

ITALIAN INWARD AND OUTWARD DIRECT INVESTMENTS. A NEW PATTERN OF INTERNATIONALISATION (*)

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1 — Introduction

Even though the processes of industrial internationalisation and foreign direct investments (FDI) have become key in the economic growth of every country, subject studies concerning Italian industry are as yet at a very early stage. By and large, this can be attributed to the lack of official surveys providing exhaustive and meaningful statistics on the size and evolution of both inward (IFDI) and outward (OFDI) foreign direct investments from Italy.

Nevertheless, some of the studies conducted in recent years (Acocella, 1985; R&P — Ricerche e Progetti, 1986; Onida and Viesti, 1988) have partially filled this deficiency and represent a valid background for the present work. This paper refers to the results of a research effort that created the REPRINT database, which holds the ensemble of inward and outward direct investments that concern Italian industry (1).

The object of the paper is to supply a comparative picture of Italian industrial investments abroad and foreign investments in Italy, updated to the end of 1987. Emphasis is mainly oriented towards the trends that have emerged in the last few years, and also to take into account the novelty characteristics that these have taken on, as compared to the previous model of Italian internationalisation.

A necessary foreword concerns the definition of the field of the survey. The subsequent part deals exclusively with «direct» investments, defined in accordance with the criteria established by the International Monetary Fund (1977), such as those that concern the acquisition of control or durable interests (minority or joint) in companies and imply involvement in the management and the running of their activities. In other terms, are excluded those «portfolio» investments that are simply aimed to the financial participation and are carried out

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(1) Reference is made to the research promoted by CNEL and carried out jointly at the Milan Polytechnic and R&P — Ricerche e Progetti. A detailed research report is forthcoming.

by bodies either institutionally or de facto not interested in the actual conduction of the company ⁽²⁾.

Furthermore, the only FDIs considered are those relevant to companies that carry out production activities (mining or manufacturing) with the consequent exclusion of those FDIs in companies whose *sole* activities are commercial, services, research engineering and technical services.

2 — General outline

The rate of internationalisation in the Italian manufacturing industry during the eighties has undergone a considerable intensification in the flow of both inward and outward FDIs. This trend has coincided with significant transformations in sectorial typology, geographical distribution and types of participation (Mariotti, 1988).

Moreover, the 1986-1987 two year period shows that Italian companies have considerably increased their foreign investments. This is to confirm the ongoing Italian progression towards the levels of internationalisation shown by the most industrialised countries, yet maintaining those unsuppressible characteristics typical to the industrial structure of the country.

The compared situation of IFDIs and OFDIs, at December 31, 1987, is the following (see table 1):

- 1) Foreign industrial firms participated by Italian investors are 678. In this number are included mining and manufacturing companies of any size and no matter how participated (controlled, joint and minority). Italian investors amount to 211 units, summing the «industrial-financial groups» and the independent firms, for a total of 253 operative companies. The total number of employees abroad is equal to 321,800 units with 52,700 billion lire billed in 1986. Controlling participations concern 62 % of the companies, 70 % of the employees and a little more than 76 % of the turnover.

Italian presence abroad is therefore characterised by a significant share of joint and minority participations, at least when compared with the main investor countries, with the partial exclusion of Japan;

- 2) Italian industrial companies with foreign participation are 1,199 and answer to 739 investors. The total number of employees in Italy is 455,900 units. The turnover for 1986 was 91,700 billion lire. Con-

⁽²⁾ The discriminant adopted between direct participation to the management of a company and participation based on an exclusively financial nature, has been defined, in cases of doubt, as the presence or not of members formally appointed by the investor itself in the board of directors and or in the board of auditors of the company. It has not been considered appropriate to adopt as a «decisive discriminant» the share of participation and or its absolute value, though these have been taken into consideration in the overall evaluation.

trolling participations are in this case clearly predominant, concerning 83 % of the companies, 80 % of the employed and 83 % of the turnover.

The data, even in their essentiality, show the predominance of IFDIs. In fact, participations from foreign investments in Italy add up to 1.77 times the size of the outward participations, referred to the number of participated companies, while the relationship, expressed in terms of turnover and employees, goes down to 1.74 and 1.42, respectively.

TABLE 1

Internationalisation of Italian industry (situation as of December 31, 1987)

Description	Italian investments abroad (A)	Foreign investments in Italy (B)	B/A
Number of parent companies	211	739	3.50
Number of participated companies	678	1,199	1.77
% controlling participations	62.4	83.5	
Employed in participated companies	(a) 321,802	(a) 455,909	1.42
% controlling participations	70.2	80.4	
Turnover by participated companies (billions of lire)	(a) 52,723	(a) 91,723	1.74
% controlling participations	76.4	83.4	

(a) Data refer to end 1986.

Source: REPRINT database, R&P and Politecnico di Milano.

The numbers confirm the gap existing between Italy and other industrialised countries, a gap mainly due to the low level of outward internationalisation. The data gathered by Dunning and Cantwell (1987) showed that, already in the early eighties, the ratio in terms of employed was in favour of outward internationalisation and equivalent to 3 and 2, respectively, for the United States and United Kingdom and about 1 for West Germany and France.

The «upside-down» ratio that characterises Italy is the proof of a specific asymmetry not found in other indicators. For instance, the Italian share of worldwide export of manufactured goods is between 6 % to 7 %, a very good performance when compared to its worldwide share in term of GDP. It clearly demonstrates the historical tendency of companies to internationalise through strategies based on trade rather than direct investment. Such orientations, herefollowing briefly outlined and as already pointed out in previous

studies⁽³⁾, are the combined result of several factors, some of which may be ascribed to a *structural gap* of the country:

- the relative youth of the industrial apparatus, the full development of which is subsequent to that of other major European countries;
- the inadequate availability of services and support to companies by public institutions and the banking system;
- the limits and shortcomings of the national entrepreneurial and managerial culture, with particular regard to *market-making* activities;
- the shortage of companies that keep pace with the technological frontiers in the *high tech* industries.

