

It is not that Italian entrepreneurs do not go abroad. They do. Some banks are also going. The point is that there is a lack of strategy and culture in moving as a system, as recounted from personal experien-

When there is no System Among Capitalists

MADE IN ITALY

by Antonio Calabrò

ce by the leaders of Italian style internationalization, from Pininfarina to Dompé, from Riello to Tronchetti Provera, from Pesenti to Confalonieri...

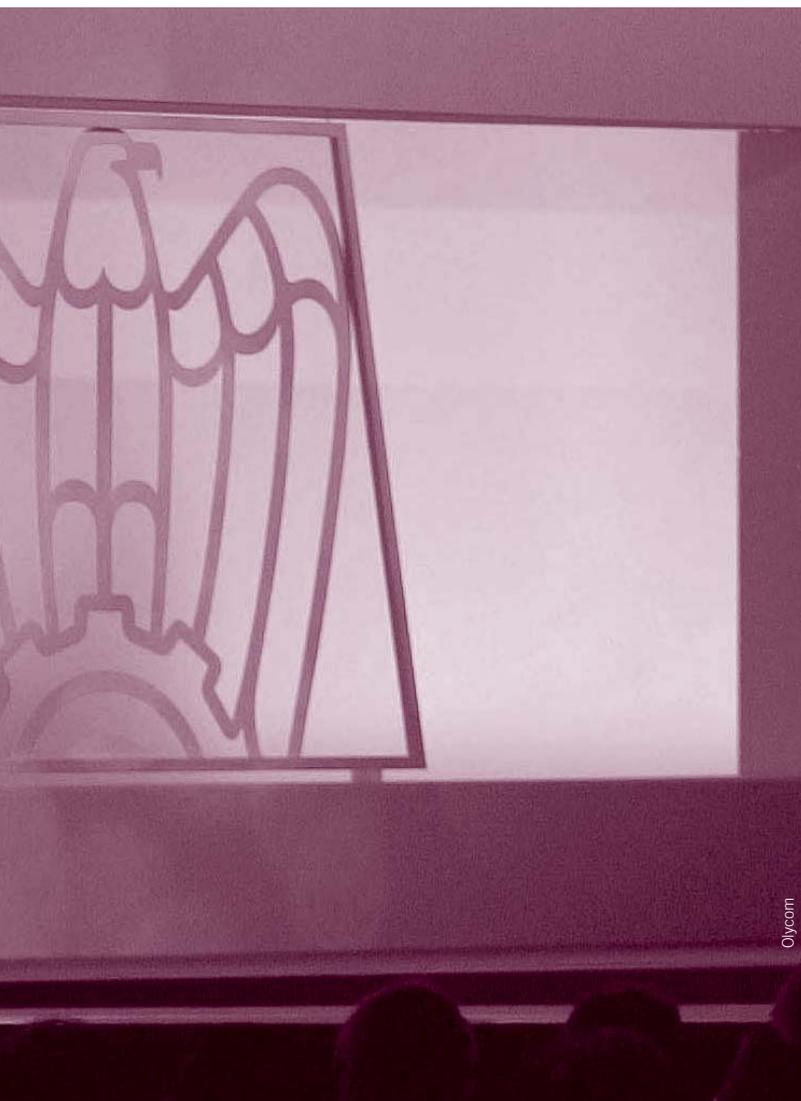
The ship sails. Doggedly, but it sails. A European ship, naturally. Conflicting trends, nationalistic economic barriers and financial transactions in open markets clash together. Old border policies are at odds with far reaching economic and financial strategies. And the emerging picture highlights profound contradictions. In any case, the bottom line is visible: despite limits and barriers, Europe, the great market for companies, capital and work is not a mirage, a fancy, a desirable though impossible dream, it is a reality. It is true that the reform of the "Development and Stability Pact" mitigates the severity of the same parameters for all in the name of political flexibility for individual countries (seriously compromising the "European" vision of the economy and development). The push for nation-States' interests takes centre stage (France and Germany exercise pressure and design measures to discourage the delocalization of companies; in Italy there are even those who, within the government, are thinking about protectionist duties and barriers). Nevertheless, those who know the world of industrial, financial and commercial companies well, recognize that domestic borders prove to be anachronistic and the



