitudes towards work for the populations of other countries	2.8	30.9	60.7	5.6
The small size of northeastern enterprises	3.4	18.1	52.7	25.8
Criminality and corruption in destination countries	1.7	2.2	69.3	26.8

Source: Fondazione Nord Est, November-December 2004 (185 cases)

factors abroad, labor especially. This is also confirmed by the opinions expressed by the panel of entrepreneurs interviewed: indeed, almost all of them (96.7%) consider the cost of production to be very or rather important when establishing the internationalization policies of their company. Nevertheless, this well known attitude is now being accompanied by the awareness that there is a growing demand for their products from some markets beyond the border. The need to seize this opportunity and address the requests of new customers in the best way possible is a crucial driving factor for business internationalization strategies. Therefore, the cost factor, typical of the delocalization process, is now combined with more in-depth considerations, also related to the analysis of the new outlet markets, which outline the concept of internationalization. So far, the reorganization of productive networks at global level has privileged, at least among northeastern companies, some geographical contexts that are very close to Italy (central-eastern Europe) not only geographically but also culturally and socially. Nine entrepreneurs out of ten believe that the geographical



proximity of the foreign countries to which investments are destined is still an important factor for the internationalization of companies. However, this is not the only element: 74.2% of the people interviewed tone down their judgment with the word “somewhat”. This is a further confirmation of the trends already in progress in leading northeastern companies, which are increasing their investments also in geographically distant countries such as China, India and Brazil. The growing demand and the excellent future potential in certain contexts make the distance less of an issue and widen the horizons of northeastern companies. Companies appear to be guided and directed by some undoubtedly favorable exogenous factors. Nevertheless, there are also some negative elements to consider. Criminality and corruption, first of all, are quite widespread in some emerging countries. More than a quarter of the entrepreneurs interviewed (26.8%) considers these as elements that may curb the internationalization ambitions of many companies, while 70% of them see these as highly disturbing factors. A secondary inhibiting factor related to the northeastern typical economic and productive system is the average small size of companies. 78.5% of those interviewed acknowledge its discouraging nature, especially in a global economic context where competition is increasingly tough at all levels. The road that leads to the internationalization of small enterprises (i.e. the majority of those presently operating in the northeast) is made steep by factors such as the still weak organizational structure, the lack of a managerial class and the limited financial resources available. *Table 3* Finally, the shortage of professionally trained workers, coupled with the different work culture in autochthonous populations, poses an additional problem that companies need to address in order to internationalize their production. Almost three entrepreneurs out of four agree on this point, this further confirming the tendency to relocate abroad only those phases of production that do not require qualified personnel or high added value

4. HOW MUCH DO YOU AGREE WITH EACH OF THE FOLLOWING STATEMENTS?

	Very much	Quite a lot	Not very much	Not at all
Internationalization is essential to remain competitive	38.0	41.3	16.8	3.9
The internationalization strategy can be pursued only by larger companies	14.1	42.4	37.0	6.5
Internationalization is the way to grow	39.7	45.1	13.6	1.6

Source: Fondazione Nord Est, November-December 2004 (185 cases)

work.

In short, companies seem to be squeezed between two opposite trends, one centripetal and the other centrifugal. Although there is no shortage of factors that encourage internationalization, the potential of which has already been understood, there is still the need to address those factors that restrain our companies and are an obstacle to their projection towards global markets. It is true that single companies can only marginally affect the basic economic and social structure of the destination countries. On the other hand, institutions and associations have an important margin for action at their disposal in terms of dimensions. The promotion of consortia and other useful initiatives aimed to develop an organized action represent a keystone that may compensate for the shortage of “critical mass”, which these days is one of the main limitations of the northeastern entrepreneurial system.

Has going aboard become a necessary step?

The majority of the entrepreneurs interviewed responded “Yes”, in light of considerations mostly related to the need to guarantee that adequate competitiveness levels are maintained in the local production system. At a time when information, the movement of

5. HOW MUCH DO YOU AGREE WITH EACH OF THE FOLLOWING STATEMENTS? AS FAR AS THE NORTHEAST IS CONCERNED, THE INTERNATIONALIZATION PROCESS IMPLIES...