Other factors can be defined as *country-specific*:

- the sectorial connotation, that denotes a very strong accent on traditional and light industrial activities, such as the *fashion system*;
- the low industrial concentration, fostered by the industrial policy of government, that relatively favoured the growth and consolidation of a wide portion of small sized companies;
- the role of State owned firms that for political reasons were, until recently, nearly exclusively oriented towards domestic investments, particularly in the South of Italy (Mezzogiorno).

Anyhow, the data accumulated up to the end of 1987 hide the evolution that has become readily apparent in the more recent years. If attention is given to the 1986 to 1987 two year period, a considerable reduction in the gap between inward and outward internationalisation becomes apparent; a fall in the inward-outward ratio from 2.06 to 1.77 is measured in terms of number of participations, and from 2.19 to 1.74 and respectively, 1.42, in terms turnover and employees. Even though unbalances and limits, further on exposed, accompany the mentioned dynamics, there is no doubt that the country is undergoing a process of «adaptation» to the levels of internationalisation typical of the leaders of world economy. In this process a key factor is the competitive pressure promoted by the growing globalisation of markets and industries.

3 — The dynamics of the 1986 to 1987 period

The dynamics of the 1986-1987 period result as being rather differentiated on the two sides of the internationalisation process. See table 2.

⁽³⁾ For further details, see Acocella (1985), R&P — Ricerche e Progetti (1986), and Onida and Viesti (1988).

A judgment on foreign investments operated in the Italian industry may be expressed in aggregated terms as stationary, if indicators of absolute consistency, such as the employed in participated firms, are considered. Yet, a positive balance is registered, if the numbers of new participations with respect to disinvestments are analysed.

Variations in the total number of investors and participated companies between the end of 1985 and the end of 1987 are respectively within + 1.8 % and + 0.7 %, being this last quantity partially smothered by the phenomenon of incorporations realised by industrial groups previously split in several companies legally independent. In fact, the biennium is characterised by the founding of 128 new foreign participations, as compared to 73 disinvestments. New foreign initiatives, in 90 % of cases, have coincided with the acquisition of existing Italian activities as a confirmation of the irreversible predominance of this type of IFDIs with respect to the 1950-1960 period, when greenfield investments were the rule.

A decrease of 4.4 % has been registered in the employed in participated firms. The main causes of this are identifiable in company reorganisations and productivity increases, rather than a prevalence of disinvestments. Moreover, the decreasing rate appears to be in line with the general domestic tendency registered in the last few years.

TABLE 2

Internationalisation dynamics percentage values (from December 31, 1985, to December 31, 1987)

Description	Italian investments abroad	Foreign investments in Italy
Number of parent companies	— 0.9	+ 1.8
Number of participated companies	+ 16.9	+ 0.6
Controlling participations	+ 31.8	— 0.7
Employed in participated companies	+ 47.6	— 4.4
Controllings participations	+ 63.2	— 9.1
Turnover by participated companies (billions of lire)	+ 59.8	+ 27.1
Controlling participations	+ 87.0	+ 20.4

Source: REPRINT database, R&P and Politecnico di Milano.

On the other hand, the increase in turnover can be related to greater productivity and to a possible signal of increased imports from either the parent company or from other foreign affiliates of the multinationals operating in Italy.

OFDIs follow a different course. In the same biennium, foreign participated companies grew by 16.9% as a result of 163 new investments and 59 disinvestments. The number of employed grew by 47.6% and turnover by 59.8%. The leap in the consistency of Italian FDIs is considerable and marks a deep inversion of trend with respect to the past. Yet, the slight contraction (— 0.9%) of the total number of investors is contrasting. What's more, even though the datum is partially influenced by company incorporation activities, it shows that the «multinational base» of the country is relatively narrow and that it has not undergone any recent tangible expansion.

Such limitation, that invites to further in-depth analysis, does not in any way modify the significance of the occurred growth during the said two year period. It confirms the pledge of important Italian companies in wanting to overcome a series of structural gaps. Important signals in this direction can be derived from the analysis dealing with the changes occurred in participation procedures. If the dynamics of controlling participations is given attention, a further amplification in the behavioral differentials between OFDIs and IFDIs can be observed.

Inward controlling participations show a slightly falling leading edge: — 0.7% for the number of companies, — 9.1% for the number of employed and 20.4% for the turnover. In such a way, the incidence, in terms of turnover and employed, falls, respectively, from 87% to 83% and from 83% to 80%. The interest shown by multinationals towards new internationalisation forms, based on joint ventures and minority holdings, can be traced back mainly to a series of international agreements among foreign and Italian major industrial groups ⁽⁴⁾.

The change in outward controlling participations shows, in contrast, a clearly positive tendency: + 31.8% for the number of companies, + 63.2% for the number of employed and + 87% for turnover. Such increments, well above the values recorded for the whole phenomenon, change the number of employed and the turnover of the foreign companies from 63% to 70%, and from 64% to 76%, respectively.

This bears witness to the new way in which the Italian industrial groups are moving in the international scenario. This new pattern exploits takeovers and operations that are predominantly oriented towards entrepreneurial risk-taking actions and involve proprietary managerial and organisational skills.

To this aggregated trend, structural, sectorial and geographic changes bring their influence, to better qualify the nature of the processes under way.

The matter treated in the following paragraphs endeavours to clarify the above mentioned aspects.

⁽⁴⁾ For example, joint ventures between Gervais Danone-IFIL in foodstuffs and beverages and FIAT-Matra in automotive components, further to the Hachette-Gruppo Rizzoli minority cross-participations.

4 — The typology of the investors

The historical unbalance between outward and inward internationalisation becomes apparent in specific structural connotations of industries and companies. While the top of the multinationals operating in Italy is characterised by a sizable, solid and well structured ensemble, Italian investments abroad reveal a high concentration in a few groups.

Among the first 500 world multinationals listed in the Stopford and Dunning (1983) *Directory*, there are 212 (42 %) companies that have manufacturing plants in Italy. In greater detail, the first 10 multinationals, by number of employees in Italy, represent 29 % of the total controlling participations, while to the first 20 corresponds a quota of 41 %, as illustrated in the appendix, table A. Such quotas, respectively, rise to 34 % and 45 % if the turnover of the Italian controlled companies is considered. See table B. The degree of concentration does not appear to be particularly high, as a confirmation of the widespread presence of multinationals at the summit of the phenomenon.

