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The internationalization paths of European SMEs - The link between local commons and support services for going global

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ABSTRACT

This work moves from an initial investigation of European Small- and Medium-sized Enterprises (SMEs), which represent the large majority of all businesses in Europe, thus their role is far from being secondary. As a means to foster SMEs growth, internationalization has been pointed out by European Commission as a paramount strategy. As a matter of fact, in today's competitive and globalized world, SMEs must necessarily open up to foreign markets in order to survive. In this context, among the various modes of 'going global' that can be chosen by SMEs, it is interesting to explore the role of support services for internationalization. In particular, an innovative business model is one that allows consulting agencies to act as foreign branch offices of the companies they are assisting. This proves to be a valid alternative to the myriad of internationalization forms that can be found in the market, especially for medium enterprises that are better structured than small ones and can afford this kind of investment. It is important, precisely in the context of Italian SMEs, both to appropriate the advantages offered at local level, thanks to the embeddedness in an Industrial District, but also to open their value chain (not necessarily from the production side only) in order to start to compete at a global level. In today's economy, the artisanal knowledge at the heart of Italian Industrial Districts is still of inestimable value, but it must be coupled with greater international openness and with exploitation of new technologies. Only in this way the Italian heritage of 'making things' can be preserved and can keep on being actual in an increasingly evolving world.

1 THE GROWING IMPORTANCE OF SMEs IN THE GLOBAL SCENARIO

'Every small business will give you an entrepreneurial way of looking at things. I guarantee you that for every plant that closes, if you gave it to one small-business person in that community, he or she would find a way to make it work. The small-business attitude is you always find a way to make it work.'

Hamdi Ulukaya, Turkish American entrepreneur and businessman

1.1 WHEN THE GIANTS ARE 'SMALL'

Following the news nowadays, it is easy to get the impression that the European economy is dominated by large, multinational enterprises. The Fortune Global 500, also known as Global 500, is an annual ranking of the top 500 corporations worldwide as measured by revenue, compiled and published annually by *Fortune* magazine. In this list, based on the companies' fiscal year ended on or before March 31st, 2014, among American and Asian top performing MNEs, we can find also many European companies. The share of European-based companies have increased marginally from 158 to 160 over the decade. The highest positions occupied by European companies in the chart are big, well-known multinationals: Royal Dutch Shell, British Petroleum, Volkswagen were among the first 10 positions in 2014, with revenues over 250 billion dollars. Looking at these data, someone might be induced to think that European market is ruled by these and others famous giants: that they contribute for the greatest part to the value-added created in EU and probably that they also employ the greatest share of workers. On the contrary, what the majority of people does not know, is that this is not the correct portrait of Europe.

What usually is not well-known, and what the European Commission defines 'One of the EU's best kept secrets' is that more than 99% of all European businesses are small and medium enterprises - SMEs. In particular, they provide two out of three of the private sector jobs and contribute to more than a half of the total value-added created by businesses in the EU. Moreover, SMEs are the true 'back-bone' of the European economy, being primarily responsible for wealth and economic growth, thanks to their key role in innovation and R&D. It is interesting to note that nine out of ten SMEs are actually micro enterprises with less than 10 employees. Across the EU 28 in 2013, 21,6 million SMEs in the nonfinancial business sector employed 88,8 million people and generated 3,666 trillion euros in value added. Yet

even in this age of globalization, SMEs are still viewed as largely only effective in their domestic and, sometimes, regional markets.[1]

	Nr. Of enterprises (thousands)	Nr. Of people employed (thousands)	Value Added (EUR million)	Apparent Labor Productivity (EUR thousand/head)
All enterprises	21.801	132.798	5.946.968	44.8
All SMEs	21.731	89.587	3.422.300	38.2
Micro	20.154	39.646	1.261.663	31.8
Small	1.355	27.231	1.080.761	39.7
Medium-sized	222	22.711	1.079.876	47.5
Large	42	43.157	2.518.044	58.3

Table 1.1 – Micro, small and medium-sized enterprises in non-financial sector. Source: Eurostat, 2013

The writer Bright B. Simons provides an innovative way to define SMEs, in particular those which operate internationally, saying that there is growing evidence of SMEs operating on a global dimension that do more than just supply inputs for the global supply chain. 'Beyond their products or names becoming known in multiple countries, or even used across the globe, some SMEs will actually do what once only giant corporations could and establish operations in multiple countries, with the aim of build a global footprint. They shall become multinationals in their own right: Nano-multinationals. This new emerging category of firms can spread its influence using strong trust-based networks, as their founders connect to friends and allies in different parts of the globe who can help them navigate the local business culture on the strength of shared principles and common entrepreneurial visions. In this way, nano-multinationals will be very different from giant corporations — not just because they shall remain small and lean, but also because their value systems and cultural models are different.' (Bright B. Simons,

[1] Facts and figures about the EU´s Small and Medium Enterprise (SME), European Commission website, http://ec.europa.eu/index_it.htm

2013). The term nano-multinationals, therefore, well suits the increasing importance that SMEs are recently acquiring.

In the new, globalized scenario, the majority of the enterprises must face a more and more international challenge, from the moment they choose to compete in a foreign dimension, or because they must face the entering of foreign competitors into their home market. Whether they decide to export, to make Foreign Direct Investments or to horizontally/vertically integrate along a Global Value Chain, the international dimension makes the competition tougher, offering the firms new opportunities, but also new threats (Masiello, 2013). Such dynamics affect companies of every size, from the big MNEs to the smaller ones. The latter, in particular, represent an important share of the global economic system, besides being one of the pillars of the European production model, and of the Italian one in particular. The incidence of the presence of SMEs in Europe is evident especially in Portugal, Spain and Italy. In 2008, in Italy, there were about 4 million SMEs (the highest score in the EU-27), of which 94,3% represented by micro-enterprises.

	Nr. of enterprises	**Micro**	**Small**	**Medium**	**Big**
	Thousands	%	%	%	%
EU-27	**20.994**	**92,0**	**6,7**	**1,1**	**0,2**
Austria	294	87,2	10,8	1,7	0,4
Belgium	426	92,5	6,3	0,9	0,2
Bulgaria	270	88,7	9,2	1,9	0,3
Cipro	47	92,3	6,4	1,1	0,2
Denmark	211	85,0	12,2	2,4	0,4
Estonia	46	83,9	13,0	2,7	0,4
Finland	202	91,7	6,9	1,1	0,3
France	-	-	-	-	-

Germany	1.880	83,0	14,1	2,4	0,5
Greece	-	-	-	-	-
Ireland	158	87,8	9,9	1,9	0,3
Italy	3.947	94,3	5,1	0,5	0,1
Latvia	70	84,4	12,9	2,4	0,3
Lithuania	139	88,7	9,2	1,9	0,3
Luxemburg	17	85,8	11,5	2,2	0,5
Malta	-	-	-	-	-
Netherlands	583	90,4	8,0	1,4	0,3
Poland	1.556	95,5	3,3	1,0	0,2
Portugal	778	94,0	5,1	0,7	0,1
UK	1.731	89,3	8,8	1,5	0,4
Czech Republic	899	95,1	3,9	0,8	0,2
Romania	506	88,9	8,8	1,9	0,4
Slovakia	59	71,2	24,2	3,7	0,9
Slovenia	93	92,4	6,1	1,3	0,3
Spain	2.653	93,1	6,0	0,8	0,1
Sweden	586	94,7	4,4	0,8	0,2
Hungary	566	94,3	4,7	0,8	0,2

Table 1.2 – Enterprise analysis by size class and country in non-financial sector (EU-27, 2008, Source: Eurostat, 2011)

In the last years, given the increasing weight of SMEs in the global economic context, supranational organizations began to supervise SMEs internationalization processes, controlling their dynamics and the impact on their performance.[2] According to a recent study of the European Union, a significant number of SMEs is involved in international activities and there is empirical evidence of a positive effect of those activities on the firms' performance.

Once that we have understood how critical SMEs are to Europe's welfare, the big European MNEs seem to be a little less great than they seemed before.

1.2 WHAT IS A SME?

'Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment.'[3]

This is the new SME definition provided by the European Commission, which entered into force on 1st January 2005[4], and according to the Commission, represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth. The new definition is the result of wide-ranging discussions between the Commission, Member States, business organisations and experts as well as two open consultations on the internet, and it was considered necessary in order to make an update according to changes that reflect general economic developments since 1996. The new definition was thought to be more suitable to the different categories of SMEs and takes better account of the various types of relationships between enterprises. It is contained in the SME User Guide and its purpose is to serve as a general orientation for entrepreneurs, but it does not have any legal value and does not bind the Commission in any way.

[2] United Nations Conference on Trade and Development, 'Improving the competitiveness of SMEs through enhancing productive capacity', 2005

[3] Günter Verheugen, Member of the European Commission Responsible for Enterprise and Industry

[4] 'The new SME definition - User guide and model declaration', *Enterprise and Industry Publications*, European Commission, 2005

A more precise definition is provided by the EU law and can be found in the Official Journal of the European Union (concerning the definition of micro, small and medium-sized enterprises)[5], which is the sole authentic basis for determining the conditions regarding qualification as an SME. First the generic enterprise is defined, and then the category of SMEs, as follows:

Article 1: 'An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.'

Article 2: 'Staff headcount and financial ceilings determining enterprise categories
1. The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.
2. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.'
3. Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.'

The European Commission stresses the importance of defining exactly the SME boundaries. Since the EU is a single market with no internal frontiers, it is necessary that measures in favour of SMEs are based on a common definition to improve their consistency and effectiveness, and to limit distortions of competition. For Member States, however, use of the definition is voluntary, but the Commission is inviting them, together with the European Investment Bank (EIB) and the European Investment Fund (EIF), to apply it as widely as possible.

[5] Commission Recommendation 2003/361/EC as published in the Official Journal of the European Union L 124, p. 36, 20 May 2003

THE NEW THRESHOLDS *(Art. 2)*

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total
Medium-sized	< 250	≤ €50 million (in 1996 € 40 million)	or	≤ €43 million (in 1996 € 27 million)
Small	< 50	≤ €10 million (in 1996 € 7 million)	or	≤ €10 million (in 1996 €5 million)
Micro	< 10	≤ €2 million (previously not defined)	or	≤ €2 million (previously not defined)

Table 1.3 - The Ceilings of the Definition (Source: 'The new SME definition', p.14)

According to 'The new SME definition' User Guide and Model Declaration drawn by the European Commission, the first step to qualify as an SME is to be considered as an enterprise ('Any entity engaged in an economic activity, irrespective of its legal form'). Once this characteristic has been verified, the next step is to establish the data of the enterprise according to the following three criteria: staff headcount, annual turnover and annual balance sheet. Comparing then the data with the thresholds for the three criteria will allow to determine if the company we are talking about is a micro, small or medium-sized enterprise. It is necessary to note that while it is compulsory to respect the staff headcount thresholds, an SME may choose to meet either the turnover or balance sheet ceiling, and may exceed one of them without losing its status.

Another feature to take into account after determining the firm's thresholds is to establish whether the enterprise is autonomous – by far the most common category – a partner or linked (in this case taking into account of any relationships with other enterprises). Depending on the category in which the enterprise fits, it might be necessary to add some, or all, of the data from those enterprises. The calculations for each of the three types of enterprise are different and will ultimately determine whether the various ceilings established in the SME definition are met. For what concerns the enterprises which draw up consolidated accounts, or which are included in the accounts of an enterprise that does so, they are usually considered as linked.

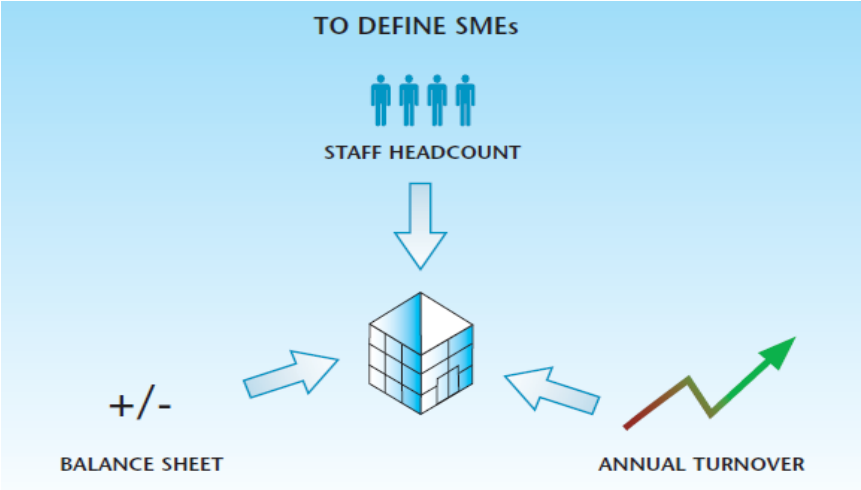

Figure 1.4 – Criteria to establish if a company is a SME (Source: 'The new SME definition', p.12)

'Micro, small and medium-sized enterprises play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment. However, they are often confronted with market imperfections, since they frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase. Their restricted resources may also reduce access to new technologies or innovation. Therefore, support for SMEs is one of the European Commission's priorities for economic growth, job creation and economic and social cohesion' (European Commission, 2005).

1.3 A SLOW BUT POSSIBLE RECOVERY

Despite the promising background outlined so far, it must be said that in the Annual Report on European SMEs 2013/2014[6] the Directorate General for Enterprise and Industry admits that 'Small and Medium-sized Enterprises have had to navigate a difficult economic terrain in recent years'. The fifth edition of the Annual Report on the Economic performance of European SMEs acts like a testament to the challenges that SMEs had to face in the last decades, but also as a window to the progress achieved by businesses across the EU28 in spite of these unfavourable economic conditions. It is also a reflection of the structural support channelled to SMEs by the European Commission and National Governments under the guise of the Small Business Act (SBA). The SBA, adopted in 2008, confirms the importance and centrality of SMEs to the European economy. During the critical years, SMEs were in some ways 'a bulwark against the devastating effects of the global financial crisis', since they tackled the 2009 economic downturn better than their large enterprise counterparts and mitigated the economy-wide decline in employment.

Once the worst days of the crisis were overcome, the recovery was led since 2010 mainly by the large enterprises, fuelled for the greatest part by strong growth in gross value added, whereas the recovery of SMEs was much slower and its pace has even slowed in the last three years. Now, after the promising sings of the recent years, SMEs are 'at a critical juncture': there are indeed some reasons to be cautiously optimistic about their future, but the scenario remains however tough for SMEs and further support is needed to yield a sustainable SME growth. In particular, the causes of the slowdown in value added growth by SMEs can be attributed to weak, even if positive, economic growth and falling inflation within the EU economy. Only when the whole EU economy will emerge from recession into recovery, the fortunes of SMEs will have more possibilities to improve, too.

Data on the Annual Report on European SMEs show that the slow recovery in value added is for the most part due to medium (+2,7%) and micro enterprises (+0,5%), while small ones are still lagging behind with value added in 2013 just below the 2008 levels. In terms of employment, all types of SMEs are in 2013 still well below 2008, in particular with micro firms employing 4,2% fewer people.

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[6] 'Annual Report on European SMEs 2013/14 - A Partial and Fragile Recovery', Directorate-General foe Enterprise and Industry, July 2014

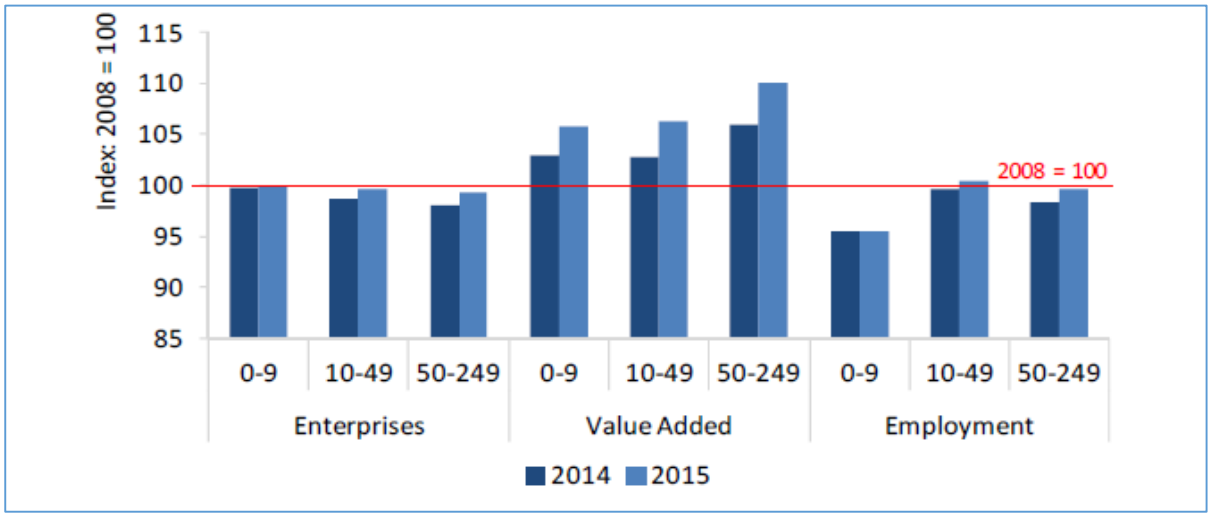


Table 1.5 - Enterprise, value added and employment: micro, small and medium enterprises (2008 = 100) – EU28 (Source: Eurostat, National Statistical Offices and DIW Econ)

However, according to the authors of the Report, there is a way to open a window to SMEs: internationalization. 'As the majority of SMEs operate in sectors that serve domestic demand, they did not share in the benefits of increased foreign demand, which was the key driver for growth from 2008 to 2013.' In fact, many SMEs are not in export-oriented sectors, particularly the micro and small ones, therefore the programs that support SME exports benefit directly only a sub-set of SMEs. Even if also the non-exporting SMEs benefit indirectly from growth in exports (since higher exports raise overall income levels and hence the demand for goods/services sold by domestic demand facing SMEs), the European Commission seems to put a great emphasis on the internationalization issue as a means to foster SMEs growth more rapidly than to simply wait for the macroeconomic conditions to improve. In an increasingly internationalised world, it is clear that there are more competitive advantages destined to those businesses that put in place a global strategy, and that can move rapidly to take advantage of cross-border activities. Providing further, tailored support for internationalization, which will be considered as an 'asset' for companies, would allow SMEs to leverage the benefits of increased foreign demand for goods and services.

According to the Report on European SMEs 'There is a positive outlook towards the future, and the promise of a strengthening of the recovery on the horizon'. The total value added generated by SMEs has already surpassed its pre-crisis level and is now expected to rise by 3,4% in 2015. Employment is expected to rise, too, with 740.000 new jobs created in SMEs by 2015, as is the total number of SMEs (+0,38%). Along with the necessary support to the SMEs business environment, the road ahead seems to be open.

2 THE EFFECTS OF GLOBALIZATION ON SMES

'Columbus reported to his king and queen that the world was round, and he went down in history as the man who first made this discovery. I returned home and shared my discovery only with my wife, and only in a whisper. "Honey", I confided, "I think the world is flat."'

Thomas Friedman, 'The World is Flat', p. 5, 2005

2.1 THE COMMUNICATIONS REVOLUTION AND THE 'DEATH OF DISTANCE'

Although we know that the shape of the Earth has not really changed, people perceptions of it instead have changed through the magic of technology and globalization. In her book of 1998 'The Death of Distance – How the communications revolution will change our lives', Frances Cairncross (a British economist, journalist and academic) had predicted that the death of distance as a determinant of the cost of communicating would have probably been the single most important force shaping society in the first half of the XXI century. In the end, she was quite right. It is now possible for more people than ever to collaborate and compete in real time with more other people on different kinds of work from different corners of the planet and on a more equal footing than at any previous time in history – using computers, e-mail, fiber-optic networks, teleconferencing and dynamic new software (Cairncross, 1998). We are now connecting all the knowledge centres on the planet together into a single global network, which could lead us to an amazing era of prosperity, innovation, and collaboration shared by companies, communities and individuals.

She claims that, at the end of the twentieth century, two enormous changes were starting to manifest through the world economy: technological advance in computing and communications and globalization, caused both by the communications revolution and by the fall in barriers to trade and foreign investment. The two together determined the phenomenon called 'Death of distance'. According to the author, as the world at the end of the nineties was moving towards virtually limitless and almost free electronic communications capacity, trade and investment flows would have transformed patterns of economic activity around the world in the next decades. For many products, global markets would have become more important than local or national ones, but the change would not have happened instantly: national regulatory barriers would have hindered international trade in goods and services. This is the reason why the economic impact of the death of distance may have been felt first in the USA, a large single market, but mainly ultimately be more profound in Europe and Asia, where more barriers

frustrate trade. 'Ultimately, trade and foreign investment will become even more important, economies even more interdependent, than they are today' (Cairncross, 1998).

At the time she was writing, the writer had the intuition that technological change has the power to revolutionize the way people live, to alter decisions about where people work and what kind of work they do, concepts of national borders and sovereignty and patterns of international trade. Its effects may be so pervasive that it loosens the grip of geography. As a consequence, companies will have more freedom to locate a service where it can best be produced (since barriers and borders will break down) rather than near their market of origin. Referring to companies in particular, as a result of these changings, the writer claims they would have become looser structures, held together by mainly their cultures and their communications networks. New ideas would have had the possibility to spread faster and poor countries could have had immediate access to information that was once restricted to the industrial world. Small companies would have offered services that previously only giants could provide, and this has actually proven to be the case of SMEs. 'In all these ways, the communications revolution is profoundly democratic and liberating, levelling the imbalance between large and small, rich and poor' (Cairncross, 1998).

In few words, at the end of the nineties commerce, including many kinds of retailing, would have become increasingly international, and such global retailing would have allowed many niche markets to emerge. Anyway, one of the biggest consequences would have been the reduction in the size of firms in many industries, and the author had also in some ways forecasted the rise of the SMEs and their successful future outside their home markets. The death of distance, according to Cairncross, should be 'welcomed and enjoyed'. The writer's view was also shared by others: Kishore Mahbubani, Singapore's ambassador to the United Nations, states that 'Distance has disappeared. The world has shrunk to a global village' (The Economist, 2003)[7]. Some economists also see a major decline in the importance of transport costs. In particular, Glaeser and Kohlhase (2004) conclude that 'Certainly it is an exaggeration to claim that moving goods is free, but it is becoming an increasingly apt assumption'.

Nonetheless, these opinions were not free from critics: most trade economists disagree with the conventional wisdom expressed above. Anderson and Van Wincoop (2003) asserted 'The death of distance is exaggerated. Trade costs are large'. Leamer and Levinsohn (1995) refer to estimates showing that distance reduces bilateral trade as 'Some of the clearest and most robust findings in economics.' There is, however, little consensus about the exact magnitude of the distance effect. A wide literature exists on this subject, focused on the results concerning the evolution of the distance effect over time.

[7] Special Report, February 2003, from The Economist website http://www.economist.com/node/1592138

Berthelon and Freund's (2004) study of industry-level trade finds that 75% of industries examined do not exhibit significant changes in the distance effect. The significant changes are almost all in the direction of a larger distance effect over the 1985–2000 period. Others claim 'We focus on the question of whether distance effects have fallen over time. We find that the negative impact of distance on trade is not shrinking, but increasing slightly over the last century' (Anne-C´elia Disdier and Keith Head, 2004).

Indeed the 'Death of distance' is implicitly a statement about the diminished importance of distance in determining the actual costs of engaging in international trade. That is, with improvements in technology and communications, distance-related components of trade costs – things like freight rates, insurance premiums, and inventory costs – should fall[8]. The nineteenth century was a time in which international trade costs fell as never before, so the implication is, that if distance died at any time in history, we should be looking to the late nineteenth century, when this phenomenon has started to manifest, and clear declines in its importance has been documented. This suggests that international trade costs may have not declined nearly as dramatically in the late twentieth century as has been supposed, especially in light of the nineteenth century experience. 'For better or worse, distance is still alive and kicking' (Jacks, 2009).

2.2 IS THE WORLD FLAT, ROUND OR SPIKY? A HISTORICAL PERSPECTIVE

In the book 'Emerging paradigms in international entrepreneurship' by Johnes and Dimitratos (2004) business activities are said to be at the core of globalization. According to them, there are many ways to define this widely known phenomenon: usually it refers to the interaction across national borders of nations, regions, organizations, groups and individuals, which can change with time. This change is due to the increasing interdependence of economies around the world through trade in goods and services, cross-border flows of capital and exchange of technology (Nunnenkamp and Gundlach, 1996). As a consequence, boundaries will lose importance and new linkages, structures and relationships will replace the traditional ones in the world economic system. This process is indeed still is going on, even

[8] 'Revisiting the death of distance', David Jacks, 12 September 2009, http://www.voxeu.org/article/revisiting-death-distance

if its pace varies. Political decisions and crises, such as major wars, have impeded it, whereas recent technological developments have stimulated it notably.

Another definition of globalization is provided by the International Monetary Fund[9]: 'Economic "globalization" is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through the movement of goods, services, and capital across borders. The term sometimes also refers to the movement of people (labour) and knowledge (technology) across international borders. There are also broader cultural, political, and environmental dimensions of globalization.' According to the IMF then, one of the most important issues raised by globalization is the expansion of world trade through the elimination or reduction of trade barriers, such as import tariffs. In general, trade enhances national competitiveness by driving workers to focus on those vocations where they, and their country, have a competitive advantage. Greater openness and flexibility can also stimulate foreign investment, which would be a source of employment for the local workforce and could bring along new technologies—thus promoting higher productivity.

A third definition is provided by the European Commission Directorate-General for Enterprise and Industry: 'Globalisation: the free movement of goods, services, capital, people, information and knowledge leading to a more integrated global economy.' They also assert that globalisation is not new. Certainly the pace is rapid and has quickened in recent years but the process of greater international economic integration has been under way for decades: the volume of good currently being traded across the world is 15 times greater than in 1950 and its share in global GDP has tripled. In the last 20 years more open economic policies and trade liberalisation worldwide and technical advances, notably in transport and communication have combined to lower costs and accelerate globalisation. Global trade in products and services has been growing at an average 6% since 1990, faster than global GDP.[10] Thanks to globalization, trade can be conducted cheaper, faster, easier and over larger distances. It has also incorporated lesser accessible markets and the large emerging global players of Brazil, China, India and Russia.

[9] 'Globalization: a brief overview', IMF Staff, May 2008

[10] 'Supporting the internationalization of SMEs', Final Report of the Expert Group, European Commission Enterprise and Industry, Directorate Generale, Dec 2007

As a consequence companies have greater possibilities in accessing more markets and suppliers, and also of determining the organisation, management and location of most aspects of their own operations. A reciprocal relationship between globalization and organizations exists therefore (Johnes and Dimitratos, 2004): they are not passive followers of developments, but their activities have a direct effect on them, stimulating and boosting globalization even further. The pace of change in the economy, as a consequence of globalization, has been accelerating and firms must search for new markets in order to extend the life cycle of their products. It has also been argued that globalization is changing the business environment dramatically, and forcing firms of all sizes to share similar, even the same, competitive space. However, the current development is reflected in the operations of SMEs in a slightly different way than in the operations of their larger counterparts, because of some distinct features that are particularly related to their international activities (SMEs suffer from disadvantages compared to their larger counterparts, lacking of some fundamental skills or resources needed to operate in international markets). Anyway, the SMEs are 'getting a more level playing field, which they were denied before. Suddenly they can get access to the same advantages of scale that the bigger guys always had' (Friedman, 2005).

Following the definition of Thomas Friedman, we are now living in the era of Globalization 3.0: the third generation of the process that began in 2000, which has transformed the world from a size 'small' to a 'tiny' one, and flattening the playing field at the same time. And the business world has benefited from this mutation, too, since the size of companies has reduced, but they can now aim to reach similar results of their bigger competitors, and can be empowered to compete on a global dimension.

Obviously, also the vision of Friedman was not free from skeptical critics. Professor Pankaj Ghemawat believes that Friedman's assertions are exaggerated visions and that globalization is not the great revolution that everybody celebrates. The arguments of who sustains globalization, according to

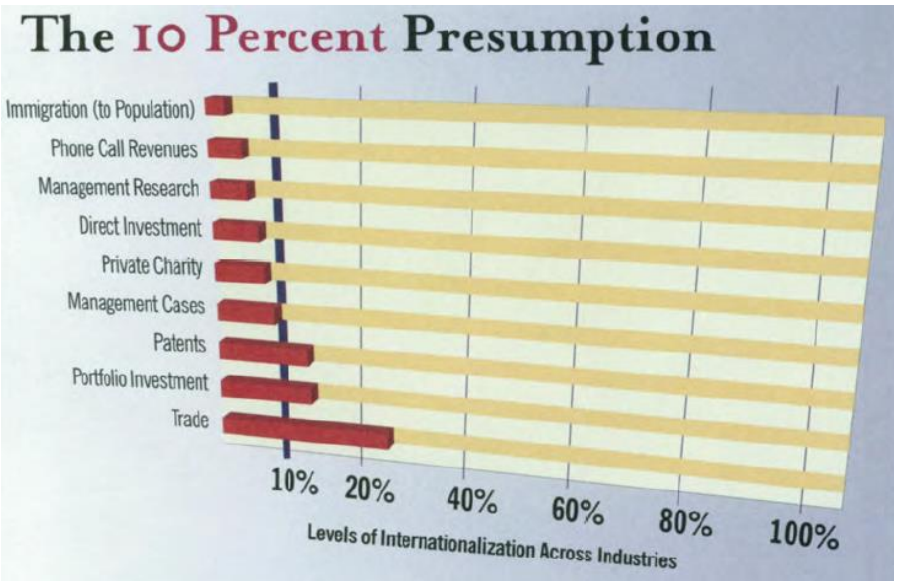


Figure 2.1 – The 10 percent presumption (Source: 'Why the World isn't Flat', P. Ghemawat, 2007)

Ghemawat (2007), are mostly characterized by 'Emotional rather than cerebral appeals, and perhaps, above all, a clamor for attention.' The truth is, Ghemawat says, that the world is not nearly as connected as the writers would have us believe; just a small fraction of what we consider globalization actually exists, and its future is fragile. With data at hand, he demonstrates that there is extreme connectivity at a local level, instead of a flat, highly interconnected world. A great number of economic activity that could be conducted across borders turns out to still be domestically concentrated. 'The levels of internationalization associated with cross-border migration, telephone calls, management research and education, patenting, stock investment and trade, as a fraction of GDP, all stand much closer to 10% than to 100%. These data on cross-border integration suggest a semi-globalized world, in which neither the bridges nor the barriers between countries can be ignored. We are more wired, but no more global' (Ghemawat, 2007). Nevertheless, Ghemawat reassures that, even if the world is not quite flat today, it will be tomorrow, since we are on the right direction to establish new records of integration. Nonetheless the road is unlikely to be smooth. What is important is that we do not rely too much on this version of a greatly integrated world, because it would be unproductive and dangerous. To recognize and accept our present limits would be the best way to improve in the future.

