

# **Towards a local model for the internationalization of Italian firms in Eastern Europe**

Economic Geography Research Group  
Annual Symposium  
University of Sussex  
6 -7 June 2007

Christian Sellar

# The Story

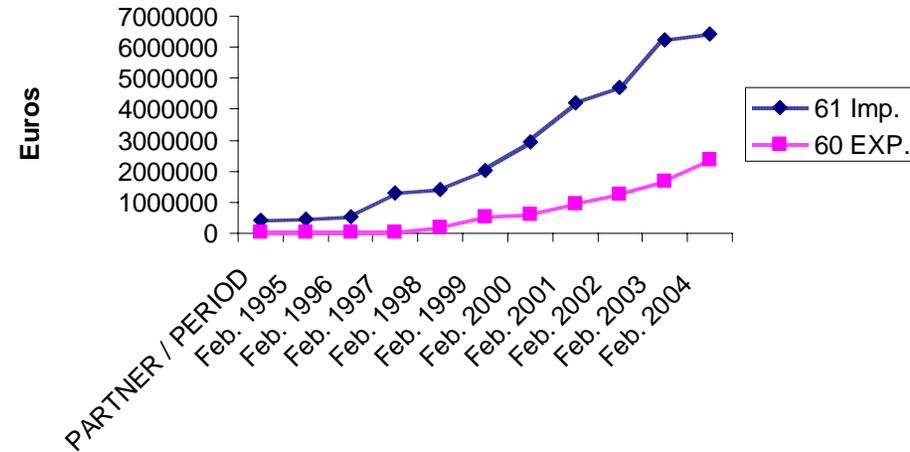
- European Union political and economic integration
- Homogenization of rules, norms and infrastructures
- Post socialist transformation of the East
- Expansion of networks of firms following pre-existing linkage



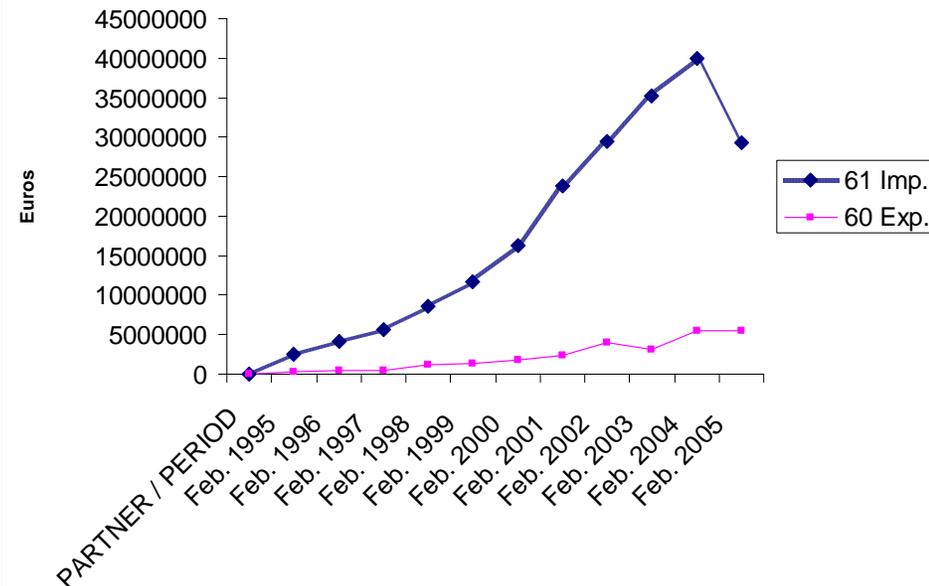
# The industry

- The textile and clothing industry re-located from Western to Eastern Europe
- Cost sensitive industry
- Changes in trade regime MFA expiration on January 1<sup>o</sup> 2005
- OPT trade to save the shipment: export of textile and re-import of clothing were custom free