On the contrary, the high concentration of Italian investments abroad is marked by a number of facts. Three financial-industrial groups (CIR, IFI-FIAT and Pirelli) represent roughly two thirds of foreign investment, in terms of employed and turnover of the companies under controlling participation. Other large Italian groups follow the first three, such as the Ferruzzi Agricola Finanziaria, the State owed ENI and IRI and the GIM group. Overall, the first 10 groups concentrate 86 % of the foreign employed and of the turnover, while the first 20 represent 91 %. See appendix, tables C and D.

Also for the 1986-1987 two year period, the role of the large groups has been decisive in determining the vigorous growth of OFDIs. To the purpose of mentioning the best known cases, it seems appropriate to recall the gaining of control of the French multinational Valeo by CIR, the Ufima joint venture between Marelli and Matra, with the FIAT group company (prior) gaining the majority control, the acquisitions by the Ferruzzi group to enter the North American marketplace (Central Soya) and the European one (plants of the American CPC) and the microelectronics joint venture between SGS and Thomson.

The analysis of the Italian investors can be explored taking as reference their relative sizes (table 3) and the typology of the foreign participations (table 4). The subdivision by the size of the investor companies confirms the observations made regarding the concentration of OFDIs. Moreover, if the number of Italian investors abroad were compared with the total numbers of firms present in Italian industry for each dimensional class, a steadily increasing monotonic type relationship between the dimensional class and the propensity to internationalise manufacturing facilities would emerge. Furthermore, a positive correlation between dimension and incidence of controlling FDIs becomes evident to confirm that the small companies go abroad by a more frequent

recours to minority participations and joint ventures. Obviously, this can be either attributed to the unavailability of financial and managerial resources and to a related tendency to minimise the absolute investment risks.

However, the compared examination of tables 3 and 4 brings to light some important aspects. It can be seen that the medium sized company classes, and particularly the one including companies with a 200 to 500 employees, begin to play a rather important role in the whole phenomenon. This class represents 26 % of investors and 14 % of foreign participations, to which correspond more than 4 % and 5 % in terms of turnover and foreign employed, respectively.

The latter two percentages clearly differentiate this class from the neighbouring ones, highlighting the relative consistency of the FDIs realised.

The effort towards a significant level of international involvement is also confirmed by the fact that companies within this class display a marked tendency towards controlling participations. It must be pointed out that this participation form displays an incidence of 58 %, that is 10 percentage points above the relative incidence of the class immediately above (from 500 to 1,000 employees). It becomes apparent thus, that a section of medium to small companies is emerging to a new protagonism, thanks to their ability of operating in niches of the international market, by focalising competitive strategies, and by exploiting particular expertise and know-how.

TABLE 3

**Italian multinationals and relative foreign industrial participations,
by dimensional class of the investor (situation as of December 31, 1987)**

Dimensional class (number of employees)	Investors		Participated companies					
			Companies		Employees		Turnover	
	Number	%	Number	%	Number (a)	%	Billion lire (a)	%
Private investors	9	4.27	9	1.33	721	0.32	62	0.12
From 1 to 99	32	15.17	43	6.34	2 134	0.67	387	0.73
From 100 to 199	40	18.96	56	8.26	4 356	1.35	587	1.11
From 200 to 499	55	26.07	96	14.16	17 443	5.42	2 316	4.39
From 500 to 999	22	10.43	43	6.34	4 738	1.47	1 155	2.19
From 1000 to 1999	22	10.43	49	7.23	11 859	3.69	1 749	3.32
From 2000 to 9999	23	10.90	80	11.80	28 539	8.87	4 445	8.43
More than 9999	8	3.79	302	44.54	252 003	78.32	42 002	79.70
<i>Total</i>	211	100	678	100	321 802	100	52 723	100

(a) Data refer to end 1986.

Source: REPRINT database, R&P and Politecnico di Milano.

TABLE 4

**Typology of foreign industrial participations of Italian companies,
by dimensional class of the investor (situation as of December 31, 1987)**

Dimensional class (number of employees)	Participated companies by typology of the participation (%)		
	Controlling	50-50 ventures and minority	Total
Private investors	44.44	55.56	100
From 1 to 99	30.23	69.77	100
From 100 to 199	35.71	64.29	100
From 200 to 499	58.33	41.67	100
From 500 to 999	48.84	51.16	100
From 1000 to 1999	69.39	30.61	100
From 2000 to 9999	76.25	23.75	100
More than 9999	70.86	29.14	100
<i>Total</i>	62.39	37.61	100

Source: REPRINT database, R&P and Politecnico di Milano.

Nevertheless, from a general point of view, the commitment of Italian medium and small companies towards internationalisation remain, to date, rather limited, incidental, and subjected to considerable instability.

5 — Analysis by industrial sectors

Internationalisation processes assume quantitative and qualitative characteristics in relation to each industrial sector. The Italian industrial system is no exception to this rule and displays a basic *qualitative* consistency, certainly in line with the internationalisation models most frequently emerging in Western countries. The principal fields of expansion of FDIs in these countries, at least if the manufacturing industry is considered, are, on the one hand, those that privilege the science based or the high technical-engineering content sectors and, on the other hand, those that give priority to large investments in distribution and market-making activities⁽⁵⁾. Naturally, peculiarities typical of each country and determined by the role and weight that each sector attributes to its industrial structure remain and go to modify the *quantitative* aspects of the phenomenon.

Activities take on a determining role in the overall phenomenon of both inward and outward FDIs become apparent and a series of sectors of interest emerge from their evaluation. See table 5. Foremost is the automotive industry and allied components that, at the end of 1987, employs more than 99,000, summing inward and outward participations. Next in sequence, come electri-

⁽⁵⁾ For this aspect, reference is made to R&P — Ricerche e Progetti (1986).

cal equipment (79,700 employed), plastics and rubber based goods (73,700 employed), electronics and telecommunications (close to 71,700), mechanical engineering (nearly 61,300 employed), data processing (more than 59,000 employed), food industry (48,900 employed) and pharmaceuticals (41,100).