only path to development is through growth, internationalization, and the conquest of new markets. The great European market is preparing and launching public tenders and exchange offers (for banks and trading firms), studying acquisitions, investing in new plants, especially in the promising area of Central and Eastern Europe. For Italy, there is a twofold problem: the little attraction it holds for foreign investments and the poor internationalization of its companies: alarming signs of a competitiveness crisis in the system-country as a whole. This is exactly what the key problem is all about. When it comes to going abroad everybody does it by themselves: businessmen with their products, banks, officials from the Italian Institute for Foreign Trade, business initiatives by Ministries, Chambers of Commerce and Regional Boards. No one ever thinks about organizing a system, following a comprehensive strategy, just like all the other big European

countries do. As Andrea Pininfarina, Managing Director of the Pininfarina group and Vice-President of Confindustria stated: "Entrepreneurs are used to do business independently. They have always done it and they will continue in this way, at a disadvantage, though, compared to their competitors. A change is necessary to create a system and work in synergy with the diplomacy and the financial world. In this respect, there is no shortage of political commitment. There have been some improvements, but the fact is that we are still a long way from a true internationalization-support strategy". In any case, entrepreneurs are moving and as Pininfarina said: "We operate in traditional sectors, which are exposed to cost related competition with moderate growth rates. This, though, is the consequence of an intrinsic characteristic of Italian industry. Factories are being relocated and those processes that have become expensive in Italy are being contracted to foreign entities, all without any innovation. This needs to change. It is not a matter of improving delocalization practices, but radically changing the type of product-service that Italian industry is able to offer, by focusing on research, innovation, higher added value processes and activities". Pininfarina himself provides us with a concrete example: "We are present in Morocco, not for low-cost production purposes, but rather to devise engineering processes for our products by working with a team of young Moroccan engineers with excellent French-style education, who have been trained to suit our needs. A very efficient team with competitive costs and indeed, high product-service value. It is the quality of the delocalization that counts and can provide leverage for the development of the entire company". New style factories, then, with special focus on the "made in Italy" featuring high creativity and high quality applied to state-of-the-art mechanics, biotechnology, high-tech, etc. As Pininfarina explains: "The key lies in selling products

Italian entrepreneurs are present abroad, but without a comprehensive strategy. No one ever thinks about organizing a system, just like all the other big European countries (in the photo, Luca Cordero di Montezemolo, President of Confindustria).



coupled with services, thereby taking all fundamental strategic decisions here in Italy: applied research, design, engineering, marketing, logistics, etc. Those who grow and become established are the entrepreneurs who manage a value chain, by controlling and guiding the entire flow and delocalizing single parts. Delocalizing the entire production is a mistake since innovation and quality are very closely related to the production process. New factories need to be devised, designed and built, where engineers, technicians with experience in digitally controlled production processes, researchers, marketing managers and image and communication experts work together, one next to the other. At Pininfarina we did something similar in our new Engineering Centre of Cambiano, just outside Turin".

There are factories and factories and products and products. Pininfarina added: "There is no good recipe that suits all industrial sectors, the entire Italian industry must get used to complexity and adapt to new value chains that apply the 'economy of knowledge'. Selling everything that stands between creativity and the product's establishment in the market: i.e. engineering. Pininfarina, for example, operates in China following the concept of combining services with high added value production, throughout all the stages that range from product designing to engineering. Selling products individually means losing: there will always be someone in the Far East that makes the same product as you but cheaper and better".

Similar opinions were expressed by two other creative entrepreneurs like Sergio Dompé, a pharmaceutical industrialist who operates in the biotechnology sector and former President of Assobiotech, and Alessandro Riello, Managing Director of Aermec and President of the Verona Association of Industrialists. Dompé maintains: "Many of our companies, small and medium enterprises in the North East from Treviso to Timisoara, for example, decentralize their production plants to low-labour cost European countries in an attempt to stand up to ever tougher competition. Slashing production costs is factually necessary, but the future of our competitive capacity does not lie so much in costs but in innovation and new ideas. Investing in new sectors is fundamental and so is the turning

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of research into a business and having the courage to acquire skills and companies to do joint ventures in markets where innovation is embedded".