Import of clothing (61) and export of textile (60) from Italy to Bulgaria



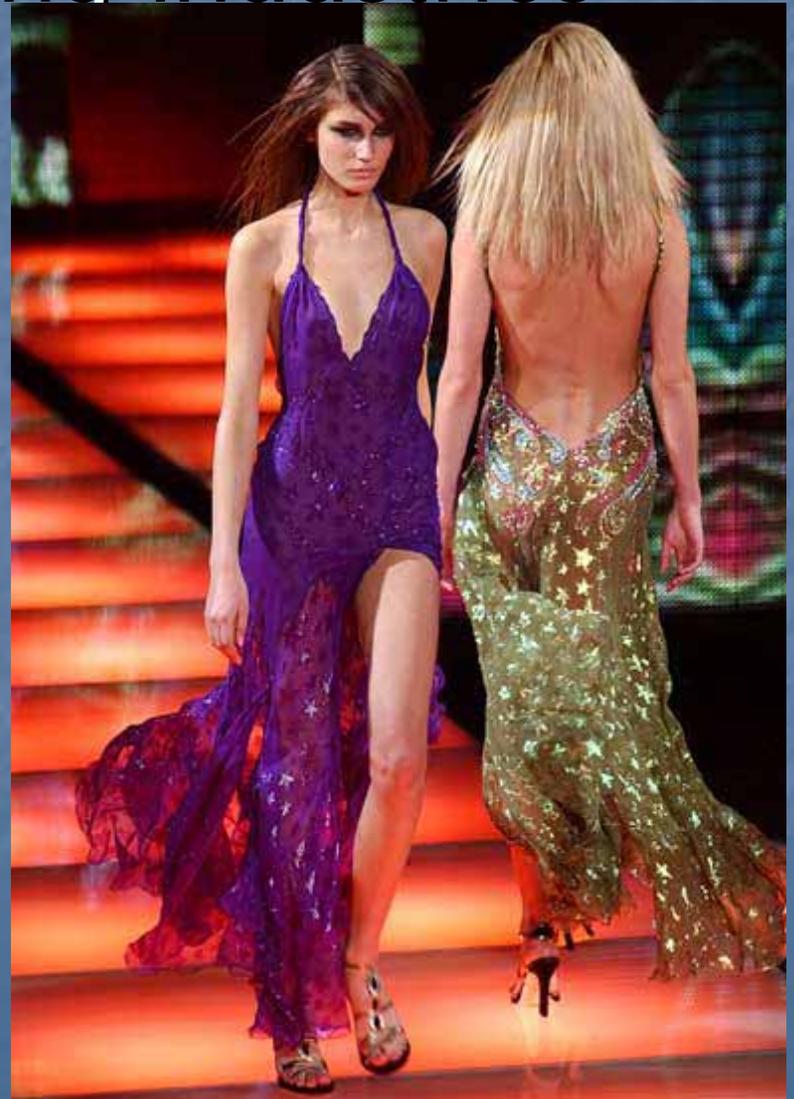
Import of clothing (61) and export of textiles (60) from Italy to Romania





# The 'magic circles' of the Italian textile and clothing industries

- Micheal Dunford (2006)
- Service firms in Milan coordinate the Italian fashion system
- Wide range of independent firms, from large to very small
- Strategy of price containment through waves of productive de-localization
- Since 1990s: de-localization especially in Eastern Europe



# Industrial Districts

- Production concentrated in small areas
- Large number of interdependent small enterprises
- Horizontally and vertically specialized
- Marshallian concept of 'industrial atmosphere'
- Ideal-type industrial districts are in Italy

## I DISTRETTI INDUSTRIALI IN ITALIA INDUSTRIAL DISTRICTS IN ITALY



# Why is this important?

- Changes in the communities and sustainability, job losses and gains (53 thousand jobs in the T&C lost in 2005 – interview trade unions),
- Sustainability?
- Macro politics (EU enlargement, international trade regulations) matter
- Theoretical shift in studying industrial districts from regional approaches to firm based approaches: Dunford, Smith, Humphrey and GVC, TEDIS group in Venice
- 'Marshall second argument,' i.e. that districts are not a purely economic phenomenon, but are centered on the interactions of economic and social systems (Dunford: 2006, p. 27)

