



Università  
Ca' Foscari  
Venezia

Master's Degree programme – Second Cycle  
(*D.M. 270/2004*)  
in International Management

Final Thesis

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Ca' Foscari  
Dorsoduro 3246  
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# **The Network as digital instrument and organizational structure to support the internationalization of Italian SMEs**

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**Academic Year**

2015 / 2016



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## Introduction

The internationalization, intended as the phenomenon of enterprises' involvement in international markets, could take different shapes, from the realization of exportation activities to the founding of commercial divisions, up to the establishment of productive branches beyond borders.

During time, the internationalization process has regarded enterprises of all dimensions, from the big multinationals to the smaller born global firms.

Italian enterprise system is characterized by a relevant presence of small and medium sized firms, mainly with a familiar structure. Most of them are scarcely involved in international markets, limiting their activities to occasional commercial exchanges and trusting in importers' support.

From 2000 to 2007, the weight of net exportations was not so significant and the internal demand absorbed the larger part of the available offer, being the principal determinant of GDP growth level.

From the recent economic and financial crisis and the following sovereign debt crisis, the internal consumptions have dramatically fallen, harming heavily SMEs, scarcely able to find international alternatives to sustain their business.

The new challenge Italian enterprises have been facing is the overcoming of domestic borders in order to capture the existent foreign demand for Italian products, which are even more recognized and appreciated, especially the ones of the typical "Made in Italy" sectors.

As Italian SMEs lack of international market knowledge and work under dimensional and financial constraints, an internationalization strategy is considered quite difficult to fulfil.

However, the actual internationalization path is sustained by Internet Technologies, useful tools to adopt in order to easier gain visibility on foreign markets. "It is possible to affirm that to use such technologies is positively correlated to the increased level of international trade and also of FDI, as enabling factors especially for SMEs' global expansion, otherwise limited by their poor resources and foreign markets knowledge" (Falch).

Obviously digital technologies alone could not represent the solutions to overcome SMEs issues, in fact logistics, distribution and aftersales services are important aspects to deal with in order to represent for foreign customers trustful and solid reputation partners.

The further opportunity SMEs have, refers to the possible adoption of new organization formulas, first network contracts, but also other forms of collaborations, permitting members to share resources and competences, to solve structural problems as well as to overtake dimensional and financial limitations.

The document highlights the possibilities firms have to enlarge their business activities beyond border, through the adoption of new digital tools and organizational solutions, to be able to recoup

their competitiveness working on the even more dynamic international market, gathering visibility and market shares.

The first chapter is dedicated to a deeper analysis of Italian enterprise system, including a European comparison and a brief historical overview about SMEs presence over time. In the second chapter, the role of Italian exportations and “Made in Italy” productions, characterized and appreciated for their value in terms of embedded quality and know-how, is underlined and analyzed more in detail according to top industries, main commercial partners and exporting regions.

The third chapter is dedicated to the description of the most important internationalization theories, from the Smithian view to the recent Born Global approach, passing through neoclassic theory, market imperfection theories and focused approaches about small firm internationalization paths.

In the fourth chapter, the analysis is about the variety of entry modes, such as exportations, contractual solutions and Foreign Direct Investments. In the fifth chapter Italian SMEs are deeply examined, especially as regard their internationalization chosen strategies, dimensional and financial issues and structural problems, also looking at current potentialities and opportunities available, in terms of better exploitation of existent competences as well as strategic integration with upgrading and digitalization processes.

As Information and Communication Technologies are the new protagonists of new millennium, determining an increasing global integration among markets, the sixth chapter explains their evolution and their adoption by enterprises over time, then looking specifically at Italian firms.

Italy has a quite low digitalization rate and firms are not so acquainted about benefits deriving from ICT implementation and Internet tools adoption. Actually, apposite projects have been starting in order to support the digitalization process of traditional SMEs addressing them in the achievement of international visibility and new foreign customers’ relationships, in this way continuing to highlight the already appreciated Italian quality, style, culture and specialized customization capacity all over the world.

Finally, the seventh chapter offers an overview about existing organizational methods that could be chosen to fulfil internationalization strategies, based on the network, as organizational process of economic activities born from the interaction, relatively stable over time, between two or more firms. In detail, the network contract allows firms joining the different competences and skills available, working together to cover their respective gaps and overcoming the issues related to lack of resources, without losing own private autonomy. Business cases and other contractual solutions are briefly explained, to underline the concrete opportunities given by such collaborative approaches.

# Chapter 1. Italian economy and the role of SMEs

## 1.1 Small and Medium sized Enterprises: the actual Italian enterprise system

The term Small and Medium sized Enterprises, often synthesized with the acronym SMEs, refers to all enterprises following the dimensional and autonomy criteria clearly stated by European Union in 2003, accepted with an Italian Government decree entered into legal value from the 1 January 2015. Precisely are SMEs all enterprises with specific dimensional requisites:

- Less than 250 employees;
- Annual turnover lower than € 50M or an annual balance sheet not higher than € 43M

In detail, the small enterprises have less than 50 employees, € 10M of annual turnover or € 10M of annual balance sheet. The enterprises can also be “micro” if the employees are less than 10 and the annual turnover or total balance sheet are not higher than € 2M.

The turnover considers the entire amount of sales of products and services granted, discounts and value added taxes not included; the total balance sheet refers to the total of assets resulted in the yearly balance sheet; the employees are people with a dependence binding, acknowledged by determined or undetermined labor contracts.

The autonomy aspect requires firms to be independent, so neither associated nor captured.

In 2014, in European Union were working about 22.3 million SMEs, active in the non-financial business sector, such as all sectors of the economies except for financial services, government services, education, health, arts and culture, agriculture, forestry, and fishing. Small and medium sized enterprises represent 99,8% of all businesses in these sectors in European Union, generating more than € 3.7 trillion of value added and employing almost 90 million people.

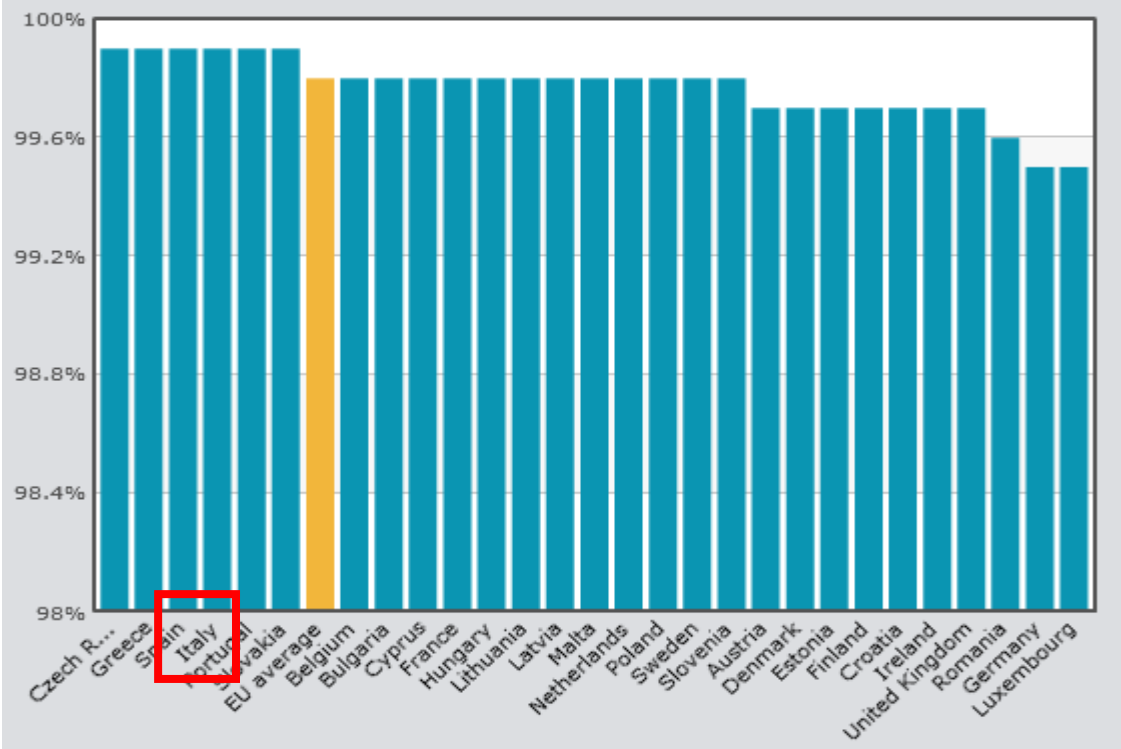
Table 1.1 SMEs and large enterprises: number of enterprises employment and value added in 2014 in EU28

|                                | <b>Micro</b> | <b>Small</b> | <b>Medium</b> | <b>SMEs</b> | <b>Large</b> | <b>Total</b> |
|--------------------------------|--------------|--------------|---------------|-------------|--------------|--------------|
| <b>Enterprises</b>             | 20.710.324   | 1.373.365    | 224.811       | 22.308.500  | 43.766       | 22.352.266   |
| <b>%</b>                       | 92,7         | 6,1          | 1             | 99,8        | 0,20         | 100,00       |
| <b>Employees</b>               | 39.274.088   | 27.452.746   | 23.257.412    | 89.984.246  | 44.438.724   | 134.422.970  |
| <b>%</b>                       | 29,2         | 20,4         | 17,3          | 66,9        | 33,1         | 100,00       |
| <b>Value added (€ billion)</b> | 1.358        | 1.169        | 1.188         | 3.715       | 2.710        | 6.425        |
| <b>%</b>                       | 21,1         | 18,2         | 18,5          | 57,8        | 42,2         | 100,00       |

Source: Eurostat and National Statistical Offices



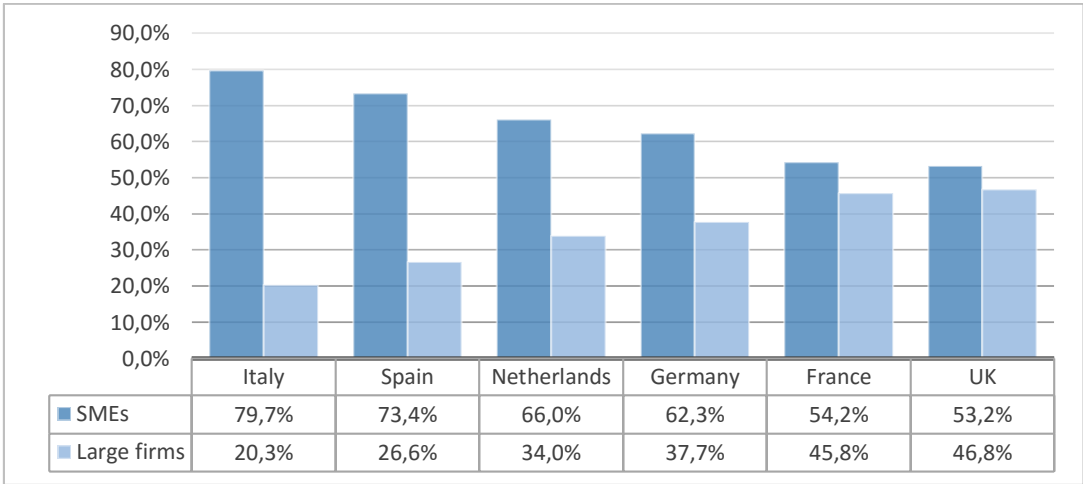
Fig 1.1 Number of SMEs (% of total number of enterprises) in all economic sectors in 2014



Source: Eurostat 2014

According to Eurostat, Italy is one of the countries of the European Union with the higher weight of SMEs presence, accounting about 99.9 % of total enterprises. Moreover the incidence of the employees in Italian SMEs is among the highest in the entire European Union.

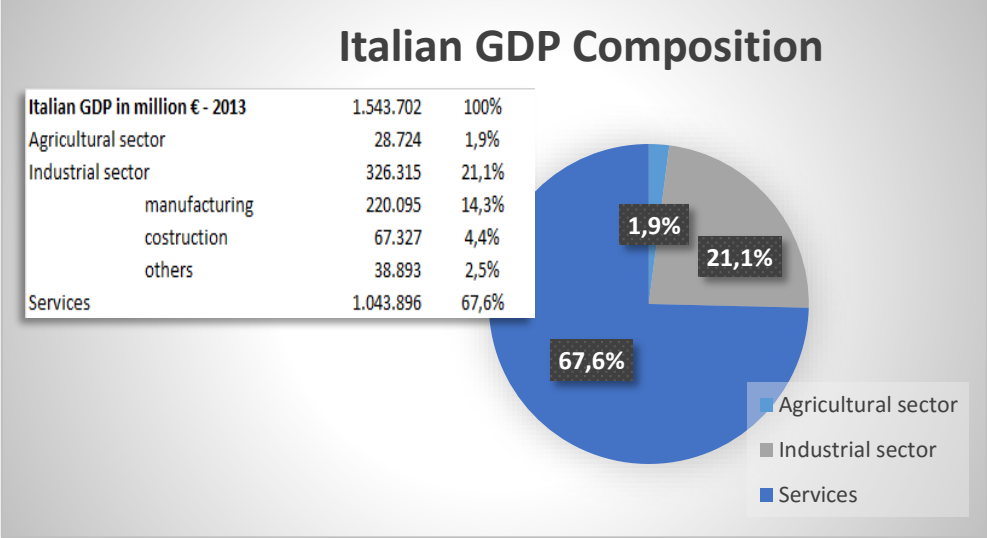
Fig 1.2 Incidence of persons employed in the non-financial business economy according to firm size in the main European Countries



Source: Eurostat 2013

In 2013 Italian GDP accounts for about 1.544 billion €: the main contributors are service sector and industrial sector, in which the 99.9% of SMEs are concentrated.

Fig. 1.3 Italian GDP in 2013 (value in million €)



Source: Own elaboration on Istat data

The most important economic sector of Italian economy is service sector, accounting about 68% of total GDP and employing around 65% of the total employed people, especially in wholesale, retail sales and transportation, touristic and financial sectors. Secondary sector accounts for 21% of Italy’s total GDP and the total workforce employed is about 30%: its most important sector is manufacturing, especially for specialized production of high-quality goods, covering furniture, machine, textile and clothes industries, the so called “Made in Italy” sectors, in which the businesses are mainly run by small and medium-sized enterprises, principally family-owned. Agriculture contributes to the smallest part of GDP, about 2%, employing around 4.0% of the total workforce.

Looking at the data of the macro-aggregates of industries by ASIA database, excluding financial, insurance, public administration and social insurance activities, it is clear how much SMEs pervade all economic sectors.

Table 1.2 Enterprises added value and workers for each industry and for worker number classes in 2012

|                      | Manufacturing activities |             |            | Constructions |             |            |
|----------------------|--------------------------|-------------|------------|---------------|-------------|------------|
|                      | Enterprises              | Added value | Workers    | Enterprises   | Added value | Workers    |
| <b>0-9</b>           | 362.064                  | 30.518      | 977.087    | 548.709       | 27.708      | 1.024.710  |
| <b>10 19</b>         | 43.578                   | 24.715      | 581.955    | 17.085        | 8.896       | 220.380    |
| <b>20-49</b>         | 21.318                   | 34.543      | 641.043    | 5.302         | 6.917       | 153.093    |
| <b>50-249</b>        | 9.284                    | 59.736      | 903.929    | 1.237         | 5.726       | 105.929    |
| <b>More than 250</b> | 1.406                    | 95.554      | 1.046.126  | 79            | 4.162       | 49.125     |
| <b>Total</b>         | 437.650                  | 245.067     | 4.150.140  | 572.412       | 53.409      | 1.553.237  |
|                      | Services                 |             |            | Total         |             |            |
|                      | Enterprises              | Added value | Workers    | Enterprises   | Added value | Workers    |
| <b>0-9</b>           | 3.229.866                | 154.121     | 5.662.484  | 4.140.639     | 212.348     | 7.664.281  |
| <b>10 19</b>         | 72.354                   | 36.998      | 938.750    | 133.017       | 70.609      | 1.741.085  |
| <b>20-49</b>         | 26.215                   | 33.570      | 776.622    | 52.835        | 75.030      | 1.570.758  |
| <b>50-249</b>        | 10.613                   | 49.125      | 1.027.438  | 21.134        | 114.587     | 2.037.296  |
| <b>More than 250</b> | 1.908                    | 117.656     | 2.028.983  | 3.393         | 217.373     | 3.124.234  |
| <b>Total</b>         | 3.340.956                | 391.471     | 10.434.277 | 4.351.018     | 689.946     | 16.137.654 |

Source: Istat "annuario statistico Italiano 2015"

As previously mentioned, the percentage of SMEs on the total number of enterprises overcome the 95% in all industries, in total accounting for 99,99%, with a relevant role of micro enterprises (95%).

The level of added value, considered as the increase in value generated using own productive factors in the business activity, is calculated as the difference among total costs for purchases, services, raw material and semifinished products stocks variations and diverse management costs and the turnover, considering in progress investments for capital assets, final products stock variations and other accessories revenues.

Looking at the single industry, the higher added value is generated by micro enterprises for services and construction and by bigger firms in manufacturing. As regard the yearly fixed investments executed in the fiscal year comprehending machines, equipment, means of transport, buildings and fixed capital for internal activities, such as extraordinary maintenance aimed to increase and improve the productivity capacity of assets, the larger firms are the ones investing more, construction sector excluded. In any case, considering altogether micro, small and medium sized enterprise it is easily understanding the higher level of added value and investments in respect of large firms.

The following chart is about the main economic indicators for 2013, as regard enterprises number, workers and employees, turnover and added value.

Table 1.3 Main aggregates and economic indicators of industrial and services enterprises for worker number classes in 2013

| <b>Worker number classes</b> | <b>Enterprises</b> | <b>Workers</b> | <b>Employees</b> | <b>Average number workers</b> | <b>Turnover in mln €</b> | <b>Added value in mln €</b> |
|------------------------------|--------------------|----------------|------------------|-------------------------------|--------------------------|-----------------------------|
| 0-9                          | 4.094.444          | 7.518.178      | 2.875.565        | 1,8                           | 762.497                  | 207.517                     |
| 10-19                        | 127.998            | 1.679.039      | 1.485.052        | 13,1                          | 316.186                  | 69.558                      |
| 20-49                        | 50.760             | 1.510.447      | 1.444.217        | 29,8                          | 343.315                  | 74.319                      |
| 50-249                       | 20.897             | 2.021.059      | 1.994.374        | 96,7                          | 614.279                  | 116.609                     |
| More than 250                | 3.383              | 3.116.677      | 3.113.830        | 921,3                         | 913.555                  | 210.248                     |
|                              | 4.297.482          | 15.845.400     | 10.913.038       |                               | 2.949.832                | 678.251                     |

Source: Istat "Struttura e competitività delle imprese 2013"

The important role of SME is clearly noticed by the data shown in the charts. The average dimension for SMEs range from 1.8 people in microenterprises to 96.7 people in middle-sized, employing the 80.34% of total workers, responsible for the 69% of added value. Big enterprises are about 3.383 and cover about the 20% of total workers, mainly employees, generating the 31% of total added value.

## **1.2 Small and Medium sized Enterprises: an historical overview**

A brief historical overview could be useful to understand why Italy is so peculiar in its number of SMEs.

Until the Italian Unification of 1861, Italy was extremely divided: the northern regions were more developed, with diffused handicraft and cottage industry, while the southern regions, scarcely endowed of infrastructures and schools, were more characterized by agricultural activities. From the Unification, if by one hand there was the desire of realizing the industrialization of the peninsula, by the other hand to push the agricultural exportations could have been resulted in important economic performance as the agricultural sector was widening. Then, focusing on the second scenario, among the 1861 and 1896 the exportations grew in value especially for vegetables, olive oil, wine, fruit, and silk while the importations, with a lower level of value growth and also limited importance in respect of tertiary sector, confirmed the right policy for the peninsula.

Italy, as producer of agricultural products and raw materials, was at that time not influenced by the industrial revolution, affecting and shaping the manufacturing activities in the rest of European continent, by contrast remaining marginal in terms of GDP contribution and structural underdeveloped until the last two decades of the nineteenth century.

Italian manufacturing activities start in fact suffering by the strong foreign competition and tend to even more concentrate in putting-out systems, small workshops and small mills, especially located in areas in which the water as energy source was more available. In such small industrial locations was concentrated and then handed down during time artisanal know-how, value of domestic handicraft production and peculiar manufacturing techniques, further accompanied by technical schools and professional institutes, representing the exclusive embedded heritage of specific geographical areas.

Even in these locations, the manufacturing remained linked to the agricultural activities especially in the early phases of industrialization, specializing on textiles, silk, wool and cotton, metallurgy, food processing and non-organic chemical fertilizers, as the primary sector was the main final market of such small mills.

In the final years of 19 century, the agricultural sector was harmed by profound crises, due to Russian and US agricultural produce, entering into local market and causing heavy fall in domestic prices. Facing the issue of these big competitors, with huge potentialities in terms of agricultural practices,

Italian producer started asking for higher trade barriers and the consequence was also to begin investing in industrialization.

The protectionism allows to manufacturing sector to be developed, with diffused entrepreneurial initiatives in industries like mechanics, metallurgy, steam engines, electricity and electro-mechanics. In these years born in northern Italy some important enterprises such as FIAT's automobiles, Ansaldo's shipbuilding, Pirelli's rubber, Falck, Piombino and Terni production of steel.

The industrialization had gradually reached important levels, making Italy one of the advanced European nations, even if the dominance of primary sector was yet strong and the delay in the industrial modernization caused a weaker position of Italy in respect of other industrialized countries.

During the period of the two World Wars and the world great depression, Italy have consolidated its industrialization process as the protectionism imposed the Fascist regime allowed domestic companies to become more solid on internal market. However, especially during the Second World War, the tight internal demand impeded to domestic large firms to exploit the benefits of mass production, obliging them to adopt diversification strategies to satisfy the existing customers.

In the postwar period, the Italian economy started enjoying really high growth rates, both in GDP and manufacturing output: this favorable period, called the "Economic Miracle", was driven by different factors, such as the constant rise of internal demand accompanied by a social shift to a consumerist society, the modernization investments granted by State-owned enterprises in

capital intensive industries to arrange for basic and efficient telecommunication systems and infrastructures, institutional choices for an open economy oriented to exportations, the process of European integration and the US post war economic support.

Together with the above mentioned reasons, also the availability of low cost workers until the end of the 60s and low prices of energy sources were relevant for Italian recovery.

At the end of the 50s, the market was dominated by big and micro enterprises, even if the new economic condition drive them rapidly to structural shifts. In fact efficiency and productive specialization obliged smallest firms to reorganize themselves, looking at increased scale solutions to get advantage from dimensional economies. By the other hand the postwar period was affected by the crises of standardized production and the Fordist model, driving also bigger firms to change their structure, setting up establishment of smaller dimensions, to satisfy the even more diverse final demand, pushing a flexible specialization model.

The entire production process become the non-standardization required closer collaboration with customers, resulting in a real custom-made final product realization.

This was the period in which SMEs affirmed their manufacturing capabilities, developed, grown and handed down during time, especially in the locations defined as industrial districts. The industrial district is a “socio-territorial entity which is characterized by the active presence of both a community of people and a population of firms in one naturally and historically bounded area” (Becattini), and is characterized by flexibility, specialization and customization of production. The Italian industrial district was the right place to perform manufacturing activities characterized by flexible specialization, extremely different by Fordism one, first of all because the demand to satisfy was not based on large but on small batch production, with factories involved in producing prototypes and custom-made machineries and products. The organization of work was no more Tayloristic, characterized by a clear separation among white-collar and blue-collar workers, while based on cooperation among all workers’ levels.

The important aspects of Industrial Districts are

- the local community characterized by its homogeneous system of values and views, ethic of work, the family, reciprocity, positive approach to changes. The market, the firm, the school, the family, the church, the local authorities, political parties and unions, cultural and charitable, religious, artistic entities are the institutions spreading the basilar values, pervading the community and being the basis of social interaction.
- The population of firm refers instead to the multiplicity of manufacturing firms tending to specialize in one or a few phases, of the production process typical of the district. The district can be seen as “an instance of a localized realization of a division of labor, which is neither diluted in the general market, nor concentrated in one firm or in just a few firms” (Becattini).

- The ethic of labor is strong in the district, as everyone must search incessantly for the type of work that best fit his aspirations and abilities. In fact people moves from one activity to another, in this way allowing the absorption of external fluctuations with internal adjustments and lowering effects of the economic cycle, also incentivizing entrepreneurial activities. In this flexible specialization system the workers with long experience and professional know-how acquired over time are used to leave factories becoming small independent entrepreneurs. Differently from the Fordist model, in flexible specialization is contemplated the possibility of social mobility among the working classes.
- A mix of competition and cooperation among firms and a positive approach to change are the drivers of innovation and introduction of technical progress, considered opportunities and further development challenges and not source of resistance as often happens in bigger dimensional firms.
- Local system of credit is another important aspect, underlining the importance of local banks in recognizing and trusting local entrepreneurs, funding them to contribute to their continuous development, as comprehending the real need and potential results of a given investment if done in that specific environment.

The success of the industrial districts was given by their embedded features, aligned to the worldwide actual market trends in enterprises' organization risen in the postwar period. In fact the involvement of workers in productive processes was considered determinant for international competition as well as the presence of external Marshall economies, based on localization advantages and positive externalities such as knowledge spillovers between firms, an innovation methodology as important as R&D investments, and geographically pooled labor market for specialized skills. In fact, in the districts "the transmission of the skills acquired through the channels such as technical schools and factory training is integrated by a spontaneous exchange and reorganization of notions and opinions by "face to face" and "conviviality" relationships offered by daily life and unusual frequency"(Micelli).

Moreover, specialized inputs and support services to SMEs and the strong ties by direct long term commitment and trust among suppliers and buyers are the drivers of domestic and international success. The decline of the "best way" related to big dimension as unique competitive solution, consented a rapid development of SMEs, especially the well performers in the so called "Made in Italy" industries, food and wine, textile, clothes, mechanic and furniture. The products of SMEs has been sold to local but also foreign market, appreciating them for quality, customization and convenience.

Since the beginning of this decade the economic performance of Italian industrial districts has experienced an important decline. In fact from 2000 a new competitive scenario has emerged,

changing deeply the market conditions allowing the previous success of SMEs located in Industrial districts.

The main modification factors of the existent economic scenario were three, heavily impacting on the management of SMEs, obliged to shift to new organizational and productive approaches.

First of all the introduction of the unique currency, the Euro, with the consequent impossibility of relying on competitive currency devaluations to better perform in international markets, previously largely adopted policy. This decision deeply affected the activities of SMEs, become unable to compete in terms of price as before and then constricted to overcome the issue through investments aimed to increase quality levels. The second shock has been the entrance of China in WTO, giant economic power in low costs productions in the same peculiar industries of the peninsula. Obviously, the firms working in shoes, textile, clothes, and bags of lower quality have been damaged by Chinese competition.

In addition the introduction of new technological tools, such as Information and Communication Technologies heavy affected the consolidated way of working of SMEs, driving many enterprises to revise internal structure, shifting from a functional to a process based approach, in order to exploit the potentialities of new tools. However Italian SMEs have not been ready and capable of opening doors to such new instruments, scarcely investing in technological upgrading.

The larger part of traditional SMEs working in Made in Italy sectors have been used to operate only with the potentialities offered by the local territory and the other district actors since the 70s, also operating in international market but not as a result of intended strategy, rather thanks to parallel services offered to the district by the community and institutions.

By contrast, some Italian SMEs captured the opportunity of these changes, being able to face the critic issues of the new century investing in knowledge and innovation: data demonstrates that contents of Made in Italy products traded in international markets has been appreciated especially for their greater embedded added value, in terms of knowledge and innovation level.

These outperforming enterprises are the new protagonists of Italian economic history, the so called fourth capitalism enterprises, identifiable as the leading firms inserted in the districts. These firms are generally of medium dimensions and are characterized by higher level of innovation rate, determined by investments in their internal high quality competencies and higher added value phases, but also in beyond boundaries activities, such as supply base enlargement and international commercial networks creation.

As the Tedis research of 2004 demonstrates, such pocket multinationals adopt new strategies not considering the industrial district as unique reference for production, by contrast they invest in activities both aimed to promote a stable presence abroad in terms of distribution centers and to rely on abroad suppliers for the exploitation of foreign local networks and foreign efficiency, but



also to get access to the knowledge spread all over the world, as driver of new opportunities for product innovation and market interaction (Corò, Micelli).

In these firms the managerial and organizational approaches are relevant aspects in daily business operations, in fact the pursued internationalization strategies are “no longer emergent processes, but mostly the deliberate output of managerial choices” (Corò).

This new model is growing because is both based on the local territory for those services in which there is an excellence at the territorial level but also on foreign inputs, source of innovation and flexibility, for the services not available at the local level such as marketing, design and technological innovation and all other activities not considered important to the district success in the past, but now representing real driver of renovated competitiveness.

To sum up SMEs are the protagonists of Italian production system, especially the ones inserted in industrial districts or industrial local systems, covering the various phases of the value chain. Even if some realities are enlarging their scope especially abroad to capture new growth opportunities, many other firms, being unable to do the same due to smaller dimensions and resources lack, risk to be harmed by international competition and disappear with their peculiar manufacturing and cultural heritage.

## **Chapter 2. Export trend**

### **2.1 Italian macroeconomic overview**

The economic financial crisis started in 2007 in the US, spreading rapidly all over the world with impacts on different sectors had also in Italy heavy repercussions. Since the beginning, real estate markets were harmed, then the sales of construction materials, investment and consumption goods industries. Especially in the real economy the crisis harmed advanced countries, causing a heavy fall in demand and consequent fall in employment. In addition to this dramatic scenario, in 2011 certain European countries were affected by the huge volatility of financial evaluation of sovereign debts, causing uncertainty in the national balance sheets and in order to restore the public accounts source restrictive economic measures like expenses cuts and higher fiscal pressure.

Especially in Italy the crisis has caused a heavy fall in GDP growth, consumptions and investments, and an increased level of unemployed people that reached the level of 12.7 %, about 3 million people in October 2014, compared to 2007 level of 6% unemployed in total.

The recovery is difficult as making right reforms to give trust to consumers and enterprises, stimulating credit concession and sustaining the internal demand represents a real challenge, always considering other already present problems of the peninsula, like heavy tax evasion, corruption, public resource waste, complex bureaucracy, black market labor and high level of indirect taxation with unsatisfying welfare. This situation is also exacerbated by a scarce level of trust and concern about political parties and state representatives.

A deeper analysis on the components of GDP has demonstrated that during the crisis the level of exportations has positively contributed to sustain GDP level, increasing over time. In this situation with an internal stagnating demand and scarce returns on investments, the only possibility for entrepreneurs has been increasing their presence in foreign markets.

Follows the analysis of evolution of production and exportations from three period before the crisis until the more recent available data.

### **2.2 Situation before crisis**

The Italian industrial production has always been a strong point for our nation. Analyzing the level of manufactured goods in value before the crisis, precisely between 2000 and 2007, Italy registered consistent outputs and strengthened its share of production during time, reaching the sixth position in the ranking of major manufacturing countries all over the world, with a 67% growth from 2000.

Table 2.1 Manufacturing output by country UN Data, in billions of US dollars

Table 2.1 Manufacturing output by country UN Data, in billions of US dollars

| <b>Country</b>            | <b>2000</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>% 2000-2007</b> |
|---------------------------|-------------|-------------|-------------|-------------|--------------------|
| <b>USA</b>                | 1543        | 1663        | 1700        | 1831        | 19%                |
| <b>China</b>              | 484         | 734         | 891         | 1106        | 129%               |
| <b>Japan</b>              | 1034        | 954         | 934         | 926         | -10%               |
| <b>Germany</b>            | 392         | 566         | 595         | 670         | 71%                |
| <b>Russian Federation</b> | 73          | 222         | 281         | 362         | 396%               |
| <b>Italy</b>              | 206         | 289         | 299         | 345         | 67%                |
| <b>United Kingdom</b>     | 228         | 269         | 303         | 342         | 50%                |
| <b>France</b>             | 190         | 249         | 248         | 296         | 56%                |
| <b>Korea</b>              | 134         | 200         | 220         | 241         | 80%                |
| <b>Canada</b>             | 129         | 177         | 195         | 218         | 69%                |

Source UN COMTRADE

In 2000 Italy assured 4.1 % of world manufacturing production, 4.5% in 2007, while US fell from 24.8% to 17.4%, Japan from 15.8% to 8.9% but it is the relevant increasing dominance of China, that rose from 8.3% to 15.4%.

The 65 % of Italian value added for the manufacturing activities is represented by the so called “4 A”, i.e. furniture (wood, furniture and ceramic tiles), food and wine, fashion (textile, shoes, clothes, eyewear and jewelry), and automation mechanic.

In the period ranging from 2000 to 2007, Italian exportations have changed, becoming extremely characterized for a higher added value embedded in the goods, intensive in knowledge and innovation.

In addition to the traditional Italian manufacturing, there has been a reshaping of the exportations composition due to an increased weight of mechanic, electro-mechanic and electronic products. Italy has started to be extremely competitive also in these new sectors, thanks to investment even oriented to higher value production, with less attention on quantity, rather focusing on high qualitative, designed and stylish finished goods.

Table 2.2 Exportation for sectors in 2001 and 2007 and percentage variation.

|  | <b>2001</b> | <b>2007</b> | <b>Variation</b> |
|--|-------------|-------------|------------------|
| <b>Food and beverage and tobacco</b>             | 20.243,70   | 19165,72    | -5,3%            |
| <b>Textile, clothes, leather and accessories</b> | 29.290,50   | 42307,81    | 44,4%            |
| <b>Wood and wood items, paper</b>                | 46.633,90   | 7340,982    | -84,3%           |

|  |           |          |         |
|--|-----------|----------|---------|
| <b>Coke and refined oil products</b>                       | 16.994,60 | 13141,74 | -22,7%  |
| <b>Chemical products</b>                                   | 15.229,10 | 22341,46 | 46,7%   |
| <b>Pharmaceutical items, medicines, cosmetics, botanic</b> | 22.460,60 | 11985,55 | -46,6%  |
| <b>Plastic and gum products, other non metal goods</b>     | 19.334,80 | 23279,05 | 20,4%   |
| <b>Metals and metal products (machines excluded)</b>       | 8.920,50  | 44465,11 | 398,5%  |
| <b>Computer, electronic and optical items</b>              | 16.745,20 | 12395,95 | -26,0%  |
| <b>Electric tools</b>                                      | 5.053,50  | 21780,34 | 331,0%  |
| <b>Machineries and mechanic instrument</b>                 | 6.158,50  | 68775,64 | 1016,8% |
| <b>Means of transport</b>                                  | 42.635,10 | 39962,44 | -6,3%   |
| <b>Goods from other manufacturing industries</b>           | 13.992,90 | 21440,92 | 53,2%   |

Source Fondazione Nordest

The data of Nordest Foundation show the increasing exportation occurred in the larger part of economic sectors between 2000 and 2007. However, even if goods' quality level was upgrading, especially to meet foreign expectations, the level of foreign demand was not so relevant and, according to economic report by SACE, the Italian net exportations have been almost null, with the growth of GDP mainly consequence of internal demand.

## **2.3 Challenges of economic financial crisis**

In the period 2007 – 2012 the macroeconomic situation of the entire globe was upset by the economic financial crisis first and the crisis of sovereign debt in a second moment. As previously mentioned, in this period the internal demand was flattening, however the demand of Italian goods in international trade was extremely different as net exportations increased a lot, with results allowing to overcome the fall of domestic consumptions. This has been especially driven by the more appreciated exportations of higher value products in traditional “Made in” activities, so agri-food business, consumption goods, and some investments and intermediate goods, being the most preferred and required by foreigners in terms of quality and design.

### **2.3.1 Leading industries**

**Food And Wine Sector** : Italian food and wine have been always appreciated all over the world but in recent years the export of such goods has acquired a new meaning: now more than ever Italy represents the mother country of Mediterranean diet, which has been acclaimed by the WHO to be the base for a healthy life, highlighting its quality and sound features, making them recognized all over the world.

Italian dishes considered healthy and tasting, are ideally the result of the traditional passion that Italian people have for cooking . Recently the accurate use of communication strategy and marketing campaign of Italian firms exporting food and wine, has stressed the linkage between Italian products and their embedded cultural aspects: to taste Italian food or wine is seen as pure experience of Italian life, as a unique moment in which healthy meal, social interaction and ingredients simplicity are mixed together.

Not only Pasta and wine, which are the main Italian products demanded all over the world with a weight on total exportations of 23.5% for wine 6.5% for Pasta in 2014, but also Parmigiano cheese, balsamic vinegar, olive oil, sweets products and pizzas are very appreciated products, recognized as Italians', but unfortunately the most imitated products all over the world.

Italian food and wine sector is moreover characterized by the continuous innovation and originality in the offering of new shapes or in coping with new trends and needs, like vegetarians, vegans, gluten free, investing in certifications and quality guarantees to assure the high nutritional values and the safety of products. It is important to underline that Italy is the European country with the higher number of specific certifications, about 200, aimed to protect the agrifood heritage.

This industry has a great relevance in foreign market: in 2013 the exportations turnover was 33.6 billion euros, increasing 2.1% to reach in 2014 a new record of 34.3 billion euros, 7.1% of total Italian exportations.. Thanks to the great success of Expo of Milan in 2015, the Government predicts to be able to reach a level of 50 billion Euros in 2020.

**Consumption goods** : The consumption goods like jewelry, leather goods, furniture, shoes and fashion items are relevant in the Italian economy as important representative of the category of traditional 'made in Italy' goods, recognizable from style, artisanal techniques embedding typical Italian know how, handicraft competences resulting from the strong linkages with the territory, generating a precious heritage, appreciated all over the world. In this field the space for creativity and innovation is extremely wide and many firms are especially good at combining traditional know-how and practices with new materials, new technical instruments and ad hoc customizations.

The capability and the fads of improving the classical handcrafted production methods with the help of modern techniques and instruments, allow certain enterprises to renovate themselves, to be able to cope with the international demand and to succeed in international markets, especially in jewelries, leather goods, shoes, and clothes. For such SMEs the success and recognition all over the world, is linked to the identity of the product, embedding the Italian style communication and, artisanal techniques value.

**Investments goods**: Instrumental mechanic (or Precision Mechanical Instruments) is the economic strategic sector for Italy and it includes the production of machineries and instruments

for the productive sectors. Machine tools like shaping, textile machines and agricultural machines are the top exported products of the peninsula.

Electrical appliances, means of transport and instrumental mechanics, precious stones cutting machines, textile machines and turbines, are growing overtime. As the reduction of European demand has fortunately met the increasing demand of Asia and Latin America: instrumental mechanics represent the 20 %of export in 2012 and in 2014.

**Intermediate goods:** Fuel and mineral oil, iron, steel and cast iron goods, plastic, aluminum, gum, pharmaceutical, cosmetics, varnish and paints are all included in the category of intermediate goods, increasing its relevance in the export reports. The crisis has damaged the exportations of such sectors largely demanded from heavily harmed European countries. However the strong innovation and R&D investments have determined an increasing specialization in certain specific value chain segments, especially in pharmaceutical, applied chemistry industries, cosmetics and extractive sector.

Table 2.3 Exportation for sectors in 2007 and 2012 and percentage variation.

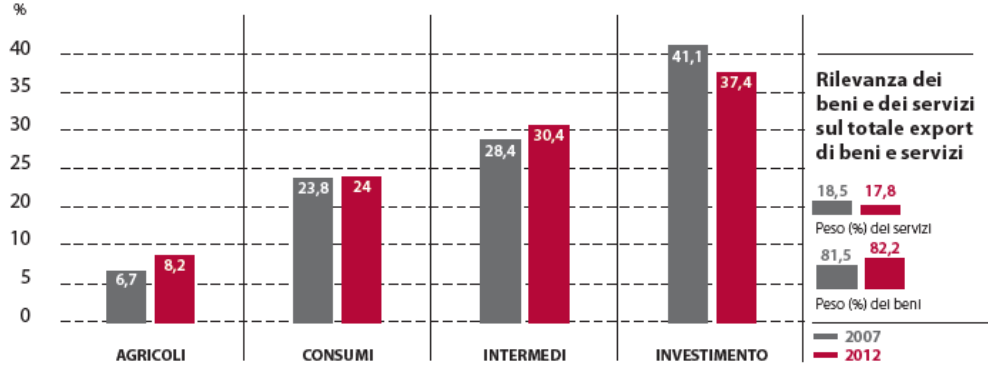
|  | <b>2007</b> | <b>2012</b> | <b>Variation</b> |
|--|-------------|-------------|------------------|
| <b>Food and beverage and tobacco</b>                       | 19165,72    | 26085,97    | 36,1%            |
| <b>Textile, clothes, leather and accessories</b>           | 42307,81    | 43100,78    | 1,9%             |
| <b>Wood and wood items, paper</b>                          | 7340,982    | 7635,362    | 4,0%             |
| <b>Coke and refined oil products</b>                       | 13141,74    | 20496,76    | 56,0%            |
| <b>Chemical products</b>                                   | 22341,46    | 25342,89    | 13,4%            |
| <b>Pharmaceutical items, medicines, cosmetics, botanic</b> | 11985,55    | 17239,76    | 43,8%            |
| <b>Plastic and gum products, other non metal goods</b>     | 23279,05    | 22597,21    | -2,9%            |
| <b>Metals and metal products (machines excluded)</b>       | 44465,11    | 50842,12    | 14,3%            |
| <b>Computer, electronic and optical items</b>              | 12395,95    | 12661,04    | 2,1%             |
| <b>Electric tools</b>                                      | 21780,34    | 19938,51    | -8,5%            |
| <b>Machineries and mechanic instrument</b>                 | 68775,64    | 70438,83    | 2,4%             |
| <b>Means of transport</b>                                  | 39962,44    | 36287,62    | -9,2%            |
| <b>Goods from other manufacturing industries</b>           | 21440,92    | 20927,97    | -2,4%            |

Source Fondazione Nordest

This overview allows to understand that Italy is able to compete on their traditional sectors, for which has long tradition and it is already recognized worldwide for its linkages between handcraft and territory resulting in unique and extremely high quality products, distinctive aspect permitting to overcome the aggressive foreign competitions. Moreover the performing sectors like pharmaceutical, cosmetics and instrumental mechanics seems to be and additional category even more appreciated all over the world.