Finally, another theory that contrasts with the ones expressed above, which is also the vision that gets closer to the SME case, is the one of Professor Richard Florida, explained in his paper 'The world is spiky' (2005). According to Florida, globalization has changed the economic playing field, but without levelling

it. 'By almost any measure the international economic landscape is not at all flat. On the contrary, our world is amazingly "spiky". Surprisingly few regions truly matter in today's global economy. What's more, the tallest peaks – the cities and regions that drive the world economy – are growing ever higher, while the valleys mostly languish.' Florida means that nowadays an increasing number of people is clustering in urban areas, so it is clear that this is the most obvious challenge to the flat world hypothesis. In 2005, 24 cities worldwide had more than 10 million inhabitants: even if population density is a rough indicator of human and economic activity, it suggests that some economic forces are concentrating people and resources in precise locations, and pushing up some places more than others. Today, more than one-half of the population of large urban areas (500,000 and over) is in Asia, living in 532 of the 1,009 large urban areas[11]. In recent years, the world has become more than one-half urban for the first time in history. There are 34 megacities in the world (urban areas over 10 million population), and a total of 75 urban areas are indicated with 5,000,000 or more population.

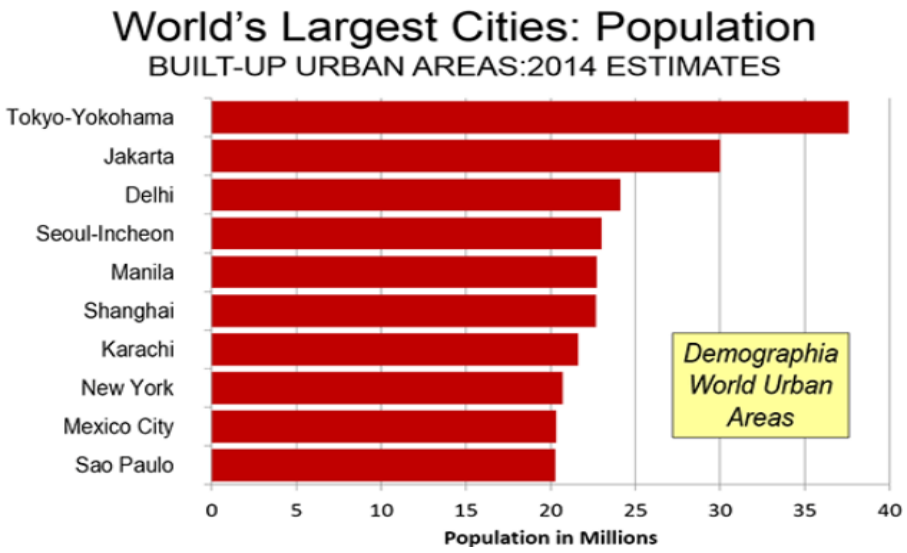


Figure 2.2 – World's largest cities by population (Source: Demographia World Urban Areas, 2015)

Not only population and economic activity are spiky, there is also innovation to consider: it is the engine of economic growth and it is also the most concentrated, in fact just a few places produce most of the world's innovations (primarily in USA and Europe). As far as global innovation is concerned, perhaps a few dozen places worldwide really compete at the cutting edge. Innovation fosters the spikiness of wealth and economic production even more helped by globalization, which has increased the returns to

[11] Demographia World Urban Areas (Built-Up Urban Areas or Urban Agglomerations), 11th Annual Edition, January 2015

innovation by allowing innovative products and services to quickly reach consumers in every corner of the world.

The greatest difference between now and just some decades ago is not that the world has become flatter, but that the world's peaks have become more dispersed, and it seems flat because the economic and social distances between peaks have gotten smaller. In a Brookings Institution study (2005) the demographer Robert Lang and the world-cities expert Peter Taylor identify a relatively small group of leading city-regions – London, New York, Paris, Tokyo, Hong Kong, Singapore, Chicago, Los Angeles and San Francisco among them- that are strongly connected to one another. But they also identify a much larger group of city-regions that are far more locally oriented.

Florida asserts that the flat world theory risks to blind us to far more insidious tensions among the world's growing peaks, while in the meantime inequality is growing across the world and within countries. We are thus confronted with a difficult situation: economic progress requires that the peaks grow stronger and taller, but such growth will exacerbate economic and social disparities, fomenting political reactions that could threaten further innovation and economic progress. 'Managing the disparities between peaks and valleys worldwide – raising the valley without shearing off the peaks – will be among the top political challenges of the coming decades.'

In many ways Cairncross, Friedman, Ghemawat and Florida are right and wrong at the same time. It is undeniable that a revolution in the field of communications has happened and is continuing to develop still now; it is true that this revolution, which is part of globalization, is connecting the world and is empowering humans to reach places, people and markets that were inaccessible before. In particular the Internet connection rapidly surrounding the globe has, in slightly more than a decade, significantly altered work, education and relationships. But critics around the world continue to seriously debate the notion that the playing field is levelling. Many cannot yet directly participate in this digital world, like numerous underdeveloped countries, but the forces driving toward wider deployment and utilization are everywhere, and we are confident that, sooner or later, the Ghemawat's 10 Percent Presumption will be debunked in favour of higher percentages of connectivity around the globe.

With the growing realization that the same phenomenon could be read and interpreted in several ways, in the round, flat, spiky, complex world, many are not completely denying the effects of globalization but are being reminding that for most people the world is still local.

2.3 THE IMPACT OF GLOBALIZATION ON THE INTERNATIONALIZATION OF SMES

Globalisation has metaphorically 'reduced' the size of the world, expanding the potential spheres of activities of all the economic actors from national into multinational or even global. It is estimated that 20% of the gains in living standards in the EU over the last 50 years can be attributed to the EU's growing integration with the world economy. And a full 63% of European Union citizens are in favour of globalisation.[12]

Another important issue to raise is the strong interconnection between globalization and internationalization (Johnes and Dimitratos, 2004): it has been argued that the driving forces of globalization have – at least partly – influenced SMEs internationalization. Some researchers even use the terms as synonyms, but usually the two phenomena are distinguished from each other. Globalization, as we have said, is generally described as the ongoing macroeconomic phenomenon of disappearing trade barriers and increasing communication with the help of advanced technology. On the other hand, internationalization is understood as the company-level activity in which the firm increases its involvement on foreign markets. This activity will be affected by phenomena such as increasing market potential, facilitated access to global markets and strengthening competition, all of which are related to globalization.

For an SME, globalisation means that the natural or local environment is being constantly transformed and growing, and that competition now starts at home and continues abroad. Since globalization is changing the nature and the structure of industry and industrial systems (Pagano and Varaldo, 1998), as a consequence it will have an impact also on the operations of these enterprises, in particular at international level, both in positive and negative terms. Regarding the positive aspects, we can say that through opening markets they will have more opportunities of accelerating their process of internationalization, thanks to less barriers and presence of global firms networks to operate within. Then, the increasing speed of business operations has also been reflected in the increasing share of internationalization of small firms, which start operating internationally much more quickly than was previously the case. On the other hand, Varaldo and Pagano (1998) suggest that SMEs are influenced by globalization particularly because the increasing competition and complexity in foreign markets now

[12] Flash Eurobarometer 151b 'Globalisation', European Commission 2003

requires more effort, offering global products able to compete with the MNEs' ones, bound to meet standards, lead times and shorter product life cycles. This could be the pitfall of globalization form SMEs: it may delay the internationalization process of the firms that do not have the capability to meet this challenge. This fact, in addition, demonstrates that SMEs are more affected by the phenomenon than their larger counterparts.

However, researchers have pointed out that actually globalization and its effects are converging small and large firms closer to each other as the small firms approach the global competition, but competition also requires local responsiveness from large multinationals. International transactions were, until recently, largely the realm of relatively big companies, with smaller businesses remaining local or regional (Dana et al., 2007). But now, as an attempt to manage the globalization process, large firms have acted as coordinators in broader networks of companies, which also include SMEs. As a result, large firms will have an important role in SME internationalization as well. Altogether, it will become difficult to differentiate the impact of globalization on SMEs and MNEs as they are strongly intertwined. It must also be recognized that SMEs cannot always be considered as a homogeneous group of firms, and also that the impact of globalization varies among the two groups.

What is emerging is that globalization has a notable impact on SMEs internationalization process. At the company level it seems to be a growth process, which is tightly linked to the company's other core activities. Moreover, it seems to be an incremental process, even if time and pace vary, and even if we already know that the realization of the consequences of globalization, which are both pros and cons for SMEs, will take time to show up. In the end, it may facilitate the internationalization efforts of SMEs in that homogeneous markets and customers are easier to satisfy; but it is also possible that several strong regionally-based markets evolve to replace the single uniform market, and that although national barriers may lose importance, new regional barriers will arise. Additionally, although convergence among markets in general will increase as a result of globalization, a divergence could simultaneously arise among customers. The impact of globalization will also be less visible because the majority of SMEs have selected – quite wisely – a niche strategy and aim at fulfilling the needs of a selected and limited customer segment.

In sum, this rapid development creates new pressures and challenges for small firms to internationalize, and innovative approaches are required in order for them to succeed in the future. The new scenario, that is globalisation, will require and reward first of all inventiveness, agility and flexibility: the very qualities that are commonly used to define SMEs. Embracing these qualities means that competitive

SMEs will not only be in a position to tackle globalisation but also profit from it. In order to achieve that, a pro-active attitude to global competition and markets is increasingly becoming not a choice but a matter of necessity. Continuous technological, managerial and operational innovation inside the SME will be one of the key tools for their sustainability and growth.

3 THE INTERNATIONALIZATION OF SMES

'Smaller businesses are not smaller versions of big businesses…smaller businesses deal with unique size-related issues as well, and they behave differently in their analysis of, and interaction with, their environment.'

Schuman and Seeger (1986), p.8, cit in Coviello, McAuley (1999), p.228

3.1 WHAT DOES 'GOING GLOBAL' MEAN FOR SMES?

A great part of the literature on the internationalization of firms has traditionally focused on MNEs or large, well-established firms in developed economies. However, the internationalization of SMEs is 'an increasing global trend in both developed and developing countries, and attracts the interest of not only academic researchers but also of policy-makers, as it is seen as an important means of enhancing the long-term growth and profitability of SMEs' (Antoldi et al, 2011). Talking about internationalization, a straight definition of the phenomenon is provided by Beamish[13]: it represents 'The process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries.' International growth today represents for enterprises not only a mere opportunity to consider, but also a necessary condition to remain competitive, sometimes to survive, in a global economy (Grandinetti, Rullani, 1996).

As we have said, globalisation has brought a shift to the economic environment of European SMEs, increasingly exposing all companies both to new markets and to international competition. In the new scenario, the enterprises of all dimensions, and in particular the SMEs, that do not consider internationalization are unknowingly self-imposing a limitation on their potential for long-term survival. Internationalization must not be considered by firms as a separate activity of the company or as a strategy to be enacted only in times of reduced local demand; on the contrary it must be fully integrated into the SME as a core part of the company's long-term strategy. This is reinforced by the fact that

[13] Cited by Masiello, B., (2013), 'Fiducia nelle reti: Strategie per la crescita nei mercati internazionali delle PMI', Editoriale Scientifica, p.26

internationalization has been proven to be one of the key engines for competitiveness and growth, as the European Commission states.[14] Despite the advantages brought by globalisation, and the risks of not opening to foreign countries, many European SMEs unfortunately still remain too focused on their national markets. Nonetheless, SMEs are becoming more and more aware of the importance of internationalization as a means of enhancing their long-term growth, profitability and chances of survival (Morgan and Katsikeas, 1997). In industrialized nations, a significant degree of dormant export potential has been identified in this firm size sector.

At a macro level, increasing exports in particular is considered to have positive effects on economic growth of international trade, whereas at a micro level, exporting allows firms to pursue growth opportunities, diversify business risks and increase profits. As international markets are becoming increasingly integrated and interdependent, all firms, no matter of which size, industry or country of origin, need to develop a strategic response to international competition. 'High-Growth SMEs and Employment' is the title of an OECD study conducted in 2002, which demonstrates that exporting is a precursor of strong growth, therefore we can assume that internationalized companies have better capacity to innovate and grow, and have higher sales growth than firms that sell only domestically. In the study, it is claimed that 'High-growth firms, as measured by employment expansion rates, account for a significant share of jobs created and are key players in economic growth. Among such firms, small firms exhibit higher net job creation rates than large ones, as they also do in the general population of firms.' They stress the role of SMEs not only in terms of economic growth, but also in terms of increased job creation.

The internationalization's benefits do not come exclusively from exports. Exporting is generally the first stage of the process, and particularly among SMEs, is considered the most common entry mode into a foreign market as it involves a lower business risk, less commitment of resources and greater flexibility. In addition, also importing is to be considered: not only is a source of improved performance, via the acquisition of new technology and abilities, but importers tend to be also keener/faster exporters. Other forms of internationalisation such as foreign direct investment (relocation or outsourcing), technology transfers, participation in international value chains, and other forms of inter SME co-operation are gaining ground, too. In addition, it is increasingly acknowledged that firms can develop their export potential by leveraging on networks or collaborative strategies, since combining resources, knowledge and experience can lead to more rapid internationalization. Export consortia are typical example of such

[14] 'Supporting the internationalization of SMEs', Final Report of the Expert Group, EUROPEAN COMMISSION ENTERPRISE AND INDUSTRY, Directorate-Generale, Dec 2007

collaborative network arrangements (Antoldi et al, 2011). By forging extensive collaborative ties, domestic SMEs can exploit and integrate complementary resources and competences, jointly promote investments in shared resources to penetrate foreign markets, increase their responsiveness to more sophisticated demand standards and, as a result, achieve higher export levels (Mesquita and Lazzarini, 2008).

In the case of SMEs, according to the Final Report of the European Commission, there are two main reasons that move companies to internationalise. First, the international orientation of the decision maker, which is a consequence of personal and professional experiences of the owner/manager, and second, the evolution and 'attitudes' of the SME (referred to the industry/sector to which the SME belong). In both cases the level of international exposure plays a key role, either because the sector is particularly exposed or because of the personal and professional experience of the owner/manager are the main drivers to internationalisation. This somehow makes internationalisation a 'closed loop': internationalization breeds internationalisation (Clercq et al., 2003). There are also other drivers to internationalisation, i.e. to gain access to know-how and technology, to increase efficiency and economies of scale, to increase competence by entering difficult markets and to exploit the advantage of leading edge technology.

The literature has tried to analyse some of the advantages brought by the choice of firms of choosing an internationalization strategy. One research line analyses firms' productivity, according to the international activities they develop, hypothesizing that firms more involved in international markets will exhibit higher productivity levels. On the one hand, international markets suppose a more competitive situation, so firms in general try to stress their resources in order to be more productive. On the other hand, a self-selection mechanism may be enacted, and only the most productive firms in the end decide to start an internationalization strategy. The empirical literature has confirmed the higher productivity levels of exporters versus non-exporters (Merino, 2012). According to a study on the evolution of the productivity of 1500 Spanish manufacturing firms chosen each year, and conducted between 2000 and 2007 by the Spanish Ministry of Industry, different groups of firms that present different international involvement were taken as benchmark. Using a class of statistical indexes it was possible to demonstrate that firms that have advanced more in their internationalization processes present higher levels of productivity, even if, although more internationalized firms exhibit higher productivity, their evolution shows a different behaviour. Once firms have become exporters, their productivity evolves not statistically differently if they have affiliates abroad, although they do it at a higher pace than those firms dedicated exclusively to the domestic market. In few words, when firms

are selling their output abroad, they find the stimuli to develop a faster productivity gain path than their domestically-centred counterparts and becoming multinationals does not enhance supplementary productivity gains. Moreover, a further distinction is then introduced: between large and small exporters: it is found out that productivity of domestic and small exporters (those firms whose international sales do not exceed 25% of total sales) evolves at a different pace than large exporters and multinationals. However, it is necessary to pay attention to the market characteristics that can explain such different productivity paths. Then, besides the productivity increase that the accumulation of knowledge due to spillovers may generate, it must be noted that serving foreign markets allows the firm to increase its size, and this possibility will become a source of additional productivity increases if the home market is not large enough to reach the size threshold where the scale economies are relevant.

3.2 CONTRIBUTIONS TO INTERNATIONALIZATION FROM DIFFERENT THEORETICAL PERSPECTIVES

It is obvious that firms operating in foreign countries have to face higher costs than firms that limit themselves to the local dimension: in fact they have to deal with factors such as lack of business environment information, market knowledge and unfamiliarity with the local culture. 'National firms have the general advantage of better information about their country: its economy, its language, its law and its politics; to a foreigner the cost of acquiring this information may be considerable' (Hymer 1976). This disadvantage, according to Zaheer (1995), is known as the 'liability of foreignness': he described it referring to multinational enterprises, but nowadays it can be easily applied to SMEs, too. This phenomenon has been defined as all additional costs a firm operating in a market overseas incurs, that a local firm would not incur. These include: costs directly associated with spatial distance, such as the costs of travel, transportation, and coordination over distance and across time zones; firm-specific costs based on a particular company's unfamiliarity with and lack of roots in a local environment; costs resulting from the host country environment, such as the lack of legitimacy of foreign firms and economic nationalism. The relative importance of these costs and the choices firms can make to deal with them will obviously vary according to industry, firm, host country, and home country. Whatever its source, the liability of foreignness implies that foreign firms will have lower profitability than local firms, all else being equal, and perhaps even a lower probability of survival (Zaheer, 1995).

In order to overcome the liability of foreignness, and compete successfully against local firms, companies need to accumulate and leverage on their firm-specific advantages in order to expand abroad

and gain a superior competitive position over local firms. The internationalization literature in recent years has underlined that the strategic and organizational processes that develop the SMEs engaged in international growth are peculiar and often different from the MNEs' ones. Different theoretical perspectives to interpret the phenomenon have emerged, according also to a research of UNIDO (United Nations Industrial Development Organization)[15] that highlights the factors that affect the foreign expansion of SMEs, and show how they can overcome the liability/disadvantages associated with it (Antoldi et al., 2011).

1. ***The incremental approach to internationalization***

In 1977 Johanson and Vahlne developed, on the basis of empirical resource, one of the most famous internationalization models: the Uppsala model. They explained the concept of internationalization as an incremental process, and argued that firms gradually go through different stages of international development, which reflect their increasing knowledge and commitment to foreign operations. According to this model, firms initially enter foreign markets that are comparatively well-known and similar to their own in terms of economic development, political system, culture, business practices, legal environment, religion, language and education, and then gradually approach markets that are more psychically distant (UNIDO, 2009). 'Psychic distance refers to all those factors preventing or disturbing the flow of information between firm and host market, such as differences in language, culture, political system, level of industrial development etc' (Johanson and Wiedersheim- Paul, 1975).

The Uppsala model focuses on the gradual acquisition, integration and use of experiential knowledge about foreign markets and operations, and on the incrementally increasing commitments to foreign markets. Experiential knowledge is therefore considered the main driver of both geographical scope and changes in entry modes, from exporting to the greater involvement required by strategic alliances and set-up of subsidiaries. Market knowledge, which can be gained from experience with foreign activities, is therefore the key factor influencing the time and direction of international development. Only experience can reduce the uncertainty associated with international expansion and remove the principal obstacle to it (Leonidou and Katsikeas, 1996). From this perspective, the internationalization of a firm is described as a process of increasing a firm's international involvement through gradual learning and development of market knowledge (learning by doing).

[15] UNIDO (2009), The Strategic Management of Export Consortia: An Analysis of the Experience of UNIDO in Morocco, Peru, Tunisia and Uruguay, Industrial Policy and Private Sector Development Branch Programme Development and Technical Cooperation Division

This model provides some guidelines for the internationalization of SMEs and highlights two main issues: the knowledge of foreign markets represents a key driver for internationalization and the learning processes associated with internationalization are paramount (UNIDO, 2009). However, in the modern global economy, the universal applicability of the slow, incremental model of internationalization has been questioned in favour of other models. 'In an increasingly global environment, the relevance of 'stage' theories must be questioned, especially in relation to the internationalization of high-technology and service firms' (Bell, 1995). Furthermore, it does not seem to have sufficient explanatory power in relation to the realities of developing countries, where SMEs may follow a different foreign expansion route from the conventional model of internationalization in developed ones (Antoldi et al, 2011, p.3).

2. ***The Born Global phenomenon***

One of the studies that contest the gradual approach of the U-Model, states that firms can set their presence on international markets through another mode: they are the so called 'Born Globals'. 'These are smaller entrepreneurial firms that internationalize from inception, or start to shortly thereafter. Their main source of competitive advantage is often related to a more sophisticated knowledge base' (Bell et al, 2003). Evidence about this type of companies has challenged the incremental view we have previously explained (Herath, 2015). The 'Born Globals' are also known as 'global start-ups', 'early internationalizing firms' or 'international new ventures' (Knight and Cavusgil, 1996). Many of them are small, but nonetheless are able to internationalize quite fast by developing international networks, relying on innovation and offering customized products (UNIDO, 2009). Despite their limited resources, they are able to achieve substantial international sales from an early stage in their development, and are emerging in substantial numbers worldwide.

Those enterprises search for sustainable competitive advantages by exploiting resources and selling their products in multiple countries, without showing the behaviours connected to an incremental involvement or to a reduction of the psychical distance. Whereas the Uppsala model focuses on market knowledge, studies on Born Globals emphasize the role of technological knowledge, and their examples of rapidly internationalized firms are drawn mostly from high-tech industries such as software and biotechnologies (Gassmann and Keupp, 2007). The main lesson to learn from these two important examples is that a firm has to manage its technology-base and marketing resources in accordance with what is required by its foreign development. From a dynamic perspective, as companies go through

different stages of internationalization, they need to reconsider their sources of international competitiveness, which stem from their resources and capabilities, since they are of primary importance as drivers of internationalization (Antoldi et al, 2011, p.4).

The literature talks also about 'Born-again Globals', referring to those companies which, after operating for many years in the domestic market, they radically modify their strategy because of a critical event, and begin to invest in a rapid and dynamic foreign growth (Bell et al., 2003). The studies in this field have confirmed that the liberalization processes, the new pervasive technologies, the uncertainty of the markets, and the emergence of new transnational segments of consumers have boosted the diffusion of INV, pushing SMEs to rapidly develop internationally, skipping one or more of the progressive stages of the incremental models (Knight, Cavousgil, 1996).

3. *The resource-based view*

The resource-based view perspective defines firms as a collection of unique bundles of resources providing a sustainable competitive advantage to firms, and can be used to undertake various activities, especially internationalization and inter-firm collaborations (Wernerfelt, 1984). The idea behind the model is that, combining a set of complementary and specialized firm-specific resources and organizational capabilities that are scarce, durable, not easily traded and difficult to imitate, may enable the firm to earn economic rents; thus, the value of a firm's strategic assets extends beyond their contribution to the production process (Amit and Schoemaker, 1993). This set of firm-specific resources and competences forms the basis of the strategic behaviour of a firm, including its internationalization choices, which may be interpreted as how these resources and competences are exploited on a broader scale. Resources are the basis of a firm's capabilities, whereas capabilities represent the way it uses resources. It is not only important to exploit existing capabilities, but also to engage in developing new ones; resources are used to create inimitable capabilities (Amit and Schoemaker, 1993).

A number of studies on the resource-based view explain the influence of certain resources on the internationalization of SMEs (Westhead et al., 2001). First of all, there are various types of resources: physical and tangible, intangible and knowledge-based; any production factor or activity may be considered a resource, even if not all resources or competences enable a firm to develop a sustainable advantage (UNIDO, 2009). Therefore, it is necessary for firms to identify the specific resources among the ones they possess that offer a source of advantage in the environment in which they conduct their

business. Intangible resources and capabilities, such as greater knowledge of foreign markets, higher market reputation, relational capabilities and management skills are critical to the process of internationalization and must be enhanced: they are needed to handle the greater complexity associated with foreign operations in order to be successful in foreign markets. In particular, management characteristics have a crucial role: the experiences, skills and competences of an entrepreneur are regarded as key factors influencing business survival and development; they are fundamental in order to exploit opportunities for foreign development, manage processes and relationships in new contexts and create routines that facilitate the undertaking of international operations (Westhead et al, 2001). Some of the most valuable and difficult-to-imitate resources of a firm can be represented by its top managers, especially in small firms, where the role of the entrepreneur and his/her beliefs, attitudes and expectations, is critical (Wiklund et al., 2003). Knowledge-based resources may be particularly important for providing sustainable competitive advantage, because they are inherently difficult to be reproduced by others, thus facilitating sustainable differentiation and play an essential role in firm's ability to be entrepreneurial and improve performance.

4. *The Network-Based Perspective*

Resources and capabilities can be provided by network relationships, too: in order to deal with the challenges of more and more dynamic and global markets, firms increasingly rely on these organized relational structures. Markets are depicted as a system of relationships among a number of players including customers, suppliers, competitors and private and public support agencies. Thus, strategic action is rarely limited to a single firm, and the nature of relationships established with others in the market influences and often dictates future strategic option (Coviello, Munro, 1995, p.50). 'The international new venture involvement in networks facilitates rapid internationalization; INV are different from conception because from, or near, founding they have a global focus and commit resources to international activities' (Coviello, 2006). From a network perspective, internationalization is defined as the process of developing networks of business relationships in other countries (Johanson and Vahlne, 1990). This perspective has challenged the traditional incremental models, suggesting that recognizing the role of business and social networks in which the enterprise is involved can help to better explain the international behaviour of firms, especially SMEs operating in knowledge-intensive industries (Coviello, Munro, 1995).

The first conceptualization of the network approach is due to Johanson and Mattson (1988), who developed a model according to which the internationalization process of a firm begins when it secures

an economic alliance with another firm belonging to a network established in a foreign country. These alliances act as a bridge to foreign markets. In more recent years, Johanson and Valne (2009) revisited the model, recognizing the importance of the international business networks and the 'liability of outsidership' as the main obstacle for the growth in foreign markets. 'A firm that does not have a position in a relevant network is an 'outsider'; if a firm attempts to enter a foreign market where it has no relevant network position, it will suffer from the liability of outsidership and foreignness, and foreignness presumably complicates the process of becoming an insider' (Johanson ane Vahlne, 2009).

Now, in particular Oviatt and McDougall (1994) stress the fact that INV can compete on the same ground of MNEs for what concerns internationalization. According to them, recent technological innovation and the presence of increasing numbers of people with international business experience have established new foundations for MNEs, thanks also to the use of low-cost communication technology and transportation. This means that 'the ability to discover and take advantage of business opportunities in multiple countries is not the preserve of large, mature corporations: new ventures with limited resources may also compete successfully in the international arena.' Hence, leveraging on networks, also the smaller businesses can start growth paths, overcoming the liability of smallness/newness or foreignness and leveraging on the capabilities of the network actors (Masiello, 2013).

It is the entrepreneur and its network contacts, which generally derive from prior experience, the engine that enables firms to leverage on critical external resources. These networks are then exploited, especially by smaller firms, to mitigate the limitations arising from size or lack of experience (Bell, 1995). The 'relational capital' – the resources and mutual benefits incorporated in a relationship between two or more parties (Dyer and Singh, 1998) – are therefore a key factor driving a firm's international expansion. According to Dyer and Singh (1998), a firm's critical resources may span firm's boundaries and may be embedded in inter-firm resources and routines. The inter-firm relationships are useful to provide access to technological, production or market resources (Johanson and Vahlne, 2003). In addition, the members of a network might receive guidance from more experienced partners.

According to a multiple case-study (Masiello, 2013) on four Italian SMEs of the agro-industrial industry defined 'traditional', i.e. low-tech, not knowledge-intensive and 'born local', aimed to fill in the literature gap on this subject, also these kind of companies are able to set up an internationalization strategy leveraging on networks. The main results of this analysis demonstrated that the beginning of international strategies is socially embedded and tightly linked to the interpersonal networks of the founders and of the others stakeholders involved in the SMEs. Then, another interesting aspect concerns

the process of identification of the international opportunities in the pre-entry phase: generally SMEs 'discover' the opportunities for an external growth, without 'searching' for them, thanks to the flow of information present in the networks (Ellis, 2011). Moreover, from the study emerges that SMEs sometimes do not necessarily start from countries less psychically distant from their country of origin: the choice of the target markets is more connected to the social networks in which firms are embedded (loose relationships developed during international trade fairs or through collaborators/partners) than to rational evaluations of the foreign country's characteristics. Tight relationships, instead, become more valuable during the post-entry phase, when changing the operative modes or adapting the strategy to new external conditions is required. But the interpersonal relationship maintains a key role in the following steps of the internationalization, creating path-dependence phenomena. This reliance on the social networks, nevertheless, has got also some negative sides: according to the study, SMEs might be induced to rely totally and passively on the network to enter foreign markets, without making any investment in local market knowledge, so networks seem to be a condition without which the firm could not make its first entrance in the foreign market.