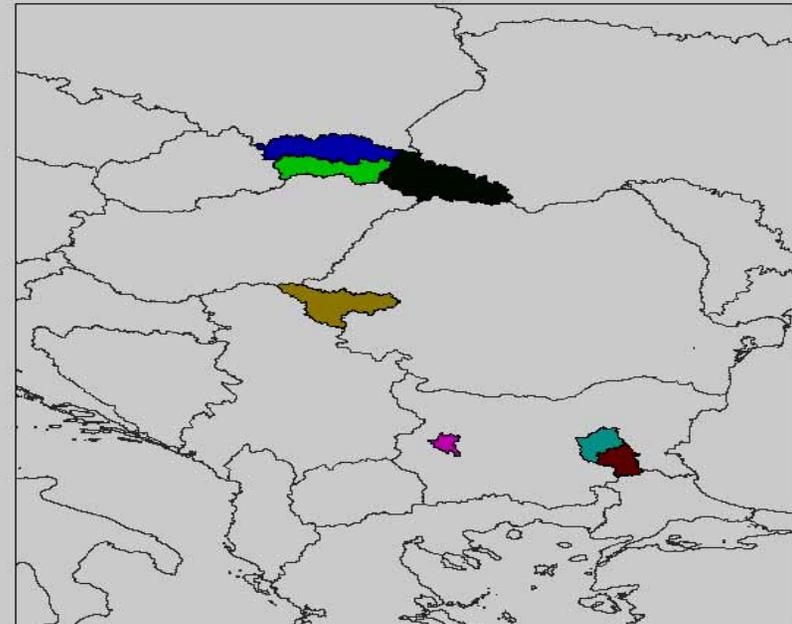
|             | <b>Eastern Europe</b> | <b>Mediterranean</b> | <b>China and India</b> | <b>Total</b> | <b>NI 1996= 100</b> |
|-------------|-----------------------|----------------------|------------------------|--------------|---------------------|
| <b>2003</b> | 117,054               | 16,792               | 69,802                 | 203,648      | <b>280</b>          |
| <b>2001</b> | 103,889               | 14,987               | 50,005                 | 168,880      | <b>232</b>          |
| <b>1996</b> | 38,612                | 9,227                | 24,975                 | 72,814       | <b>100</b>          |

# Research questions

- How to include the 'sociocultural dimensions' into the new firm-based approaches? (Dunford, Humphrey, Gereffi and Meyer, Smith)
- What kind of changes do Italian firms bring to local communities?

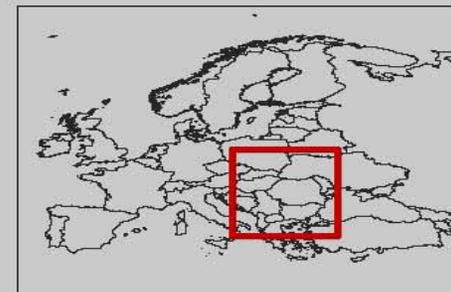
# Research areas

- Timis (Romania): area with the highest concentration of Italian firms outside Italy
- Sofia, Sliven, Jambol (Bulgaria): locations of the Miroglio investment
- Kosice, Presov (Slovakia): areas with long term presence of Italian firms
- Zakarpattya (Ukraine): new frontier of Italian investments