Biotechnology is one of the new sectors, a state-of-the-art industry in the USA and a growing business in Europe. Sophia Antipolis, on the Côte d'Azur, is one of the many examples of how, in the space of less than a decade, excellent companies can grow by focusing on universities, public and private research centers and state-of-the-art industries. And what about Italy? "Over time", Dompé explains, "good and specialized companies that are competitive also at an international level have been established. It is an important development for the entire Italian system and for our future industry, provided that there is a sound relationship between public and private research activities, a patent policy consistent with European legislation, a favorable environment allowing companies to fill the gap with more advanced countries. The important thing is never to stop because the obstacles to research and innovation, still strong in Italy, may significantly hinder the competitiveness of the country's system. We Italians, having been fed with classical



“We are still a long way from a true internationalization-support strategy, even at a political level”, says Andrea Pinfarina, Managing Director of the Pinfarina group.

culture since birth, have a rocky relationship with science, technology and the culture of state-of-the-art companies. Antiscientific and technophobic attitudes could ruin us”. According to Riello: “Italian firms react positively to competition, even from rock solid German firms and they are in no way complacent – at least speaking from personal experience – on the advantages offered by reduced labour costs. The East is a large production and consumer market that could become an expansion area for Italian companies, partly compensating for the decline in demand from France and Germany”. Low growth rates are still an unanswered problem in Europe. Growth is even slower and more difficult in Italy than in the rest of the Euro zone. Pressing for efficiency, innovation, research, training, technology transfer and total competitiveness of the country-system means demanding that bold and farsighted political and entrepreneurial

choices be taken. As Marco Tronchetti Provera, President of Telecom Italia and Vice-President of Confindustria states: “I am convinced that the European model remains valid and vital, providing that global competition, which imposes high production standards and efficiency of the system, is always monitored closely. The United States perform the fundamental role of ‘driving’ the international recovery, thanks to the greater flexibility of their economy. They are faster in seizing opportunities to relaunch. Instead, Europe should take a hard look at its competitiveness. More structural reforms are necessary to relaunch productivity but, above all, suitable political leadership is required to support the European firms in global competition and give a helping hand to entrepreneurs and the market”. A European leadership is indispensable also to react to the competition coming from large countries that are experiencing such spiraling growth that they have become key players on the international economic and political scene, like China and India. As Tronchetti Provera states: “Europe, just like the US has already done, must equip itself with common technological platforms in strategic sectors where a competitive position can still be

achieved. Within these, it must focus on businesses where it has a greater probability of success and establish homogenous rules to face the competition from emerging countries. Sometimes we concentrate on biased interests or bureaucratic regulations which benefit one nation or another, while overlooking the huge opportunities which we have as Europe. We have an internal European market with a strong purchasing power and there are technologies which can be developed and exported successfully". We fear China's boldness in business, its habit of copying our products and its unscrupulous business methods, while its effort of investing in training, innovation and research is underestimated. Will Beijing be a competitor also in the hi-tech world with its high added value production? "The Chinese economy", explains Tronchetti Provera, "is expanding at a rapid pace, and this means a challenge and a chance for the firms of the Western world. It is not easy to enter the Chinese market, you need to be very competitive. On the other side, that of the European markets, you need to accept the competition from China, in its own right and in full compliance of the rules. The general regulation concerning dumping must be complied with and the possibility of juridical intervention is in the hands of the WTO. In any case, is it not up to individual countries to take such initiatives, and arrangements must be made at least at European level. It has always been known that the Chinese learn quickly. Pirelli has been manufacturing in China for ten years, and recently we announced an investment plan for 150 million euros in 2005-2007 for the construction of three plants for the production of tires in the Henan province. China is an extremely dynamic country, with a vast capacity for innovation. But Europe is more advanced in many areas and can still play a decisive role in the economic development of Asia."