An element which is essential in building networks is trust, on direct and indirect relationships, which influences if and where the internationalization develops (Masiello, 2013). It is about trusting the network partners' goodwill and honesty, but also confiding on their intentions and capabilities. It is built with time and repeated interactions (Welter, 2012). The trust that SMEs have in foreign partners is a key element, for the international development to function and be effective, often substituting the more formal procedures and thus allowing flexibility and speed of decision-making. But sometimes, in networks that present high trust levels, is more likely that traditional SMEs could make some errors in evaluating their partner or the choices to undertake.

Not only international alliances are a means to foster internationalization, but domestic inter-firm relationships also play a role as a vehicle for achieving greater international competitiveness. Local cooperative agreements are critical for an SME's access to global markets: inter-organizational collaborative arrangements act as substitutes for the lack of strong institutional environment and enable firms to start up a number of export-enhancing activities. Through the exploitation of networks therefore, SMEs gain better access to global markets (Mesquita and Lazzarini, 2008).

It is widely acknowledged that firms can increase their export potential by relying on networks or collaborative strategies, which are able to help firms overcome the liability of foreignness. Networks extended the traditional stage model of internationalization based on learning by doing. In fact, 'learning

does not take place solely within individual firms, but may also come from and be shared with partners; in this way, a company's international pattern of expansion can be profoundly influenced by the set of relationships it is capable of developing' (Antoldi et al, 2011, p.6).

3.3 THE SMES EXPORT ACTIVITY

Within the process of internationalization, export maintains a central role being regarded as the simplest and quickest way to access foreign markets. Exporting is generally the first stage of internationalization (Johanson and Vahlne, 1977), given the lower business risk and resource commitment compared other means of 'going global'. Even if export seems a viable opportunity for all kind of firms, the relationship between export performance and size has long been disputed. In any case, export requires various organizational devices and resource commitments and, therefore, the results of export activities can vary significantly according to the availability of resources (Majocchi et al., 2005). With over 600,000 goods exporting SMEs (over 80% of the total number of EU goods exporting firms) accounting for one third of total EU exports and employing over 6 million people in Europe, EU exporting SMEs play a non-negligible role in EU trade performance (Cernat et al, 2014).

Export activity can be divided in direct and indirect exporting, depending on the number and type of intermediaries. When a company establishes the export channel for the first time, it has to decide which function/responsibility their external agents are going to have, or which ones will be handled by the company (Hollensen, 1998). Direct and indirect export is distinguished by how the exporting company carries out the transaction flow between itself and the host country buyer, and involves two types of costs: the costs of performing necessary functions and the transaction costs that arise in organizing an activity/contracting with other parties. Direct export happens when an exporting firm sells directly to an importer/buyer in a foreign market, i.e. through distributors/agents; in this way companies are much more involved: they can build up overseas contacts, do market research, handle both documentation and transportation and participate to the design of marketing mix strategies. Indirect export instead is when the exporting company exploits independent organizations located in the host country, using export buying agents, brokers or export management companies; firms that choose this mode are likely to have limited international expansions objectives and often commit only minimal resources in order to firstly test the market.

The intrinsic characteristics of a firm and its management, together with environmental factors, affect the export decision-making and performance of SMEs. Among all the literature on the subject, it is interesting to highlight what Aaby and Slater (1989) have identified: four groups of factors affecting the export behaviour of SMEs. They are:

1. Enterprise characteristics (size, managerial commitment and perceptions);
2. Competences (technology, market knowledge, quality control, communications skills);
3. Export strategies (market selection, product mix, product development, promotion, pricing);
4. External environment.

Given these factors, we will concentrate on the ones that seem to give the greater contribution to the exporting attitude.

Concerning the first group, firm *size* is one of the most studied factors affecting exports, since it is thought to be 'a useful and manageable approximation of firm resources which are held to affect export behaviour'(Bonaccorsi, 1992). It is clear that larger firms have more resources, can meet the challenges of internationalization more easily and therefore tend to be better international performers. However, this view is not universally supported by empirical evidence. Studies of the relationship between firm size and internationalization highlight the fact that being small does not per se constitute an export barrier and that, despite their few resources, SMEs can succeed in entering foreign markets and reaching high export levels. 'Exporting has been the last resistance path to growth for small firms, as an alternative to more resource-consuming strategies' (Bonaccorsi, 1992).

Another element of interest, present in the second group, is *innovation* (the introduction of new production methods, new products and new industrial organization), which can also have a significant positive influence on export. Technology in particular is one of the strategic resources of a firm. In their study of resource-based approach to export performance, Dhanaraj and Beamish (2003) found that technologic intensity is a good predictor of export strategy that, in turn, has a positive effect on domestic or less demanding foreign markets. 'Technological resources are the tangible and intangible technical assets of the firm; a high-technological intensity typically indicated by a high R&D expenditure provides the firm with unique technological know-how, which often promotes the expansion overseas' (Dhanaraj and Beamish, 2003). Though in general SMEs spend less on R&D than large firms, they produce almost twice as many innovations on a per employee basis (Acs and Audretsch, 1990). According to Acts and Preston (1997), the reason why SMEs are better at creating radical innovations is because they better protect the innovator's property rights. In contrast to innovative employees in large corporations, where

the lack of clear property rights creates perverse incentives for both employees and managers, independent innovators of SMEs can hold clear property rights, can have every incentive to undertake radical innovations, and can be largely free from red tape. Almeida and Kogut (1995) then studied the influence of geographic location and technological diversity on innovation, examining the origins of citations of 170 major patents in the semiconductor industry. They argue 1) that start-ups gain their comparative innovative advantage by exploring new technological spaces that may be overlooked by larger firms, and 2) that this process is facilitated by regional networking which permits small firms to obtain and use knowledge more efficiently than large firms. They find that start-ups produce innovations in less crowded technological space than larger firms. That is, small firms are more likely to explore technologically diverse territories.

An additional feature, which is more or less comprised into all the first three groups, is considered significant in explaining the internationalization of SMEs: *human capital*, intended as the experience, the competences and the skills possessed by the individuals, which are valuable resources. In small firms, constraints in terms of human resources make the task of identifying and operating in foreign markets more problematic (Gomez-Meja, 1988), so this is the reason why they are paramount especially in SMEs. In a broad sense, human capital is related to the training, qualifications, education and technical abilities of personnel (Ashton and Green, 1996). A higher level of education is generally associated with greater knowledge, useful for the management of complex decision-making processes as well as for the analysis of the international environment. According to a study of Tihanyi et al. (2000), certain top management team characteristics are related to international expansion. Apart from the technical competences acquired, a higher level of elite education and a higher average international experience can create the opportunity to encounter new contexts and people, and tends therefore to favour a greater propensity for change. These factors are important in managing the challenges of international development and understanding different ways of doing business.

When the SME intends to enter an international market, the role of the entrepreneur in defining strategies and orientating growth paths is of great importance. According to Knight (2001) 'International entrepreneurial orientation is a fundamental corporate posture, contributing strongly to the international performance of the SME; it emphasizes innovation, risk taking, and a generally proactive approach to business in foreign markets.' Decision-makers play a crucial role in export activities, especially in the case of SMEs whose limited size means that the entrepreneur him/herself is often in charge of export activities, and that there is a considerable overlap between him/her and the organization. There is anyway the need for organizational development and for establishing new roles

within the firm: beyond the entrepreneur and the management team, other individuals play an important role in the success and growth of SMEs. Both the growth and the survival of a firm depend on the endowment with qualified personnel (Cerrato and Piva, 2012).

Sometimes human resources are more critical to the achievement of competitive advantage than tangible or financial resources, as they are more likely to possess those characteristics (e.g. valuable, difficult to imitate or substitute) which scholars of the resource-based view have identified as sources of competitive advantage (Barney, 1991). Human capital is considered to be crucial to the recognition and exploitation of business opportunities. Therefore, as well as financial issues, human capital is also of critical importance as a resource and it is positively related to the internationalization of SMEs (Cerrato and Piva, 2012).

Finally, the role of *global value chains* (GVCs) and the ability of SMEs to leverage their GVC participation to become successful exporters is also to mention. One empirical study by Giovannetti et al. (2014), based on a sample of Italian exporting firms in the manufacturing sector and services, found a positive correlation between the participation of SMEs in global value chains and the propensity to become an exporter. 'Participation to supply chains, in particular, can guarantee greater efficiency to firms involved, generated by the many external economies arising from linkages along the chain, as well as opportunities to upgrading in a number of different ways, including through export and innovation (Giovannetti, Marvasi and Sanfilippo, 2014)'. The literature on GVC highlights the opportunities for local SMEs to upgrade their business processes through integration within global value chains (Gereffi, 1999; Humprey and Schmitz, 2002). This research shows that MNEs that act as leaders of the value chain on a global basis play a key role in providing opportunities for small local producers, in terms of learning and promotion of process, product and functional upgrading. In particular, there are two different pathways that SMEs can undertake. The *independent marketing-based pathway*, when an independent firm gradually gains experience and knowledge of foreign markets and, by doing so, strengthens its ability to meet the needs of foreign customers and serve them as efficiently as it serves its domestic customers (it focuses therefore on downstream activities). Then the *export strategy based on incorporation in an MNE's GVC*, where the key task is not much the acquisition of greater market knowledge, but the development of a sustainable competitive advantage, particularly in manufacturing, with a focus on the upstream activity. The internationalization of SMEs in this case is based on a production contract with a leading firm that provides entry to the foreign market, since the SME itself would not have the capability to manage the whole export process as it lacks of capabilities and competences. Studies on GVCs, therefore, do not necessarily stress the size of the firm as the main driver of firm's power in the GVCs.

Hence, SMEs cannot only enter into well-established GVCs driven by large companies, but they can also develop their own GVCs, on the basis of their capability to select and manage suppliers in a dynamic framework of complexity of transaction and codification of exchanges (Chiarvesio et al, 2010).

Despite the ability of SMEs to identify their crucial elements needed to start their export activity and in spite of the promising data reported on EU exporting companies, most of them continue to have a narrow export strategy: 60% of all exporting firms (including SMEs) depend on exports to only one or two extra-EU markets. One of the conclusions of the emerging literature on the analysis of the extra-EU trade of goods is that international trade is a world of 'happy few' exporters (Cernat et al, 2014). Based on a sub-set of EU Member State firm-level data, Mayer and Ottaviano (2007) found that only a handful of firms accounts for a disproportionate share of aggregate exports, claiming that 'For Europe in general, aggregate exports are driven by a small number of top exporters, and only a few firms export a large fraction of their turnover.' While this conclusion is true in relative terms and supported by many other subsequent analyses, this may not be true in absolute terms.

According to the Eurostat Trade by Enterprise Characteristics (TEC) database of the OECD, it emerges that the number of European goods exporters outside the EU (both SMEs and non-SMEs) is quite significant: there are over 750,000 European companies exporting outside the European Union. On the Eurostat TEC database, exporting firms are classified by size (micro, small, medium and large) and are grouped under the EU nomenclature of economic activities (NACE sectoral classification). The data available for the year 2011 reveal that the largest share of exporting SMEs, as it can be seen from the Table 3.1, is represented by micro enterprises (0-9 employees) and the largest average export value per exporting SME corresponds to medium sized ones (50-249 employees). Despite large enterprises (250+ employees) accounting for the large share of EU exports by value, most exporting enterprises are SMEs and they generate a non-negligible share of EU exports. In 2011, SMEs accounted for more than a third of total EU exports and they represented 81% of the firms exporting outside the EU. The SME share in EU exports would be even higher if indirect SME exports were added. As an example, SMEs participate indirectly in exports through global value chains by supplying products to large companies. In addition, it is expected that a large share of the firms that have not disclosed their size category in TEC (i.e., unknown status) are SMEs.

	1-9 employees (micro)	10-49 employees (small)	50-249 employees (medium)	250+ employees	Unknown status (most likely SMEs)	Tot EU exporting firms	Share of exporting SMEs (0-249) to tot exporting firms
Number	**352,900**	187,402	73,551	23,319	121,556	759,849	81%
Value million €	122,303	143,388	254,454	**816,300**	210,055	1,546,499	34%

Table 3.1 - Breakdown of the total number and value of exporting enterprises by size category, in 2011. (Source: Eurostat TEC database)

Eurostat TEC data also highlight a large heterogeneity between Member States, in the participation of European SMEs in exports outside the EU. Data of 2011 show the number of SMEs from different Member States exporting outside the EU, the value of their exports and the share of their exports by number and value to all firms exporting outside the EU in 2011 (as Table 3.2 shows). Italy, France, Spain and Germany accounted for more than 50% of total EU SME exports (which amount at 500bn Euros): this highlights the importance of SMEs as a generator of export value in many EU countries. At the same time, there is also a significant difference in the share of exporting SMEs in the total number of exporting enterprises, by Member States. For 13 EU Member States, SMEs accounted for 90% or more of the total number of exporting enterprises. At the other end of the spectrum, there are several countries (e.g. Spain, Germany, Czech Republic, and Greece) with an SME share below the EU average. Overall, the role of exporting SMEs, both in terms of number of enterprises and share of export value is quite heterogeneous across EU Member states. It is interesting to make a comparison between the situation of Italy and Germany which are, according to the data, the two EU-28 countries with the major incidence of SMEs considering simultaneously share and value added. Concerning extra-EU exports, Italy scores the highest number of exporting SMEs in all EU-28 and the second higher export value after Germany, which is the first in the EU. The share of exporting SMEs on the total number of exporting enterprises is bigger in Italy than in Germany, and so it is the value of their export.

Year 2011	SMEs exporting Extra-EU		Share of exporting SMEs to total exporting enterprises	
Member State	Number of exporting enterprises ('000)	Export Value (€ billion)	Number of exporting enterprises (%)	Export value (%)
Italy	119.6	80.2	90%	49%
France	82.2	54.8	94%	33%
Spain	72.7	31.7	65%	44%
Germany	72.3	118.6	59%	28%
United Kingdom	61.7	49.6	90%	27%
Poland	28.3	8.1	93%	27%
Sweden	25.4	15.4	94%	26%
Netherlands [a]	20.6 [a]	40.8 [a]	91% [a]	41% [a]
Portugal	18.4	5.1	94%	47%
Austria	14.8	13.1	95%	35%
Denmark	13.7	9.8	89%	35%
Belgium	11.9	32.4	69%	34%
Czech Republic	7.9	4.4	60%	22%
Slovenia	7.7	2.8	88%	38%
Lithuania	7.6	3.1	98%	39%
Hungary	7.5	3.4	92%	17%
Greece	7.4	4.3	62%	37%
Finland	7.3	6.1	91%	24%
Bulgaria	7.2	2.5	86%	33%
Romania	5.7	4.7	87%	36%
Latvia	3.1	1.7	97%	53%
Ireland	3	22	79%	57%
Slovakia	2.8	1.4	87%	16%
Estonia	2.7	2.6	61%	64%
Cyprus	0.9	0.3	73%	65%
Luxembourg	0.8	0.4	76%	12%
Malta	0.6	0.9	91%	49%
Total EU	*613.8*	*520.2*	*81%*	*34%*

[a] The latest available data for the Netherlands was 2010, unlike the figures for the other Member States.
Source: Eurostat TEC database.

Table 3.2 - Share of SMEs (0-249 employees) to total exporting enterprises (number and value), in 2011

But it must be said also that, comparing enterprises of all sizes in both countries, Italy has got more enterprises, but the value added they create is lower than German ones (see Table 3.3). The share of SMEs on the total instead is quite similar for both countries, but the value added created by SMEs on the total is bigger in Italy than in Germany (69% vs 54%).

	Tot nr of enterpr.	*Nr of SMEs*	*Share of SMEs on tot*	*Tot v.a. (bn Euros)*	*SMEs v.a. (bn Euros)*	*Share of SMEs v.a. on tot*	*Export extra EU v.a. (bn Euros)*	*Share of export v.a. on tot*
Italy	***3.721.375***	***3.718.236***	***0,999***	***661***	***459***	***0,694***	***80,2***	***0,121***
Germany	***2.211.144***	***2.201.144***	***0,995***	***1.456***	***792***	***0,544***	***118,6***	***0,081***

Table 3.3 – Italy-Germany comparison (Source: European Commission, 2014)

In brief, EU SMEs are heterogeneous and at the same time important for the European economy. The large share of SMEs to total exporting enterprises particularly highlights the importance of SMEs as an employer, since SMEs exporting outside the EU provide at least 6 million jobs. Despite exporting SMEs representing a large share of total exporting enterprises outside the EU, they represent a small share compared to the millions of existing SMEs in the EU. This highlights another important fact: given that a small share of EU SMEs account for one third of 'direct' exports outside the EU in value, there could be a large untapped potential for the European economy if more SMEs were targeting international markets outside the European Union (Cernat et al, 2011).

3.4 MAIN BARRIERS TO THE SMES EXPORT ACTIVITY

Given the nature of today's marketplace, SMEs are increasingly facing similar international problems as those of larger firms. For many SMEs, especially those operating in high-technology and manufacturing sectors, it is no longer possible to act in the marketplace without taking into account the risks and opportunities presented by foreign and/or global competition. Global competition, nonetheless, represents not only a great opportunity, but also a big threat. As SMEs cannot avoid foreign competition, they need to go international in order to remain competitive in their local markets. SMEs therefore must overcome their limited experience in international markets, but they suffer from a number of major barriers to export especially related to their limited internal resources and capabilities, and lack of competences necessary to meet the external challenges of the new business environment[16]. This is particularly true of SMEs in developing countries, where relatively few entrepreneurs have international experience or a high level of management education. Compared to those in developed countries, firms

[16] Fliess, B., Busquets, B., (2006) OECD Trade Policy paper n.45, The Role of Trade Barriers in SME Internationalization

in developing economies have fewer managerial resources and fewer private or public support services, so the enhancement of a firm's export activity in these zones is even a bigger challenge (Antoldi et al, 2011).

As we have previously said, despite being exports the most common and 'easier' foreign market entry mode among SMEs, a number of export barriers constrain the entry and operation of SMEs in foreign markets, therefore it makes necessary for SMEs to have a greater set of capabilities and competences than purely domestic SMEs. Export barriers can be defined as all those attitudinal, structural, operational, and other constraints that hinder or prohibit the firm's ability to initiate, expand or sustain export operations (Leonidou, 1995).

International business studies have identified a variety of barriers and proposed several classifications, for instance the one proposed by Zou and Stan (1998) divides export barriers into internal uncontrollable factors (managers' perceptions and attitudes, the firm's characteristics and competences) and external uncontrollable factors (industry and domestic and export market characteristics). Leonidou (2004), more completely, moves from the basic distinction between internal barriers that can be to a certain extent controlled by the firm, which are associated with organizational resources/capabilities and the company's export strategy, and external barriers (less easy to control) related to the home and host environment within which the firm operates.

Among firms of all sizes, SMEs are generally considered to be constrained in their international activities owing to their having fewer resources and experience than their larger counterparts. Under the definition of corporate resource constraints, Leonidou groups four internal barriers that indicate lack of managerial, human, marketing, productive and financial resources, which block or hinder the firm from initiating or increasing its export activity: unfamiliarity with conducting foreign business, inadequate/untrained export personnel, prohibitive business risks/costs abroad and shortage of working capital to finance overseas operations. Regarding the internal knowledge barriers there can be a lack of knowledge of export markets and difficulties associated with the identification of opportunities in foreign countries; a lack of knowledge of export assistance programmes and public incentives; language and cultural differences.

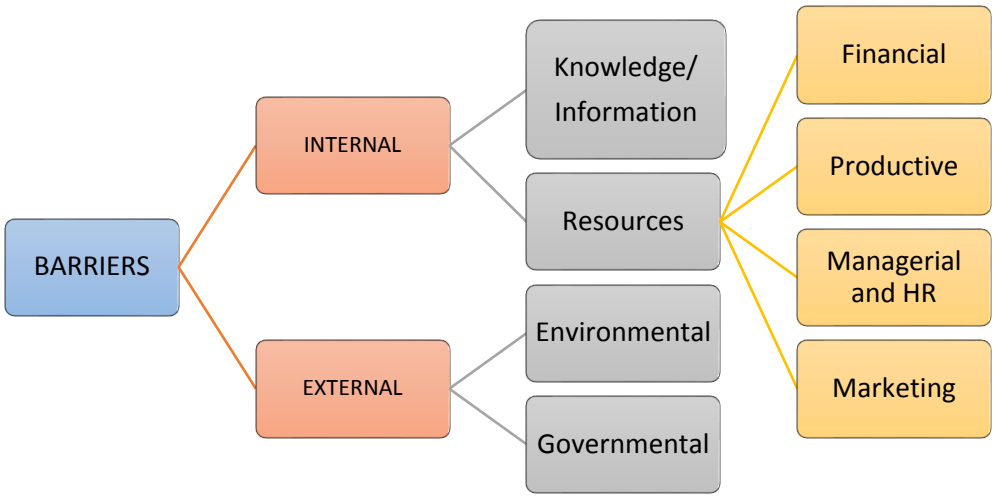


Figure 3.4 – A classification of export barriers (Adapted from Leonidou, 2004: 283), Source: 'Export Consortia in developing countries', p.7

For what concerns the external barriers, they include exogenous, environmental/governmental obstacles and are affected by rapid external changes, incorporate high levels of uncertainty and usually fall beyond the control of the individual firm (Leonidou, 1995). Environmental barriers may be related both to factors in the home market and conditions in the foreign market where the firm wishes to operate, i.e. exchange rate fluctuations and poor economic conditions. Also the economic, political, regulatory and socio-cultural environment of the foreign market the company is planning to operate in may give rise to a number of barriers to export. Further external barriers which have been identified are: unfamiliarity with foreign business practices and exporting procedures, problematic communications with foreign customers and slow collection of payments from abroad (Leonidou, 2004). The governmental barriers and regulatory issues of both home and host country may rise a number of important constraints on exporting activities, too. On the one hand, firms may suffer from a lack of governmental assistance and incentives for exporting as well as a particularly restrictive regulatory framework concerning export practices; on the other hand, foreign country regulation may result in a number of restrictions on firms that want to sell their products in that market.

Also the OECD deals with the issue of barriers[17] to SMEs. It tries to give a better understanding of the barriers to internationalising, claiming that 'SMEs report a range of barriers which they perceive to be detrimental as they seek to access international markets; there is clear evidence of market failure which creates these barriers preventing these SMEs engaged in international trade from achieving their full

[17] Final background report of the OECD-APEC joint project, 'Removing barriers to SME access to international markets' OECD-APEC Global Conference, 6-8 November 2006, Athens, Greece

potential.' The main barriers to greater internationalisation as reported from SMEs could be grouped in the three areas of concern, according to the OECD: a) Insufficient managerial time and/or skills required for internationalisation; b) Lack of financial resources; c) Lack of knowledge of foreign markets, mostly consequence of the previous two.

Other studies, comparing exporting and non-exporting firms, discovered that companies with formal market planning were more likely to be active exporters, while firms lacking formal market planning failed to enter foreign markets. This underlines the importance of support in the area of managerial competences for those SMEs considering internationalisation. It also starts to hint one of the main SME problems in terms of internationalisation readiness: the severe SME lack of international strategy. This situation is closely related to size (Kalantaridis, 2004): on average, the smaller the SME, the more management building capabilities required. Obviously SMEs present all the disadvantages inherent to smaller organizations: they tend to have lesser structured management procedures and a tendency to make opportunistic rather than systematic strategic decisions. The inability to control prices because of a lack of market power, a dependency upon a relatively small customer base, and limited – if any – access to decision- makers at the regional and national level increase the degree of uncertainty in the external environment, especially in comparison to MNCs; most organizations are small, and are thus exposed to the 'liabilities of smallness' (Aldrich and Auster, 1986).

Eventually, understanding export obstacles which render SMEs vulnerable has major implications especially for policy-makers who have to identify those areas where exporters need greater assistance when arranging support services and incentives (Leonidou 2004). This, according to the OECD (2006), creates an opportunity for governments to assist SMEs in overcoming trade barriers, whose contribution can be fundamental. 'Governments should review best practices to find the models that are most clearly aligned with their domestic political system and create mechanisms that encourage and facilitate SMEs to become active participants in the trade policy process' (OECD, 2006). In terms of concrete programmes, governments should assist exporting SMEs to examine and understand the operating business environment they face in host countries. SMEs, on their side, must work closely with their home governments, to identify trade barriers that can then be acted upon. Governments should then continue to negotiate and conclude multilateral trade negotiations, thus opening markets and promoting a stable and transparent trading development. International organisations (WTO) and national governments should cooperate to provide support for developing country exporters (primarily SMEs) whose home government may lack available means and resources to fully understand trade policy issues and practices.

3.5 ADDITIONAL INTERNATIONALIZATION PATTERNS

'To say that a company cannot afford to plan an entry strategy is to say it cannot afford to think systematically about its future in world markets.'

Root, F.R. (1994), Entry strategies for international markets, p.3

Every company that wants to begin an internationalization path must ask itself with which mode it wants to operate in foreign markets. Besides the traditional problems that every kind of firm has to face, it has also to decide not only in which markets to operate, but also through which modes to be present in the different locations. It is not only about building competitive conditions with domestic strategies and penetrate international markets with commercial strategies: it is about integrating the two strategies.

The mode choice to reach foreign customers is tightly linked to the firm's decisions about its scope (i.e. to which segments of customers address the products/to how many segments and the geographical extension) and its product (i.e. characteristics, payment conditions, linked services), and then on many enterprise structural elements. We have already mentioned exports, which are the less involving and more flexible form to operate abroad, but international activities of firms do not necessarily start with exports. Many SMEs start going international on the inward rather than the outward side, and importing activities may subsequently have positive effects on exports (Depperu, 1993). Firms can acquire international experience by means of imports related to their production, and this experience may be useful for subsequent export activity (Kuada and Sorensen, 2000), otherwise by establishing formal/informal collaborations with other partners.

A research path conducted on behalf of European Commission[18] concentrated on the European context in 2003, focusing on internationalization and collaborative strategies that enable SMEs constrained by a lack of skilled labour to still achieve employment growth, and SMEs constrained by limited consumer

[18] Hessels, J., Parker, S. C., (2013), 'Constraints, internationalization and growth: A cross-country analysis of European SMEs', Journal of World Business, 48: 137-148

purchasing power to still generate turnover growth. The dataset contained information on 7,673 SMEs sampled from 18 European countries. The main findings of this analysis were:

1. Having a foreign supplier relationship, from which to obtain domestically unavailable inputs/information, is positively associated with turnover growth and employment growth (importing can be a precursor to further internationalization activities such as exporting);
2. Having informal collaborations is positively associated with turnover and employment growth only among exporting firms, and not for firms with a foreign supplier strategy, since there may be opportunistic behaviour;
3. Exporting is negatively associated with turnover growth among demand-constrained firms (firms depend on customers to purchase their goods/services, so they need to extend/upgrade their product lines so as to secure competitive advantage), because it is a costly strategy to be enacted, while having informal collaborations or a foreign supplier is positively associated because they permit to acquire more new resources;
4. Both exporting and having informal collaborations is positively associated with employment growth among skilled-labour constrained firms (firms that suffer from a shortage of skilled labour force): learning from exporting or from informal collaborations can be a resource-acquiring strategy, generating sustained competitive advantage.

From this study emerged an alternative internationalization strategy, namely foreign purchasing, which can be an important way for SMEs to access resources in the face of constraints and so build competitive advantage and stimulate growth. Then, the finding that constrained firms are able to achieve growth when they collaborate informally (which embodies more independence) while this is not the case when they are involved in formal collaborations (which embody more control) suggests that constrained firms may benefit more from maximizing independence than from maximizing control.

In order to penetrate foreign markets, hence, there are several other modes that SMEs can take into consideration, besides starting an import/export activity or being part of a GVC. The various typologies qualify the presence of the enterprise according to a different grade of involvement into foreign markets (greater than simply relying on imports/exports), which is in turn characterized by a greater control exercised on the entering channel and on the risk of entry. Different internationalization patterns therefore exist in the process of internationalization:

1. Inter-firm cooperation: strategic alliances, licensing, franchising, consortia, contract manufacturing;

2. Direct investment: commercial and production subsidiaries, joint-ventures.

This classification is useful to identify the correct choices for SMEs' entering strategy in other countries, but also to justify the choice from an economical and organizational point of view. The categories used to analyse the convenience of one mode instead of another, are (Williamson, 1975):

1. Opportunism grade;
2. Uncertainty and frequency of transactions;
3. Psychic distance;
4. Ambiguity of performance evaluation;
5. Longevity of the relationship.

In the case of internationalization, the higher complexity of the exchanges makes more and more efficient shifting from direct/indirect exporting to co-operation forms, finally coming to FDIs. To reach that point, according to Depperu (1993) is necessary to consider:

1. The strategic criticality of the activity and the market/geographical area;
2. The company's resources;
3. The power and the control desired by the company's management;
4. The abilities/competences of management/administration/organization of foreign activities.

Another important aspect of the internationalization strategy is connected to the learning processes and the experience accumulation. The way chosen by the firm to penetrate foreign markets would be the consequence of choices about 'learning by doing alone' or 'learning by cooperating' (Azzariti, 2002).

Inter-firm Cooperation

One of the most rapidly emerging theories about the competitiveness of small and medium-sized enterprises is that both can be accelerated through inter-firm collaboration (Rosenfeld, 1996). The relevance of collaborative strategies as tools for contributing to the development of firms, and in particular of SMEs, emerged from research starting from the mid-1980s. Joining a strategic network has been reported as a valuable path for SMEs striving to gain a sustainable competitive advantage within their business environments, since it implies lower transaction costs, social capital creation (as a determinant of resource acquisition), entering foreign markets and achieving economies of scale (Inkpen and Tsang 2005; Jarillo 1988; Rosenfeld 1996). The concept of 'network' applied to the strategic management of SMEs translates into practice the 'learning by cooperating' statement, and permits to

give new options regarding the ways small businesses may build their competitive advantage, in both domestic and international markets. Studies have shown that SMEs cooperate relying extensively on networks in pursuing international opportunities. This also because network resources help SMEs to overcome the risks and challenges associated with foreign market entry decisions, and foreign market selection and entry initiatives emanate from opportunities created through network contacts, rather than solely from the strategic decisions of managers in the firm (Coviello and Munro, 1995). Networks can be particularly worthy in developing countries (Mesquita and Lazzarini, 2008), or in countries without a supportive environment, due to the weakness of infrastructures and institutions.