## Provinces

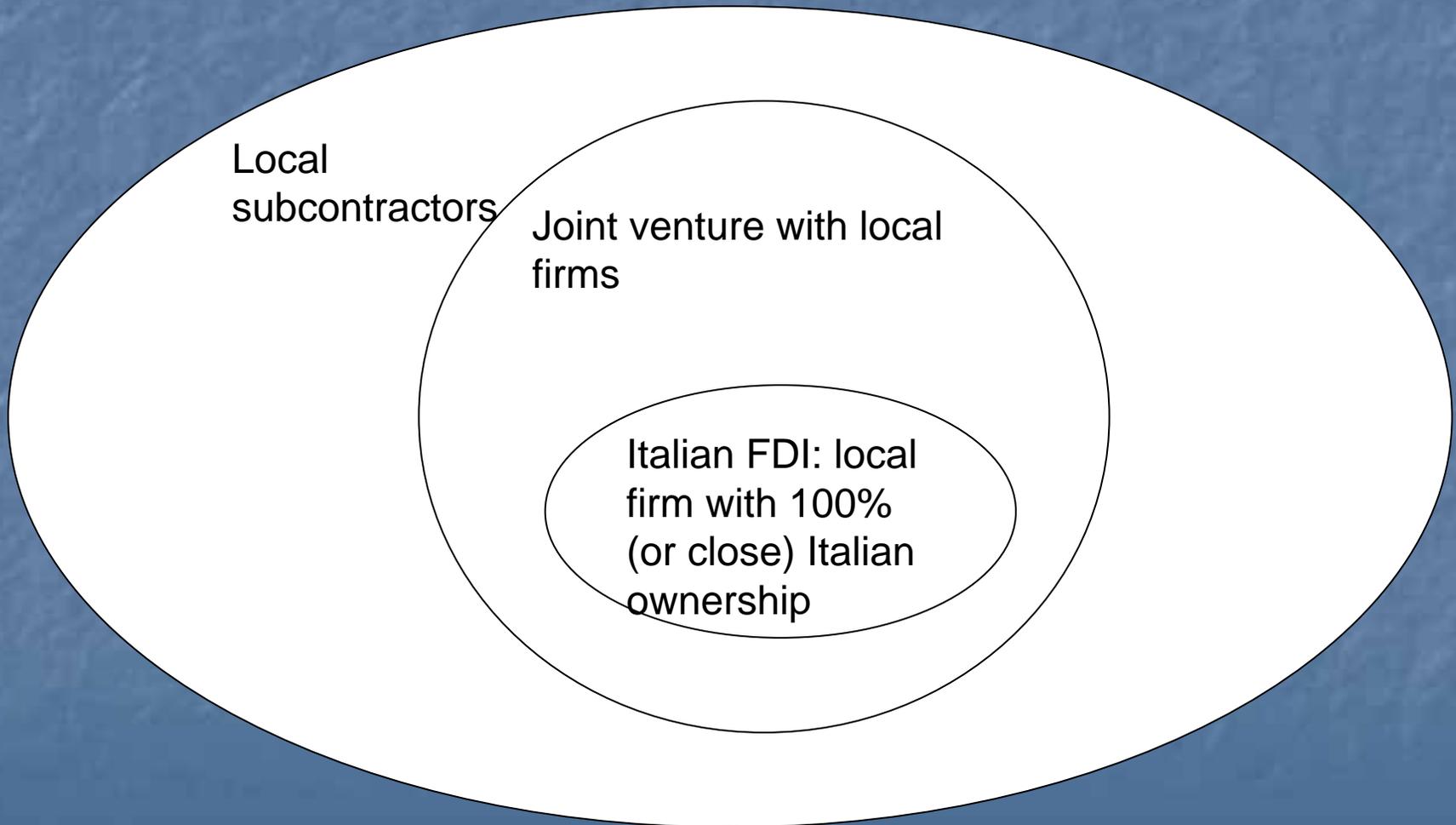
- Jambol
- Kosice
- Presov
- Sliven
- Sofija
- Timis
- Zakarpats'ka



# Research Methods

- Qualitative data through snowball interviews. The result is an 'ethnography of the powerful' which evidences the position of Italian textile and clothing manufacturers vis-à-vis local institutions in Eastern Europe; collection of statistical data, pamphlets, books
- Who? Italian T&C firms, Italian banks and services, local institutions

# Units of analysis: the Italian T&C firms abroad



# Involvement of Italian firms abroad

■ We kept our structure and personnel. In the beginning, we had one Italian manager - one of the brothers owning the company; he is director of production in Italy - to help the start up. He managed the introduction of new machines and the change in the production process. We didn't change the organization of personnel. In the first six months we had one Italian couple working here. They were technicians helping us to improve the quality. In the first few years we only sew; five years ago we introduced the ironing and the packaging. At that moment we had again Italian technicians helping to start the new department (Interview Ternotex, entrepreneur: 07-14-2006).