The Italian positioning, referred to the comparison between IFDIs and OFDIs and their rate of growth, results as being rather subjected to a sectorial differentiation. If the 1985 to 1987 growth rates and the *internationalisation normalised balances* (the difference between the employed in outward participated companies and the employed in the inward ones and normalised, with respect to their sum) are taken as reference indicators, an interesting picture of the sectorial evolution of FDIs is obtained. See tables 5 and 6.

TABLE 5

Internationalisation by industrial sector employees in inward and outward participated companies (situation as of December 31, 1987, and variations w. r. t. December 31, 1985)

Sector	Inward			Outward		
	1987		Growth rate 1985-1987	1987		Growth rate 1985-1987
	Number	%		Number	%	
Oil	87	0.02	7.41	3 962	1.23	— 31.90
Oil and energy products	5 765	1.26	— 31.91	3 768	1.17	7.69
Mining	808	0.18	— 24.70	8 374	2.60	117.79
Building materials	11 815	2.59	— 32.32	7 481	2.32	40.07
Base chemicals	15 439	3.39	1.22	4 153	1.29	72.18
Fine chemicals	21 938	4.81	— 15.35	826	0.26	1.23
Pharmaceuticals	35 455	7.78	— 8.11	5 662	1.76	— 0.42
Consumer chemicals	12 740	2.79	— 5.80	4 346	1.35	317.88
Artificial fibres	1 961	0.43	— 17.47	1 916	0.60	— 49.35
Metal manufacturing	12 364	2.71	— 8.59	6 093	1.89	68.83
Metal products	19 326	4.24	— 11.52	4 617	1.43	418.18
Mechanical engineering	46 092	10.11	— 5.56	15 165	4.71	26.10
Instruments and related products	7 761	1.70	21.49	782	0.24	— 8.86
Automotive and related components	28 369	6.22	19.02	70 680	21.96	103.56
Other means of transport and equipment	2 709	0.59	6.70	22 265	6.92	95.48
Electrical equipment	70 045	15.36	— 6.12	9 636	2.99	— 1.30
Electronics and telecommunications	42 474	9.32	— 1.95	29 182	9.07	76.64
Office equipment and data processing	36 976	8.11	6.30	22 051	6.85	276.49
Food industry	24 601	5.40	— 10.28	24 304	7.55	51.45
Beverages and tobacco	8 357	1.83	0.30	3 213	1.00	24.58
Textiles	6 366	1.40	— 7.48	5 164	1.60	— 13.90
Clothing, leather and footwear	2 312	0.51	— 14.02	5 396	1.67	12.37
Timber and furniture	1 269	0.28	— 9.68	1 037	0.32	15.22
Paper, printing and publishing	15 797	3.46	86.90	10 158	3.16	118.50
Rubber and plastic goods	22 367	4.91	— 12.57	51 350	15.96	— 6.65
Miscellaneous manufacturing	2 716	0.60	— 32.45	221	0.07	43.51
Total	455 909	100	— 4.45	321 802	100	47.60

Source: REPRINT database, R&P and Politecnico di Milano.

TABLE 6

Internationalisation normalised balances by industrial sector (*)

Sector	1987	1985
Oil	95.70	97.25
Mining	82.40	56.36
Other means of transport and equipment	78.31	63.54
Automotive and related components	42.72	18.59
Clothing, leather and footwear	40.01	28.21
Rubber and plastic goods	39.32	36.51
Food industry	— 0.61	— 26.16
Artificial fibres	— 1.16	22.84
Timber and furniture	— 10.06	— 21.91
Textiles	— 10.42	— 6.86
Electronics and telecommunications	— 18.55	— 44.78
Oil and energy products	— 20.95	— 41.52
Paper, printing and publishing	— 21.73	— 29.03
Building materials	— 22.46	— 53.15
Office equipment and data processing	— 25.29	— 71.18
Metal products	— 33.98	— 57.88
Beverages and tobacco	— 44.46	— 52.73
Consumer chemicals	— 49.13	— 85.72
Mechanical engineering	— 50.49	— 60.46
Base chemicals	— 57.61	— 72.69
Metal products	— 61.43	— 92.16
Pharmaceuticals	— 72.46	— 74.31
Electrical equipment	— 75.81	— 76.86
Instruments and related products	— 81.69	— 76.32
Miscellaneous manufacturing	— 84.95	— 92.62
Fine chemicals	— 92.74	— 93.89
<i>Total</i>	— 17.24	— 37.28

$$(*) = \% \frac{\text{OFDI employees} - \text{IFDI employees}}{\text{OFDI employees} + \text{IFDI employees}}$$

Source: REPRINT database, R&P and Politecnico di Milano.

Coherently to the overall situation, there seems not to be many sectors in which Italy shows positive outward balances. Among these, obviously, the mining sectors (oil and not), because of the lack of crude and raw material resources within the country. Apart from this, the only sectors with a positive balance are those belonging to the automotive, other means of transportation, rubber and clothing industries.

Going into detail, it can be seen that the automotive sector, with a growth of OFDIs equivalent to +103%, and the other means of transportation sector (growth equal to +95%) have experienced growth rates clearly above the average, improving the inward-outward FDI ratio. The situation of the remaining

two sectors is instead different; though an improvement is noticeable, their outward growth rates are below average.

The food industry, which during the biennium registered an OFDI growth slightly higher than the average (+ 51 %), belongs to the sectors that have a close to even balance. In the sectors with a moderately negative balance, it can be seen that the important data processing and electronics and the telecommunications sectors have shown a clear improvement in their positioning. This is traceable to the vigorous growth of outward investments, which amount, respectively, to + 276 % and + 77 %. Among the sectors with a moderately negative balance and a strong rate of growth for both inward and outward FDIs is the paper, printing and publishing sector. In the same province, but with growth rates for OFDIs under the average, are the sectors that include oil derived products, textiles, timber and furniture and building materials.

Lastly, among the sectors with heavily negative balances, only a minority demonstrated outward internationalisation growth rates above average. To be mentioned are the sectors concerning metallurgy and metal products (+ 69 % and + 418 %, respectively) and some in the chemical industry, such as consumer and base chemicals. All the other sectors, namely electrical equipment, mechanical engineering, instruments and related products, fine chemicals, pharmaceuticals and beverages, registered quite modest improvements.