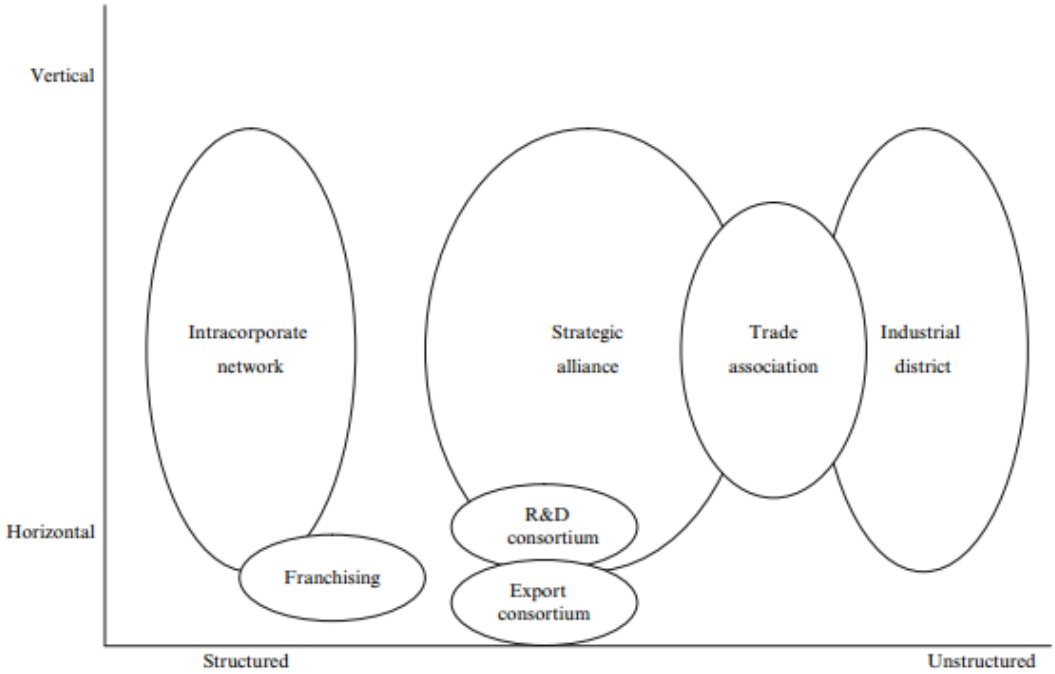
Concerning the definition of *strategic networks,* Jarillo (1988)[19] defines them as 'long-term agreements between different but linked organizations, which allow firms to gain competitive advantage over competitors outside the network.' Network members are not completely dependent on each other, but the relationships established among the firms are still essential for their own final competitive position. In a broad sense, the concept of strategic network includes a variety of different coalitions among district firms (or business units) such as strategic alliances, long-term supplier-buyer agreements or contracts. In general, being part of a strategic network gives the firm access to information, resources, markets and technologies and facilitates the acquisition of advantages from economies of scale, learning and scope. Moreover it allows firms to share risk and to outsource some activities of their value chain or organizational functions. These are all advantages to which the firm, standing alone, would not have access.

Different kinds of strategic networks have been classified by Inkpen and Tsang (2005) according to two criteria: a) the nature of the agreement among the partners (if it is structured or unstructured); b) the position occupied by the latter along the value chain. The first dimension refers to the system of governance of the network: structured networks imply some sort of formal agreement which links the members and reduces their freedom – such as ownership rights, contracts, rules, institutionalization of the network – while unstructured networks are founded on informal, spontaneous interactions and simple reciprocity. Looking at the second dimension, on one side Inkpen and Tsang define as *vertical* those networks which gather together firms with very different profiles (cooperative relationships between suppliers, producers and buyers), covering a large range of business activities, and thus having more differentiated demands and expectations about cooperation. This can be the case of some intra-corporate networks which include distinct autonomous organizations that operate under the control of a holding, or a group of subsidiaries accountable to their headquarters. Even some types of industrial

[19] Jarillo, J. C. (1988), 'On Strategic networks', in Antoldi et al (2011), Export consortia in developing countries, Springer

districts, which are composed of actors with different activities and belonging to different but related industries, are vertical local networks. This is true also of strategic alliances where distinct firms partially cooperate with others for specific activities performed in different positions of the value chain. Finally, contract manufacturing (also known as outsourcing) must be considered: the company arranges with a firm located abroad to manufacture or assemble parts of the product or even the entire product. The marketing of the products is still the responsibility of the international firm.

Figure 3.5 - Different types of strategic relations (Source: Inkpen and Tsang, 2005, p.148)



On the other side, they define as *horizontal* a network that groups together firms having a similar core business and therefore join forces to achieve a very specific goal. Horizontal networks involve firms located in the same industry segment or producing complementary products. They face similar challenges in their competitive arenas and thus may be more prone to agreeing common strategies. Examples of firms forming horizontal networks are, for example:

1. Companies that sign a licensing agreement. It is a business written arrangement in which one company (the licensor) grants the right over intangible property/to engage in an activity related to that property to another entity for a specific period, and in return, it receives a fixed or variable loyalty fee (Hill, 2007). It is more common in those industries where patents and inventions are diffused and it is suitable for firms that do not have the capital needed to set up

production facilities abroad, or when the entrance in a foreign market is hindered by some host government regulation. This mode presents the disadvantages of scarce control over production, marketing and strategy used in the development and sale of the product and the risks associated with selling a technological know-how which represents the licensor's core asset;

2. Retailers linked in a franchising network. This is a specialized form of license that involves longer-term commitments: it is the right a firm (franchisee) acquires from another one (franchiser) that grants it to use its trademark and business process to produce and market a product/service according to certain specifications. The franchiser will receive a royalty, which is a one-time fee plus a percentage of the franchisee's revenues. The firm that sells the franchise avoids many of the costs/risks of opening in a host country by its self. A firm whose entry mode is franchising can establish its presence all over the world in a short period of time, at a relative low cost and risk (Hill, 2007). Some of the problems when using franchising are quality control (the standards must be respected in every country) and coordination costs of a complex structure. Nevertheless it can be an internationalization mode to take into consideration for SMEs, because it allows to pursue objectives and do activities that without the aggregation would be too expensive to carry out;
3. Members of an export consortium, who are interested in promoting their products abroad or entering new markets through collective actions. An export consortium is a 'voluntary alliance of firms with the objective of promoting the goods and services of its members abroad and facilitating the export of these products through joint actions' (UNIDO 2003)[20]. The choice of entering into a consortium implies the realization that cooperation must prevail over competition in order to access key markets and the latest technology. An export consortium can be seen as a formal medium- to long-term strategic cooperation between firms that acts as a service provider specialized in facilitating access to foreign markets (UNIDO, 2009). The participation of SMEs in other types of strategic networks or cooperative agreements, as joint-ventures, is often limited by financial constraints: they may not be affordable for some SMEs, as the amount required to start-up a new company and also the investment in human capital necessary for initial development and subsequent control are most of the times not bearable. On the contrary, consortia are loosely-structured and require little financial investment, are not expensive in terms of human capital and can be managed in a way that partners only participate in those initiatives that they consider truly interesting (Antoldi et al., 2011).

[20] 'Development of clusters and networks of SMEs: the UNIDO programme – A guide to export consortia', Unite Nations Industrial Development Organization, Vienna 2003

When a network is international, the main aim of the partners is to overcome entry barriers to new markets. As a matter of fact, building up an aggregate of firms is the only means through which it becomes possible to operate in some countries in which the local legislation imposes formal constraints to the entrance of foreign operators (Depperu, 1993, p.288-289). To conclude, an essential element for building and maintaining a strategic network is trust, which is, among small entrepreneurs, rarely a naturally-occurring phenomenon. In networks composed of SMEs, trust often emerges over time as a result of both frequent interactions between entrepreneurs and the specific activities conducted by third parties acting as 'trust or network facilitators' (Antoldi et al, 2011). The concept of network facilitator was firstly brought up by McEvily and Zaheer (2004)[21], defining these facilitators as 'Architects of Trust', with the aim of analysing the role of institutions in fostering collaboration and building trust among actors involved in geographical industrial networks. More specifically, the topic of network facilitator is relevant for export consortia of SMEs, which are usually created via the initiative of third parties, trusted by each participant. Examples of these facilitators in industrialized countries include local business associations, local banks, chambers of commerce, educational and training institutions, private consultants, local development agencies or public government bodies (at central or local level). Their role has often been crucial both in the creation and development of industrial districts and clusters, and in the start-up of networks and consortia of SMEs.

Direct Investment

The creation of wholly owned foreign subsidiaries or the acquisition of local enterprises is indeed the pattern which grants the greatest 'freedom', and is chosen only by sufficiently strong companies, or companies advanced in their industries, so that they can undertake that path with very few risks (De Woot, 1990)[22]. In addition, this mode of entry is not reserved only to MNEs but is accessible to SMEs as well, as long as it is organized in less costly forms. If the firm has got the means to undertake this type of investment, the latter presents one main advantage, compared to other more indirect modes: it gives the SME the possibility to access the foreign market without any 'filter' and to acquire directly the critical

[21] McEvily, B., & Zaheer, A. (2004), 'Architects of trust: The role of network facilitators in geographical clusters. In Antoldi et al., Export consortia in developing countries, Springer, 2011

[22] De Woot, P. (1990), cited in Depperu, D. (1993)

information about the particular needs of that market, to develop interaction ability and to have a contact that can be interrupted only if the company wants (Depperu, 1993).

A direct investment can be sustained by a firm either through commercial internationalization, or through manufacturing internationalization (Chiarvesio et al, 2010). The first mode implies investing to create an owned sales network in global markets, promoting a more stable presence abroad. The second one entails Foreign Direct Investment (FDI), which can be defined as an investment made by an entity resident in one country in an enterprise, which will thus become a wholly owned subsidiary, resident in another country, aiming at acquiring control in order to manage the activities of the latter. Conventionally there are two ways to gain internationalization by using this entry mode. The first one is by setting up a newly-built plant in the host country, often referred to as a Greenfield investment; the second one is called Brownfield investment, and consists in acquiring/merging with an already established firm in the host nation (Micelli, 2014).

Several studies have demonstrated that enterprises with foreign subsidiaries are the ones more capable of obtaining profits in terms of performance and profitability. But according to an American study that analysed the long-term effects of the manufacturing offshoring processes, after a certain offshoring threshold, the production basis upon which the innovation capabilities develop fails (Pisano and Shih, 2012). Therefore, the internationalization effects must be evaluated both for each enterprise and for the local system of reference, assuming that every production activity develops technological externalities (industrial commons), which are a fundamental element of the long-term competitiveness. Even if the immediate reduction of costs obtained through offshoring can be at first positive, nonetheless transferring overseas manufacturing operations weakens the learning processes of the firm and of the local productive system, leading to a minor innovation capacity. If a firms does want to begin this path, it must rather choose it as an additional internationalization strategy than as substitute or integrative of the domestic base (Corò, Volpe, 2013).

Additionally, joint-ventures must be defined, even if they could be considered to stand between a form of inter-firm cooperation and a kind of investment: they are new entities formed by two or more independent firms working together to achieve a specific objective, agreeing to share revenues, costs and risks, as well as the control of the newly-built firm. The venture can be just a project or a long-term relationship. Joint ventures are often seen as a very viable business, since the companies involved can complement their skills/resources. It is characterized by a more stable financial involvement than the one required by non-equity inter-firm aggregations, even if not necessarily more costly. Hill (2007) has pointed out some benefits of these type of connections. From an international point of view, a firm

benefits from local partner's knowledge of the host country's competitive conditions, culture, language, and political and business systems. They help then companies to form strategic alliances, which allow them to gain competitive advantage through access to a partner's resources (including markets, technologies, capital and people) and are viewed as a practical vehicle for technology transfer from multinational expertise to local companies, and such knowledge transfer can contribute to the performance improvement of local companies. It can finally function as a risk-reducing mechanism in new market penetration and as a pool of resources for large projects. Concerning the disadvantages, this kind of relationship presents problems in equity ownership, operational control and distribution of profits/losses, and could not give the firm the tight control over the subsidiaries both locally and internationally, especially if the strategies of both companies differ (Hill, 2007). Also the absorption of managerial resources for a long time to work on a common project could contribute to make this mode risky, particularly for SMEs (Depperu, 1993, p.237).

This entry mode, since reduces the risk of losing control over core competences, gives the firm tight control over operations in different countries, therefore it is also the most expensive method of going abroad and so may not be the first one chosen by SMEs. The internationalization process for SMEs usually involves more limited financial, informational and managerial resources than that of MNCs, therefore the probability of a SME internationalising its activity through FDI is less likely to occur than for MNCs (Hollenstein, 2005). The same assumption is used by Hollenstein to explain a firm's decision on the ownership mode of entering international markets: he demonstrates that SMEs more often than large firms choose 'soft' forms of internationalization as contractual arrangements (i.e. licensing, franchising) and, if international activities are equity-based, SMEs prefer minority-stakes to full ownership, whereas in case of large firms the opposite is true. Nonetheless, also in case of SMEs, sometimes full ownership often can be chosen as strategy to go international, for instance in high-tech niche markets.

European Commission Data on SMEs' Internationalization

The 2010 Final Report on the Internationalization of European SMEs published by the Entrepreneurship Unit of the Directorate-General for Enterprise and Industry (European Commission) is based on data relative to a survey originating from a sample of SMEs belonging to 33 countries in Europe, and aims at describing and analysing the variance in incidence of various forms of international business activities

among SMEs in different size classes and sectors of activity. Since it was published in 2010 it refers to the EU27.

First of all, it confirms what we have previously stated, that is, the two most common modes of internationalisation are exports and imports: 25% of SMEs within the EU27 export, of which about 50% also go beyond the Internal Market of the EU (13%); 29% of SMEs within the EU27 import, again 50% import from countries outside the Internal Market (14%). Concerning other internationalization modes: 7% of SMEs within the EU27 are involved in 'technological' co-operation with a foreign partner; 7% are a subcontractor to a foreign partner; 7% have foreign subcontractors and 2% of SMEs are engaged in foreign direct investment. The survey also reported that, in the majority of the cases, SMEs start international activities by importing. If SMEs are both importing and exporting, they start with import twice as often (39%) as starting with exports (18%), and 42% started with imports and exports in the same year.

Another finding of the survey is that the percentage of SMEs that is involved in international activities is closely related to the size of the firm (in terms of number of workers). Table 3.6 illustrates that for each mode of internationalisation the percentage of SMEs increases by firm size.

Mode of internationalisation	*Micro*	*Small*	*Medium-sized*	*Total*
	Percentage of all SMEs			
SME with direct exports	24%	38%	53%	26%
SME with direct imports	28%	39%	55%	29%
SME has invested abroad	2%	6%	16%	2%
SME with technological cooperation with enterprises abroad	7%	12%	22%	7%
SME has been a subcontractor to a foreign main contractor	7%	11%	17%	8%
SME had foreign subcontractors	7%	12%	16%	7%
SMEs with at least one of these 6 international activities	43%	58%	73%	44%
Total N, unweighted	3253	3260	2967	9480

Table 3.6 - Percentage of SMEs with international business activities in 2006-2008, by enterprise size (Source: Survey 2009, Internationalisation of European SMEs EIM/GDCC, N=9480)

From the data emerges that the relationship of each mode of internationalisation to size class is quite pronounced. The share of exporting, importing or active in subcontracting enterprises is at least twice

as high for medium-sized enterprises as for micro enterprises. Medium-sized enterprises are three times more active in technical cooperation than micro enterprises. For FDI, finally, there is really a large difference, by size class micro 2%, small 6% and medium-sized 16%.

When studying internationalisation of SMEs and considering policy measures, according to the European Commission it might be worthwhile to distinguish between the modes of internationalisation and sectors of industry. For what concerns the industry sectors in which SMEs are more active, Figure 3.7 shows that manufacturing and wholesale trade have a very high share of exporting SMEs (just above 50%). The lowest percentages, instead, are presented by personal services and the construction industry (11% or lower). Also for importing, manufacturing and wholesale trade are the most important, but here wholesale trade scores much higher than manufacturing (respectively 71% and 49%), while personal services and construction are still the lowest performing industries (15% and 12%). For foreign direct investment similar scores are found for manufacturing, wholesale trade, transport and communication and business services (all 3% to 4%). Construction and personal services again show the lowest score (even less than 1%). The percentage of SMEs with international technical cooperation is between 5 and 10% for most sectors. Business services scores the highest with nearly 12% and retail trade the lowest with some 3%. With regard to subcontracting - for most sectors between 5% and 10% - transport and communication score a lot higher: over 20% of SMEs in this sector acted as a subcontractor to foreign firms, and also more than 20% had foreign subcontractors.

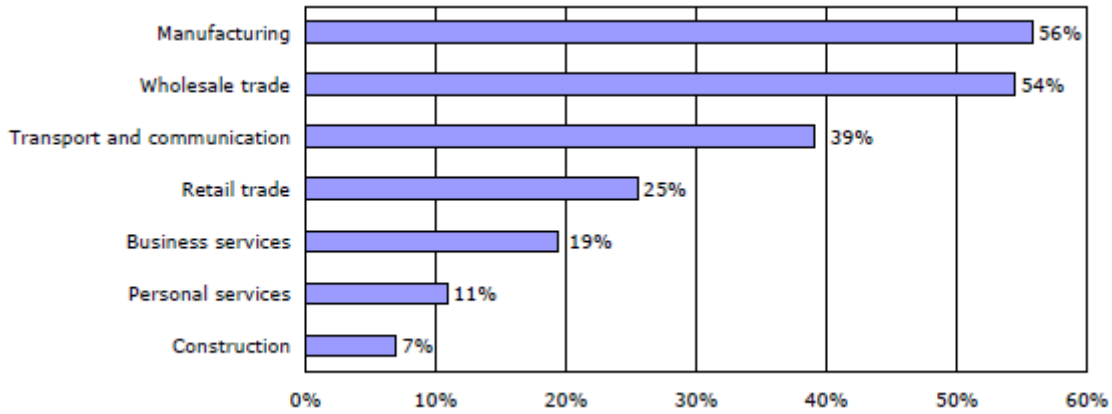


Figure 3.7 - Percentage of SMEs with export in 2006-2008 by sector (Source: Survey 2009, Internationalisation of European SMEs EIM/GDCC, N=9480)

Summarising the findings according to the sectors with the highest percentages for each mode of internationalisation, these are the information obtained:

- Import: wholesale

- Export: wholesale and manufacturing
- FDI: business services
- Technical cooperation: business services
- Subcontractor to foreign firm: transport and communication
- Having foreign subcontractors: transport and communication

Finally, it is interesting to examine deeper FDIs, since they are the most uncommon pattern of internationalization chosen by SMEs. As a matter of fact, the total number of SMEs that invest abroad is rather limited, i.e. about 2%, even if this still amounts to about 500,000 SMEs in Europe. However, numbers in the sample are too small to allow detailed analysis. At an overall level some main characteristics are presented in Figure 3.8 and Figure 3.9. Figure 3.8 shows that the majority of foreign establishments are subsidiaries (42%), but considerable numbers are also just branch offices (not separate legal entity) or joint ventures. Figure 3.9 illustrate the function that these foreign establishments have, divided in four main categories. The greatest share of SMEs dedicate their foreign establishments to sales offices and local production, and only 2% have mainly offices used for sourcing inputs. Moreover, another interesting discovery of the survey was that most of the 2% of all SMEs that did invest abroad limit themselves to one country (71%).

Foreign subsidiary	42%
Do not know/no answer	16%
Joint-venture	22%
Branch	20%

Representative office only	17%
Sales office only	28%
Buying office only	2%
Local production	28%
Other	22%
Do not know/no answer	3%

Figures 3.8 – 3.9 - Source: Survey 2009, Internationalisation of European SMEs EIM/GDCC (this subgroup N=698)

The main reason for SMEs to invest in a foreign country, derived from a survey of the Eurobarometer Team of the European Commission[23], is the geographic proximity as supplier to final customers (17%) and then to a global enterprise (12%). The other main reasons, excluding that one third of the responding SME answer 'do not know', are: lower total labour costs (11%), lower taxes (9%), less administrative and regulatory burdens (8%), export regulations (5%), access to finance (5%)

3.6 FACTORS INFLUENCING THE MODES OF ENTRY

The choice of the mode of internationalization is indeed one of the most critical decisions the SME that wants to start to go global must face. According to Depperu (1993) this is influenced for the greatest part by a number of factors, among which there are: company objectives, phase of the process, company strategy, environmental factors, barriers' nature, risk degree, investments that can be afforded by the firm. Now we are going to analyse some of these aspects.

Company objectives represent one of the elements that has the greatest weight on the decision of the internationalization pattern to follow. When the reasons for going abroad are just occasioning and not based on a precise strategy, the companies tend to prefer looser and more flexible forms of internationalization, not particularly costly and easily reversible. But this can be true even with the presence of a deliberate strategy: in the very first phases the less involving modes are preferred, because they allow to explore the market first and to limit financial and organizational efforts, since the resources are already devoted to market and product studies. Only in a second phase, when the company has consolidated its strategy more, it is prone to engage in more stable and expensive modes.

Another important role is played by the company strategy. If the firm is pursuing niche markets with particular clients and a wide scope, it is less probable that it will set up its production facilities abroad in each of the target country. In this case, on the contrary, it is possible that the firm, according to its product characteristics and to the necessity to be in direct contact with the customers, will set up its own units in homogeneous countries, to coordinate production or sale activities or to offer a quick assistance to customers. In the case that the firm chooses to operate on a narrow scope, pointing at a great number of segments, it is instead convenient to be more decentralized, like a MNE.

About the environmental characteristics of the country that the SME is going to work in, they weight simultaneously on the way the SME wants to compete and on the internationalization mode. If strict

[23]European Commission and the Gallup Organisation 2007. Flash Eurobarometer 196 - Observatory of European SMEs, Analytical report, p. 60

normative barriers (or of other nature) to entry exist, the only viable solution often is setting up a joint-venture or a strategic alliance with a local partner. However, the environment becomes significant even when this type of barriers are not found. According to a research of Sinatra (1989) on a sample of 480 Californian SMEs operating in high-tech industry, the mode choice to penetrate a foreign country is based on the replicability of the entrepreneurial formula developed for the national market and on the criticality of the new market in which the company wants to establish its presence. Combining these two variables, we discover that the less involving and looser forms on internationalization are diffused when is more difficult to replicate the entrepreneurial formula on a less important market; instead, FDIs and joint-ventures when the formula is hardly replicable on a strategically relevant market; commercial subsidiaries when it is possible to replicate the formula and the market is considered to be critical; agents and distributors when the intention is to operate in a market which is not particularly important but in which the formula is replicable. Among the different environmental variables to consider, particularly remarkable is the distribution structure that characterizes the economic systems in which the enterprise wishes to operate.

The risk degree associated to the countries in which the company has planned to be present and the risk level that the company itself is willing to bear are other two variables to take into consideration. In some cases it is possible that, in the countries in which the firm could use the same strategy of the country of origin, they actually require different modes since their risk is evaluated differently and the firm does not want to have in each of them a great involvement. The consequence is an increase of the structural complexity of the SME, with the need of coordinating different forms of presence abroad.

Finally, every time a country is theoretically reachable with different modes, the choice could depend mainly from the cost associated to each alternative, from the return expected or from the availability of financial resources necessary to make the investment. All these elements determine, in the end, the level of investments that the company is able to bear to realize its internationalization strategy.

If we want to examine deeper one of the most interesting aspects that influence the internationalization patterns, there is an issue that could be raised in the context of the environmental factors. First of all, we must say that firms that are intentioned to enact an international strategy consider different criteria when choosing the target markets in which to operate in the early phase. This is linked to the scope of their action: they must choose among high-potential markets, small markets, markets with low competition or nearby markets (Pellicelli, 1989)[24]. Concerning high-potential markets, since the demand

[24] Pellicelli, G. (1989), 'Imprese multinazionali', Etaslibri, cited in Depperu, D. (1993), 'L'internazionalizzazione delle PMI', Scritti di Economia Aziendale, Egea

is strong and growing, enterprises consider to be easier to achieve a high market share, often underestimating the difficulty of obtaining a significant competitive position. Regarding SMEs in particular, they are facilitated in adopting the criteria which privileges the entrance into smaller markets/countries or with low competition, because it could be more difficult for them to grow proportionally to the growth rate of a highly developing country. The risk of doing that, is that in the absence of a stimulating competition companies tend to ease down not investing enough in building up the sustainable competitive advantages that would have built when facing tougher competitors. The same is worth for nearby markets, which are economically and culturally easy to reach.

A different perspective to reflect about the way in which the target market could be chosen, is linked to the attractiveness of that market or region in other terms. When firms decide to internationalize, they usually have to spot a market that they want to be present in, which is conventionally included in a country whose points of references are global cities within its boundaries. Cities have been defined by Edward Glaeser as 'Absence of physical space between people and enterprises. They are proximity, density and closeness. They allow us to work and play together, and their success depends on the need of physical connection (…) Cities are the nodes that connect our increasingly globalized world.' In this case we consider the penetration of a foreign market as a matter of entering into a city, with various levels of attractiveness for the investors coming from other parts of the world. It seems reasonable, therefore, to think that a company, whatever its size, aims at establishing an international presence in the main global hubs. But in the last decades we are witnessing a different phenomenon: we are seeing smaller, focused urban regions that are achieving more results than the largest cities. Compared to many of their larger counterparts (such as New York, Paris, Los Angeles and Tokyo) new and dynamic global cities like Singapore, Dubai, Houston and the San Francisco Bay Area, have become more influential in the world economy, as measured by critical factors like technology, media, culture, diversity, transportation access and degree of economic integration into the world economy (Kotkin et al, 2014). This has been defined as an 'archipelago of technologically high developed city regions' by the urban geographer Paul Knox, and according to him it is progressively replacing nation-states as emerging avenues of economic power and influence. As a consequence, we guess that more and more firms will be attracted by these new smaller but highly connected hubs, which are considered outstanding not primarily for their size, but as a result of their greater efficiencies, if compared to other bigger cities. This can be seen in the location of foreign subsidiaries: i.e. compared to Tokyo, Singapore now has more than twice as many regional headquarters; Singapore and Hong Kong also perform far better in this respect than Asia's numerous, much larger but less affluent megacities.

1	London
2	New York
3	Paris
4	Singapore
5	Tokyo
6	Hong Kong
7	Dubai
8	Beijing
9	Sydney
10	Los Angeles
11	San Francisco Bay Area
12	Toronto
13	Zurich
14	Frankfurt
15	Houston
16	The Randstad
17	Seoul
18	Washington Metropolitan Area
19	Shanghai
20	Abu Dhabi/Chicago

Ranking Criteria:

1. *Air Connectivity*: coverage of global markets by air. It measures the access to global markets and the demand for global flows between locations;
2. *Diversity*: share of foreign-born population;
3. *FDI*: attractiveness for foreign investors;
4. *Corporate Headquarters*: importance of cities as location for headquarters of internationalized firms
5. *Producer Services*: importance of cities in the network of major services firms;
6. *Financial Services*: importance of city as global financial centre;
7. *Technology and Media*: pre-eminence of city as a global technology and media hub;
8. *Industry Domination or Hub Status*: importance of city as a strategic hub for key global industries.

Table 3.9 - Top 20 Cities Rankings (Surce: Kotkin et al (2014), The Changing Face of the Global City, p. 4-5)

There are also cities of developing countries, which actually represent the majority of the world's largest cities that grow more rapidly, to take into consideration: they are growing roughly three times as fast as of high-income countries. The 2014 Emerging Cities Outlook by A.T. Kerney[25] reveals that two Southeast Asian cities, Jakarta and Manila, head up the list of emerging cities most likely to progress. Moving to Africa, Addis Abeba is the third most likely city to advance its global positioning. Then we find that Rio de Janeiro and Bogotà join Sao Paulo as Latin American cities among the top 10. However, despite their massive size, these cities, for the most part, are not yet critical hubs for global technology, finance and business services. On the contrary, some of the best positioned players are often much smaller in

[25] A.T. Kerney, (2014) Global Cities Index and Emerging Cities Outlook – Global Cities, present and future

population but have become more critical to the flow of global commerce, ideas and technology. According to the studies of Kotkin et al, increasingly, the key formula is not about achieving size, but efficiency, given by things like good direct plane connections, high-speed internet and other modern infrastructure. These, say the authors, are the most critical elements for integrating into the global economy.

The work of Kotkin et al. aims at giving a new perspective, so it is focused on other determinants rather than on counting business service providers, size of an economy, or national influence: according to them, financial and other business services remain important, but more critical to the future are the influence of industries such as media, culture or technology. Technology and media, for example, dominate much of commerce and shape perceptions internationally. This pertains particularly to cities that act as 'primary nodes' of a particular activity that compels people in that industry to interact, and often to set up operations, in these places. Examples are highly ranked cities that include Los Angeles (for entertainment), Houston (for energy), San Francisco Bay Area (technology) and New York, Hong Kong, Singapore and London (for financial services). Then, other factors for global cities considered by the authors as critical are, for instance, global connectivity, that is, how easy it is to get from one city to others around the world. To be qualified as a 'connected' city, they included cities that had at least three weekly non-stop flights to cities outside their regions. According to their analysis, these cities are Dubai, London and Frankfurt. Most other top global cities also enjoy strong levels of connectivity, including New York and Paris. Although being a hub for air travel does not necessarily create a global city, it is critical to many businesses that function on an international level: it becomes thus possible to create a sort of airport-based business district completely focused on international trade. Finally, another important element is human connectivity. In some cities, like Dubai, the workforce is primarily made up (at both the low and higher levels) by foreigners. Among Asian cities, Singapore has a foreign-born population estimated at 42.6%. The London and Paris regions are now over 20% foreign-born. A number of key North American metropolitan areas—notably Miami, Los Angeles, New York, Houston, Toronto, and Chicago—have a foreign-born population estimated at between 15% and 50%. In contrast, less than 2% of Tokyo's population is foreign-born, while Seoul, Shanghai, and Beijing are made up primarily of nationals, although, as in the case of virtually all large developing world cities, many originated from the countryside or smaller cities.