Consumption goods has been stable overtime, thanks to the opportunities linked to the global demand.

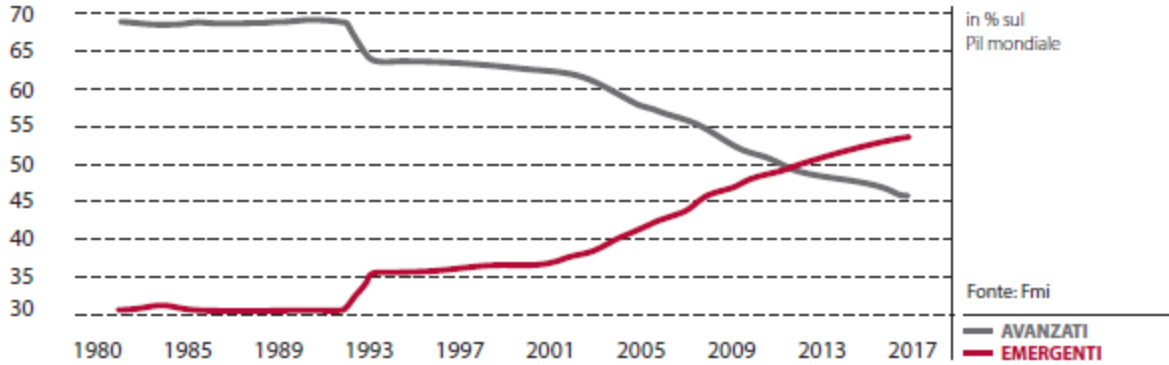
Fig. 2.1 Variation of demand between 2007 and 2012 per goods typology.



Source SACE

**2.3.2 Destination countries**

Fig 2.2 Italian exportation destinations in percentage on world GDP, evolution during time according to emergent and advanced countries.



Source: SACE elaboration on FMI data

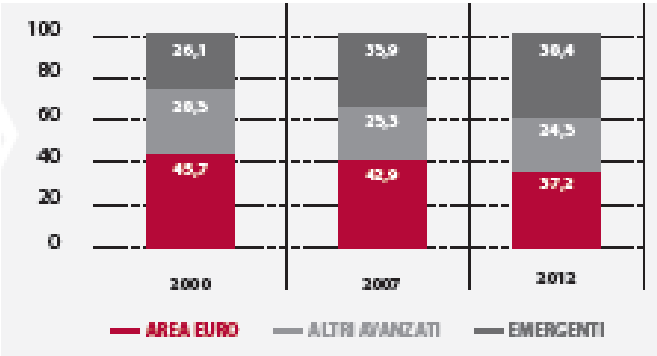
Mainly considering the period between 2007 and 2012 the Italian international trade has changed deeply in terms of destination countries: the emergent markets have increased their economic power and their role of importers during time. In Euro area the export level, even if some countries as France and Germany still remain the first export destinations, diminished, due to the economic damages caused by the economic financial crisis and the hard recovery.

The benefits linked to European economic exchanges are unquestionable: similar culture, same currency, absence of barriers and convenience by proximity, so small geographic distance represent indisputable advantages for Italian exporters. Not only European, but even other

advanced countries represent important destination of part of exportation and have a similar risk except from the currency. i.e. Turkey and Russia are from years and still remain important commercial partner of our peninsula.

Even if these elements would be the reasons underlying greater exportation activity, the rise of importance of Emergent countries is evident, especially in Asia, mainly China, Vietnam, Philippines and in Latin America, Brazil, Mexico, Chile and Colombia, also signal of willingness for Italian exporters to go beyond the problems linked to unconventional destinations, often sources of risks and worries.

Fig. 2.3 Change of Italian export composition, per area in % on the total amount.

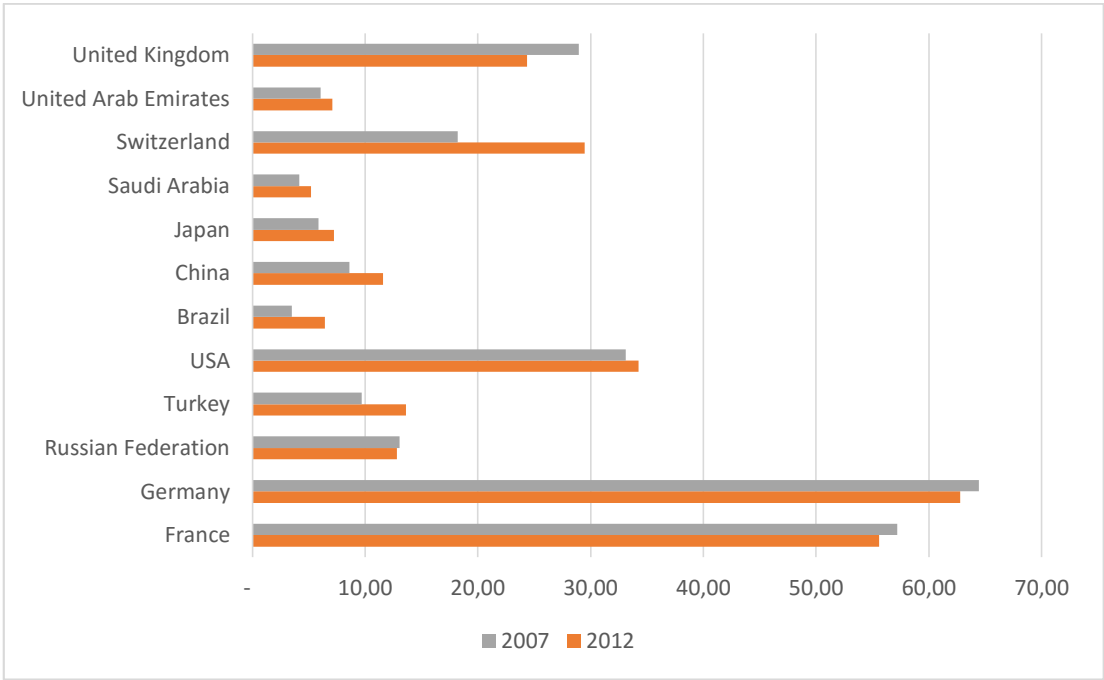


Source: SACE elaboration on ISTAT data

The graph shows how the euro Area countries are recently losing their first place of top importers. The reasons are always linked to the crisis, to the fall of internal demand and to the restrictive policies, aimed to recover the sovereign debt crisis that followed. Germany and France remain the main partners for Italy but some other countries have emerged, both in non Euro Area and in the emergent world.



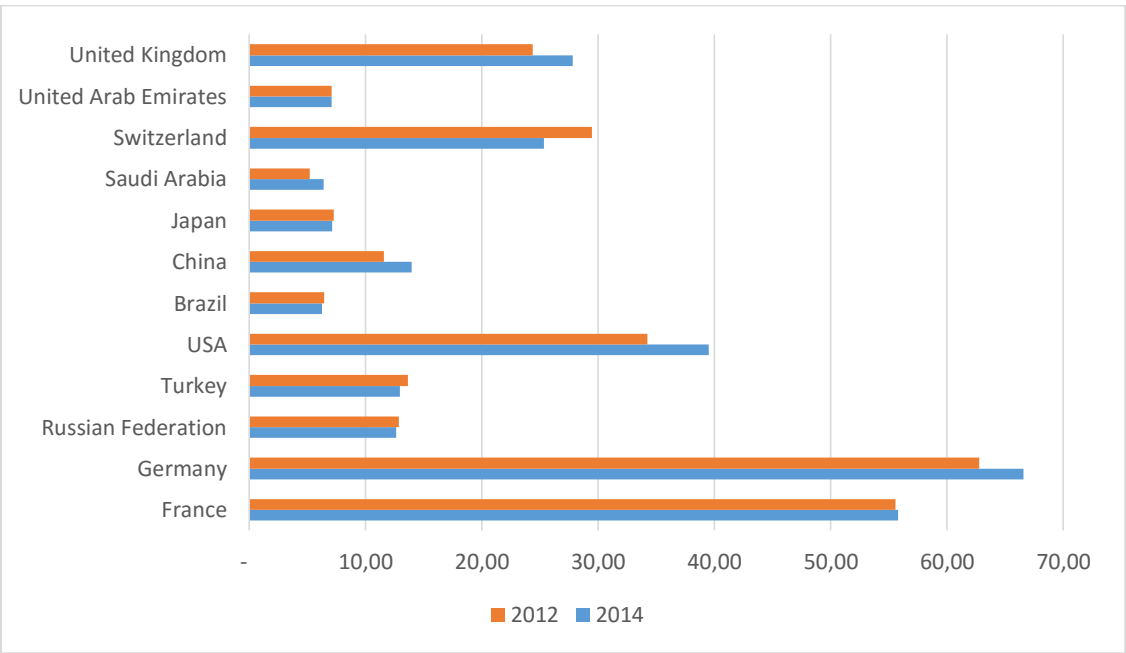
Fig 2.4 Italian Export 2007-2012 in bln US\$



Source UN COMTRADE

Undoubtedly, the new commercial relationships with non-traditional destinations generate difficulties in terms of new currency, diverse internal rules, cultural distance, political and environmental concerns and risks and finally entrance barriers. Nevertheless in 5 years the exportations to emergent markets has increased of about 4%, equal decline in the Euro-area ones.

Fig 2.5 Italian Export 2012-2014 in bln US\$

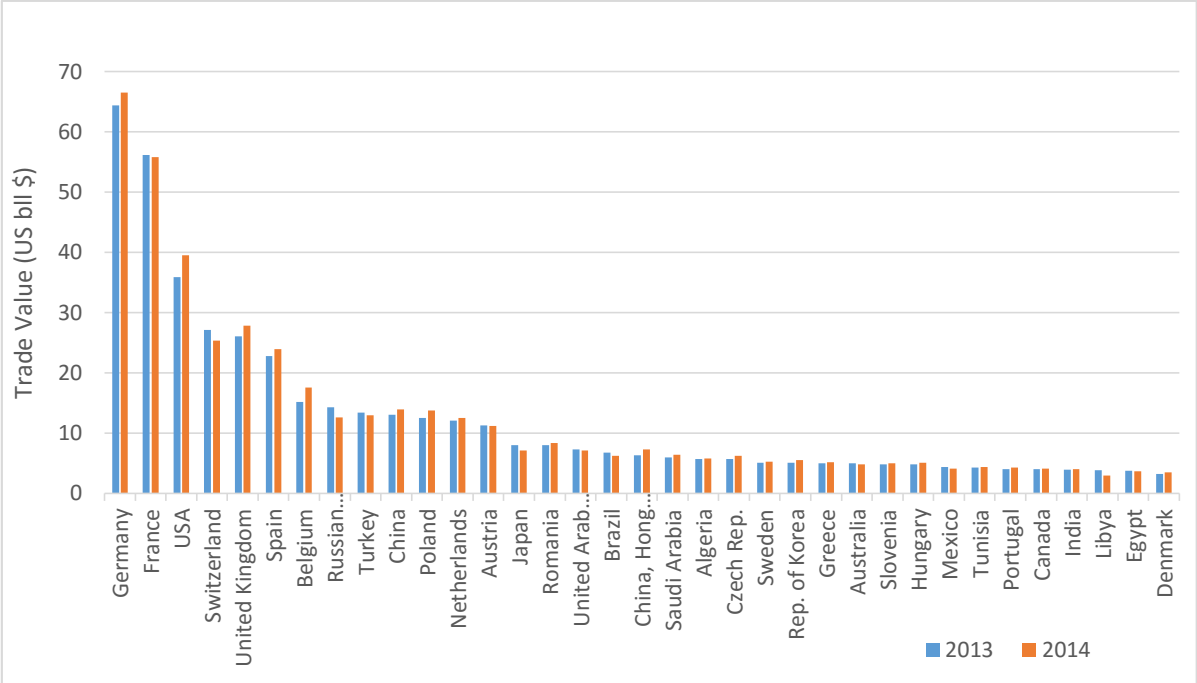


Source UN COMTRADE

As regard 2012 and 2014 we can appreciate an increase in exportations in many countries, starting from four of the main five European countries, Germany, UK, Spain, Belgium and also in Usa and China.

Russian embargo has determined a decline in the exchanges on different typology of goods, nevertheless remaining an important partner.

Fig 2.6 Italian Export 2013-2014 in bln US\$



Source UN COMTRADE

## 2.4 Italian performance on international scenario

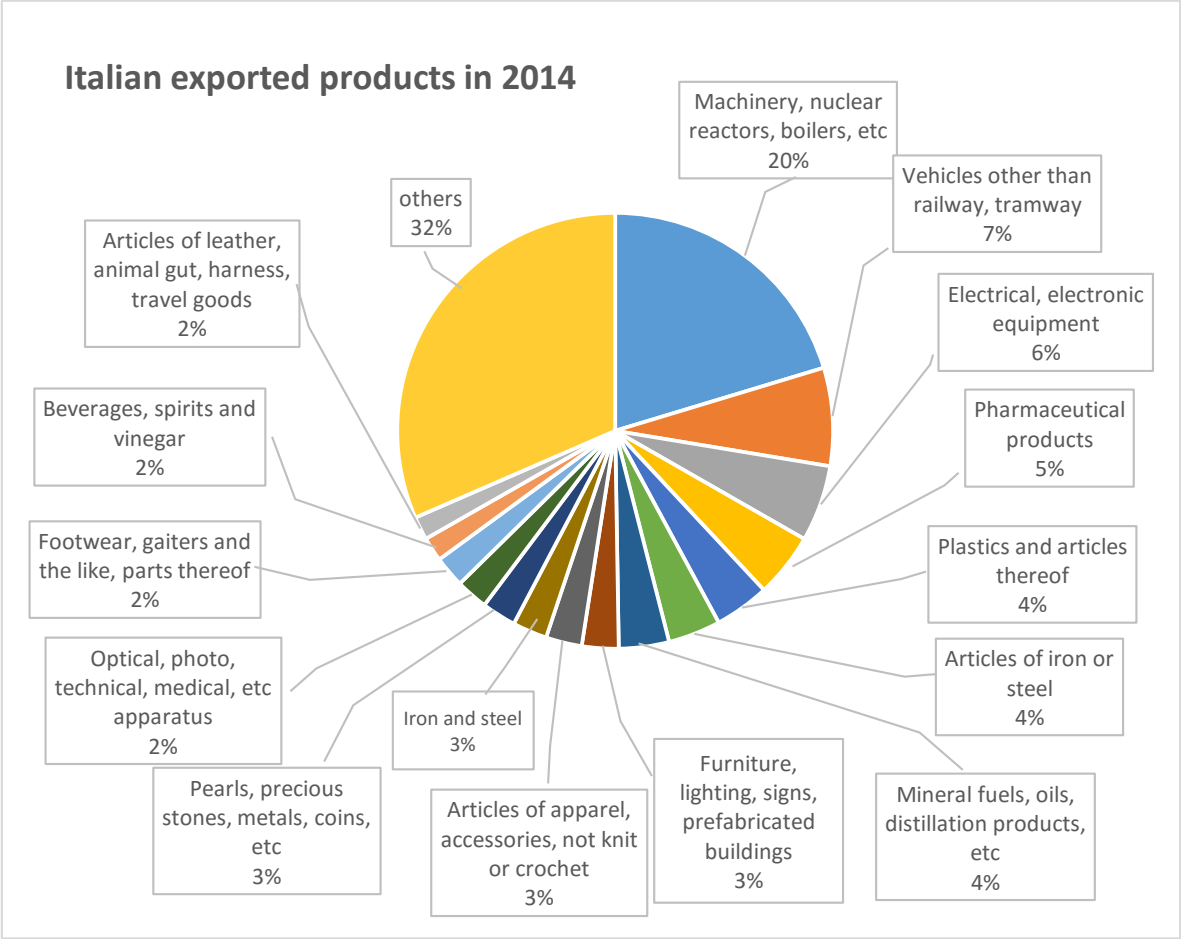
### 2.4.1 Industry's results

The following export product groups represent the most valuable in dollar for Italian global shipments during 2014. The percentage shown represent the weight of each export category on the total amount of Italian exportations.

1. Machines, engines, pumps: \$107.7 billion (20.4% of total exports)
2. Vehicles: \$38.4 billion (7.3% of total exports)
3. Electronic equipment: \$29.9 billion (5.7% of total exports)
4. Pharmaceuticals: \$25.1 billion (4.7% of total exports)
5. Plastics: \$21.6 billion (4.1% of total exports)
6. Iron or steel products: \$20.6 billion (3.9% of total exports)
7. Oil: \$19.7 billion (3.7% of total exports)
8. Furniture, lighting, signs: \$14.4 billion (2.7% of total exports)
9. Clothing (not knit or crochet): \$14 billion (2.6% of total exports)
10. Iron and steel: \$13.6 billion (2.6% of total exports)

Pharmaceuticals were the fastest-growing among the top 10 export categories, up 53.1% for the 5-year period starting in 2010. In second place for improving export sales was 'unknitted or not crocheted clothing' which was up 24.7% led by women's apparel notable cotton denim pants. Italian machinery shipments posted the third-fastest gain in value at 20.4%. The only declining category among the top 10 Italian exports was oil which was down by 4.9%.

Fig 2.7 Italian exported products in 2014



Source UN COMTRADE

## 2.4.2 Country's results

Follows the analysis about the main commercial partners of Italy in 2014.

Table 2.4 Main importers of Italian products in 2014

| Partner                     |    | Trade Value (US\$) |
|-----------------------------|----|--------------------|
| <b>World</b>                |    | 529.528.733.451,00 |
| <b>Germany</b>              | 1  | 66.568.027.593,00  |
| <b>France</b>               | 2  | 55.781.498.787,00  |
| <b>USA</b>                  | 3  | 39.508.765.866,00  |
| <b>United Kingdom</b>       | 4  | 27.799.021.255,00  |
| <b>Switzerland</b>          | 5  | 25.329.401.240,00  |
| <b>Spain</b>                | 6  | 23.936.326.383,00  |
| <b>Belgium</b>              | 7  | 17.519.806.111,00  |
| <b>China</b>                | 8  | 13.931.560.636,00  |
| <b>Poland</b>               | 9  | 13.744.083.236,00  |
| <b>Turkey</b>               | 10 | 12.922.964.462,00  |
| <b>Russian Federation</b>   | 11 | 12.615.964.626,00  |
| <b>Netherlands</b>          | 12 | 12.473.487.522,00  |
| <b>Austria</b>              | 13 | 11.146.224.602,00  |
| <b>Romania</b>              | 14 | 8.326.700.523,00   |
| <b>China, Hong Kong SAR</b> | 15 | 7.247.860.078,00   |
| <b>Japan</b>                | 16 | 7.112.261.203,00   |
| <b>United Arab Emirates</b> | 17 | 7.076.032.888,00   |
| <b>Saudi Arabia</b>         | 18 | 6.398.651.963,00   |
| <b>Brazil</b>               | 19 | 6.228.156.371,00   |
| <b>Czech Rep.</b>           | 20 | 6.219.256.164,00   |

Source: Own elaboration data UN COMTRADE

The most updated information about export refers to November 2015. In this month exportations level has increased of 3.5% from October and 6.4% from November 2014.

Istat has measured an increasing level of 3.8% more than 2014 from the beginning of the year: the net exportations are about 39.2 billion euros from the beginning of the year (November 2014 the net exportation level from the beginning was 36.2 billion).

The top performer industries in the first 9 months of 2015 are the automobile industry (+21,6%), pharmaceutical, chemistry and botanic sector (+12,1%), computer and electronic optical tools (+11,9%).

The demand come especially from France and Germany in the European Union, where the level is of +3.4% and for 3.7 % and from extra European countries especially by Japan (+21,4%) and US (+13,2%)

Russia and countries of Mercosur and OPEC are now declining their importance for -25%, and -10.5%, -27.7% due to the lasting of embargo of European Union toward Putin's Nation and due to general economic bad condition of countries like Argentina, Brazil, Paraguay, Uruguay, and Venezuela. Actually, the entire globe is worried about China's crisis, started in the last months of 2015, due to the unsustainable debt and overproduction, that now is causing turbulences all over the world, for the fall in demand for commodities, with damage especially in Latin American Countries. In addition the overproduction of Saudi oil and Chinese fall in demand will probably have consequences also in middle east countries, causing a re-design of commercial partners, not only for Italy but for the entire West and Middle West nations.

### 2.4.3 Export by Region

Table 2.5 Exportations according to territory, January-September 2015 and variations

|                                    | <b>million €</b>     | <b>% variations</b>                       |
|------------------------------------|----------------------|---|
|                                    | <b>Jan-sept 2015</b> | <b>Jan-sept 2015 vs<br/>Jan-sept 2014</b> |
| <b>Italy north-western</b>         | 121983               | 3,6                                       |
| <b>Italy north-eastern</b>         | 98770                | 5   |
| <b>Central Italy</b>               | 51234                | 4,2                                       |
| <b>Southern Italy</b>              | 21136                | 7,9                                       |
| <b>Italian isles</b>               | 10274                | -4,4                                      |
| <b>not specified<br/>provinces</b> | 3881                 |   |
| <b>Italy</b>                       | 307278               | 4,2                                       |

Source Istat "Le esportazioni delle regioni Italiane" Flash December 2015

Analyzing the recent Istat and SACE reports, the most powerful enterprises in terms of export activities are in the North of the peninsula where about 70 % of export is generated. North East and North West continue to be the main exporters of the country thanks to the traditional industrial features of the firms located in these territories, however the position of Lazio, Sicily and Tuscany has increased its relevance as regard the growth rate shown between 2007 and 2012 (Lazio (+ 0.9%) Sicily (+0.7%) and Tuscany (+1.0%)).

In the first 3 quarters of 2015 the data from periodical international trade report by Istat reveals that the regions sustaining Italian export are Piedmont, Veneto, Lazio, Lombardy and Emilia

Romagna with increasing rate of export that reaches +8,7% for Piedmont , (+5,8% for Veneto, Lazio (+13,0%), Lombardy (+2,1%) and Emilia-Romagna (+3,9%), .

Positive results in terms of growth rate are reached also by Basilicata (+154,3% growth rate mainly thanks to the automobile industry), Friuli-Venezia Giulia (+6,0%), Tuscany (+2,1%), Alto Adige (+7,6%), Abruzzo (+3,8%), Campania (+2,7%), Sardinia (+4,7%), Umbria e Trento (+4,0% both).

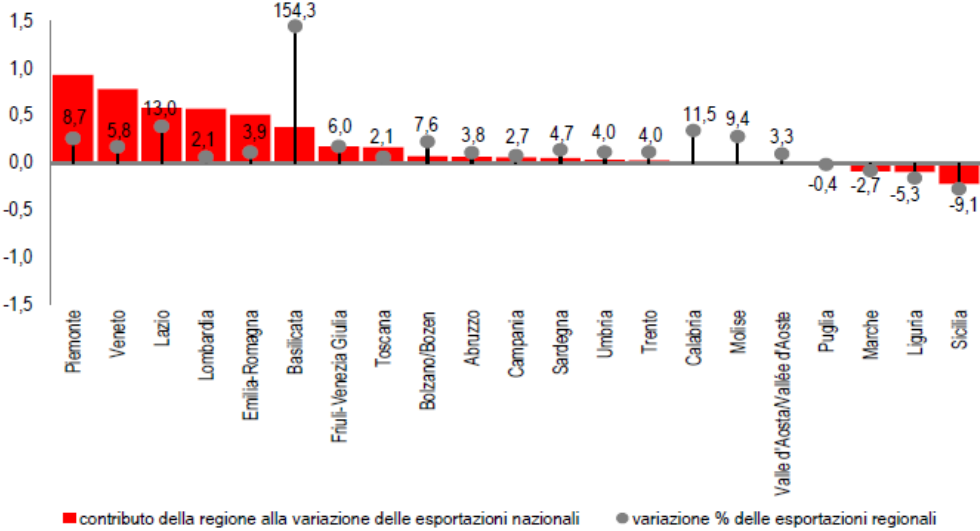
The good exportations level reached in the first nine months of 2015 came especially from the pharmaceutical products, chemical medicines and botanic goods of Lazio(14.5) and from the good results of cars of Piedmont (+41.7%), Emilia Romagna(23%) Lombardy (36.4) and Basilicata (408.8%). The latter value is explainable thanks to the good results of FCA, located in Melfi, that in 2015 has increased its activity start selling mainly in European Union extremely appreciated models as Fiat 500x, Jeep Renegade and Fiat Punto.

A negative contribution is given by Sicily (-9,1% decrease of export, with a fall of (-19,4%) for petroleum products) Liguria (-5,3% decrease of export), Marche (-2,7% decrease of export) and the metal sector, without machineries, in Lombardy (-4,9%) e Puglia (-37,4%). Petroleum products declined also in Tuscany (-85.2%).

Looking at the results of the districts, we find that the top performers are in North east, especially the eyewear glasses of Belluno, Vicenza’s jewelry and in North West, Piedmont’s wine.

In the rest of peninsula great performance for jewelry of Arezzo, leather and shoes of Florence and wine of Chianti.

Fig. 2.8 Regional export variation and contribution to the total amount of Italian exportations, January-September 2015



Source Istat “Le esportazioni delle regioni Italiane” Flash December 2015

## **Chapter 3. Theoretical background on Internationalization**

### **3.1 The “Globalization Era”**

According to Thomas Larsson, Swedish journalist, globalization can be defined as “the process of world shrinkage, of distances getting shorter, things moving closer. It pertains to the increasing ease with which somebody on one side of the world can interact, to mutual benefit, with somebody on the other side of the world”

In a recent document Friedman sustained that there have been three great eras of globalization. The first era lasted from 1492-when Columbus set sail, opening trade between the Old World and the New World-until around 1800: he called this era Globalization 1.0, focusing on the power of countries in driving the process of global integration, according to the “higher level of muscles, horsepower, wind power, or, later, steam power” each country owned. In this era, countries and governments (often inspired by religion or imperialism or a combination of both) drove global integration.

The second great era, Globalization 2.0, lasted from 1800 to 2000, interrupted by the Great Depression and World Wars I and II, and the protagonist of global integration, were the multinational companies. These multinationals went global for markets and labor, first of all because of the expansion of the Dutch and English joint-stock companies and the Industrial Revolution. In the first half of this era, global integration was powered by falling transportation costs, thanks to the steam engine and the railroad, and in the second half by falling telecommunication costs-thanks to the diffusion of the telegraph, telephones, the PC, satellites, fiber-optic cable, and the early version of the World Wide Web.

In the so called second era, started the movement of goods and information among nations, creating a global market, with global arbitrage in products and labor. The dynamic forces behind this era of globalization were at the beginning steamships and railroads then to telephones and mainframe computers.

Some management scholars underline at the end of this period the importance of firms as protagonists of globalization and tried to identify different firm’s shapes.

“Managing across borders” written in 1987 is a reference document making an overview on the three main distinctions among big firms operating all over the world after the Second World War. The different evolution of these firms are related to changes in international environment.

The three different shapes that a firm working internationally can have are global, multinational and international.

In industries in which a global efficiency was necessary, firms need realizing mass production and great scale economies, in order to reduce costs and increase production efficiency, especially in



sectors characterized by falling transportation costs, incrementally changing technologies, low tariffs and homogenization of national markets like electronic industry. Firms started centralizing manufacturing and R&D operations and exporting standardized global products, accompanied by a global strategy, the same approach all over the world.

In other kind of industries, such as the one of laundry detergents, there was no convenience in standardizing production, due to the different washing practices, perfume preferences or water hardness among nations. The need of national responsiveness was the driver for the born of a new type of enterprise, the multinational enterprise. The multinational enterprise is able to cope with local need as, according to the country, manufactures different products as well as the marketing strategies and promotional tools.

International business instead is another typology of firm, based on knowledge development. In this firm is essential to create and understand new technologies in order to make them transferable, even if in simplified versions, to other countries where local firms can shape them according to local markets. The ability to transfer knowledge to units and manage the product life cycle efficiently is for international industries.

If in the immediate postwar emerged the US global enterprises, in the 70s also Japanese and European firm born, in line with the previous different explained features.

The American firms were famous for technology and innovative know-how in process, products and marketing approaches. They were organized in a central headquarter, managing from the home country the activities of other foreign units with strong power, leaving them free in the usage of the new products, processes, technologies and marketing know-how already developed in the USA.

Different from this model is the Japanese one. It is characterized by the power of HQ in the home country, holding exclusive centralization for strategic decision, for R&D and for production: it is possible to realize foreign units, but the approach is to create a global company, with homogeneous approach and products all over the world.

In Europe in the same period it is rising the multinational firm consisting in different national branches among countries and high level of independence in product development, marketing strategies and manufacturing practices.

Especially in the 70s the market demand was deeply changing from a standardized to more differentiated items and the firm should required to be both efficient and able to differentiate the production. Moreover some antidumping rules obliged firms to set up new plants abroad and transfer their knowledge: the new enterprise is then a transnational enterprise characterized by the integration of the three aspects of the previous three versions (worldwide learning, national responsiveness and global efficiency). This is the end of the "one best way" born by the need to cope with differentiated demand, as well as to cooperate and share information with new and

special consideration for socialization processes, as informal moments useful for improve a reciprocal understanding and better way of diffuse an active learning approach.

Friedman concluded the overview with the last era: Globalization 3.0. While the dynamic force in Globalization 1.0 was countries globalizing and the dynamic force of Globalization 2.0 was companies globalizing, in Globalization 3.0-the thing that gives it its unique character-is the new found power for individuals to collaborate and compete globally. The driver is software, "all sorts of new applications-in conjunction with the creation of a global fiber-optic network that has made us all next-door neighbors" (Friedman). Individuals must and can be part of the globalization process, even if they are born in a non western countries and if they are not part of big enterprises. In this article Friedman remember that the world is flattening, giving now the possibility to everyone of be part of internationalization process, but remembering the historical path behind. The internationalization of enterprises do not consist only in the realization of productive branches beyond borders, but can be limited to commercial branches or only exportation activities. During the second era of internationalization quoted by Friedman, is born a big variety of theoretical framework aimed to explain the internationalization processes.

Internationalization concept is continuously evolving and there is not a unique definition but there is pretty much convergence in considering it as a process of increasing involvement of enterprises in international markets.

Personally, I appreciate the definition by Beamish, who defines internationalization as "the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries". This definition embeds the active role of the firm as protagonist in understanding its actual position in the global interconnected scenario and its role for the future.

Many economists and management scholars have tried to find the reasons determining internationalization approaches. Below an overview of the most appreciated theories followed by the definition foreign markets entry modes.

There are different approaches trying to understand and detect the reasons underlying firm internationalization choice, nevertheless itis difficult to identify them for a wide variety of firms with different vocations and organization models.

The first international theories analyze the internationalization process according to the different allocation of resources among countries and the endowment of productive factors, as basilar explanation of international trade. The second group of theories are based on organizational theories, explaining the transaction through property or market schemes as determinant of the internationalization of the firms, especially as regard the reasons behind FDI.

### 3.2 International trade theories

Until 50s the main international economic theories were the ones proposed by Smith, Ricardo Heckscher and Olhin, trying to explain the commercial exchanges across nation.

#### *Absolute advantage theory - Smith (1776)*

In the “wealth of nation” of 1776 Smith sustained that “if a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage”.

In absence of commercial barriers, each country will produce goods more efficiently than the others, thanks to superior technology or low input prices, allowing to reach an absolute advantage in a particular sectors: economies of scale will decrease the costs and the international specialization will allow all the countries an increased wellness risen by the international trade.

To export goods and services is essential for a nation in order to generate revenues necessary for the import of goods and services which cannot be produced internally. So, after having satisfied internal demand, each country exports the surplus of the products in which they have an absolute advantage in terms of productivity and costs in respects of competitors’. Consequently, it is sensible for countries to import those goods and services for which they have an economic disadvantage.

Economic advantages and disadvantages born from country differences in factors such as resource endowments, labor, capital, technology or entrepreneurship.

#### *Comparative advantage Theory - Ricardo (1817)*

Ricardo affirmed in his “Principles of political economy and taxation” of 1817, the concept of comparative advantage: “it will appear that a country possessing very considerable advantages in machinery and skill and which may therefore be enabled to manufacture commodities with less labor than her neighbors, may, in return for such commodities import a portion of its corn required for its consumption, even its land were more fertile and corn could be grown with less labor than in the country from which It was imported”.

That is to say, having for the final goods a determined amount of labor needed for each one, the country will export the good produced in the more relative efficient way, importing goods in which it is relatively inefficient.

#### *Neoclassic or Factor proportion theory - Heckscher (1919) and Olhin (1933)*

The theory affirms that the resources or factors of production such as labor, physical capital and land can move among different sectors in the long run (perfect factor mobility theory). Instead

factors of production are sector specific: so land or labor force used in a production typology cannot move among sectors as specific in the production of a certain typology of goods.

Let's imagine a situation in which there are two consumption goods and two typology of resources: countries are specialized in the production of goods and services requiring the usage of most abundant resources, importing other goods requiring most usage of the scarce factor. In an economy with higher relative level of labor, it would be produced mainly the good requiring a more intense usage of the factor it has in abundance (Ripkins theorem).

According to this theory, countries will tend to generate and export goods and services that harness large amounts of abundant production factors that they possess, while they will import goods and services that require large amounts of production factors which may be relatively scarce (Heckscher and Ohlin).

International trade is the result of the difference in endowment and costs of resources, as well as level of technology of each country: the difference in the comparative costs make willing to export the goods requiring higher level of the more abundant factor of production.

These theories explain the reasons why different countries exporting and importing goods but have too much constraints, far from the reality. They assume a perfect exchange mechanism, based on zero transaction costs, stillness of resources across nations, enterprises making one economic activity, full rationality and full availability of information. There are moreover no consideration about the organizational and property structure of firms.

### **3.3 Organizational Paradigms for enterprises internationalization**

The approaches above explained were the reference point until the 50s: in fact after the Second World War, US firms start producing abroad, creating the first MNCs, previously mentioned in the diffusion of the so called American model.

The awareness of market imperfection was the driver for new economic paradigms: Hymer was the first scholar looking at internationalization process as a consequence of enterprise activity, overcoming the macroeconomic approach of difference among countries. In particular, Hymer started affirming that FDIs has to be considered as an intended enterprise strategy, not only capital movement. From his new positions, other new paradigms were developed, start taking into account the reality of imperfect competition, the new industrial organization theories and the existence of diverse organizational approach for economic transaction.

The concept of bounded rationality of Simon and the transaction cost theory of Williamson were other basilar concepts for a deeper line of reasoning in the field of Foreign Direct Investment.

The new theories about the difference between firms instead of the difference among countries after Hymer's contribution were classified in three schools: Cambridge school (Posner, Linder,

Vernon), Reading School (Buckley, Casson and Dunning) and Strategic approach school (Porter and Kogut).

### **3.3.1 Market imperfections theory**

In 1976 Hymer started considering both advantages and disadvantages in a firm internationalization process.

The advantages can be originated from firm's oligopolistic or monopolistic position due to costs benefits, especially if it controls particular property rights or it has favourable conditions by the production or financial side, or to differentiation aspects, such as high level technology or know-how, differentiation of the product, organizational capabilities, strategic point of sales or high capability of satisfaction of customers. The disadvantages are the so called "liability of foreignness", linked to the foreign activity such as natural barriers, languages, political conditions, culture.. these are considered fixed costs, as once overcome, they will not appear. To go international consists in exploiting firm own advantages, that foreign local firms have not, to have higher returns than the costs sustained as disadvantages.

Hymer was inspired from the Penrose's theory of growth of enterprise, sustaining that the firm is an organizational model that coordinates people and groups as pool of resources able to work inside an organizational structure of the firm. Thus, for firm's growth, when additional resources are needed from outside, to go international allow the enlargement of these resources and profits, if exist the possibility of overcoming local competition and host countries limitations. The internationalization process is then a development phase in the life of the firms, especially driven by the capacity to exploit the proper capabilities, in terms of technology or organization, that are not shared by competitors in foreign countries.

It is important remember that a firm can also export rather than produce abroad. This choice is affected by the market condition of the host country, in terms of existence of market imperfection : too much tariffs, transport costs, other duties and discriminations and fiscal favorable treatments, tend to promote a production plant building instead of an exportation activity.

### **3.3.2 Reading school**

Before developing the most representative theory of international trade of Reading School, represented by the product life cycle theory by Vernon, other two theories were developed: Linder's theory about representativeness of demand and technological gap theory by Posner.

Linder focused on demand side saying that to export products it is necessary, but not sufficient, the existence of the relative demand for that products. If this condition is satisfied, the more similar is the internal demand structure in two countries, the more will be their reciprocal potential trade. The reason is in the production activities of firms, as what is produced for

domestic market after time could be exported to the most similar countries in terms of consumption habits.

Posner affirmed that international trade is based on the innovation developed by an innovator country until the loss of its monopolist condition, in fact the developer of a new product is able to export as long as it stayed in a monopolist position. The total duration is linked to the imitation lag, i.e. the time an importing country need to imitate the product of the monopolist ,and to the foreign demand lag, i.e. the time linked to the development of the demand in other countries. The shorter is the time needed to imitate the innovation, the limited would be the development of international trade. From these two important theories, Vernon explained a more structured approach.

#### *Product life cycle theory - Vernon (1966, 1971)*

Vernon's microeconomic approach aims to explain the MNEs operations in the postwar period, reflecting changes related to commercial realities of international trade.

The theory considers that the firms can rely on the availability of financial resources, human capital and capability of process or product innovation thanks to the technology: so the firms able to innovate are also able to internationalize, thanks to the relationship between life cycle of the product and feature of countries and enterprises. Vernon described three steps:

1-Introduction: in the firm home land there are high level of capital, high per capita income and high cost of labor with high level of technology. The production plants are in the home country because the design, the innovation and development of the product are extremely important, more than save resource to standardize production and minimize costs. Internal demand increase and elasticity to the price is low, the enterprise innovate and develop the best product.

2-Development: the demand is rapidly increasing and the standard typology of the goods is gradually being affirmed on the market. Together with the standardization, the spreading of goods is permitted for the more competitive price. In order to save money in the production processes the firm start importing components; Saturated the internal market the demand start to rise in the countries where the structure of the demand is similar to the country of origin, like the European demand after the introduction of goods in the US. The flow of exportation starts and increase, but even in foreign importing markets starts a local production. New competitors born and get advantage from localization advantage: barriers duties, public helps, less transportation costs, knowledge of internal market, until it is necessary for exporters building local plants in the importing countries.

3-Maturity phase: the product reaches a standard configuration and the exportations have been substituted from local production, in some cases the new plants send the standard products back to the home country for the savings in terms of costs of labor available in the destination countries.

This theory represented a useful framework to explain and predict international trade paths as well as multinational enterprise expansion. Even if it is strictly linked to the time horizon of the postwar period, can be used to interpret phenomena of today era. It is also important as begins considering the trade of intermediate products.

### **3.3.3 Cambridge school**

The underpinnings of Cambridge scholars' theories are the Internalization theory and the transaction costs theories, found in Coase and Williamson approaches, which firstly ones introduced some concepts about the rising of costs generated by the imperfection of the market, in particular related to information research, negotiation and realization of the contract, the so called transaction costs.

At the end of 70s, Buckley, Casson, Lundgren and Hennart start thinking about a new approach, based on the international efficiency. Big firms enter in foreign market due to the convenience of the operation, but if the market is inefficient and imperfect, the enterprises will substitute it with an internal market, inside in the same enterprise, where the exchanges between independent firms become intra group operations. This new way of efficient allocation of resources, as the condition of a perfect and rational market, is therefore created inside the borders of the firm. The MNEs are the result of the internalization of global activities, otherwise to carry on inside the boundaries of the firms, essentially to increase global production efficiency through plants located all over the world. The only parameter to take into consideration is the level of internal costs for coordination, that should obviously be lower than the cost of using the market. Firms will gain in creating their own internal intermediate market generating a form of vertical integration, with transactions carried out at a lower cost, under the ownership and governance of the same firm.

In the 80s, Teece and Rugman based their analysis on the Williamson approach of transaction costs, comparing market and hierarchy. Firms' activities are heavily characterized by environmental uncertainty and complexity, opportunism, limited rationality, asymmetric information. These elements cause the growth of transaction costs and reduction of efficiency in using the market, so a failure for the government structure of transactions. An useful solution can be the hierarchical model, as generator of an increased efficiency due to coordination, control monitoring, direct check by the owner. MNE, therefore, is a form of hierarchy and to compare export and FDI is similar to make a trade-off between spending to use the market or coordinating with hierarchy. Internationalization through FDI and creation of MNEs firms, if more efficient, is certainly a way of organizing foreign transaction better than using the market.

