Internationalisation of the Italian economy and the role of banking in reshaping the SME value chains

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Abstract

Since their foundation, banks have played a role of primary importance in the creation and growth of enterprise. Within the geo-economic context, Savings Banks, Cooperative Banks, Rural Banks and other Credit Institutions have had close ties with Small and Medium Size Enterprises (SMEs). This implies reciprocal processes of influence, adaptation, synergies and stimuli not to mention conflict and crisis. Notwithstanding its complexity however, the issue has failed to attract the interest of geographical or other scientific disciplines. At the same time, while impressive scientific studies relative to local systems, industrial districts, etc., have been published, relatively few analyses have highlighted the role of banks and other financial institutions.

This scientific contribution represents a geographical, cross-disciplinary and interdisciplinary reflection on the driving role of banks and other financial organisations in the competitive dynamics framework of contemporary sustainable development and the organisation of the SME value chain, with particular reference to the internationalisation of the Italian economy.

Keywords: Internationalisation, Banks, the SME value chain.

1. Internationalisation of the Italian productive system

The process of Internationalisation has been characterised by rapid expansion during the past two decades in Italy as well as at global scale. The process implies much more than just foreign investment on the part of SMEs and includes the capacity to attract foreign capital[2].

A globalised or internationalised economy, i.e. globalisation, defines the growing interdependence between economies (Bordo e al., 2003). During the past three decades, inter-country economic interdependence has become more intense and operates through trade, the labour force, information and technology exchange, productive investment and financial capital flows. This implies structural change which has impacted on the technical and economic potential of production processes, localising individual phases and 'activities' in different areas of the world in a centralised process. In other words, goods and services now produced globally make products in one country highly dependent on economic activity in a range of other countries (Helpman, 2006; Baldwin, 2012; Grossman and Rossi-Hansberg, 2008).

Furthermore, globalisation has restructured traditional models of production and economic-political relations and has redefined the priorities of States and Governments subordinating them to the laws of free trade and the marketplace.

Within this scenario, Companies have exploited the opportunities offered by globalisation both through vertical and horizontal integration processes, (the former privileging entry to multinational economies and transnational companies, the latter in terms of acknowledging the value of foreign trade in national economies). Globalisation however, also implies greater sustainability and social costs and drastic changes in the nature of economic relations. In this respect, only if economists and politicians work together will it be possible to create a sustainable economic model of reference.

2. Variables underpinning internationalisation

In the internationalisation process, cutting production costs is not necessarily a priority for enterprise. The basic aim of Companies is through specific entry strategies, to penetrate markets in foreign countries with greater potential for economic and commercial development to acquire significant market share.

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[2] Italy is classified in terms of stock and foreign investments as the least active of the most important European partners.

Internationalisation far exceeds the spectrum of trade and economic transactions. Having pervasive implications on politics, society and culture, the process has become a powerful driver of integration and change in Society and represents the foundation on which the complex process of globalisation stands.
A series of variables underpinning the process are implied in internationalisation strategies. Crucial elements involve the choice of markets or geographic area. Companies starting on the internationalisation path have to carefully analyse both the choice of location of their investment and major variable macroeconomics characterising the markets in a given period[3].
In this context, the analysis of Foreign Direct Investment flows (FDIs) can guage trends in international trade and the way in which a particular market attracts productive foreign capital. The self-propelling process triggers a virtuous cycle of growth. In addition, companies have to assess the extent of development of its own particular market segment taking into account saturation levels or whether a particular industry has developed to a sufficient extent to offer opportunities for sub-suppliers[4].
The analysis in economic and legal terms of new markets also has to take into account the corporate objectives envisaged in the internationalisation process which also depend on a company's structure and size.
A driving factor of internationalisation is the search for new outlet markets whereby corporate growth goals are achieved through the retail of products with competitive advantage, the use of resources and knowhow that already characterise the enterprise, or the desire to exploit delocalisation benefits and those deriving from economies of scale. Moreover, internationalisation is also privileged by virtue of the low cost of raw material and labour characteristic of most emerging markets[5].
In short, success in acquiring significant market share in the country where a company has internationalised, not to mention flexibility and cost control helps to penetrate not only neighbouring markets, but also where companies face intense competition such as markets at American and European scale.