To complete the analysis, the sectors in which the most significant foreign disinvestments have occurred are the oil and the metallurgy and metal products sectors. In the first, the exit of large American and French multinationals can be recorded⁽⁶⁾, while the second sector is showing the signs of the reorganisation effort in process in Italy.

6 — The geographic distribution

Foreign investments flowing towards the Italian industry originate from a 27 country grouping. Nevertheless, 97 % of the employed and of the turnover is generated by companies participated by investors whose head offices either belong to European or North American countries. See table 7.

Actually, if only the first 7 countries are taken into consideration (USA and the main European countries), the percentage is 93 %.

The United States keep prime position with 44 % of turnover and more than 36 % of employed. First among the European countries is France, with 12 % of turnover and 15 % of employed. Follow West Germany, Switzerland, Sweden the United Kingdom and the Netherlands with shares included between 5 % and 10 % of total values. Canada and Japan are marginally present.

⁽⁶⁾ Standard Oil of California and Texaco, on the one side, and Compagnie Française des Petroles and Elf Equitane, on the other.

The tendency of the 1986-1987 biennium highlights some rather interesting aspects, which are identifiable in two opposite trends: American disinvestment and European advance.

The United States, following an investment upswing in the first part of the eighties, review their presence in Italy. In fact, their share of turnover on total participations falls from 48 % to 44 % and the employed go from 42 % to 36 %. The decline of investment initiatives during the biennium to 21 new participations for 16 % of the total, saw the United States go behind France. On the other side, disinvestments involved 22 companies. The decrease in turnover and employed is mainly attributable to the quite conspicuous disinvestments carried out in telecommunications and in the oil industry.

Concerning European countries, France emerged during the biennium as a leader. Participations grew 24 %, in terms of turnover and employed. Moreover, France scored nearly a quarter of all new inward participations from 1986 to 1987.

The solidity of West Germany participations is also growing. The remaining countries, having adopted more poised trends, display basically steady shares.

Lastly, among the investments from the rest of the world, the Japanese ones are on the increase. However, the presence of Japan is still limited and does not go beyond the 1 % of the total.

Italian investments abroad spread over 69 countries. By operating a subdivision by macroareas, the distribution of participations sees Europe with an incidence equivalent to 56 % of turnover and 60 % of the employed, Latin America represents 11 % of turnover and 21 % of employed and North America has 17 % for turnover and 7 % for the employed. Africa, Asia and the Far East follow. Overall, Italian presence in the Pacific area (Far East and Oceania) is fairly modest.

TABLE 7

Internationalisation by geographic area employees in inward and outward participated companies (situation as of December 31, 1987, and variations w. r. t. December 31, 1985)

Geographic area	Inward			Outward		
	Number	%	% var.	Number	%	% var.
Europe	273 578	60.01	4.61	192 213	59.73	78.34
Of which:						
France	69 508	15.25	23.68	77 676	24.14	149.12
West Germany	42 372	9.29	8.72	26 295	8.17	41.24
United Kingdom	34 332	7.53	0.06	28 729	8.93	152.63
The Netherlands	28 575	6.27	— 6.65	2 558	0.79	93.95
Spain	374	0.08	30.31	39 052	12.14	22.19
Sweden	39 389	8.64	— 5.58	1 050	0.33	n. s.
Switzerland	43 528	9.55	— 5.57	2 916	0.91	38.13

Geographic area	Inward			Outward		
	Number	%	% var.	Number	%	% var.
North America	169 533	37.19	— 18.71	22 646	7.04	60.46
Of which:						
Canada	3 527	0.77	— 31.53	2 955	0.92	94.02
United States	166 006	36.41	— 18.38	19 691	6.12	56.40
Latin America	7 382	1.62	197.06	67 612	21.01	15.61
Of which:						
Argentina	7 333	1.61	200.53	5 150	1.60	— 0.81
Brazil	0	0	0	47 860	14.87	32.65
Africa	525	0.12	— 12.50	20 037	6.23	— 10.56
Middle East	278	0.06	— 27.42	2 042	0.63	0.99
Asia	177	0.04	— 9.23	10 676	3.32	42.23
Of which:						
India	177	0.04	— 9.23	10 200	3.17	58.36
Far East	3 265	0.72	46.28	5 006	1.56	28.62
Of which:						
Japan	3 074	0.67	37.72	82	0.03	— 5.75
Oceania	1 134	0.25	— 1.05	977	0.30	— 20.05
COMECON	37	0.01	— 35.09	593	0.18	— 1.17
Total	455 909	100	— 4.45	321 802	100	47.60

Source: REPRINT database, R&P and Politecnico di Milano.

On the other hand, investment opportunities have opened up recently in the Comecon Organisation, particularly in the USSR, in adherence with the new joint-venture regulation.

A restricted number of foreign countries concentrate Italian FDIs, six of which represent 75% of the employed in total participations. At the top position is France, with 24% of total employed by participated companies, while Brazil totals 15%, Spain 12%, the United Kingdom 9%, West Germany 8% and the United States 6%.

This geographic distribution is the result of investment tendencies that have undergone considerable changes in time, transiting from a strong orientation towards PVSs and countries with an intermediate level of development to massive investments in the more industrialised areas. The passed biennium, in this sense, has been an important turning point. As a matter of fact, the areas that decisively register the highest progress rates with respect to the average, in

terms of large aggregations, are the industrialised European and North American ones, that respectively, registered growth rates of +82 % and +60 % in the total employed of Italian participated companies. Asia is the only other area that is holding its previous incidence share, while Latin America's is waning. Its furthermore evident the decline in the number of employees in Italian participated companies in Oceania, Africa and the COMECON.

Considering the most important countries, the more significant variations can be seen for the United Kingdom and France, where the employed involved by Italian FDIs increase by 153 % and 149 %, respectively. The USA is just above 56 %. Conversely, Central Europe, records a rather limited growth, and West Germany is not particularly opened to Italian FDIs (7).

Among the minor host countries, Canada, the Netherlands and India are revealing a lively rate of growth in participations.

If the overall international involvement of Italy is scrutinised, and the tendencies of both IFDIs and OFDIs are unitedly evaluated, the picture that emerges is sufficiently clear.