*Eclectic model of Dunning*

In 1980 Dunning elaborated a new approach, mixing together the previous theories, giving in this way both a microeconomic and a macroeconomic theoretical framework, based on enterprises theories (especially by Hymer) and on international trade theories (by classic economists).

The Eclectic Model is the elaboration that born in response of the awareness of two markets failures:

- Structural failure: the market allows the creation of natural monopolies, making the monopolist firm create barriers and acquire properties of international competitors. In this way the competition doesn't work and firms have no capacity to control, exploit and manage equally activities at international scale.
- Intrinsic Failure: is linked to the incapacity of the market to organize transactions in optimal way, precisely the incapacity to manage transaction at lower costs than the ones sustained in a hierarchical organization. There are different reasons for this: the presence of asymmetric information, limited rationality and the related possibility to be harmed by opportunistic counterparties, especially in case of exportations in unknown markets; the market impossibility to determine benefits and costs of transaction, easier to estimate through hierarchy; the impossibility to exploit scale scope or geographic diversification economies if the demand of products is not so consistent.

The internationalization of the firms and the reasons behind the existence of MNEs are explained and determined by three kind of advantages related to the following variables:

Ownership advantages, linked to the exclusive possess by the firm of tangible and intangible assets, for example technologic and organizational capabilities, privileged access of information or intermediate goods market. These advantages are linked to the entrepreneurial formula adopted and give to the firm a unique competitive advantage in respect of local firms.

Localization advantages, localization permits to exploit the features of host countries in terms of economic, political, fiscal, financial environment. Understanding the feature of one nation is fundamental to determine what kind of activity of value chain can be better execute there, as Vernon's Theory noticed considering the characteristics of the countries as favorable variable for the international development.

Internalization advantages, internalization is the way for avoiding market imperfections and its related costs, allowing benefits such as less opportunism, cheaper and increased coordination thanks to the hierarchical relationship between different firms. This approach born thanks to concepts of imperfection of the market and transaction costs developed by Coase and Williamson. Firms' propensity to FDI depends on the specific attractions of its home country compared with resource implications and advantages of locating in another country. When enterprises start an



internationalization path, they could be included into four categories, according to their long term objectives and what they are looking for to enhance their competitiveness:

- natural resource seekers (looking for low cost raw material, technology or labor),
- market seekers (following customers, reducing transportation costs and conquer new market share),
- efficiency seekers (linked to the realization of scope or scale economies or diversifying risks, thanks to destination countries)
- strategic asset seekers (in terms of acquisition of trademarks or foreign enterprises, to strengthen own market power or to weaken competitors)

It is clear that not only resources differentials and firms specific conditions are the drivers of success in abroad investment activities. The variables previously mentioned highlight the important of organizational structure adopted by the firms as well as the features of foreign host governments in terms of attractiveness and entry conditions, as additional contributors for the final success for firms.

The quality of this approach is in the need of mixing more determinants to be sure of an international success: Dunning's paradigm is a complex approach but cleverly recognized for affirming that in order to succeed in international market is necessary to take into account more dimensions, especially the three conditions of ownership, internalization and location (OLI theory) and the final aims of the firms.

However Dunning approach is too much static and does not consider the development of the advantages and changing conditions during time, rather perceived as fixed.

### **3.3.4 Strategic approach**

Kogut in 1985 tried to understand the behavior of international firms especially in their choice among keeping inside or investing in some internal activities and delocalizing in international value chain other activities. Kogut used the theories of comparative advantage of nation and firm specific advantage in affirming that the first, defined as location-specific advantage, affect decisions of firms in terms of localization of the activities forming its value chain. The latter, defined firm-specific advantage, affect the decision of the firm in the choice of the activities on which invest.

The competitive advantage is generated from the difference among nation of input costs(capital and labor) and it is the result of the difference among firms in capability of transforming input in goods and services with higher profitability in respect of competitors. As both each nation and each firm have comparative advantages in executing certain functions or activities, it means that firms tend to choose nations able to perform better certain type activities as destination of specific internal functions. Thus, the internationalization process can be based then on comparative

advantage of nations, on competitive advantages of enterprises or on integration among the other two. Entry barriers can block this spreading of activities on worldwide level.

By the other hand, Porter (1986) made a more structured approach, explaining that international competition is determined by an overall combination of six elements which influence the competitive advantage of the entire national system. In fact considering the national competitive advantage as the sum of national conditions allowing competitive advantage in certain industrial sectors and implication on enterprise and government, Porter underline that international competition is both at enterprise level and, above all, between economic systems and institutions. The competitive advantage of nation is determined by:

- Factor of production (endowment and hierarchy inside a nation), are inputs firms can use, like human, physical resources, knowledge, infrastructures and capital;
- Demand condition, affecting the way firms behave in terms of offer, i.e. dynamic and innovative demand by customers is a driver for continuous improvement of the products;
- Support and complementary industries, customers or suppling firms presence can be important in case of collaboration and exchange of information
- Strategy, structure and rivalry of the firms, represent the competitive environment in which the firms are inserted;
- Government, as the public administration able to affect the factors mentioned above, with different laws on competition, fiscal treatment.
- Chance, casual event beyond firm control.

It is important to analyze both national and enterprise features in order to understand if exist evolutionary conditions from the competitive national advantage to the competitive international advantage.

Firms with global foresight should be capable of selecting the diverse advantages available in different nations: each firm should select the strategy to adopt and, then, which is the most suitable country, in terms of competitive advantage offered, for realizing the different functions of its activity.

### **3.4 Internationalization of SMEs**

The international theories explained have analyzed especially the process of internationalization of big MNEs, but in the middle of 70s start rising other approaches looking also at the SMEs, starting growing importance in international scenario and becoming alternative from the American giants.

The novelty in terms of presence of medium and small enterprises on the international markets feeds, then, the need of new theories aimed to explain and interpret this new phenomenon,

demonstrating that the process of internationalization was no more exclusive for the larger firms, overcoming assumptions delegating the small firms to be suitable only for exceptional exportations.

The new theories elaborated in this period are called gradual or incremental, explaining the presence and the behavior of SMEs entering in new markets and starting the process of internationalization.

This current of theories was different because:

- identified a path, with cumulative phases;
- for the firms to move along the path meant to change gradually their involvement as regard the strategic, financial and organizational aspects.
- It is particularly important the role of the entrepreneur and the evolution of knowledge about the foreign market

According to these paradigms, a firm consolidates its presence abroad through more information and experience acquired day by day. Starting from the indirect export, after time firms will be able to realize internationalization in a more organic and structured way, thanks to the increased dimension reached and the increased capability of managing international processes..

Let analyze the determinant factors for the advancement along the path of internationalization and in detail what are the phases scholars have identified.

### **3.4.1 Uppsala Model**

The Uppsala model, also U-Model, of Johanson and Vahlne of 1977, is based on the firm gradual acquisition and use of intelligence from foreign markets and operations, determining, during time, greater levels of commitment and an increased capability to manage their activities abroad.

According to this approach internationalization is a gradual path in which information and knowledge about the foreign market and foreign practices are first of all acquired, then integrated and finally efficiently used. This path can be considered as a circular movement that starts and finishes, making the firm able to understand gradually how the foreign environment works, to increase its effort and learn how to use the information collected.

The knowledge gradually gathered allows reducing uncertainty and makes the firm more willing to sustain the costs and risks of stronger commitment. According to this model, the firm behaves in response to the environment in which is inserted, even without thinking about strategic choices or optimal allocation of resources , because the most important drivers are the exploration and opportunities risen in its learning path. The firm, learning how to work abroad, understands the need of enlarged dimensions and development of managerial organization, generally following four stages, different from international involvement:

- a) irregular exportation, thanks to the foreign customer demand;

- b) direct exportation through representatives;
- c) creation of commercial subsidiaries;
- d) realization of FDI.

Some barriers like physical distance, language, cultural distance, political or industrial factors and difference in values and educations can block or cause difficulties in the flow of information with the destination market, but it is the gradualism of this path that allows a cautious approach preventing the risks related to the internationalization process.

After time Vahlne and Johanson (1990) start thinking to a variation from their model, explaining how the small firms become international. They think about the possibility to make leaps thanks to three condition, in line with another current of theories, later analyzed, inserting the importance to be part of a network for the internationalization process: they assumed that firms inserted in networks could get three advantages, able to grant acceleration in the gradual path previously affirmed. These advantages are the larger amount of financial resources, the experience in similar market, the steady condition of internal market and knowledge in the network.

### **3.4.2 Innovation Model**

The I-Model, elaborated by Andersen in 1993, is based on a different incremental approach: each stage of internationalization, considered as an organizational newness decided by the management, is a stage of innovation. In this approach it is the lack of knowledge by the management that oblige to follow incremental phases, not the gradual exploration and evaluation of opportunity as in the u-model.

While U-model starts from the effort in understanding, learning and exploring opportunities and using the knowledge to react and operate in foreign market, in I-model the international growth is the result of subjective expectation, the personal motivation, management aspiration, far from the result of rational solution made in practice to improve and reach fixed objective. It admits the possibility to make leaps, especially thanks to the role of experience and knowledge, not only following economic aspects and rationality. If management do not know the foreign market, the firm is obliged to follow an incremental path acting as a risk averse subject, blocked in its internationalization path by different barriers, such as different political and economic environment, language, culture, high uncertainty.

### **3.4.3 Network Theory**

The network theory developed from the end of 80s by Johanson and Mattsson, considers the markets as a network relationships between enterprises. The firms need to have information, to increase their knowledge and to rely on different types of resources in order to work on

international scenario: to establish long terms relationships with other firms is the real driver for international development as network is the base for higher value resources, social capital, means and assets access and control.

The network has been recently defined as the “relationship between a firms’ management team and employees with customers, suppliers, competitors, government, distributors, families, banks, friend or any other party that enables it to internationalize its business activities” (Zain).

For SMEs the existence of a network is fundamental as it represent the place from which collect the resources, otherwise enough limited. Network can be vertical, in case of relationships with suppliers or distribution channels operating in foreign market, or horizontal in case of relationships with firms offering similar or complementary products.

The internationalization possibilities offered to firms inside networks are three:

- 1) strengthen the already existent position inside their own networks;
- 2) enter into new international networks or into national networks with international vocation;
- 3) increase international integration through a more effective coordination between the different national networks.

From these three possibility just mentioned, there are four categories of international firms, according to the international degree of each actor and the international degree of the market in which they are inserted.

Table 3.1: the Categories of international firms

| <b>MARKET LEVEL INTERNATIONALIZATION</b> |                      |                            |
|--|----------------------|----------------------------|
| <b>FIRM LEVEL INTERNATIONALIZATION</b>   | <b>Low</b>           | <b>High</b>                |
| <b>Low</b>                               | Early starter        | Late starter               |
| <b>High</b>                              | Lonely international | International among others |

Source: Johanson and Mattsson, 1988

The early starter is a firm with limited relationships and scarce knowledge of foreign market, suppliers and competitors. The desire to internationalize is strongly dependent on local subjects like agents or intermediaries, experts in abroad markets and able to insert this firm into a learning process.

If the degree of internationalization rise, the step of the lonely international is reached. It is an autonomous firm with the possibility of widening its activity abroad. it is defined “lonely” as in the industry network in which is inserted the other firms are not able to operate in international

market. However, during time, this firm could be the driver of internationalization for other network subjects.

Late starter is a firm deciding to internationalize in a market environment already internationalized and developed: the relations with its network are above all used to start foreign activities, even if the late starter will meet difficulties especially due to the competitors' knowledge and experience.

The firm defined 'International among others' is inserted in an already internationalized network and have knowledge and competences deriving from its own experience as well as from the higher interdependence in an internationalized network, source of continuous possibilities and information.

The network approach succeed if from the earlier starter would be able to wide its visions and create connection with foreign partners, therefore setting up a foreign network and allowing other members to become internationalized.

Grandinetti and Rullani admit that this approach focalizes attention on the lack of resources and knowledge as key factors for start an international opening, especially for small firms: there are not predetermined path or steps to follow but the network theory implies a gradual development determined by the development of the relationship among the firms in the network.

#### **3.4.4 Born Global Theory**

The recent theory of born global firms, elaborated by the consultancy organization, Mc Kinsey Company and Rennie in 1993, has been developed to interpret the evidence that some enterprises do not follow an incremental approach or a gradual path, rather do leapfrogging or establish abroad connection since the beginning of their activities, entering simultaneously in more markets. In the 90s with the presence of small firms with different methods of working on international market, two concepts started being the new pillars for economic paradigms, affecting deeply scholars' thoughts in terms of firms organization: "small is beautiful" and "gradual internationalization is dead".

From this assumptions, new internationalization theories developed identify the new model of "born global" firms, in order to describe the features of such actors able to work on global scenario, as the reference market since the beginning of their activity.

Global firms are characterized by early global vision of management, innovative and high qualitative products offered, standardized production and scale economies permitted by the wide market access, global organization and coordination thanks to tight network relationships and the starting of exporting activity until 2 years from the setting up with more 75% of turnover generated by sales abroad.

In this approach, the firms are driven by the capability of management in standardizing production, marketing and manage GVC activities in a flexible and innovative way, pursuing a global niche approach, rather than a customization of the offer. The global niche represents the market destination of the born global firm, producing one kind of product for a clearly defined group of customers, with the same features and needs to satisfy, but spread all over the world: born global firms offer global solutions for some homogeneous empty spaces of the market or, sometimes, they are able to create and then satisfy new empty market spaces. Thus the niche is the sum of people and customers, having the same needs but dispersed all over the world.

## Chapter 4. How to enter in foreign markets

A firm can enter a foreign market in different ways, choosing to pursue the same strategy in all countries or differentiating according to the host country or the type of offered product. The ways are essentially direct or indirect exportations, through contractual solutions or foreign direct investments

### 4.1 Direct and indirect exportations

Exportations is the way in which a firm chooses to send and sell their own products abroad. This activity could be carried out in a direct or in an indirect way, relying on different subjects and organizational practices.

**Indirect exportations** are fulfilled with the support of intermediaries like national export enterprises or local importers. The firms choosing this path are absolutely risk averse as this way is considered the safest and the less expensive. With the indirect exportation, the firm relies on a third party in exporting the goods, who have the role to connect the foreign offer to the internal demand, to be responsible for risks, costs and bureaucratic issues related to export process and to represent a filter to ensure the reliabilities of external parties. These subjects allow to transfer goods in a safer way, limiting the market risk of the exporting firms, thanks to their consolidated experience and knowledge of foreign market, resulting in an uncertainty and transaction costs reduction, sometimes supporting the exporting firms in better shaping or addressing their offer. The production is entirely in the country of origin and only the commercial relations take place on foreign markets and are driven by specialized operators, already used to work with foreign customers: the exporting firm delegates to foreign partners the management of foreign operation, consisting in distribution and sales of the products, mainly without a specific satisfaction of an already present demand.

As already mentioned, the intermediaries can be located in the country of origin or in the foreign market. In the country of origin there are buying agents, exporting companies, trading companies. Trading companies, importers, distributors and buying groups of firms, form the second group. *Buying agents* are independent people that connect the exporting firms with a specific foreign customer, supporting in the sign of the contract. They are not in charge of direct buying, promoting and re-selling the goods; on the contrary they receive orders by big foreign customers and transmit them to exporting firms, allowing offer and demand meeting.

The *exporting companies* are intermediaries that have knowledge of specific products for certain specific geographic area: they buy directly from the exporting firms and, after having executed all



the bureaucratic practices, sell internally the goods to already specific customers, bearing all risks of the transaction. They have not regular flow of sales.

The *trading companies* are independent subjects located in home country or in destination country, organizing the exchange of goods and services, also offering complementary services in marketing and financial areas. They are autonomous in organizing and managing buying and selling operation of goods and services, with own responsibilities and risks but on behalf of a third party, without bearing risk. The feature of these actors is to be able to develop logistic and financial structure together with managerial capabilities and ICT languages as drivers of internationalization processes. The trading companies are different according to the countries: the *soso shosha* are big dimension trading companies of Japan and Korea, operating in wide variety of commodity sector. Trading companies specialized according to industry are mainly European and North American: German and England “trade and confirming houses” operate in services, Italian Trading companies are specialized in high specific but extremely localized industrial segments.

*Importers or distributors* are enterprises specialized in importing specific products, allowing the exchange between foreign customers and exporting firms, bearing all risks of the transaction. They buy relevant quantity of the goods to distribute in specific areas of foreign country, having sometimes the exclusive right on what they sell. They also execute after sales services.

*Buying groups* of firms are the result of the joint of independent retailers, operating together in order to increase their otherwise limited contractual power and to buy directly from the exporting firms to contract lower prices and other favorable conditions.

To rely on intermediaries is frequent when the enterprise has few information about the importing country or when it has scarce resources to create other foreign presence. However, the firms can opt for **direct exportations**, creating direct connection to foreign companies or operators, always keeping the production in the country of origin. To opt for direct exportation is a signal to be more committed in a long-term relationship, communicating the willingness to establish trust relationship with the destination customers of the foreign country.

There are different solutions: direct selling to customers, sales network establishment through agents, employees or commercial branches represent the opportunities available in direct exportations

*Direct selling* to foreign customers: in this way, the exporting firms encounter directly the demand for their products. These customers can be manufacturers and then requiring specific and customized production of intermediate goods, or big commercial firms, requiring variety of final goods. Another solution is to rely on electronic trade, serving all typology of customers, also private ones.

*Sales network creation* through agents, i.e. autonomous collaborators, or through employees. To rely on agents is the less expensive choice based on collaboration with independent representatives responsible for finding potential customers, distributing the goods on behalf of foreign firms and promoting the image exporting firms. An alternative solution is to rely on own employees, that can contact potential buyers, give after sales services, monitor demand and try to collect ideas from these relationship in order to improve and shape the goods offered. The first choice allows to exploit the existent knowledge and experience in foreign countries of agents, with a deep understanding of market trends. The second choice allows to capture improvement margins from the joint between customers' requests and knowledge about the potentiality of the exporting firms, that only employees can be aware of. In this latter case, the employees have no need of permanent bases abroad even if apposite representative offices could be set up.

*Commercial branches creation*: this solution implies the creation of commercial subsidiaries, without legal entity, or captive companies, with legal entity. There are different operative solutions: to be an exclusive import office, distributing goods to big buyers but relying on agents for serving smaller customers or to import, to distribute and give assistance independently, according to own decision in sales policies, for example selling both to retailers and final customers, ensuring after sales services. The creation of commercial branches creation requires higher investments but allows to increase rapidly the knowledge of foreign market, to make in practice more suitable marketing and distribution solutions, to give better assistance and to develop a trust relationship with foreign customers. This choice reflects firm's desire in trying to be closer to the foreign importing country, with the related advantages to capture the needs of the internal demand, customizing products and commercial strategies according to the cultural environment of destination. Other advantages are linked to price control and effectiveness in trademark and intangible assets protection.

## **4.2 Contractual solutions**

Another entrance solution in foreign market is to realize collaboration with foreign subjects, signing real juridical contracts, allowing to establish medium and long time relationships that have the basis in the complementarity of the features of each subject.

Let's analyze the most adopted solution:

*Management contract*: this is an agreement that permit the management of an already existent firm in destination country, by a foreign firm. This arrangement implies that operational control of an enterprise is vested by contract in a separate enterprise that performs the necessary managerial functions in return for a fee. Management contracts involve not just selling a method of doing things but involve actually doing them. A management contract can involve a wide range

of functions, such as technical operation and of a production facility, management of personnel, accounting, marketing services and training.

#### **4.2.1 Commercial side**

Here the frequent contracts by the commercial side, allowing to sell the products in the country of the foreign partner.

*Franchising*: is an arrangement where one party (the franchiser) grants to another party (the franchisee) the right to use its trademark or trade image as well as certain business systems and processes, to produce and market a good or service according to certain specifications. With this contract, the gains are related to the immediate name recognition, detailed techniques in running and promoting the business, training of employees, ongoing products promotion and upgrading and in commercialization strategies, in exchange of royalties payment. It is a sort of decentralization of production, as the franchisees are all over the world and with their activity expand the franchiser's influence across borders. The fundamental requirements for the effectiveness of this approach are, first of all, the role of the franchiser in addressing the overall strategy from the home country, the offering of standard products and a standard trademark to be recognized all over the world, and finally the capability to develop further differentiated goods and promotion practices according to local needs.

*Piggy bank*: it is an agreement between a foreign producer (or distributor), called rider, and the local producer (or distributor) called carrier. With this agreement the rider willing to export their products can rely on the carrier, already established firm, that will import and distribute the goods of the rider firm using its already existent distribution network. It is realized when the products of the new exporter are not in competition with the ones of the already operating firm and, especially, when they can complement the range of available products. In this way the already existent network can be exploited by more subjects with a rapid entrance on foreign market, even if the rider cannot affect the commercial policies put in practice by the carrier.

#### **4.2.2 Production side**

Contracts by the production side permit to manufacture in foreign partner's country and to sell in national or international markets.

*Licensing*: is a contract in which one company (licensor) gives to another company (licensee) the permission to manufacture its product and also to use intellectual property rights, such as trademarks, patents, or technology, under defined conditions and for a specified payment (i.e. percentage or lump sum royalties). This solution is often adopted by SMEs, lacking of resources for creating a productive plant abroad and willing to have a rapid and low risky entrance in foreign market, also overcoming the issues linked to borders' barriers. However a negative side of this

solution could be found in the possible unfair competitive behavior as well as in the fall of reputation caused by the transfer of precious knowledge, patents and intangible assets, or by an inadequate use of logos or trademarks.

*Offshore outsourcing:* It consists in the contracting or subcontracting certain noncore activities to foreign firms, chosen to manufacture goods according to technical documents and models given by the national buyer. After having received back the goods, the national firm can complete the production process or organize the distribution. This practice is useful when the realization of FDI is not justified and also in case of high entry barrier as well as the opportunity to get advantages from lower cost of production, lower transport costs and little bureaucracy. However it is important to take into consideration the risks related to the transmission of so much knowledge to make third parties becoming direct competitors.

### **4.3 Foreign Direct Investments**

The FDI are investments a firm realizes in case of a creation of new distribution plants, as well as production plants, that can be owned totally or partially owned by the enterprise and managed by already local or foreign entrepreneurs. It is clear that to realize FDI is strictly linked to the necessity to be deeply present on foreign markets. Only FDI allows being closer to consumers in order to control and monitor their behavior and change of preference, to better understand the emerging needs of the market, to give trust and assistance to all the interlocutors.

The reasons behind the realization of FDI have clear explanation in the above section dedicated to theories and can be summed up with the willingness to find new markets for own products, the need to follow strategic customers abroad or to get advantages in terms of raw material, logistics or labor lower costs and increase scale or scope economies.

FDIs are often pushed by foreign government policies, allowing favorable conditions for foreigners, often seen as source of new approaches, technologies and working practices hosts could learn. Some of legislative practices adopted especially by developing countries are low corporate tax and individual income tax rates, tax holidays (temporary reduction or elimination of a tax), preferential tariffs, special economic zones and export processing zones, Bonded warehouses, Maquiladoras (example of Mexican factories owned by foreign owners that import certain material and equipment on a duty-free and tariff-free basis for assembly, processing or manufacturing and then export the assembled, processed or manufactured products, sometimes back to the raw materials' country of origin), investment financial subsidies, free land or land subsidies, infrastructure subsidies, R&D support.

FDIs not only require huge financial resources but also high operating costs, considering also that involves a binding decision quite irreversible and difficult to sustain if there are not high production volumes.

The international operation classified as FDI are Joint Venture, Merger and Acquisition (M&A) and Greenfield investments

#### **4.3.1 Joint Ventures**

Joint Venture is a business agreement in which the parties agree to create, for a finite time, a new legal entity and new assets, with equity contribution. Thus through a JV born a new legal entity characterized by joint participation, duties and right of the involved parties which are required to contribute with tangible and intangible resources, to carry out a non-occasional economic activities aimed to specific shared aims. According to such objectives, the JV will be differently oriented, for example aiming to conquer specific markets or to improve production in a certain area, getting advantages from less restrictions and limited amount of market risks and less allocated resources than the greenfield hypothesis. The risks embedded in a JV is the lack of real willingness to collaborate among parties, that could undermine the stability causing the dissolution of the agreement and a loss of resources, time and profitable opportunities.

#### **4.3.2 M&A**

Merger and Acquisition (M&A) consists in the choice of a firm to buy another entity already located in the interested country. This is an opportunity to become immediately known on the market, getting advantages from the already existent customers and being closer to local need thanks to the same nationality of the firm purchased. In addition, distributive channels can already exist. To obtain rapidly a good reputation and a critical size on the market, it would require surely more time and resources for a new establishing company, thus M&A can favor the transmission of complementary skills, such as management or technical skills; increased "market power" and access to new market segments; economies of scale lowering the costs through the production of larger volumes; improvement in capital equipment use as result of an increase in the specialization of labor and management. Obviously there are limits related to the previous managerial practices and workers habits that can be intensely eradicated but not in line with the new practices to implement.

### **4.3.3 Greenfield Investment**

Greenfield investments occur when a parent company begins a new venture by constructing new facilities in a country outside the one of company's headquarter. Then a firm could open a branch, build an establishment and found a new legal entity operating in foreign market.

Relevant aspects for this choice are the great investment dimensions and the forecasting capability, making able to achieve economies of scale and scope in production, marketing, finance, research and development, transportation and purchasing and ensuring control on brand, and staff for a better implementation of long-term strategies. Sometimes FDIs are incentivized by developing countries often offering prospective companies tax-breaks, subsidies and other types of incentives to set up new facilities. Governments in fact often see that losing corporate tax revenue is a small price to pay if jobs are created and knowledge and technology is gained to boost the country's human capital. However local competition will be difficult to overcome, entry process may take years and not only the project but also barriers to entry can be costly. It is important considerate the commitment deriving from such long and expensive choice, so the existence of strong demand by customer is essential.

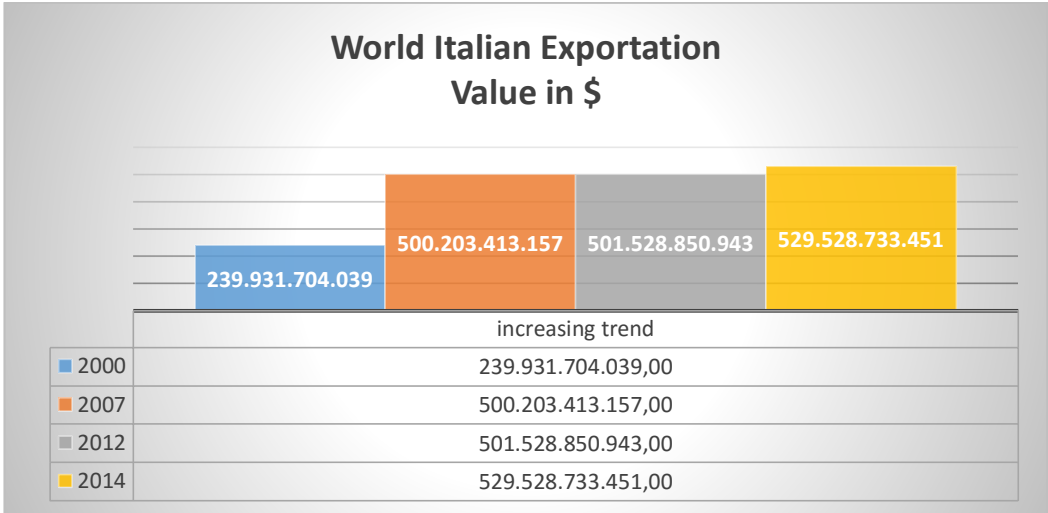
# Chapter 5. Internationalization process of Italian SMEs

## 5.1 Italian SMEs and international trade

To invest in international activities is one of the few alternatives that Italian firms have to relaunch themselves, overcoming problems linked to the flat internal demand.

Looking at the export data, it is possible to appreciate that in 2014 Italian exportations account for the 2.85 % on the world total export, level increasing over time since the year of the crisis, with annual top records.

Fig. 5.1 World Italian Exportations during time -value in US\$



Source: UN COMTRADE

The total amount of Italian exporting enterprises are about 212.000 units in 2014, 10.8% more than 2013. The larger part of exporters, about 62.5 %, are small firms, generating total export not higher than 75.000€ turnover, but their contribution is only the 0.5 % of the total amount of export.

The 71.2% of total sales on foreign markets is instead generated by 4.020 enterprises having a foreign turnover higher than 15 million €, representing the 1.9% of total exporters.

Considering the firm dimension in terms of employees, it should be observed how the larger size is linked to a wider amount of exportation in value: in 2013, 1861 firms with minimum 250 employees realize 46.1% of national exportations, the firms with 50-249 people the 29% and small enterprises the 24.9%.

Table 5.1 Exporting Enterprises, Workers and Exportations For Firm Dimension, Year 2013, Value In Mln €

| <b>EXPORTING ENTERPRISES, WORKERS AND EXPORTATIONS FOR FIRM DIMENSION</b> |                |                                |                |                                |                |               |
|---|----------------|--------------------------------|----------------|--------------------------------|----------------|---------------|
| <b>Year 2013, Value In Million €</b>                                      |                |                                |                |                                |                |               |
| <b>Dimension in terms of workers</b>                                      | Enterprises    |                                | Workers        |                                | Exportations   |               |
|   | Absolute value | % weight on active enterprises | Absolute value | % weight on active enterprises | Absolute value | % composition |
| <b>0-9</b>  | 125.403        | 3,1                            | 426.433        | 5,7                            | 22.523         | 6,1           |
| <b>10-19</b>  | 33.063         | 25,9                           | 448.892        | 26,8                           | 25.825         | 7,0           |
| <b>20-49</b>  | 20.586         | 40,6                           | 630.414        | 41,8                           | 43.882         | 11,8          |
| <b>50-99</b>  | 6.632          | 48,6                           | 455.804        | 48,9                           | 42.081         | 11,4          |
| <b>100-249</b>  | 3.717          | 51,7                           | 564.615        | 52,2                           | 65.361         | 17,6          |
| <b>250-499</b>  | 1.064          | 53,6                           | 368.190        | 54,1                           | 42.796         | 11,5          |
| <b>More than 500</b>  | 797            | 58,2                           | 1.485.260      | 62,4                           | 128.075        | 34,6          |
| <b>Total</b>  | 191.262        | 4,5                            | 4.379.609      | 27,8                           | 370.543        | 100,0         |

Source: ISTAT Annuario Statistico Italiano 2015

An analysis on Italian firms made by Fondazione Nord Est has described the international activities of Italian enterprise, making a distinction between “strong internationalized” enterprises (export turnover more than 10%) and weak internationalized” (export turnover less than 10%)

The 30,3% of interviewed firms consider themselves strong internationalized, selling steadily abroad their products, with a turnover higher than 10%. The 14.2% of firms has a lower level of foreign sales and are mainly based in Italy. The strong internationalized are mainly located in North West (32,4%), in middle Italy (32,0%) and North East (30,9%), less in the South (23,7%).



Table 5.2 Enterprises classification according to degree of internationalization (in %)

| <b>Enterprises classification according to degree of internationalization (in %)</b> |                             |                           |                          |
|--|-----------------------------|---------------------------|--------------------------|
|  | Strong<br>Internazionalized | Weak<br>internationalized | Not<br>internationalized |
| <b>Average</b>   | 30,3                        | 14,2                      | 55,5                     |
| <b>Geographic area</b>   |                             |                           |                          |
| <b>North west</b>  | 32,4                        | 16,6                      | 51                       |
| <b>North east</b>  | 30,9                        | 20                        | 49,1                     |
| <b>Middle Italy</b>  | 32                          | 11,8                      | 56,2                     |
| <b>South and isles</b>   | 23,7                        | 9,8                       | 66,5                     |
| <b>Dimension for n. employees</b>  |                             |                           |                          |
| <b>10-19</b>   | 25,6                        | 13,2                      | 61,2                     |
| <b>20-49</b>   | 34,4                        | 16,8                      | 48,9                     |
| <b>50-99</b>   | 49,2                        | 13,8                      | 36,9                     |
| <b>more than 100</b>   | 48,1                        | 15,4                      | 36,5                     |
| <b>Industry</b>  |                             |                           |                          |
| <b>Manufacturing</b>   | 39,5                        | 13,8                      | 46,7                     |
| <b>Trade</b>   | 20,3                        | 19,8                      | 59,9                     |
| <b>Service</b>   | 17                          | 11,2                      | 71,8                     |

Source Fondazione Nordest

Looking at this table, the higher level of internationalization is a feature of larger dimensions' firms, underlining the importance of relying on financial resources, capital and people to create a structured international approach.

In 2013, the 44.5% of firms with more than 10 employees trade with foreign countries, instead of 39.2% in 2012. Italian firms have been relaunching their exporting activity as internal demand is flat, thus only internationalization is the instrument to overcome the issues related to the Italian market stagnation.

Istat research reveals that the manufacturing enterprises export the 35.8% of turnover in average, but there is a high variance i.e. certain firms export more than 50% especially in pharmaceutical, machines, leather articles. Even in Fondazione Nordest analysis the manufacturing sector is the most characterized by strong internationalized firms, where trade and service industries have low relevance in foreign activities.

As already mentioned, the level of exportations rises with the increasing firms dimension: from 9,1% micro-small firms turnover, to 18,0% in class 10-19, 27,6 % in class 20-49, and 41,5% in firms in class 50-249, and finally 45,6% in bigger firms.

The exporting enterprises realize 81.77% of total added value and have a work productivity twice bigger of non-exporting firms (65.000 € in respect of 29.400 €).

Actually, Fondazione Nordest has noticed the growing number of strong internationalized firms in 2013 of the class 10-19, 6.6% more than 2012. The other classes are more or less stable.

The increasing importance trend in smaller enterprise class, is confirmed also by Confartigianato recent report, explaining that on annual basis (last quarter 2014 – third quarter 2015) micro and small enterprises exportations has represented the 7.1 % of GDP increasing of 3.8% from previous year, demonstrating the important growing weight worldwide. The 74.2% of the total amount of exportations of Micro and Small actors is toward advanced countries, while 25.8% in emergent economies. Always according to Confartigianato, Italy is on the top of the ranking of European countries for the higher value of products made by MSEs exported in US 8.4 billion €, Hong Kong 3.8 billion €, Japan 2.5 billion €, Arab Emirates 2.2 billion €, South Korea 1.4 billion €.

It is important taking into account Eurostat data of 2011, showing that SMEs Italian enterprises are the top performing firms for exportations in non-Euro zone, compared to the other European SMEs.

Table 5.3 SMEs exporting Extra-EU . Number and Value 2011

| <b>Top 10 SMEs exporting Extra-EU in 2011</b> |  |                                 |
|---|--|---------------------------------|
| <b>Member State</b>                           | <b>Number of exporting enterprises</b> | <b>Export Value (€ billion)</b> |
| <b>Italy</b>                                  | 119.600                                | 80.2                            |
| <b>France</b>                                 | 82.200                                 | 54.8                            |
| <b>Spain</b>                                  | 72.700                                 | 31.7                            |
| <b>Germany</b>                                | 72.300                                 | 118.6                           |
| <b>UK</b>                                     | 61.700                                 | 49.6                            |
| <b>Poland</b>                                 | 28.300                                 | 8.1                             |
| <b>Sweden</b>                                 | 25.400                                 | 15.4                            |
| <b>Netherlands</b>                            | 20.600                                 | 40.8                            |
| <b>Portugal</b>                               | 18.400                                 | 5.1                             |
| <b>Austria</b>                                | 14.800                                 | 13.1                            |

Source Eurostat 2011

Considering that among the main appreciated Italian products abroad there are the ones linked to the traditional Made in Italy, it is easy recognizable the role of SMEs and their merit in mixing together tradition and innovation, drivers of this worldwide success.

### **5.1.1 Italian SMEs' internationalization path**

After the overview on the most important theoretical approaches of firm's internationalization elaborated during time, it can be useful understand if and in which framework Italian SMEs can enter.

Table 5.4 Italian SMEs internationalization approaches

| PATH OF INTERNATIONAL DEVELOPMENT | NETWORKING ATTITUDE                   |                                     |
|-----------------------------------|---------------------------------------|-------------------------------------|
|                                   | Lonely                                | Systemic                            |
| Serial                            | Born global                           | Firms inserted in district networks |
| Sequential                        | International traditional enterprises | Satellite enterprises               |

Source: Zucchella 2002

According to Zucchella, Italian firms could have different international approaches according to network attitudes and path of internationalization:

**Traditional international enterprises:** these are the traditional medium or big international enterprises, entering into international activities through several gradual steps, becoming after time real MNCs. The MNCs are a small number in Italy, strong characterized by the presence of SMEs.

**Born global:** as previously mentioned, are firms start doing international activities in the early years of their life, without following a path and acting alone . In reality the larger part of Italian SMEs are not born global, because even if their exporting activity often has started in their early life, they don't developed an international approach from the beginning and they take often into consideration the geographic and cultural distances that are not a problem for born global. In fact born global firms have a special vocation making them able to respond to specific niches worldwide spread, satisfying customers with the same characteristics. Italian firms exporting activity is only recently expanding its focus beyond typical "western" borders.

**Satellite enterprises:** this group is represented by small firms deciding to follow big firms in international scenario, due to the fact that these latter are their principal customers. They do not act alone in the sense that considering the movement of their traditional customers abroad, they feel obliged or often they are asked from the customers to continue their suppling activity. A satellite enterprise follows its main customers on foreign market and after a period can start selling its products also to local firms: when the smaller firm become acquainted of local market needs, knowing more about consumption habits, can improve and sometimes shape its products, in order to directly serve both the old and the new demand.

**Italian firms in districts networks:** these firms follow an internationalization path as part of industrial districts, bounded areas, allowing enterprises to gradually increase the level of the

internationalization thanks to network development, even with leaps and get information and specific knowledge otherwise not accessible.

Italian enterprises are mostly medium and small enterprises and are spread in industrial districts. In fact about 100.000 firms on 400.000 belong to IDs. As previously explained, Becattini has defined industrial districts as a “socio-territorial entity which is characterized by the active presence of both a community of people and a population of firms in one naturally and historically bounded area”.

The importance of spatial proximity for less firms’ transaction costs in terms of control, information sharing, a collaborative environment and coordination activities has permitted reciprocal learning as well as the flowering of continuous innovations, relevant for the challenges of international trade.

The difficulty related to the lack of resources and scale economy has been overcome with the advantage of districts, allowing external economies of scale due to agglomeration factors, exchange of information, innovation spread, reduced transaction and production costs and trust embedded in the relationships. The economies of scale generated through labor division and the specialization, permit firms inside the same industry to concentrate on one or few phases and increase their specific competences. This environmental industrial climate is an important driver of internationalization, allowing to all the enterprises present in the district to increase knowledge, to innovate and be capable to offer their product abroad in line with foreign expectations. Competences, experience and the strong linkages with culture and territory have been fundamental drivers for specialization and innovation: the community characterized by homogeneous systems of values, shared belief and ethic of work, family, reciprocity, effort and the population of firms specializing in single phases, learning even thanks to the proximity with other firms are special feature that allow Italian ID s to be recognized and enviable all over the world. They are so successful because with their characteristics they are able to satisfy a differentiated and variable final demand, not refusing new opportunities but exploiting them as starting points to increase available knowledge. They are able to compete internationally thanks to their intrinsic feature and to a mix of canonical channels: technical schools and factory training. The transmission of the skills acquired through canonical channels is powerfully integrated by a “spontaneous exchange and reorganization, face to face relations and conviviality that daily life in the districts offer with unusual frequency” (Becattini). From IDs come from high quality and differentiated goods, beyond the standard mass production and source of high appreciation for Italian goods.

The period of new century characterized by difficulties in terms of innovation and commercial capacity, allow new form of industrial organizations emerging born from the districts.

As previously mentioned, scholars, like Corò and Grandinetti, have highlighted the role of leading firms as determinant actors in local manufacturing systems' renovation. With less emphasis on the district as a system, the features of such firms are to be more inserted in global scenario and to be ready to develop higher efficiency relying on suppliers far from the ones inside districts, through the choice of top partners from a multitude of geographic disperse firms. In addition leading firms are interested in entering in a global circuit of knowledge, taking advantages from foreign experience and solutions as well as new products or channels.

While traditional SMEs rely exclusively on suppliers inside industrial districts, leading firms delocalize subcontracting, select foreign specialized suppliers and look at new services such as ICT, certification, market research and financial services outside the local territory, evaluating opportunities both nationally and globally.

To sum up, I believe that in terms of adherence with theories, a larger part of SMEs have developed a sort of joint between gradual and network approaches. Different researches show us that many firms start their foreign commercial relationships from unconventional orders coming from unexpected customers located beyond national borders. After having completed the first exchanges, the requests start increasing over time, as long as the Italian firms become a stable partner for the outside customer. Rising the amount of requests, the more is necessary a stable presence on international market, then to consolidate with commercial or productive plants.

As regard the network point of view, obviously the presence of industrial districts has been determinant in economic Italian history. Their important features related to the availability of information, spillover of knowledge, competition-cooperation aspects has been important drivers for the launch of international activities: the district has been the environment in which firms could obtain information and work together and build determinant relationships to start trade in international market.

Local culture and spread knowledge, face to face relationships and exchanges with technical schools permit a bloom knowledge transmission. The enterprises continue to be small but being part of a network is the way for learning, transmitting know-how and opening to international markets: according to my opinion if some firms in a district become international, the others would be starting the same process.

