ECONOMIC GROWTH AND CORPORATE RENEWAL

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Abstract

To address competition from Emerging and Industrialized Countries it is necessary for Italian companies to face structural and financial reforms. Structural reforms will affect and improve processes, products. They will upgrade knowledge transfer. At the same time, financial reforms are necessary to adjust firms’ dimensions with what markets and international competition require. A movement in the right direction is the rise of innovative medium firms. These corporations are spreading through affiliation networks which improve the systemic efficiency and that are responsible for the progressive deep changes in the industry.

Italy’s growth strategy will call for appropriate industrial policies and supported by a widespread socioeconomic consensus.

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Index

Index ................................................................................................................................. 4
Introduction .................................................................................................................... 5
Part One: Internationalization and economic growth .................................................. 8
  2. A recovery driven by emerging countries ............................................................... 8
  3. The transfer of technology as a levy to enter new markets .................................... 11
  4. The Italian economy faced with the problem of recovery and growth .................. 15
Part Two: Economic growth and corporate renewal .................................................... 18
  5. Structural reinforcement of the competitiveness and internationalization of enterprises ................................................................. 18
  6. Selective and innovative effects of the crisis ......................................................... 24
  7. The fourth capitalism of medium-sized enterprises: a reality in promising growth 29
In conclusion .................................................................................................................. 37
Appendix ....................................................................................................................... 41
References ...................................................................................................................... 42
Introduction

The global financial and economic crisis has confirmed that industry in Italy, more so than in other countries, still remains an important and indispensable component of economic and social stability. The crisis has also highlighted the ancient and new ills of our industry that need to be addressed to leverage growth and to avoid the risk of Italy being relegated to the margins of the globalization process and of the radical changes taking place in economic, societal and labour market organization (Rey, 2011a).

The course of recovery following the crisis depends, amongst other things, on structural soundness and conditions of profitability and competitiveness. If this is a common finding in many countries, in Italy’s case it has a particular role because many companies have lost vigour, and few have reorganized to meet the new global challenges. On the other hand, the poor state of the business environment and competitiveness of the country system are a serious handicap for the vitality of industry and services on which real economic recovery largely depends.

Italy, to a greater extent than other major European countries, is affected by the fact that in the globalized economy, small businesses and traditional local production systems have difficulty in maintaining their positions achieved on the export markets. It would be ungenerous to deny that small businesses have made progress in export, but they are relatively few. In most cases, they make use of traditional approaches with excessively long distribution chains that lead to very low margins and unprofitable prices. This is not surprising. We have so many small businesses that are strong in manufacturing but weak in marketing, in distribution networks and in controlling the final market that they are only able to appropriate a fraction of the entire value chain from production to market.

The crisis has significantly contributed to strengthening emerging countries in world economic growth, including in terms of markets. In this new scenario, companies with adequate financial resources and competencies and of an adequate size are advantaged, while unstructured firms are penalized. The consequence is that, whereas previously the idea - firmly rooted in Italy - could be accepted, albeit with reservation, that small firms could play an
important role due to the importance that flexibility and external agglomeration economies have assumed, this point of view is not viable today, neither from an analytical nor from an economic policy perspective.

The recipes for recovery and growth, often linked to the many structural reforms that Italy has been awaiting for years, generally concern the macroeconomic aspects. We take the view that it is essential to also examine the micro-economic growth dimension, namely that of enterprises, in an international framework perspective. This is particularly true in the case of Italy since the domestic market is languishing and thus the need to strengthen the foreign component of demand assumes a new and more important role. New growth opportunities for the national economy depend on the ability of firms, especially the medium-large and large, to confront the expansion of markets, the emergence of new global players and new internationalization strategies.

To boost competitiveness and growth, changes in the attitudes and behaviours of all social and political organizations must concur, but with the greater contribution of firms. First, the world of business and labour, and then employers and unions, must adopt behaviours consistent with the new state of affairs in the global market. Secondly, we need an evolution in the practices and behaviours of all other public and private actors who, although not directly exposed to the global market confrontation, affect the competitiveness of the country and hence the productivity and viability of industry and services.

Joint responsibility among several subjects, and among the public and private sector, significantly characterizes a context in which (i) companies are pressed by the need to acquire the levels of efficiency and productivity imposed by twenty-first century globalization, (ii) the quality of growth requires active public intervention, both nationally and locally, with great foresight and the operational capacity of policy makers, to promote the modernization and competitiveness of services, especially those of public utility, the efficiency of the labour market and the improvement of tangible and intangible infrastructures.

Under the articulated and complex "ecosystem of growth", the problem is posed, with its own specificity, of the structural strengthening and revitalization of the industrial system and services, with particular emphasis on
companies that are more directly exposed to global competition. This is a problem that needs to be addressed with a breakthrough in the economic and industrial instrumentation focusing firmly on the best parts of the business system with potential for growth, as well as abandoning the welfarism logic. The lack of solid and proven traditions in terms of advanced forms of economic governance can be a serious handicap in carrying forward such an ambitious plan, which requires long-term vision and tenacious construction capabilities.

The structural reinforcement of the entrepreneurial system in the process of economic growth requires systematically consolidating and extending the array of medium and large firms that have competencies, resources and capabilities to expand into international markets and to methodically and steadily invest in research and innovation. Their specific relevance is also linked to the need to exploit manufacturing excellence through activating the larger companies towards driving the small businesses and local district production systems that are part of their quality supply chains.
Part One: Internationalization and economic growth

2. A recovery driven by emerging countries

The global recovery, after the worst recession since the 1930s, is in place yet no single trend of growth has presented itself, namely, differentiated by countries and sectors. Global growth in terms of GDP (gross domestic product) is more than 4%, almost one percentage point above the average of the previous twenty years. Emerging economies have recovered much of the initial disadvantage and are growing much more than industrialized economies, thus sustaining a large part of global growth. Somehow, the crisis has accelerated their leap and anticipated the arrival of the future. Data are clear, emerging countries in a decade provided 70% of the increase in world GDP and will grow by 6.5% in both the next two years. This is the novelty, compared to past recessions, that may make exiting from the crisis less uncomfortable since these countries can sustain aggregate demand on an international scale to a greater extent than before.

Over the last thirty years, big emerging countries, including primarily China and India, due to their social and economic transformation and their industrial takeoff, were able to draw strength, conditions and opportunities from opening international markets and the growth of foreign direct investment. On the other hand, these are countries that in recent years have implemented short-term policies to neutralize the crisis by supporting employment and domestic demand, but have also adopted policies to effectively stimulate the economy, supported by significant investments in research, human capital, infrastructure and renewable energy. And, they are now benefitting. The most obvious fact is the rapid change in the global balance of economic power. If we assign a value of 100 to the GDP in 2005, we see that in the U.S. in 2010 it reached 105, in the Eurozone 104, in Japan 102, while in Brazil it rose to 125, in India to 147 and in China to 169.
The economic dimension as well as global competition will increasingly be shaped by the acceleration rate of the qualitative and quantitative growth of the production, business and technology potential of large emerging countries. According to IMF estimates, the Eurozone’s share in world GDP, equal to 18% in 2000, with purchasing power parity, will drop to 13% in 2015. At the same time, the share of emerging countries in Asia will double, from 15 to 29%. This data suffices to describe the radical change in world economic equilibria. Our economy is more affected than others are (M. Draghi, 2010, p. 5).