There are those who believe that there is always less room for the manufacturing industry in Italy and that one should focus solely on services, the valorization of the cultural assets and the tourist industry. On the other hand, there are people who fear deindustrialization and retort: delocalizing factories may mean maintaining high levels of wealth, but it also means losing power,

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innovative ability and the international role. "Deindustrialization", in Tronchetti Provera's opinion, "is not a real problem. The dilemma is not between industry and service. Each market sector has its segmentations. The real issue concerns the competition between countries and geo-economic areas. An area with a high labour cost and greater social certainties, such as Europe – including Italy – must focus its activity on creating added value, by concentrating on research and innovation to keep competitive. Italy's aim must be to have an ever-growing number of people employed in high added value and high margin businesses, with a high innovation rate and a strong development potential. This applies to all the sectors of business, manufacturing and service."

In Europe, services and finance certainly play a major role when it comes to development and competition. These are issues that are very close to heart for Alessandro Profumo, Managing Director of Unicredito, who is worried about the risk for our companies covering marginal positions, since, if these remain small, they will enclose themselves defending the national market and will not invest in internationalization and innovation. As Mr. Profumo maintains: "Politicians,



Alessandro Riello, Managing Director of Aermec and President of the Verona Association of Industrialists. Dompè maintains that Italian firms can react positively to competition, even from rock solid German firms.

companies, trade unions, banks, service structures must all contribute to making the industrial system jump in size and quality to face the new challenges of international competition. However, my view is not so pessimistic. For example, speaking about our companies in the East, I have noticed that companies no longer tend to delocalize just to cut costs. Today, companies go abroad with the aim of acquiring new markets and produce quality there by transferring our best practices and even our model of industrial relations. In Romania, where we have acquired one of our latest banks (UniCredit is present with its own banks in Poland, the Czech Republic, Slovakia, Romania, Croatia, Bulgaria and with a joint venture in Turkey), Italian entrepreneurs have adopted codes of behaviour which they apply in the same way as they do with their own employees in Italy and abroad". Is Central and Eastern Europe really the new

frontier? Can the banks sustain the expansion in that area? "We are talking about countries which regard themselves as European, have asked to be part of Europe and are prepared to do anything necessary in terms of economic strictness to reach this objective. Thus they deserve to be trusted. Italian entrepreneurs were the first to realize that these were very interesting countries, with growth rates significantly higher than those in the 'mature' Western Europe, and behaved accordingly. The banks can certainly do a lot at this level, especially if on site they have a real presence and not just a façade. Our Group, for example, does not only provide assistance through its own local banks. In each country it has also established a desk entrepreneurs can turn to for support at any phase of their business, from projects to sales. And I can say more than 2,000 companies have made transactions through our New Europe division." Thinking of Europe as a large free market also means addressing the issue of the relationship between Europe and the USA and trying to avoid widening the gap in interests, culture and strategies. According to Profumo: "Europe needs a stronger push and more flexibility. But I wonder whether the



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fans of the American *laissez-faire* are not really fans of a political vision also within the USA. A few years ago, the Japanese economic and social relation model seemed to have the potential to become a cure-all to every problem. This was not the case. I personally believe that it is still early to say what role Europe will play at an international level. Let's not forget that the euro came into existence only a few years ago. The USA and Europe have very different historical, political and social roots: the problem is not to establish which model is the best, but to understand what can foster the development of both in the age of globalization".

_Pirelli (in the photo, Marco Tronchetti Provera, President of Telecom Italia and Vice-President of Confindustria) has been manufacturing in the Chinese emerging market for ten years, and recently has announced an investment plan for the construction of three more plants.

THE LEADERS OF THE "BEST IN ITALY" SAY THAT...

Fiat's difficulties, the deaths of Gianni and Umberto Agnelli, the central role played by the banks, and the new equilibriums among the movers and shakers of finance and power have had significant impact on the Italian economy which must stand up to the scrutiny of international partners, to American hegemony and Asia's irrepressible ascent. In Interviews with Capitalists, edited by Rizzoli, Antonio Calabrò recounts this situation through the voices of 20 key players in the Italian economy: large scale entrepreneurs, heirs to industrial dynasties, bankers and prestigious managers. These interviews were published between March 2003 and December 2004 in the monthly magazine "Capital". Now, updated and rewritten to take into account the evolution of events, they form a book that does not limit itself to simply presenting the state of affairs in the Italian economy, but which tries to give indications useful for its growth. Without prejudicial pessimism, yet without illusions, this book sheds light on the weaknesses of a system in a competitive slump and suggests the reforms necessary to improve the situation