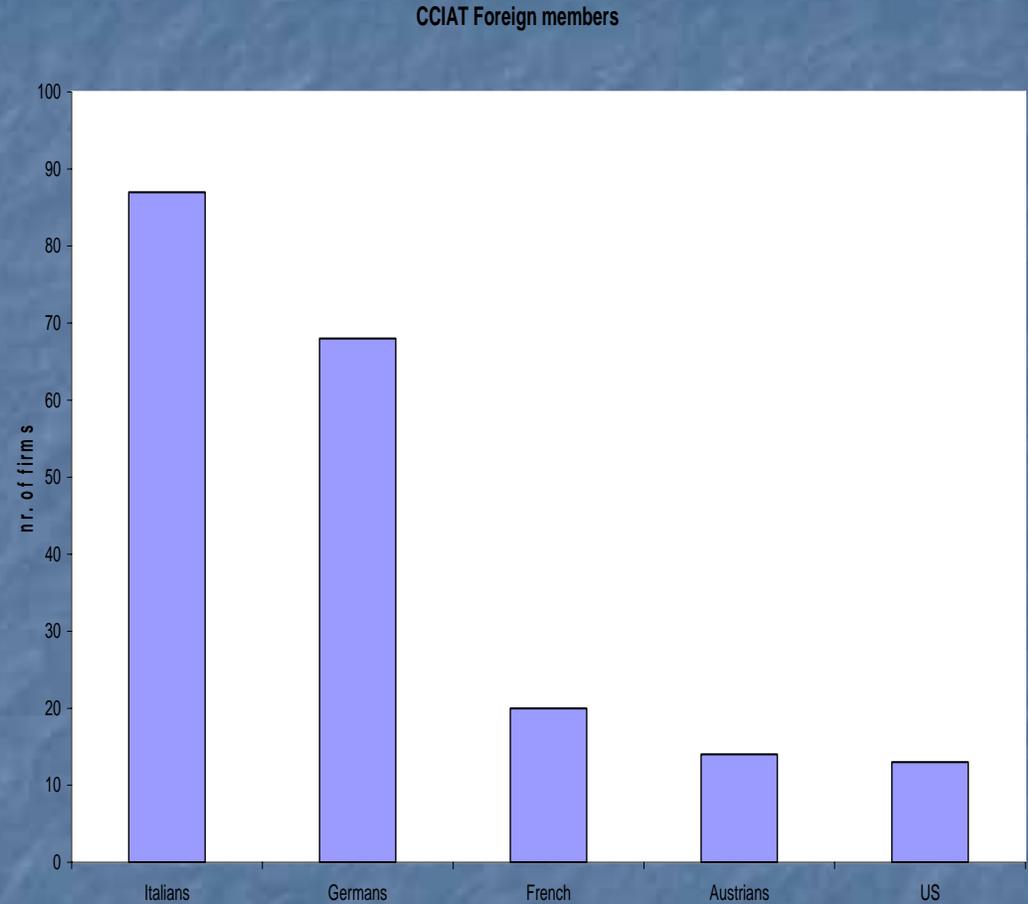
|                          |  | FLUXES OF PEOPLE   |  |  |
|--------------------------|--|--|--|--|
|                          |  | Occasional visits by technicians   | Regular visit by entrepreneur/director   | Permanent presence of Italian entrepreneur or director                       |
| <b>FLUXES OF CAPITAL</b> | <b>Arm length trade relations, close to zero</b> | Subcontracting   | Strong subcontracting  | no   |
|                          | <b>50-50 joint venture</b>                       | Weak partnership   | Strong partnership   | no   |
|                          | <b>100% (or close) Italian ownership</b>         | Weak ownership. Often the case in 'third wave' investments, from Eastern Europe further East | Medium control ownership. Key distinction: presence or absence of a local director with strong Italian connections | Strong ownership. Key distinction: presence or absence of local stakeholders |

# Tacit knowledge

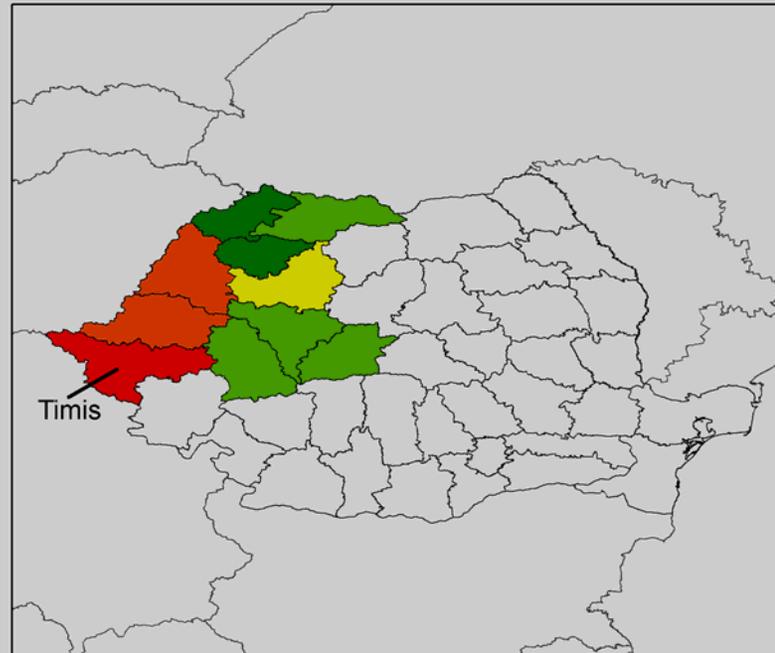
- Q. What did it change at the level of innovation and management as a consequence of working with Italians?
- The most important change is that we got more modern machines. Then the organization was brought at an higher level.
- A. What does it mean 'higher level organization'?
- Comparing with communist times, now one worker can perform a task that before required two or three people. The productivity is three times higher.
- Q. How could you achieve this?
- A. In the first period of activity, there was an Italian [technician] constantly present here; he showed us how to work.
- Q. What did he do?
- A. He showed us personally that just one person can perform certain tasks. He had to do it, because we didn't believe it (interview Italian firm in Slovakia, local director, 07-21-2006).