China is somewhat a metaphor of the changes in the twenty-first century, as Japan was in the 1980s. It is the first actor in the new era of globalization with a development rate close to 10% and thus contributing with a third to world GDP growth. This is a country that is experiencing a period of profound transformation of its economy from quantitative growth to qualitative growth and from a model mainly focused on external demand to one where external and internal demand operate together, but primarily internal demand. In addition, the government is pushing companies to open themselves up more and more to international collaboration and to also acquire foreign companies. China, therefore, is destined to become the largest economy in the world having shown, as most of the other BRIC countries, that size matters when knowing how to combine quantity with quality and production with productivity.

In Italy, the Chinese phenomenon has been understood both badly and late, and we cultivate a vision of this country that has remained the same as twenty years ago, thinking that:

- its competitiveness is based solely on low labour costs, in fact, China is competitive even with products where the incidence of labour costs does not go beyond 5%
- its ability to attract foreign multinationals is essentially tied to the manufacturing relocation logic (low-wage production and re-export)
- manufacturing output generated by foreign multinationals is destined for export, when in fact production for the domestic market is consistent and continuously growing.
The delay with which the profound changes in the Chinese economy and its society have been perceived is costing Italy today in trading volumes. Italy-China commercial exchange is only $35 billion today, although it is expected to rise to 80 billion in 2015. Between 2005 and 2010, our trade deficit with China doubled and in 2010 rose to 20 billion, 7 billion more than in 2009. The Italian market share of world exports to this large country is only 1.7% (Italy is in 21st position in the ranking). For our “Made in Italy” products, market opportunities are limited to the big luxury names with high brand recognition and prestige, while opportunities are reduced for SMEs with limited resources to invest in innovation, in marketing and in garrisoning retail with proprietary shops or franchise networks.

The prospects for growth of domestic consumption in China are nonetheless very promising especially due to the rapid increase in the range of consumers with larger disposable incomes.

More generally, looking to the future up to 2025, we expect strong consumption growth in the BRIC countries (Brazil, Russia, India, China), both in real and nominal terms, with a contribution of an average of one thousand billion in additional consumption each year. The strong expansion of the middle class (the wealthy) will be the driver of this growth, which will allow BRIC consumption to assume the same weight as USA consumption.

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1 While in Europe and North America sales in 2009 of seven of the major fashion industry groups fell by 11% and 9% respectively, in Asia they grew by 8.9%. Always in aggregate terms for the seven large groups, considered in a study of Mediobanca-R&S, sales in Asia are now twice those in the U.S. and half those in Europe (including Italy).
3. The transfer of technology as a levy to enter new markets

As part of the general process of the liberalization of the economy, trade and investment distortions remain in place in the international market as well as forms of protectionism and barriers hindering the development of trade between continents and between geopolitical areas, giving rise to imbalances in relocation, growth and trade balances, with advantages and disadvantages unevenly distributed among the various countries.

One of the most emblematic cases, in terms of distortion of competition and of measures and regulations that depress market opening, is that of China. First, because it keeps its currency (yuan) undervalued to sustain exports and to invade western markets with their products.

A second critical factor is the systematic violation of intellectual property rights by Chinese players with serious damage to Western companies at risk of having to undergo a depletion of their cognitive and technological assets.

Third, China maintains barriers that block the penetration of Western products and businesses in China. In the early days of last January, an IBC (Industrial and Commercial Bank of China) branch opened in Milan, the largest bank in the world, but it is impossible for our banks to open branches in China.

Fourth, it should be noted that China exploits in a discriminatory and protectionist way the strong growth potential of the internal market, limiting the opportunity for western companies to operate in their own right and imposing chinese rules for joint ventures that actually prescribe the transfer of technology and know-how to local partners.

Initially, Western companies outsourced production to China to gain cheap supply of components, parts or finished products. For some time, the attraction is the growing opportunities offered by the internal market and by the ease to build industrial facilities to serve domestic demand and, where appropriate, adjacent markets. There are also signs of interest in transferring research laboratories to China, under the stimulus and incentive of the growth prospects of the domestic market. In essence, the area of foreign direct investment is expanding through outsourcing, production for local market,
distribution and research. This creates the conditions for putting in place companies that operate on the entire value chain from research to market, with substantial inputs of capital, technology and competencies from foreign companies.

After having exploited for two decades the "technological rent" of foreign direct investments, a few years ago Beijing decided to change course and to be the source of innovations, with a decisive R&D policy that in 2010 led to investing 142 billion dollars. It is estimated that in 2011 China's share in world spending on R&D will amount to 12.9%, after the U.S. (34%) and Europe (23.2%).

In essence, the attractiveness of China is increasingly fuelled by the great potential of the internal market and significant investment in laboratory facilities and human capital, to transform the country from a "factory of the world" to a "techno-scientific superpower". While there are sectors in which Chinese factories are still lagging behind, others are trying to develop their own independent strategy, with a focus on those sectors where they can build a competitive advantage in the future. This is the case with the automobile industry that is leading in the production of electric vehicles, their forte, as they are favoured by the world leadership in the production of batteries and by the abundance of human and financial resources.

With the progressive extension and qualification of the technology and production power of large emerging countries, the paradigms that in the West have sustained globalization and its adaptation policies are toppling. As has been explained hitherto to Italian companies but also to Western companies, the only way to counter global competition is to increase quality and value added: supply increasingly high-tech goods and services that are difficult to imitate. This path, followed by Germany but also by our companies, is considered as "intelligent defence" instead of protectionist, but exposes them to the risk of losing control of the technology.

By imposing a trade-off between market opening and transfer of technology and know-how, the new countries have been forging ahead in the development of their technological potential. They are rising rapidly on the scale of added value, keeping costs lower than Europeans and Americans, and thus
forcing Western competitors to go even further. Western companies are seriously exposed to the danger of being pushed higher and higher up the technological scale, until, one day, the niche will be too small and the economic returns will no longer be sufficient to feed expenditure on research and development needed to support technological leadership.

If China continues to violate or coerce the intellectual property of Western companies, or rather, a substantial portion of their intangible assets, China's growth will derive from an aggressive dual strategy: a price strategy on Western markets and a protectionist domestic market strategy. The same applies to acquisitions: Chinese companies are coming to Europe\(^2\) to buy medium-sized companies with medium-high and high technology, but the Chinese government imposes obstacles and constraints for the acquisition of companies in China\(^3\).