Even if recently the districts of third Italy have been substituted with the new fourth capitalism, both incremental and network theories could be considered valid. In fact in both cases, the leading firms start gradually learn which can be the organizational solution to put in practice to be more efficient from the supplying side and closer to final customers, by the distribution side. The relationships are also here fundamental, as only with reciprocal trust and commitment for long time relationship can assure a lasting success. Fourth capitalism protagonists look at foreign markets for excellence in such services and goods that local firms inside districts are not able to

develop and offer. In any case they maintain the local sourcing for services in which there is an excellence at the territorial level.

Even if these global strategies of leading firms might reduce the internal cohesion of the district and increase the risk of a disaggregation of the local system due to the vertical integration of relationships and their formalization (processes of mergers and acquisitions among district firms or medium firms leading groups of district firms). The rise of leading firms can represent a new opportunity for other firms inside districts to innovate re-invent district business relationships.

### **5.1.2 Italian SMEs' entry strategies**

Among Italian firms, the most spread internationalization practices are the traditional ones, like indirect exportations or subcontracting relationships with commercial or productive firms abroad.

There are different approaches according to firms' features: actually many small and micro enterprises involved in international trade generally export occasionally their products, while middle size firms have a more structured approach, also characterized by subcontracting and FDI too.

The FDI have always characterized big firms tactics, even if in reality also middle size firms has been recently adopting them, as considered necessary to better supply foreign customers, to be closer to raw materials, and to reduce costs.

In particular from the last 20 years, the FDI have dominated the strategy of Italian firms of large dimensions, especially M&A operations executed by the most important industrial companies of the country (Enel-Endesa or Fiat-Chrysler for example). The main sectors of such MNEs are extractive, oil, means of transport and telecommunication services. However in the same period gradually grew the international role of middle size firms, the so called fourth capitalism, having started an extraordinary international development with FDI, especially greenfield and M&A, reaching in 2014 a number of foreign captive firm of 250.000 workers, about 16 % of the total amount of workers in captive firms under the Italian control. Considering also the limited amount of smaller enterprises operating in foreign market in the same manner, the overall number of workers in foreign captive enterprises reaches the level of about 400.000 with a related turnover generated of 77 billion euros. From the 2000 the increase of FDI has meant an average of 10% growth each year, reaching in 2011 the level of 512 billion €, 332 billions more than 2000. In 2014 Italy controls about 22.000 firms beyond borders, especially in US, Rumania and Germany, with a total turnover of 435 billion euros and 1.600.000 workers.

Unfortunately, among SMEs only the 6.4 % bought capital of foreign firms, 14.9% have plants abroad, while 62.8% have not a delocalization approach, as SMEs operate with instruments

mainly different from the FDI: an Istat research shows the importance of lighter internationalization strategies like offshore outsourcing and licensing for SMEs.

In 2010 Istat analyzed 90.000 firms, representing more than 85% of value related to Italian exportations, explaining some details about the most preferred strategies: the 30.8 % of the firms are both importer and exporters while the only exporting firms are the 26.4%. MNEs (so equity investments abroad) represent about 4.5 % of the sample.

The role of firms that are both exporters and importers is the result of the shared adoption of offshore outsourcing and licensing practices. The fragmentation of production, so a productive process divisible in phases that can geographically be dispersed to get advantages from specialization advantages, together with the availability of new technologies and communication tools are the reasons behind the choice of outsourcing and licensing. These three elements has made possible, also for Italian firms, the coordination of a more internationalized production, characterized by redesigning of the entire process relying on foreign partners for manufacturing activities with an international enlargement of suppling network .

Italian exporters-importers are SMEs, working in the sectors related to the manufacturing activities of typical made in Italy, as food, textile, leather, furniture and metal products, and have decided to start the downsizing, concentrating on higher value and core activities and decentralizing part of production process to lower costs countries.

Differently from the approach of pocket MNEs realizing also commercial contracts abroad, such entities have decided to focus on organizational capabilities, management, coordination activities, R&D, prototyping and marketing, delocalizing other less value added activities with subcontracting relationships. In fact, to subcontract part of the production allows to mobilize less amount of resources than through FDI and, even if it is riskier and less stable, to get advantage from already present local knowledge in specific manufacturing tradition already present on the territory. The advantages are both cost savings but also the increasing of flexibility as well as of capabilities of enlarging the production volumes.

However some SMEs having started an internationalization process of this type, are pursuing a back reshoring approach: on 376 case studies of back shoring executions, 79 are of Italian firms, making Italy the second, after US, in the ranking of number of firms put in practice back reshoring practices. Bonfiglioli, Faac, Furla, Nannini, Azimut e Wayel are some of the protagonists leaving foreign countries in favor of Italian homemade production. The reasons are the increased costs abroad due to market stagnation, determining in particular high stock expenses, the growing trend of costs of working in foreign countries as well as the scarce productive quality and delivery delays. Another important driver is the power of Made in Italy production, that alone represent important value added able to justify a return in the peninsula.

Many Italian SMEs that have never experimented foreign delocalization or supplying activities, preferring remaining in Italy especially to keep sustainable a competitive advantage (38%), to exploit supplier relationship (26%), but also due to constraints as limited dimension (15%). SMEs have poor knowledge and experience about foreign markets and are also worried about abroad activities, even supplying ones, as many resources and risky choices are needed, so they prefer to continue working on international markets with indirect instruments. Actually, the creation of own sales network is chosen by 12% of firms operating in foreign markets, contracts with importers or trading companies regard about 10%, while direct exportations concerns 65.5%, even though the export activities are often characterized by neither regular export flows nor a stable foreign relationships. A confirmation is clearly stated by Unioncamere research on SMEs working in international trade, analyzing the organizational side of such firms, revealing a general lack of structured approaches and precise strategies behind the international activity performed, with the 84.6% of such firms not receiving any type of support in exportations practices.

Remembering the difference previously explained between strong, weak and not internationalized, an integration of the analysis allows to take vision of the internationalization approach, according to the kind of firm class.

To sell products and services abroad is quite diffused both for strong and for weak (94.3%) while to buy from foreign suppliers instead regards 58% of internationalized firms, with higher relevance for strong and bigger firm, demonstration of the limited ability of SMEs in managing sourcing.

Commercial and distribution diffusion through agents is the most used practice, about a third of all internationalized firms, while the creation of sales network and foreign branches is chosen by 12% and the protagonists are mainly stronger and bigger firms.

The licensing contracts to foreign suppliers regards an average of 21.9% among all internationalized firms, both bigger and smaller, some of them affirming to have executed a complete substitution of Italians with foreigners, while 59.1 % continue to maintain Italian subcontractors.

The 20% of firms said that their most important customers have moved abroad a part of production while 41.7 % explain that in Italy they serve their traditional buyer without problem. Strong internationalized in manufacturing activities have reported a big loss of important customers, due to delocalization of production, but by the other hand to move abroad following own customers could be a great opportunity for firms able in widening their activities to an international level .

Analysis made by Fondazione Nordest has contributed to identify the strategies and also the weights of Italian firms in global scenario. There are 5 typologies of firms:



Inactive: are the firms that have neither a productive or commercial relationship with foreign countries and are 100% operative on national market. Innovation or process of inter-firms relationship have been excluded. These represent the 34.7% of the firms and are mainly of tertiary and service sector, moreover in south Italy.

Reticulated: the firms in this group are inserted in relational network or strategic alliances, inserted in value chains. They represent the 20.8% of the total firms analyzed and are structured enterprises with workers range among 50 and 99, mainly in services and trade sectors. They are spread all over Italy.

Multitasking: 18.9 % enterprises that have opened their capital to third subjects but are not inside a network. The larger part of these firms situated in northern west Italy, have opened negotiations with foreign countries.

Pioneer: 14.6% of firms in this category is inserted in productive and commercial relationship with foreign countries. They are mainly manufacturing firms of large dimension, with more than 100 employees of North and central Italy. The 60.1% of enterprise have 10% of turnover coming from export activities. Neither aggregation nor open capital as they follow an individual strategy.

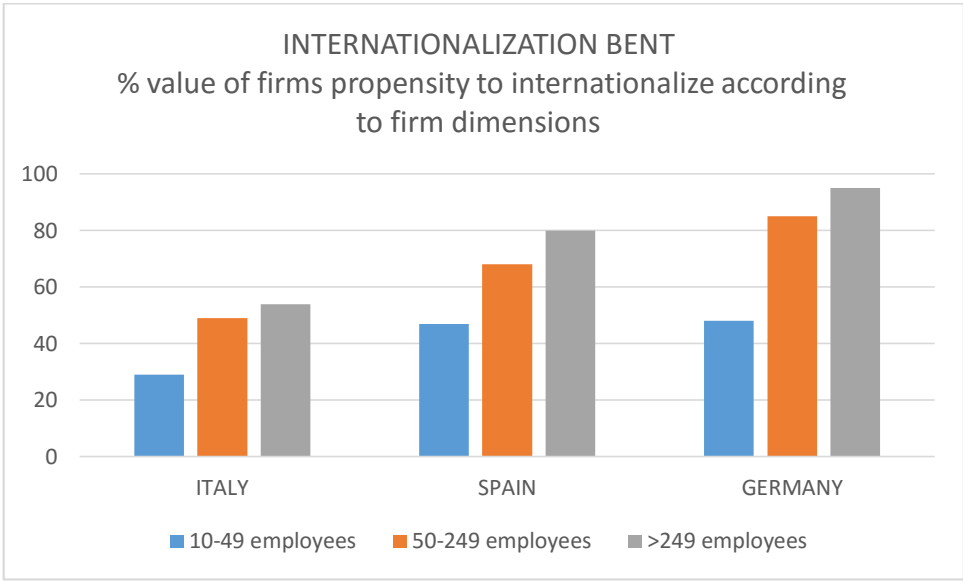
Extroverted: 11% firms of manufacturing sector, with about 50 people, more present on foreign markets. 73.8% have adopted innovation of product or process as a strategy to be on foreign market.

Other analysis by scholars, like Zanni, Mattiacci and Simoni, have affirmed that many Italian small firms tend to be passive in international markets, fulfilling orders with low frequency. Musso, Schiavo and Giancesin researches underline that international relationships are not frequent and, if exist, they last short time, on average only a third of export relationships last almost 5 years. In detail: the survival of relationship toward European countries is about the half of the total exportations in 5 years, while to emergent countries the 30 % of the total exportations in 5 years. These scholars identify too the reasons behind the strategy of the firm, characterized by lack of right organizational model and scarce involvement in trading with markets extremely different from the domestic one, often perceived too complex and risky to manage.

## **5.2 Italian SMEs critical issues**

Eurostat data reveals that Italian firms compared with German and Spanish firms according to dimensions are less willing to internationalize. Italian SMEs have occasional commercial relationships, scarce knowledge of foreign markets, as well as poor capabilities in customers finding with too much confidence in importer capabilities. UPS survey on exporting firms reveals important worries about goods lost or damage, delivering expenses and normative and exporting procedures to execute.

Fig. 5.2 Internationalization bent, % value of firms propensity to internationalize according to firm dimensions



Source: Own elaboration from Eurostat data

Italian SMEs working in international scenario are a limited amount of all alive SMEs, as only 191.262 firms on about 4.297.000 total alive firms are working in international market (2013). In addition, the most preferred strategy is represented by the exporting activity, as the least risky choice.

To understand the underlying reasons blocking the path of internationalization, intended as the process to start working in international markets independently from the entrance strategies, it is necessary to not address uniquely faults to the usual issues of lack of credit or scarce dimensions. Obviously to have credit and to be a large enterprise allows to work easily with international partners, making affordable such operations and riskier policies.

Credit availability is critical for many SMEs, relying largely on banks, which, in particular under credit crunch, tend to finance mainly bigger companies as considered more solid by clearly identified properties and assets, ensuring concrete guarantees to the entire sum lent. Obviously is easier for big firms than for SMEs to enter in foreign market thanks to such financial resource amount they can invest in market research, advisors, importers and in the creation of ad hoc items, even only trial limited editions to test the new market preferences. Moreover large size enterprises are admitted to obtain certain credit services, like advance payment of invoice, supporting the ongoing enterprise activity in case of period characterized by scarce liquidity. This is not always possible for SMEs, financing their activities rather by boss contributions.

During crisis, as a consequence of the fallen demand, many firms change their working behavior for example in the orders settlement conditions. In fact, firms agree in accepting requests of

payment's delay, even suffering the widening of credit and debit rotation and self-financing activity abandon. A long rotation of Working Capital and the incapability to self-finance generate difficulties in the daily activity of SMEs, obviously not in a position to negotiate contracts' terms, because of scarce economic power due to their limited dimension. In this situation, big firms could influence payment conditions, while SMEs are harmed by such policies and by scarce credit admission, causing heavy debts in minor time and consequent bankruptcy, because of productivity loss, tight margins, incapability of debt reimbursement and scarce capitalization capacity.

There are also other national problems surely affecting the activities of the smaller categories of firms and their international development. First of all the high level of direct and indirect taxation, particularly on labor and consumptions. As regard labor costs, the gap between the increased labor expenses and the recent increased value added of production is a negative balance and a decline of productivity. Confindustria Esteems on Italian ULC (Unitary Labor Costs, in Italy called CLUP) has considered the labor cost per production unit a limiting factor for international competitiveness, revealing an increased level of 20% between 2007 and 2016 especially in manufacturing sector. The determinants are mainly the scarce investment in new technologies and in applied ICT, making firms unable to cope with the emergent needs and challenges, as well as tight investments in R&D, with negative impacts as scarce innovation and unstable productivity. Actually many manufacturing firms working on international markets have overcome these issues maintaining stable and competitive prices through a reduction of profit margins, nevertheless harming future possibilities of investment in innovation and further enhancing of exporting activity. The lost opportunity of investment have already caused a diminishing of export growth of about 0.31% per year from 2007.

Tax evasion is another critical point that discourage honest entrepreneurs, also hitting the otherwise available public resources to use in infrastructural renovation or promotion policies and generating corruption and favoritism, far from fair competition. Unofficial economy is heavily spread and Eurispes esteems explain that if the legal GDP is about 1500 billion €, the data related to black and criminal national income are about 540 billion € the first one, with an estimated the level of entrance lost by the Government of about 270 billion €, and about 200 billion € the second one.

Other problems of the peninsula are related to the high level of bureaucracy and public sector's inefficiencies and resource waste, translated in scarce welfare, assistance, services and investments in Research, in cultural heritage protection and in University requalification. Moreover, there is not effectiveness in the connection between the labor dimension and the Italian system of school. Technical schools, universities and also employment agencies train and design workers' profiles often not aligned with real firms' needs and so demonstrating limited capability

to leverage on knowledge, learning processes and merit, determining scarce competence development, demotivation and stationary productivity.

These aspects undoubtedly contribute as brakes if a firm wants to work on international market, even if there are other aspects more related to the feature of the sole SME to take into consideration. In fact Italian SMEs present similar characteristics that can represent issues for international development, such as the familiar structure of the firms, the lack of organizational capabilities and managerial approaches as well as the scarce devotion to structured strategies in favor of more improvised choices, lack of cross cultural approach and scarce bent in upgrading artisanal techniques.

First of all, the governance of Italian SMEs is headed by many middle age entrepreneurs, in familiar structured firms, that have seen rapidly a compressed sequence of continuous innovations and new business models, experimenting the disruptive path of new technologies and communication tools with a parallel heavy globalization of the markets. These phenomena transform deeply the way of manage and organize production processes and the competitive practices to adopt, requiring strong spirit of initiative, courage and open mind to be able to reinvent solutions to reshape firm's structure according to such deep changes. Italian SMEs, has undoubtedly met difficulties in such transformation, as the typical Italian governance structure of familiar firms, is an entrepreneurial model that often is synonymous of opposition to progress, poor foresight, blindness and reticence in following new trends.

The familiar Italian enterprise has frequently demonstrated to be not ready or willing to make step forwards, to follow the changes and selection of new drivers on the markets, due to worry about changes and fear about novelties driving away from the traditional practices of own historical business. This reasoning is valid for investment in new ICT tools as well as for launch in foreign trade activities, as to persevere in already valid practices and continue selling in traditional market is easier than make a change. However the base conditions are completely new: ICT are necessary to gather and use data to produce efficiently or to collect information by customer experience, the international competition is always stronger also thanks to international trade agreement, like the recent Trans-Pacific Partnership, and the internal demand is sadly stagnant.

There are also firms with a family governance capable of working in international scenario, even if the larger part have adopted safer exporting solutions, or more flexible in the alignment with market needs and able to capture evolution trends. However to cope with the continuous evolving market scenario It is not enough to be forward looking. It is necessary to be capable of reorganizing the entire business model looking at new structured working methodologies. The lack of a managerial approach often means to renounce or to fail in market opportunities and challenges, as unclear direction, fragmented organization and poor integration of business

strategies do not permit coping with new market needs and with requirements for effectiveness in the internationalization processes.

Italian SMEs have started international activities not as a result of intended strategy rather as a necessity and among many exporting firms are headed by disorganization and focus on “one shot” sales, being source of inconveniences and inefficiencies, from the communication to the delivery of the goods. By contrary, the investment to establish long term relationships and guarantees on firm’s reputation could be the basis not only to an international market survival, but on international market affirmation, root for incremental launches to diverse final addressees

Another SMEs limit, always related to risk aversion of many entrepreneurs, is the dominant choice of destination countries according to geographical and cultural proximity, as the distance increase uncertainty and risks.

However, even for the ones who are trying to export in international diverse markets, the lack of cross-cultural competences is an additional issue heavily affecting business performances. In fact, the so called “mirroring strategy”, based on the replication of one successful approach to different markets being sure to obtain same success, should be avoided. Each country is different for culture heritage, believes, communication and working practices: to be convinced that the same strategy could function anywhere, without an accurate and focused market analysis, could determine failures and often definitive exclusion from that market. As such “One size fits all” method do not function, firms are required to adapt their offer: it is natural that larger firms have more resources to make in practice ad hoc strategies according to apposite market research and product testing development, however SMEs should develop such cross cultural awareness and prepare multinational strategy, avoiding the risk to be excluded by the local customers from the beginning. Not only disorganized exportations, also unstable delocalization choices are diffused among SMEs. In fact, both customers and suppliers relationships have no basis for long term contracts, do not spend time for reciprocal knowledge and trust building. To rely on foreign suppliers to reorganize production and compete successfully in terms of prices instead, is often linked to a real stable relationship with chosen qualitative suppliers, as specific partners of the delocalizing firm.

### **5.3 The potentialities of tradition and innovation**

Criticism about Italian strategic approach of firms do not stop the good results the peninsula, registering great performance in 2014 about exportations and net manufacturing exportations.

Table 5.5 Ranking of top exporter countries in 2014

| <b>Ranking of top exporter countries in 2014</b> |                      |                         |
|--|----------------------|-------------------------|
|  | Countries            | Trade Value (US bln \$) |
| <b>1</b>   | China                | 2342,34                 |
| <b>2</b>   | USA                  | 1619,74                 |
| <b>3</b>   | Germany              | 1498,16                 |
| <b>4</b>   | Japan                | 690,22                  |
| <b>5</b>   | Rep. of Korea        | 573,07                  |
| <b>6</b>   | Netherlands          | 571,35                  |
| <b>7</b>   | France               | 566,66                  |
| <b>8</b>   | Italy                | 529,53                  |
| <b>9</b>   | China, Hong Kong SAR | 524,06                  |
| <b>10</b>  | United Kingdom       | 511,15                  |
| <b>11</b>  | Russian Federation   | 497,83                  |
| <b>12</b>  | Canada               | 473,56                  |
| <b>13</b>  | Belgium              | 472,20                  |
| <b>14</b>  | Singapore            | 409,77                  |

Source: Fondazione Symbola

Italian position in exporting activity is relevant as considered the eighth position among top exporter countries for 2014.

Another great result is noticed by Symbola foundation and Unioncamere observing that in 2012 Italy has been able to be ranked within the major net exporters, being one of the only five countries with positive manufacturing surplus above 100 billion dollars, following industrial powerful countries like China, Germany, Japan and Korea.

The main reason of this success is the qualitative production, relevant aspect for the manufacturing industry: Ipsos survey demonstrates that 80 % of US and China people connect to the “made in Italy” products an higher level of value, especially linking it to artisanal practices, deep knowledge, innovation, linkage with territory and social cohesion. Fashion, high-end furniture, special design, food, beauty and high quality are the words that reflects the perception that the world has toward Italy.

It is important to remember that Italian excellence production is driven by the SMEs, as their dimensions have been suitable to exploit the value of Italian cultural tradition, territorial heritage, as fundamental ingredients of each differentiated items, appreciated all over the world.

The international crisis, so the low level of consumption of developed world and the aggressive competition of emerging countries, characterized by lower labor costs and low qualitative

products in the same traditional industries of Italian production harmed exportations and caused death of many enterprises.

By the other hand, different entrepreneurs have been able to get value from this situation, overcoming the problem of competition with a new positioning through the upgrading of their products, even if traditional sectors related, designated to become higher quality. Selection processes that have permitted the born or re-design of new firms initiative, even more characterized by the improved care and quality.

The crisis of our economy yet is the driver of internationalization, due to the fact that the internal demand is far from a consistent recovery: the only way to survive is start to or to continue working on international markets, focusing on the recognized pillars of Italian Production

Not only fashion, food and wine, furniture but mechanic, chemistry, means of transport, plastic and pharmaceutical products are even more appreciated and are increasing exponentially.

“Average is over” explained Friedman: the medium quality firms wouldn’t be able to compete, only the best, with items different from the others. “Everyone has to focus on what exactly is their value added”, underlining the importance of not losing own competitive advantage in favor of lower costs , going to the detriment of quality and realize “in the average” products.

SMEs are the protagonists of such process, getting advantage from the flexibility and sartorial, extremely customized manufacturing: creativity, innovation, design and industrial handcraft are in a flourishing trend and are the conditions that allow to satisfy the need of international customers, both in the traditional fields but also in medium tech, exactly for their tailor made aspect.

#### **5.4 Thinking about strategy: New technologies and management practices**

Italian SMEs’ results obtained all over the world seem uncoherent in respect of the few practices and strategies adopted. The scarce organization and international vocation of many enterprises cannot explain the positive performance in terms of net exportations and global recognition.

If Italian entrepreneurs develop awareness of their limits, then they could try to better address changes, exploiting the positive country of origin effect worldwide shared.

The starting point is surely the understanding of market dynamics and the establishment of closer relationships with customers. In fact the strong market competition characterizing the economy of the new millennium reveals that is extremely important for customers to rely on stable partners, to create stronger relationships, based on trust and frequent exchanges, real drivers of higher value added recognition. In particular is the capability to cope with the continuously changing of customers’ requirements with adaptation and personalization strategies that qualify

able enterprises and strengthen the liaisons and the trust as the root of reciprocal confidence and longtime relationships.

To establish stable, long lasting relationships focus on customer centricity is important as to implement flexible strategies trying to get advantages from the firm's higher value added internal activities, adopting an upgrading approach.

In GVC theory to upgrade has been associated with the improvement of a firm's profitability through the repositioning in the value chain, so to scale up the value chain and choosing the higher profitable segments, often characterized by intangible activities

The concept of upgrading refers to several kinds of shifts that firms or groups of firms might undertake to improve their competitive position in global value chains:

- **Product upgrading:** Firms can upgrade by moving into more sophisticated product or improving old products faster than competitors'.

- **Process upgrading:** Firms can upgrade processes pursuing more efficient practices through superior technology or reorganizing the production systems, so increasing the efficiency of internal processes (for example, increasing inventory turns or lowering scrap), or in the links of the chain (for example, more frequent, smaller and on-time deliveries)

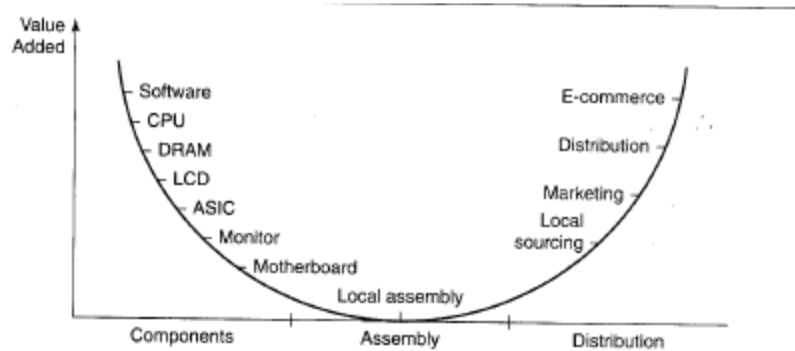
- **Intra-chain upgrading:** This involves several types of upgrading opportunities that exist within a particular value chain. Firms can acquire new functions in the chain, such as moving from production to design or marketing (functional upgrading). Firms can also move backward or forward to different stages of the value chain, from finished goods production to intermediates or raw materials (upgrading via vertical integration). Finally, firms can diversify their buyer-supplier linkages within a value chain, for instance an apparel maker adding different kinds of lead firms such as an upscale retailer or brand-name's clients to expand or raise the price points of its orders (network upgrading).

- **Inter-chain upgrading:** This occurs when firms apply the competence acquired in a particular function of a chain (e.g., competence in producing particular inputs, or in export marketing) to a new sector.

Sometimes to upgrade means to delocalize part of the production process, in particular commodity functions like assembling in low wage countries, to concentrate on the higher value added activities. This practice is recognized as the smiling curve.



Fig 5.3 The Stan Shih's smiling curve



Source: Harvard Business Review 2010

ACER's Ceo, Stan Shih, calls "smiling curve" the reorientation of the firm in executing inside the added value activities, rather renouncing to the lower value added ones through delocalization practices. "Assembly means you are making money from manual labor. In components and marketing, you add value with your brains".

In fact, the international fragmentation of production, determining a global division of labor, encourages producers to break up their vertical structures in favor of outsourcing activities. This is valid for many other firms, the most evident example is represented by Apple, designing I-phones in the US but producing them in eastern countries.

In reality, for Italian manufacturing firms, an upgrading path considering the renounce to manual activity is not the solution. Separation between production and design will in fact affect product innovation in the long term: to outsource could first of all determines poor quality of finished products, as realized by people not aware of traditional and artisanal techniques, deeply characterizing Italian goods and making them recognized all over the world. An additional consequence in such handcraft based industries, is the diminishing of incremental innovation, actually generated by learning by doing activities. It is clear that through a separation of tangible and intangible activities it is possible undermine firm innovation capabilities, embedded in the process of product creation. The role of manual workers in Italian firms is determinant, because they are not unskilled people, on the contrary, they are repository of knowledge and working techniques hardly replicable in other context and, for this, the pillars of Italian handcraft success in international market.

The separation between manufacturing and R&D has been blamed for limiting firms' control over know-how and organizational competencies, thus hindering the development of innovation capabilities. In handcraft based industries like Italian ones, product innovations often stems from a bottom up process and product manufacturing, real cornerstone of innovation development. Italian SMEs deep manufacturing heritage is unique, thanks to their cultural value and the day by

day innovation through product development and highlighting the value of the made in. In house-manufacturing represent a really strong point, however the subcontracting formula on foreigner producers could be considered, especially if such outsourcing practice could evolve in a structured and qualified supplying network, result of an accurate strategy of repositioning. In fact previous delocalization strategies have been related mainly to cost saving. This is even clear by well-known firms that have outsourced in the past and are recently making a back reshoring process, defined as a voluntary corporate strategy regarding the home-country's partial or total relocation of insourced or outsourced production to serve the local, regional or global demand mainly to fulfil global market requests of real "made in" products. Some evidence come from Ferragamo, Tods, Prada, Diadora, Global Garden Products, GTA Moda recent back reshoring processes.

Then, to outsource is effective if the delocalization approach pursued represents an intended strategy, aimed to rely on key suppliers not, or not only, for the lower costs but for particular advantages they can give.

Statistics demonstrate Italian non-price competition through the investment in the determinants of product diversification such as quality, innovation, marketing investments. Since 2000 Italian items' quality is increased by 25%, 11.7% more than German ones.

Italian firms have been enhancing the quality of their goods and trying to even more upgrade their products, with an increasing comprehension of the value of intangible activities, like design, brand identity or innovation, than the one of tangible activities, such as transformation, manipulation and movement of physical goods. Italian SMEs cannot compete in markets where price competition dominates, rather they should be worth in high quality sectors, where goods have higher level of innovation and embedded services

According to the Penrose's Resource-Based View approach, Italian SMEs own heterogeneous, scarcely imitable mix of resources, and specific competences, which are the roots of competitive advantage realization. They are in fact focused on distinctive superior quality production, thanks to their artisanal techniques, specialized manufacturing and flexibility, also being aware of Italian products' global appreciation. Unfortunately the "Resourced based view of the firm" has demonstrated to be uncomplete in explaining the real value creation and the role of external resources. Thus introducing the theory of dynamic capabilities has been important to better identify the role of external factors. In details, the theory affirms the ability to integrate, build and reconfigure internal and external competencies to address rapidly-changing environments, then it is not so determinant to possess resources, rather to be capable of access, use, exploit and combine resources and competences, that, through their continuous recombination, can be transformed in firm specific know-how. A successive important theory, born in order to complete some RBV's omissions, is the Knowledge Based View theory, introducing the role of knowledge as unique, not imitable and not purchasable intangible resource, representing the main driver to get

competitive advantage. The KBV recognizes the importance of networks to be able to establish relations for the best combination and transfer of knowledge. The pillars of network theory in fact consider each actor of the society as a node, interacting with other nodes and affecting everyone's behavior. The networks are extremely determinant in business environment, as driver of relationships, through which is possible to spread, exchange and use knowledge. Networks are important for collect information, disincentive competition and also compete in price and policies definition, becoming a new strategic resource to get competitive advantage.

To sum up, this KBV theoretical framework allows to understand that SMEs have surely important specific and not imitable resources, capability's heritage and competences relevant for their performance. However the same resources and competences are not determinant to make them succeed, especially in international scenario: the knowledge is the driver making SMEs in a position to understand how to exploit other external resources, to be open toward new opportunities and to be always focused on know-how enhancement. Knowledge consents to continuously recreate the internal learning basis and to better exploit emergent possibilities, also relying on external partners capabilities, to reproduce creativity and new knowledge in diverse context.

Starting from these theoretical concepts in favor of knowledge repository and exploitation, the rising issue is that many Italian enterprises, real source of artisanal and mid-tech knowledge, are not particularly aware of new technological tools, structural management and organizational practices, nowadays necessary elements to enhance already available existent business value to be effective in international activities.

As regard technological aspects, it is quite interesting to remember the concept of 'Enterprise 2.0' introduced by Mc Afee at the end of 90s. The enterprise 2.0 refers to "the use of emergent social software platforms within companies or between companies and their partners or customers". The reason why the adoption of such information technologies is so important it easy to understand: Web 2.0 techniques such as tagging, ratings, networking, RSS and sharing in the context of the enterprise allows a better exchange of data, advice and information among firms' shareholders, from internal actors relying on corporate intranet to customers in comment and discuss products or services tested.

Digital information can be created, distributed through channels (e-mail or communicators), but also stored, protected and exchanged in platforms, such as intranets, corporate websites, information portals until the most innovative cloud computing structures. "Knowledge management systems have sought to elicit tacit knowledge, best practices and relevant experience throughout a company and put this information in a widely available database "(Mc Afee).

The revolution put in practice by new technological tools obliges firms to face new challenges, learning how to get advantages from ICT adoption and possible shaping enterprise organizational

structure. In fact, the possibility to exchange rapidly information beyond great distances, allow firms to have enormous data flows to manage as well as new collaboration opportunities: ICT adoption permits to integrate far people and enterprises, to reduce costs and response time to market, to create common knowledge, to share practices and to develop new ideas and projects, thanks to the gathered information.

However firms are required to disrupt old practices and adopt new organizational approaches and managerial techniques, behaving in a positive manner to test the effectiveness of new strategies and structures, means to better face and exploit opportunities of the new millennium. As previously mentioned, the actual international activities of SMEs are mainly represented from often irregular exportations and from delocalization practices mainly driven by cost savings, underestimating other aspects such as qualitative or infrastructural. A more structured approach implies to understand from the beginning the role that the firm could cover in international market, how to better exploit internal available capabilities, to exploit the information coming from external sources, to implement new technological tools inside the already operating firm reality, to adopt the most suitable type of foreign market presence, arriving then to a strategic formulation of resources, costs, expected results and considering alternative solutions, also relying on external partners support.

Sometimes it could be more convenient to opt for direct than indirect exportation or to pursue an accurate delocalization strategy aimed to create a qualified supplying network. Obviously if the production process should be reorganized, it is important to take into account the added value customers assign to "Made in Italy" products, so avoiding to lose already existent distinctive advantage in exchange of a cheaper supplying network.

Scholars analysis about a TeDis survey based on a sample of 45 industrial districts in the traditional industries of "made in" demonstrates how the larger part of SMEs relies on traditional channel to sell abroad and how their weight in terms of total turnover is reducing over time. By contrast enterprises with new international management solutions, aimed to enlarge foreign market control, through investments in commercial subsidiaries, in global sourcing operations or in greenfield setting up, have been reaching important results in terms of visibility and turnover. The structure of these firms, clear representatives of the so called Italian fourth capitalism, is classified as "open network" due to the strong reliance on foreign partners, both in upstream and downstream phases. Such pocket multinationals, mainly composed by middle size firms, have chosen to make a deep organizational evolution: compared to traditional enterprises, they invest in own trademarks, invest in product innovation, design, R&D and rely on property patents. It is important to notice that they have a deep knowledge about own internal processes and invest in ICT and high generation ERP solutions, overcoming traditional entrepreneurs' approach.

The revolution of such fourth capitalism is both by the technological side than by the managerial side. The capable use of organizational techniques and strategic approaches to work internationally, from the supply sphere to commercial activities, managing distributive and supplying partners globally located, represents a differentiation aspect that, together with ICT, design and communication tools adoption, contributes to a new shape of Italian traditional enterprise, direct protagonist of international opportunities.

Obviously, not all the SMEs have the possibilities to become new pocket multinationals, due to lack of resources and knowledge in sourcing and demand management. By contrast, such Italian excellences are clear examples of the necessity of technological and organizational revolutions, real, but bridgeable, obstacles in Italian SMEs affirmation on global markets. With a stagnating internal demand, nowadays challenge is to be able to conquer acquainted and sophisticated international customers satisfying their specific and exacting requests. Actually, it seems Italian open networks are able in doing that. SMEs need to try technological tools' speed and effectiveness benefits as well as to capture the precious advantages originated by intended strategies and collaboration shapes, necessary solutions to overcome dimensional and financial lacks as well as disorientation and knowledge issues of working alone.

According to Chris Anderson, "Wired" director, new industrial revolution will be driven by small firms, as the only ones capable of linking high technological tools and artisanal techniques, in order to launch limited edition innovative items, extremely personalized. As "There is no future without technologies and without management", next sections will be dedicated to affordable opportunities and available solutions, permitting to Italian SMEs to be launched in international markets.

## **Chapter 6. Use of Internet in internationalization process**

### **6.1 New economy and digitalization**

The term “new economy” refers to new economic and societal activities based on information and communication technologies and on the intensive use of Internet networks, representing both an economic and entrepreneurial change, than a social and cultural evolution. The new economy has been defined by European commission as the “new economic scenario in which businesses take full advantage of the possibilities and benefits offered by digital technologies, both to improve their efficiency and productivity, as well as to reach costumers and realize sales”.

The new economy concept born in the dot.com bubble of the late 1990s and regarded the transition from a manufacturing-based economy to a service-based economy. The dot.com era started in 1994, with Netscape quotation, as first commercial Internet browser developer. Until the speculative bubble explosion of 2001, the investments in innovation technologies, high tech tools and the quotation of Silicon Valley start-ups increased heavily like the investments in information and communication technologies by big and middle size enterprises, as at the top of their strategic plans.

New economy is also synonymous of digital economy or Internet economy, referring to enterprises that strongly rely on Internet and ICT to execute their business activities. Such new framework is considered part of the knowledge economy too, as the success of firms do not depend on material or natural resources, rather is driven by the creation and application capabilities of the knowledge into economic processes. Rullani said that “knowledge economy born from the great possibilities of re-use available knowledge thanks to the net connection of millions of people and to the opportunity of accessing to reciprocal knowledge”. By one hand in fact there are firms producing such Information and Communication Technologies (ICT infrastructural economy) and by the other hand firms adopting such tools to better execute their core business, pursuing business objectives (ICT application economy): the tight relationship among these two complementary areas, works according to a customer logic, with the ICT application sphere supplied by the ICT infrastructure, and while the first area innovate and create new products, the other side chose its innovation to better perform in its business.

The ICT economy then comprehend producers, suppliers and distributors of ICT hardware, software and services related to Internet, distinguishing among “manufacturing ICT” dedicated to information elaboration, transmission, treatment, measurement and controlling, and “intangible service ICT”, offering treatment, communication and elaboration services through electronic instruments. The latter refers mainly to firms using technology to supply communication services

and Internet contents, or Internet-based firms, as online trading companies or e-commerce enterprises.

The Internet economy has evolved overtime into a new advanced version. As mentioned before, the term net economy has been used when the so called Web 1.0 born, so the launch of Netscape, when the net was used first of all to connect people. Few years ago some new trends had led to a feeling that the Web was entering a “second phase”, a new and improved “Web 2.0” version. This Web 2.0, term coined in 2004, is based on the standards which have been produced in Web 1.0 era, however with different usage: in Web 2.0 people adopt services or implement processes, using the building blocks of the technologies and open standards that underpin the Internet and the Web, such as blogs, wikis, multimedia sharing services, content syndication, podcasting and content tagging services.

The Web 2.0 should not therefore be held up in opposition to Web 1.0, by contrary it is a consequent evolution: from a joint mix of static application used mainly to visualize, the Web 2.0 consists in a more interactive formula, permitting active contribution and sharing of contents, always using the net infrastructure.

Web 2.0 usage is indeed a mass phenomenon, already regarding in 2007 a percentage of 50 % individuals all around the world using social media sites such as MySpace, Friendster and Hi5, resulting globally in more than 420 million Web 2.0 users, adopting laptops, mobile devices and Internet cafes, regularly connected in public spaces. The Web 2.0 has really “democratized” the markets, creating more complexity in consumer environment, due to increased availability of products alternatives than ever before, and big amount of information, especially on apposite platforms for specific items’ concerns, issues and evaluations, sometimes source of online negative publicity and not rarely affecting firms’ reputations. With Web 2.0 people have also changed their buying behavior, now gathering accurate information on blogs or communities before making a purchase. These tools have become the new real drivers of purchasing decisions and also cause reduced customer loyalty. Another issue is represented by new form of competition by Ad-funded companies, offering “free” services to consumers but heavily harming other non-Ad-funded firms.

However the Web 2.0 offers different opportunities for companies to relaunch firm internal efficiency, product success and time-to-market. For example it could be possible to better forecast customer demand, relying on consultations of forums and blogs, about opinions on companies’ products and services, then use these information to rapidly develop new items, increasing the probability of product and campaign success. Another example is the marketing targeting activity, put in practice by companies willing to reach a particular market share through specialized communication channels, i.e. business-oriented social network sites for professional people.

Moreover also customer service could be reshaped using ad-hoc platforms to create interactive high-quality customer support sites linking together customers, employees and suppliers.

The companies with technological vocation, adopters of such Web 2.0 tools has been called, as previously mentioned, Enterprise 2.0.

The “Enterprise 2.0” concept has been introduced by Mc Afee in 2006, referring to “the use of emergent social software platforms within companies or between companies and their partners or customers”. Web 2.0 techniques such as tagging, ratings, networking, RSS permit enterprises to improve data exchanges, to profitably share advice and information, by one hand among internal actors, especially relying on corporate intranet, by the other hand among the firm and customers, constituting apposite portals or communities dedicated to comment and discuss products or services tested.

Not only the Enterprise 2.0 consists in the adoption of Web 2.0 technologies inside the business organization to get increased level of updated information, actually this concept represent the enormous change, driven by technologies, affecting cultural and interpersonal relationships of business environment, deeply modifying firms’ working practices.

The mentioned contribution of Mc Afee about knowledge management systems, suggests the important role of ICT adoption, permitting to integrate far people and enterprises, reducing costs and response time to market, creating common knowledge, sharing practices and developing new ideas, projects, working methods thanks to the gathered information.

Firms could benefit from new technologies in terms of flexibility and responsiveness to market changes: one important consequence could be a renovated Business Intelligence, consisting in firms’ processes used to collect and analyze strategic information, and the related technologies to perform such activities. Thanks to Web 2.0 tools, enterprises could collect bigger amount of data, from internal and external sources, allowing to better evaluate market environment and trends, focusing on customer behavior and supplying network effectiveness. The final aim is not only to address decision to improve competitive advantage, however to capture new market challenges and opportunities with real and updated information, to use together with static historical data, which are alone unfortunately less useful for strategic decision in the actual ongoing changing environment. Digital information would be also stored, protected and exchanged in platforms, such as intranets, corporate websites, information portals until the most innovative cloud computing structures.

### **6.1.1 Beyond the technological evolution**

ITU, the United Nations specialized agency for information and communication technologies, has analyzed the impact of ICT inside businesses. Joining together information from firm-level studies and country specific databases, providing additional data on individual firms’ performances, ITU



has clarify the linkages between positive businesses results and the use of ICT. Moreover, providing that these databases cover a large proportion of the economy, the performance of individual firms have assumed to be the same of the economy as a whole.