Firstly, Italian economic integration with the leading countries of the European Community has intensified. Such process has been, on the other hand, characterised by asymmetries, clearly illustrated by the normalised internationalisation balances. See table 8.

The considerable step up in the two way exchange of FDIs between France and Italy has changed the normalised balance from the 1985 negative value of -29 % to the present +6 %, in favour for Italy. This concurs to the creation of a privilege linkage, in comparison with the relationships with the other important European countries. As for as the United Kingdom is concerned, the net prevalence of OFDIs has nudged the balance very close to equilibrium, even if the present -9 % balance is still slightly negative. The relationship with West Germany remains rather asymmetric and the balance is to date a negative -23 %.

Significantly different are the considerations that can be made regarding the marked negative balance with the small European countries. Though always susceptible of some improvements, the reduced size of these countries obviously influences their possibilities of receiving further industrial investments from Italy, as well as from other countries.

As far as the extra European tendencies are concerned, the new drive towards industrialised areas offers an evident disequilibrium. The presence in the United States and the relative balance are getting better, even if the balance still is tangibly negative with a -79 %. Though to a limited degree, Italy therefore participates to the penetration of the American market, in which leaders are Japan and the strong European countries.

(7) The major cause for the 41 % growth of the employed in participated companies is, in fact, mainly due to the acquisitions of Triumph Adler by Olivetti.

Vice versa, integration with Japan and the emerging Pacific industrialised area is up to now absolutely marginal. It is the result of episodes, both concerning IFDIs and OFDIs, in spite of industrial investments in Italy are increasingly becoming target of a renewed Japanese interest.

7 — The new pattern of internationalisation

The importance of the shift in trends occurred in the last few years becomes readily apparent from this paper. The development of the Italian economic system, once overcome the more hectic export oriented growth phase that pivoted on the transformation of mainly imported materials, has entered into a new reality. A reality in which the growing import of manufactured goods is offset by the concurrent multinationalisation of manufacturing capabilities. This trend also concerns sectors in which Italy historically has a weak international competitiveness, like oligopolistic mass production sectors and high tech industries. Italy, therefore, is changing from a predominantly goods-importer country to a manifest capital-exporter country, oriented to the acquisition of manufacturing activities. Italy's share in the distribution of world FDI stock is tendentially becoming comparable to that of the worldwide commerce of industrial goods, though at the moment still significantly below it ⁽⁸⁾.

The new internationalisation phase, in addition to the pressure set up by international competition, was favoured in the eighties by a series of important factors concerning the Italian economy.

First of all, the pick-up of competitiveness and profitability of the large enterprises, that during the seventies experienced difficulties on the domestic market and consequently retreated from the challenges offered by the international oligopolistic markets. Secondly, the more favourable rate of exchange of the lira, whose weakness often favoured strategies focussed on export rather than outward investments. Thirdly, relaxation of monetary restrictions, used as emergency instrument to counteract trade unbalances. Lastly, the policy of massive financial aids, both private and public, to the Italian South (Mezzogiorno) has relaxed. In this context, State owned companies have, in recent years, initiated policies that foresee strategic international alliances of wide-ranging technological and commercial horizons.

After an acceleration during the first years of the eighties, IFDIs have recently adopted a more subdued progression. They express the growing integration of the Italian industrial structure in the European environment and, contrastingly, the weakening of the American presence.

The present pattern of IFDIs has irreversibly departed from the traditionally «heroic» phase of penetration by the multinationals, straight after the war and during the sixties.

⁽⁸⁾ With regard to this subject, also see Banca d'Italia (1988).

TABLE 8
Internationalisation normalised balances by geographic areas (*)

Geographic area	1987	1985
Europe	— 17.47	— 41.63
Of which:		
France	5.55	— 28.63
West Germany	— 23.41	— 35.35
United Kingdom	— 8.89	— 50.21
The Netherlands	— 83.57	— 91.71
Spain	98.10	98.22
Sweden	— 94.81	— 100.00
Switzerland	— 87.44	— 91.24
North America	— 76.43	— 87.32
Of which:		
Canada	— 8.82	— 54.36
United States	— 78.79	— 88.34
Latin America	80.31	91.85
Of whi		
Argentina	— 17.49	36.06
Brazil	100.00	100.00
Africa	94.89	94.78
Middle East	93.57	89.77
Asia	96.74	94.94
Of which:		
India	96.59	94.12
Far East	21.05	27.11
Of which:		
Japan	— 94.80	— 92.50
COMECON	88.25	82.65
Oceania	— 7.44	3.21
<i>Total</i>	— 17.24	— 37.28

(*) = % $\frac{\text{OFDI employees} - \text{IFDI employees}}{\text{OFDI employees} + \text{IFDI employees}}$

Source: REPRINT database, R&P and Politecnico di Milano.

The prevailing logic in the past associated to FDIs would link the penetration and the conquest of the market with the *ex novo* transfer of those technologies, processes and products not available on the local market. Opportuni-

ties offered by the domestic economy, in terms of demand of goods, were conjugated with the significant advantages derived by manufacturing costs differentials, particularly the cost of labour.

Presently, the majority of investments can be considered market oriented. Furthermore, a large number of initiatives interest acquisitions of existing activities rather than greenfield investments. Such tendency is certainly to be related to macroeconomic factors, such as the growing market saturation, the realisation of surplus manufacturing capabilities and the evolution towards oligopolistic «zero-sum» games.

Actually, a tendency towards deep changes in the relative position of Italian industry within the international context is also to be remarked. In many cases, the foreign acquisition of pre-existing concerns is inspired by the opportunity of having access to local technological know how, technical skills and highly qualified manufacturing capabilities.

With respect to the past, when the role of Italian industry was mainly passive, two-way technology transfers connected to IFDIs are today quite frequent. The international standard reached by Italian industry offers investment opportunities to operators that often are worldwide leaders in their specific business areas.

The traditional and prevailing tendency of multinationals to operate either through wholly owned subsidiaries or controlling investments is still confirmed. This approach has the advantage of providing decisional independence and close ties with the head office. Nevertheless, the increased incidence of «new forms» of FDIs, based on minority *equity* participations and on *non-equity* strategic agreements, mainly carried out by large operators, shows that these, rather than configuring an alternative to controlling investments, combine with these to satisfy complex and adaptive manufacturing and market strategies.