Italy and Europe must move on. It is clear that the old paradigm of progress on the technological scale, which first served to ensure a sustainable competitive advantage over time, is now losing effectiveness as a purely defensive measures. In Germany, many companies such as Siemens and BASF, as well as trade associations are leveraging great pressure on both the governments of Beijing and Berlin to cease the blackmailing practice of sharing technology in exchange for market share. There is no equivalent sensitivity to the problem in Italy; in fact, the free flow of Italian technology to China and other emerging countries, incorporated in the export of industrial goods or agreements for the sale of licenses to use, is increasing.

Without measures to monitor and to supervise the phenomenon, the risk is a depletion of intellectual and technology property with serious effects on being able to remain competitive and productive. To avoid this risk requires controlling both the core of our technology and the deepest know-how, trying to maintain sustainable technology leadership.

\(^2\) With direct investment made abroad, China has so far created 14 million jobs in many countries. It is increasing the number of acquired businesses abroad, including Italian companies. The effects of these FDIs on the economy and innovation of western countries is a theme to be explored.

\(^3\) Foreign car companies can operate in China only in joint ventures with Chinese partners up to 50 percent. No foreign bank may acquire more than 20 percent of a Chinese bank, who in turn cannot sell to foreigners more than a 25 percent share. For telecoms the ability to enter the market through joint ventures with other providers is purely theoretical.
The new globalization that is seeing a rapid increase in the technological competitiveness of emerging countries, entails for Italy a redoubling of its efforts to strengthen its capacity for creativity and use of scientific and technological knowledge in the field of production with the larger use of skilled human capital and through the contribution of research centres. The dissociation between research and the social and productive constituent of the Italian society is sacrificing the value added produced by industry, that, ceteris paribus, tends have a factor productivity lower than in other advanced countries. Given the difficulty of raising public funds to invest in this field, recovery of the efficiency of the system is essential, creating synergies between the various components of the research-innovation-finance-market chain. In this context, university and public research must have the ability to imagine and reinvent their role to become attuned with the paradigms of the knowledge economy, assigning to the research universities a key role in the renewal of the economic and social system of enterprises and public administrations.
4. The Italian economy faced with the problem of recovery and growth

We are facing a multi-speed renewal even in advanced economies, and not only between these and emerging economies. The Eurozone, since the 70s, has seen its expansive power dramatically reduced and since 2007, has suffered the crisis more than other advanced countries and is now slower in its recovery. In addition, this is the area with the highest performance gaps.

Italy is among the countries that lag behind in the recovery due to ancient and new ills in its economy. It has seen a significant delay in coming into line with the new emerging countries that are driving growth. The slowdown of the Italian economy has been aggressive. Recovery has proved sluggish and uncertain, as demonstrated by the historical experience of the great financial crises that tend to lead to a destruction of productive resources. Since the start of the recovery in the summer two years ago, the economy has recovered only 2 of 7 percentage points of GDP lost in the crisis. To reach, by the end of 2020, the level of the trend - however modest - registered between 2000 and 2007, Italy must from now on accrue at least 2 per cent per annum, but growth is stagnant at 1 percent and a further decline is foreseen. The trend of the Italian economy is disappointing since the ailment of slow growth has never been cured or even dealt with seriously. Italy has not grown satisfactorily since the 90s and this inadequate trend is even more evident looking at the medium to long term dynamic. Italian GDP at constant prices increased by 45.2 percent in the seventies, by 26.9 percent in the eighties, 17 percent in the nineties and by 2.5 percent in the last decade.

The causes of the phenomenon are very different and complex. Contributing to the effective low growth is the high incidence of public debt on GDP. Today, the stock of Italian public debt is close to 119 percent of GDP. It must be decisively reduced to fit within European parameters and shelter Italy from the crisis risk linked to the simple rise in interest rates\(^4\). The reduction in

\(^4\) The ratio of public debt to GDP in 2009 for France was 78 percent, for Germany of 73.4 percent and Europe 84.1 percent.
the debt/GDP ratio is also a precondition to increasing the capacity for growth sacrificed by the measures to control the budget deficit.

The factors that slow down the Italian economy, already in operation before 2007, were exacerbated by the financial crisis and are now emerging in all their severity. Greater growth is called for, since the GDP is the source of resources to sustain and facilitate growth with investments in strategic sectors and to reduce public debt. The scarcity of public resources, compounded by low growth, in turn limit the possibilities of sustaining the innovation and restructuring processes of the productive apparatus, resulting in a powerful yet unsuccessful lever for recovery.

It is difficult to imagine that all of a sudden the country will grow at a rate comparable to that of our EU partners.

What Italy needs, therefore, is not a "return to growth" but a "new start to growth" in a context that is much more hostile than in the past. Real discontinuity is needed to promote the best companies and new entrepreneurial energy, intervening in particular on rules and institutions that often operate in the sense of limiting merit and competition, and thus favouring the rents protection.

This is a strategic challenge when considering that a new socio-economic model centred on "qualitative growth" must be adopted to face new globalization and the confrontation with new emerging countries.

With the European Union 2020 strategy, the Commission emphasized the role of innovation and structural reforms in order to emerge from the recession and prepare the EU economy for the challenges of the next decade. In this respect, three areas of growth to be implemented through concrete and concerted actions at European and national level were identified (http://ec.europa.eu/europa2020):

- Intelligent growth: promoting knowledge, innovation, training and the digital society
- Sustainable growth: rendering agricultural and industrial production and services more efficient under the profile of the use of more environmentally friendly and safer resources, promoting renewable energy sources and the green economy
- Inclusive growth: incentivizing participation, especially by the young and by women, in the labour market, acquisition of skills and combating poverty

The problem of growth in the terms set out above, cannot be left to individual initiatives or to the market. Instead, a substantial and systemic commitment is required that is shared by all the actors (social, institutional, business, cultural). We need a medium to long-term proposal of reforms and policies that will be able to set into gear, the four main engines of sustainable economic growth and employment:

- **Enterprise competitiveness**, leveraging on deregulation, on the simplification of rules, on institutional aspects, on productivity and innovation for growth and on reduction of taxation on labour and on investments to stimulate demand

- **Country system competitiveness**, increasing tangible and intangible infrastructure networks and ameliorating the efficiency of justice, of the public administration and of the service sector

- **Modernization of industrial relations**, collective bargaining and job organization, in line with principles and methods based on the exchange between greater productivity and higher wages

- **Strengthening and qualification of the education and research system**, according to quality and merit reward criteria and furthermore adjust their relevance to the guidelines of the new European industrial policy focused on business-oriented innovation and research, and enhancing skilled jobs.

The transition from **purely quantitative expansion to qualitative and innovative growth** entails that the State on one hand finances, with public resources, investments with uncertain and longer-term returns, that are of collective interest and have social value and, on the other, plays a leading role in creating the institutional and regulatory framework to encourage private investment and to attract companies from abroad. A national and shared public and private investment plan is essential, as is an efficient mechanism for financing growth, bearing in mind that we are experiencing long-term challenges.
Part Two: Economic growth and corporate renewal

5. Structural reinforcement of the competitiveness and internationalization of enterprises

The progressive decline in the performance and vitality of our enterprises is an obvious handicap for growth. Anyone who thinks that the term "industrial decline" is inappropriate, is mistaken. We cannot be reassured by the fact that we were able to maintain a good rank in the manufacturing sector if failing to consider the strong delay in the transition between conservation and innovation, rendering our industry particularly vulnerable in the new competitive environment (Rey, 2011c).

