Italy goes global

How Italian companies navigate international business

HSBC

Together we thrive

Executive Summary

Following the first edition of "*Italy goes global*" released in 2018, HSBC wanted to further study the current health of large Italian businesses (those with revenues above EUR200 million) by analysing their internationalisation processes: economic relations, commercial interdependencies and strategies as well as difficulties and opportunities, also in the light of the COVID-19 pandemic.

Background

According to the survey, businesses with more than 100 employees generate 64.5% of total Italian exports, and more than a third of exports (34.3%) came from companies with more than 500 employees, of which one out of four (23.3%) is exporting more than 75% of its turnover. Unsurprisingly, the sectors the country is best known for abroad (under the "Made in Italy" label) are among those exporting the most. This includes in particular the food (19.8%), machinery (11.5%), automotive (8.9%) and textile (6.3%) sectors.

Eight internationalisation strategies of manufacturing companies can be identified based on their foreign investment on the one hand and their inclination to export on the other hand.

The main reasons for companies to open up to foreign countries are Local presence of key customers (B2B) (43.7%), Cost containment (20.4%), Proximity to outlet markets (B2C) (18.1%) and Availability of qualified local partners (15.7%).

This study shows that internationalisation processes are suitable only for the most efficient companies, normally increasing profitability for those that are already profitable in Italy.

Current scenario

At EUR434 billion in 2020, Italian exports have recorded a drop with respect to 2019 export data, reversing a long-lasting positive trend and plunging Italian exports back to 2014 levels. However some industries, particularly within the manufacturing sector, managed to strengthen their international focus: the engineering sector grew its European sales from 34.8% in 2019 to 40.4% in 2020; the textile and fashion sector saw a similar increase for Europe (from 30.5% to 36.7%), with even steeper growth outside the region (from 25.7% to 34.3%).

Germany tops the list of markets cited by Italian companies as their most important destination (increasing from 27.7% in 2019 to 31.7% in 2020) while France and Spain are cited less than in the previous year. Among non-EU markets, North America (USA, Canada, Mexico) saw the steepest increase (from 5.2% to 26.9%), with positive trends shown also for Arab and Middle Eastern countries, China, South and Central America, and Australia.

The impact of pandemic

The global effect of the pandemic, lockdowns and the subsequent economic crisis has forced numerous companies of all sizes to review their strategic plans, following clear paths towards shortening supply chains and strengthening e-commerce instead of a physical presence in the outlet markets.

Over 35% of Italian companies have in fact already changed their internationalisation strategies or are considering doing so, with a peak of almost 40% of the sample of the manufacturing sector, concentrated in the Northeast and on the Islands. Specifically, large companies (> 250 employees) with a turnover of over EUR200 million a year are engaged in this process (respectively 39.6% and 38.2%).

In particular, the crisis has made clear the need to shorten production chains. Only 7.3% of companies that have relationships with foreign markets continued to move part of their production abroad, 8.6% have suspended any project to do so, while 84.1% continue to produce in Italy.

Reshoring? Aware of the difficulties related to the pandemic, only 2.4% of companies have completely brought their production back to Italy, while 9.8% moved a part of the previously delocalised production.

Competitiveness

Italian companies are considered to have a good level of competitiveness overall, according to a self-assessment of managers/ owners: on a scale from 1 to 5 (where 1 is "not at all" competitive and 5 "very" competitive), the average value is 3.64.

The greatest perceived advantages are mainly product and service quality (4.27) along with customer service (4.12). There are some other distinguishing factors, such as worker professionalism (3.99, even higher – 4.21 – in the construction and engineering sector), the ability to tailor the product or service to the customer’s needs (3.69, with a maximum of 4.34 for textiles), the use of technology, the innovations used in production (3.68, which among metalworkers climbs to 4.12).

The reasons why a foreign company should invest in Italy can mainly be found in factors related to the workforce. More than half of respondents (59.7% overall) cited solid manufacturing know-how (34.5%) or the presence of highly professionalised human capital (25.2%) as key factors for settling in Italy.