We can say that the fact of being a highly globalized city can bring numerous benefits: in a smaller, highly specialised city like Dubai, the San Francisco Bay area or Singapore, it means also more diverse cultural amenities, better food (with quite international variety) and a concentration of luxurious

facilities than in other cities of a similar or larger size. It seems that SMEs must take into consideration these new criteria to choose the best place in which to establish their presence. Obviously, there are downsides to this incredible level of development, too, like rapidly rising housing costs, the densification of already crowded urban areas, the risk of overwhelming the local culture with an international one, with the subsequent loss of national identity. In Singapore, for example, not only there is the co-existence of three main cultures (Chinese, Indian and Malay) and the Singaporeans mainly derive from a mix of these cultures, but there is also an incredible presence of expats, which have moved there just temporarily. The fundamental challenge of the global city lies, as the authors of the study point out, in accommodating two identities, a global and a local one: to work as a great global city, it is critical to serve both global business and the local economy, taking into account the needs of its local residents, too.

To conclude, in order to underline the importance of location as strategic choice for firms, there is another research path by Freeman et al. (2012), which highlights the critical role location plays in providing SMEs with access to important resources and capabilities, in particular when developing an export strategy. This study supports the notion that 'location matters', and suggests future research needs to include this key variable as an important moderating or at least control variable in future export performance research. From a theoretical perspective, location (regional vs metropolitan) could be an important moderating variable between export performance drivers and export performance given the different resource and capability profiles of firms in different settings. Much of the recent literature on regional economic performance highlights the important role that the geographical concentration of information and knowledge play in shaping national and regional patterns of competitiveness, and as a result, metropolitan firms are more likely to be exporters than regional firms. This confirms once more the pre-eminence of the choice of the strategic location in which firms should set up their operations: there is an incredible number of factors to take into consideration, even the ones that are not exactly expected or are taken for granted.

4 A Focus on Italian SMEs and The Support Services to Internationalization

'Italian style means proportions, simplicity and harmony of life, so that after a considerable time there is still something which is more alive than just a memory of beauty.'

Giovanni Battista Pininfarina –

Italian automobile designer and founder of Carrozzeria Pininfarina

4.1 The Evolution of Italian Industrial Districts

Italy's economic system is different if compared to the others across Europe. In Italy the presence of SMEs on the total number of enterprises is more significant than in any other European country. For this reason, SMEs represent the base of the national economy, leading to a sort of 'anomaly' of the Italian model with respect to the rest of the world: its main traits are the companies' small dimensions and the tight link between the enterprise and the person of the entrepreneur or founder.

The massive presence of SMEs in Italian economy leads to define the concept of industrial district. The first to theorise this model was the economist Alfred Marshall (1896), when he realized that small firms in the same industry can achieve external economies of scale thanks to the proximity to one another. Marshall stated that market success was derived from increased specialisation and the development of more effective industrial organisations, through the concentration of production in precise locations, namely industrial districts (Keeble and Wilkinson, 1999). Citing Keeble and Wilkinson, 'For Marshall, the importance of the localization of production within industrial districts is that it creates an environment more favourable to individual success. Individual firms can afford to stay small and concentrate their inventiveness on what they can do best.' Another definition was given by Pyke, Becattini and Sengenberger (1990), who described the IDs as 'Geographically defined productive systems, characterised by a large number of firms that are involved at various stages, and in various ways, in the production of a homogeneous product'. Each firm that belongs to the district is therefore specialised in a precise stage of production or service complements and is related both to the others and to the environment: this kind of organisation is called vertical decentralisation. Moreover, a distinctive feature of the district is that is usually characterized by a very high proportion of small or very small enterprises (Mariotti, 2004).

Researchers have recognised the relevant advantages arising from agglomerations of companies that belong to an industrial district, within a local context, in terms of economic externalities. Among the advantages, we can count firstly the reductions in transportation costs allowed by physical proximity and in costs related to shared resources (i.e. local labour market, common infrastructures). Secondly, SMEs gain from technological externalities in cases where knowledge sharing and innovation diffusion are based on face-to-face interaction that reduces transaction costs (Micelli et al., 2004). Then, it must be said that industrial districts are not only networks of firms to be conceived as economic wholes, but also complex social systems, made up by single productive units strongly interconnected and embedded into local dimensions. The district is different from other forms of network organizations in that it possesses a collective identity common to all local actors that are rooted in a unique social and cultural context.

In Italy, the greatest number of districts are located in the North, Centre and North-East and comprehend mainly sectors as textiles, shoes, furniture, ceramic tiles and mechanical engineering (the core sectors of Italian economy). ISTAT identified inside Italian territory 141 industrial districts in 2011 on the basis of local market areas[26], with a total of about 277,809 enterprises belonging to such districts. If compared to 2001, the number of business clusters has decreased by 40 units. Industrial districts nowadays represent about one-fourth of the Italian economic system, both in terms of local market areas (23.1% of the total), workers (24.5% of the total) and local units (24.4% of the total). The Italian manufacturing sector, in particular, is still characterized by industrial districts: manufacturing employment of industrial districts is over one-third of the Italian employment as a whole, and it represents 64.1% of mainly manufacturing local market areas which employ 65.8% of workers in the manufacturing sector. As the pictures below confirm, the bulk of IDs is concentrated in North-East area. If we focus on this part of Italy, in the area that comprises Veneto, Trentino Alto Adige, Friuli Venezia Giulia and Emilia Romagna regions, we can find one of the most industrialized regions in Europe: it embodies a large part of the Italian industrial districts and is the site of several centers of furniture production in particular (Buciuni et al., 2012).

[26] Istat, *'Industrial Districts – Year 2011'*, February 2015

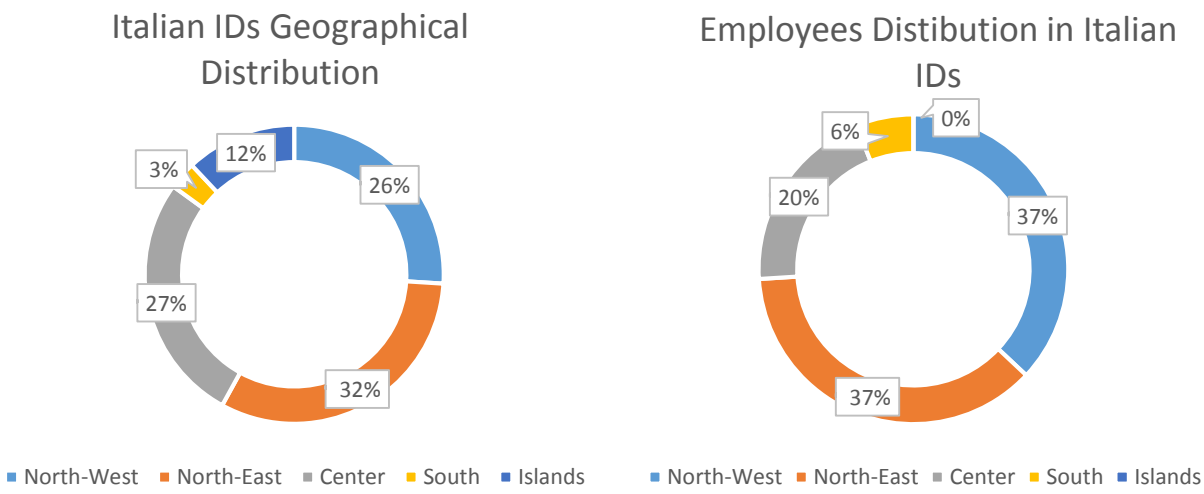


Figure 4.1 – Italian Industrial Districts by Geographical Areas, ISTAT 2011

The majority of Italian IDs has developed during the economic boom of the '50s and '60s. Then, in the '70s until the first half of the '90s, with their sizable population of SMEs, they already represented an important component of the local economy (in particular in the manufacturing sector) and showed a remarkable dynamism, based on their positive performance in terms of sales, employment and profits. A distinguishing feature of IDs' formation process is the spontaneity with which the connections between firms is set-up: they seem to exclude the possibility of replicability of the same formula through intentional industrial politics in other areas (Ricciardi, 2013). The relational district network gives companies large embedded competitive advantages that are incorporated into the territory and can be enjoyed only by the entities operating in the local space.

During the last fifteen years the picture has changed, in particular due to the globalization impact on IDs and the 2008 world recession. These two combined effects led to an increase of the competition pressure, which introduced a tough selection that pushed many companies out of the market. In addition, there were other interrelated factors shaking the foundations of the Marshallian districts: the impact of immigration on the interpenetration between the social sphere and the production sphere; the cultural discontinuity induced by the generational turnover; and the diversification of the local production structure (De Marchi, Grandinetti, 2014). As a consequence, at the beginning of the '90s, local systems of SMEs began to develop contacts with firms outside the district area (Micelli et al., 2003): in this way, the process of internationalization of IDs started, broadening the horizon in which to define their strategies. This delocalisation process showed the firms' potential to globalise not only by selling

products manufactured locally in international markets, but also in terms of the international reorganisation of local supply chains. As a matter of fact, in the present scenario, as a result of globalization, it is not enough for every ID to self-generate the knowledge resources needed for its reproduction and evolution, as was possible in the past: the competitive chances of industrial districts depend on the capacity to express a greater 'cognitive openness' to the external environment, by connecting to the knowledge circuits of the global economy. This passage requires local actors capable to work as agents of the cognitive internationalization of industrial systems (firms or institutions able to absorb external knowledge from the global environment useful in relation to competitive advantage, and they must allow this knowledge to circulate within the district). By operating jointly towards the outside and the inside of the industrial district these actors serve as local/global cognitive interfaces (Grandinetti, 2011). According to a study conducted in 2011 by Grandinetti, in Italian industrial system, the most important manufacturing or service firms of the various IDs can act as cognitive interfaces between the local context and the global environment, working as *leading firms* able to maintain their relationships with other district actors, with suppliers, customers or partners. These firms are generally quite structured and directly present in (international) final markets, with technological knowledge and a great bargaining power. They often have their brand already established internationally, and have competences especially in the commercial and R&D functions, empowering others to perform the more technical and production phases (subcontractors and workshops) (Ricciardi, 2013). This role can be played also by local institutions such as municipal administrations, entrepreneurial associations, local banks and schools, chambers of commerce and centers providing business services, since they have always had an active part in generating positive externalities in favour of firms, particularly through the provision of public goods and services. The main aim of these actors' policies, investments and actions must be thus to further the cognitive openness of the industrial districts.

Another element of change concerns the set of relationships between district firms. In the process that has led to a new international division of labour and the creation of global value chains, numerous district firms transferred their own production activities or their supply chain relations abroad, in order to benefit from lower production costs. The most dynamic district firms have not only identified places abroad where they can produce or buy more conveniently, but they have also spent a great effort in expanding the number of country markets where they operate. If in the past the intermediate goods and services markets were captive for the firms within the ID, in the most recent phase leader firms have started to transfer part of the production segments to countries characterised by cheap labour costs, through subcontracting relationships, joint ventures, branches, and subsidiaries (De Marchi, Grandinetti,

2014). The consequence has been a downsizing of the intra-district portion of SMEs, while the extra-district portion has been expanded. Nonetheless, for the majority of firms (37%) the main suppliers are still 'proximate', another important share (31%) relies on suppliers inside the region of belonging of the enterprise or just out of the region (26,7%), and for about 5% suppliers are located abroad[27]. In this way, we can find short and long networks at the same time, that embody a polycentric system that represents the complexity of the new and diversified requests of Italian IDs. The most frequent internationalization modes may vary from the direct control of the international distributive network to relying on exclusive agents operating in the final markets in which the firm is present. In some cases, the management of the resources' market is linked to global sourcing strategies for the purchase of services that can be better performed directly in the markets of reference. The most dynamic leader firms can purchase from outside the district immaterial services, which concern: technological innovation, quality management, design, communication, marketing, financial services and so on (Mariotti I. et al., 2004).

Considering the role that IDs played in economies such as that of Italy, it becomes important to see where the Italian IDs are now going (Rabellotti et al., 2009). Due to a selective pressure that leads to reduce the district population of firms, a great number of local enterprises struggles to defend their competitive position through proprietary and relational investments in and beyond the district boundaries. Among all the districts in Italy, we can mention for example the chair district in North-East area (one of the historical districts of Friuli) which, in order to survive, has gone through an evolutionary path from the model of the localized closed network to the localized but globally interconnected network (Grandinetti et al., 2007).

Until recently, the Italian entrepreneur has given the priority to a kind of development which is more qualitative than dimensional, choosing to strengthen the local district system rather than rapidly growing with the risk of losing control of the activities. Nonetheless, in the next years, with the progressive opening of the markets, the firm dimension is apparently gaining importance as a means to gain competitive advantage (Nanut and Tracogna, 2011). In this way, SMEs are bound to revise their governance models, their management systems and their strategies.

According to a research by De Marchi and Grandinetti (2014) then, in Italy, the country with the largest abundance of IDs, the destinies of these systems are likely to differ considerably. On the future of IDs' firms they claim some of them have entered into a phase of decline, and some others are losing their 'district' features, opening up and settling their value chain on a more global level. Others are

[27] According to an Unioncamere survey, in Ricciardi, A. (2013) *I distretti industriali italiani: recenti tendenze evolutive,* Sinergie, rivista di studi e ricerche, n. 91, p. 21-58

reproducing themselves in another, non-Marshallian district form with two variants: the hierarchized district (where one large firm or a few key firms act as anchors for suppliers and other related businesses) and the 'glocal' district (local networks of firms interconnected by means of inter organizational relations with other external actors as global networks). But this view may be not free from critics: it is not entirely true that districts are losing their main characteristics, and this is demonstrated by their good performances of the last years. If we look at the Districts Monitor 2014 of Intesa San Paolo[28] we can get a quite positive picture, so that, according to the data, it does not seem that a major number of IDs is declining or is less linked to its original environment. In the first trimester of 2014, Italian IDs' exports has maintained a good pace of growth with an increase of 5,4% (see Figure 4.2). For more than four years industrial districts have been continuously growing. In addition, industrial districts area performed better than non-district ones (+5,4 vs +2,5) and of the entire Italian manufacturing industry (+1,9).

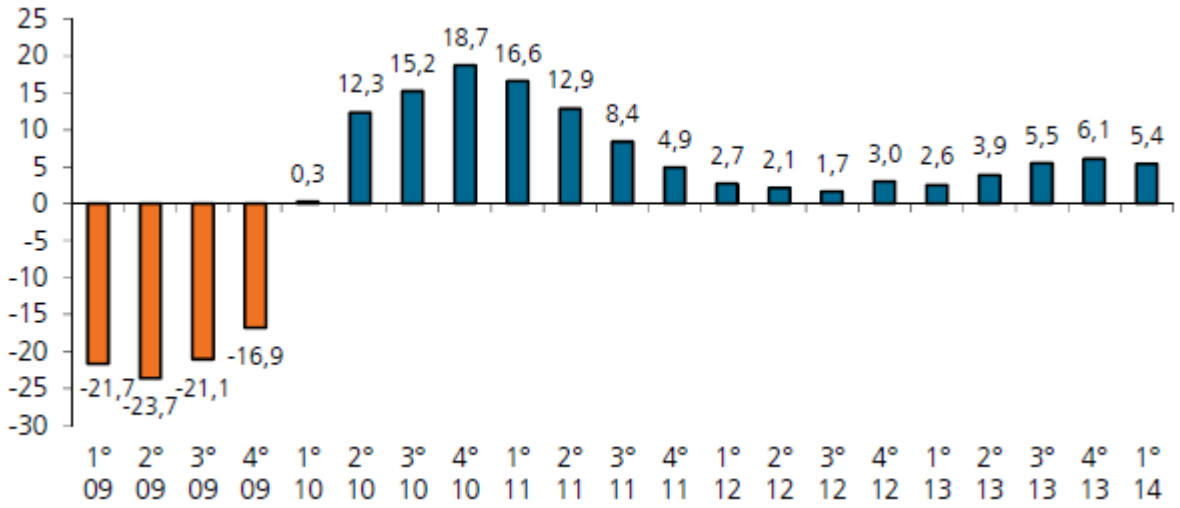


Figure 4.2 – Export evolution in IDs (% variation), Source: Intesa San Paolo on ISTAT data

This confirms the leading role of districts in Italian economy and is proof that the district effect still exists and gives strength and dynamism to enterprises that compete on foreign markets. In many local territories, the production chains have not been irreversibly compromised by 2009 crisis, on the contrary they have been able to renew themselves, leveraging on the stable relationships with partners/suppliers/subcontractors and at the same time on local advantages at a domestic level and on advantages found in multiple global platforms. Always in the first trimester of 2014, districts' dynamics has been more brilliant in new markets, where they realized an increase in foreign sales of +7,4%, vs the increase in traditional markets of +4,4%. De Marchi and Grandinetti challenge the Marshallian district

[28] Intesa San Paolo, Monitor dei Distretti, Servizio Studi e Ricerche, June 2014

but the truth is today it is still valid, and the principles of the functioning of IDs work still now, with the adaptations required by the current competitive landscape. The fundamental challenge with respect to the past is to increase the degree of cognitive opening of IDs, by effectively connecting with the cognitive circuits of the global economy. This requires the presence of local actors capable of linking the local context with the global environment: the already mentioned global-local leading firms and institutions. The leader firms inside IDs develop useful collaborations with selected institutional actors in Italy or abroad, like university departments or labs involved in a field of research that concerns the innovation projects on which the firm is working (Camuffo and Grandinetti, 2011). Moreover, leader district firms have increased their stock of resources and capabilities in the field of ICTs (Chiarvesio et al, 2004) that constitute the medium to govern global value chains. Leader firms may keep their 'district character' also by leading the ID transformation by selecting local partners, in this way facilitating the survival of those smaller, local firms that are better equipped and more qualified.

For what concerns the internationalisation strategies of industrial district SMEs in the Made in Italy sector, studies show that Italian district firms exhibit a higher degree of internationalisation in terms of foreign trade and a lower one in terms of delocalisation in comparison with non-district firms. This pattern confirms the importance of their embeddedness in the local context. A survey carried out by Centro Studi Unioncamere - Assocamere Estero (2002)[29] emphasises how, even if exports are generally the most common mode chosen by smaller companies, international subcontracting is the main form of internationalisation adopted by district firms. According to a research by Mariotti et al. (2004), Italian SMEs during the years have developed more advanced non-equity forms of foreign expansion: in particular strategic alliances formed through sub-contracting agreements between a firm and one (or more) of its suppliers to supply, produce, or distribute a firm's goods or services without equity sharing. Because they do not involve equity investments, non-equity alliances are less formal and demand fewer commitments from partners than joint-ventures and strategic alliances. On the contrary, FDI and joint-ventures with foreign firms are less considered, because they imply higher sunk costs which the majority of SMEs cannot afford, and higher entrepreneurial risks. Generally speaking, FDIs from Italy are limited by the smaller presence of multinational firms and the smaller size of Italian firms compared to the European average.

[29] In Mariotti et al., (2004), *Internationalisation: threat or opportunity for the survival of the Italian district model?*, IWSG Working Papers

The 141 local systems that are also industrial districts concentrate the 34% of all Italian exports[30]. The graph below shows the most and the least used internationalization means for Italian IDs. It can be derived that companies embedded in IDs have an active role in the internationalization process, contacting foreign clients directly from the domestic base and exercising their control through marketing policies rather than exploiting more expensive and binding investments.

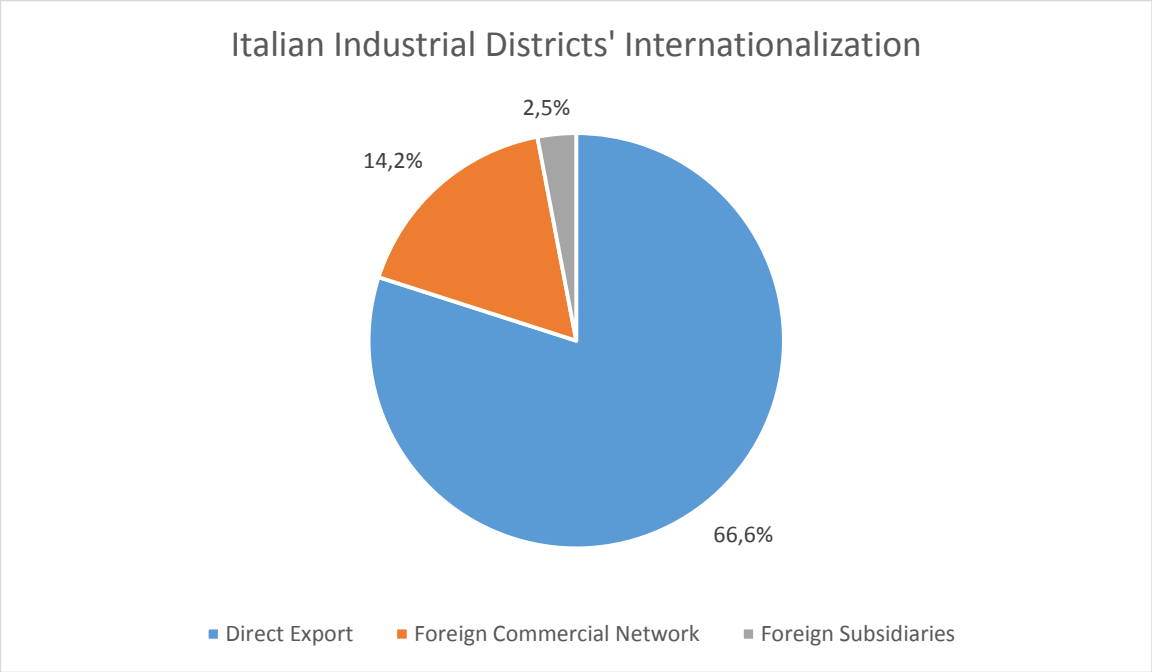


Figure 4.3 – Internationalization Modes chosen by Italian IDs (Source: Rapporto 2014 Osservatorio Nazionale Distretti Italiani)

The low reliance on production outsourcing can be primarily justified with the fact that it involves great financial resources, but eventually it may be harmful, too, not only to a firm's own capabilities but also to those of other companies in the same industry, including suppliers of advanced materials, tools, production equipment, and components. These collective capabilities have been defined by Pisano and Shih 'industrial commons'. According to their definition, 'A commons can include R&D know-how, advanced process development and engineering skills, and manufacturing competencies related to a specific technology' (Pisano and Shih, 2009), representing a sort of foundation for innovation and competitiveness. Very often a particular industrial commons is geographically rooted, as northern Italy for instance is home to a design commons that feeds, and is fed by, several design-intensive businesses, including furniture and apparel. For this reason can be also explained the tendency that firms in some

[30] Osservatorio Nazionale Distretti Italiani, Rapporto 2014

industries have to cluster in precise regions: because being geographically close to the commons is a source of competitive advantage. This is the proof that, even if the current thought is the one of a world with increasingly less boundaries to trade, it is evident that when we come to knowledge, distance still matters and commons keep on being important in specific location even in these days where data thanks to ICTs can easily be accessed from every part of the world.

Today IDs are still worth of attention. Now that they are opening to the global markets they are facing a big challenge: to remain competitive in the international scenario by searching for partnerships with foreign countries without losing their peculiar traits that represent their own strength (flexibility, sharing of informal knowledge, link to territory and centuries-old culture). But there are some peculiarities of Italian districts SMEs that might represent a limitation. One is the family-oriented approach to human resource management: it is not uncommon that in Italian small firms families are the most important stakeholders; they maintain control of their firms not only through ownership but also by appointing executives on the basis of family connections (Enriques and Volpin, 2007). External professional managers seem to be valuable for firms that are approaching global markets, so leveraging on external assets through linkages out of the ID does not shift the attention away from an internal view of the firm (Bell et al., 2003). Another weakness, investigated by D'Angelo et al., (2013) shows that industry clustering provides the resources useful for internationalization up to a point (growth in regional markets), but it is not effective in the case of global markets. This means that the drivers of export success in SMEs are different when considering the geographical scope of the internationalization. It may be argued that a reliance on exporting knowledge obtained only from a local industrial district may generate a narrower (regional) spread of exporting information than obtaining it from a wide and knowledge-rich executive labour market. These two potential limitations are seen to have a complementary relationship and prove to be two factors that must be taken into consideration by Italian SMEs when planning an internationalization strategy.

According to the 2014 Report of the Districts National Observatory, the results of a survey conducted on 100 Italian industrial districts show a slight growth of the SMEs' share with increasing turnover, exports and employment with respect to the past few years. But if we do not consider the dynamism of foreign sales, for the other dimensions the improvement has been very little. On the contrary, some promising news concern strategies followed by some district firms that are gradually revising their choices in terms of markets (from traditional ones to emerging ones), of commitment (from simple exports to more complex means) and of internationalization goals (from searching for efficiency to

stable presence in the market). The truth is, that sales on foreign markets keep on being the pillar on which the districts and the Italian manufacturing structure base on, since not only the data speak in favour of it, but so do the entrepreneurs' expectations: the variable that is expected to be growing more in the next years is international sales, which for now represents the only trump card. Besides the quite recent phenomena of the openness towards foreign countries, must be counted also the products' quality improvement, the increasing collaboration among district firms, the emergence of leader enterprises and the diversification of production: these represent the positive changes occurred in the last years. And even if districts are opening their borders and are more and more relying on business abroad, the local system maintains its importance as a place where knowledge and competencies aimed at supporting value-added activities are produced, but differently to the past such role of the territory must not be taken for granted (Micelli et al., 2010).

4.2 MADE IN ITALY AND MEDIUM-SIZED ENTERPRISES

The artisanal work represents one of the main traits of Italian economy and culture, thanks to which our country is recognized all over the world, and has marked the development of industrial districts and SMEs during the last three decades. The uniqueness of Italian industrial system and its competitiveness derive from the artisanal competence that has been able to be renewed during the last years, both in large and small enterprises. This competence represents the heritage that makes our manufacturing sector more appealing for foreign customers and investors who search for high-quality products with history and culture behind them. We are among the few countries whose economic system is populated by a myriad of 'knowledge workers', who have been able to preserve the right skills and the know-how from their ancestors (Micelli, 2011). In his book, 'Futuro Artigiano' (2011), Micelli sustains that in today's global scenario the hand-crafted know-how has still a leading role in economic growth and innovation. The more the quality of a particular service is personalized and linked to the territory where it is produced, the more difficult is to delocalize it somewhere else. But the choice to come back to produce things by hand must not only be a defence strategy to protect themselves from globalization; the new global scale craftsmanship must be a deliberate and precise strategy. The new artisans are asked to build tailored products and to grant to the buyers a highly personalized experience. The craftsmanship tradition, in order to survive, must deal with the new challenges of innovation and globalization, and exploit new means of communication as Internet, which is the most powerful infrastructure to make buyers and suppliers meet. In particular, some web platforms are hosting projects dedicated to the

promotion of experience and authenticity of Made in Italy products, like the 2013 project 'Eccellenze in digitale' promoted by Google and Unioncamere[31]. Google demonstrated to be interested in Italian SMEs internationalization potential and in niche Made in Italy products, therefore it has set up a technological platform to allow Italian artisanal SMEs to get visibility on the search engine. This was possible because Google has believed in the economic potential of Made in Italy productions, which, thanks to this on-line increased visibility, can penetrate unknown market areas. Eric Schmitt, president of Google, declared that market requests of Italian products are increasing, showing a growing interest of the international consumer for local niche offers. In one year, thanks to 'Eccellenze in digitale' project, the demand increased of 12%: this growth indicated the urgency with which the SME must invest in its presence on the web. Besides Google, also Samsung has developed a project to promote the Italian 'art of making things' through new technologies: they started online courses that involved many Made in Italy niche companies as testimonials of a new way of working and communicating. Both Google and Samsung, leader global players, have recognized the high potential of Italian niche SMEs and have given them the chance to compete in international markets thanks to web opportunities and innovative services (Corò et al, 2014).

According to a survey by Fondazione Nord Est in the 2014 Italian Trade Agency Report on the ratio between export propensity and use of digital technologies, it emerged that in Italian manufacturing sector there is a clear-cut relation between export propensity and use of the web: in companies that realize more than 50% of profits abroad, the 40% is digitally active. On the contrary, among the enterprises that do not export, 37% declares not to have a presence online. This fact highlights that the growth on foreign markets needs an upgrade also in terms of professional use of digital means. These innovations, nonetheless, can spread only if the SMEs adopt a digital culture that in our country is not yet very common. The fact that we are so late risks to hinder a new cycle of Italian industry. Working to remove such obstacles must be the main aim of economic institutions, entrepreneurial associations and education system, for example through extending broad band connectivity also out of metropolitan areas and sustaining the development of new digital services for web transactions and communications of culture and values.

The economic development of the '80s and '90s, as we have previously said, has relied on the success of the small enterprise and of IDs, thanks to a flexible and high-quality manufacturing sector. But those small enterprises and IDs are no longer the main protagonists of the last decade in Italy, because there are signs of an increasing importance of medium sized enterprises and business groups within the Italian

[31] Rapporto ICE 2014, cap.6, Approfondimenti

manufacturing structure, which challenges the traditional view of a system strongly polarized between many small firms and a very few large enterprises (Carabelli et al, 2006). As a consequence, new vital and promising competitive strength of the Italian industry is represented by a virtuous segment of mid-sized companies. Between 1995 and 2003 medium scale firms experienced an average value-added annual growth of about 2.9%, slightly outperforming small enterprises (2.7%) and significantly outperforming large firms (1%). In addition, their share in total manufacturing value added increased (+1.1% relative to 1995) while larger firms lost ground (-2.8% relative to 1995) (Unioncamere and Istituto Tagliacarne, 2006).[32] The results for medium sized firms in terms of profits, employment creation, and integration into world markets have also been very positive (Mediobanca and Unioncamere, 2005)[33]. This provides evidence of an important phenomenon of evolution of IDs within which medium sized firms, very often organized in business groups, are increasingly appearing as key actors with the potential to overcome some of the constraints suffered by small firms in terms of internationalization and innovation strategies (Rabellotti, 2009).