# Constitution of expatriate communities: Timisoara (Romania)

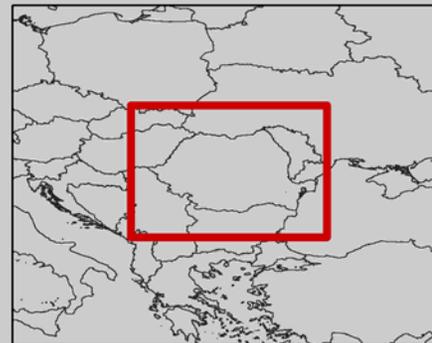
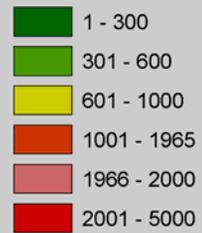
- Large community of expatriate entrepreneurs
- Organized in the nation and county level association 'Unimpresa'
- In Timisoara, Italian businesses have very good relationships with the local chamber of commerce, to the point that in May there will be the election of the directive council of the chamber, and I was asked to run for the vice-presidency. This is because, since the Italian presence in this area is very strong, they want to have an Italian representative in the chamber. Consider that my wife and I live completely in Romania from 1998. at local level we are interlocutors of institutions, for example, in the discussions about territorial planning, creation of industrial parks etc (interview president, Timis branch, Unimpresa Romania: 04-03-06).



| Members | Italians | Germans | French | Austrians | US |
|---------|----------|---------|--------|-----------|----|
| 1,020   | 87       | 68      | 20     | 14        | 13 |



**Number of Italian Firms**



# Eastern European focus of Italian banks and services: Unicredit

|             | Event   | Location   | Western Europe             | Eastern Europe + Turkey    | North America |
|-------------|---|--|----------------------------|----------------------------|---------------|
| <b>1998</b> | Group Creation.<br>Merger of six local banks plus one nation-level bank | Italy  | Western Europe             |                            |               |
|             |   |  |                            |                            |               |
| <b>1999</b> | Acquisition of Bank Pekao   | Poland   |                            | Eastern Europe             |               |
|             |   |  |                            |                            |               |
| <b>2000</b> | Acquisition of Pioneer Investment                                       | USA  |                            |                            | North America |
|             | Acquisition of Bulbank  | Bulgaria   |                            | Eastern Europe             |               |
|             | Acquisition of Polnobanka (now Unibanka)                                | Slovakia   |                            | Eastern Europe             |               |
|             |   |  |                            |                            |               |
| <b>2002</b> | Acquisition of Zagrebacka Banka   | Croatia  |                            | Eastern Europe             |               |
|             | Acquisition of Demirbank Romania (now Unicredit Romania)                | Romania  |                            | Eastern Europe             |               |
|             | Acquisition of Živnostenská Banka                                       | Czech Republic   |                            | Eastern Europe             |               |
|             | Agreement with Koç  | Turkey   |                            | Middle East                |               |
|             | Acquisition of Momentum   | USA  |                            |                            | North America |
|             |   |  |                            |                            |               |
| <b>2005</b> | Acquisition of Yapi Kredi by Koç  | Turkey   |                            | Middle east                |               |
|             | Merger with HVB   | Germany, Austria, Russia, Poland, Croatia, Bulgaria, Bosnia-Herzegovina, Romania Lithuania, Ukraine, | Western and Eastern Europe | Western and Eastern Europe |               |