The empirical evidence from such studies shows that ICT may have several positive impacts, as higher productivity growth. For example, the effective use of ICT may help firms in gaining market share to raise overall productivity, it may support firms innovating, by helping them to widen their product range, customize the services offered or respond better to final demand. In addition, ICT may help reduce inefficiency in the use of capital and labor, starting from better inventory management.

ICT allows firms to be more flexible, to be able to face changing demand challenges and to innovate: the introduction of new processes, products and applications is extremely linked to own experimentation, driven by internal capability in following market trends. Nevertheless, using ICT implies other changes, necessary in helping firms to enhance performance. The impacts of ICT in fact are not a guarantee, but depend on complementary investments in appropriate skills, in organizational changes, such as new strategies, new business processes and new organizational structures. In particular, ICT give benefits to firms that have introduced a process based approach, abandoning functional methods, to implement continuously process innovations, using technologies as drivers for optimizing business flows and developing new applications.

Not differently from Web 1.0 introduction, also the Web 2.0 and the Enterprise 2.0 impact heavily on the management side of the firm, setting up new relationships inside and outside enterprise borders, diffusing involvement and collaboration, knowledge sharing, development and enhancement of community and social networks.

All enterprises should be aware of such evolution, taking carefully into account new methods and instruments for upgrading, but remembering that it requires also internal transformations toward new organizational system enhancing information management. In fact, in the 90s many bigger enterprises had re-thought about their organizational features and reacted following the growing Internet technologies trend by abandoning the functional based approach to embrace a process based approach, suitable for better information systems coordination from upstream to downstream. In the same period, Italian SMEs were not ready to follow such changes, maintaining functional based structures.

Nowadays more firms, also smaller, are experimenting an organizational revolution, from a hierarchical and vertical integration to a more horizontal approach, relying on web tools to integrate business functions and to put in practice a more effective outsourcing, saving coordination costs.

The Enterprise 2.0 Observatory of Management School of Milan, born in 2007, has in fact defined the new Enterprise 2.0 a “disruptive entity, going beyond traditional organizational models

through the openness of firms' borders to external actors, strengthening collaboration and flat structures to enhance dynamicity and flexibility, overtaking hierarchical and functional rigidities". It is necessary to be aware of the lack of proportionality among investments in ICT and excellence in business performance, as it useless investing in the only ICT without taking care of the lack of skills, of market strategies or firms governance. As regard this latter point, the suggestion is a complete change of traditional firms' governance toward openness and collaboration, adopting the process based structure in order to improve integration among all existent functions and to be coordinated in satisfying final users' needs. The adoption of ICT requires time, determined management and focused resources devoted to changing organizational set-ups and build worker-specific expertise.

Porter conviction is that the competitive advantage cannot be originated by alone activities, however by linkages and tasks combinations, scarcely imitable if considered as a whole. Clearly, an isolated activity is easy to be copied, in contrast if an activity is part of a bigger system of activities it is difficult for competitors to get advantage from imitation. The collaboration as new competitive factor, allowing adding value to shared ideas, based on people exchange of knowledge and driver of better performances otherwise difficult to reach autonomously, nowadays it is enhanced thanks to Internet improvements in communication platforms.

As already underlined, the net heavily influences all market strategies, opening borders and enhancing the value of collaboration and knowledge management. Through the net is possible to exchange rapidly information beyond greater distances, to gather data, to evaluate or to buy products and services. To contact other partners is now easier through new tools as blogs, chats and interconnected websites as well as to have enormous data flows to manage and to meet new collaboration opportunities. With the net, the enterprises could cope with fast-changing customer requests collecting information by diffused sources and reorganizing internal structure, improving flexibility and reducing coordination expenses. The enablers are the increased collaboration among branches of the same company, and the relationships with third companies, suppliers, customers, stakeholders and the entire community, possible thanks such technological improvements but unfortunately limited by political and managerial side of the firms, often reluctant and not ready to discuss about their consolidated way of thinking and organizational methods.

### **6.1.2 ICT and Web 2.0 role in international market**

In the previous section, the ICT advantages have been largely explained, in fact ICT tools increase business opportunities both through new online services, like e-commerce or cloud storage of data, and reducing transaction costs among firms, diminishing the need to be closer to each others. Moreover, they concretely contribute conquering new markets, as instruments to easily reach far

geographic areas where a potential demand exists but where it could be difficult, especially for entrepreneurs and SMEs alone to arrive.

Prashantham, lecturer at the Centre for Internationalization and Enterprise Research at the University of Glasgow's Department of Management, has analyzed the role of Internet in the internationalization path of SMEs, affirming that "in the context of small firms internationalization it has been suggested that technological advances in telecommunications, especially the Internet, allow even the smallest firms access to customers, suppliers and collaborators around the world", then agreeing with Porter declaration: "The key question is not whether to deploy Internet technology, companies have no choice if they want to stay competitive, but how to deploy it."

The Internet has created an information-intensive environment offering new possibilities from information-related applications, means to enhance global SMEs visibility, efficiency and possibility of international growth. Internet technologies could be applied for:

- *information dissemination*, to invite foreign customers on firm's Web site on the Internet, subsequently leading to information requests and orders placement.
- *freely information acquisition*, gathering data by the Internet about prospective markets, customers and business partners like suppliers, to increase firm's market knowledge;
- *information sharing*, as the Internet could lead to strengthening network relationships, with consequent increase in firm's stock of social capital, greater market knowledge and likely entrance in internationalization paths.

In particular, ICT and Web 2.0 technologies facilitate internationalization thanks to their intrinsic attitude of overcoming space and temporal borders, in order to consent to geographically distant actors working together as they would a unique entity. With the adoption of ICT solutions, the relative advantage of a hierarchical organization, meaning lower level of coordination costs than in a more market based structure, is easily surpassed by the greater flexibility in businesses organization both internally and externally and at both national and international levels. ICT provide business-to-business applications and advanced technical possibilities to coordinate business-functions across different locations and across different organizations.

It is possible to affirm that to use such technologies is positively correlated to the increased level of international trade and of FDI too, as enabling factors especially for SMEs' global expansion, otherwise limited by their poor resources and foreign markets knowledge. ICT adoption is useful for data and information collection and interpretation, necessary for reducing international markets entrance barriers and for shaping products to meet customer requirements and receive satisfaction feedbacks.

Another important aspect is global sourcing opportunity, as firms can easily gather information through the net, compare and then select the most suitable supplier, bearing lower

communication costs also establishing e-procurement systems, consisting in online tenders and auctions directed to realize supply contracts following exclusively web procedures.

It is important remember the incredible advantages linked to the visibility and recognition a firm would gain if exploring international markets using net technologies, as well as the opportunities of collaboration with foreign enterprises, important drivers for further international expansion, overcoming rigidities and fear of high transaction costs.

“ICT is often viewed merely as tool to cut costs, but in reality it is the innovation potential opened up by ICT that determines an enterprise’s future competitiveness”. The affirmation by Professor Roman Beck, Goethe University Frankfurt, underlines the aspect behind ICT implementation, which is not only an instrument to reduce expenses, by contrast a driver of needed root changes for its best application. The ICT best enactment necessitates more horizontal integration as most suitable business structure for relationships implementation, and for better development and widening of internal skills and knowledge.

ICT is an important driver for internationalization as it could improve the efficiency and the final results in every entry strategy a firm would adopt. In fact in case of exportations entry strategy, the e-commerce is an effective choice to rapidly reach potential market. However, both using own website and already existent marketplaces, it would be effective only if accompanied by ad hoc social media marketing, by research search engines positioning improvement, and also through promotional campaign by big Internet providers as well as focused strategic positioning in well specified websites, aimed to target the right customer segment. These support strategies are extremely useful to enhance brand awareness, to address customer perception and to better reach potential buyers in a determined market, always considering the addressee’s culture in shaping the communication campaign.

In case of Foreign Direct Investments, it is important to rely on integrated Information and communication system in international branches data management. The information coming from all over the world require instruments with functionalities of storage and usefully exploitation. In case of hybrid form of international entry, for example through collaboration, a management information and data electronic system is essential. If a common ERP system does not exist, the remedy could be represented by cloud services implementation, flexible solution even for the lighter alliances form as enterprise networks.

Studies on US manufacturing exporting small and medium size firms confirm that firms’ integration of Internet technology with their marketing activities has a positive impact on export performance, nevertheless indicates that younger firms are more inclined to adopt Web sites as an internationalization tool, thanks to their higher propensity to changes and their flexible structure.

To sum up, Internet is an important source of international market opportunities, overcoming SMEs traditional barriers to internationalization and being a relatively inexpensive form of integration, information font and marketing with worldwide domain. However, “the Internet alone is neither a guarantee of success nor consents to forget traditional notions of internationalization, such as value of knowledge or strategic locations” (Souitaris and Cohen). SMEs should be aware of their many knowledge and structural deficiencies, evident if compared to larger and already affirmed actors, such as a lack of multilingual staff and strategic capabilities, trying to fill these gaps with accurate exploitation of Internet tools potentialities.

## **6.2 Italian SMEs and the adoption of ICT tools**

In 1998, ICT Italian sector covered about 4% of GDP, compared to 6-7% in main European countries and to 8% by US, registering the lowest growth rate among advanced countries.

This gap is determined by one hand by some structural weaknesses in Italian software industry: Assintel analysis of 1999 reports the small firms “fragmented software offer” with low added value solution, mainly linked to the fad of new millennium bug or software conversion in the new currency. In fact Italian software houses have specific competences in traditional and less innovative firm management solutions, differently from competitors’ in specific technical-scientific and web competences.

By the other hand, it is important to remember that economic benefits from technological development can be reached only if complementary infrastructural technologies and support institutions exist, as they are unique enablers of such technological advantages. In fact many important discoveries initially seemed failures: the uncertainty about alternative and more profitable implementations, the needed complementary components required and sometimes deep organizational changes are essential to understand and then exploit the innovation. This is easy to explain thinking about example like the laser, light amplification by stimulated emission and radiation that has been implemented in a more variety of activities for thirty years, arriving after time to important joints with electricity, directed to diagnostic application, or with optic fibers for telecommunication transmissions. Computer development and its application exploitations too have required about twenty years, as in 70s the first home and personal computers do not meant a real revolution.

If such complementary and support technologies are not available, it is quite difficult to get deeply advantage by important innovations. Italian Government is now investing in more advanced and communication programs to enhance technology and Internet benefits.

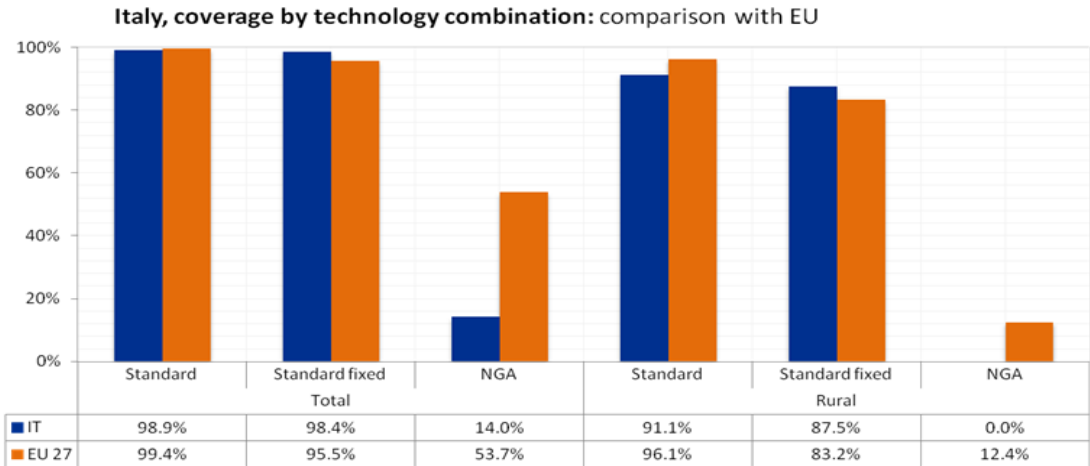
In reality a research made in 2011 by Cefriel, Center of Excellence For Research, Innovation, Education and industrial Labs partnerships by Politecnico of Milan and Confindustria demonstrates the firm awareness about connectivity and web tools general benefits, and the waiting for interventions by national institutions in terms of broadband empowerment.

In fact the diffusion of standard broadband at 2 Mbit/s is almost completed, covering about the 95% of the country. Some areas excluded by these processes are the rural ones, that result covered for about 87.5% of their territory. However, even if the usage of available broadband is among the first in Europe, the needs of enterprises are quite different as looking after more advanced solutions in terms of connection speed. The level of coverage of 'Next Generation Access' fixed networks, also called ultrafast broadband, is among the lowest in Europe: the ultra broadband, working from minimum 30 Mbit/s if on copper cable to 100 Mbit/s if on optic fibers, is in fact accessed by only 19% of enterprises, as demonstrated by a survey on the 90 main industrial districts. The average connection speed is about 4.7 Mbit/s.

The interviewed enterprises explained the need of different level of connection according to their intrinsic features but also reporting the poor 20 Mbit/s coverage, about 53% in such industrial districts area in respect of 63% cities' average, especially due to lower population density and higher distance from telephone switchboard.

Cefriel representatives affirm that the increased intensity of connection speed is required by the majority of firms, for using basilar Internet tools, such as skype or webmail, but in particular by the most dynamic firms, such as the ones with exporting activities, making partnerships with foreign firms, investing in mobile marketing and in general the ones interacting strictly with suppliers and customers. A high level of connection speed if available allows improving productivity.

Fig. 6.1 Italy, coverage by technology combination, comparison with EU27

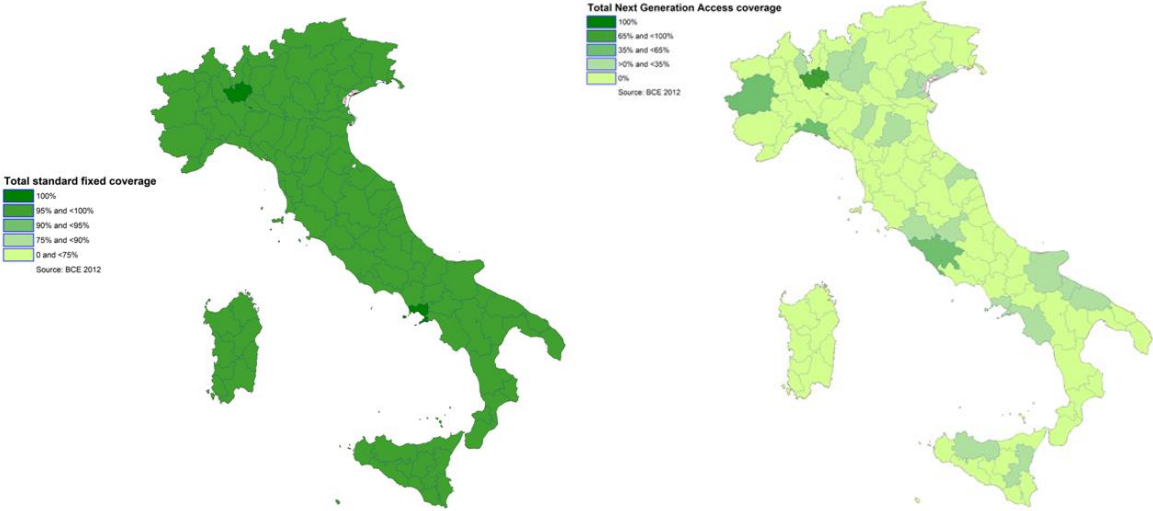


Source: Broadband Coverage in Europe in 2012, a study by point-topic.com for the European Commission

Source: Broadband coverage in Europe in 2012

The graph shows how Italy is in line and overpass the average in the standard broadband, however failing in ultrafast broadband, with absolute no relevance in rural areas.

Fig. 6.2 Italian standard fixed coverage and NGA coverage



Source: Broadband coverage in Europe in 2012

The potentiality of new technologies in terms of productivity growth is linked infrastructures as well as to human capital: BCG research on Internet transformations of Italian economy affirm that only suitable competences and skills allows effectiveness in implementation of new technologies, favoring then organizational shift from rigid hierarchy to flexible structures.

In Italy in fact cultural and educational issues represent another blocking factor of economic benefit from Internet tools adoption. The usage of Internet by people and enterprises is dedicated to research making, information exchange and social network communication, not considered a useful tool to implement in productive functions. Obviously a scarce implementation is determined by elderly population, especially as Italian entrepreneurs with more than 70 years, are actually 10% of total entrepreneurs, following an increasing trend, while entrepreneurs with an age below 30 years are about 7%, diminishing over time.

Then, even if in general entrepreneurs recognize Internet benefits, to invest in digital competences is heavily required as well as to deep communicating the necessity of such new tools, addressing less aware people to understand the ways in which Internet technologies could be used and their specific related advantages, for example through ad hoc informative campaigns as well as apposite courses in school and universities. For enterprises' world, the diffusion should be particularly promoted by banks and trade associations, helping managers to understand the need

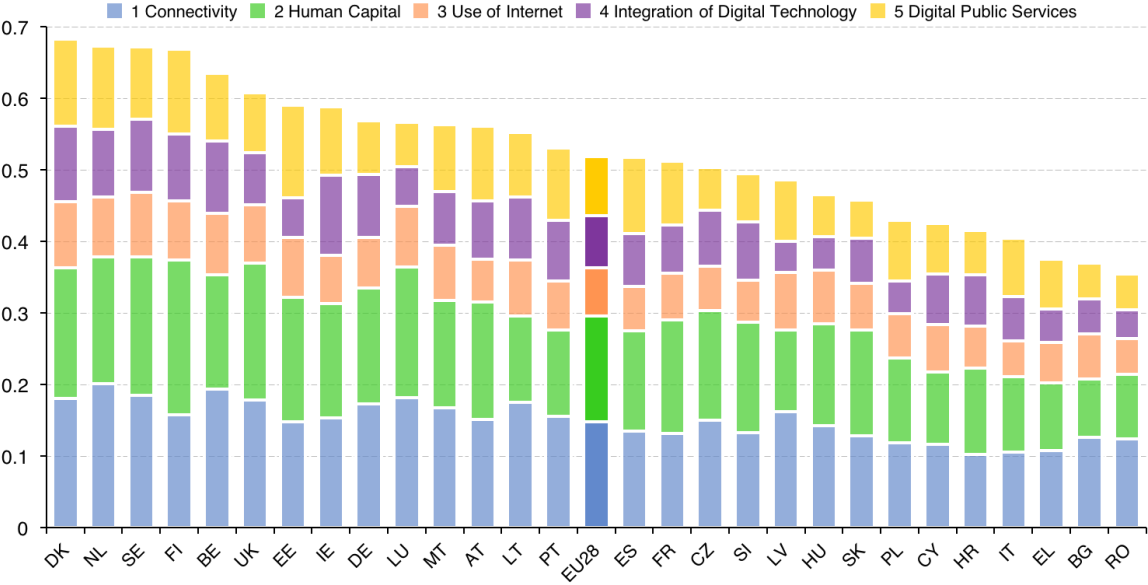
to redesign the entire business approaches to get advantages from easy and effective tools and diffuse the courage to experiment the new.

The European commission has recently classified the peninsula at the end of the ranking regarding the DESI index, among all European countries. The Digital Economy and Society Index (DESI) is a composite index that summarizes relevant indicators on Europe's digital performance and tracks the evolution of EU member states in digital competitiveness. It considers different dimension such as

- Connectivity (deployment of broadband infrastructure and its quality as the access to fast broadband-enabled services, basilar condition for competitiveness),
- Human capital (skills needed to take advantage of the possibilities offered by a digital society, from the basic user skills that enable individuals to interact online and consume digital goods and services, to advanced skills that empower the workforce to take advantage of technology for enhanced productivity and economic growth),
- Use of Internet (the variety of activities performed by citizens already online. Such activities range from consumption of online contents to modern communication activities or online shopping and banking)
- Integration of digital technologies (digitization of businesses and their exploitation of the online sales channel. By adopting digital technologies businesses can enhance efficiency, reduce costs and better engage customers, collaborators and business partners. Furthermore, the Internet as a sales outlet offers access to wider markets and potential for growth.)
- Digitization of Public Services (focus on e-Government, as modernization and digitization of public services as leading tools to increase efficiency gains for public administration, citizens and businesses as well as to the delivery of better services for the citizen)



Fig 6.3 European DESI index 2016, year 2015



Source: Digital Single Market, European digital economy and society

Italy has an overall score of 0.4 and ranks 25th among the 28 EU Member States. The European average is 0.52 and the top performing countries are Denmark (0.685) and Nederland (0.673).

While in Europe 71% of families access the fast broadband, with subscription about 30%, in Italy the access percentage of fast broadband is the 44% with a level of 5.4% subscriptions. In fact, Italian issue is the low availability of Next Generation Access networks, which has improved since last year (from 36% to 44%) but not more than in other EU countries (keeping its 27th place).

As regard the normal, not fast, broadband, in Europe the accessing households are about 72%, while in Italy only the 53 %, with level of fixed broadband subscriptions ranked as the lowest percentage in the EU.

The main cause for low adoption of fixed broadband is the lack of basic digital skills: Italy cannot hope to fully grasp the benefits of the digital economy as long as one third of its population refrains from using the Internet regularly. At least 31% of regular Internet users still lacks basic digital skills, constituting a further issue to the well-functioning of the Italian digital economy. The main causes are the low level of education of the Italian population (only 42% of the population has an education level above lower secondary) and the large share of aged population.

In terms of the propensity of individuals to use Internet services, Italy scores 0.33 a slight decrease with respect to last year, putting Italy to the lowest rank among EU countries. Italian Internet users engage in online activities less than the EU average does. Only digital content fruition, like playing music, videos and games (52%) is performed by more Italian Internet surfers than the EU average. On the contrary, complex transactions like e-banking (43%) and shopping online (39%) are less common.

Reasons for that decrease that has been observed in the last two years could include the further diffusion of paid content (which discourages casual readers) and the widening of the Internet users' population (which displays lower education skills on average).

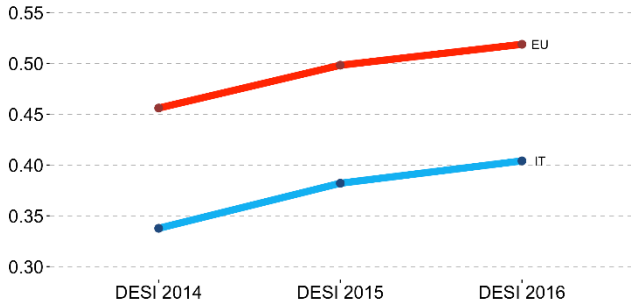
As regard the integration of digital technologies in business activities, the commission highlight the lack of e-business solutions, with the proportion of enterprises using Electronic Information Sharing (36%) substantially stable and the use of social media scarcely improving (from 12% to 14%). Finally overview on public service digitalization, reveals positive improvement but inadequacy of some practices, that could be addressed through a better the re-use of information across administrations.

However it is important to underline that Italy is trying to make progress on the matter and its effort is reflected in some positive signals of different DESI components, indicating evolution over time and an higher growth digitalization rate.

One positive contribution is given by the increasing role of e-commerce in SMEs turnover, precisely the share of turnover coming from e-commerce rose from 4.9% in 2014 to 8.2% in 2015: Italian SMEs have been comprehending that e-commerce sales channel could be an important instrument for expanding their markets and fighting the consequences of the economic crisis.

Another improvement area is in the increasing preference for mobile broadband connections, with 75 subscriptions per each 100 individuals (10th highest value in the EU), in line with the average.

Fig.6.4 Own elaboration, evolution Italian DESI index 2014-2016 (year 2013-2015)

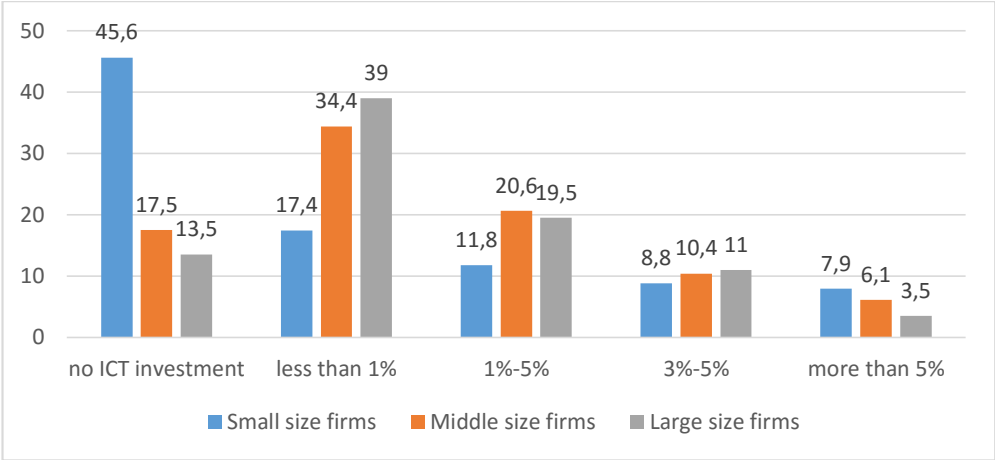


Source: Digital Single Market, European digital economy and society

Unicredit analysis about the investments in ICT in 2011 by Italian enterprises, demonstrates that 45% of small firms have not invested in ICT while the 17.4% have invested less than 1% of their turnover, the 20.6% between the 1% and the 5%. Then, the increased dimension of firms is synonymous of higher investments in ICT, with diminishing level of not investing firms and the increasing amount of resources spent among the 1% and 5 % of turnover. However data demonstrates that the larger part of firms investing more than 5% of their turnover is composed

by small and medium enterprises, respectively 7.9% and 6.2 %, while the investments of bigger firms are about 3.5%: a reason could be the limited amount of resources required by such actors as already endowed of ICT tools, so spending only for technological maintenance and upgrading.

Fig 6.5 Investment in ICT by Italian enterprises according to their dimensions



Source: UniCredit Survey on Small Enterprises, 2011

The digitalization of enterprises occurs if exist one or more employees exclusively dedicated to ICT aspects. This happens in the 21.6% of small size firms, in 42.3% of middle size firms and in 62.4% of large size firms. In any case, the real divide among small and medium-large firms is clear comparing the adopted technological instruments: small firms using personal computers are 78% in respect of 96% of middle and large size enterprises, also largely using smartphones and tablets (73-74%) far from the tight level of 43.2% of small size firms for mobile tools adoption.

The main software for smaller firms are Word, Excel and other easy stock and administration dedicated programs , differently from larger size firms, adopting also advanced programs as CRM or implementing ERP software. The table shows the main adopted technologies and Internet applications by the three categories of firms.

Table 6.1 Preferred software and Internet applications in % on the interviewed enterprises

| <b>Preferred software and Internet applications in % on the interviewed enterprises</b>            | <b>Small size firms</b> | <b>Middle size firms</b> | <b>Large size firms</b> |
|--|-------------------------|--------------------------|-------------------------|
| <b>Software for individual productivity like word of excel</b>                                     | 62,1                    | 80,5                     | 86,4                    |
| <b>Easy stock and administration software</b>  | 60                      | 89,9                     | 87,9                    |
| <b>Advanced software, such es CRM</b>  | 20,7                    | 40,1                     | 46,3                    |
| <b>Software for automatic sharing of information and advanced business functions, Erp software</b> | 34,7                    | 69,4                     | 75                      |
| <b>e-mail current usage</b>  | 91,5                    | 97,1                     | 97                      |
| <b>Broadband connection</b>  | 60,2                    | 71,7                     | 73,5                    |
| <b>Own business website</b>  | 53,3                    | 82,5                     | 89,9                    |
| <b>B2B or B2C online presence</b>  | 43                      | 53,7                     | 54,9                    |
| <b>Business intranet</b>   | 42                      | 72,3                     | 83,6                    |
| <b>Social network profile (business use)</b>   | 27,9                    | 22,7                     | 26,1                    |
| <b>Advertising campaign on search engines</b>  | 32                      | 38,2                     | 40,3                    |
| <b>Business extranet</b>   | 19,4                    | 34,5                     | 40,7                    |
| <b>e-mail advertising campaign</b>   | 30,2                    | 30,5                     | 32,5                    |

Source: UniCredit Survey on Small Enterprises, 2011

From the table it is possible to understand the relevance of information technologies especially in middle and big size firms, heavily relying on own business website, using ad hoc intranet and extranet. Fewer differences among the three size classes of firms are in the percentage of e-mail users, in broadband connection and the advertising campaigns put in practice on search engines and via e-mail, as well as in adopting social network profile.

On the business websites generally there are different data, first regarding privacy information and the updated catalogues with related price of products. It is important to underline the common low level of online commerce, consisting in the possibility for customers to place online orders, representing the 27% for big firms, the 34.6% for middle size firms and 43.1 % for small size firms. Another aspect is the limited possibility of product customization, offered respectively as before by 23.7%, 25.7%, and 33.4% of the firms according to their dimensions.

Table 6.2 Italian website contents according to firm dimensions

|  | <b>Small size<br/>firms</b> | <b>Middle size<br/>firms</b> | <b>Large size<br/>firms</b> |
|--|-----------------------------|------------------------------|-----------------------------|
| <b>Privacy information</b>                 | 64                          | 69,9                         | 73,4                        |
| <b>Catalogues</b>                          | 46,2                        | 52,2                         | 46,5                        |
| <b>Online orders (e-commerce)</b>          | 43,1                        | 34,6                         | 27                          |
| <b>After sales services</b>                | 37,1                        | 36,8                         | 29,9                        |
| <b>Online product customization</b>        | 33,4                        | 25,7                         | 23,7                        |
| <b>Online traceability of orders</b>       | 32                          | 28,4                         | 27                          |
| <b>Supplier quality<br/>questionnaires</b> | 19,8                        | 18,4                         | 22,4                        |
| <b>Personnel vacancies</b>                 | 9,9                         | 13,5                         | 23,7                        |

Source: UniCredit Survey on Small Enterprises, 2011

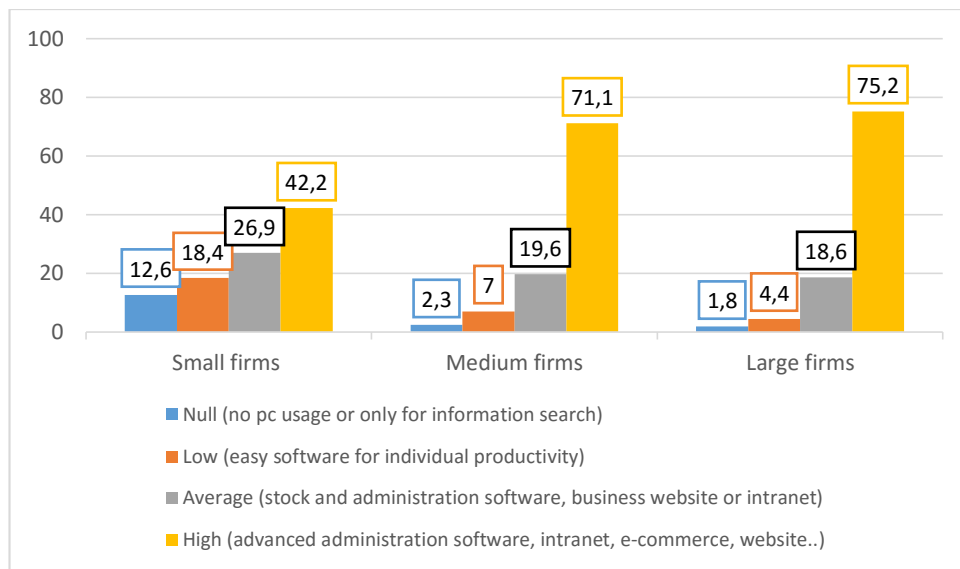
Unicredit research reports the results of interviews to firms adopting ICT tools, in order to concretely understand eventual improvements and entrepreneur's' perceptions about them.

As in short time ICT do not represent a real opportunity to enhance productivity and efficiency, by contrast in longer time enterprises notice higher productivity, costs reduction and internal business processes simplification.

The main differences among small, medium and large enterprise is in the perception of ICT as a real chance to make a deep qualitative step upwards, in fact bigger firms are perfectly aware of ICT potentialities, differently from smaller ones, scarcely able to entirely appreciate potential benefits of new Internet tools and applications.

The same report affirms the tight linkages among digitalization process and exportations, showing that the wider is the adoption of ICT, the wider would be the level of exportations.

Fig.6.6 Exporting activity level by firm size according to the level of digitalization



Source: UniCredit Survey on Small Enterprises, 2011

## 6.3 Internationalization opportunities of Internet

### 6.3.1 Info-commerce

Info-commerce consists in all the users' actions aimed to collect information before purchasing a good or a service, for example visiting forum, comparing online prices, looking at information on specialized websites. It is a step before the e-commerce, consisting in the sales of goods and services through Internet platforms. The information on quality, price and opinions about a product or service on the web are even more determinant in the final buying choice: to look at Tripadvisor comments, to Facebook page or to specialized blogs is now become a obliged practice to execute before buying a good or booking a restaurant or a hotel.

In a technological and interconnected world, firms should be aware of importance of being present on the net to reach more customers. For this it is necessary have own website, embedding specialized info-commerce elements, such as blogs, specialized articles, spaces for customer judgments. To have good info-commerce means also to be visible, so to improve positioning on search engines of both own website and other own specific Internet references.

According to the School of Management of Politecnico of Milan, the info-commerce in Italy regard about 18 million of people, using the web only for comparing prices and collect information on the desired products.

The website is perceived as a real shop window and should contain all the information useful to satisfy potential customers. A reliable, well-positioned and well-structured website is a strategic

means to better communicate the company brand and the quality of the products, real support for enlarging final markets and increase level of sales.

Google-Doxa Digital analysis on 5000 small and medium sized Italian enterprises has noticed the limited level of Internet investments of the peninsula in respect of other western countries, highlighting the lack of online dedicated trade channels for foreign customers, due to the scarce digital culture and poor comprehension web marketing advantages. By contrast, the few Italian firms using web channels in their business activities, precisely the 30% of interviewed enterprises, are the ones able to export in larger measure, especially using e-commerce channels directed to “beyond border” customers, source of positive results in terms of increasing turnover. Digital exporting SMEs has confirmed that the 24% of their turnover coming from export activities has been determined exclusively by their online channels. Digital and export are then strictly interrelated, allowing also to overcome the problems of the crisis.

If a firm wants to go international, should be aware that people all around the world need to know more about the products offered. Italian products are even more appreciated all over the world, as confirmed from the above mentioned research by Google-Doxa, in 2013 the level of online research of “made in Italy” items is 8% higher than the research made the previous year. The more interested countries are US, European countries, Japan, Russia and India, especially for fashion, automotive and tourism. These numbers demonstrate the existence of international demand for Italian products and the need of SMEs adoption of digital tools, potential growth leverage, drivers of demand and offer meeting. As highlighted by Google country director, “Internet permits to directly encounter all potential customers, being the suitable instrument to make the four million Italian firms visible on global market.”

According to the evident advantages acquirable, it is clear that Italian SMEs need to implement info-commerce solutions especially to better reach foreign final markets, investing in Internet presence through Internet marketing strategies.

Internet marketing, also called online marketing, is essentially any marketing activity that is conducted online through the use of Internet technologies. It comprises not only advertising on websites, but also other kinds of online activities, like email and social networking.

To be successful on the “web world”, firms should set up online equivalents of traditional techniques. That is to say:

- Website is the parallel of the physical office, being the public face of the company, where customers find out products details, enterprise’s information and conclude business arrangements.
- E-mail address is the equivalent of a direct postal address, particularly easier to use, especially if clients can click apposite link or fill-in dedicated forms available in the website. E-mail marketing then become easier, cheaper and quicker as permit creating apposite

targeted lists, exploit the wide availability of demographic information and favor high response rate, avoid printing and posting practices.

- Online advertising, overcoming surely traditional and expensive practices as print, radio and television advertising campaigns, usually requiring a large investment upfront for creation and a second large sum for placement. Online advertising carries a much lower risk, being cheaper and fully controllable, modifiable and retractable at any time.
- Web analytics overcome the traditional way of measuring the effectiveness of marketing campaigns and satisfaction of customers through physical surveys and polls of consumers. With Internet, both Web analytics, defined as measurement, collection, analysis and reporting of Internet data for the purposes of understanding and optimizing web usage, and apposite websites and blogs containing opinions and judgments are useful tools to understand effectiveness of adverts as well as customers satisfaction about the product bought.

First of all, to create a well structured website is necessary to create a web identity, strengthen the image of the firm, its history, the brand name and the products value. A website is a place where firms can express brand and marketing messages and the definitive source for accurate facts and information about business and products. It is not just an information page, but a reference point for customers, allowing owners to analyze data on who visits it and getting aware of who is interested in the products, especially if blogs or community are included.

It is important underline that in the Web 2.0 era firms are expected to have the website, in fact customers expect to find their suppliers on the web. Not being on the web means to not exist and in case of international business activities the risks of being excluded for this reason from the market is high.

The website is a necessary element of Internet strategy, comprehending also social network profiles or other tools setting up, because it is stable. While social networking pages, advertising campaigns, email newsletters and so on could change, the website should always remain at the same web address and contains unchanging and sure business elements, reference point to have in an ever-changing web, not to substitute with any other tool.

First of all, to better build the company website it is important to think about own target market, especially what customers expect from the webpage and how they prefer visiting it; after that, the phase of web design starts. Web design is the process of planning and creating the way a website will look, the stage in which creative ideas, branding and visual appeal are implemented. The planning activities include the summarization of website's objectives, as the final purposes to reach in line with the potential customers' expectations, the necessary tools and functions to implement and the budgeting aspects.



This phase is followed by visual aspect considerations. It is important starting from viewing competitors' pages to get a general feel for what the industry's standards and expectations are. Being sure that the design chosen is appropriate for own business is relevant, because to create a website that is radically different from the competitors' who have already defined a standards for the industry could displace customers, bearing certain set of expectations.

Another consideration is that the website must fit in with firm's overall corporate identity (company's logo, colors and print designs). Creating a holistic and uniform brand image is vital, so the website, as integral part of firm strategy, must fit in with other marketing communications. The main content of firm websites are the home page, the about page and the contact page. The home page, also called the index page, is the welcome page, the first thing visitors see; it should represent a roadmap to the most important content, addressing new customers to the best parts of website.

The about page is the place where the company description is inserted as well as the statement of brand's goals, the origins and business principles. It Includes information customers would like to know, including experience, track record, awards and feedback from customers. Particularly important, especially as regard Italian artisanal firms, is to tell about the history of own company, with apposite storytelling underlining the value and specific intrinsic feature characterizing the firm and its development during time.

The contact page provides customer with the means of reaching and potentially entering into a commercial relationship with the firm, including premises address, telephone and e-mail contacts, as well as a map showing the exact firm location.

After these fundamental pages, it is important giving details about products offered in dedicated pages, with accurate description, photos and showing images of offered services and customized solutions.

It could be useful setting up a blog, a real online journal where firm can post short, regular articles on specialized topics. This is a great way to demonstrate competences and knowledge, providing useful content for customers and improve search engine ranking, as further explained.

To build a website often requires a lot of financial resources for web developers and Internet specialists services, real disincentive for small enterprises. However thanks to the new Web 2.0, it is possible using free and easy tools available on the net to set up own web pages. A basic website displaying a small amount of information could be easily created through WordPress, a free online website-building program that is primarily designed to create blogs and simple websites, allowing to easily add and modify contents on the created pages. Another example is represented by Yola, a free website-building tool that let to focus strongly on design elements and features like text, images, videos, maps and other useful interacting tools. Both for Wordpress and for Yola, SMEs

are not required of any technical experience and are surely able to build their own website, easily and for free.

Like the above-mentioned means, other useful website building means are on the net, such as DoodleKit.com, withtank.com, TypePad.com. These simple website builders allow creating websites quickly and freely or requiring small fees for some specific design arrangements.

After building own website, it is necessary create an e-mail address. First of all for basilar communication functions. Secondly to consider the technique of Email marketing, formally called direct marketing, so the technique nowadays heavily used by marketers to communicate with prospective and current customers by email. The goal of the communication is to promote and to persuade readers to start testing products or new items, to address sales promotion and to increase customer loyalty. Email marketing is an ideal channel for direct, personal, affordable and often effective promotion, due to the possibility of target specific customer segments, to direct specific messages to potential customers and to make more affordable campaigns than the ones on traditional channels.

In fact email is ideal for direct marketing, especially when target market is spread across multiple geographical locations: through apposite newsletters, updates releases, news and press articles as well as special offers, online deals and discounts periods email marketing is a way of keeping customers informed. Then, email marketing helps to increase traffic to the company's website, as relevant contents can be linked from the email to the pages on website. By emailing and other similar tools, customers start trust the firms and be part of a sort of long term relationship, determining loyalty, continuous orders placement over time and, obviously, positive firm image diffusion through word of mouth.

The increasing mass use of computers has provided a new channel for marketers to communicate with consumers, causing media habits to shift from exclusively offline channels to an integrated approach of mixing media. The way people gather news, communicate, buy and make decisions has deeply changed with the Internet era, where blogs, wikis, social networks and news websites are just few reference tools for information collection. For their advertising activity, SMEs are required to do a shift from offline to online instruments, generating an integrated communication approach nowadays necessary for achieving increased brand awareness and market reach.