Mid-sized firms mostly come from business ideas developed by innovative entrepreneurs that have been able to make the company grow and reach a distinctive positioning on the international market. These mid-sized companied have shown the capability to leverage on their middle-sized dimension by avoiding the disadvantages of being too small (inefficiencies and dependency on market trends) and leveraging on the advantages of not being too structured and large (structural rigidities and scarce rapid adaptability to market changes). The competitive strength of these companies lays in their products' diversification, most of which may be classified under the 'Italian style' umbrella, and their capability to leverage on the local entrepreneurialism and highly-qualified staff resources (Contorti et al., 2013). In Italy, about 3,200 mid-sized companies, identified by the researchers of Mediobanca and Unioncamere (2012) account for about 15% of the Italian total production value. 90% of these companies export more than 44% of their total revenue. The main features of the business model adopted by the Italian medium-sized companies are: low use of capital, high technical-professional content of employed labour and close attachments to the local area. To be mentioned are also investments in R&D, design and innovation to increase originality and product performance, as well as marketing tools like branding, communication and distribution, to ensure the identification and appreciation of their products. Moreover, the continually innovative and personalized product differentiation allows medium-sized companies to charge a price premium that varies according to the economic conditions. In 2006 the

[32] In Rabellotti, R., Carabelli, A., Hirsch, G., (2009) *Italian industrial districts on the move: where are they going?*, European Planning Studies, Volume 17, Issue 1, pp. 19-41

[33] Mediobanca – Unioncamere (2005), *Le Medie Imprese Industriali del Nord-Est (1996-2002)*, Milano: Ufficio Studi Mediobanca and Centro Studi Unioncamere.

premium was around 19%, in 2011 it has shrunk to 10,5% but is still worthy. In order to maintain and expand this competitive advantage, medium-sized companies invest in brands and patents (27% of them did so in 2011), and also in products and/or technologies intended to achieve energy savings or minimize environmental harm. The innovation is continuous, with 82% of the companies having upgraded its products in 2011 and 69% having diversified them (Mauriello, 2012).

The medium-sized firm is becoming an active intermediary between local territory and global markets and signing a new phase for Italian economy and for the internationalization of our industry. As is visible from Picture 4.2, in 2012 the export share of mid-sized firms in Italy was superior to the share of the companies of the remaining sizes (even if, in this case, the range of mid-sized firms has been widened until 499 employees). Internationalization has represented one of the main objectives in the strategies of the new Made in Italy protagonists. Medium firms have used many different ways to go global: from delocalization of some production activities and exploitation of new suppliers of raw materials/services, to the direct presence on final markets. Firms are often careful and prefer to take less onerous commitments or just the ones that their financial assets allow: the so called 'light international strategies' (Proietti, Onida, 2014)[34]. In this perspective, agreements with local companies – for exchanges between know-how and market access or between production and distribution activities – and agreements with large international operators or other Italian firms, become very important. The internationalization of production has represented the major break with the tradition of IDs: the leader Made in Italy enterprises have become active nodes of global value chains, finding an autonomous collocation in the global processes of production organization. In addition, the medium-sized company that successfully operates in international markets has been able to redefine internal management processes through new technologies, has financed new investments in the field of the research and design and has developed new politics of communication and brand promotion. All these transformations have allowed to give more managerial quality to the medium enterprise and to strengthen its competitive advantage. The success of Italian industry therefore relies now more on managerial rather than artisanal competences (communication, logistics, designing etc.), but the role of the artisan has not totally been denied by the new Italian enterprise: it has simply reorganized his qualities and has proposed his value on a global dimension, mixing tradition with technological knowledge and new means of communication. These techniques, which the small Italian enterprise lacked, are now an essential element for firm competitiveness and value even more those artisanal competences that are a fundamental aspect of Italian culture and are internationally recognized. From

[34] Rapporto ICE 2014, Cap.6, p.242

his side, the new artisan will be asked to project himself into an international dimension, both through selling his products out of the national borders and both establishing his presence into global value chains, proposing himself as supplier of services to other operators abroad. The new Italian craftsman will need a more complete education, which involves knowledge of foreign languages and master of new ICTs to manage and communicate his activity (Micelli, 2011). This is the challenge of a new global craftsman, which must be accepted also by smaller enterprises in order to stay competitive in the new international environment.

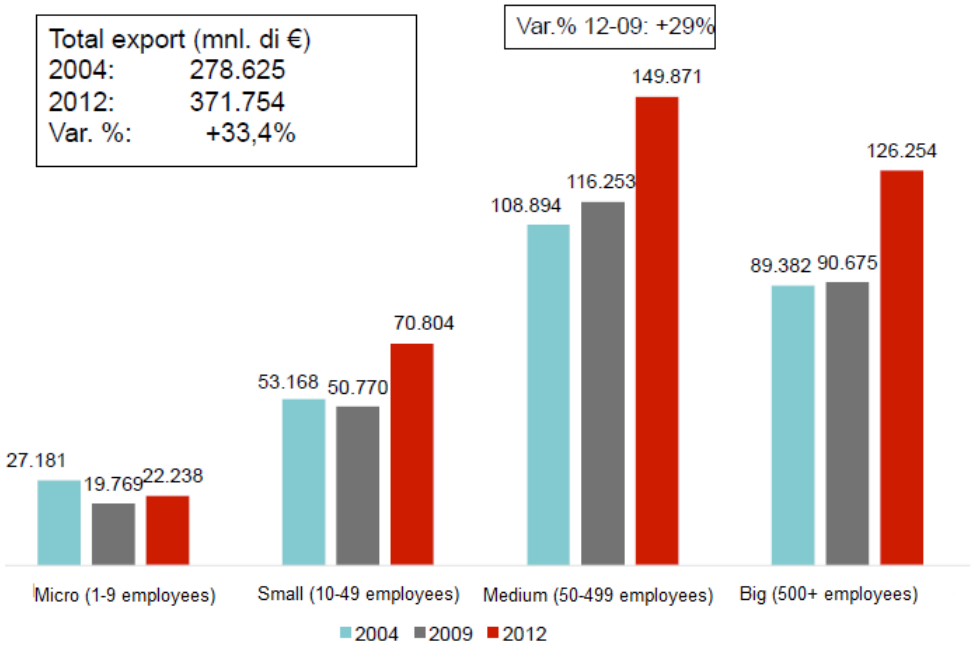


Figure 4.4 - Value of Italian exports by enterprise size (Source: Micelli, 2014)

The international path followed by Italian medium-sized enterprises could be defined 'From local to global', for the fact that these enterprises have gradually shifted from their territory of origin (usually the industrial district) in order to become international leaders in specific market niches (Bettiol, 2014). This process of international growth must also be accompanied by the development of a brand and of a recognizable identity, because today's customers are more demanding compared to the past: they search not only for excellent products, but also for values in which to recognize themselves. Therefore, the enterprises that managed to combine artisanal Italian quality with seductive brand communication are in a better position to exploit the possibilities of markets' globalization. For this purpose, an artisan must be able to communicate adequately the history of his product and the passion he puts into its creation, and this usually is the typical craftsmen's weakness: they are too much focused on the product

and too less on how to tell the story behind it. They should understand that the value of the final product comes also from the artisanal story-telling, which is far from being a marginal activity.

Moreover, the so called art of 'making stuff' still represents a central aspect of today's knowledge economy, fosters innovation and enhances the competitiveness of established firms (Buciuni et al., 2012). Even if some medium companies have delocalized some production activities, most of them continue to keep these in-house, since they play a key role in promoting the development of industrial commons and innovation capabilities. Overall, the practice of outsourcing operations abroad has not been significantly implemented. An example is the aforementioned regional Northeast Italian industry. The main motivation pushing local firms to keep manufacturing domestically has to be spotted in the high degree of customization that characterises especially furniture goods produced in this area. The availability of small key-domestic suppliers within the district and the high vendors' specialization allows companies to locally procure a broad variety of components, thus enabling a constant products' upgrading. This is the reason why the bulk of the furniture production has not been reduced in recent years: because it allows to maintain a competitive advantage. At the same time, recently the Northeast's local industry has been undergoing a process of global opening, because of the saturation of the Italian market and the negative trend of the domestic economy. The international strategy is primarily represented by the consolidation of export activities, but not only: the exploration of new foreign markets to expand foreign sales and distribution is becoming of paramount importance (therefore downstream activities more than upstream ones). To justify the fact that Italian firms in the furnishings industry tend not to outsource production activities, we can assert that, when products' design, customization and short lead-time are important for final customers, a direct control over manufacturing process becomes a sine qua non condition of firms' competitiveness (Buciuni et al., 2012). Therefore, furniture makers are rather willing to outsource commodity goods overseas than to give up on the local roots of the production of sophisticated, customized fittings. Once again, Made in Italy proves to have deep local roots as trademark: giving up to those local commons would mean losing that national identity that gives a unique touch to our products.

4.3 THE ROLE OF SUPPORT SERVICES FOR INTERNATIONALIZATION AND ITALIAN TRADE AGENCY

As previously said, the enterprises that want to approach foreign markets, in particular emerging ones, must face several barriers, most of which have to do with the knowledge they need to acquire to successfully operate in those markets. First of all, firms that want to internationalize need to learn about the culture and the institutions of the target market, especially of emerging markets, which present a higher psychic distance. SMEs tend often to delegate important functions to their distributors in the foreign markets for this reason; from physical distribution of products to customer service, from promotion to warranties, from selecting retailers to communication. But a company that wants to be more involved in operations in foreign markets, going beyond a strategy that simply implies indirect exports, must try to set its presence in a more stable manner, through an increasing experiential knowledge acquired being directly active in those environments. When SMEs are not fully involved and committed to their strategy since they do not have any other unit, the learning process is mediated by distributors that help firms understand the local market (Checchinato et al., 2014). This turns out not to be always positive, because of the problems that might arise between the two parties in terms of communication, different ways of doing business, social and cultural differences, trust etc., which may lead to increase the cost of knowledge transfer and end up in a weak relationship. In few words, distributors and importers might fail in helping companies to understand the rules of the foreign market because they lack of knowledge and experience and they are not able to provide the necessary assistance to overcome cultural/geographical/structural/experiential diversities between home and final markets. In order to avoid the risk of a costly and unsuccessful relationship with the distributor, SMEs can rely on other intermediaries who have the right skills about both the market of origin and of destination and act like a bridge between them. These intermediaries provide what we call 'support service for internationalization'.

The importance of support services for internationalization has started to be investigated in the late '70s. It is interesting to analyse the determinants of the demand of such services in relation to the needs of small firms, or in relation to their export performances and profitability. It happens often that small firms that want to expand beyond their national markets have no choice but to outsource a given service, and buying support services can be a good way of improving international competitiveness for SMEs (De Chiara, Minguzzi, 2002, p. 145). In order to increase its competitiveness at international level, a company should consider to acquire internationalization services from an external firm and to include them in its

strategic planning. According to De Chiara and Minguzzi (1996) country-specific factors can be exploited (comparative advantage) and distinctive competences increased (competitive advantage) following an effect distribution which depends on the company's learning capacity. This means that a specific service can be bought either for optimizing the set of opportunities offered by the exogenous condition of country-specific comparative advantage and for the endogenous capability to create a firm-specific differential based on competitive advantage. In this context, Valikangas and Lehtinen have outlined two main categories of services. The first is a 'standardized' service, which produces similar effects on the firms that buy them: by choosing this the firm searches for proving its superiority in service performance through better know-how and/or superior technology, or competing in a unique service function. The second is a 'customized' service, which meets the specific needs of each firm: customization implies careful focus on the needs of a customer by increasing the tailoring of the service offer, being flexible in the service performance in order to respond to individual demands targeted to a service. Of course the effect of both typologies have a proportionate result according to the learning capacity of the company.

In the empirical study 'Success factors in SME's Internationalization Process: An Italian Investigation' (2002), De Chiara and Minguzzi took a sample of 136 small export firms located in Southern Italy and analysed the relationship between export activity, competitive strategies and the demand for support services in SMEs. They discovered that demand for services grows with a firm's propensity to export, in particular companies that show an above-average propensity demand more services than the firms with a lower-than-average one. Moreover, as the tendency to export grows, this requires services that enhance the unique characteristics of the firm and increase its competitive advantage, namely customized services. In few words, the study demonstrates that SMEs exporting to a higher number of foreign markets are more interested in support services and more willing to outsource the internationalization-related activities, and they require also customized services, which stimulate these firms to look for new business opportunities. On the contrary SMEs that sell only to a limited number of foreign markets (less than four) are more interested in standardized services and in the management of already existing activities than in the search for business development. Finally, a link can be established between the success factors sought by firms that internationalize and the effects of the requested services. The firms that compete for price will search for services that increase their internal production efficiency and/or available resources, therefore are satisfied with a standard service thanks to which they can create a comparative advantage between domestic/foreign exporting firms. On the contrary firm-specific services are usually asked by firms that compete for quality because they want tailored services that make them unique from foreign and domestic competitors. The benefit that firms derive

from these services becomes its exclusive competitive advantage generated by the customized service (directly proportional to their learning capacity). The implications of this study theorise that the boost of exports in SMEs should be accompanied by an entrepreneurial mind-set open to learning and change, and this culture must be developed first of all internally. In addition, increased exports should lead firms to change their competitive strategy (from price to quality) and shift the demand for support services accordingly (from standardized to customized). The result is a higher qualification of the demand for exporting services on the part of firms that need customized services to make their position exclusive. This implies also a greater commitment from the support services side, which must adapt their offers to the single client requests and features, so they must conceive tailor-made solutions in order to answer to every firm's need in the best way.

In the last years, in order to face the phenomenon of globalization in a better way, many politics to sustain firms' internationalization have been conceived, together with the development of a greater attention for actions aimed at expanding the geographic scope of enterprises. Concerning the support services for internationalization with a focus on Italy, ITA (Italian Trade Agency) has to be mentioned. It is the national agency for the promotion of Italian enterprises abroad, whose mission is to develop and ease economic and trade relationships between Italian and foreign firms, especially SMEs and consortia of SMEs[35]. ITA's main objective is to give support to the internationalization of Italian enterprises and to the trade of Italian goods and services on foreign markets, developing promotional initiatives and providing information on countries, business opportunities, investments in and from Italy. ITA has got a total of 79 operative offices: the headquarters is based in Rome, another main office is in Milan, and a network of branches is spread all over the world. The agency performs many different activities, from informing, training and assisting enterprises and institutions to promoting cooperation in industrial, agribusiness, distribution and service sectors. In its daily work, the agency collaborates with Regions, Chambers of Commerce, entrepreneurial organizations and other private and public entities involved, granting a coordinated support to companies and national networks of firms engaged in the internationalization process, with the aim of promoting Italian products abroad and to present Italy as a suitable country for FDIs. ITA gives support to enterprises in various ways, among which there is the organization of seminars and events to provide guidelines for internationalization. For example a seminar held in April, 2015, was aiming at increasing the knowledge of the politics and instruments offered by European Union to sustain clusters of firms, in order to improve their competitiveness at international level and to make known the new 2014-2020 EU financing programs. The EU has been

[35] Italian Trade Agency website, http://www.ice.gov.it/

engaged for a long time in the development of clusters as production organizations, and now the increasing pressure of international competition and the market fragmentation requires a higher level of innovation and excellence. Clusters are therefore seen as suitable ecosystems in which SMEs can operate because they are stimulated to collaborate with research centres, institutions, clients, suppliers and competitors, and thus must be promoted.

Moreover, ITA offices abroad realize other complex activities that involve collection and disclosure of information that derive from sectorial research and market analysis and provide tailor-made services (in particular addressed to support Italian companies to enter and settle in foreign markets). The procedure starts with clients' and foreign partners' research, which implies a selection of potential local enterprises that might be interested in Italian products, analysis on export possibility and access to potential foreign markets of expansion. Then it gives guidelines (in collaboration with Unioncamere and the Ministry of Foreign Affairs) to spot the opportunities for the Made in Italy in the markets of reference, to assess the risk of doing business in a certain country, to inform about flux of investments, fiscal and customs rules etc. Finally it follows-up with a relation on the results achieved, from which it is possible to get indications on the opportunities/problems of the product offered. The last steps involve the organization of bilateral business meetings, both with partners selected by the agency and with operators recommended by the clients, with a specialized consultancy offered by the agency's staff. There is also the possibility to be supported by a personal advisor expert on foreign markets, which examines together with the firm its possibilities of internationalization, makes a selection of suitable markets in which to expand and a definition of subsequent actions and strategies. There are also services that consider a mix of marketing and promotional tools to promote individually the firm on the chosen market, for example through the participation to fairs and exhibitions, distribution of informing material during events, business presentations, press conferences and so on.

ITA offers its services mainly to Italian micro and small-medium enterprises, whatever their sector of belonging. Some of these services are partially free (i.e. general or first orientation information) and some others, in particular the ones that incorporate more value added, must be paid on the basis of a quotation issued by each foreign ICE office. The cost varies according to the complexity of the service: customized services are estimated in 'days' or 'persons' an on the basis of external costs correlated to the foreign location. The average single tariffs go from a minimum of 260 Euros to 360 Euros a day and according to the geographic area. The firms that request a more complex and durable service are followed in their entire path of internationalization. Some other particular kind of services can be requested on annual basis and involve an employee of the agency who takes the role of personal advisor,

who guides the firm on the choice of the more adequate services for the development of its internationalization project.

From the choice of the right partner when outsourcing a service can depend one firm's success, especially when it comes to international markets. Basically, it can be stated that companies that outsource a given service to an external agency, do that for three main reasons, according to Hätönen (2005). The first one has to do with cost savings: to lower operational costs, to control costs and to free resources for more profitable business units. The second reason concerns process improvement and the need to concentrate on core competences, in order to achieve flexibility through internal reorganization, to accelerate the accomplishment of other projects, to reduce the time to market, to gain access to a flexible and skilled workforce and to sharpen the business focus. The third is related to a sort of capability enhancement: obtaining access to resources that are unavailable internally, improving the service quality and compensating for the lack of a particular expertise in-house. Besides these three motives, has also been concluded that outsourcing may then influence later internationalization through the operational effects of the strategy. One particular benefit of outsourcing is the development of an agile, focused organization that can internationalize more rapidly, even if the focus of the business transformation is on the divestment of non-core and peripheral activities. Through outsourcing, firms can take advantage of the best outside vendors and restructure entrenched departments that are reluctant to change (Barthélemy, 2003). From outsourcing then can derive improvements of the ability to compete in international markets, and even fuelling further internationalization decisions. In the context of SMEs in particular, focusing on selected business activities allows them to allocate their scarce resources correctly and therefore to internationalize more rapidly and facing less risks.

If the internationalization processes involve a cultural context quite different from the county of origin one (i.e. Asia, Africa, East Europe) there is the obstacle of the language and of different codes of conduct to overcome: this aspect makes transaction costs grow further, because they represent an element of local knowledge that makes harder for enterprises to access more advanced internationalization modes (Esposito, 2011). For this reason, the help of a local specialized intermediary to ease the process should be taken into consideration, not only to develop mechanisms of trust and comprehension between the parties, but also to work on codes of communication and languages, reducing transaction costs and uncertainty. These subjects, being embedded in a network of relations, are able to lower transaction costs, to favour cooperative behaviours among parties and build trustworthy mechanisms. According to Esposito (2011), it is possible to classify the actions to support internationalization in two categories:

activities aimed at positioning an enterprise on a precise market (first approach with foreign markets) and activities aimed at consolidating an already established presence. Concerning the concrete actions to take to implement the first category, we can list market research, participation to trade fairs and initiatives abroad and partners research; in the second one, instead, we can find activities to realize entrepreneurial partnerships, to handle the results of partners' research, to conclude joint-ventures. In general, according to this study, the public sector should provide basic information and promotional tools to those enterprises interested in starting an internationalization process. On the contrary, private specialized entities operating abroad should be appointed by firms that have already developed a more stable presence, and which require more complex and tailored services to make their international projection grow.

4.4 TEXERE ADVISORS: AN INNOVATIVE BUSINESS MODEL

We have discovered that Italian SMEs can choose to rely on ITA for delineating their strategy to penetrate foreign markets. Besides this solution, there are also private companies that work as consulting agencies, utilizing an original business model. Through the example of one of these agencies we can understand better how this innovative approach to internationalization is developed.

Selling a product and creating a successful brand throughout the world markets is becoming more and more complicated and sophisticated for SMEs. Emerging markets in particular are now catching the attention of many companies around the world, requiring any company interested in expanding in those markets to adapt its mind-set and develop innovative Marketing and Commercial tools as a foundation for growth. Texere Advisors, a consulting company based in Singapore, started from these premises, and set as main goal guiding the SMEs through those tough changes, leading them to a successful and sustainable international expansion. Texere guides the companies on its portfolio along a path of establishing a consolidated presence in foreign markets, for then leaving them as soon as they are ready to go on with their own strengths.

Texere Advisors Pte Ltd is a consulting company founded in September 2013 in Singapore by Andrea Bonardi, an Italian entrepreneur from Milan. The company is specialized in assisting lifestyle luxury Italian brands, quite successful in Europe but not yet present in Asia, providing help to those firms and managers that want to set up a strategy either to penetrate a foreign market or to consolidate the presence overseas. The headquarters is based in Singapore (the main window on emerging markets – at

the moment companies are more focused on the Asian markets than on others), so the main market the company deals with is the Asian one, in particular: Singapore itself, Korea, Japan, Hong Kong, Vietnam, Thailand, Cambodia, Philippines and Taiwan. Texere is also based with an office in Milan, Italy, since all the brands it currently supports are Italian. Then it relies on some collaborators from other countries: United Kingdom, Russia, and India. These other references are extensions of the Singapore main office in markets considered to be of key importance; they are anyway independent workers, bound by a contract of adhesion to Texere's network.

The name 'Texere' comes from Latin and means 'to weave': diligently and carefully making, interlacing and combining elements into a complex pattern or design. The online community builder Bill Traynor asserts in The Essence of Weaving[36] that '*Weaving is the intentional practice of helping people to build – and connect to – more relationships of trust and value, mostly by virtue of being genuinely interesting in building and connecting oneself to more relationships of trust and value.* The generosity inherent in the act of weaving can only come from one place – the genuine caring and curiosity of the weaver…the motivation to want this person in *your* network. If that is the case, the weaver is able to open up all kinds of space for relationship building, action and reciprocity.' This can be the most suitable interpretation of how Texere's people view business in today's world. Texere Advisors therefore commits to its clients with diligence and passion.

The business model employed by Texere is said to be innovative, with respect to the other proposals available in the market, because it operates as an extended branch office of the companies it is assisting. Its business professionals with proven track records in multi-channel sales growth work in very close contact with the Italian teams, and the access to their accumulated local know-how is extremely useful in order to minimize the risk and avoid costly mistakes. In this way, managing the operations turns out to be more cost-effective if compared to operations managed from the headquarter or from a company-owned subsidiary, which involve higher costs and longer ROI. It also allows a good control of the brand, so from this point of view it operates as an agency, but one important element Texere is founding its business on is building trust. To be in direct contact with the Italian company team and to operate as an extension of its business involve more commitment to the brand, more control and a deeper understanding of the company's dynamics: these things would be more difficult to be performed by a simple agency that usually tends to have a shorter term vision and often a lack of efficiency and of brand control. Moreover, this kind of business model is fast and effective and more measurable, since the consulting company is already present in the target markets. Texere approach focuses in particular on the development of the brand, through its commercial network, brand positioning and brand awareness

[36] https://valueofplace.wordpress.com/2010/05/24/the-essence-of-weaving/

in the target markets. Texere team works hand in hand with the team of the brands it is assisting, building an effective cooperation, sharing information and progress in real time and transferring knowledge and practices developed back to company.

Texere Advisors acts as an important window to emerging markets, and as a main point of contact to centralise strategy and operations on those markets that are supposed to be a priority for the development of the brand: through its wide network of contacts and connections in Retail and Media/PR it allows a faster knowledge of the market, which otherwise would be very difficult to obtain. The very final aim of the collaboration with Texere for the companies is to establish the bases on which subsequently proceed by themselves.

The background

'The internationalization begins at home', Mr. Bonardi loves to point out. This is the reason why many companies, at the present moment more than ever, are realizing that their activity should first begin with an action implemented at their headquarters, because once their presence it strongly established in the country of origin, then internationalisation becomes easier. This is an important element to take into consideration: it becomes harder to support the internationalization of a company that presents deep problems in the domestic market. In this way, the effectiveness of every kind of consultancy, like the one Texere provides, risks to lack of effectiveness because of poor organization at central level. According to Mr. Bonardi, a strong limitation of many companies nowadays, in particular of Italian ones, is that they are extremely focused on their product, much more than on taking care of the commercial side of the business, since they tend to see the latter as a derivative of the product itself. Many Italian managers believe their product is already outstanding, probably because they have always concentrated their efforts narrowly and primarily on Italian and European markets, relying on multi-brand sales channels that need less involvement in terms of marketing, branding and post-sale activity. For this reason Italian firms that want to enter more advanced and sophisticated channels very often find out that their product does not fit foreign markets' requirements. So, instead of adapt promptly to the market's logic they tend to stay impassive, ending up being stuck in their position, being confident of the fact that the product can, in any case, be successful. On the contrary today, unlike in the past, the market belongs to the buyers, not to the sellers, claims Mr. Bonardi. The result is a strong cultural problem of Italian SMEs, where the commercial side has always been residual compared to the product, with the consequence that strong management competences are harder to develop, and so it is the

foreign experience and background, being these SMEs too attached to their origins, inflexible, imposing themselves a severe limitation to the international expansion.

All these reasons have pushed Mr. Bonardi to be serve other companies. Italy is mainly a manufacturing country, so its strong industrial past links tightly the companies to the product they sell, making the Italian entrepreneur extremely concentrated on it, risking to put aside all the other activities necessary to make the brand growth strong, and this mind-set can spread from the smallest to the biggest firm. The fact that simply having a good product is enough to have a winning strategy in foreign markets, according to Mr. Bonardi, could have been true 20-30 years ago, but it is not anymore. Now the rules are dictated not by companies but by retailers/distributors, and the decisional process goes further down the chain until to arrive to the consumer. Only a few Italian enterprises have comprehended this change and are willing to adapt in any possible way, to avoid being pushed out of the market.

How Texere was born

The idea of setting up a consulting company started from a 15-year-experience of the founder in this field. Between 1998 and 2001 he was firstly in Rome at IPI (Agency of the Italian Ministry of Industry) as Industrial Cooperation Manager in charge of SME-related projects with North Africa and Central Europe. Then he worked as a representative of the Italian Chamber of Commerce first in Milan as manager for Asia and then with a 5-year-mission in Mumbai, India, as Secretary General of the Indo-Italian Chamber of Commerce and industry. Between 2009 and 2014 he was President of the Italian Chamber of commerce in Singapore and then sat on the Board of Assocamere Estero, the association of the Italian Chambers of Commerce abroad, as Asia-South Africa representative. This job has helped Mr. Andrea Bonardi to understand across-the-board which were the problematics of the SMEs that wanted to pursue an internationalization strategy; in particular he used to deal with cultural and commercial barriers that represented the major difficulties for SMEs.

The Chamber of Commerce employment allowed Mr. Bonardi to get access to another working experience of similar nature, but this time entirely focused on one brand: La Perla Singapore, which was a subsidiary of Gruppo La Perla Inc., based in Bologna, Italy. La Perla is a luxury Italian women's clothing company specialized in lingerie. From 2006 to 2013 Mr. Bonardi was in charge of the business development in the Asian market, operating as branch office of the company in Asia, and this role has

made him understand more, by developing a commercial network of mono-brand retail stores, how a company must adopt tools and competences to enter emerging markets in an efficient and effective way. By the time he worked at La Perla, with his team he managed to develop a commercial network of over 40 stores, both in franchising and directly owned. From 2011, moreover, he was in charge of emerging markets, being instrumental to the opening of more than 20 franchised stores across Latin America, the Former Soviet Union, Eastern and Central Europe, the Middle East and the Duty Free. This background made Mr. Bonardi realize that not only SMEs but also the biggest companies that own important brands as La Perla may lack of in-house competences and know-how that allows them to face the foreign markets in the right manner. All this specific experience in retail led Mr. Bonardi to think that this work could have been done not only just as an employee for one company, but for many firms, since the approach model is to a certain extent replicable for every industry in the retail channel. Another reason was the strong belief that many Italian SMEs have valuable products with a beautiful story to tell, but they are not able to propose and sell them on foreign markets properly. All these preconditions and his working background represented an important occasion to work for many diverse Italian luxury brands and thus enlarge the scope of his business.

Mr. Bonardi has involved a part of the La Perla team in his new enterprise, in particular the person in charge of Sales & Operations and the one in charge of Marketing and PR, splitting the corporate operations into these areas, while he would have been in charge of the Business Development. Now the business is expanding even more, as a matter of fact they are planning to hire another manager with international experience, willing to travel around SEA to promote the brands in their portfolio. Moreover, Texere Advisors has signed a collaboration with Ca' Foscari University, allowing to students to make an internship experience at the headquarter. The reason for this choice is based on the fact that, besides giving an opportunity to motivated students, the company benefits from the presence of resourceful young people that can often bring new and fresh approaches during the tasks performed.