The new globalization expound the problem of large and mid-sized companies that are most exposed to the shift of the centre of gravity of location advantages in favour of emerging countries, where noted benefits on the cost side are accompanied by increasing business prospects, driven by the rapid growth of the internal market. As a result of slow economic and internal market growth, the problem of the competitiveness of the country system is exacerbating in terms of the location choices of large firms that are induced to rescale their presence and, to a greater extent, their investments in Italy, finding better bases for profitability and growth elsewhere. Multi-sited companies are increasing production and thus employment abroad. It is no longer conceivable that these companies should be faithful to the spirit of patriotism to the country of origin and feel accountable for the common good, ignoring the actual conditions of sustainability of localization in Italy from both the cost and market prospects.

A country that wants to progress must reorganize itself and work to sustain the competitiveness and growth of its major businesses, structurally strengthen medium enterprises with growth potential, and to attract productive foreign investment. These are three lines of action that must be pursued
ECONOMIC GROWTH AND CORPORATE RENEWAL

simultaneously to harmonize with the new "globalization paradigms" without sacrificing industry and employment levels in Italy. This requires a strong industrial and economic policy aiming to strengthen the competitiveness of firms in the Italian market and its local distinctiveness.

Doubtlessly Italian manufacturing, despite its problems, continues to attract foreign investment. In Europe, not only French but also British and German companies, are showing interest in firms producing excellent “Made in Italy” products, especially if they own valid and established brands. Presumably, interest in our medium-sized enterprises is expected to increase among emerging countries, in particular by China and India, which are accelerating the process of qualification and internationalization of their industrial system.

The growing interest in Italian companies is worthy of note because it means that we have industrial value of international excellence, but we must ensure that these foreign investments do not have as their only goal the conquest and elimination of a competitor. It would be detrimental to witness the exit of Italy’s best companies from the country simply because they are unable to find the right conditions for growth and profitability here. To protect this capital we must steer towards integration processes, mergers and acquisitions to create larger groups, with greater resources to expand internationally. To sustain growth, as well as to increase the competitiveness conditions of industry as a whole, requires maintaining on a high level as well as qualifying the "internationalization capacity of its enterprises".

The shift of the world’s centre of gravity of growth towards emerging countries will positively reflect on their imports that will increase further in the coming years up to 43 percent of world trade (see Figure 1). These are opportunities that can only be exploited in small part with the traditional export model from Italy. To benefit from the growth of new markets requires larger companies, qualified expertise and organizational competencies, and resources to invest in the internationalization of production and trade.

The new "Italian Investment Fund" has precisely this aim, constituted by Cassa Depositi e Prestiti spa together with large national banks, and with an approach to private equity that goes beyond the single aspect of strengthening capital towards become an industrial policy instrument.
A number of companies have for some time now been moving towards emerging countries and several with very demanding programs, intended to change their profile, strategies and organizational model. For some it is about developing and strengthening international experience already gained in the past, for others it is about changing the marching lines with a process of diversification into new markets, for others to accelerate the process of internationalization so as to punctually position themselves in new markets.

Overall, however, the level of internationalization of Italian industry is low. Italy's export turnover in 2010 was nearly 340 billion, +15.8% over 2009, the year of the collapse of trade. However, in manufacturing, 1,350 firms, 1.4% of the exporting enterprises, achieved 50% of Italian exports. In addition, if looking at the process of internationalization of production and trade, which require investments abroad, the Italian situation is particularly disappointing, since the number of companies with the required competencies and financial resources is too small. In this respect, the gap compared to other European countries is wide. The impact of FDI abroad on GDP, while only 27.4% for Italy, for Germany it is 41.2% and for Spain 44.2%, rising for France to 64.9% and for the United Kingdom to as much as 76%. The same data referring to FDI partners in emerging countries shows an even greater gap.

"A joint effort is needed on the internationalization object " (E. Marcegaglia, 2011). Progressive companies that have the desire and the means to redirect the geographical flow of their products,6 and to settle in new high-growth emerging countries, alone or more reasonably networking with other businesses, need to be sustained with targeted resources and policies. In this respect, a more selective and effective contribution is called for, as well as the support of big banks that in recent years have made significant steps forward on the internationalization front.

To prominently position Italian industry in emerging markets, coordinated actions are required between public and private institutions supported by adequate resources aimed at:

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6 The need for diversification of trade is particularly evident when one considers that according to the Ufficio Studi e Ricerche di Intesa Sanpaolo's elaboration, 44% of SMEs have only one end market and in the last ten years this share has remained unchanged.
- the redesign of the representative diplomatic-commercial offices overseas to reflect the new world economic geography and support companies in the diversification of export markets
- the adoption of a national commercial policy adapted to the new global challenges and to refocus promotional activities towards new emerging markets and concentrate efforts where Italy has higher chance of success to avoid an unnecessary loss of resources.

Policy makers must move towards competitiveness and internationalization, which also entails operating in such a way as to foster and incentivise increased productivity as a precondition to keep going both profitability and the ability to invest in such objectives.

Recovery on the productivity front is crucial for both the national economic system and for firms. Our economy cannot grow if productivity is stagnating. The unsatisfactory performance of labour costs per unit of product summarizes the low evolution of productivity, whose annual growth rate moved from close to 5% in the seventies to hardly positive rates in the 1997-2007 period. Economic analyses conducted by various research centres called into question the structure of Italian production that is more fragmented and static than others, and the scarcity of high-productivity sectors. Nor should the effect of the crisis be overlooked that in more recent years reduced the quantities produced but not in proportion to the workforce. It was possible to limit the social impact of the crisis through the use of social safety nets but at the expense of productivity.

In recent years, salaries of employees generally increased very little both in Italy and in many EU countries while the dynamics of labour productivity vary to a greater extent. In the ten years preceding the crisis (1997-2007), labour productivity in the EU-15 grew by 10.5% and real wages by 3.9, while in Italy the corresponding percentage changes were -2.3 and -2.5 respectively. In the same period in Spain, labour productivity fell by 3.5% compared to an increase in real wages of 4.4%, Germany increased productivity by 13.4% but real wages declined by 1.4%, while in France productivity increased from 11.2% and real wages by 15.4%.
As a result of the limited wage dynamics in Italy, domestic demand has suffered and household consumption in real terms grew much less than in other European countries. This brings about a dangerous vicious circle whereby the stagnation of the domestic market induces the loss of gross operating margins and the profitability of businesses, with the effect of reducing their investment capacity and therefore their contribution to economic growth and employment. If this vicious circle is not stopped, recovery and higher rates of increase of GDP are difficult to imagine whilst more structured and dynamic companies that want to grow are pushing towards delocalizing production and expanding into new emerging markets.