The ways in which new advertising and marketing practices are performed on the net, could be distinguished by free or paid advertising methods. Below the most used solution:

- “Free advertising” allows to increase own website's traffic, inform search engines of own existence, and build a network of reference sites through the placement of link connections to own website. In fact, to place links on other websites, writing articles and press releases about latest products or company news is a way to increase company exposure, brand

awareness and traffic driven by direct connection points. Linking back to firm website from these contents means to give credibility and get advantage from search engines higher ranking. Moreover, if a firm uses a blog, keeping it updated favor the same search engine results in terms of higher ranking, as the content stays fresh and more people will be interested to look at it.

- “Affiliate network” is essentially an online referral system, a mechanism for generating cross-referrals between companies. The more sources of traffic to own website exist, the better is. In fact these inbound links or backlinks (defined as hyperlinks on a third-party web page that points to a web page on own site), are important for Search Engine Optimization because Google and other search engines see multiple, relevant inbound links to a page as a sign that the content on that page is useful. Some affiliate networks such as Amazon and eBay’s Partner Network encourage companies to display ads, banners, widgets and online stores on their sites. Every time someone clicks on a banner ad or buys something, the website displaying the ad gets paid. Then, these advertising tool allows firms to insert ads on other affiliates websites by paying per click the ad shown, benefiting from links coming to company’s site from others affiliate networks.
- Pay-per-click (PPC) adverts are the text ads displayed on search engine results. Precisely this advertising method consists in firm payment for ads to be displayed when someone searches for a specific search term: it is called “pay-per-click” advertising, because the firm only pays for the advert only when someone clicks on it in the search. The amount advertisers are willing to pay determines the position in which the ad is listed in the results pages: the higher an advertiser is willing to bid, the higher up the ad will be shown. According to The Economist, “PPC advertising is the fastest growing sector of the advertising industry, accounting for more than 40 percent of all online advertising on the US.”
- Social media marketing is a growing chosen channel for products and services promotion, because social media tools allow getting information about individuals or groups preferences and attitudes, being source of many data, useful to easier find, speak and target the final market.

By building a brand presence on a social network, the company becomes a social actor that could be engaged with customers, place online and focused adverts, targeting the desired people and suggesting new consumption moments. Social networking it is not so easy to manage as marketing activities take place in a social space, where adverts and promotional material are less welcome, making both harder to market (people don’t want to have an advertising message forced on them) but more powerful (since the social space is ideal for sharing, recommending and spreading adverts as being friends).

Online word of mouth is the new practice in favor of consumption attitude: spreading own experiences on social networks and recommending new consumption experience to people, part of a specific social group, is the new leverage for firms 'success. In fact, people are more likely to try something new based on what people in their social group have suggested: the firm challenge is to obtain visibility and make people speaking about its brand. Firms should learn how to share contents, a communication method able to make interest growing in always more connected people, and should then invest for having people engaged, "liking" such contents and following them also through web messages communication. In this way, it is possible relaunching and defining a clear online personality, with defined objectives and values, then transmit a strong reputation to be more likely accepted and followed by trusty people.

As previously mentioned, it is important analyzing the traffic of own website and social network pages. For this, Web Analytics software are the means to measure concrete web information, such as how many people have visited the site, how they came to the site, if a link follower or arrived directly, what keywords they searched on the site's search engine, how long they stayed on a given page, or on the entire site, what links they clicked on and when they left the site. Web analytics can then be defined as the study of the impact of a website on its users and the instrument to improve Search Engine Optimization and to assess and improve the effectiveness of a website. Search Engine Optimization is the marketing technique used to increase the visibility of a website, in order to make it ranked at the top of organic (natural, not per payment) search results. Using Web Analytics allows to comprehend the specific widely used terms to search for something on the Internet, the actual trends of user's behavior and the probability potential customers have to online meet the company: all these information are fundamental to realize the suitable modification in order to be better reachable on the net. By making small modifications to parts of the website, for example through reshaping website contents, changing or adding key terms for addressing the navigation and restructuring the home page or URLs, the website's user experience and performance in organic search results may increase dramatically. This is particular important if we think that 85% of Internet users find websites through search engines and the 90% of Internet users do not go past the first three search results pages.

The latter point to take into account for Internet strategies, is the system of law regulating the web site's implementation and use. The first element is copyright: the law considers the website as a database, thus a source of many information, data and contents, organized and governed by a specific subject, the person or in this case the enterprise, making them available in the various part of the website. The firm who collects, organizes and shares contents, is given by the law the exclusive right on extraction and re-use of its website contents. This is particularly important to take into consideration in the first phases of website creation, as a firm could desired to duplicate,

totally or in part, the website contents of another firm, and by the normative system this is possible only if the person who have right on the contents give previous authorization.

The same exclusive right is applied in case of the domain name, that is to say the alphanumeric sequence associated at the IP address, the identifying number of the server or computer hosting the website. The reason behind the Domain Name System associating the domain name to the IP address, is the simplicity in a name to be remembered than the IP address, formed by a long sequence of numbers.

Apposite Registration Authorities are in charge of domain names registration (for example the NIC for the .it registrations): the decision of the specific DN attribution is made according to the “first come, first served” principle, assigning a specific name to the first subject demanding for it. The domain name is an exclusive distinctive mark of the firm and for this is protected by the industrial property code as other specific firm’s properties as patents or trademarks.

Other normative consideration are necessary in case of social media strategies fulfillment: the social media registration is free but the profile creation is a real social networking contract, based on clauses and conditions to respect to operating on it. Working on social media, the firm should always consider what are the forbidden behaviors defined by the social network owner as well as the policies and existent orientation on some categories of argument. A violation, often occurring in advertising campaigns, in fact can comport the account elimination or suspension and the reparation for damages to third subjects’ intellectual property.

In order to be protected by such issues and other risky behaviors, the firm can adopt a SMP, a Social Media Policy, aimed to address the comportment of people engaged in social network management inside a firm . The SMP has been created in order to formalize usage instruction of such social tools, defining the way in which people are expected to use them: it is composed by an internal document and an external document. The first one underlines the rules employees should respect in social media usage, explaining how the social presence works in the firm (account, access code, contents license for data diffusion) and behavioral code to adopt. The second one focuses on the relationship among firm and final users, i.e. final aim for having chosen a social network strategy, content type and relative licenses, privacy policy, reference contacts for copyright violations.

To sum up, it is extremely necessary for SMEs investing in info-commerce implementation and to build a consistent online presence, not only through website realization but also with e-marketing strategies and investment in search engine optimization, to increase the probability to be found by the potential customers spread all over the world, always considering existent normative constraints.

### 6.3.2 E-commerce

“Electronic commerce is about doing business electronically. It is based on the electronic processing and transmission of data, including text, sound and video. It encompasses many diverse activities including electronic trading of goods and services, online delivery of digital content, electronic fund transfers, electronic share trading, electronic bills of lading, commercial auctions, collaborative design and engineering, on-line sourcing, public procurement, direct consumer marketing and after-sales service. It involves both products (e.g. consumer goods, specialized medical equipment) and services (e.g. information services, financial and legal services); traditional activities (e.g. healthcare, education) and new activities (e.g. virtual malls).” The above mentioned definition, is the e-commerce concept exposed by the European Commission in 1997. This dedicated communication to the European Parliament was aimed to “encourage the vigorous growth of electronic commerce in Europe, a fast moving sector, that will have a considerable impact on Europe’s competitiveness in global markets” and to “provide a coherent policy framework for future Community action, establishing a common European position to achieve global consensus through international negotiations.”

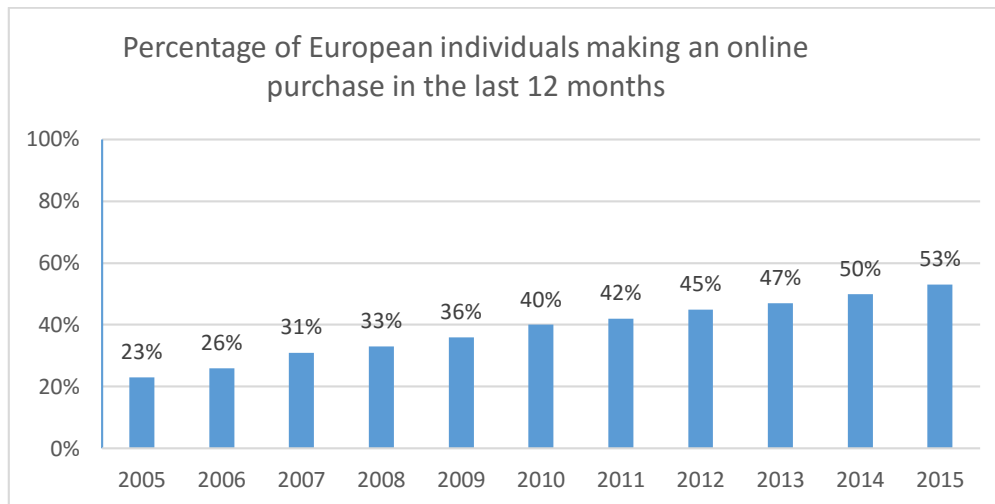
According to this document Electronic business, representing a radical change in traditional activities, will make European firms necessary investing in new skills, in order to maintain new jobs in Europe and to strengthen communitarian exchanges especially driven by the single currency.

European commission recognized the great revolution of the Internet in making business and the potentialities linked to electronic commerce, both for consumers and for businesses, particularly SMEs.

Actually e-commerce can be classified in two category: the B2C (business to consumer) e-commerce, consisting in the commercial transaction of goods and services among firm and final consumers, or B2B (business to business) e-commerce consisting in product exchanges among firms, especially industrial ones. The below mentioned data are only the B2C e-commerce.

As anticipated by the European Commission document of 1999, the e-commerce has really disrupted traditional business practices and reshaped both firms’ offer and customer demand. Below a table about the growing trend of online purchasing habits, showing level of people in Euro area ordering online goods or services once a year increasing from an average the 23% in 2005 to 53% in 2015.

Fig. 6.7 Percentage of European individuals making an online purchase in the last 12 months



Source: Own elaboration on Eurostat data

The role of online B2C commerce is increasing over time, reaching in Europe a level of € 305 billion in 2012 and € 423,8 billion in 2014, more than 14% of the previous year. Also the number of B2C websites and the amount of parcels sent in 2014 are growing compared to 2013 when there were around 650.000 B2C websites and 3.7 billion parcels were sent in Europe, these numbers increased to about 715.000 B2C websites and 4 billion parcels sent in 2014.

The European e-commerce Report of 2015 confirms that the share of e-commerce within the European GDP continues to grow, from a rate amounted to 1.27% in 2009, the e-GDP doubled to 2.45% in 2014. It is expected that this share will grow even more strongly in the next few years, probably reaching a European e-GDP of around 6% in 2020, sure about the growing level of worldwide data of e-commerce turnover, above \$ 1000 billion in 2012 and \$ 1316 billion in 2014, with annual average growth of 22%. Meanwhile other esteems for 2015 made by Ecommerce Foundation are about € 470 billion in Europe and \$ 2.100 billion in the world.

The European top performer countries in e-commerce activities in 2014 are UK, Germany and France: the United Kingdom has a B2C e-commerce turnover increased by 14.7% and reached € 127.1 billion, Germany's one increased of 12.3%, with a level of € 71.2 billion and France growth was of 11.2% with a turnover of € 56.8 billion.

Italy is considered by European E-commerce Report of 2015 a top emerging country as regard E-commerce potentiality. In fact the following ranking synthetize the situation of some important countries in Europe.

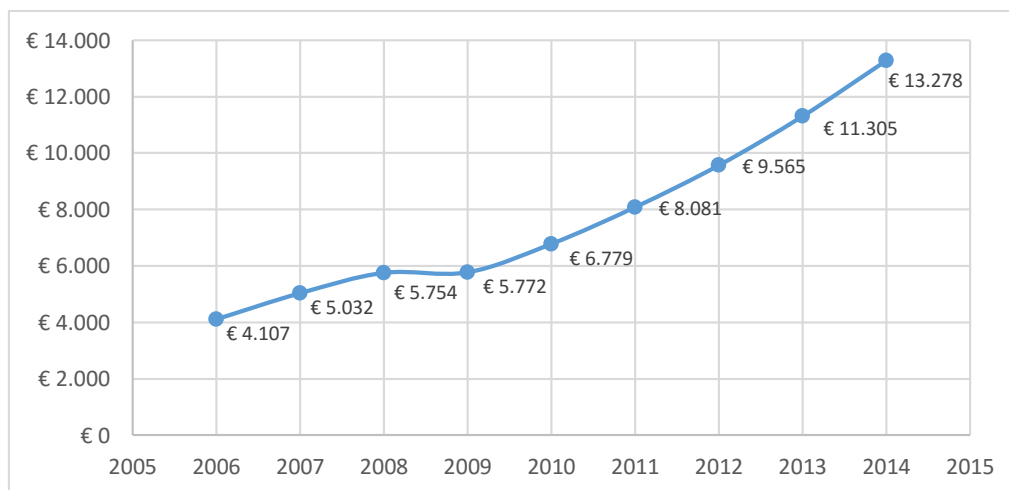
Table 6.2 Top mature and emerging E-Commerce Countries for turnover in million €

| <b>Top 5 Mature E-Commerce Countries</b> |         |
|--|---------|
| <b>Turnover in million €</b>             |         |
| <b>Uk</b>                                | 127.200 |
| <b>Germany</b>                           | 71.200  |
| <b>France</b>                            | 56.800  |
| <b>Netherland</b>                        | 13.961  |
| <b>Switzerland</b>                       | 12.717  |
| <b>Top Emerging Countries</b>            |         |
| <b>Turnover in million €</b>             |         |
| <b>Russia</b>                            | 19.947  |
| <b>Spain</b>                             | 16.900  |
| <b>Italy</b>                             | 13.278  |
| <b>Poland</b>                            | 6.541   |

Source: European e-commerce Report of 2015

The value of ecommerce B2C sales is in fact increasing year by year, reaching a value of € 13.278 million in 2014. The preferred products bought through online B2C website the “made in Italy” products, precisely by fashion, furniture, food and wine industry, but also electronic and informatics items, grocery, merchandising, perfumes and cosmetics and phone charges. As regard service sector, relevant are insurance policies and tourism services.

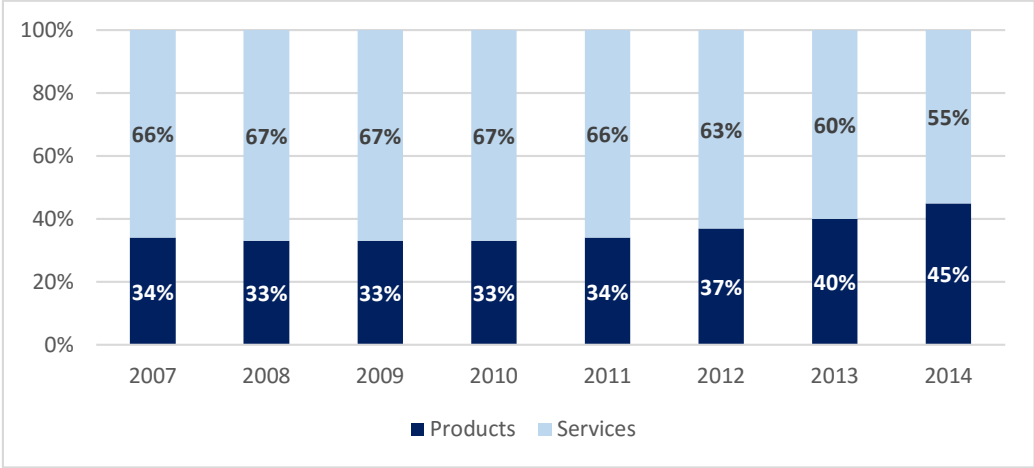
Fig 6.8 Turnover by italian website, value in million €



Source: Ossevatori.net



Fig 6.9 Online sales distribution among Products and Services

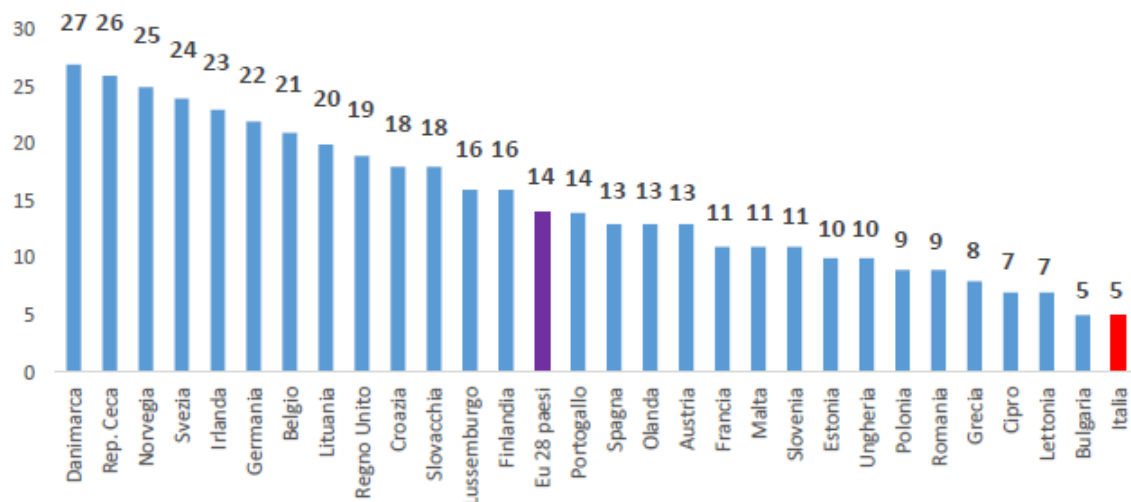


Source: Ossevatori.net

Analyzing the composition of online sales, it is clear that in 2014 the relevance of products’ sales has increased, especially for good performance of industries linked to “made in Italy” products, having in fact increased their weight more than tourism and insurance policies. However, the total amount of online sales is increased both for services and for products, in average growing more than 10% (except for insurance policies about +5%), with made in Italy products average of +25% from previous year. The 80% of online commerce has been directed to national people, with a demand accounting for € 14.674 million, with € 10.668 million directed to national websites and € 3.979 million directed to foreign websites. The 20% of e-commerce instead come from foreign customers (from Japan, US, Russia and European countries) for about € 2.610 million +24% from previous year, mainly in tourism sector (50%), textile and fashion industry (33%) and other products (17%).

The recent data on Italian e-commerce evolution are quite positive, as the increase of e-commerce activities has been about 165.4% from 2009 to 2014. However a comparison in the adoption of e-commerce channels among Italian SMEs and other European countries demonstrate how much is Italy retarded, with only 5% of enterprises receiving and fulfilling online orders, far from the European average of 14%, signal of a deep preference to traditional trade approaches.

Fig 6.10 Enterprise receiving and fulfilling online orders among European countries, in 2013



Source: Eurostat and Fondazione Nordest

It is important to underline the awareness of the enormous gap in e-commerce activities by Italian entrepreneurs, as a recent research by Confesercenti demonstrates, an increasing change in entrepreneurs' minds; the 55 % of entrepreneurs believe that to sell online is an opportunity for growth. The 31% is worried about the death of traditional commercial networks, but the 48% is sure about an e-commerce activity setting up to survive.

In line with this study, an important survey by BCG on 1000 SMEs analyzing the results in terms of growth, internationalization level, productivity and employment, shows the great performance of digitalized SMEs, the ones performing better in all the quoted dimensions. In particular the enterprises with a website and online sales and/or marketing activity, called "online active firms", have registered an increase in turnover of 1.2%, instead of bad results of firms with the sole website (-2.4 %) and offline enterprises (- 4.5%). "Online active firms" assure the digitalization is the driver of the obtained increase of productivity and turnover, allowing an increase in employment (+ 34% of Online active enterprises have hired new personnel), and growth of foreign turnover weight, accounting in average for 14.7% of total turnover, far from the 7.7% and the 4.1% respectively of only "online" and "offline".

Even if in the last position of European rankings, Italian entrepreneurs seems to change their view, starting comprehend the need of new ways to reach customers and the strong effort to do in investing in new technological channels, as Internet marketing or e-commerce tools . The importance of this shift in mind is both in the growing rate of adoption during years previously mentioned and even in European data, as the DESI index before shown, revealing SMEs growth of e-commerce channels relevance.

Actually, the e-commerce could be the new and affordable means SMEs have for growing in terms of income, market share and recognition, both in domestic market and, above all, in international market.

Considering Italian Internet connected people are about 1.25% of Internet connected people all over the world, it is clear the great space for improvement. If, investing in other markets, for example Japan, US and many European countries are already acquainted markets as regard Italian products as well as strong users of Internet buying tools. Instead, China, South Korea, Brazil and India seems to be potential customers for online market strategies, because some of them result to be countries with deep penetration of e-commerce and tested online customer habits, while the others are early adopters with real growth potentiality, meaning prospective conquerable online market shares.

The actual higher part of e-commerce income comes from Italian consumers, not so used to online purchase, (15% of Italian people) compared with other European countries (68% in UK, 59% in Germany, 56% in France). Then, if Italian online buyers are the main contributors of actual e-commerce level, it is obvious the enormous existing potentiality of this channel if promoted on a wider international scenario.

Only mentioning the bigger ones, China and US e-commerce markets count respectively for 566 billion dollars and 437 billion dollars. These giants would repay an Italian SMEs online activity: first of all many “made in Italy” items are suitable for online purchases and are experimenting a growing market, becoming more and more appreciated, thanks to the worldwide recognition of Italian talent for such productions. In addition, they could be successfully promoted with ad hoc online communication in order to make them treasured by foreign customers, even the least acquainted of Italian quality and handcraft capabilities.

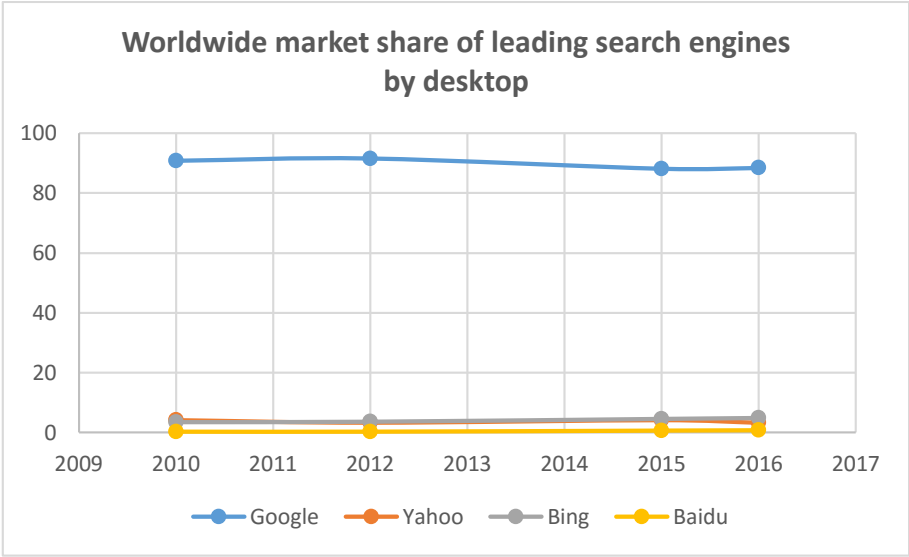
#### **6.4 Google services for firms: tools for visibility and success**

Google is the most visited Internet search engine in the world, created by two Stanford students in 1998 developers of PageRank, patented algorithm allowing to classify and index world wide web resources. This algorithm has become so successful because analyzes human-generated links, assuming that web pages linked from many important pages are themselves likely to be important, attributing a score for each page, based on the weighted sum of the PageRanks of the pages linking to them. Not only PageRank, Google has added over time about 250 different indicators and criteria to determine the ranking of pages on result lists.

Google is the most used search engine, hosting more than three billion searches each day: statistics on the global market share of leading Internet search engines indicates its dominance on other

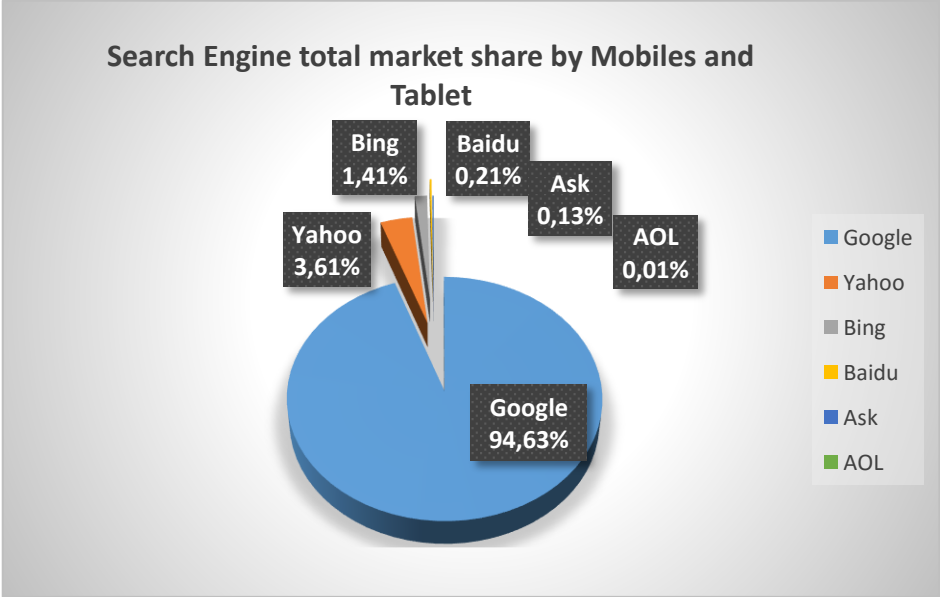
search engines like Yahoo, Bing or Baidu (a chinese search engine), accounting for an average of 90% in respect of 3-4 % for Yahoo and Bing and 0.5 % for Baidu.

Fig 6.11 Worldwide market share of leading search engines by desktop



Source: Statista

Fig 6.12 Search Engine total market share by Mobiles and Tablet, updated to February 2016



Source: Netmarketshare.com

Google is not only a search engine, by contrast it supplies a wide range of instruments, aimed to support website realization, optimization, indexing and market researching.

This analysis tries to highlight the offered services by Google, both for free and for payment, especially focusing on what could be real opportunities for SMEs implementation of web

strategies, further explaining the success of Berto Salotti a worldwide recognized brand mainly for Google services adoption.

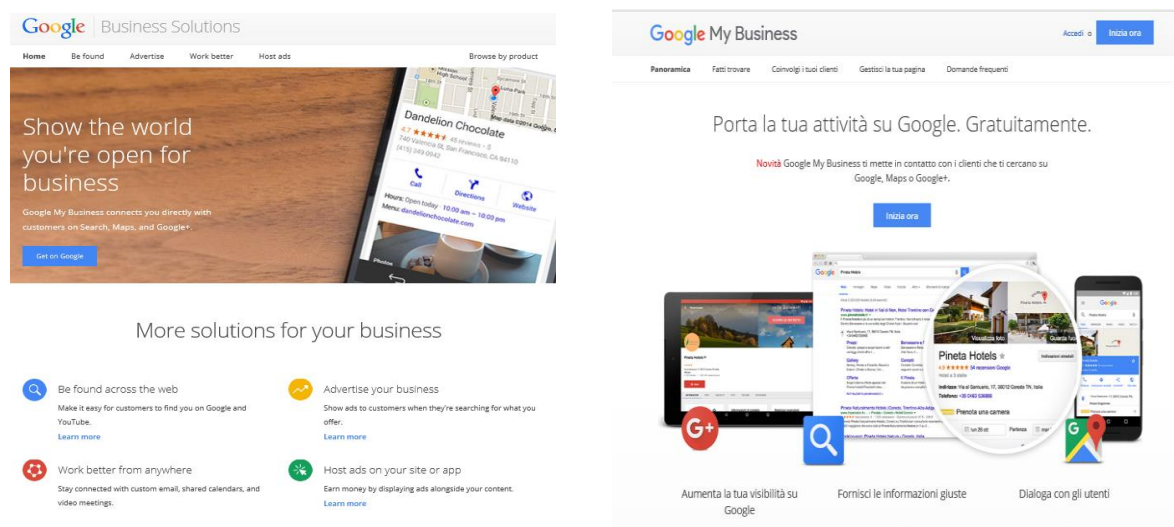
Google has created a set of useful tools to build a well positioned website, called Google Search Console.

Google Search Console is a free service helping to monitor and maintain own site's presence in Google Search results.

*Google Search Console*, before called Google Webmaster tools, can be accessed with the Gmail address and offer different solution to all individuals, but there are specific sections dedicated to businesses, containing real packages of online services.

Through Google Search Console it is possible entering in three area for firms: Business Solutions (English website) or My Business (Italian websites) and App For Work.

Fig 6.13 Business Solution and My Business



Source: Google

The four areas shown in the website print, synthetize the objectives reachable using the suitable tools offered by Google. It follows the overview about Google tools potentialities to reach different firms 'objectives and in the next part these instruments will be deeply analyze.

To be found on the market, to improve advertising activity, to work better from anywhere and to host ads can be easily put in practice through implementing a variety of a set of instruments.

First, Google suggests YouTube, viewed by 1 billion people every month, it allows to show off businesses and reach new people. Creating and loading videos making them easily findable and sharable by customers and also adding them to the company website, social media and ad campaigns could be an effective way of promoting firms' image and activities.

In order to improve the probability to be found, Google proposes Maps tool, to identify where firm is located, and Search functions in order to understand if the website is easily crawl by the search engine. It is possible showing ads to people in the neighborhood and give them directions to the firm location, also include a business phone number so mobile customers can make a direct call. With AdWords it is possible to test if the website is found, to tweak the ads, try new search terms, advertise locally or globally, show the ads to customers in certain cities, regions or countries and also within a set distance from your business or store. Another important functionality is to track and measure advertising effectiveness, as AdWords shows how many people notice company's ads and what percentage of them click, visit or call.

Another important function is customers information about offers, change, particular events and publications. Then posting updates, special offers, and photos for customers on a Google+ page could be the solution to improve visibility, trust relationships and recognition.

In Addition, Google Analytics is an important data base creator and control panel, useful to see how ads are performing, when visitors make a purchase, when they complete a form, the time spent on a particular page, or which links they click on, improving their experience in case of detection of accident met during surfing the company webpage. Google Analytics is useful to understand search habits of people, comprehending how they arrive in the website or ads, also discovering, navigation preferences, by desktop, mobile, or tablet, then adjust marketing practices (for example using another tool called AdMob to make advertising campaigns on mobile phones working on Android, iOS and Windows Phone 8.)

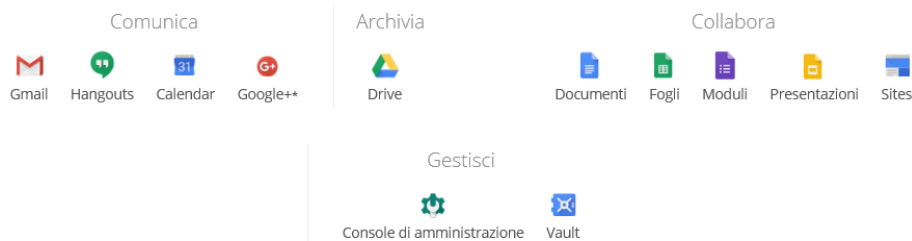
To better configure the website, showing particular targeted ads or choosing where ads are placed, also customizing how they appear, AdSense is the instrument permitting an automatic targeting based on the context of company site and visitor's specific interests. This tool is used for showing relevant ads, blocking others, choosing desired ad formats and customize the look of ads to better match the site, also tracking success and see revenues related to the most successful ones.

Monitoring the website's performance is extremely useful, first of all because the larger part of contents is found using a search engine, especially Google, but also for be always more identified in the top part of rankings. Google Search consents to make search analysis on website, to submit new content for crawling and remove useless content for search ranks, to create and monitor site search results, without losing competition on search performance and to solve malware or spam issues to keep the site clean.

The last section is more dedicated to the professional activity of the firm, suggesting the use of a set of tools or apps, called Google Apps. These Apps are suitable for creating a custom email address, with the name of the company, syncing the account with the mobile phone or tablet for access every moment and benefit of cloud services, until a storage capacity of 30 GB. Other Apps

consent working everywhere, as real programs for writing or make presentations, also usable to collaborate on projects with multiple people in different locations. These proposals are mentioned in a dedicated part of My Business site, however can be appositely accessed by Google Search Console, in detail focusing on all the instruments offered in the Apps for Work website.

Fig 6.14 Apps For Work



Source: Google

Apps For Work is a dedicated website explaining all the Google tools, useful to get advantage in terms of effectiveness, efficiency, integration and data sharing, and relative information about prices, technical configuration, security, management and payment procedures.

The first instrument to improve productivity is the Gmail apposite configuration for businesses, with strong antispam protection, specific search functions and calendars, allowing to be more organized and efficient. Then, Google Drive allows firms to save and share documents on cloud, to make them available to all people or group of people inside the firm, until 30 GB of storage capacity.

Hangouts is particularly useful to organize high definition video, with a maximum of 15 people involved, sharing desktop, presentation making and communicating through apposite chats.

Google+ is a business social media, allowing to improve speed of sharing documents, information and collaboration among colleagues, creating apposite chat or talking to entire business .

In the “collaboration” dedicated section, there are other application, called Documents, Spreadsheets, Modules, Presentations and Sites: these apps functionalities consent to have a more integrated business, with easy and rapid solution for collaborations and data sharing.

Documents allows to create and modify text documents directly into browser without dedicated software, permitting more people to work on the same document and see in real time the variations made by other people inside the firms.

Spreadsheets is a sort of Excel instrument working the same as Documents, permitting creation and modification on browser, with instantaneous view of other persons’ changes.

Also Presentations is a tool working as Spreadsheets and Documents, permitting a real time sharing of presentations, on which everyone could contribute, with immediately visible modifications to all participants.

Modules is an instrument particularly useful to create surveys and questionnaires, customizable as normal documents, reporting data in real time directly on Spreadsheets, then allowing rapid analysis and evaluations. Modules could be used for market surveys aimed to get information by customers as well as for internal questionnaires.

Sites allows to create website for people inside the firm, building intranet, dedicated portals or project websites .

All these instruments are subjected to previous authorization policies, headed by the administrator deciding in what measure to permit people access and, in case of Sites, also from outsider persons.

Vault and Administration Console are the latter Apps Google offers to businesses: Vault permits managing, storing, searching and exporting email messages and chats in an organization temporary archive, to make easier to look at specific information after time. This function is called eDiscovery and consist in electronic individuation processes aimed to look for specific electronic data for internal business usage, legal questions included.

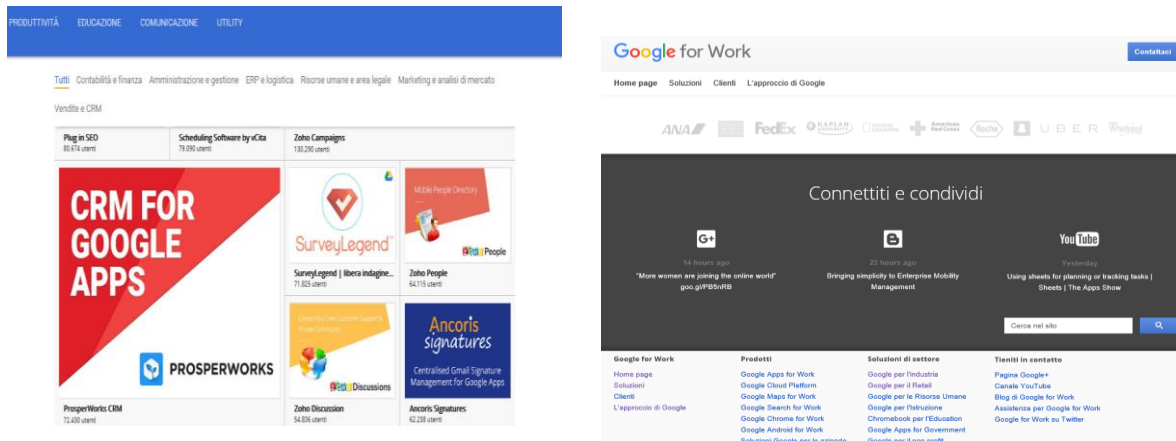
Administration Console is the tool for administrators, through which is possible managing all the mentioned instruments easily: adding users, configuring profiles, managing app functionalities, managing mobile devices, especially in case of theft, dismay or in other cases when data should be eliminated. Administration Console permit designing authorization frameworks to make data safer and monitoring the right use of Google Apps in businesses, thanks to specific alarms and notices for suspicious facts.

Administration Console allows to integrate the “standard” pack of Apps with additional ones, available on a dedicated Marketplace page, offering specific Tools according to the different business functions, for example CRM solution, projects management tools and so on. The following image is the Google Apps Marketplace showing the Apps available for category of function, from controlling to logistic, marketing and sales activities.

From Apps for Work page, it is possible entering into a new page called Google for Work, with ad hoc linkages to specific areas: retail and manufacturing.



Fig 6.15 Google Apps Marketplace and Google for Work



Source: Google

These websites contain focused advice by Google always based on the above mentioned tools and application implementation. According to the activity of the firms, involved in a B2B or in a B2C market, Google suggest informatics solutions to improve the business working reality of each reality, from one side in visibility and ad campaigns enhancement, from the other side in better management of supply chain and after sales services.

Google suggest the adoption of apposite tools, or set of tools, particularly suitable for business activities.

These instruments before quoted have a variety of application and can really represent an important source of data, statistic information, basilar direction to orient Internet strategy.

As previously explained, Google is a search engine, so a specialized kind of database containing software called spiders, looking for specific websites, ordering them according to the compliance with a particular search query. Google crawls the web using these spiders to index information, finding out cross-references between websites, through the presence of created links: the result is a ranking of file and information determined by specific search algorithms allowing to order the crawled websites and shown the most relevant. Thus it is extremely important not only being on the net, but be found on the net: a firm should be able to exploit the search opportunity of the web, comprehending how to implement the best website configuration, through links and other digital contents, to be intercepted by searching spiders and shown by algorithms. By making small modifications to parts of website, the performance in this natural, also called organic, search results may increase exponentially.

The practice aimed to improve positioning on ranking results on search engines is called search engine optimization: it consist in a real website structural configuration, as Google or other search engines are not to paid for highly ranking the organic results. These structural changes are focused

on keywords optimization, and better definition of the content hierarchy of on a web page: the keywords are important because the more frequently they appear on a web page, the more relevant this page become for the searching spider. This is also valid for content hierarchy: Google searching spider attributes different value for different areas in a website, then the main page header is more important than sub-headers, as well as sub-headers are more important than a paragraph. Therefore, if the keywords are inserted in the most important areas of the website, the search engine will consider that page more relevant than others, in case of search by the final user for that keyword.

Also having links in published articles or in customers or suppliers websites, as well as social media or blogs is useful to link back and increase probability to be found on the net.

Google offers particular software to understand how to be better found on the net, in particular Webmasters Tools, now Search Console, provide different apps to appreciate the real visibility a firm have.

Google Trends is a software providing results about the search terms people use in the Google search engine. It provide update information about the most used terms also with visual representation of the most used terms for country or regions through apposite maps. It displays top searches and rising searches particularly useful in keyword research.

Google Analytics is instead a software appositely dedicated to monitoring visitors experience: Web analytics can provide key metrics and statistics such as visits frequency, unique visits, bounce rates (the percentage of visits in which the person instantly leaves the site within seconds of arriving), top content (the list of pages ranked by the amount of traffic they get), top keywords and traffic source (from where visitors come, such as search engine, referral websites or ads). The information and trends identified are the basis for modification and improvement actions, aimed to better capture customers through offering them the best-searched experience. Customer trends online may help marketers to invest in specific products or in specific geographical area, also changing typology of advertising campaign and shape, if possible, products to seasonal customer fads. An instrument like analytics is extremely useful to understand the revenues related to some online marketing strategies as well as to make prediction about future trends, exploiting worldwide information and competitors online policies real time.

Moreover, Google Analytics has embedded a particular Google application called Optimizer, i.e. an advanced tool that can be used to set up experiments about the choice among two or more website configurations: through a so called A/B testing formula, it gives the possibility to compare two versions of a company website, to test users' response, then determining which of the two configuration is more effective.

Not only organic, but also nonorganic, then paid, search results exist. They consist in sponsored links displayed in a specific area, usually above or to the right, of the organic Google search results, and firms pay for specific keywords in order to receive a high ranking in these sponsored results. AdWords is the Google online advertising service allowing marketers to insert ads in Google search pages, displayed only if the user digit the associated keyword of the paid ad.

A firm with a Google account can enter an apposite dashboard to create its advertising campaigns, according to its need in terms of customer targets and marketing strategies. Generally such type of advertising are PPC, so the firm should pay for that service only if the Ad is appositely clicked by the user.

This service is based on auctions for certain keywords, setting a bid means to indicate to AdWords the maximum amount payable for a click. Through AdWords it is possible to view, organize, and analyze data on apposite reports tabs in order to visualize meaningful trends then take improvement decisions.

#### **6.4.1 Berto Salotti experience**

Berto Salotti is a small size firm producing sofas, armchairs and beds, located in Meda, Brianza. Berto Salotti was born in 1974 from the entrepreneurial desire of Fioravante and Carlo Berto. Since the beginning the production was aimed to satisfy big furniture firms, but in the early 90s, Berto Salotti started selling directly to final customers, as its qualitative items were appreciated by many Lombard customers, especially the more sophisticated. In fact the distinguishing capacity of this firm has ever been the capability of reproducing designers' ideas into real prototypes, then producing serial but also customized products. However in the end of 90s the growing importance of big franchising enterprises and Large Scale Retail trade conquering enormous market shares and the changes in customers preferences toward a more convenient mass production, caused criticism in the future of this small size firm, maker of real tailor made items.