# Why?

- Those countries have objective advantages, such as a GDP growth much higher than Western Europe, and banking activity used to be low, if not very low. Thus, there were good chances of development for our sector. The third reason was that the banks we acquired through privatization were sold at reasonable prices, which allowed us to invest without making debts and put our Italian investors at risk. This was the positive pull. The negative push were episodes that reminded us of the impossibility of further growth in Italy. ... [Also], in these countries there are not large interests from American and, in general, non European banks, thus it is a natural market for Europe (Interview high level manager, Bulbank: 05-22-2006).
- Here, in this office, we have twelve professionals, which mean we are a large firm [for the Italian standard]. The situation is very different with respect, for example, Northern Europe. I had a partnership in Germany with a firm with 550 chartered accountants; overall they have two thousand employees in one hundred and fifty offices throughout Germany. Up there a small accountancy firms has thirty or forty chartered accountants, plus staff.... With such small dimensions it is difficult to go abroad to support small and medium firms in the process of internationalization. This is an important structural problem for the country, because it is much harder for a firm to go abroad without a reliable network of real services.... I couldn't have gone to Germany, because there the costs are too high, and the competition is very strong (interview Chairman, IC&Partners Group: 10-10-2006).

# Banks and services as 'cultural mediators'

We provide also 'cultural' support, providing a bridge between Italian and local entrepreneurial cultures. **With respect to culture, EDAS helps to 'organize human resources in a correct way,' helping entrepreneurs to understand norms and rules of the organization of labor force.** First of all, they insist on the concepts of 'listening' the inputs coming from the local people. Second, they provide detailed information on norms and customs: for example, in Slovakia contracts of employment specify in detail employees' duties, while in Italy they tend to be much less detailed. Then they let them understand that the fact that Slovakia is less rich than Italy does not mean that there are no rules (health and security measures). (Interview EDAS, entrepreneur: 09-26-05)

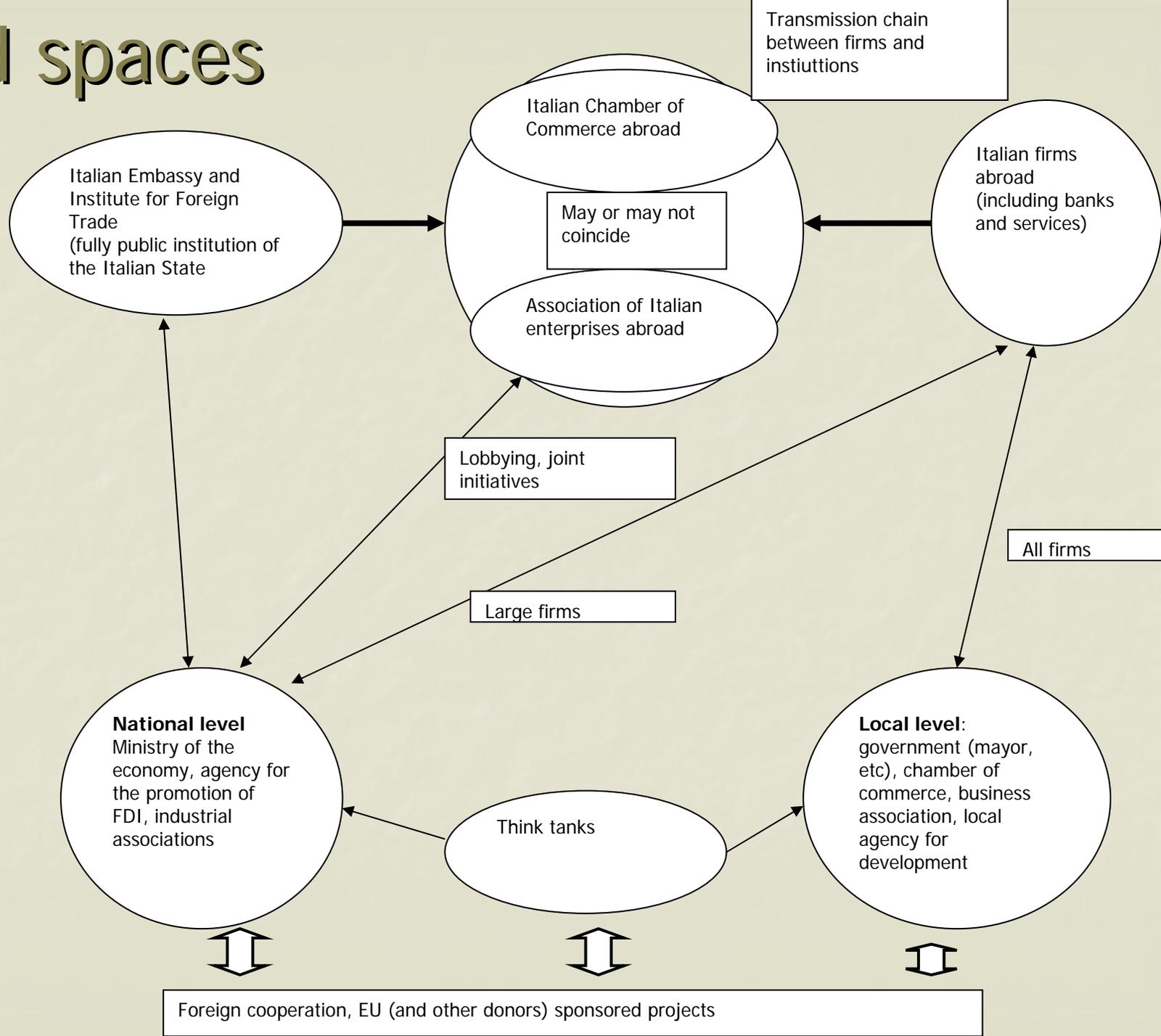
A foreign entrepreneur coming here has many problems. The first is the language barrier; the second is the different legislation, the third is the different banking system. Also, local banks had problems to understand the value of the foreign entrepreneur. If a foreign company establishes a daughter here, of course the daughter depends on the mother. Thus, from bank's perspective, to evaluate the mother is more important than to evaluate the daughter. **However when entrepreneurs came showing balances written in Italian, using the system of the 4th EU directive, which is different from the Slovak system; you may well understand that the Slovak colleague could not understand who was sitting in front of him or her.** Thus, Unicredito Italiano established in each of the controlled banks a division, the 'New Europe Desk' to mediate between the needs of the [Italian] customer and the needs of the bank (interview high level manager, Unibanka: 06-28-2006).