A country that is properly aware of the actual risk of industry decline should first concentrate on putting in place structural reforms and appropriate instruments to increase productivity in industry, in services and in public administrations.

Italy must adopt a reform of the industrial relations system aiming for higher salaries in the face of productivity gains that are greater than increases in remuneration. Trade unions in Germany, inspired by the "consent system", have contributed to saving jobs, accepting a moderation of wages, a correlation of wage increase to productivity gains in addition to a 10% participation in profits, in exchange for an increase in productivity of 10% per annum, but with the obligation of firms to provide information and transparency.

ICTs and advanced services have a decisive bearing on the growth of productivity of the economic system (industry, services, public administrations). The United States and other European countries, primarily Germany, have long understood this, while new countries are starting to learn, India and China ahead of all others. In Italy instead, the rate of diffusion of ICTs and their use remains low, modest and ineffective for reasons of supply and demand, thus the potential role played by ICTs in the diffusion of innovation for growth in productivity and value added is hardly utilised. The improvement in labour and other types of productivity requires technical innovations and the related restructuring of the business model and of the organization to render the use of ICTs and network services more functional and productive (Rey 2011b).
A greater number of Italian companies are essentially called upon to partake, despite a delay of nearly twenty years, in the “digital revolution” opened by ICT that has changed the organization and management model of enterprises, as well as increasing the demand for human resources with a high degree of training and specialization.

The new digital age generations should be seen as a resource to turn to in order to make a leap forward in productivity in industry, services and public administration, but a mixture of prerequisites has to be created for this to actually occur. On the one hand, universities need to take steps to educate and raise new generations of graduates and therefore to modernize facilities and methods in order to accommodate and motivate students of the digital generation (digital natives), focusing on cultural, relational and methodological approaches that differ from the past. On the other hand, SMEs and public administrations will have to extensively change their organizational approach, processes and work environments in order to integrate and enhance the innovative potential of the competencies and capabilities of the digital generation.
6. Selective and innovative effects of the crisis

The fragmented structure of small businesses in Italian industry is well known, often operating in mature manufacturing where the competition of developing countries is focused. According to EU data, in Italy there are sixty-five SMEs per thousand inhabitants, compared to twenty in Germany, thirty-six in France and the European average of forty. This entrepreneurial vitality is to be saved with targeted actions, but it is essential to focus on a few large enterprises and new-generation medium-sized enterprises if wanting to narrow the gap with other countries. "Italian companies are on average 40 percent smaller than those in the Eurozone. The top 50 European companies by revenue include 15 German, 11 French and only 4 Italian. The production structure of our country is static: transitions from one size class to a larger one are rare (Bank of Italy, 2011)".

Adopting economic and industrial policies aimed specifically at the growth of firms, especially through mergers and acquisitions is a top priority if wanting to strengthen and qualify the contribution of industry to growth. The new globalization trend driven by large emerging countries has in fact had the effect of a strong upward push of the threshold necessary to compete and therefore the quality of managerial skills.

The restructuring of capitalism of industrial districts of small firms, which began in the mid 80's (R. Varaldo, L. Ferrucci, 1997), is still in progress, but these local organizations remain vulnerable and report problems in joining in the recovery and recuperating the pre-crisis export levels. The impression is that district entrepreneurship, driving progress in manufacturing, has for some time entered into a decline of its life cycle as a result of a natural depletion of the initial driving force. The new global competition has accelerated this decline, threatening the viability of many local small business systems.

The prolonged crisis in the real economy has selected the firms that are able to grow, as is clear from the recent "Economic and financial affairs of industrial districts" report (Intesa Sanpaolo, 2010), concerning 101 territorial realities and 55,000 manufacturing firms (of which 10,600 belong to districts).
Enterprises selection was determined in the presence of markets that do not grow or grow but are out of reach of small businesses. The dividing line was between progressive companies that "played in attack" against the consequences of the crisis and conservative companies that by contrast "played in defence". The latter have simply tried to buffer the adverse situation especially through cost cutting and blocking any type of investment, and are now finding it difficult to confront the new competitive landscape and to finance international development. By contrast, progressive companies have managed to cope with the crisis and have at times emerged with new vitality. It is as if they harvested the best fruits of knowledge accumulated in manufacturing and in the local production systems and now only the highest branches and deepest roots of these trees remain, thus reactivating a driving force, albeit selective, in businesses that are able to nurture it.

From analyses conducted on the impact of the crisis, indications can be drawn that clusters of progressive companies are emerging that have relocated in the new global competitive landscape, acquiring resources, competencies and capabilities to find and exploit new opportunities for development outside traditional markets that are undergoing structural stagnation.

Due to the slow evolution of domestic demand of the European and in part the U.S. market, diversification into new fast-growth emerging markets has become a pressing need. However, to move in this direction requires knowing how to position the firm in the new countries through distribution networks and factories to produce what is needed to satisfy the local market and, where appropriate, also that of neighbouring countries.

It is now clear that the Italian entrepreneurial system has to face competition on two fronts: advanced countries in the high range and emerging countries in the middle-low range. Under these conditions, the strengthening of capital, technology and organization is a must for all businesses, large and small, if wishing to intercept the new potential of emerging market demand. The exit from the crisis of eighteen technology poles with improved performance specializing in particular areas (ICT, aerospace, pharmaceutical, biomedical) is a remarkable fact. In 2009, these industries limited loss of revenue to 4% compared with 20% of traditional districts (Intesa Sanpaolo, 2010).
improved resilience of these poles in the global economy can be explained in function of: on one side, the higher content of knowledge and technology of their products and the use of skilled human capital, points of strength for the competitiveness of products. On the other side, developing the offering of goods and services that respond better to the needs of emerging countries who are implementing programs for the modernization and automation of their industrial systems.

The economic and employment contribution of these operative technological realities is thus far not particularly significant, yet expresses a new potential for creativity and innovation, where knowledge and technology play a key role. This is a promising and new type of dynamic manufacturing component to complement the traditional sector with its spillover effects, in virtuous symbiosis with the sustainability and growth of the economy and the employment of young people with high training profiles.

The birth of "small innovative companies" with a high content of knowledge and technology is a phenomenon of particular interest given that in today's world these are key components to nurture and renew economic growth and qualified employment potential. Italy needs new entrepreneurial forces to fully seize the globalization challenge and put new energy into an anaemic entrepreneurialism showing signs of fatigue in its ability to renew and rejuvenate from the inside. Efforts are needed to kick-start their contributions with a new business cycle, following the teachings of Luigi Einaudi for whom the dominant figure of the modern economy is the entrepreneur and inventor who organizes human resources and instruments.