The occasion for the company to be founded presented in Singapore, when there was a change of property of La Perla and the Singapore branch was shut down: this change has given him the possibility to invest in a start-up, and to begin to work independently for not just one brand, but many. As it always happens to every start-up, the beginning was not easy, but Texere team had the possibility to exploit all the contacts of retailers, distributors, media, press, institutions, marketing agencies gained with La Perla: a network of contacts not only limited to the fashion industry, which represented a manager's heritage. This was obviously a starting point which was meant to progressively grow in the future. And while the network of Texere contacts was enlarging, the idea of operating not as a simple external consulting

agency for retail, but as an extension of the team of the companies supported, was growing in the managers' minds. This business model was conceived in order to bring an added value, operating as an external branch office and proposing to the client a complete operation in the market as Texere team had done with La Perla (although being an internal office). This was thought to be the best solution since the companies represented by Texere today are companies which have a great potential of development but that do not have the financial resources for a foreign fully-owned subsidiary or do not have the expertise capable to deal with foreign markets, and managing the operations from the country of origin might be hard and often unproductive. In this case, Mr. Bonardi's institutional background as President of the Chamber of Commerce has made the biggest difference: he could take advantage of a wide network of companies' contacts directly linked to its own job, but also of a larger network that involved other Chambers of Commerce and Institutions around the world. This Ecosystem of contacts thus created grows still now day by day: the job implies a continue networking, developing also those contacts which no necessarily must have an immediate utility but that are built thanks to other knowledge in that market/industry. It is Important to develop contacts with everyone because every single person could be useful to bring you the information you need, according to Mr. Bonardi. Also informal information is precious for the final purpose sometimes, especially thanks to the word of mouth. Therefore, since it is impossible to be physically present and updated on every market, relying on Italian Chambers of Commerce in foreign countries could be of great support to understand better the market or to get to know additional operators on these markets. Moreover, Embassies are useful, too, especially for the contacts they can provide and also for the organization of events to help a company and its clients to show up to the public. The strong and precious link to the institutions then tends to progressively loosen as soon as a greater competence is acquired.

Concerning the bureaucratic side of the business, running a company in Singapore is much easier than in Italy from an accountancy and management point of you, and this is what really makes the difference. The procedures are easier and simplified and the fiscal pressure is much lower than in Italy (17% in Singapore vs 31,4% in Italy)[37], where on the contrary the laws are more strict regarding accounting. These advantages are nevertheless counterbalanced by a higher cost of living with respect to Italy, which leads to higher management costs (salaries, rent, utilities). In the end, we can say that the main reason for establishing a company there is to be nearer to the clients and to the main markets of reference, more than to cut costs.

[37] http://it.tradingeconomics.com/italy/corporate-tax-rate

Brands in Texere Portfolio

The Asian market is becoming more and more competitive for foreign firms to reach, and it is progressively saturating, so it must be approached carefully and only by the companies which have the right credentials. Not all the products are suitable to internationalize in Asia and not all the companies are sufficiently structured to come to this part of the world, while on the contrary they can be very good for European or American market. This is true in particular for those companies which do not have a suitable product or a well- developed mono-brand retail strategy. There are also SMEs which could have a great potential in this market, but that have not yet developed those tools for growth which are necessary to come to Asia. Asian distributors are willing to cooperate with companies that have already some established mono-brand stores, in particular in three main spots first of all: Milan, Paris and London. These are mandatory passages before coming to Asia. New York retail shop is then a plus. Harrod's in London first and secondly Rinascente in Milan and Lafayette in Paris are compulsory steps to reach in order to be considered by Asian distributors. Therefore, it is not possible to come directly to Asia skipping those fundamental passages: for Italian companies, direct owned shop in Milan first and then in London are the two necessary steps.

Currently Texere is working only with Italian high-end luxury brands, in particular in the fashion and design furniture industries (liquors, tobacco and perfumes are excluded according to a precise choice). The long-term aim of Texere team is to start working with European brands in general, which present the same characteristics of the Italian ones, since the problem of internationalization is a shared problem of all SMEs in Europe: the barriers and obstacles are quite the same and the target market (Asia) is the same as well. This objective will be easier to achieve if Texere becomes a well-known brand out of the Italian boundaries, too. It can happen that a company which requests Texere's help does not have the right prerequisites/potential: in that case starting a collaboration or continuing the relationship would be unproductive, so the partnership could eventually not start at all after a careful evaluation, or conclude the cooperation after realizing it is not bringing any positive result. Usually this happens with companies that do not have the minimum required structure to approach foreign markets.
For a brand to be suitable and ready to cooperate with Texere, it must have the following characteristics:

- At least 30 million Euros turnover (this falls into the medium-sized companies category): it is an essential condition, because, according to Mr. Bonardi a smaller company with a turnover inferior to that threshold does not have developed an 'internationalization culture' which is

required in the Asian market; a smaller company tends to be more focused on just selling the product, while the bigger one has higher objectives and more resources to invest;

- It must have a potential on retail, and possibly must have already developed a mono-brand shop culture;
- It must own a brand that has a 'story to tell' (brand awareness): the company must be aware of owning a brand and not just a product to sell, and this is a very important cultural shift for a company. It must also have an outstanding product;
- It must be to a certain extent ready to approach emerging markets, having already established a stable structure in the market of origin. With such characteristics already present, it becomes easier to transfer to the clients Texere's know-how about how to behave in foreign markets.

The network of contacts mentioned above has represented a really important element from which to begin Texere activity: without it, would have been very hard to obtain the very first client, Moroso SPA. Moroso is a leading manufacturer of upholstered furniture, founded in 1952 in Tricesimo (now relocated in Tavagnacco, Udine, Italy) and specialized in the production of sofas and armchairs.

In particular in Asian market more than in others, the professional ethic, coherence and transparency is very much valued and appreciated: these qualities are difficult to be obtained at the beginning, but in the long term, if well developed, they are going to repay you. This was one of the main reasons that led Mr. Bonardi to sign a contract with this first client: especially because of his exposure as President of the Chamber of Commerce and of his strong values recognized by his acquaintances in the field, he was introduced by one of his connections to Moroso's staff as the right person capable of answering to their will of expanding the brand into the Asian market. Moroso was already present in Asia at the time but they needed someone with the right know-how to exploit their presence in that market in a more profitable way. Thanks to Texere intervention the situation much improved with respect to the past. Mr. Bonardi at the time had recently started his own business. Helped by his team, he delineated a business plan for the brand which was appreciated by Moroso administration, even if it was the first time for him to deal with the furniture industry. Nonetheless, since the model that Texere Advisors uses can be replicable and the approach to the market is the same even if in different fields, Mr. Bonardi and his staff succeeded very well even in this previously unknown industry.

Other brands in Texere's portfolio are The Bridge, an Italian company from Florence founded in 1969 which produces luxury leather bags and accessories, with which the collaboration has started only 8 months ago (so the results are not yet tangible) and Frette, which produces luxury bed and bath linens

since 1860. The Bridge had already established a presence in China, but it needed anyway some help to develop a clearer strategy and to get access to additional distribution channels. The case of Frette is particularly outstanding: the establishment of the company dates back to about 160 years ago, and even if it is at the current moment going through some difficulties in the home market, since the beginning of the collaboration with Texere, in February 2015 it has already received a proposal of business for South East Asia and it still founds many admirers in the Asian market.

Fabiana Filippi, one of the leading brands in the valuable Italian-made fashion for women is the last brand that has signed a collaboration with Texere. It is a relatively recent and fresh brand, established 1985 in the heart of Umbria, and it is currently growing in Italy (from 30 million Euros turnover 3 years ago to 60 million last year). From June 15th, 2015 it has accepted to be guided by Texere to approach those parts of the Asian market in which it is not yet present (it is already present in Japan, Korea and China with shops in shop). Its start has been very promising: even before signing the contract, just after a word-of-mouth about this new brand, Texere found a distributor in Hong Kong interested in the product. This is actually signing a sort of new phase for Texere Advisors: unlike the other clients, with which the collaboration has started thanks to contacts and acquaintances in the field who introduced Mr. Bonardi and the company, in this case the intermediary comes from an institution, namely UBS Bank. This means that building a system of reference through banks and associations thanks to their recognized name can be of paramount importance, because they grant their client a positive reputation.

Eventually, it must be said that a company that wants to go abroad must be prepared, first of all by 'internationalizing in-house', which may sound like an oxymoron but it is a stated truth. It is extremely important to invest in the retail strategy and in the brand itself. If a company already owns some shops in the country of origin which are not profitable, it must think about revising some of the store concepts or to directly close them and open some new ones, following an alternative brand positioning strategy. It is extremely important also to take care of flagship stores, opening them in central position; then investing in website and visual campaign. The willingness to commit to a certain path must be strong, being aware that this could be very expensive, but the survival of the brand depends on it. This, in turn, depends for the greatest part on the company itself: if you have a brand that supports a beautiful product and if you have built during the years an important, coherent and interesting story of the brand, it is easier to approach and grow in new markets. Even if the company has some sort of minor problems, but the product is strong, they can be slowly overcome with time. On the contrary, if the brand presents some weakness due to the fact that it has not been able to adapt to changes, and if the company's

management hopes to solve internal problems by going abroad, this is the wrong approach because the problems could emerge later, leading also to lose the investment. Therefore it is important to say that 'Internationalization begins at home': it is extremely dangerous for a company to plan a strategy of internationalization if it has to face problems in the home market. Internationalization must not be a choice to 'save' a company in trouble, but must be a way to consolidate the profits that are gained first of all in the home market.

Company's Commitment

From the beginning of the collaboration with its first client, Texere has agreed with the Italian clients it assists to be paid on a fix basis, in this way clearly distinguishing itself from the many agents and consultants who are professionals that work on their own and are paid on commission on sales, and which is probably the modality most chosen by Italian companies because it is easy to implement. This is proof of the strong commitment of Texere, which has not the only aim of selling to gain profits, but which wants to accompany the brands through a path of strong development. This is a positive sign also from the brand management of the Italian company side, because it shows that it is not only interested in selling its product abroad, but it is seriously intentioned to build a real, long lasting presence in the market, where the sales are achieved if the brand is well positioned. On the contrary working with an agent could often be demotivating, both for the company and the consultant itself, because the relationship tends to be looser so that he could easily switch from one client to another as soon as he finishes his resources. For all these reasons, Texere's need of a fix income was necessary to serve its purpose of operating as external branch: this gives it the possibility to have a headquarters, a team and to afford to pay salaries, and to be strongly committed to operate for the brand's good. In this way the main concern is not selling immediately, but the team is allowed to have more room and time to plan carefully the strategy for the long term without any pressure, operating in the company's interest. This allows Texere to be also more selective on the distributors to choose, to impose strong conditions and to exclude the ones which are not strictly suitable: it gives more freedom of taking also riskier but necessary choices, since there is no immediate pressure on sales. Unfortunately not all companies understand Texere way of working, because this is a quite new concept and often they might have some difficulty in trusting completely an external team and in involving them fully in the company's operations. For this reason is extremely important to explain carefully this concept to the management of the brands with which the collaboration is set up, in order to create a base of trust that will allow to work better in the future, to set the same objectives and to act in the brand's interest. This mind-set of

carefulness is particularly strong in Italian companies, according to Mr. Bonardi's experience: this behaviour sometimes could be harmful because it hinders the management's ability to make the right choices. This prudent inclination is typical of Italian SMEs because of their past heritage and strong attachment to family tradition, or because of unknown management logics of jealousy or fear to lose the job by the employers who work at the brand's headquarters. Is important therefore that the consultant company adopts a behaviour of carefulness and sensibility, showing that they are there to help and support and not to steal someone else's job, which is a common fear that could arise in some cases. It is strongly important also to be present and show up at the band's headquarters, to have a direct contact with the management in order to build a trustworthy relationship.

The results of Texere's collaboration with its brands in the first years is evident, both in terms of quantity and quality of presence in the Asian market. Each one of the brands in its portfolio has established (or is establishing at the moment) showrooms, mono-brand shops or corners in Asia Pacific Region, and the network of contacts with distributors and operators keeps on growing daily. It is important to note that the turnover of the Italian brands is pulled by the brand strength: it is necessary to plan a strategy for the long term in order for the turnover and the sales not to decrease after a first peak. Through actions of branding, marketing and relationships, the brand must continuously be pushed with ad hoc actions, so that it stays always strong and does not decline: this is the long term challenge.

Finally, we can say that the business model proposed by Texere is quite unique: in a market saturated by thousands of consultants for internationalization, which in 90% of cases are individual professionals who get in touch brands with distributors, the branch office concept of Texere is instead not common. For Texere is important to remark its outstanding role, because from an economic point of view the companies it assists are able to understand it and appreciate it immediately. In today's markets, Mr. Bonardi believes this is a winning business model, because it exactly answers to the needs of those medium enterprises who are ready to commit to expand abroad. Usually these companies are not intentioned to invest in a fully-owned subsidiary because of the cost (800,000 Euro at least are needed for the cost of the activity for the first year) and because they do not have a clear idea of how much time they will take to reach the breakeven point. They would also need a senior resource on the market from the country of origin, since hiring it directly in the target market could be quite risky without knowing this person. Usually companies tend to postpone the decision of opening a subsidiary to the moment in which they have a solid presence established in the foreign market, but this is as well difficult to decide from the country of origin, without being directly present in the target market. The business model proposed by Texere is an ideal one, since it allows to combine the presence in the market through their

team of specialists and to have direct feedbacks, otherwise difficult to obtain and at a cost definitely inferior than opening a branch.

This model can be replicable, but not by everyone. It must be by an entrepreneur or a group of entrepreneurs who have got many years of experience on the field, in particular having acted directly through negotiations, meetings with companies and who know how to develop a network of contacts, in order to introduce themselves to the companies as expert and trustworthy professionals. At least 10-15 yeas of previous retail experience on emerging markets and a multi-brand knowledge is required, which allow to have a 360 degrees vision on the target market.

5 MOROSO SPA: FROM ARTISANAL ORIGINS TO GLOBAL OUTLOOK

'My desire is to subvert the obvious by celebrating diversity, in its form and its surface.'

Patrizia Moroso – Moroso Art Director

5.1 FURNISHINGS SECTOR IN BRIEF AND COMPANY HISTORY

The home furnishings sector is one of the Made in Italy pillars, example of Italian excellence, and keeps the leadership position in almost all market segments. The extraordinary union between the designer creativity and the entrepreneur's mind, the positive districts' spillovers, the flexibility allowed by the small dimension of firms and the constant exports' increase have always been the core elements of this business (Lojacono, 2007). The high share of exports in this industry was due to the enterprises' decision took starting from the '80s to go out of the domestic boundaries, since Italian market was starting to lack of opportunities. This choice made by some leader enterprises was then emulated by many other SMEs in the industry, which, without a complete knowledge of foreign markets and with scarce resources availability, began to search for new opportunities abroad. The competition level in Italy accelerated in the late '80s as soon as imported low-cost products brought by international distributors (e.g. Ikea) started to show up in the market. This phenomenon was destined to grow as Italy was becoming an increasingly global competition arena and as Italian producers were aiming at wider markets, measuring themselves with big international competitors. Moreover, in order to stay

competitive against Chinese inexpensive products, since Italy could hardly reach the cost advantage that Asian competitors have, it had to increasingly rely on niche and high value-added markets. This required that enterprises pursued a differentiation strategy (of product or customers). Although there has been a delocalization of some activity in low-cost countries, Italy had to strive for introducing differentiating features, linked to different aspects of the product system: logistic effectiveness, tools for sale support, etc. In any case, the production activity abroad will never entirely substitute the activities performed in Italy: the most critical activities, like design and R&D, will remain in the country of origin.

The positive contribution given by the furniture industry to Italy's trade balance reflects the ability of Italian enterprises to gain market share abroad and at the same time to satisfy the greatest part of the internal demand. The major share of Italian furniture production is concentrated in five regions, from which derives 80% of total furniture exports: Lombardia, Veneto, Friuli Venezia Giulia, Marche and Puglia. As a matter of fact, these regions host five of the biggest furniture IDs, employing about 45% of the workforce of this industry and exporting 61% of the total furniture. The Chair district of Manzano, in particular, located between Manzano, San Giovanni al Natisone e Corno di Rosazzo, in Udine area, is specialized in the production of wooden chairs of medium-high quality, to which during the years have been added chairs made of other materials, tables and upholstered seats[38]. It is right in this district that Moroso S.p.A. was born and has flourished. In the past, from the '80s up to 10 years ago in the region there were around 300 manufactures which exported worldwide. Almost all of them were small family run companies that after the economic globalization fell in depression, due also to a severe competition on prices put in place by previously unknown country producers (former Yugoslavia, Poland, China, SEA countries). This, together with a minor development in technology and value added such as design collaborations and marketing, unfortunately brought to an actual presence of an existing 10% of manufacturers.

Moroso S.p.A. is a leading manufacturer of high-end upholstered furniture and was originally established as a sole proprietorship, trading under the name 'Moroso Agostino', in 1952 in Tricesimo (Udine, Italy). Thanks to the intuition of Agostino Moroso and his wife, Diana, the company was originally founded with the aim of making sofas, armchairs and furnishing accessories. In 1961 the company relocated to its current headquarters in Cavalicco (Udine) and changed its name into Moroso S.p.A. in 1974. The artisanal approach to product manufacturing and the creativity in the designing stage formed the foundations of a vision which enabled the firm to grow, and distinguish itself in the market for its product quality, innovation and creativity. For about 25 years Moroso remained a small firm producing

[38] 'L'industria del mobile in breve', Studi di settore, Intesa San Paolo, April 2008

pieces for the local market, relying on its strength that was good quality of the products; this later will convince the entrepreneur to try to reposition the enterprise upwards developing a sales network in the domestic and international market in the late '70s. He was trying to reposition his enterprise horizontally, in a superior segment in terms of quality/price of the market of reference, stimulated by the more intense national and international competitiveness of the emerging economies. In order to do this, he started a collaboration with two external designers, but the results turned out to be not as expected: the owner was still in charge of supervising directly all corporate activities, and this model proved to be inadequate for the new strategies (Campagnolo et al., 2010). Therefore, a change in terms of competences was needed.

After the crisis that affected the furniture industry in the '80s, the company began a gradual development to sustain the strategic project of growth, both in terms of profit and efficiency, thanks to the skills and creativity of the management team who restructured it. The two founder's sons entered the scene, accompanied by two external managers (the general director and the marketing director). During this period, the second generation of the family launched an exhaustive programme of 'auteur design' studies. In these years the first 'design' products were conceived: the company started to work in close collaboration with some of the world's most talented designers, gaining international recognition and becoming a well-established brand in the interior design and architecture environment. Among the designers with which Moroso has signed a collaboration, there are famous personalities recognized in this field: Ron Arad, Antonio Citterio, Carlo Colombo, Tord Boontje, Didier Gomez, Toshiyuki Kita and Patricia Urquiola, to name just a few. Since when it has been brought to the attention of architects, they started to choose the company's products for the interiors of public spaces: educational, health care, commercial, corporate, travel and hospitality projects. So not for private use only, but also for bigger contract projects. As Patrizia Moroso, the current Art Director of the company, points out, 'The story of Moroso is the story of our relationships with designers, people who, with intelligence and with the passion which always inspires artists in the face of beauty, are trying to change the world for the better. I ask them not to imagine a single object, but to imagine a new world and project it into the future.' They started also to concentrate on brand and marketing more effectively; Patizia Moroso's role gave the brand a clear-cut identity[39], focusing on a concept of diversity, totally design-oriented.

The company today is headed by the second generation of the Moroso family - Roberto Moroso is the CEO and Patrizia is the Art Director – and is the perfect example of how a small artisan-owned company

[39] Moroso website http://www.moroso.it/

has evolved in time, since its establishment by the founder, who ran it until the nineties. The fact that the company is still today family-owned has a very important meaning: the original family values keep on to be preserved through the years. Moreover, being a solid and healthy company, they have always preferred to work autonomously with the support of the family trust fund, by minimizing the banks' involvement. The management has also been open to new ideas and flexible to adapt to changes: starting from its artisanal origins in the post-war Italy, where the dominant culture was that of 'Doing things and doing them well', Moroso has then been farsighted and ambitious. Strong of its advantage in combining craftsmanship and custom-tailoring with industrial processing techniques, it creates now unique pieces, mixing the worlds of industrial design, contemporary art and fashion. The ability to offer unique products is possible thanks to the combined work of about 70 master artisans, a network of suppliers belonging to an industrial district located in the Udine area, the use of high quality materials and the attention to the details. More than sixty years after its founding, Moroso is nowadays positioned among the haute couture of international design. Some of its furniture pieces have won several international design awards and have been exposed in the most prestigious museums worldwide. In ten years' time, they have produced 35,000 pieces of the armchair by Ron Arad 'Little Albert'.[40]

Moroso headquarters and production facility is located in Cavalicco, Udine (Italy) and occupies a covered surface area of 1,200 m^2. The plant manufactures upholstered furniture, producing an average of 3,000 pieces a month. To the company belong also:

- A retail store and a storage depot in Milan, where furniture and decoration pieces are sold;
- A storage depot and warehouse in Tavagnacco, Udine.

Around the world, Moroso owns four showrooms: in New York City, in London, in Koln and in Amsterdam. Moroso S.p.A. counts 142 employees, among which 4 are managers, 53 are office staff, 78 are production staff and 7 are temporary contract workers. The company's total turnover is of about 35 million euros worldwide (2014). 9 million Euros derive from Italy and 26 from Export. Asia (SEA, China and Japan) performed around 2.3 million Euros and this year they registered a 15% increase compared to last year. Mr. Valerio Vestri, Moroso Export Manager, said that they expect a similar growth also for next year, due to some new showroom openings already planned.

According to the number of employees and turnover data, Moroso falls into the category of medium enterprises.

[40] Il Sole 24 Ore, 27th September 2014

In the following graphs is shown how Moroso turnover is split between three markets: Italy, the rest of the world and the cruise liners market. According to a precise company choice, the cruise ships turnover is considered as a separate entity, in order to evaluate the performance of this department alone. The cruise ships they supply are mostly from international ship owners (mainly American, as Carnival and P&O or Swiss like Msc (even if Italian Aponte family owns it) and Costa Crociere, which is part of Carnival Group as well). Internally Moroso has a sales department which deals with sales in this specific segment: this is the reason why it is considered as a part of the turnover generated by Moroso. From 2009 to 2014 Italy's turnover has been eroded in favour of an increased turnover in the rest of the world but most of all in the cruise ships market. Then, regarding the forecasts for this and next year, Italian turnover will always be around 20% of the total, the rest of the world 74% while the cruise liners', which will decrease if compared to last year, is supposed to increase from 5% to 6%.

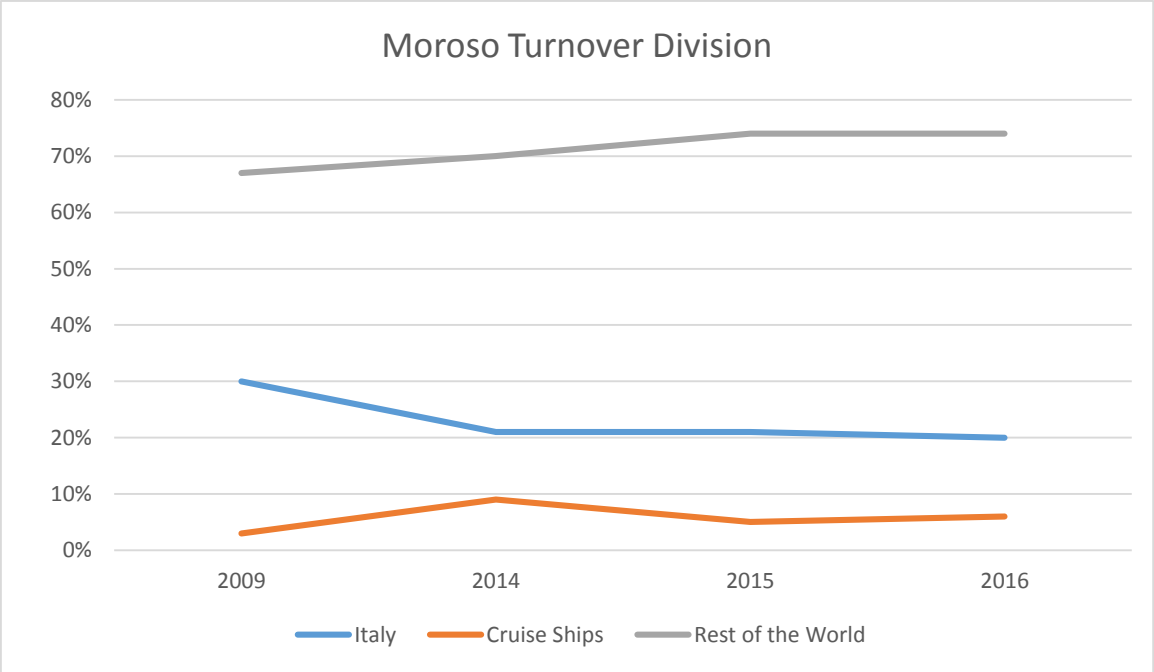


Figure 5.1 - Moroso turnover trend and target for next year (Source: Moroso SpA data)

5.2 Markets of Reference and Presence in Asia

Moroso through the years has established its presence all over the world: in Europe, Africa, North and South America, China and Asia Pacific region. Europe is the main market, which represents 80% of total turnover, 20% of which comes from Italy. The headquarters is supported by three foreign subsidiaries, which act as branch offices: New York (Moroso USA Inc.), London (Moroso Ltd) and Singapore (Moroso Asia – Texere Advisors Pte., Ltd). The production is done entirely in Italy, according to a precise company choice, with except for a particular line of products made by an African designer (therefore produced in Africa). They have local, national and international suppliers. As far as raw materials are concerned, they use mostly regional suppliers (wood, foam, frames). National and international suppliers provide textiles and leathers which are used for the upholstery of the products, we have several origins (Denmark/Holland). In the rest of the world, Moroso dealers are served directly from the headquarters and are supported in sales by a network of agents. The distribution system follows the same rules in every market:

- Collection of purchase orders by the sales network;
- Input and transmission of the orders to Moroso SpA through three modes: directly, through the agents, through the foreign branches;
- Process of orders in Moroso SpA and confirmation with loading date communicated to the clients (always following one of the three modes);
- Production of the pieces (average of 4 – 6 weeks, or less if the pieces are in stock);
- Pick – up arranged at Moroso warehouse/shipment from Moroso to distributors;
- Final delivery to the client.

Moroso exports nowadays more than 70% of its production to 64 countries around the world. The brand has always had an international appeal, therefore they have always exported more than what it was the national average among the high end furniture manufacturers. This was mainly due to the collaboration with international designers, who gave a global allure to the brand, and also to the outstanding design choices that distinguished themselves from the mainstream. Assumed that it was an easy job for us to start the penetration in countries which were more open and ready for a certain kind of aesthetic proposal which was much appreciated in USA rather than in Europe. The export activity dates back to 1980, starting with French market. At the beginning there was no clear export strategy or planning: they simply had a request of products from an importer operating in France. After that Moroso started to

think about a distribution and logistic planning, which involved also a post-sale customer service and a technical support, and a promotional advertising campaign tightly coordinated by Italian headquarters.

For what concerns Asian market, Moroso started to sell in Asia at the beginning of the 80's on spot basis without an organized strategy. During the 'Salone del Mobile' fair in Milan, they received contacts and visits from several importers interested in furniture and they closed some deals. In a more organized manner Moroso created a subsidiary branch in Singapore in 2006 after some representative agency's experience to take care of the SEA countries and China too. The mission was challenging and due to the number of countries and variety of requirements, they eventually decided to stop an experience which brought them, nonetheless, important intangible values such as contacts, architects, developers and contractors.

Now the brand relies on Texere Advisors, which, as we have said, operates as an extended branch office of the mother firm for the Asia Pacific region. In March 2014 started the collaboration with the South-East Asia partners, whose contacts were provided by Texere Advisors in part, and partially were already Moroso dealers. The common goal that both Moroso Italy and Texere Advisors agreed to reach is that of strengthening Moroso presence into the region, in order to make it grow to become an international brand and to reach a brand awareness comparable to the one of its main competitor, the Italian furniture brand Minotti. Moroso today is spread throughout South-East Asia with eight distributors, which work both as showrooms for retail and as intermediaries for contract projects. Texere Advisors has the task to deal directly with these partners, located in South Korea, Japan, Hong Kong, Taiwan,

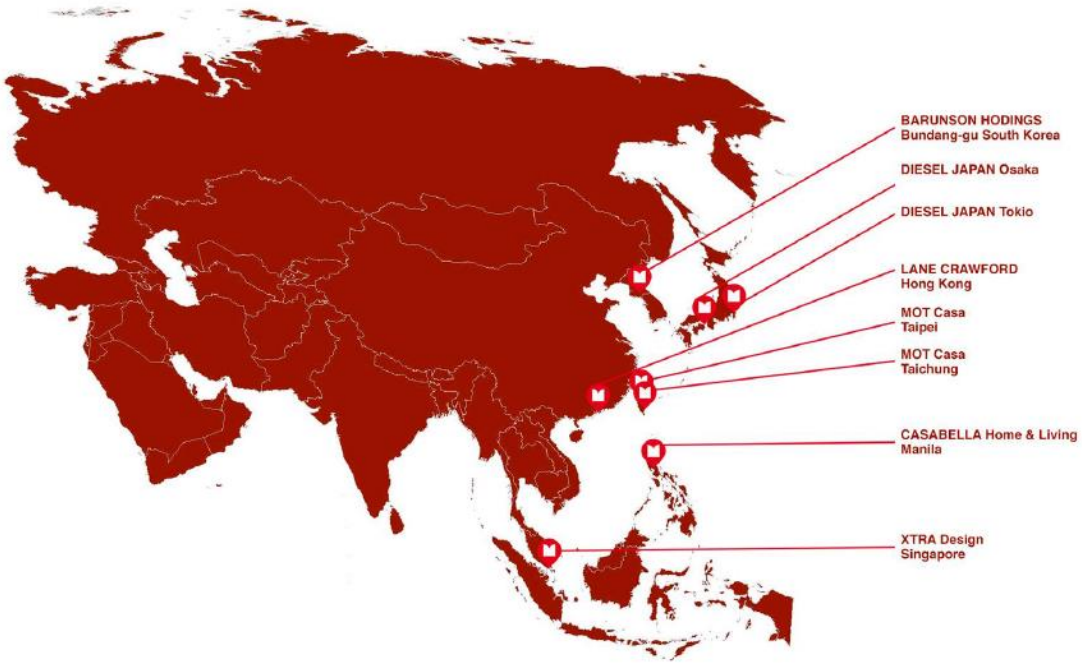


Figure 5.3 - Moroso South East Asia Partners (Source: Moroso SpA data, 2014)

Philippines and Singapore, to follow their orders and to give them guidelines in terms of marketing activities to promote the brand.