This situation is easy to understand thinking about Divani&Divani, PoltroneSofà or giants as IKEA. By the way, this critical period has represented the crucial moment for Berto Salotti: thanks to Filippo, the young son of one of the founders, strongly believing in the familiar history, traditions, strong effort and capacity of workers, the firm reaffirmed itself, especially on international scenario. What Filippo Berto did, was to make such passion visible and recognized worldwide, relying on the possibilities offered by the web. In fact there was not enough resources to invest in television or specialized paper advertising campaigns. By contrast, Filippo's desire of its Meda's firm affirmation on international scenario has occurred through investments in Internet network as the suitable channel to relaunch the familiar activities, in particular adopting Google tools.

First of all Filippo Berto had understood the importance of a well positioning on the growing phenomena of Internet database such as Google, then to be well-placed on such platforms would

have meant a satisfying visibility. He structured the firm's website thinking about the keywords his customers would have been adopted in searching for the firm and its product, then start setting up other elements to make them ranked at the top. For example exist the Berto Salotti blog, social media pages, links and references about the articles on which Berto Salotti is quoted as well as the attended events. The communication strategy based on the concept of "telling firm's story and make it known by customers" has been implemented through You Tube videos (with subtitles in six languages) demonstrating the art of "made by hand" products, artisanal adopted practices as well as intimate traditions of the firm, as a familiar reality and strongly linked to the territory in which is born. These aspects constitute altogether a real storytelling of Berto Salotti, making it recognizable, identifiable and remembered by international customers.

All the actions has been made, and are actually made, to understand how to be better intercepted on the net, trying to exploit the real values customers look for.

The merit of Filippo Berto has been to generate more opportunities increasing visibility then to transform such opportunities in real sales. "The invitation into showroom has been useful to concretize the experience of customers, but working with international people has not always been necessary a hand-touch". Actually, the turnover of Berto Salotti depends on 60% from Italian customers, while 40% from foreigners. The web is considered the strategic channel to market the products and propose initiatives, promotions events and it allows flourishing new contacts with final customers, and, then, sales opportunity. In fact the info-commerce accounts for about 70% of its turnover. The e-commerce is less relevant, also because quire recent, but represent also a good channel for the foreigners not particularly used to see personally the product before buying, feature almost undeniable in Italian culture.

Through organic and nonorganic positioning, Berto has been capable to address the informative traffic of information on a specific product according to the geographic area. In fact there are items more appreciated in some countries or regions than in others, due to diverse cultures and habits. Germans desires angular sofas are not the same of Russians', preferring high-end and extremely tailor made items: the complexity of international scenario has not been a problem for the customization practices embedded in the tradition of this firm, capable of offering high personalized realizations without following a real catalogue, but fulfilling single orders modifiable in each centimeter. The strong point of Berto is in fact the capability of working on project, on which capable and high skilled personnel is able to developed a real unique solution.

The example of Berto Salotti is particularly significant: this firm has encountered a great development thanks to digital instruments offered by Google, allowing to conquer new customer spread all around the world and enhance the image of the Italian capacity of handcrafting high quality products. Filippo Berto has, received different recognitions for his talent and forward-looking capacity: first of all becoming testimonial of Google ad campaigns, then participating to

the event promoted by Google, Digital Europe and Lisbon Council, called “Google is a growth engine for European business” in Bruxelles. This event, in which also Matt Brittin, the EMEA Business&Operation President for Google was present, was aimed to highlight how some excellent enterprises has been able to capture the opportunities offered by the network, real strategic tool to exploit especially for SMEs in the development.

Another very important event has been the meeting in Rome in October 2013, in which the AD of Google, Eric Schmidt, has recognized the made in Italy potentiality, proposing a new project aimed to support Italian SMEs to discover the economic potentiality of the net. Berto is among the virtuous enterprises chosen by Google Italy to promote the project called Made in Italy-Eccellenze in Digitale, for enhancing the value of Made in Italy productions, as a mark to be affirmed all over the world. The project promoted by Google Cultural Institute, MiPAAF, Unioncamere, Ca’ Foscari University, Symbola Foundation and Espresso Group with Repubblica.it has the objectives of promoting and teaching digitalization process to SMEs, through concrete experiences, interviews and photos of typical Italian enterprises reality experimenting the net, but also digital tools and courses to follow.

In the platform called Eccellenze in Digitale, Berto Salotti presents its experienced growth, underlining the need of digital network technologies to stay on international market: Filippo Berto affirmed that to compete on prices is an error, because Italian enterprises should only be aware of the available instruments, to spread and communicate all over the world the value of Italian manufacturing”.

According to Matt Brittin consideration: “Not long ago, small businesses could only afford to source and sell locally. Global marketing and distribution were out of reach for all but the biggest. Today, any business can reach a global market using the Internet, allowing even the smallest businesses to be a multinational” and Berto confirmed this, as demonstrating the real opportunities Italian firms have.

## **6.5 Exclusive tools for Italian SMEs**

From the meeting in Rome of October 2013 in which Eric Schmidt, CEO of Google, affirmed the intention of the giant of Mountain View to invest in Italy, a sequence of new proposals has succeeded, even with the same final objective: to help Italian SMEs conquering market shares through the use of Internet.

In the “Big tent Made in Italy: digital challenge” meeting, Eric Schmidt announced the important investment aimed to support made in Italy enterprises in their digital growth. Italian online

economy is performing bad, even if the products of the peninsula should not be worried about foreign competition, in regard of design and quality.

The Ceo explained that Italy needs “digital economics experts”, then young students able to explain the importance of Internet opportunities, from a better use of social networks to the real potentialities of e-commerce channels, especially for an international growth.

Italian potentialities have been recognized not only by the Big G, but also by Amazon, EBay and other important economic actors. In the following sections are explained the variety of international projects recently started, aimed to support small and medium enterprises digitalization. Digitize is the challenge and opportunity SMEs have finding new customers, renovating entrepreneurs’ motivation, to communicate Italian quality, style, culture and specialized customization skills all over the world.

### **6.5.1 “Eccellenze in Digitale” to have success in Internet era**

“Eccellenze in Digitale” is a project launched by the collaboration among Unioncamere and Google in 2014, aimed to improve digitalization of Italian SMEs.

The project consists not only in offering a free support to SMEs, in order to increase their adoption of Internet technologies, but also in involving them in the realization of a deep awareness of network opportunities, enhancing the importance of a digital culture in two ways: through incentives in hosting “digitalizers” and with ad hoc learning programs directed to entrepreneurs.

Google and Unioncamere have in fact funded apposite scholarships in order to teach young students or new graduated people the instruments available for the implementations of Internet strategies in SMEs.

Then these enterprises are incentivized to host the “digitalizers” with the final objective to realize a digitalization process.

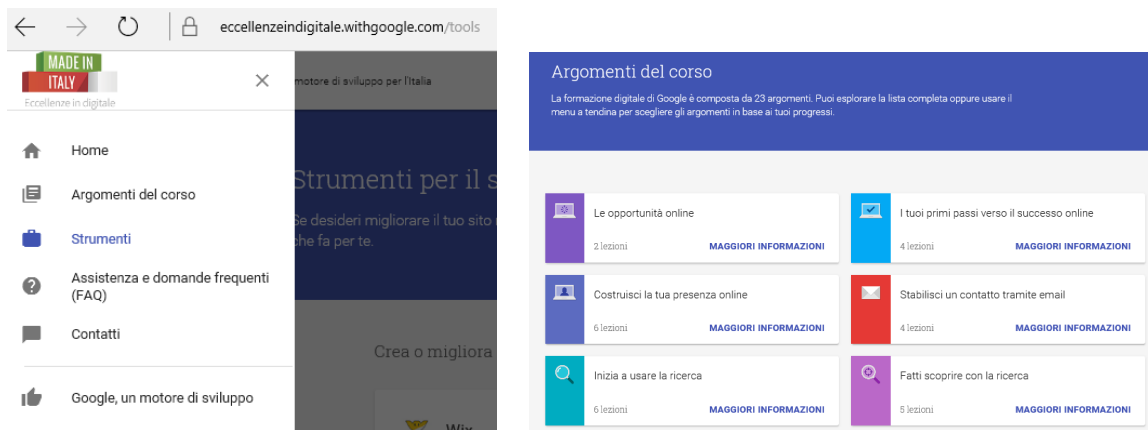
The digital courses are also directed to entrepreneurs, willing to personally understand potentialities of the Web for their business.

Apposite portals have been created to explain the project, present success studies, follow online courses and understand possible market strategies.

Eccellenze in Digitale is composed by four sections.

The first is dedicated to online courses, based on the basilar instruments offered by Google useful for fix the final objectives and Internet expectations, learn example and already developed solutions, then try and monitoring results and trends to better improve the performance level reached. At disposal the tools already quoted in the Google dedicated section. The online learning

path has been promoted by Google in collaboration with Symbola foundation and coordinated by Ca' Foscari University of Venice.



The second section is dedicated to Digitalizers, the young people expert in digital tools thanks to the scholarship aimed to develop apposite digital competences. A map consent to find the suitable digitalizer according to the geographic location of the firm.

Google in collaboration with Unioncamere, Garanzia Giovani, European Union and Italian Labor Minister have promoted learning and internship programs for youths interested in digital technologies to make them competent protagonists capable of addressing firms to a real effective adoption of such instruments.

The third section is dedicated to the importance of export: Italian firms have the possibilities to work on international scenario, because their products are and can be recognized and appreciated all over the world. The web is the suitable means for reaching foreign customers and worldwide visibility, to balance poor internal demand.



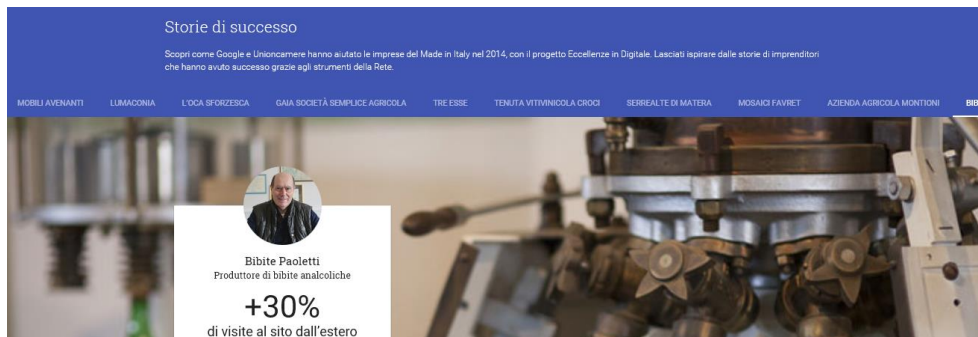
Ospita un giovane con competenze digitali nella tua impresa

Unioncamere, Google e il Ministero del lavoro mettono a disposizione fino a 3.000 tirocini per supportare la digitalizzazione delle imprese italiane e accompagnarle nel mondo digitale. I tirocini hanno una durata di 6 mesi e sono retribuiti dal progetto Garanzia Giovani.

Through the search engine of the page, it is possible to see where a market for the typical production of the firm exists, to see the trend of demand for that product in the different countries and also to set up the framework of the most suitable strategic plan as regard Internet strategies adoption.

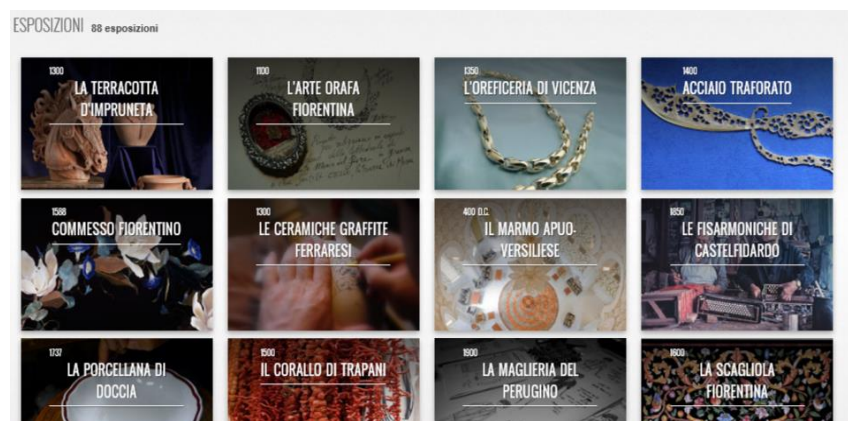
The fourth section of the website is dedicated to success stories, that is to say Italian SMEs having already experimented Internet technologies, real protagonists of a new phases of their business history, gaining new possibilities for international growth.

There are example of firms producing beverage, wine, furniture, mosaics, jewelry and also agricultural firms, whose experiences has been collected and briefly explained to concrete demonstrate the potentialities of these new tools.



Finally, the project include the realization of an apposite showcase in Google platform, totally dedicated to the productive excellences of a country. Is the first time that the Google Cultural Institute platform host a unique country focus on their manufacturing and agricultural heritage.

On the Google Cultural Institute there is a section showing the variety of productions characterizing the peninsula, offering success stories telling and in-depth analysis about feature and tradition of the typical manufacturing heritage of each geographic areas.



Launched in 2014, Eccellenze in Digitale project has involved about 100 youths and 20.000 enterprises, with concrete supporting actions in more than 1500 among them. For the 2015, about 150 students has been involved, always relying on the competence building of Google, offering the suitable web tools and project materials as regard marketing, informatics, economic strategies, communications and internationalization, with the financial resources of Unioncamere.

This is a real opportunity for firms to host ad hoc skilled people specialized in digital technologies, to increase visibility and to gain from portals and free lessons to better improve such business necessary development, starting to benefit from the international markets potential.



### 6.5.2 “Digitaly” and the enhancement of Italian excellence

CNA, the Italian confederation of handcraft and SMEs, in partnership with Google, Amazon, SeatPG, Registro.it are the promoters of Digitaly, a project aimed to contribute to the digitalization process of Italian enterprises, through the capillar diffusion of innovation and good practices in entire Italian territory.

The project has started in march 2015 with the creation of the dedicated platform, informing



about Internet potentialities and concrete experiences and supplying advice pills and instruction through a videos section.

The core of Digitaly project consists in a series of events taking place in the cities across the peninsula characterized by real business matches among enterprises both offering and searching digital competences and digital tools. These meetings, taking often places in apposite innovative centers and enterprises technological incubators, like Talent Garden of Milan or Tis Convention Center of Bolzano, are structured in two phases. The first is a more theoretical and informative section in which experts in economics and law, but also other persons like Google and Amazon marketing directors, CNA and Registro.it representatives give the overview about the aims of the project, some solutions they are able to develop, the steps to follow for a digitalization path and more detailed information about ERP systems, the use of Internet for ad hoc business activities, e-commerce potentialities, customers and suppliers management practices through the net, electronic invoice, recruiting practices, how to make a well positioned website as well as to use carefully and effectively social media tools.

In details, the interlocutors generally argument the following items:

- Web and communication: why Internet, benefits and worldwide data, mobile growing importance, the ID choice;
- Digitalization tools: software, ERP system, cloud computing, mobile solution, e-commerce channel;
- Digital marketing: maps, social network, website structure, branding, analytics and advertising campaign alternatives;
- Legal aspects and privacy: trademarks protection, rules of web activities, normative and laws about online ad campaigns .

The second phases consists in a real sharing moment among digital and non-digital firms, interviewing themselves and talking about experience, expectations, desires and real possibilities. To make SMEs working closer Internet technologies, sharing competences and resources, allows not only to better be positioned on internal market, rather to conquer foreign unexplored potential market shares. Data about national level of exportations demonstrates the tight relationship among international activities and the digital maturity of that nation: Digitaly would

be an instrument for acquiring even more awareness of the existent gap, making “Made in Italy” producers closer to digital sphere than to international customers.

According to the interlocutors of Google and Amazon, E-commerce is a wide opportunity for reaching million online customers, especially abroad.

This project wants to support the digitalization of the traditional Italian enterprise, in order to address it toward the adoption of new instruments and processes for acquiring the necessary digital culture to get really benefits from the opportunities offered by international players.

### **6.5.3 Amazon and Ebay for Italian SMEs**

SMEs e-commerce channel setting up is a great opportunity for being internationally visible. However the creation of an e-commerce channel is not a guarantee of success: if a firm should build the own e-commerce should start from the bottom, uploading catalogues, presenting products features, descriptions and images, information about after sales services, delivery and payment, as well as managing logistic aspects. It is obvious that Italian SMEs not acquainted of digital instruments and likely worried about a real effectiveness of such Internet strategies, could be not so willing to start digitalization process.

For this Amazon and Ebay have launched two projects, in order to make SMEs exploiting already existing e-commerce channels, limiting the amount of investments and skills otherwise required for a property e-channel on firm’s website, then simplifying and incentivizing SMEs digitalization path.

Amazon is a marketplace with 9 million visitors per month and about 10.000 vendors. It is even more used by Italian enterprises too, as yearly data from October 2014 to October 2015 notice an increasing of 90% in the use of the platform and sales of about 133 million euros.

Amazon allows to start selling products at reduced costs all around the world, because if to succeed in private e-commerce requires certainly time and financial resources for becoming visible, recognized on the market and trusted, by contrast to rely on an already existent marketplace like Amazon consents avoiding such issues.

The giant of Bill Jazos has recently promoted an ad hoc program to incentive Italian SMEs working on Amazon platform, in order to give value to Made in Italy craftsmanship.

Starting from Tuscany, Amazon has created an apposite online shop hosting artisanal Italian enterprises of six typical “made in Italy” industries, such as shoes and bags, china, furniture, jewelry and apparel.



The advantages offered by Amazon are obviously the great and international customer traffic level of the platform, not reachable by no one firm alone, but also the guarantee given to foreign customers for manufacturing products purchases totally “made in Italy” especially for this dedicated online shop, hosting only artisanal Italian quality.

**BOTTEGHE**

|  |  |  |  |
|--|--|--|--|
|  <p><b>Penko</b><br/>o d'Arte Orafa, designer e<br/>a, crea gioielli unici, realizzati</p> |  <p><b>Maselli Bottega d'Arte</b><br/>Negozio di stampe antiche e cornici<br/>artigianali, inaugurato nel 1955 a</p> |  <p><b>Ditta Riccardo Bianchi</b><br/>La Ditta Riccardo Bianchi è specializzata<br/>nella creazione artigianale di quadri</p> |  <p><b>Sbigoli Terrecotte</b><br/>Antica bottega artigiana, speci<br/>nella produzione di ceramica c</p> |
|--|--|--|--|

To be inserted in this program, it is necessary the enrollment on the platform, then the evaluation by Amazon, helped by local craftsmanship associations, finally to start promoting own products, presenting the history, productive traditions, uploading high quality definition images, descriptions, communicating the real value embedded into the product.

In October 2015 about 150 artisans have been part of the project, selling about 5000 kind of products, manufacturing and sending the required items to final customers in 30 days, relying on Amazon assistance in after sales services and logistic support. As regard this latter aspect, for SMEs it is a real advantage to rely on already existent logistic structure and organization, as Amazon picks up the goods directly from the vendor warehouse, wraps and sells them to the buyers spread all over the world.

EBay is an American MNC and e-commerce company, providing both B2C and C2C sales services via the Internet, accounting about 162 million buyers in 190 different markets. EBay, in collaboration with Confcommercio, has proposed a dedicated “made in Italy” project, aimed to fill the gap of digitalization and e-commerce services attitudes of Italian enterprises. The project wants to suggest the advantages of eBay shops, incentivizing a change in the cultural approach Italian traditional firms have toward this channel: an apposite TNS research among sample of

SMEs demonstrates that the larger part of Italian firms (92%) has not take into consideration the e-commerce, the 88% considering it useless. The reasons behind this distance are the supposed difficulty for managing this channel (72%), the supposed huge investment required (56%), the exclusivity of this channel for big firms (43%), the potential damages on traditional trade (26%) and the not suitability of items to an online selling (21%).

EBay and Confcommercio partnership proposes different instruments to help Italian SMEs to be trustier about ecommerce platforms and online selling. "How to sell on EBay" is a book containing advice and instruction for online sales on EBay, aimed to entrepreneurs willing to digitize their businesses. In addition to promote the realization of digital shops on the famous marketplace, an apposite roadmap has been planned on the peninsula, in order to meet SMEs representatives and communicate this digitalization necessity: in fact until the end of September 2016 entrepreneurs can benefit from six free months of selling activity on the platform, also inserting ads for foreign markets.

EBay Italian professional vendors are about 26.000, selling 55 million articles and spending about 17,35 € per month to open the online shop.

Also EBay platform allows to reach more customers than the sole firm's website, giving the possibility to become recognized and appreciated on international scenario with less financial effort and great advantages in terms of logistic aspects. The deliveries to final customers are managed through an ad hoc program, allowing to give information about the goods to send, to choose the suitable courier among a list of couriers available and to give the pack to the closest storage center, from which it will be sent to the final customer.

The advantages in terms of worldwide visibility and connected support services are huge, so SMEs should try to profit from these opportunities.



#### **6.5.4 Niche customers and specialized marketplaces**

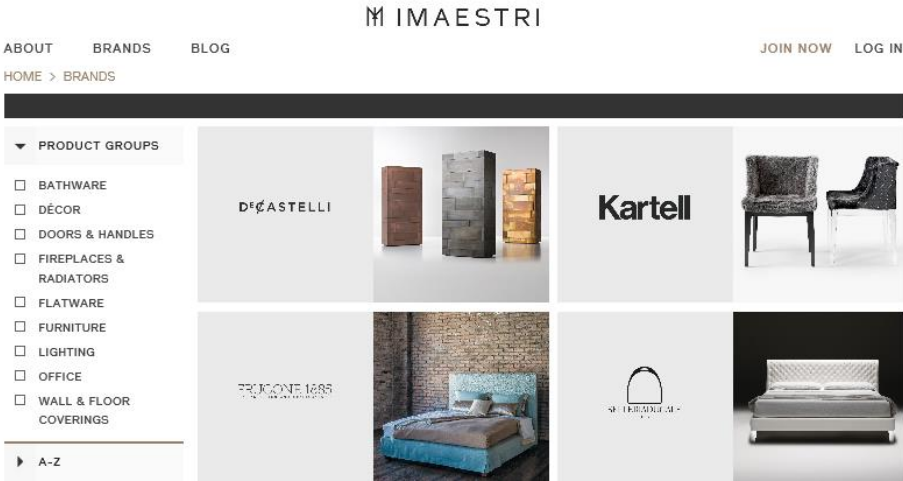
Italian SMEs realizing Made in Italy products can be worried about marketplaces like Amazon or EBay, because these channels involve a huge quantity of vendors and the risk is to not being able to be distinguished among the others and communicate the deep value of the items offered, their artisanal practices and the embedded cultural heritage. In these platforms the purchases are often driven by the convenient price or the favorable delivery time, far from the real prestige and quality of the goods.

This risk is partially avoided by the creation of apposite dedicated places, however Italian entrepreneurs could not see the real added value of the e-commerce, unsuitable for their exclusive products.

In order to avoid this problem it could be useful consider other e-commerce platforms, as dedicated marketplaces in which are offered specific categories of products directed to niche customers looking for design, quality and exclusivity.

Below some examples of such platforms, hosting both Italian and foreign products, according to the goods' category, representing potential instruments to get visibility and satisfying needs of sophisticated customers spread all over the world.

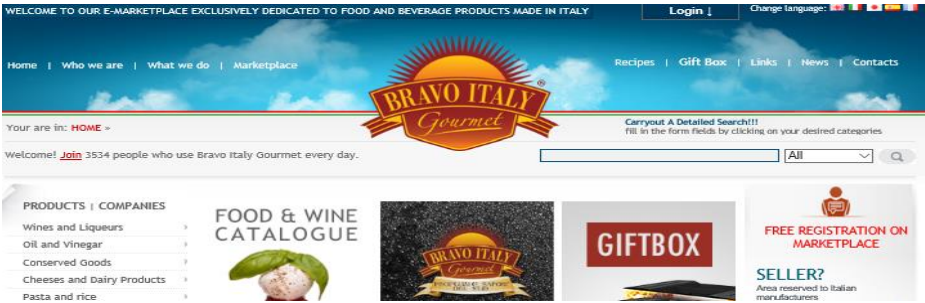
IMAESTRI is the “leading marketplace to source beautiful furnishings from the finest artisans”. The platform has been created by Exagoga Inc., a small organization in the catalog and mail-order houses industry located in New York, NY, opening in 2012, having about 120.000 dollars yearly revenues. P.Timoni, AD and Founder of Exagoga was intentioned in creating a distributive platform for incentivizing exportations of best Italian SMEs in North America. The website contains a description explaining the functioning of the platform in helping design professionals, discerning clients connect, collaborating with the finest furnishing artisans in the world, to create exceptional design projects.



In the online platform, clients can easily discover the artisans and their products, also selecting variations of catalogue items for a real made-to-order products, place and track orders.

The Italian feature of the platform is highlighted in the part in which the term “I Maestri” is explained, as “in Italian, it refers, to the individuals who have mastered a craft - whether it be art, music, or design”. The mission of IMAESTRI is to “make easily accessible the finest design artisans in the world.”

BRAVO ITALY GOURMET is an online platform for Italian food and beverage products exportations.



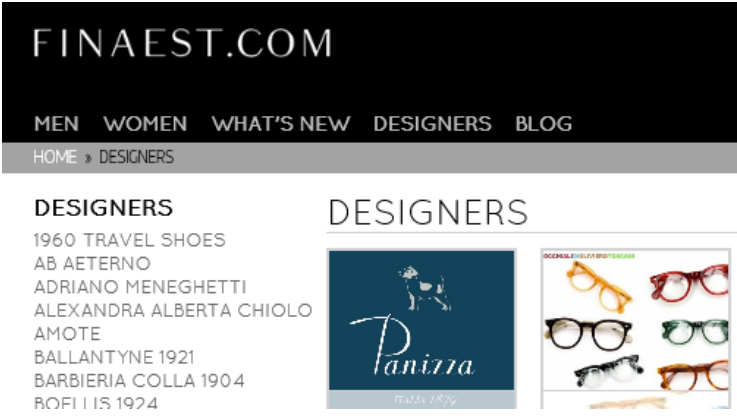
It is a dedicated portal for food and beverage producers, aimed to promote and offer their products online all over the world. In fact the website contains a large variety of items, involving a thousands of Italian food and wine production companies. Bravo Italy Gourmet operates in every part of the world, allowing customers to discover typical goods from all Italian regions and to build important commercial relationships.

Vendors can insert their business profile, realize their shop-window in 5 languages, promote daily new products and exploit also the apposite linked mobile app.

FINAEST is an online boutique in which fashion lovers can look for high quality products, finding typical Italian excellence and design of Made in Italy, realized by well-known historic Italian brands and emerging young designers.

The idea to realize an online shop dedicated to clothes and accessories totally made in Italy is by two young Italian entrepreneurs, Andrea Viganò and Luca Gianmaria Catalano, willing to promote typical Italian capacity of mixing tradition and innovation. In 2012, they founded the online boutique promoting Italy abroad, through enhancing the craftsmanship and creative heritage of the peninsula.

The offered products comes from the selection of prestigious, historical Italian brands as well as emerging designers and capable enterprises in the industry, characterized by exclusive collection features, entirely made in Italy and excellent workmanship and materials.



### **6.5.5 Government opportunities**

Italian Government is aware of the poor level of digital tools adopted in medium and small Italian enterprises, understanding both their intrinsic difficulties and rather negative long term consequences in terms of worldwide competition. In fact, assuming that the foreign demand is determinant to sustain Italian economic system and the employment level, to maintain the higher possible level of openness in international exchanges is one of the Government objectives, for this proposing ways to stimulate technological innovation to face global market opportunities.

Thus new funds has been appositely dedicated to the Italian digital agenda and to other projects aimed to improve the digital level of firms, digital competences of entrepreneurs and to increase the possibilities of new foreign trade relationships through network technologies.

A first useful intervention aimed to enhance the quality of Italian entrepreneurial system has been a video, realized by the Minister Of Economic Development and by ICE, called “the extraordinary commonplace”, showing typical “made in Italy” excellences.

This video, appreciated since the first presentation in Davos for the World Economic Forum of 2015, aims to promote outstanding qualitative Italian productions, especially in markets as US, Canada and UK.

The online campaign realized also on The Wall Street Journal, on Financial Times and on The Economist has registered great success, suggesting the realization of an ad hoc website explaining Italian economic and manufacturing system, containing information and data to increase the interest for the country, as commercial partner or FDI destination.

Other Government initiatives are detailed in the plan for the “Extraordinary promotion of made in Italy and attraction of FDI”. The plan covers the period 2015-2017 and defines four main objectives:

- Widening of 20.000 units the exporting SMEs enterprises
- Widening the international trade weight, target of 50 billion euros minimum
- Enhance Made in Italy value all over the world
- Obtain attract FDI (20.000 billion euros per year)

The concrete actions, funded with 220 million € by Minister Of Economic Development and 44 million € by Agricultural Policies Minister, are put in practice with the help of ICE Agency and range from incentives in fairs participations, stronger trademark protection, supports to enter into foreign markets, strategic promotional campaigns and supports to foreign investors.

Among the interventions there is also a section dedicated to e-commerce and digital platform access.

In detail the Government wants to support SMEs digitalization, especially focusing on e-commerce implementation as potential sales channel, useful to enter into markets particularly used to make online purchases.

Recognizing the difficulties of SMEs regarding dimensions and availability of financial resources, the usage of web tools for the online promotion of Italian quality can be the solution for overcoming these issues and relaunching business activities and results.

In the Government plan, the support to e-commerce implementation take place through web marketing activities in some European and non-European countries (UK, Germany, France, Netherlands, Baltic countries, Russia, China) by the Italydock platform.

Italydock is an international marketplace realized by Poste Italiane and ICE, aimed to help SMEs in their e-commerce activities: through the platform, SMEs could insert their catalogues and then look after the services offered by Poste Italiane as regard payment, delivery and goods returns. On the multilingual web platform are managed national and international payments, custom documents, web marketing strategies, logistics and customer care activities.

The firms are required to prepare the detailed catalogues to sell to Poste Italiane for the upload procedure, prepare goods to send and the invoice for the final customer. the costs of this opportunity are 600 € per year as regard the platform access and the instructions linked to the beginning of the online activity (support in the initial definition of the catalogue and working manuals), plus fees of 12% related to the value of sales covering the promotional and customer care activities, the administrative and monitoring procedures offered.

Not only ItalyDock, the e-commerce is incentivized by other apposite resources, the Digitalization Vouchers 2016 for SMEs. Digitalization Vouchers 2016 for SMEs, inserted in the Destination Italy Decree, consist in economic contributions of maximum 10.000 € given to SMEs in order to increase or begin digital instrument usage, to digitize business processes and make technological improvements. In particular, SMEs accessing the funds can buy computers, software, hardware, digitalization services aimed to improve business efficiency, modernize working practices (telework included), adopt e-commerce channels, give personnel learning ICT skills and competences.

However the Minister of Economics and Finance has not yet open the tender, with detailed requirements and modules to participate, and not yet expanded the opportunity to all regions, actually available only for the southern regions of the peninsula. In fact for the involvement of Northern regions too, the resources should be devolved by the Development and Cohesion Fund, with apposite deliberations by the interministerial authority.

Another important action is the collaboration of Italian Government and Alibaba Group.

Alibaba Group Holding Limited is a Chinese e-commerce company born in 1999 providing C2C, B2C, B2B sales services via web portals. With annual revenues of 10.361 billion euros, Alibaba Group is the worldwide leader for online commerce.

The Italian Government has signed with the Chinese Giant, supplier of electronic payment services, a shopping search engine and data-centric cloud computing services too, an agreement



involving a gradual involvement of Italian enterprise in the B2C platforms of Alibaba, that is to say Tmall.com and Tmall.hk, to offer Italian excellence to Chinese consumers. In fact the Chinese consumers are becoming even more aware of Italian quality and, according to Alibaba founder Jack Ma, “the agreement is useful for a large availability of trademarks and products to millions and millions of insatiable Chinese consumers”.

In three years the agreement see Alibaba Group responsible for the introduction and the promotion on the platforms of Italian enterprises, while Italian government would be involved in the Chinese market analysis to deeply understand customer behaviors, trends and Italian suitable products and penetration capacity using an already consolidate and widely used distribution channel.

After the potentialities offered by B2C, it is not excluded a further involvement in B2B collaborations, using Alibaba.com platform and connected services like Alipay, online payment platform with no transaction fees and Cainiao, logistic support activities.

## **6.6 Internet and the Italian customization capabilities**

### **6.6.1 Online personalization**

SMEs handicraft and artisanal productions are extremely characterized by production on order, as the customer requests are specific, extremely customized and aimed to the realization of a unique masterpiece.

The fact to rely on online commerce can make extremely difficult to exploit such distinctive capability, as the advanced orders are easily fulfilled if based on catalogues, thus implying the impossibility to specify modifications and other personalization features.

On the Internet has been developed some tools that can be usefully implemented in an online e-commerce strategy, even by some firms who work only on order basis, as offering to show high definition images of the products desired and enabling detailed modifications and specifications, in the material, in measures and in design features.

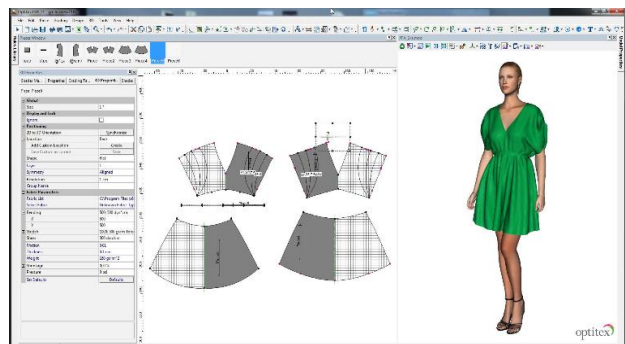
SketchUp is a software for easy projecting, available in two versions (free and for payment), allowing to create 2D documents, find ad hoc 3D models and add further detailed personalization. It includes a section in which apposite user tutorials give instruction on how to use the available instruments, a sort of encyclopedia is available to get information about 2D and 3D modelling and a forum in which SketchUp experts are engaged in helping users.

The 2D program allows to make graph, plans and graphics and then transfer the image on pdf, Cad or standard images. To make 3D models is possible through an application allowing to easily design the desired product or space, always respecting proportion and measures. The software permits the creation of a personalized stock of materials, textures and basis projects ready to use in order to realize customized items according to the specific orders received.



Other functionalities are standard set up, evaluation of projects feasibility through the insertion of items photo in the final environment or otherwise using a photo to start the entire project. SketchUp is linked to a free database called 3D Warehouse, from which 2,5 million 3D models could be downloaded to apply further customizations. 3D Warehouse contains models from a big variety of producer of furniture, buildings and other applications, like Natuzzi, Bosch or Delta. The database contains the designs according to the category of items searched or to the producer, who has an ad hoc section in which the amount of designs offered are shown.

As SketchUp could be used mainly by furniture industry, others software can instead be suitable for clothes and accessories one: for example Virtual Fashion or Optitex offer the customization



of texture, textile and other materials, simulating through 3D images curves and effects of models. SMEs used to personalized productions, not willing to work according to catalogues, by contrast determined to affirm their artisanal vocation, could implement these useful software to digital prototyping and propose customized solutions. In fact, the software could be suitable for customized orders if customers are allowed to enter into a website dedicated section in which they could design what is the desired item and then send it directly to the firm.

Another solution, probably more convenient in terms of website development, can be the possibility given to customer to make a request, with detailed measures and textile or material preferred. After that, the firm develops a 3D ad hoc solution, taking into account customer requirements then send the 3D offer, a visual project, easy to understand and easy to modify in case of further details.

### 6.6.2 Role of virtual community

The latter point of the section is dedicated to the important role of virtual community. The virtual community can be defined as a “social network of individuals who interact through specific social media, crossing geographical and political boundaries, in order to pursue mutual interests or goals”.

Nowadays, a virtual community can be easily created on the Internet network, thanks to Web 2.0 tools allowing everyone to contribute with own ideas and thought.

The role of virtual community can be extremely useful in productive context, especially in case of Italian SMEs, characterized by high capability of customization, because to be part or to host virtual communities could give important advantages in terms of ideas and suggestions obtainable by others’ contributions.

Two example can better clarify the way in which virtual community is important:

*Formabilio*, located in Treviso province, is a small firm, composed by 10 persons, operating through Formabilio.com, a web platform promoting design contests, aimed to identify the best projects and product design in furniture industry proposed and voted by the registered users of its community. Formabilio chooses the best designs according to some criteria of innovation, sustainability and appeal among the community of designers and creatives attending the challenges, gathering even more idea and stimulus. After having selected the projects even according to the votes of the registered users, the manufacturing process is fulfilled by Italian furniture manufacturing enterprises, extremely capable of concrete translation from the idea into real products. The manufactured items are then ready to be sold online through the same platform to international customers.

Actually, there is a catalogue with 80 piece of furniture available in different colors and dimension, selected among 8.000 project of 42 contests by 3200 international designers, judged by 111.000 registered community members.

The idea of Formabilio founders has been to connect Italian furniture enterprises, suffering from the heavy financial crisis, and young designers, without experience or strong reputation, mixing the two sphere of competences to relaunch the value of made in Italy production all around the world. Without the connections put in practice by the web platform, this would has not been possible.

*Design Apart* realized by Diego Paccagnella, located in New York is a living showroom for the exposition and sales of “made in Italy” products and an online platform, representing a network among Italian manufacturers and local architects and designers, working together to realize challenging projects, characterized by craftsmanship and uniqueness. As in the living showroom

is possible to appreciate and touch the value of made in Italy handcraft, in the platform there is the possibility to see already realized projects, put in practice by the collaboration among architects, interior designers, homeowners and Italian craftsmen, totally handcrafting in Italy in a “made to measure” formula.

In fact, the strong point of Design Apart is to connect directly design experts and the best Italian manufacturers, making it possible unique, made-to measure and handcrafted products purchases. The platform is extremely useful because by one side it shows the talent of Italian manufacturers and by the other side it incentivizes the participation of architect, designers, furniture and design lovers in proposing alternatives, suggesting solution entering into contact with Italian traditions and customization capabilities.

Formabilio and Design-Apart are different as regard the involvement of the virtual community, as in the latter there is not an open contest or a required evaluation to give. However, both platforms leverages on the contributions of skilled people, not pure customers who simply select the preferred product or ask for modification before ordering it. In fact, in both cases it is required a deep involvement of the community, considered competent and skilled interlocutor to connect to other skilled people, the Italian manufacturers, in order to realize something new.

It is important to underline that these far competences and skills could be captured and joint together only by the network, as host of online communities, contributing with suggestions and new ideas to exploit for overcoming difficult moments, according to Formabilio, or to promote Italian excellence, according to Design-Apart.

## **Chapter 7. The network contract as instrument to support internationalization**

The network is a process of organization of economic activities born from the interaction, relatively stable over time, between two or more firms. This interaction can be more or less formalized, giving to the firms the relative flexibility in respect of environmental conditions, firms' competences and tasks and coordinative aspects.

The reasons are not only cost reduction in a make-buy approach, as assumed by cost based view theorists, by contrast the collaboration among more enterprises allows to give more value to the available heritage, combining resources and capabilities not existing inside the single firm, but flourishing thanks to the relationship. Through the network, each partner with its resources it is able to create new value, higher than the sum of the value of each enterprise.

Italian SMEs involved in international and digital evolution processes surely encounters the difficulties linked to dimension and financial resources. Even if to opt for info-commerce or e-commerce strategy requires a limited amount of resources, there are inevitably other aspects to manage. In fact, to work on international scenario require to be organized under the logistic and distribution point of view.

In this chapter there are suggestions about some organizational methods that could be chosen to fulfil internationalization strategies, as consisting in joint collaboration formulas among different actors, with different competence and skills, working together to cover all the gaps.

The most suitable organizational method to support internationalization is surely the network contract, a legislation format introduced in 2009, allowing firms to collaborate in a structured manner, sharing resources and knowledge to strengthen their position on international market.

This contract permits the realization of enterprises networks, particularly useful to plan and execute internationalization practices, from support in logistic issues to the set up of foreign branches.

A survey by Fondazione Nordest on 1059 Italian enterprises made in July 2013 noticed the participation of firms in enterprise aggregations, like consortiums, JV, informal networks and enterprise networks: even if there is a growth in enterprises aggregations, from 26.3% in 2012 to 27.9% in 2013, the larger part of enterprises are not part of a group, about 70%, even if the ones not interested in possible future aggregations diminished from 63.1% in 2012 to 52.6% in 2013. The awareness of the importance of collaboration to pursue an internationalization path is growing and for this the number of structured and formal collaborations increases.

In this chapter the network contract is firstly analyzed and then compared to other collaboration methods, such as EEIG, ATI and consortiums. After some concrete examples, other interesting internationalization collaboration cases are quoted.

## **7.1 The network contract in Italy**

Introduced in Italian law system in 2009, the network contract among enterprises is a legal instrument allowing enterprises to create an organized and long lasting collaboration, requiring to maintain own singularity and private autonomy, as the creation of companies or consortiums is excluded, and to get benefits from related incentives and tax breaks.

This form of collaboration, known as enterprise network, is a union involving SMEs in relationships not only based on goods or services market exchanges however on collaboration and interdependence, allowing the involved firms to pursue common objectives, configuring as a unique economic unit. Even if the firms are independent, they have common interests affecting each other economic activities.