The most dynamic and innovative societal and production environments, as well as the "knowledge factories" started up by research centres of excellence, can play a role as incubators of new innovative entrepreneurship. It is within this framework that the new "entrepreneurial capitalism of research in Italy" (R. Varaldo, A. Di Minin, 2009) is located, the knowledge society that arises spontaneously from the bottom with a new generation of small businesses, behind which there are young talented technologists, the children of the most dynamic ecosystem and/or formed in the research laboratories of the best scientific and academic institutions.
Interest today in innovative entrepreneurship depends on the need for a profound renewal of industry and services by leveraging on scientific and technological knowledge as a primary element of the new economy and on activities to put it to good use and make it perform in the production sphere, with attractive economic returns. Accommodating and supporting the development of this type of business requires new strategies and rules for industrial and economic policy to selectively reward entrepreneurial merit as well as utmost vitality.

The four elements that identify and characterize the institutional, regulatory and socio-economic environment of the new entrepreneurial capitalism of the knowledge era (W.J. Baumol, R.E. Litan, C.J, Schramm, 2009) are as follows:

1. in an entrepreneurial economy it should be relatively easy to constitute a firm without excessive costs and time lost to red tape, but neither should it be too complicated to close a failing structure. There must also be an efficient financial system and capital market to finance the early stages of the life cycle (so-called early-stage funding). Also important is labour flexibility because innovative entrepreneurs cannot grow if they fail to attract new labour or if labour laws are too restrictive

2. institutions must ensure a structure in terms of intellectual property and contractual rights that allow compensating businesses fairly once they have started

3. government institutions must discourage socially unproductive activities and rents (criminal activity, tax avoidance, undeclared activity and political lobbying) since they do not create wealth. Instead they must promote the processes of liberalization and innovation that facilitate the creation of wealth

4. in a successful business economy, institutions must guarantee that winning entrepreneurs and the most viable businesses continue to be incentivized to innovate and to grow on pain of the economy falling into stagnation. We need, therefore, institutional anti-trust provisions and the opening of competition in the internal market and in international trade

These are the four axes of a potential and desirable governance program of the Italian economic renaissance, based on innovation, enabled by new
knowledge-based\textsuperscript{7} businesses, promoted and supported with adequate institutional and legal infrastructures, and with a long-sighted synergistic effort between the public and private sector to provide real incentives, both economic and financial, as well as cultural and educational interventions.

\textsuperscript{7} The mission of the “Research & Entrepreneurship Foundation” arose in the wake of new technology-based entrepreneurship, recently established with the contribution of three key components of the innovation ecosystem: large industry, the big bank and the university of excellence that can best support consolidation, growth and internationalization of technology-based startups, academic spin-offs and, more generally, progressive and innovative SMEs. The founders are: Enel, Finmeccanica, Telecom, Intesa Sanpaolo, IIT (Istituto Italiano di Tecnologia di Genova), Fondazione Politecnico di Milano, Scuola Superiore Sant'Anna di Pisa. Fondazione Cariplo was added to the core of founders as the first co-founder and the Association NetVal as participant.
7. The fourth capitalism of medium-sized enterprises: a reality in promising growth

The players that were able to emerge from the forceful selection in the entrepreneurial fabric are medium firms that have given life to articulated and specific pathways of the reorganization of the business model, leading to figuratively speak of "fourth capitalism", precisely to emphasize the achievement of a structural diversity of the species (F. Coltorti, 2011).

In terms of manufacturing value added in relation to capital societies, it is estimated that the weight of medium large and medium-sized enterprises is 28.6%, rising to 40-50% when including the contribution of satellite industries (see Figure 2).

The new model of Italian capitalism is configured as capitalism of large amongst small rather than capitalism of small amongst large, capitalism as an evolution of the industrial district (so-called third capitalism), once centred on small businesses, and with a few entrepreneurial entity in pursuit of a capitalism constituted by large companies (R. Varaldo et al 2009). This leads to consider that the preferred path for the evolution of medium firms is not necessarily to follow the model of large firms, which in Italy historically does not have proselytes. On the other hand, Giorgio Fuà was already of the mind that the large firm was not a necessary and viable step in the short term for Italy (G. Fuà, 1983, p. 9).

It is right to place hope for the industrial future of the country in the small but qualified platoon of around four thousand medium-sized enterprises that are the focus of Mediobanca-Unioncamere’s work (MediobancaUnioncamere 2011), especially after exhausting the possibility of sustaining an expansionary path relying only on the few large companies that we still have.

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8 This refers precisely to the following forms of capitalism: the first (private corporations), the second (large State enterprises), the third (district capitalism) the fourth (medium firms). The temporal sequence of their appearance seems to imply that the most recent forms of capitalism have arisen on the "ashes" of the previous two, with the claim of replacing them! One has the impression that Italy is in a constant race to create "new capitalism" but unable to consolidate those existing and make them sustainable over time.
The trump card has been the adoption of a new business model where the core consists of both high value added upstream activities (quality, styling) and downstream activities (brand, marketing, retail) in the value chain, while manufacturing activity is largely delegated to networks of small businesses, suppliers and products that already produce similar components (sometimes for several competitors). For this reason, medium-sized enterprises are able to, without too many risks, convert fixed production costs into variable costs. With this innovation they have achieved economies of scale and lower production costs, recovering resources that have sustained investments in intangible assets (design research, branding, communication) to upgrade the quality, image and reputation of products. In this business model the value added created with manufacturing is derived, for the most part, from suppliers, producing innovative semi-finished products at lower cost, which help sustain the profitability of this particular model.

If medium-sized enterprises are able to complement and consolidate their role as the driving force of Italian manufacturing and, if their expansive force is maintained over time, Italian industry could start afresh: a real, more dynamic and highly developed economy, with less manufacturing and more knowledge and services, that knows how to create job opportunities for high quality artisan and small business units. The condition is that they must be innovative while also being efficient on the cost side to help counter production delocalization, avoiding succumbing to competition from emerging countries. The recession has increased price competition and this pushes towards cost cutting, unloading pressure on the supply of semifinished products that represents a significant portion of the costs column. There is also the danger of a race abroad for the supply of components and semifinished products to save money but sacrificing, at times, the quality of supply.

Leading medium-sized firms are well aware of the need to protect not only themselves but also their national satellite industries so as not to lose the competitive advantages of real “Made in Italy” products. This is why they are working to create strategic partnerships with their best suppliers, to create value through creativity, high quality, high reliability and efficiency.
Fourth capitalism best expresses and substantiates a model of capitalism that allows enhancing, and not dissipating, the widespread specialized entrepreneurial skills that constitute an Italian characteristic in the international context. In fact, medium-sized enterprises express the best of Italian business vitality, but with the added advantage of greater organizational consistency, as well as diverse and more advanced business-building capacity (Varaldo R. et al, 20091).

Second, medium-sized enterprises represent advancement, on the industrial system level, due to their interest and ability to take the lead in firm networks⁹, enabling improvements in the efficiency and communication of know-how, as well stimulating change in their perimeter. With the activation of these networks, they can strengthen their position in the international context, relying on backward and forward linkages with qualified small businesses that can be networked, giving rise to a particular interorganizational model with its own governance and economic logic.

These are open operational models that should be carefully looked at, also with the aim of the progress and efficiency of processes that steadily developed networks can obtain as a lever to extend the application fields of ICT and for the dissemination of network services in the small business sector, overcoming their resistance to digital innovation (Rey 2011).