Concerning the collaboration with Texere Advisors, we have interviewed Valerio Vestri, Moroso Export Manager and person in charge of dealing with the branch office. He says he firstly got in touch with Texere Advisors through personal contacts, appreciating immediately the different approach of a structure that did not have an experience on the furniture business, but a very rounded experience in fashion retail industry. 'Sometimes you need a different view and a local deep knowledge of the trade dynamics to perform better', he asserted. They were missing a deep knowledge of the Asian trade dynamics and collaborating with a structure that is based there and is partially local, allowed them to understand better the trade rules. Having a different background and coming from fashion business, they have a precise retail approach, which is weak in Moroso. To understand the expectations and the mechanics of retail was a big step ahead for them, as Mr. Vestri says, to communicate as a brand, underlining the right aspects, using their language and giving references easy to understand also how to position the brand better. Even for the contacts, indeed, they put in place their contacts even if they came from another business. For example, in mid October, Moroso is going to open their official flagship store in Seoul with a Korean partner, Barunson, who is a contact provided by Texere and did not have any previous experience in furniture industry.

About the remuneration system, it has been discussed and agreed together between the two parties. Moroso works basically on fixed commissions with their agents: the more they sell, the more they earn. Texere instead, according to Moroso's management, deserved a more appropriate and bespoke approach, representing an unicum in the agencies scenario. Texere structure is not a 'one man show' but is an organization which tackles the markets under different aspects (sales support, business development strategies and marketing). Moroso's expectation therefore was to approach the SEA markets in a more complete way, by giving the dealers a different presence and support compared to the past, also due to the cultural and educational gap they perceive towards other more refined markets. The SEA area together with Japan, Taiwan and South Korea have also important costs (flight tickets, hotel accomodations). Due to these reasons, they started in 2014 with a fixed quarterly fee without commissions and in 2015 they adjusted the fixed fee by introducing a % on the sales. The ratio for 2016 will be to increase the % on commissions and reduce the fixed fee, even if there will be always a mixed remuneration in the future. We have then asked Mr. Vesti if it is possible to estimate the monetary profitability of the partnership with Texere. He replied that, even if the collaboration with Texere started

recently (they appointed Texere at the end of 2013), the turnover in 2014 increased of 10%. In 2015 they are expecting to close with an increase vs 2014 of a 25%, so indeed a very positive result. The target Moroso has in 3 years' time is to achieve 40 million Euros turnover betting on a better performance of the European markets that are affecting a homogeneous growth on the emerging countries. They also expect to achieve the break-even of the investment already this year, since they are not far from the target, and hopefully they should close a couple of nice hospitality projects that could allow them to unexpectedly absorb the investment already during the second year of collaboration.

How is the price of products calculated, and which is the share of the products' value that is retained by the company? Mr. Vestri asserts that, starting from production costs, the final public price is obtained by adding a precise coefficient to every product, which is not the same on the whole collection. This factor keeps in consideration many aspects, among which production timing above all and sometimes sales volumes, and determines the final public price. The final sale price is obtained by granting a discount to the distributors (Italian and foreign), which takes in consideration the following aspects: country, segment of the market (retails vs. contract), volume of sales in that market. Once the product is displayed in a showroom, ready to be sold to the final customer, Moroso's control on the final sales price is limited: they normally agree a price policy with the retailers based on transportation costs, warehouse, custom clearance and a reasonable mark up. This can be only an advice based on what the market is ready to accept and a mere calculation of costs and margins.

We have then asked Mr. Vestri whether some kind of problems presented when dealing with an external consulting agency. He replied that he did not see any particular problem, except for the fact that being so far sometimes may cause a communication gap between the two entities. This problem can be easily overcome thanks to the frequent presence in Italy of one of Texere's members, and to the frequent visits Moroso plans in Asia Pacific region. Moreover, they have a daily communication facilitated also by new technologies (e-mail, Skype etc). The collaboration, therefore, generates positive feedbacks from Moroso's side, and it is meant to last on a long term basis. 'We hope to be both satisfied and develop further the partnership', claims the Export Manager.

Finally, we wanted to get an opinion from Mr. Vestri on the profitability of leaning on Texere. According to him, choosing Texere is an investment and usually it cannot be evaluated it in a short period of time. But, if thanks to them the brand will be able to increase sales and turnover, it will mean that they have been able to minimize the fixed fee and to increase accordingly the commission. This will lead to a balanced financial situation. The final question for the Export Manager was then 'Would you recommend

Texere to other SMEs that want to outsource this type of service?'. The answer was straightforward: 'Definitely yes, above all in case of companies and brands which need to be placed properly in a very competitive market as the Asian one is'.

5.3 MOROSO PRODUCTS & TECHNOLOGY

Moroso business areas are splitted in two: 'home' market or 'residential' (products sold to private customers for domestic use), which was originally its main target, and 'contract' market, i.e. the furnishing of public spaces (airports, hotels, cruise liners, restaurants, banks and retail spaces). Moroso contract products can be selected directly from the catalogue or designed and produced according to the client's request (this happens in particular for cruise liners). Actually the lines between the two typologies are blurred, because it is up to the client to choose residential products for the contract or vice versa.[41]

Today, as can be seen from the pictures below, the contract segment represents exactly half of the company's annual turnover, even if they work a lot on the borderline between the two categories: many of the things they produce are good both for domestic and contract use. Moroso products have also undergone a significant transformation over the years: from producing only sofas and armchairs for private housing, the collection now includes also furnishings dedicated to the public, including smaller armchairs, tables and upholstered seats. All products have maintained a highly innovative design and have become goods for long-term investment. Each product can be customized or modified according to the specific clients' requests, using one or more of the 6,000 fabrics coming from all over the world which Moroso makes available or asking for specific features. For example in 2013 the company produced 200 Bloomy Chairs with a sound system installed inside for the Doha International Airport. All these options are offered by Moroso in order to fulfil the aim to be a global brand with a local touch, suitable for the needs of every culture.

It is interesting to note that, while in Europe the residential market is the main one (65% of European clients are private consumers), in the rest of the world the opposite is true. In America and Africa/Middle East the majority of clients derives from the contract side of the business, while in the Asia Pacific region the two shares are instead similar (58% contract vs 42% home).

[41] Moretti, G., (2013) *La gestione integrata del supply network – Il caso Moroso SpA,* Univesità degli Studi di Padova

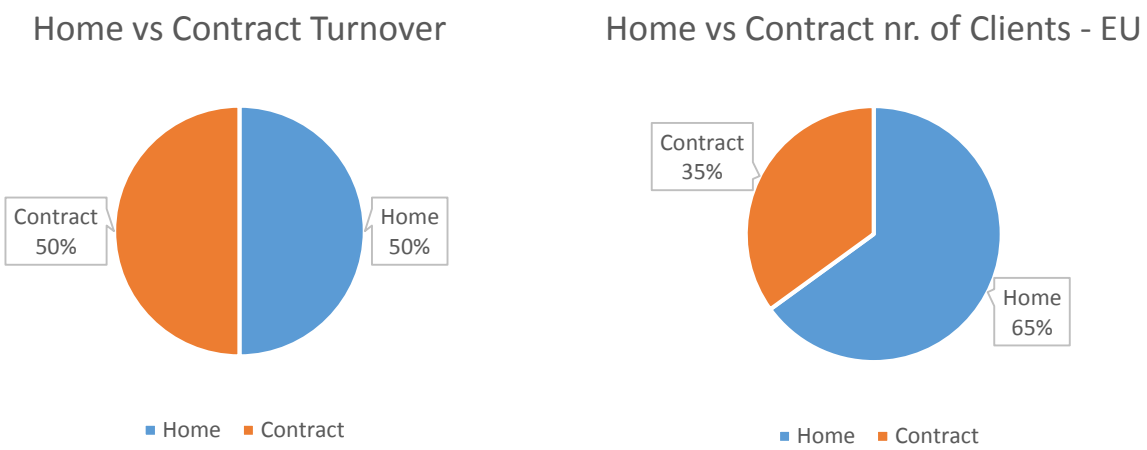


Figure 5.4 – Home vs Contract turnover/nr. of European clients (Source: Moroso SpA data, 2014)

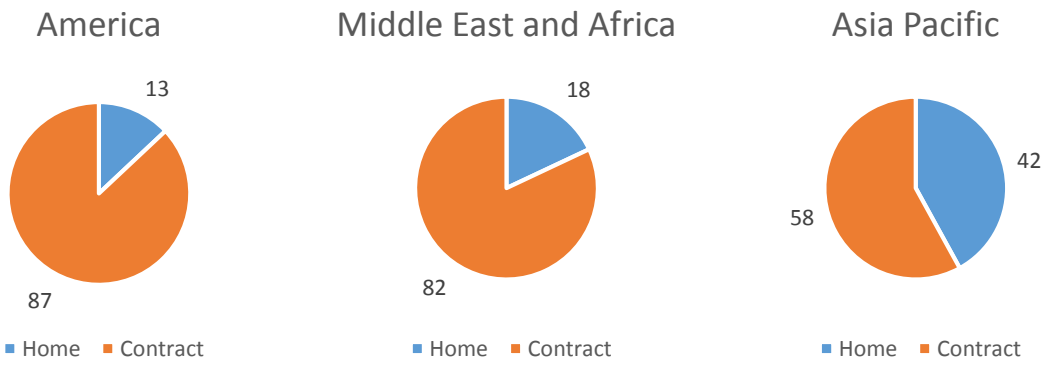


Figure 5.5 – Home vs Contract division of Worldwide clients (Source: Moroso SpA data, 2014)

In 1994, Moroso S.p.A. was the first Italian sofa producer to be awarded ISO 9000 for management systems, and ISO 9001 for design, production and customer service. Moreover, the company was awarded ISO 14000 certification in 1999 in recognition of its proven commitment to social and environmental issues thanks to environmentally friendly policies. These certifications are proof of Moroso's overall commitment to continuously strive for total quality in its products and processes, including those which have a direct impact on the environment. Absolute quality in every aspect of the product down to the smallest detail, from the initial design phase to production and delivery, is one of the most important assets of the firm's quality system. Combined with rigorous testing of products throughout the production process, a high level of quality over time is granted. Every product is handmade using carefully selected materials: padding is made of eco-friendly synthetic, non-toxic

polyurethanes which does not contain ozone damaging chlorofluorocarbons, or of antistatic, hypoallergenic, hygroscopic, insulating virgin goose down.

In Moroso collection are included: sofas, chairs/armchairs, seating systems, tables/low tables, beds, outdoor items (benches, beach chairs etc.), bookcases and other furnishing accessories. The covers in some cases can be removable. Conventional upholstered products are manufactured within Moroso: the high tech plant includes three machines, with an average age of 10 years, for the cutting of upholstery fabrics and leathers. Other products are conceived and designed by Moroso but produced on their behalf by carefully selected local manufacturers; such products include plastic goods, which have been the main focus of the company's R&D activities in the last few years. The molds for these chairs are owned by Moroso but are physically stored by third-party manufacturers. Furnishing accessories are purchased from third parties to complete interior design installations.

The artisanal care with which Moroso products are manufactured within an industrial context is one of their distinguishing characteristic. Moroso strategic approach to the market involves competing with successful international design brands by tending to the same excellence and standard in terms of retail strategy and organization, and at the same time distinguishing itself from them by being also a commercial and marketable asset. With a very wide price range, which starts from 110 Euros retail, and product range (more than 250 products listed on pricelist) Moroso proves to be flexible and in some cases accessible and adaptable to very different settings. Every year, an average of 10/15 brand new products are added to the existing collection. Finally, in 2008, an important collaboration started between Moroso and the fashion brand Diesel, to create a collection inspired to the mood of the apparel brand. Now it represents the 12% of the total turnover.

Today Moroso's products directly compete with some of the biggest names in Italian and European luxury seating manufacturing, contributing to the promotion of the 'Made in Italy' design all over the world. It offers customers its design and production expertise to create customized projects for the contract and luxury residential sectors. The company takes part in numerous fairs and exhibitions all over the world, organizes promotional events and sponsors cultural events and exhibitions of international renown such as the Venice Biennale and Festival del Cinema (2013). Its international outlook has introduced Moroso to some of the most beautiful design settings in the world, including MoMA in New York, Le Palais de Tokyo and the Grand Palais in Paris. In association with Flos (Italian design lighting), Moroso opened a showroom in Amsterdam in 2008 and one in London the following year. Always in 2008, in association with Cinecittà Holding Group, Moroso furnished the first floor of the

Hotel Palais Stèphanie, an elegant multifunctional space which was renamed 'Espace Italia' for this occasion, and which aimed to support and promote the Italian film industry and Italian design at Cannes Film Festival. In 2010, Moroso Nanook chair conceived by the designer Philippe Bestenheider won an Italian national award for innovation 'Premio dei Premi'.

Every year Moroso takes part in numerous fairs and exhibitions around the world, including the Milan Salone del Mobile, ICFF (International Contemporary Furniture Fair) in New York, Maison &Objects in Paris, the Courtray Design Biennale Interieur in Belgium, Orgatec and Imm Cologne in Germany, Designer's Day in Paris and London, the Mumbai Index Furniture Fair in India, and Saloni Worldwide Moscow. As part of the Marketing strategy, Moroso is also active on the Internet through its website and on the main social networks and channels (Facebook, Instagram, Pinterest, You Tube). According to the management, it is definitely important to be present and innovative on the social media. They are continuously implementing their presence: for example, the next new tool available on their website will be a configurator, which gives the possibility to customize the products directly online, in order to have a picture of how the final product chosen will be. They are also planning the opening of an e-commerce platform on the website by 2017.

Moroso is supported by Texere Advisors also for what concerns Marketing activities. Newsletters are sent every month to partners and architects/designers to keep them updated on Moroso's last products released and on events worldwide, in which Moroso takes part. Effective company presentations are drawn, to be shown to design and architects' studios in order to introduce them the brand. During the events, interviews with journalists and media representatives are organized.

5.4 MOROSO DISTRIBUTION IN SINGAPORE: XTRA DESIGN

As we have remarked, exports are the first internationalization choice made by SMEs before being fully operative in foreign markets, and often this represents a long time entry strategy as it involves less risk and less financial resources. Therefore, the role of importers or foreign distributors becomes crucial to the internationalization strategy of companies, as it is the choice of the right partner to distribute a company's products (Checchinato et al., 2014). In particular, when penetrating emerging markets, new market approaches and business models are required, since these markets often have completely different business rules because of high psychic distance and different market expertise developed by both customers and middlemen, which sometimes are not able to judge the new products that are facing the market for the first time (Vescovi, Pontiggia, 2013).

XTRA Design Pte., Ltd is an importer and retailer of international design furniture and one of the most important players in the South-East Asia design world[42]. From its start in October 1989, it has been a very active promoter of the design culture in Singapore, the city in which it was born and developed through years. From 2014 it collaborates as a partner with Texere Advisors, distributing and selling Moroso products in Singapore. Texere Advisors deals directly with them on behalf of Moroso Italy.

At the beginning of the '90s, Singapore was a city in the middle of is development: it was witnessing an incredible growth in consumer sophistication, not just for simple retail but also in the lifestyle segment for furniture, lighting and accessories. Singapore today is a highly connected gateway city and international financial centre, situated in a very strategic location for the global transport and communication network (Sim et al., 2003). It has a dynamic business environment that offers high quality producer services, skilled labour force, and rich social and cultural amenities. A study carried on by Ho (2000) demonstrates that Singapore keeps its competitive position by developing planning initiatives aimed at transforming the local urban environment to attract regional headquarters of companies (most of all MNCs), satisfying the needs of the RHQs more closely, even at the level of soft factors such as 'lifestyle'. Therefore, physical infrastructure development for economic growth has always been a key component in the planning of Singapore for more than three decades up to now. One of the government strategies is also to boost culture in the form of creative and design service industries, which is considered very important in Singapore. There is a growing demand of goods and services which are consumed especially for their aesthetic value, with the aim of enhancing the image and prestige of the local area and indirectly the quality of life in places where such products are used (Wong et al., 2006).

Another evidence that Singapore is a growing and promising market for the home furnishing industry derives from that fact that, as we have said, in the more and more complex and globalized scenario, cities are becoming crucial nodes of creativity and innovation. The urbanization level is constantly increasing and metropolitan areas have been the engine of world's economic growth but, as many recent studies have confirmed, the future will be dominated by medium-sized cities (with a population between 150,000 to 10 million inhabitants), which are expected to contribute to the 50% of global GDP by 2020. Besides the potential of economic growth registered by these so called 'Fast Cities', great opportunities of investment come also from 'Smart Cities', i.e. those cities able to combine innovation, good environment and quality of life granted especially by accessibility to efficient infrastructures. Moreover, other factors play and important role: human capital availability, advanced technologies,

[42] http://www.xtra.com.sg/

political stability, transparent bureaucracy etc. which ease enterprises' work and increase investment opportunities. For this purpose, 100 cities with opportunities of growth and success for the home furnishings industry have been spotted, through a Smart&Fast City Index that measures the development potential and the attractiveness level of the selected cities. The results confirm that the protagonists of the economic growth in the world countries in 2020 would not be only the big metropolitan cities as New York and Tokyo, but also cities of medium dimensions belonging to emerging countries (Delhi, Dhaka) and cities with high attractiveness and good governance as Melbourne, Auckland and, of course Singapore. Therefore, the enterprises operating in home furnishings sector that want to broaden the portfolio of the cities served, must necessarily consider and measure all these aspects in every single city, in order to be ready to respond to the demand of furniture generated by the new consumers of these emerging cities with a purchase power that is rapidly growing.[43]

Leveraging on Singapore's rapid high-quality urban development driven by globalization, Mr. Lim Choon Hong, the founder of XTRA Design, had the right intuition at the time, since he wanted to introduce more and better choices into the market. When it started, XTRA Designs main store was located in a pre-war conservation shop-house out in the suburbs. Now XTRA has widened its premises to two retail stores, including a 2,000 square metre showroom covering three levels at Park Mall (a central area in Singapore). It has also broadened its operations: as a matter of fact, XTRA not does not only addresses to private consumers, but also caters especially to the Contract and Office markets. In this way, XTRA steadily gained reputation among the Singaporeans for its eclectic range of designer products, and also for its high-quality service and knowledgeability. XTRA Contract, the division specialized in projects, provides furniture and solutions to corporations, business owners, developers, architects and designers. Thanks to the experience in the furnishing industry and to a deep knowledge of the dynamics of the ever-charging commercial landscape, XTRA is able to fulfil the requirements of budget and design intent with the ability to provide bespoke furniture as solution to specific requests. XTRA Office, instead, was set up in 1999 as an independent company commit to the supply of furniture to the new office environment. In particular, it is dedicated to the marketing of the American office furniture brand Herman Miller in Singapore and Malaysia.

XTRA assembled a truly diversified collection of brands coming from all over the world. It markets famous brands recognized in the furniture and lighting environment, i.e. just to name a few besides Moroso, Tom Dixon (British design and manufacturing company of lighting and furniture), German

[43] 'Previsioni sul settore dell'arredamento in Italia e nel mondo nel 2014', Comunicato stampa, CSIL, November 2013

furniture brand Dedon, Italian Foscarini for lighting sets and many others. XTRA has also participated in a number of events to raise awareness of both popular and under-appreciated international designers. In addition, XTRA staff's focus is not restricted to any direction: besides dealing with foreign designers, XTRA has also turned the spotlight onto regional talents, and has also advised and supported students of local design institutes. XTRA corporate philosophy also commits to social responsibility: it has organized and participated in events and promotions to raise funds for charitable and no-profit organizations such as Singapore Breast Cancer Foundation, Action for Aids and Action for Singapore Dogs Society. Whenever it is possible, XTRA tries to involve local and regional designers, leveraging on their creativity to gain support for the various organizations.

In October 2014, Moroso strengthens its presence in Singapore thanks to the opening of the new exclusively dedicated space within the showroom at XTRA Park Mall. The showroom is a real retail store that acts both as a window to display the brand but also to sell Moroso pieces to customers. The area was split in two, one to host the Moroso collection, and the other for Diesel with Moroso. Patrizia Moroso was present in Singapore at the showroom inauguration, in order to highlight the pre-eminence of this city for the brand, which has become a point of reference for the other design capital cities in South-East Asia.

XTRA Singapore deals directly with Texere Advisors. Texere team receives XTRA purchase orders, both for its showroom, for pieces asked by private customers and for bigger contract projects: after drafting the order to send to Moroso Italy, they wait for final confirmation by the client and then proceed with the order. The next steps are following the stages of the order until it is ready to be shipped. Texere also assists its partner in case they have any kind of doubt or question about Moroso products, or if they have any problem with previous orders (product defects, damages, need of replacement etc). The aim is to ease the communication between the distributor and the mother company: to simplify the procedures and to take care of all the intermediate steps. Moreover, since both Texere and XTRA are based in Singapore, the collaboration between the two is even tighter. As a matter of fact, both of them work to organize meetings to many architects and design firms and often take part together to these meetings. The objective is to introduce the brand to the people working in these studios, so that when they win the tenders for any kind of project they participate in, they can propose Moroso as a suitable furniture brand. Recently, Texere Advisors and XTRA have collaborated to organize the first Moroso regional meeting in Singapore at the end of July, 2015: an event to gather all Moroso Asia Partners and renew their commitment to the brand. The event was a two-day series of appointments: visit at XTRA

showroom, Moroso Italian team lectures on sales trend and future objectives, business dinner and individual meetings at Texere headquarters. This kind of experience, entirely organized by Texere, turned out to be very useful: the Italian team had the chance to set some common objectives for the partners through a new business plan to implement, which involves, just to name a few: the determination of a fix yearly budget devoted to buy Moroso pieces to show, showroom corners schedule (one every six months) and a list of accessories' brands that can be integrated into Moroso space. It was useful also to have a feedback from the partners, to hear of potential problems, of their general trend and of future strategies. All this was done in order to assure consistency of the brand across Asia, which is going to be a very promising market in the future.

In order to have a feedback from XTRA Designs on the collaboration with Texere Advisors, Ms. Lienna Yeo, Account Manager at XTRA, has given her opinion. She works directly with Texere staff, especially from the business development side, i.e. expanding the brand's outlook presenting it to architects and design studios to make it known in the environment. She is in charge of getting contacts with the purpose of introducing Moroso collection. First of all, she said that Moroso is the only brand managed by XTRA which has got an external branch office in Singapore, where they are based, too: this is evidence of the newness of Texere Advisors business model. In the past, XTRA Designs had already distributed Moroso products, but not with a focused strategy and continuous frequency. The brand recently came back to XTRA, through Texere Advisors, due to their strong presence in the contract market, which is the segment Moroso is aiming at, and a new stable collaboration started. Ms. Yeo asserts that XTRA Designs selects carefully the brands to distribute: the main criteria to choose a brand are according to the types and quality of products the suppliers can offer, which have to meet high standards. Of course, it has to be a reliable company as well. They usually approach suppliers during trade fairs but they also get suppliers contacting them directly. Concerning Moroso's future trend in Asia, Ms. Yeo replies that, based on Singapore actual market, the demand for Moroso products compared to the other XTRA brands is not so high due to price point. But it is definitely a brand that has established itself in the city in a short time, as many designers and architects are aware of it. According to her, therefore, there could be potential for growth indeed, as long as it responds to the need to add on mainstream collections which could be beneficial for more growth into the contract market.

We have asked Ms. Yeo also how the staff negotiates with the various brands the discount granted to them as distributors. She replied that discount varies from brand to brand and negotiations are done by the higher management. The mark-up largely depends on project volume so the higher the quantity, the mark-up is lower: on the whole between 25-35%. Moroso grants instead generally a quite high discount,

45% plus usually an additional 5% for bigger projects. Mrs. Yeo has then explained how a tender works. When there is a tender, XTRA works with design and architect firms to get their products specified. Once they are listed as a supplier, they will be invited to participate in the tender. After a tender is submitted, there is usually a need to send in mock-up units of furniture they have short listed for trying on and checking on the quality of the product. A tender process on a usual case is around 60-90 days but some larger or complex projects could take more than half a year, e.g. Changi Airport Terminal 4, which is one of the recent tenders won by XTRA to supply the waiting areas of the Singapore airport with Moroso products.

Finally, we have asked Mrs. Yeo an opinion on the usefulness of the collaboration between Texere as Moroso branch office and XTRA Design. She claims very sincerely that dealing with the suppliers directly can save some time on the negotiations, as a negative aspect of going through a branch office. But this aspect is definitely counterbalanced by many positive sides that are absent with other brands in their portfolio. The presence of an agent in Singapore has as good sides, for example, when XTRA needs material samples or catalogues and they can get them almost immediately from Texere Advisors, without waiting for it to be shipped from Italy. Moreover, the collaboration between the two is tighter than the one with other brands since they cooperate also to spread the business across South-East Asia, participating together to business meetings. Texere works also to build a trustworthy relationship with all its partners on behalf of Moroso, in order to ease the communications and the procedures. All things considered, Texere work is positively valued by XTRA Design, even if there must be space for improvement in some aspects.

Picture 5.6 – Moroso team, Texere Advisors team, XTRA staff and Texere Partners at XTRA Showroom (July 30th, 2015)

6 CONCLUSION

The inspiration for this work was drawn from a three months experience as intern at the company Texere Advisors. Beginning with an investigation of SMEs landscape, first on a European dimension, then focusing on Italy, one of the richest countries in terms of SMEs presence coupled with long artisanal traditions, the purpose was to give an insight of this current phenomenon. After the internship project for Texere in Singapore started, the company's mission and daily basis work became clearer. In order to provide support to Made in Italy brands, we have learned that the network of contacts built with time, patience and reputation is of primary importance. So, this pool of intangible resources made of names, contacts, words of mouth and experience made directly abroad represent a sort of heritage required in this field. Knowledge of foreign markets and of habits in international contexts play a great role, too. It was interesting also to learn that not every company can start the internationalization path from scratch: it must be the final aim of a well-designed strategy, where a minimum of financial resources must necessarily be invested to have a return.

SMEs, compared to big multinational enterprises that have since a long time adopted highly complex internationalization modes, in particular in Italy seem to be still far from actively undertake such initiatives. After investigating the possibilities that can be exploited by SMEs to expand their business scope out of their domestic markets, which tools are at their disposal and to which subjects they can ask for advice, we have discovered that the services of an agency with an outstanding business model can be a valuable solution in today's marketplace. Today, we can count new forms of international development, which make more blurred the boundary between exports and FDIs, involving forms of delocalization and global sourcing that can challenge the traditional local advantages on the domestic market (Nanut, 2011). From the positive feedbacks collected both by the company assisted and the distributor, we could conclude that the model promoted by Texere can be a viable solution to be implemented by SMEs in the future, as long as they have the basic requirements needed to go abroad and they understand the philosophy beneath the model (operating with trust and commitment as extension of companies).

It is right to wonder if SMEs sooner or later are destined to be replaced by big companies, being the performances of the latter better, and consequently if SMEs' destiny is either to grow in order to reach the dimensions of the bigger companies, or to disappear. There are the ones that see the smaller dimensions as an advantage, since they allow the firm to operate in an easier way, with greater flexibility and ability to adapt to the market and to the external environment, compared to their bigger counterparts. In this way the SME is definitely recognized as an entity with the characteristics of a stable organization and not as a firm in its first stages of development. This second belief about SMEs seems to prevail, and it is the one sustained by this thesis, even if it is right to wonder if this is good or bad in a global economy in which economies of scale and innovation capacity are of increasingly importance. But we want to believe it is possible, especially for Italian SMEs, to maintain their dimensions (maybe growing until reaching a medium size) and their main features, as long as they are able to adapt to the international requirements. As Quadrio Curzio underlines (2002), among developed countries, Italy has got a peculiar industrial system, characterized by: few big industrial pillars and big groups (with turnover higher than 20 billion Euros), an extraordinary constellation of SMEs (with less than 250 employees) with a manufacturing industry specialized in typical Made in Italy sectors (fashion, furniture, food, mechanical engineering), and more than 100 IDs, often leader in their sectors or niches of activity. This phenomenon is absent in such dimensions in the other developed countries. The fear for the functioning of this model in today's economy is more related to the effects of SMEs' competitiveness on the phenomena that characterize globalization process, as the need of having adequate financial tools, the capacity to

penetrate international markets, the access to new technologies. At the present moment, in order to overcome such problems, relying on external collaborative relationships is more and more frequent, which can also allow an exchange between firms of experiences, competences and a share of risks. From the 2014 Report of National Observatory of Italian IDs, the general idea that emerges is positive: the industrial districts keep on being enterprise systems interested by multiple fluxes, which are not only relations developed externally but also generated by a continuous internal movement: externalization of functions, building of know-how, logistic and R&D networks. The districts are nowadays described as 'fluid agglomerates' that must be able to keep in equilibrium internal and external processes, and on this ability lays a district's strength and its challenge for the future.

In this globalized scenario, moreover, the role of the territory is not secondary, but paradoxically gains even more importance to sustain the districts' survival. Nevertheless, there is the need of a well-endowed territory, which makes knowledge, advanced technicalities, innovative financial services available, and which is able to preserve their artisanal heritage. The circulation of knowledge must be developed not only between companies but also through relationships with Universities, research and technology centers; it is important, therefore, to think about how to improve such relations between enterprises and support structures. The promising data on districts demonstrate that they are not losing their appeal at all, on the contrary it is a corporate model that must be adequately sustained.

We have learned that local relationships are not alternative to global ones. On the contrary, the capability of manufacturing firms to develop strong links with the local market is a condition to increase its international projection (Barzotto et al., 2014). In order to give value to the Made in Italy worldwide, as Oscar Farinetti, founder and chairman of Eataly said, is necessary to 'Think local, act global'.

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LIST OF TABLES AND FIGURES

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