Overall, the present symptoms and trends of inward internationalisation are to be considered rather more of a *physiologic* nature, than *pathologic*, as they express the general process of international integration of the manufacturing structure of advanced countries and reflect an efficient allocation of tangible and intangible resources. It derives that, considered the increasing globalisation of markets, acquisitions made in Italy by large foreign companies and realised in view of the in-depth exploitation of know how and of locally available manufacturing capabilities, can actually be prevalingly viewed as being positive. Certainly, each appeared as an «obliged» solution, aiming to thwart the dissipation of resources and know how that had no growth opportunity in the domestic industrial system. More often than not, the cause can be traced in managerial limits that caused the inability of developing solid and stable basis on the international scenarios. In such a context, the compared efficiency between «national» solutions, that is, acquisitions and mergers by Italian companies, and «foreign» solutions, is to be evaluated in the light of the competitive dynamics of each business and the capabilities of Italian companies to face up to the global strategies of the major international corporations.

Switching to the other side of the analysis, the current phase of internationalisation of the Italian manufacturing industry is characterised by behavioural and structural changes that may be summed up as follows:

- basically, the major financial-industrial groups (CIR-Olivetti, Fiat, Pirelli, Ferruzzi-Montedison, etc.) are enjoying a leader role. Yet, an elite of small to medium sized industrial companies having attained top ranking slots in specific international markets, exploit investments opportunities generated by the commercial penetration of Italian products and brand names;
- step up in the flow of manufacturing investments towards industrialised countries, as compared with the past trends that saw investments mainly channelled towards less developed countries, yet always acknowledging biases and asymmetries (France, United Kingdom and, in due proportions, the United States);
- appearance of investments in technologically advanced sectors in which large companies, and sometimes even those of more contained dimensions, have niche strategies;
- growing tendency of companies to go abroad by means of controlling FDIs, rather than joint ventures and minority participations, and by the acquisitions of existing activities rather than greenfield investments;
- greater symmetry in the circulation of technological know how and managerial skills. This often is the result of strategies whereby Italian companies «chase» technology in such sectors in which other countries traditionally have market leadership.

The concurrence of the above factors focuses the attention on determinants and forms of investments ever more aligned with those of the advanced countries. What's more, these overlap the previous multinational reality of the Italian industry, the origin of which is quite remote and witnessed its greatest moments of development in the forties and sixties.

Overall, as result of an integral of the old and the new growth patterns of going abroad, a *hybrid* model of manufacturing internationalisation is becoming apparent.

Within the empirical analysis of Italian FDIs, such motivations, factors and forms generically ascribable to various «stylised» models of internationalisation, may be readily identified. Motivations to market oriented investments go hand in hand with cost reducing ones. Moreover, *ex novo* investments, particularly those introduced in the less developed areas, combine to the more recent acquisition processes. Decision about the siting of manufacturing activities, in the past dictated by protectionistic laws that required the addition of «local contents» to commercialise the goods, goes now together with «insider» policies that wish to strengthen company image and customer confidence in the company.

On the other hand, shadows that partially detract from the positive trend of internationalisation of industry are certainly not missing. The «foreign investors club» remains rather exclusive and even the more recent signals don't seem to propose substantial elements to favour a rapid and significant inversion of the trend.

In addition, the number of Italian firms that invested abroad, with intentions of acquiring and integrating foreign advanced technology and products through take-overs, remain reasonably limited. This goes to prove the incipient and relatively immature characteristics of the internationalisation process of Italian companies, as compared to the parallel behaviour of the multinationals operating in Italy.

Expansion abroad of some Italian companies sometimes appears as the result of actions of rather limited strategic contents, merely finalised to the consolidation of the commercial presence and image, rather than an effort to really multinationalise the manufacturing facilities.

A further line of thought goes to complete the previous considerations. The multinational growth of companies was quite frequently not driven by an explicit strategic plan. In fact, not considering the large groups and the rare medium-sized companies which are leaders in specific market niches, the rationale for establishing manufacturing structures abroad is frequently the appearance of an unforeseen opportunity, the loss of staple commercial outlets or the symptoms of protectionistic measures. This confirms the strategic-managerial inability of a part of Italian companies of systematically evaluating the opportunities offered by the international market, in order to conquer competitive positions and to consolidate their productive assets at worldwide level.

Such statement must necessarily be mitigated by the fact that the capability of carrying out global actions on the international marketplaces, and not only in terms of product placement, requires a cumulative learning process that cannot be mastered in a short span of time.

The problem must then be assessed in terms of the tendencies that are presently in act and, to this purpose, more than a single favourable element concurs to the establishment of a «multinational culture» within the Italian industry.

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APPENDIX

TABLE A

Top twenty foreign multinationals, by number of employees
in Italian industrial controlled companies (situation as of December 31, 1987)

Company	Country	Employees (*)	Incidence	
			%	% summed
1 — Electrolux	Sweden	15 460	4.22	4.22
2 — IBM	USA	13 332	3.64	7.86
3 — Philips NV	Holland	12 765	3.48	11.34
4 — Michelin & Cie	France	10 890	2.97	14.31
5 — Co. Générale d'Électricité	France	10 369	2.83	17.14
6 — Siemens AG	W. Germany	10 204	2.78	19.92
7 — BBC Brown Boveri	Switzerland	9 919	2.71	22.63
8 — Ericsson LM	Sweden	9 412	2.57	25.20
9 — Unilever	Holland-UK	7 910	2.16	27.36
10 — SKF AB	Sweden	6 647	1.81	29.17
11 — United Technologies	USA	5 977	1.63	30.80
12 — Hoechst AG	W. Germany	5 103	1.39	32.19
13 — Bull	France	4 597	1.25	33.44
14 — 3M Minnesota Mining & Manufacturing.	USA	4 469	1.22	34.66
15 — Nestlé SA	Switzerland	4 213	1.15	35.81
16 — American Standard Inc.	USA	4 039	1.10	36.91
17 — Solvay & Cie SA	Belgium	3 669	1.00	37.91
18 — Saint Gobain	France	3 644	0.99	38.90
19 — Kraft Inc.	USA	3 608	0.98	39.88
20 — Ciba Geigy	Switzerland	3 407	0.93	40.81
<i>Total employees in Italian controlled company</i>		366 538	100	100

(*) Employee data refer to 1986.