# Outcome: 'weak symbiosis' between Italian manufacturers, banks and services

- Italians, by tradition are not loyal. This is an important aspect of our business. In fact, it is nearly impossible for a non German bank to have a German company among its customers. The same happens in the case of French. This is because before coming here German or Austrian companies already have an agreement with their bank. Banks support them in the internationalization process, but companies accept to work with their own banks only. Italians instead come here and look around for the best offer. There is no loyalty at all, thus this bank has to give the best services (interview high level manager, Unibanka: 06-28-2006).

|                      | ITALIAN BANKS | NON-ITALIAN BANKS | MIX OF ITALIAN AND NON ITALIAN BANKS | NO USE OF BANKING SERVICES | NON SPECIFIED | TOTAL |
|----------------------|---------------|-------------------|--------------------------------------|----------------------------|---------------|-------|
| ITALIAN FIRMS OR JV  | 43%           | 24%               | 24%                                  | 9%                         |               | 100%  |
| LOCAL SUBCONTRACTORS |               |                   |                                      | 20%                        | 80%           |       |

# Hybrid spaces



# Conclusions

- The academic literature on the 'Italian case' has shifted over time from the 'industrial districts' to the 'global value chains' approach
- In so doing, the analysis of the interplay between firms and institutions became weaker
- This dissertation followed the value chains of Italian T&C producers, arguing that:
- The institutional dimension be restored considering fluxes of persons and the establishment of expatriate communities
- Tacit knowledge is transmitted through these fluxes of persons
- The embedding of firms in the local communities is supported by banks and services
- As consequence of such embedding, new 'hybrid spaces' are emerging in Eastern Europe

# Tanks to institutions:

- Informest;
- IC & Partners Group;
- Foundation for Entrepreneurship Development;
- CPL' 92;
- Business Support Center for Small and Medium Sized Enterprises – Rouse;
- Bulgarian Academy of Sciences;
- Economics University in Bratislava;
- Christian University 'Dimitrie Cantemir' in Sibiu;
- 'West' University in Timisoara;
- University of Bucharest;
- University of Trieste.

# Sources of funding

- *Doctoral Dissertation Improvement Grant* from the National Science Foundation,
- *Off Campus Dissertation Research Fellowship* from the Graduate School of the University of North Carolina at Chapel Hill,
- *Doctoral Research Travel Award* from the University Center for International Studies (presently called Center for Global Initiatives) of the UNC-Chapel Hill,
- *Dissertation Completion Fellowship* from the Graduate School of the UNC-Chapel Hill.