Third, medium-sized enterprises, in terms of having stronger balance sheets and better levels of profitability, can more effectively manage the innovation firm policy including proprietary control of primary technology (design, engineering, quality control and logistics) and of the factors that are critical to the protection of style, design, brand image and soft market power. With systematic investments in intangible assets (knowledge, patents, trademarks, services, advertising, competencies) they are also able to continuously foster innovation and internationalization, and by doing so can strengthen the capacity for growth and the competitiveness of their ecosystem.

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⁹ These are “business networks” where a medium or medium-large firm has a key role in the establishment and governance of the group, offering sound and sustainable prospects to the network contract as foreseen by Law 122/2010. These types of networks are more likely to function effectively and to allow banks to assign a “network rating”.
In evolutionary terms, supply and subcontracting networks can be developed and transformed from "supply chains" into "value chains", where the contribution of the various components becomes crucial and irreplaceable for innovation partnerships with shared values, benefits and risks.

This could allocate to medium-large enterprises social and economic worthiness, which transcends and goes beyond the specific interests of those who exercise control and govern. With the recovery of a more decisive role of the platoon at the tip of fourth capitalism, the variety of business models, entrepreneurial-organizational factors, skills and production sectors could be amalgamated, which on one hand is an indicator of the degree of progress and stability of a modern industrial system and on the other, a lever for growth and economic sustainability in the long run. The success of these evolutionary paths could allow Italy to create a form of "good capitalism" as a "mixture of innovative entrepreneurship" and "large and medium-sized enterprises" (W.J. Baumol, R.E. Litan, C.J. Schramm, 2009; D.B. Audrestsch, 2009), overcoming the mutual isolation in which the different components of the industrial system appear to function. Attempting to single out, for study and research purposes, "fourth capitalism" has helped create the idea of a structured industrial system where each part can operate independently.
8. Corporate renewal and Finance

The attention of policy makers should be more decisively addressed to medium-sized enterprises to consolidate and evolve their business models. The capital market and the credit system are called upon to play a greater and more systemic role in rendering these models sustainable.

Medium-sized enterprises tend to be more likely to overcome the limits of family capitalism where the owners are, in large part, also the managers of the firm, with the risk that the contribution of advanced and independent management skills are unsuccessful, and where the new generation at times is unable to ensure the quality of the competencies and capabilities of the founders. Strengthening the managerial culture can be assumed as a factor of greater solidity and reliability.

Medium-sized enterprises are more likely to open up to the capital market and also to the entry of external partners since openness is seen as an opportunity for growth. This more advanced "risk capital culture" renders the financial structure more solid, with ownership structures that support the possibility of switching strategies for growth.

The analysis carried out (Mediobanca-Unioncamere, 2011) shows that from 2000 to 2008, in medium-sized enterprises, the financial resources came from the cash flow net of depreciation for 73% and new borrowings for 27%, and the reinvestment of cash flow is equivalent to equity investing. This is a decisive step forward with respect to the common situation of enterprises that have limited ability to generate cash, and are thus strongly dependent on the banking system with distorted effects on ways of using credit.

Looking ahead, it is to be hoped that the stock market can become an easier and less costly possibility to raise capital by medium-sized enterprises.

If Italy wants to be competitive in a global market of large players it must have a stock market of adequate size, able to finance the growth of the real economy of the country. The international comparison is very disappointing. On the Milan stock exchange there are fewer than 300 listed companies, Frankfurt has almost 4 times as many, London over two thousand companies and as concerns the new listings in the 2000-2010 decade, the numbers were: 160 in
Rey G.M., Varaldo R.

Italy, compared with 633 in France, 234 in Germany and 1,911 in the United Kingdom. In the 2000-2010 decade, the number of Italian listed companies decreased from 297 to 286, similarly, market capitalization decreased from 818 to 423 billion euros, i.e., from 69% to 35% of (GDP). Thus the gap with leading European countries has widened and despite experiencing a reduction in listings, they continue to register a much greater incidence of capitalization to GDP (50% in Germany, 90% in France and in Great Britain as much as 160%).

On the other hand, in the same period, the Milan stock exchange index fell by 52% while Paris by 36%, London by 15% and Tokyo by 45%.

Revitalizing the stock market requires simplifying procedures, speeding up the time, reducing listing costs, and improving permanence on the listing, above all to facilitate access to the capital market of medium-sized enterprises.

Banks, in turn, can provide an important contribution in the consolidation of the role played by medium-sized enterprises in the competitive and innovative renewal of the Italian manufacturing industry. Their contribution is essential not only in the presence of a credit squeeze but also as an opportunity to improve the criteria for creditworthiness assessment and extending lines of credit to the ecosystem of medium-sized enterprises.

With the shift of assets from tangible to intangible, the profitability of investments becomes more uncertain and deferred, with returns that are difficult to quantify directly. Furthermore, the reduction in tangible items decreases the ability to offer collateral to obtain credit and loans. Therefore, a move towards methods of assessment of reliability that include intangibles is required, which is more difficult since these do not have a separate price from the total value of the company and in fact do not have a market, except when disposed of by the company.

Second, banks are required to find appropriate forms of assessment of the ecosystem of medium-sized enterprises to take account of the intangible value created precisely by the profit sharing that is beginning to define the value chain, reproducing the traits and values of the entrepreneurship dynamics of a chain of small production units. Surmounting the traditional geocentric logic of industrial clusters, still valid but with increasing limitations, could occur through giving economic-institutional value to networks that are taking shape as a type
ECONOMIC GROWTH AND CORPORATE RENEWAL

of "business district", reproducing many of the traits and values of dynamic entrepreneurship of the systems of small artisan-style production units. To the simple mutualistic logic of operators often in competition with each other is added the even more compelling and economically valid "de facto group" logic between the leading firm and suppliers network.

Generally, intangible assets, including the wealth of knowledge of an organization, are resources that are not easily translatable into financial terms due to the lack of standardized criteria for their monetary valuation. In a broad sense of the concept of knowledge, this asset includes not only the intellectual capital and know-how of individual employees but also that of their firm and the correlated supplier system. Closely linked to the organization is a wealth of information derived from both internal relations (the "corporate culture") and external relations that outline the contours of the company's reputation in the market.

The value of such capital is certainly complex. An analytical procedure for the analysis of the intangibles of the ecosystem (business district) and the attribution of this value for both medium-sized firms and firms in the value chain is not an easy task. However, synthesis measures can be identified for this value to approximate by default the differences of values. The bank must clearly recognize the idea that the business district referred to is something more than the sum of companies that have working relationships with the leader firm as well as amongst themselves. It is a composite entity, since the difficulties of any one partner company could affect the ability to repay the debt of another partner, conversely, the success of the leader also pulls up the entire group. The credit analysis must take into account all the aggregate entities, being able to identify the strengths of the business district and see it as a single multi-form organism. Therefore, the medium sized firm should be able to contact the bank as the leader of this complex system with the bank acting as a partner able to understand the uniqueness of the system resulting from the ability to provide competitive and innovative products and services.