2.1. The Italian scenario

The Italian industrial fabric, distinguished mainly by SMEs, impacts inevitably on their relevant internationalisation strategies. Frequently, businesses decide to start on the internationalisation path provided with investment opportunities, but lack strategies to drive the process of long-term internationalisation[6].
As far as Italian SMEs are concerned, their distinctive feature in internationalisation processes is that they are not always aware of their positioning within the internationalisation scenario. The 'experience' of most SMEs is indirect or what Cafferata (1993) and Rispoli (1994) call 'objective' forms of internationalisation. In other words, SMEs can have links with international environments, independently of penetrating foreign markets for the direct placing of their goods or services. In addition, even when a proper internationalisation strategy is in place, SMEs - as well as and even

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[3] Low tax levels, less local bureaucracy, acknowledgement of major international conventions on international law, and the launch of fiscal and legal liberalisation processes are factors that inevitably have affected the choice of markets to invest in.
[4] The absence of a precise strategy can adversely affect the final result that the company intends to achieve. Uncoordinated internal and external activities inevitably lead to higher costs, make the company unprepared for short-term strategies and incapable of defining those needed to respond to the shocks typical of emerging markets.
[5] Italian SMEs operate as 'chain' end rings, fine-tuning the finished product and serving a domestic or local market, but buying from an international chain of goods and services or manufacturing intermediate goods and services for industrial users who they serve on an international market.
[6] Together with the low cost of production factors, such markets also offer great potential, both in terms of prospective consumers and in geographical terms. In fact, many of these countries could become eventual logistic platforms and production centres relevant to export to other countries. This would allow these companies to expand their presence on foreign markets by gaining new market shares and, ultimately, significantly reducing the costs associated with internationalisation.

more so than large companies - come up against two major limitations: the liability of foreignness (Nachum, 2015) and the liability of newness (Schoonhoven, 2015).

Inevitably, due to such constraints, Italian SMEs have usually opted for the export mode, with little propensity for foreign investment. In most cases, internationalisation on the part of Italian SMEs has involved the finished product rather than activities upstream of the value chain. For these in the main, even in the case of decentralisation, local territory is exploited proficuously in terms of resources and suppliers.

In short, the preference for less ‘demanding’ modes of internationalisation has undoubtedly underpinned the governance models of businesses. The focus on the family nature of an entrepreneur’s business for example, implies an excessively limited use of managerial figures and structured forms to adequately address the challenges of internationalision.

However, as Grandinetti and Rullani (1996) point out, Italian SMEs foster a ‘natural’ relationship with internationalisation, given that their niche skills can only create value through sales worldwide. The competitive advantages of Italian businesses are mainly deeply rooted in the territory, motwithstanding being intrinsically of a ‘global’ nature and exploitable internationally without needing to adapt supply to different markets.

In other words, essentially they are the core features of Made in Italy: products/supplies that are particularly suited to niche but at the same time, global markets. Furthermore, the products are in the luxury goods category targeted at top bracket segments of the market, thus price levels and margins of profitability can often withstand even high production differentials compared to low-cost producers.

On the other hand, a more detailed analysis reveals that the path of internationalisation is still far from completion (Grandinetti, Micelli and Rullani 1993). One reason is the selective nature of such processes, in the sense that they are often only limited to a few functions and activities of the value chain (predominantly sales). Another reason is that often, no clear-cut strategy of internationalisation that sums up a series of strategic choices is evident.

Moreover, if it is true to say that the export mode is still the most suitable to support the internationalisation of Made in Italy products or services, the lack of a structured approach to international operations appears to be a potential weakness factor. The scenario is gradually changing however by virtue of trends such as: the growing scale of markets (with related problems of corporate size); competition coming from new players worldwide, and the delocalising trend on the part of Western enterprises towards low-cost countries.

To date, Italian entrepreneurs have favoured a more qualitative as opposed to a dimensional approach, preferring to enhance and strengthen the system of relations at local scale (territorial district) rather than growing rapidly and risking loss of control. Notwithstanding, in the future, when markets open up even further globally, enterprise size will be of the utmost importance in achieving competitive advantage. In order to govern their growth, SMEs will have to radically change their traditional governance and management models.

Differentiated internationalised business models, taking into account sectoral and corporate typologies, are equally suitable and effective and all concur in achieving the goals of internationalisation.

3. Internationalisation, Finance and Banking Services

Internationalisation processes require adequate financial resources as entry into countries that are often geographically distant entails additional costs linked to the diverse legal systems and linguistic and cultural barriers.