Source: REPRINT database, R&P — Ricerche e Progetti.

TABLE B

**Top twenty foreign multinationals, by turnover of Italian
Industrial controlled companies (situation as of December 31, 1987)**

Company	Country	Turnover (*) million lire	Incidence	
			%	% summed
1 — Exxon	USA	6 887 887	9.00	9.00
2 — IBM	USA	4 196 832	5.48	14.48
3 — Mobil	USA	3 468 962	4.53	19.01
4 — Philips	Holland	6 265 436	3.47	22.48
5 — Unilever	Holland-UK	4 667 905	3.29	25.77
6 — Electrolux	Sweden	1 623 352	2.12	27.89
7 — Siemens	W. Germany	1 452 809	1.90	29.79
8 — Michelin et Cie	France	1 212 275	1.58	31.37
9 — BBC Brown Boveri	Switzerland	1 138 567	1.49	32.86
10 — Hoechst	W. Germany	1 124 311	1.47	34.33
11 — Compagnie Générale d'Élec- tricit�	France	948 779	1.24	35.57
12 — Bayer	W. Germany	887 692	1.16	36.73
13 — SKF	Sweden	826 467	1.08	37.81
14 — Ciba Geigy	Switzerland	803 288	1.05	38.86
15 — Kraft	USA	800 001	1.05	39.91
16 — Saint Gobain	France	796 901	1.04	40.95
17 — Dow Chemical	USA	791 806	1.03	41.98
18 — Nestl�	Switzerland	775 292	1.03	42.99
19 — 3M Minnesota Mining & Manufacturing	USA	771 890	1.01	44.00
20 — Ericsson	Sweden	767 183	1.00	45.00
<i>Total turnover of Italian con- trolled companies</i>		76 528 708	100	100

(*) Turnover data refer to 1986.

Source: REPRINT database, R&P and Politecnico di Milano.

TABLE C

**Top twenty Italian multinationals, by number of employees
in foreign industrial controlled companies (situation as of December 31, 1987)**

Company	Number of employees (*)	Incidence	
		%	% summed
1 — CIR	54 807	24.27	24.27
Of which:			
CIR International	34 200	15.15	
Olivetti	17 708	7.84	
2 — IFI	49 249	21.81	46.08
Of which:			
FIAT Auto	13 568	6.01	
IVECO	13 474	5.97	
Magnetit Marelli	12 435	5.51	
3 — Pirelli	45 531	20.17	66.25
4 — Ferruzzi Agricola Finanziaria	23 371	10.35	76.60
Of which:			
Eridiana	6 850	3.03	
Montedison	5 637	2.50	
5 — ENI	5 075	2.25	78.85
Of which:			
AGIP	4 040	1.79	
6 — IRI	5 065	2.24	81.09
Of which:			
SGS Microelettronica	4 536	2.01	
7 — Gruppo GIM	3 200	1.42	82.51
8 — Ferrero	2 963	1.31	83.82
9 — Fornara SPA	2 799	1.24	85.06
10 — Candy	2 097	0.93	85.99
11 — PAF Partecipazioni Finanziarie	1 980	0.88	86.87
12 — Fausto Carello & C.	1 600	0.71	87.58
13 — Merloni Finanziaria	1 191	0.53	88.11
14 — SIV Società Italiana Vetro (EFIM)	1 137	0.50	88.61
15 — Cinzano Francesco & C.	1 017	0.45	89.06
16 — Gruppo Pezzoli	943	0.42	89.49
17 — Gruppo Zegna	920	0.41	89.89
18 — Gruppo Miroglio	847	0.38	90.27
19 — Gruppo Finanziario Tessile	735	0.33	90.60
20 — Bassani Ticino	610	0.27	90.87
Total number of employees in foreign controlled companies	225 782	100	100

(*) Employee data refer to 1986.

Source: REPRINT database, R&P and Politecnico di Milano.

TABLE D

**Top twenty Italian multinationals, by turnover of foreign
Industrial controlled companies (situation as of December 31, 1987)**

Company	Turnover (*) million lire	Incidence	
		%	% summed
1 — ENI	7 193 941	17.86	17.86
Of which:			
AGIP	7 020 209	17.43	
2 — Ferruzzi Agricola Finanziaria	6 976 301	17.32	35.18
Of which:			
Eridiana	1 735 000	4.31	
Montedison	2 417 404	6.00	
3 — IFI	6 747 991	16.75	51.93
Of which:			
FIAT Auto	980 000	2.43	
IVECO	2 512 900	6.24	
Magnetit Marelli	1 896 400	4.71	
4 — CIR	6 265 436	15.55	67.48
Of which:			
CIR International	3 295 021	8.18	
Olivetti	2 127 395	5.28	
5 — Pirelli	4 667 905	11.59	79.07
6 — Ferrero	965 396	2.40	81.47
7 — IRI	662 157	1.64	83.11
Of which:			
SGS Microelectronica	578 157	1.44	
8 — Fornara SPA	513 016	1.27	84.38
9 — Gruppo GIM	500 000	1.24	85.62
10 — Candy	347 500	0.86	86.48
11 — Gruppo Fin Tessile	231 650	0.57	87.05
12 — FIDEA	215 000	0.53	87.58
13 — PAF Partecipazioni Finanziarie	170 000	0.42	88.00
14 — Fausto Carello & C. SPA	163 000	0.40	88.40
15 — Radici (Group)	160 300	0.40	88.80
16 — Merloni Finanziaria	159 800	0.40	89.20
17 — Zegna	129 660	0.32	89.52
18 — Nebiolo Macchine SPA	128 000	0.32	89.84
19 — Cinzano Francesco & C. SPA	125 120	0.31	90.15
20 — SIV Società Italiana Vetro (EFIM)	110 468	0.27	90.42
Total turnover of foreign controlled companies	40 287 000	100	100

(*) Turnover data refer to 1986.

Source: REPRINT database, R&P and Politecnico di Milano.