The legislative sources are in continuous evolution, as the network contract introduced in 2009 has been modified in 2010 and in 2012. However the definition of network contract is described in the article 3, c.4 ter, of D.L. 10 February 2009, n.5, modified by law 30 July 2010. "The network contract is a contract configuration, who obliges entrepreneurs willing to increase individually and collectively their innovative capacity and their market competition, to collaborate according to a shared network program, fulfilling own typical business activities, exchanging information as well as industrial, commercial, technical, technological services and jointly executing one or more tasks, if part of own enterprise's objective".

Then, to create a network contract it is necessary the involvement of two or more entrepreneurs, clearly defined in the article 2082 Civil Code as a subject who professionally exercises an organized economic activity aimed to the production or to the exchange of goods or services, and enrolled in the Italian Enterprise Register.

The reason behind the creation of a new aggregation shape as the network contract is the real distinguishing element of this organizational structure in respect of other legislative configurations: the enterprises set up a network contract in order to pursue innovative and competitive capacity growth, economic concepts on which the parties establish the way in which collaboration and cooperation relationships take place, always remaining autonomous and independent among each other.

To build a network contract, the law requires the realization of a common network program, so a real plan with guidelines explaining how the common objectives could be reached and the effort of the parties in such network relationship. In particular the enterprises are required to give direct contributions as regard activities in their typical business sector, to share information and

services of each nature, to commonly execute one or more activities, directly part of own enterprises' objectives.

The level of collaboration is not clearly timely or quantitatively defined, but is interpreted according to the common language, in a continuously and joint working activity directed to common objective satisfaction.

The network contract has to be stipulated through public document, certified private written or digital signed document, which includes mandatory elements, such as enterprises' identification information, common strategic objectives, the network program with defined rights and obligations of the involved parties, how the common objective is pursued, duration and finally the norms regulating decisions on common issues and matters.

Other important, even if not compulsory, elements are the common patrimonial fund and the common authority.

The common patrimonial fund consist in the contribution given by the adherent to the network contract, obviously dedicated to its implementation and execution. The law give parties freedom in contributions definition and in fund management, specifying the impossibility to divide the common assets until the network exists and the impossibility of third creditors to recoup their losses on the network assets.

In case of common patrimonial fund existence:

- The network contract is obliged to have a specific name and a dedicated headquarter;
- The network could make the registration in the Enterprise Register obtaining juridical subjectivity;
- The network is obliged to yearly report the asset situation, following Public Companies disposition;
- The network is obliged to indicate the headquarter as well as its reference Enterprise Register and the relative registration number, in their business contracts.

The common authority is the entity in charge of the management and execution of the network contract, as well as partial steps of it. It could be composed by physical or juridical persons, internal or external part of adherent enterprises.

The network contracts can be different according to the level of involvement among enterprises or according to the type of subjects involved.

In the first case, the networks can be "light", if based on pure exchange of information or services, "intermediate", if based on real collaboration forms, "heavy" if characterized by deep cohesion grade to commonly fulfil basilar business activities.

In the second case, the networks can be classified as horizontal or vertical. Horizontal networks involve “peer level” subjects, with same management and organizational design, for example:

- Co-purchase networks, for advantages in sourcing activities;
- Co-R&D or Innovation networks;
- Co-production networks;
- Networks for buying and/or offering common instrumental goods or services;
- Co-marketing and promotional networks.

Vertical networks are the ones in which participants are distinguished according to their leadership role and position in the hierarchy, but also according to the chain position they cover with their business activity, for example enterprises dedicated to production versus logistics or distribution.

The network can be bureaucratic and associative according to the real activity to fulfill: in fact, as the first typology involves enterprises willing to operate individually but with lighter collaboration in easy activities, not requiring then the creation of patrimonial fund and common authority, the second one is characterized by the joint concrete execution of more serious tasks, comporting the creation of the above quoted voluntary elements.

The associative network is the suitable organizational structure for important common decision and with stronger operative powers, allowing to be competitive and more integrated for a long lasting collaboration.

The network contract can obtain juridical subjectivity only if the registration to the Italian Enterprise Register occurs, then, for this, another important distinction among not registered and registered: the network-contract and network-subject.

The network-contract without juridical subjectivity involves a direct effect on the enterprise’s private juridical environment, while the network-subject is a new third subject, autonomous and real juridical relationship and interest center, with tax duties, born with the apposite registration and follower of some Civil Code rules for consortiums.

To collaborate through network contracts is important to get advantages in terms of shared resources, expertise, knowledge and competences but also to get fiscal benefits and act as a larger dimension firm.

First of all, network contracts pillar is to leverage on the collaborative attitude of small and medium Italian enterprises, already acquainted in doing a sort of collaboration-competition if inserted in industrial districts and also aware of the need to work together to overcome dimensional and financial problems. To have a written formalized contract to rely on for collaboration activities becomes relevant as gives the possibility to be validate and increases safety of a shared effort directed to the unique shared purpose.



To build a network contract allows increasing competitive capacity through the interaction among different entities, with different features and capabilities, even distinguishing the relationship from the identity of the single firm, which keep unvaried its autonomy, governance, history and identity. In fact is neither a merger nor a JV, it is simply a tool allowing an external aggregation, flexible, easy to manage and tailor made, to put together skills and best practices to leverage on for a common project.

In the network contracts are also surpassed the territorial bindings, promoting even more wide collaborations, also among firms separated by great distances.

Through network contracts, firms get advantages linked to the bigger dimensions reached, acting as a single enterprise in managing with third parties, for example better contracting due to the increased market influence of the pool, buying goods at favorable conditions or having the possibility to attend contests, without being affected by hierarchical, organizational and costs rigidities of large firms.

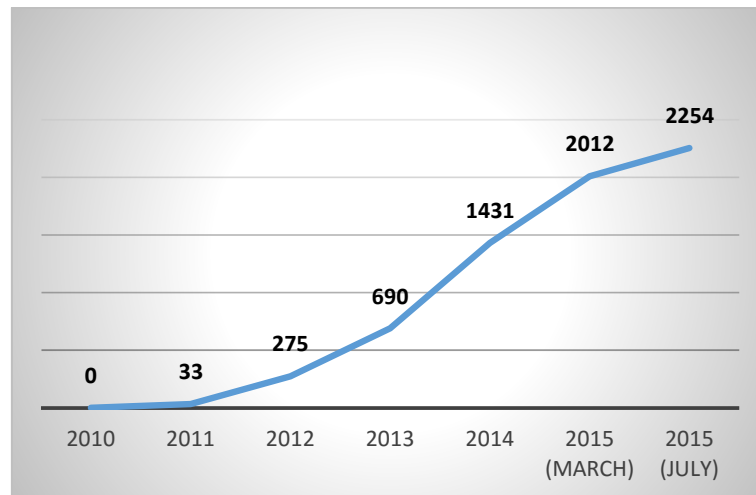
In fact, to keep own private autonomy but to exercise collaboration are the real strong points of network contracts, relevant aspects also for banks and other credit institutes. In fact, to set up a network is a guarantee for banks, more willing in conceding loans as really able to evaluate the project of the involved enterprises, so their solidity, their innovative capacity and competitiveness.

Also European Investment Bank has promoted enterprise networks' creations through a dedicated plafond of 100 million € for Italian credit institutes.

Another important aspect is linked to tax benefits. SMEs in the network can allocate part of yearly profit to the common patrimonial fund, if aimed to precise investments indicated in the asseverated network program: in this way they would be advantaged by the suspension of the related fiscal weight for that amount. Obviously, the amount should respect some conditions such as being lower than one million for each enterprise and should be used in the next fiscal year.

Network contracts have been growing overtime since their introduction, reaching 2254 contracts stipulated in July 2015, involving 11.454 enterprises, involving each industry but mainly the manufacturing activities (32%), professional and technical-scientific activities (12%), constructions (10%) and trade (8%).

Fig 7.1 Network contracts number. Trend 2010- July 2015



Own elaboration: data Retimpresa

The most updated data are of April 2016 registering a total amount of 2.793 network contracts, involving 13.978 enterprises.

The enterprise networks are mainly located in Lombardy, Emilia Romagna and Veneto even if the contracts are in the 27% stipulated among SMEs located in different regions, then going beyond the embedded culture of industrial district, particularly strong in such territories.

The contract in fact has not a geographical bases, rather it consists in collaboration based on a shared project, even maintain participant autonomy.

Network enterprise allows SMEs to easily reach scale economies and to invest in R&D, upgrading product, process and market innovations to satisfy demand and differentiate the offer as well as strengthen the marketing plan and commercial penetration. All these advantages, otherwise reachable only through increasing firm's dimensions, are obtained without being affected by the rigidities problems of larger size such as fixed costs, structural and organizational inefficiencies, remaining autonomous and share only the resources aimed to common specific objectives.

Osservatorio Intesa San Paolo explains 80% of enterprises in network contracts are micro or small enterprises, working together in order to strengthen their capabilities of creating trademarks but above all their innovation and exportation capacity.

In fact, the enterprise network is particularly important for internationalization projects. The larger part of enterprises in the peninsula are small and medium ones, scarcely structured but with the need to propose their products abroad, necessary for overcoming the stagnation of internal demand. For the above reasons, Italian SMEs are often not able to cope with international competition even if the "made in Italy" is required, being unable satisfy international opportunities.

However the network contract could be the suitable tool supporting internationalization of SMEs, as flexible and easy instrument, allowing firms to collaborate without losing their own independency and autonomy.

About the 30% of network contracts has in fact constituted enterprise network in order to follow internationalization and export plans, mainly in automotive, mechanic, food and wine industries, services and consultancy.

A survey of Minister of Economic Development, analyzing a sample of 300 enterprises part of network contracts, noticed an increase in exportation level of about 21.8%. Another confirmation about the positive performance of enterprise networks in terms of international activity is given by the Osservatorio Intesa San Paolo, underlining both technological and commercial competences flourished in such collaborative environment, then determinant for a better market positioning of network members. In fact, network participants have an average of 43.7% in export activity, 29.6% in quality certification and 14.8% as regard international registered trademarks, in respect of 22.2% weight of exportations of firms non-involved in network, with 14.7% certification quality and 6.5% international registered trademarks.

To work together joining capacity, experience and skills enables to discover even more opportunities and better succeed in international scenario. Especially if enterprises invest in internationalization strategies to increase visibility and commercial opportunities through Internet technologies, it is fundamental to considerate many other aspects to deal with excepting from website positioning, social media marketing and e-commerce strategies. Transportation, logistics and aftersales services, as well as the possibility to establish physical space in which customer could directly meet the vendors and try the products, are essential arguments to take into account. The typical Italian firm is not able to deal alone all these aspects, lacking of the needed capabilities to comprehend the better solutions as well as sufficient funds.

For these reasons to set up an enterprise network could be a real opportunity of collaboration, sharing personnel and financial resources to better exploit available information and knowledge, allowing to develop the most suitable strategy to better succeed on international markets.

The main activities put into practices by already existent network contracts to experiment international markets are:

- projects for a deeper commercial penetration and for ad hoc marketing plan enhancing quality of Italian products;
- collaborations for new business opportunities, also creating new brands for the foreign activity of enterprise network;
- support services, like assistance in documents and procedures related to custom or legal issues;

- deliveries and after sales services;
- database with information about foreign markets;
- internationalization training courses to learn personnel;
- “purchases groups” creation;
- Fairs participation.

The network contract permits to join efforts and capacities allows executing all the above quoted activities, really feasible by an enterprise network, as driver of better performance in production, distribution and R&D. In fact, through sharing resources the firms can get benefit from the competences of each one in the various production phases, creating apposite R&D dedicated environments in which spillover of knowledge can generate flourishing results, increasing contractual power toward third parties, promoting internationalization training course and investing in digitalization improvement in a shared manner.

Through enterprises networks become easier investing in logistical or commercial platforms, critical international trade activities to manage for final customers reaching.

Configuring as dedicated area, both for national and international transit, within which activities related to packaging, storage, transport and distribution of goods are performed, a logistical platform requires too much resources to be created and managed by a sole small firm.

Thus logistic center advantages are great, as it is particularly useful to support internationalization activities, as point of goods sorting, delivery, distribution and rendered items collection, especially if the firm rely on virtual channels to reach final customers, representing the support place in which the goods could be stored before arriving in client’s home.

Commercial point establishments represents another important investment opportunity: setting up small storage units and distribution centers, suitable to make final customers experiencing the products, allows to deeply penetrate the local market, with great advantages in terms of visibility and trust.

Since the introduction of such contract, enterprises networks have been appreciated and promoted by economists, scholars and journalists.

There is a shared idea about how to have success in foreign markets, especially in US, even if this can be considered a general approach, that is to say to promote a national brand, aggregate better SMEs in the countries and create common distribution platforms, specialized according to the industry.

In fact, in the meeting of “how to grow in US market” organized in Unindustria of Rome in 2013, themes about the issues of SMEs as weak for their scarce dimension and incapable of organizing effective and sustainable distribution activities, were the reasons determining the reduction of the export share of Italy in US, accounting 2.1% in 2001 and 1.5% in 2011. The suggested solutions

to recover and to be able to affirm on international markets have been to adopt a strong brand communication strategy, making Made in Italy a real trademark related to Italian products, which should be imposed on the markets to deeply penetrate them, and to create shared platforms to rely on in order to solve common logistical and distributive problems.

As through this collaboration consent concrete internationalization paths starting, now some real cases are exposed.

*Canavese Inside* is the first network enterprise in Ivrea, created in March 2016, composed by 11 firms in mechanical industry aimed to reach higher level of technological growth and increase international turnover and reputation.

The project involves Aira Valentino, Assotec, Euroconnection, Ghiggia Ingegneria d'Impianti, Jorio, Model Project MP, Nuova Simach, Se.Va., Tecno System, Tpl Logistica and TS. These firms share the common attitude of excellence research, the distinctive creative and productive capacities and the strong desire to communicate and remark their geographical industrial tradition.

The firms of the network are characterized by an important innovation rate and by continuous improvement and growth, oriented to the offering of the best available solutions to their customers. Tecno System is specialized in electronic cards production and, with open mind and creative spirit, it tries to conquer growth opportunities from outside, especially from foreign customers, reason why it has some branches in Tunisia and in India. Jorio, from its traditional manual and mechanical activity, has become a real mechatronic firm, projecting and prototyping also in co-design with customers, relying strongly on informatics instruments, technological and mechanical endowments and inventiveness capabilities. Jorio continue investing to enhance the value of its embedded distinctive capacities, especially in the integration of small components.

Model Project MP, born as model industry, has deeply invested during time in 3D printing and professional skills, improving also more traditional techniques as thermoplastic and aluminum manufacturing, for special, automotive, biomedical and light industries. Se.Va is an important partner of Model Project MP for the realization of aluminum, carbon and silicon molds for thermoplastic mold industry.

Ghiggia Ingegneria d'Impianti is instead an important player in industrial automation and turnkey assembly lines and robotic isles, working also in medical and hydroelectric energy industries.

Nuova Simach, in automotive industry, makes cold printing of metallic details, also projecting and manufacturing apposite molds. It is able to work internationally thanks to continuous investment in ISO certificates, quality and customization capacity.

Aira Valentino works in precision mechanics and mechanical vehicles production, performing well thanks to CNC machineries, robotized systems and instruments to execute 3D control on final products.

TS is instead focused on milling of precise particulars and on supporting customers, using apposite high generation tools, from the co-design to the final trial, affirming important customization capacity in aeronautic, automotive and motorsport fields.

Assotec is another important member of the net, covering different sectors, from automotive to diagnostic and medical industries. The firm success is based on the reliability and performance of their historical R&D center and of their production plant, in which are manufactured all the electronic systems, both sub-contracted ones and the customized with Assotec trademark. Another relevant distinctive capacity is the capability of directly working with customers, both in design phases and in after-sales assistance. Assotec has a commercial office in Milan appositely created to manage foreign relationships.

Euroconnection works in electric and electronic wiring sector and is characterized by the continuous research of high-tech solutions, new technologies and top tools to guarantee productive efficiencies and high qualitative final products. Thanks to its internal automation in production, years of experience and certifications, Euroconnection has become protagonist in different sector of industrial automation, CNC machines, robotics, packaging, beverage and food. Finally, Tpl Logistica is involved in goods movement, packaging, labeling and other support services, extremely useful in international trade contests, especially thanks to modern informatics infrastructures mapping the business processes and all information regarding traceability or stock level of the goods.

The enterprises in this network have important common features, such as technological excellence and ongoing research and innovation, thanks to the embedded improvement attitude they have. The enterprise network is then important to give visibility to the Canavese territory, characterized by many excellent enterprises, from its historical excellence Olivetti to many other great actors in electronic, mechanic, electro-mechanic, informatics, logistics and automotive fields, able to produce high quality and customized products.

The firms believe in the network as organizational tool, as through joining assets, high generation tools, experience and competences in projecting, researching, prototyping and also producing, it could be easier to stimulate innovation capacity and better perform complementary activities, resulting in high technological products and unique qualitative solutions to offer to national but above all to international customers.

In fact, the target is especially the foreign market for which the network will be the driver to improve competitiveness and widening customer portfolio. For this, firms have adopted a third unique distinctive brand, not related to the firms' names: launching this apposite trademark is related to the easier communication and marketing strategy the firms chose in order to improve the overall visibility and recognition of their qualitative production in B2B international market.

*ITC Italian Technology Center* is a network of enterprise made up by 11 firms, created in 2012, operating in the industry of shaping, especially creating metal and plastic manufacturing machines, located in Lombardy and Veneto. The members are not in competition among each other, rather they perform complementary activities, also offering applicative and integrated solutions to common customers.

The network is composed by BLM Group, a firm manufacturing tube processing machines with high technological arrangements, such as CNC tube bending, tube end-forming, Laser tube cutting, automatic sawing systems, tube and bar cutting, wire bending machines; Buffoli Transfer a turnkey producer of CNC machines for metallic parts; Delia manufacturing robots and manipulator, robot cells, transfer thermo and thermo-regulated channel, injectors, cutters, pumps for rubber.

Giuseppe Giana manufactures CNC lathes, deep hole boring and honing machines, while Istech Segatrici produces Band Saw Machines; Losma produces air filtration systems and coolant filtration systems for machine tools; Millutensil dies and molds spotting presses, splitters, equipment for presses and other cutting tools. Omera manufactures hydraulic and mechanical presses, universal ironworks and punching machines, Produtech manufactures cutting-punching and fiber laser lines; Rosa Ermando makes surface grinding machines while Streparava Holdings produces auto components. The amount of employees are about 1.200 for the entire network.

All these firms have decided to work together in order to increase commercial opportunities in India, through a strategic structured approach aimed to be more effective in market conquering, as well as to better perform commercial and aftersales assistance services.

The network as contractual tool has been chosen for its limited costs, simplicity and flexibility, as extremely respondent of involved SMEs needs, getting advantages from shared innovative capacity and easily collecting financial resources for the specific project, even if remaining autonomous in commercial choices and final market policies.

Indian market has been selected considering the national development rate of instrumental mechanic applications and, in collaboration with firms' category associations, a common office has been set up in Pune, great Indian industrial center for automotive, with a dedicated call center managing customers' requests for technical assistance. Among the participants, some firms had already a direct branch, others served Indian customers through commercial intermediaries, others had no customers in the country.

The aim of the project is to promote both ITC and private trademarks of the member firms, penetrating Indian market jointly executing market analysis, research projects, sharing industrial and commercial information, increasing visibility and trust grade of customers organizing seminars, workshops, B2B meetings and attending fairs and contests.

The further objectives of ITC are the enlargement of local investments, as commercial and productive branches creation, and the replication of the model in other foreign countries.

Actually the enterprise network serves, apart from India, US, China, Germany, Russia, France, Turkey and Spain in automotive, molds, general mechanics, aerospace application, with about 500 million € of total turnover, with the 75% coming from export.

*Rezdora* is the name of an enterprise network born in 2013 from the collaboration of four firms located in Emilia Romagna, working in the food industry. The firms are Dolcem, il Forno di Levizzano, il Sottobosco and Salumificio Vecchi, choosing *Rezdora* as the new trademark to uniquely represent them, in particular for the dialectic meaning of the term, referring to the “farmer’s wife”, as capable family and house manager, putting effort in cooking the best with the produce of own land and being the guardian of tradition and quality over time.

Dolcem is a firm set up in 1954 producing chocolate candies, pralines, chocolate sculptures and other chocolate realizations, from chocolate Easter eggs to nativity scenes. Year after year Dolcem continue to innovate, choosing even more sophisticated products and relying on clever chocolate masters.

Il Forno di Levizzano founded in 1952, is specialized in making artisanal quality bread, even renovating according to new trend and customer needs.

Il Sottobosco have been producer of mushrooms and mixed berries for 20 years, collecting by hand the fruits of the land and carefully selecting them to realize fresh, dry, freeze-dried, sauces and frozen final products. Il Sottobosco competitive advantage is in the checking practices of quality of the products and the fact to not cultivate but search and gather the natural produces the Apennine territory offers.

Salumificio Vecchi, founded in 1957, not only produces cured meats, but also main meals recipes with diverse side dishes to satisfy different tastes, characterized by the common embedded high quality.

The firms define *Rezdora* as a “network of food artisans”, commonly sharing the same passion, attention to quality, value of experience and proud as regard their traditions and their land. The objective of this project is then to propose and promote Italian gastronomic excellences, the ones tightly eradicated in their native territories but also other typical Italian products in line with the vision and attitudes of the members. The network is useful for creating the suitable commercial structure to rely on in order to serve the table of all countries in the world, directly from the artisanal firm, guarantor of genuine and qualitative properties of the food.

The entrepreneurs of the network have recognized the potentialities of internationalization and, clearly aware of competitive advantages of Italian products, have found a way to jointly increase their exportations level. They have created a new artisanal network of food artisans sharing



dedicated services and assistance by an export manager, set up an apposite physical point of sales to directly reach final customers, attended events, fairs, workshop in order to communicate the new trademark and create external relationships, but they have also started a digitalization path. In fact, they have built an international e-commerce channel, creating the Rezdora e-shop and invested in social media tools.

The strong points are obviously the high qualitative typical products offered but also the complementarity, making possible co-marketing strategies, such as proposing together cured meats and bread, mushrooms sauces and breads or marmalade and cheese. New proposals and different promotional approaches can be appreciated both by local customers and especially by foreigners, also tourists visiting even more often Modena territory.

The website in three languages, Italian, English and Russian, contains pages dedicated to the history of the network, the shared value and a deeper view on the traditional activities of the members, some overviews about newspapers, quotations and interviews, citations, recipes, cultural information and the e-shop section. The e-shop contains four food categories of items (chocolate, bakery, eatery, condiments) and all the details of the purchase contract conditions: the payment methods are by credit card, PayPal and pre-paid cards for a wide list of countries, while cash on delivery is admitted only in Italy. As regard delivery, the adopted courier in Italy is GLS while abroad the transportation of final good is different according to the country.

*Unity Design&Build* is an enterprise network born in 2013 by the partnership among Maligno, Peirano, Ambiente Luce, and Sereno Design, Piedmont enterprises working in furniture industry, commonly sharing values as competitiveness, quality, innovation and customer respect and satisfaction.

The aim of the project is to widen customers' portfolio and expand the business activity on international market, offering complete and high-end turnkey solutions leveraging on the network to solve logistic issues and cost optimization, for the complete satisfaction of the contractors.

The Maligno is a cabinet making firm, projecting and realizing interior design furniture, collaborating with important architecture offices all over the world; Peirano manufactures wood doors and window fixtures; Ambiente Luce is inserted in the light industry, supplying ad hoc products and lightening technical consultancy and finally Sereno Design created kitchens and design furniture.

The network have 70 employees and in 2013 generated a turnover of 24.8 million €.

The strong points of the collaboration among these firms are both the complementarity as regard the typology of goods offered and also the importance of some shared values as the relevance of tradition, handicraft and the entrepreneurial approach to pushing continuous improvement in the

production standards and in goods quality. The network has been useful to formalize the historical collaboration among the firms as well as the rules behind their interactions, especially as regard procedures to follow in sharing human resources, technologies, contents, experience and specific international knowledge. With the network, the firms jointly benefit from each other expertise, information and competences, easily overcoming dimensional problems related to international execution of furniture turnkey solutions, improving efficiency of business processes and managing more complex aspects as the scarce economic power in purchases and logistics issues.

The objective of Unity is to enlarge their presence worldwide to find prestigious commercial partners to work in collaboration with, but first of all to show the excellence of the solution and turnkey projects they are able to ideate, extremely tailor made and customized according to interlocutor's desires. Starting from Azerbaijan, Kazakhstan, Oman, Algeria and Monaco principality, Unity would try to conquer even more customers, loving Italian style and talent.

The quoted network contracts are only some of the big number of networks flourishing in Italy, but represent how the collaboration and the combination of financial and not financial resources, such as skills, experience, specific competences, permits enterprises to share the effort in continuously innovating and offering the best to satisfy customers.

Italian network entrepreneurs have clear in mind Italian manufacturing potentialities as well as the foreign recognition as regard products features like quality, precision, customizability and exclusive design, and the importance of territorial linkages and cultural heritage behind such productions. As already considered, finance is one of the main obstacle for SMEs thinking about an internationalization path, but with enterprise network it is easier collect resources, especially by credit institutions, by which Italian SMEs tightly depend. The credit is an important issue as financial solidity is essential to start internationalization process, but banks and other financial institutes becomes surely more confident if relying on a pool of actors, signing a clear and shared plan, organizing resources to common and predefined objectives.

The logistic issues are other typical disincentives for Italian SMEs internationalization, principally worried about products' damages and losses (42%), exportation and custom procedures and documents (35%), transportation costs (37%), as demonstrated by UPS survey about European exportations of 2014.

Through implementing collective actions, for example through setting up logistics platform or to successfully concluding arrangements with logistic partners due to the greater economic power given by the network, could be the way of finding common distribution, packaging and exportation support solutions. In fact, the network allows to realize scale economies and agree upon policies in promotion, distribution, organization, after-sales services, accounting,

certificates and custom duties procedures and in all those functions not really linked to the typical business manufacturing activity of the member, by contrast essential tasks in internationalization process, otherwise too expensive if fulfilled by the single firm. Also realizing an effective penetration strategy through e-commerce is easier if SMEs rely on the network for common investment on e-commerce platform and digitalization trainings, building and sharing a unique distribution centers in foreign countries.

Network contract permits maintaining independency but also joining and fulfilling common strategies, representing, as the above mentioned cases demonstrate, a concrete support SMEs of international affirmation challenge.

## **7.2 Consortium**

The consortium is defined by the Italian Civil Code as “a contract among more entrepreneurs setting up a common organization with the objective of realizing and disciplining specific phases of respective enterprises”, for the achievement of common business goals.

The consortiums, initially born as legislative instruments aimed to make limitation of free market competitions such as with cartels, then changed in organizations based on voluntary cooperation among entrepreneurs, which work together to satisfy common business needs, in order to get advantages by common execution of particular phases or activities, otherwise not convenient if executed alone.

The consortiums can be divided among consortiums with internal or external activities, according to the existence or not of direct interaction with external parties.

There is in fact a common discipline as regard the bottom requirements to create a valid consortium, such as founded by entrepreneurs, in a written form contract, lasting 10 years if not different specified. The consortium with external activities should follow additional rules about the registration in Enterprise Register, property and fund guarantees for external parties and publicity obligations.

With the law number 134 of 2012 has been introduced the internationalization consortiums, substituting the export consortium of 1989, becoming more flexible in terms of setting up requirements as minimum number of participants and norms about the minimum quota of corporation stocks, and offering increased services beyond the “classic” support in exportations. In fact the new internationalization consortiums are devoted both to the international diffusion of products and services of participant SMEs, and also to other international support activities. These activities can consist in country and market researches, analysis on potential customer segments, raw material importation, ad hoc internationalization training for personnel, insurance documents, fiscal and custom duties procedures, logistic support and consultancy, quality

certifications, products authenticity protection, after-sales assistance. All the above mentioned are all basilar services necessary for starting internationalization processes, and are aimed to sustain and help unexperienced SMEs, obviously not relying on suitable administrative personnel in their organic.

To create an internationalization consortium, the requirements are: to be a consortiums according to Italian Civil Code or to be a companies' cooperative, composed of Italian SMEs according to dimensional and turnover normative details, involved in industrial, artisanal, touristic and service sector.

The consortium could receive a maximum amount of 50% for the coverage of admissible expenses for executing internationalization projects, also in case of enterprise networks composed of SMEs outside the consortium. The funds are not to give back and cover a maximum of 3 years for multi-year projects. In order to get such funds, it is important to follow some rules: to be a non-profit entity and not distributing surplus earnings to firms of the consortium; to have a consortium fund entirely approved and covered for at least 25%; each member should have a participation quota for at least 1.250€ and not higher than the 20% of the entire fund; to be registered in the Enterprise Register and not be involved in bankruptcy proceedings. The internationalization project should require expenses among 50.000€ and 400.000€, regarding five SMEs in the same industry or filière, coming from three different regions. Each enterprise should not get benefits from funds higher than 200.000€ in three fiscal year.

The admissible expenses are related to participation to international fairs, renting materials for stand or temporary showroom arrangements, interpreting and translation services, hostess services, equipment renting, transportation and insurance costs related to sample movements for promotional events, creation of the consortium trademark and related registration fees, brochure, catalogues, informative materials costs, television and radio ads, website and international magazine advertising, travel expenses, management and coordination fees below a certain amount.

The consortium gives many advantages for the common exercises of business functions, not easily executable by single firms, also benefiting from the specific funds the Government have stated for their internationalization projects. By contrast, the network is more an aggregation, in which the businesses are not really unified in some functions and should not give up their autonomy. Moreover, the network does not imply the automatic born of juridical and economic subjectivity, configuring as a contract, but also as a subject if appositely chosen by members and, in this case, the consortium rules are the same of the registered enterprise network.

### 7.3 EEIG

A European Economic Interest Grouping (EEIG) is a type of legal entity allowing companies in different countries to easier collaborate and do business together, also to form consortiums to take part in EU programs.

Setting up an EEIG permits to facilitate and develop economic activities of the members by sharing resources, activities and skills, otherwise not possible by one member alone.

An EEIG can be founded by companies, firms and other legal entities which have been formed in accordance with the law of a Member State and which have their registered office in the European Union. Also individuals carrying on industrial, commercial, craft or agricultural activities or providing professional services can be part of a EEIG.

The contract for the setting up of EEIG contains EEIG's name, its address, the object for which the group is formed, the duration (except when it is indefinite) and the name, registration number and place of registration of each founder. The contract must be filed at the registry designated by each Member State to acquire real validity.

An EEIG must have at least two members from two different Member States, it cannot employ more than 500 persons and its business should be related to the economic activities of its members, but cannot replace them, as underlined in the object stating the purpose of cooperation among the members.

The profits of an EEIG are apportioned according to the relevant clause in the contract or in equal shares, and each member pays for the related taxes. As a counterweight to the contractual freedom which is at the basis of the EEIG and the fact that members are not required to provide a minimum amount of capital, each member of the EEIG has unlimited joint and several liability for its debts.

The network is similar to EEIG as legal tool to join resources and competences, to reach better results, than the ones of their members if acting alone, but there are some difference, especially as regard the collaboration requirements and rules to follow in the way of working. In fact a EEIG can be built only among enterprises coming from two diverse European countries and must always be registered to acquire legal personality. Moreover EEIG do not give freedom to the involved enterprises in contract contents, by contrast it should contain apposite management and organizational practices in line with the procedures and rules decided by the European Union, in an apposite communitarian regulation of 1985.

The EEIG is perhaps not suitable for internationalization process of the larger part Italian SMEs, in any case not for the starting phases of such type of path. In fact Italian enterprises would be better create arrangements with other Italian partners and be free to define their involvement

and way of working. To create relationship with foreign partners is a good chance, increasing innovation and growth possibilities but it could not be so easy and suitable for actually entirely domestic or scarcely opened enterprises. Moreover, the linkage with territory, Italian quality, traditions and the sharing of same cultural values are important aspects to consider for a real effective international strategy and long lasting collaboration.

#### **7.4 ATI**

The temporary association of enterprise, in Italian ATI (Associazione Temporanea di Imprese) is a juridical structure, usually created in order to better positioning in tenders, as the sole firm often lacks of all requisites or dimensions needed to participate.

With this aggregation, the enterprises attend the tenders with a sole offer, presented by the firm heading the group through an apposite representative mandate, being involved in the execution of that specific project.

In the ATI, the juridical autonomy exists for each attending enterprise, but is extremely different from the network contract for feature as the non-recurring relationship and limited duration, linked to the completion of the project for which the ATI is created.

To create an ATI is necessary a public document or an authenticated private writings, through which is determined the group leader to attribute the representative mandate of the whole group. The ATI can be defined horizontal or vertical according to the typical business of the involved firms, which are responsible in solid for the obligation to the contracting authority for subcontractors and suppliers.

The fiscal treatment is different in case of unique juridical autonomy (if the project to realize cannot be divided) or not, in this case making direct invoices to the contracting authority, on which pay taxes.

Among the most frequent internationalization proposals, there are tenders for participation to international events and fairs, promoting ATI set up to benefit from a partial expenses coverage. Even if there are public tenders for internationalization promoting ATI creation, this structure is not a real opportunity for internationalization, as it allow only "one shot" relationships, once concluded the project, it disappears. This could be suitable for occasional event, however Italian SMEs necessitate a medium-long term strategy to put into practice, to real develop new opportunities.

## 7.5 Other network and collaboration instruments

This final section is about networks, collaborations and Government's policies opportunities in terms of alliances with foreign retail stores. To collaborate and build relationships is determinant for all enterprises willing to start an internationalization path and even if no contracts are signed, the trust and the awareness about what could be the reciprocal advantage would make people working together. In fact, to join resources and capabilities is determinant for increasing the worth of the involved firms, generating higher value than the algebraic sum of each one.

A first example of such collaborations can be given by export promotional policies proposed by consolidated consortiums, aimed to satisfy common business needs and give benefits as regard the collective execution of particular activities, not convenient if fulfilled alone.

In 2016 the Parmigiano Reggiano Consortium has devoted 2.500.000 € for exportation practices, funding traditional activities, such as in-store promotion, sampling with hostess assistance, gadget distribution, and apposite projects, addressed to increase the knowledge and the recognition of Parmigiano's value as well as the placement in foreign retail stores. The consortium economically sustains also cheese factories in the participation to a maximum of three foreign fairs per year.

Another important consortium is Melinda, aggregating 5200 apple producer of Trentino Alto Adige, it becomes a distinctive trademark affirming gradually in international market. In fact from 2003, year in which the exportations were about 10% of total sales covering 15 destination countries, there has been a real growth in internationalization level of the consortium, in 10 years reaching the 20% of total sales and 27 new destination countries.

The strong points of Melinda are tight linkages and relationships among farms as regard effort in continuous qualitative production and careful harvesting methods, but also the centralization of different activities, such as sales, promotion, social media advertising, apples storage, conservation at apposite temperature, selection, quality control, packaging and delivery, really distinguishing Melinda, recognized trademark on international markets.

Also non-formal networks among enterprises working in different segments of the value chain are important for global success, especially if such partners are bigger ones.

The biomedical district of Mirandola for example is succeeding in exporting activities thanks to the important collaboration among the local specialized artisanal SMEs in biopharma industry with multinationals in medical equipment and technologies industries. Quality, innovation, creativity flourish from the reciprocal relationship among biomedical and technological value chains, highlighting this informal network based on knowledge sharing and research as the real basis of success. Equipment and medical gears multinational builders appreciate Italian

handicraft, competences and innovative approach of pharmaceutical SMEs in Modena province, become the references for giants as Fresenius, Baxter Bbraun, Sorin and Medtronic.

Also institutions and category representatives propose to enterprises ad hoc promotional activities to be incentivized to work beyond border, even on network basis.

An example is Deliziando, a project born in 2008 based on the collaboration among Emilia Romagna Region and Unioncamere, in order to promote typical and qualitative agricultural products of local enterprises, inserting them in international markets.

The last edition of the project has a three years duration and it is aimed to the realization of consolidated partnerships, among institutions, category representatives and SMEs. Deliziando would give value to the cultural heritage, traditional products and touristic offer of the region, especially investing in SMEs internationalization, pointing out the excellence of many Italian manufacturers unfortunately not suitable for being international actors for their limited dimensions and resources. Through Deliziando project, it is possible adopting a real network strategy based on a variety of information, resources and specific support extremely helpful for SMEs path.

In 2013 Deliziando has implemented diverse commercial activities in UK, Hong Kong, Thailandia, Brazil and Canada involving about 100 regional firms. From the beginning the project has promoted Italian enterprises in 24 countries, with 1.800 firms, 840 foreign buyers, 7.540 B2B meetings, strongly pointing out the importance of 39 original Protected Geographical Indication, Registered Designation of Origin, quality trademarks, certified productions and authenticity .

The aim is to make foreign buyers even more acquainted and informed about Emilia Romagna's products, underlining the strong relationships with the territory and capturing new demand to increase local SMEs internationalization rate.

The main chosen channels are HoReCa, importers, traditional and modern gastronomy and retail stores to conquer with informative meetings, fair promotions and focused actions aimed to favor small firms aggregations and cost optimization, granting support in investments aimed to offer common services.

Finally, an important opportunity is given by Government policies, as regard the already mentioned "plan for the extraordinary promotion of made in Italy". The key objective the involved ministers and ITA would achieve is to introduce food and wine Italian brands in the shelves of more than 1000 US supermarkets, for this investing about 50 million € for a multi-year partnership agreement with large scale retailers.

The promotion plan involves big retailers as HEB, Mariano's, Price Chopper and Market 32 (the two latter both owned of Golub Corporation) and begins in four states, New York, California, Texas and Illinois.



To promote Italian agribusiness production and fight against Italian sounding phenomena are the goals of this important strategy. It concretely consists in bringing authentic Italian food and wine products to big and diffused supermarkets, advertising them, offering samples, making digital promotions, print and online advertising, as well as inserting apposite end cap displays or shelf talkers, inviting top Italian chefs for demonstrations, giving also the opportunity to be awarded with a travel to Rome. More than 850 Italian products, as Italian cheese, vinegars, cured meats, beverages, pastas, sauces, pastry, vegetables, olive oil and wood-fired pizza will be imported and offered to American consumers “even more looking for authentic products with which to make traditional old-world and new classic Italian dishes for their families“ as the CEO of the Golub Corporation affirmed, extremely confident about the appreciation of US customers and the good results of the partnership.

This “Made in Italy” promotion addressed to US market would raise awareness for Italian quality, increase recognition and reputation of “Made in Italy”, helping consumers to comprehend values, characteristics, recipes and customs associated to true Italian products and trying to conquer even more marketplaces.

## Conclusion

The economic and financial crises has deeply harmed Italian SMEs mainly unaccustomed to work internationally and tightly dependent by the internal demand, which collapsed with dramatic consequences on consumption levels, GDP growth, investments and unemployed people.

However, even if the rooted value of Italian manufacturing, known for its quality, customization capacity and distinctive style, is treasured around the world, its related demand is yet unexploited, then representing a potential leverage for the recovery.

This document has tried to underline the possibilities Italian firms have to explore international markets opportunities through the network, intended as digital tools and organizational method to adopt in order to easily capture the existent international demand for Italian production, fed by a spread recognition and appreciation about its embedded manufacturing quality.

After an overview about Italian system of enterprises, explaining the preponderance of micro, small and medium dimensions' firms, and a brief historical outlook of their evolution, the focus has shifted to the exportations of the peninsula, especially to the outperforming industries and the main commercial partners. Not only the typical "made in Italy" sectors, but also other industries such as pharmaceutical, cosmetics and instrumental mechanics have resulted internationally appreciated.

The theoretical background about international trade and the most diffused entry modes, has been a useful basis to better understand how Italian SMEs are inserted in international markets, recognizing two different approaches according to firms' features: actually many small and micro enterprises involved in international trade generally export occasionally their products, while many middle size firms have a more structured approach, characterized by subcontracting and FDI too.

The poor international level of SMEs, largely based on occasional exportations, has not been the consequence of an intended strategy, by contrast it arises from casual events offering such commercial relationships: the scarce knowledge of foreign markets, the scarce capabilities in customers finding, the high confidence in importer capabilities, credit unavailability, scarce investment in new technologies and in applied ICT and scarce international vocation and openness to novelties by familiar governance firms, are some causes making Italian firms unable to cope with the emergent needs and challenges of businesses internationalization , especially as regard long term relationships establishment.

As "there is no future without technologies and without management" (Anderson), to augment their exposure in international markets, Italian SMEs should be able to exploit available instruments as network technologies and network contracts.

The insight about the level of digitalization of the peninsula is followed by a deeper analysis about Internet solutions implementation, such as info-commerce, e-commerce, focused digital programs promoted by giants like Google, Amazon, EBay, specialized marketplaces subscription and apposite adoption of software allowing a better satisfaction of customers' tailor made requests.

The possibilities offered by Internet technologies are enormous but to give additional value added to international customers it is important dealing with some practical aspects, like logistics, distribution and aftersales services, not easy by a firm alone to provide.

The network contract, permitting the realization of enterprises network, results to be a flexible organizational method involving SMEs in collaborating, sharing knowledge, resources, competences and capacities aimed to achieve common goals, according to a common development internationalization plan, but keeping their autonomy unvaried. The network contracts and some business cases has been analyzed and but also other contractual solutions and international collaboration, focused on joint efforts to better perform on international markets.

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