	Very much	Quite a lot	Not very much	Not at all
More specialized professional profiles to be required	38.4	51.9	8.1	1.6
More attention to be paid to production-related tertiary activities (communication, advertising, marketing, etc.)	34.2	47.8	16.8	1.2
The risk of local sub-suppliers losing orders	32.8	48.6	18.0	0.6
The loss of jobs for less qualified workers	37.5	48.9	13.6	0

Source: Fondazione Nord Est, November-December 2004 (185 cases)

people, investment flows and commercial relations concern the entire planet, global reorganization is a pivotal issue for companies to face.

However, terms like entrepreneurial dimension and internationalization strategies are still quite difficult to combine together. Indeed, more than half of the entrepreneurs interviewed (56.5%) believe that, as things stand now, internationalization policies and strategies can be pursued and implemented almost exclusively by larger companies equipped with the financial means and human resources necessary for an open confrontation with the global competitors. Nevertheless, businesspeople are becoming aware that size is not the only limitation. On the contrary, 43.5% of those interviewed believe that also small and medium-sized companies can have their say on the present globalization trends. SMEs can rely on flexibility and market niches that have become consolidated throughout the years and are therefore ready to openly face international markets, provided that they build common and shared projects, leaving their traditional "DIY" approach behind. *Table 4*

Setting aside the several economic and social fallouts of the internationalization process, most entrepreneurs seem now aware and convinced of the fact that internationalization is a useful way to further stimulate business development.

Growth is not only measured in terms of turnover and exports but also with regard to domestic effects, organizational structure and corporate relationships. In brief, a profound transformation in the ways of doing business, trying to assimilate, rather than suffer, the impulses coming from an international constantly evolving economic context.

The effects of internationalization inside and outside companies

To conclude the analysis on internationalization processes underway, entrepreneurs were asked to express their opinion on some possible transformations that may affect the northeastern economic and production system in years to come. The data indicated below highlights the awareness of a progressive transformation of the labor market, partly already in progress, but also the openness to global markets to speed up the process.

The transfer of parts of the production process beyond national borders, especially for more labor-intensive phases, will progressively decrease the number of people doing manual work and make space for new highly specialized professional figures. Those companies that would like to confront global markets these days need to concentrate an ever increasing part of their human and financial resources on some functions only partly used so far, namely communication, marketing and, more generally, corporate image. *Table 5*

Special attention should be paid to the transformations that internationalization processes could bring about in the sub-contracting system. One of the distinguishing features of the northeastern production system is the complex network of relationships among companies and their production processes. In the last few years, the lengthening of supply networks abroad has become more and more evident, in line with the most general internationalization trends. An increasing number of northeastern companies have been driven to start business relationships with foreign partners due to the availability of high quality productions at low prices. Almost 3 entrepreneurs out of 4 believe that this

may result in the risk of local small suppliers progressively losing orders. Therefore, internationalization may have a particularly negative impact on those small companies specializing in standard and low added value productions that can easily be found in other contexts at a lower unit price. As a result, the opening of global markets also concerns the contracting system, which should focus more on technological innovation to increase the value and uniqueness of its productions and avoid exposure to international competition.

Internationalization is bound to have serious repercussions on the entire economic and social structure of both northeastern regions and the entire nation. On one side, companies must stand up to global markets; on the other side, the transformations triggered by globalization are destined to change the profile of the professional figures required, reorganize relationships among companies and fundamentally change their internal structure.

This survey depicts the entrepreneurial world as aware of the challenges in store but, at the same time, as divided when it comes to the strategies and approaches to be adopted. The relative novelty of internationalization makes it difficult for entrepreneurs to fully understand its consequences on the land, people and countries. One thing is certain: the resulting northeastern district is going to be very different from the way it was in the past and the way it is at present. ■■■■■