Generally, banking services in support of SME internationalisation and production are divided into three sectors: cash loans (including ordinary loans, those specifically for export or import transactions, so-called trade finance), risk cover (including letters of credit protecting exporting companies from foreign insolvency) and information and business support services.

Given the link between financial constraints and internationalisation, international business activities are generally more credit-intensive and therefore have greater funding requirements[7]. On the other hand, financial constraints affect non-internationalised SMEs more compared to those already present on foreign markets, which are more productive and efficient and tend to possess higher levels of liquidity and self-financing (Minetti and Zhu, 2011)[8].
Trends suggest that financial constraints, although not the major obstacle to SME internationalisation impact more in particular periods or in relation to certain forms of businesses. In this respect, analyses promoted by the Italian Institute of Statistics (ISTAT) indicate that the lack of funding constitutes a penalising factor for exports, particularly in the field of instrumental goods, where multi-annual tenders/orders are more frequent. However, it is worth pointing out that the SMEs that renounce internationalisation attribute their choice to organisational or information factors rather than to financial constraints (Cristadoro and D'Aurizio, 2014).
Notwithstanding, the financial integration of the world economy, the revolution in digital technologies, trade agreements that have reduced tariffs and other barriers and the abolition of transport costs have all contributed to a new technological paradigm that has changed the organisation of production processes and expanded the range of goods and services. As a result, the international division of labour has intensified and production processes structured according to Global Value Chains (GVCs) have enabled comparative advantages between different countries. In other words, the internationalisation of the intermediate goods market.
On the other hand, the drop in world trade, well in excess of GDP and industrial production has stimulated in depth studies on the part of numerous scholars (Bems e al., 2013). Reasons range from the financial crisis (the *credit crunch*), which has also affected trade finance to the predominance of GVCs and such studies reveal interesting implications on the reactions to the crisis in Italy. Several works highlight that the impact of the crisis on enterprises depends on their position in the GVCs (Altomonte e al., 2012; Barba Navaretti e al., 2011). Companies classified as the most productive make significant FDIs, those classified in terms of intermediate productivity rely on outsourcing while the last group remain vertically integrated within their home country. These data have been empirically tested and confirmed through various studies (with reference to Italy, Federico, 2010). Within this scenario, other findings from research indicate that the marked differences in business characteristics are directly linked to positioning in the GVC supply chain with intermediate production units the least dynamic, in other words SMEs, implementing strategies that do not entirely cover innovation, human capital and internationalisation. However, in sum, the impact of the crisis was shown to be quite uniform in the companies present in the GVCs, depending on their role as end-users or intermediaries and their ability to pursue aggressive and innovative strategies (Accetturo and Giunta, 2014).
In the context of productive internationalisation nonetheless, Italy lags behind other major European countries in terms of foreign investment depending on whether incoming FDIs are the terms of comparison in that the industrial fabric, made up mainly of SMEs far less inclined to face the high costs and risks associated with manufacturing abroad, with the relevant implications for settlement or involvement in foreign markets. However, it should be pointed out that during the last decade, Italian foreign investments have increased in the most intensive technological sectors and in Asian and emerging countries, due to the dynamism of SMEs attracted by the growth prospects of the abovementioned economies.
Notwithstanding adequate support of SMEs is fundamental for entrepreneurs to deal with global market changes save influencing decision making or risk prevention. Policies of support for SMEs should entail rewarding innovation and not involve risk unless such policy is devised as a response

[7] Thus, especially higher fixed costs (Feenstra e al., 2014, Manova, 2013); additional factors that in the case of exports lead to an increase in the use of bank intermediaries are linked to the need for protection against the foreign insurer's risk of insolvency and the greater distance between seller and buyer, which determines a longer interval between production and delivery of the goods (Chor and Manova, 2012).
[8] Also on the part of the Credit Institutions, the tendency to select the least risky subjects in times of crisis could help to protect internationalised firms to a greater extent (*flight to quality*).

to specific market failure. In similar circumstances, changes in the global market could impact heavily on smaller businesses (i.e. those operating in the GVCs or in economies such as Italy, where SMEs are the prevalent form of enterprise).
To support SMEs with interests in export, efforts should be put in place in order to create open markets via trade negotiations and to ensure legally valid instruments applied to third countries in defence of trade not to mention the application of global trade rules and regulations and the support of domestic markets, without neglecting the issue of symmetrical access. In short, SMEs should be guaranteed against trade barriers in terms of low or non-tariffs.