Even better if the State and regional governments were able to create appropriate and efficient ad hoc support and promotional tools to push the convenience of banks towards such an approach.
In particular, specific forms of credit support could be envisaged for the de facto group of companies headed by a leading company, allocating it formal value, as an expression of the evolving and/or consolidated relationship, empowering the leading firm and activating mechanisms of mutual warranty. Access to banking credit by medium-sized enterprises or the network should be facilitated and guaranteed by central and/or local governments in respect of credit claims of the suppliers, to allow the leading firm to select the most reliable. In this way, the medium-sized firm would act as a selector of excellence, with indirect economic criteria, allowing to reach even those companies more difficult and expensive to be selected. This behavior innovates substantially if compared to scattershot, distorting and inefficient public interventions. The selection process would occur with clear and transparent solvency stakes and sectoral strategies to support innovation and increase corporate assets. The middle-sized firm would become a kind of natural leader for the organization of long-term publicly-supported projects.

These actions would overcome the intervention logic only in support of disadvantaged areas and large enterprises, and would define more promptly and innovatively the industrial base on which to act, by moving the focus from industrial districts to business districts. To be exhaustive, it should be added that besides the merits and defects of the network novelty, there is a risk that their cooperative nature makes them inconsistent with a sound competitive environment, and therefore difficult to accept by the single entrepreneur.
In conclusion

There is no quick and permanent escape from the crisis through increasing domestic demand with public resources (not only ineffective but the resources are also not available). On the other hand, to avoid the spillover effects from the import side that are not offset by exports and to seize opportunities arising from the economic recovery of the EMU, the Italian offer needs to be competitive and specialized in sectors and products with high value added. Without proper technological upgrading of the manufacture, the value added does not increase, employment decreases. The public finance enters into a vicious circle because in the absence of revenue the deficit increases, debt worsens and the efficiency of public services does not improve with negative effects on the competitiveness of the entire economic system.

Unfortunately, in Italy, since 2001, gross investment has remained virtually stationary and investment in ITC has fallen in the last three years, together with the decrease of 13.2% in gross capital formation. Focusing on foreign demand is not new but is essential in order to recognize and take advantage of the future development of emerging countries that already today are an important part of incremental global demand.

Competitiveness improves when increase productivity and value added with new processes, products and organization, including tangible and intangible infrastructures and with the development of network relations.

Manufacturing, in order to be competitive, requires innovation but this is also required by upstream and downstream services that can, and indeed must, stimulate innovation in the tertiary sector without complaints about its inefficiency and envying its protected position.

Innovation requires applied research and the ability to exploit it, but innovation, cannot only be technological and dedicated to production processes but should also involve marketing, services and organization (Chesbrough 2011). This innovative strategy needs a favourable environment, but Italy has a multitude of micro and small companies that rarely innovate, few medium-sized enterprises and very few large firms. Medium-sized enterprises
are certainly innovative by vocation and due to the need to grow - if not for their survival - and with their network of relationships could create the conditions for technology transfer and dissemination of network services in micro and small enterprises, particularly in either industrial or business districts.

The novelty is the leading role that medium-sized enterprises have or could have in districts since they are able to impose network services to reduce the time of the production process and of the inventory levels, to improve logistics and to expand the Italian presence in foreign markets.

Large companies could play the role of wide-ranging innovators, but their territorial reference goes beyond the Italian territory and they therefore do not differ very much from foreign multinationals if not for the knowledge, communication and production management, components which are located in Italy, at least for as long as it remains convenient. Their suppliers and customers are located in different continents, their finances have always been globalized.

Ignoring the distribution of personal, functional and territorial income is incompatible with the objective of macroeconomic growth. The idea of appropriating larger value added quotas for financial investments is erroneous for the economy. It is equally wrong for workers to think of receiving remuneration that is above productivity because EMU membership requires rebalancing distribution with the reduction in employment and/or reduction of wages. In both cases, the result will be increased flexibility to deal with situations of systemic or corporate crises due to lack of innovation and thus with precarious employment and pessimistic expectations.

Innovation in enterprises, including its intangible component, obliges banks not only to be acquainted with individual companies but also with the sector and the firm’s relations especially if the latter belongs to a district or a supply chain, as a result of the potential systemic repercussions, either positive or negative.

Growth, decrease in unemployment and increase in research are among the objectives set all these years by the European treaties and undersigned, assigning their implementation to national policies.

It is for the Government and central and local public administrations to:
1. create an environment that is conducive to growth by increasing tangible and intangible infrastructures and improve the efficiency of public services
2. implement policies to encourage innovative businesses; the innovations are known and diffused, this is about incentivizing and financing them in the short term, eventually spreading the risk between banks, governments and enterprises
3. promote the merger (formal or de facto) of companies, especially manufacturing firms, to give them the opportunity to be active in foreign markets and in particular in emerging countries
4. strengthen social capital with education and research and invest resources aimed at improving the competitiveness and development of infrastructure and services at local level
5. spread network services through coordinated action, implemented by private and public organizations. The problem is particularly acute for technology service networks destined for businesses operating in disadvantaged geographical areas
6. promote initiatives aimed at the creation and support of business districts, on the level of production, logistics and supply chains, with the aid of appropriate forms of funding by banks
7. spread innovations in small enterprises, with a stronger role of research, with the contribution of the banking system and recourse to qualified personnel, in agreement with the research universities
8. supervise the protection of competition and the functioning of markets in order to promote economic and social growth under conditions of efficiency and consumer protection.

This "work agenda" comprises what Italy needs if it wants to implement an effective and serious policy of growth and competitiveness with an appropriate distribution of available resources.

A period of change is never brief, but starting from zero is not necessary because many changes have already been initiated by companies, especially by medium-sized enterprises. The reforms will take time to define and especially to implement. It is therefore imperative to have a strategy for the public and private sector, with a well defined, clear and guaranteed time horizon
that must be contained since time is against Italy exiting from the crisis. While other countries are moving on, in Italy the allure of conservation is worth more than institutional, economic and social renewal.

The strict discipline of the single currency and the European Union have forced Italy to internalize an "external constraint" to control public finances and to make our country assume a positive approach. Now the time has come to move to growth. This is why the capacity for cohesion and change within the country counts above all else, with strong and cohesive political leadership. Italy must recover an interest, a desire, a thrust towards change that must come from within. Moreover, this can only happen if there is a shared vision of the future, if participating in collective hope for improvement.
Appendix

Fig. 1 Imports from emerging countries (in % of world imports)

Emerging Countries: Brazil, China and Hong Kong, Hungary, Indonesia, Korea, Mexico, Philippines, Poland, Romania, Russia, Singapore, South Africa, Taiwan, Thailand, Turkey, OPEC countries.
Source: Intesa Sanpaolo on OEF Data

Fig. 2 Distribution of Manufacturing Value

Source: our estimation on Mediobanca and Unioncamere data
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