4. Concluding remarks

Trade policy strategies should envisage the enhancement of productive specificities, partnerships to ensure access to markets to develop and above all coordinate with SMEs to enable them to deal with the complex process of trade negotiations. More generally, policies should be designed to meet SME needs given the gap between how SMEs consider obstacles to internationalisation and where such obstacles are perceived by policy makers. Practical and accessible support measures on the part of local and national intermediaries, SME experts, and the business links should also be provided. At the same time, effective pathways should be devised to assist SMEs in terms of intermediation, tax relief, punctual payments and measures contributing to the rapid distribution of funds, especially for the sectors of economic activity most exposed to the pressures of globalisation and the recession.
Equally important is support for SMEs to provide a skilled and knowledge-intensive workforce given that SME competitiveness is guaranteed by high-level skills, particularly in areas such as engineering, technical maintenance and construction. The putting in place of such expertise will contribute to tackling global changes, promote European partnerships and long-term cooperative projects between SMEs, Management, Universities and Research Institutes in emerging economies. Networks that are strategic for globally active SMEs should also not be underestimated. In this respect however, the EU has not fully exploited its potential to improve the position of SMEs as exporters to third-country markets and importers from such markets. In this context, of particular interest is the role that the EU and the Member States can play in supporting SMEs that are sufficiently competitive to operate as Initial & Intermediate enterprises (I&I) in GVCs. Thus, innovation in the real economy is important, especially in complex economic, socio-environmental scenarios. It is crucial that policies provide a timely response to new challenges, be prepared for assessment on tangible elements of quality and create open dialogue with relevant stakeholders to exploit best practices and outcomes.
At European Union scale, in addition moreover, existing and operating institutions and intervention tools, including Structural Funds and the European Investment Bank (EIB) Quantitative Easing could be renewed and integrated within the new industrial policy to radically change operative methods. In the long term consequently, policies of dedicated Institutions, such as the above mentioned EIB or European Industrial Agency should be defined more consistently with the objective of reforming the EU country production structure[9].
It is a commonplace that growth, development and employment are extremely relevant issues and are the foundations underpinning the focus for reflections on future policies. However, Italy has been able to recover competitiveness only in part, given her endemic incapacity to define efficacious economic policies capable of steering economic recovery. Reviewed policies should include specific drivers to increase market share at home and abroad in the economic context of reference, in particular that of SMEs. More credit should be available, fluctuations in financial markets should be dealt with, consumption triggered and more balanced international agreements strived for. Not least, the impetus deriving from globalisation and the innovative digital revolution also have to be exploited. At the same time, legal reforms already delineated in 2014 require putting

[9] The funding of an EU industrial policy should be put in place via European resources thus avoiding the onus on the national budgets of countries in economic difficulty. The size dimension considered adequate for implementing an Industrial Policy Programme as envisaged by Euro Memorandum should also be taken into account.

in place together with the dissemination of new digital brokerage platforms within the Community, the increasingly important role of technical standards and the changing need to regulate the free movement of goods and people and the freedom of settlement in internal and international markets.
In recent years, credit and credit support policies and instruments have been insufficient to divert trends away from the growing credit crunch in the SME business system. The main tool available to SMEs and to date still sustained by significant resources, is the Central Guarantee Fund, intervention that has created, in Italy in a short period of time, the most important publicly guaranteed financial instrument which is growing constantly to an exponential degree.
Despite the success of the Fund however, equally important accompanying skills of the same to market needs have not been observed. This prevents the Fund from becoming the target of firms actually in need of public intervention and from becoming progressively functional to the needs of banks undergoing losses observable from the exponential growth of operations of 'direct collateral' to mitigate the absorption of Credit Institution capital. This trend, uncountered by appropriate reform policies, has led to ineffective allocations and dissipation of large amounts of public resources, also resulting in a shift in confidence of trusted intermediaries, as natural support for certain categories of businesses, and to ensure access to credit and finance to weaker and smaller businesses.
In short, from the analyses carried out, a positive, consistent and defined government strategy has emerged in support of SME internationalisation processes, despite the complicated economic and productive environment, addressed mainly to the growth of new product sectors and to the support of innovative performance of traditional sectors competing on global markets.
On the other hand, taking into account that SMEs are particularly active in Made in Italy production, and that they play a more consistent role in production where national traditions are most exalted, it is therefore the responsibility of public Institutions to consider the relationship between dimension-supporting operations and cultural incentives favouring the penetration of SMEs onto foreign markets.

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