Sustainability

Companies’ ethical and environmental sustainability has emerged as a competitive factor for the companies themselves, in addition to the social value this creates. The COVID-19 pandemic has strengthened this feeling, increasing the presence of a sustainability angle in the daily business.

Despite the economic crisis, 70% of respondent companies will preserve their investment on sustainability, highlighting the importance it has for businesses. Even before the pandemic, just over half of respondents (57.1%) believed that their company has emphasised this aspect and that they were making continuous progress in this regard. Manufacturing companies (63.7%) were the ones underlining this option the most, particularly those in the chemical (75.8%) and engineering sectors (62.4%), companies in the Northwest (61.4%) and especially the largest ones (64.1%, more than 250 employees) with a higher turnover (65%, over EUR200 million).

The main reasons behind sustainable investment reveal a symbolic and value orientation and lie in compliance with both market and sector standards (86.9%) and in being genuinely perceived as an ethical and ecological company (85.8%).

Lights and shadows in the internationalisation of Italian companies

At EUR434 billion in 2020[1], Italian exports have recorded a huge drop in respect to 2019 export data, reversing a long-lasting positive trend and plunging Italian exports back to 2014 levels. Aside from the effects of the pandemic, the long-term rise in exports represents a positive signal in support of the growth of Italy's real economy. Even though trends have been volatile over the years, 2020 more so than usual, exports have always been a factor of extraordinary competitiveness critical to the well-being of businesses and the country as a whole.

Following the first edition of *"Italy goes global"* released in 2018, HSBC wanted to further study the current health of large Italian businesses by analysing their internationalisation processes: economic relations, commercial interdependencies, strategies, but also difficulties and opportunities as expressed by the protagonists themselves, large companies and their managers.

For this reason, HSBC commissioned a new study – coordinated by Professor Daniele Marini of Padua University – focused on the internationalisation process of both medium- and large-sized Italian companies. The goal is to better focus on challenges, opportunities and opinions of large Italian enterprises and on emerging corporate needs in order to strongly compete on the international scene.

This study, which is one of the widest ever carried out in the country, is aimed at Italian corporations – with revenues above EUR200 million – mainly focusing on those that are either international exporters or direct investors in a foreign country, and consequently on companies with a multinational reach.

The study explores the link between internationalisation and performance of companies by covering topics crucial for the Italian economy and investigating the companies and their globalisation strategies. The study also takes into consideration the perceived competitiveness of Italian companies with respect to European peers, relations with Europe and the opportunities offered. Moreover, it analyses sustainability as a driver for competition.

[1] Provisional data released in April 2021 by the Ministry for the Economic Development and comparing data of full year 2019

Large Italian companies at a glance

The total number of companies exceeding EUR200 million in turnover (2020) is

1,297

According to the research, they can be classified in two macro-sectors:

44.9% in manufacturing (41.4% in 2019)

55.1% in trade and services (58.6% in 2019)

Companies can also be split into groups according to their size, as there is a slight difference between the industrial and service sectors: on average, manufacturing companies are larger (51.7% in 2020 over 250 employees), while companies belonging to the tertiary sector are smaller (52.8% in 2020 less than 249 employees). In contrast, trade and service companies have a larger share (55.1% in 2020) of the group with turnover over EUR200 million compared to manufacturing (44.9% in 2020).

Distribution on the national territory is even more marked: Northwest and Northeast are still the areas with a higher concentration of manufacturing companies (respectively 54.7% and 49% in 2020). Conversely, the Central (58.5% in 2020) and Southern regions (53.6% in 2020) have a concentration of service companies.

Once again, this shows how industrialisation processes have not spread uniformly throughout the country, with lower levels found in the South.

Table 1 – Italian corporate profile (%)

	Manufacturing		Service	
	2020	2019	2020	2019
Total	49.2	50.6	50.8	49.4
Area				
Northwest	49.0	50.3	51.0	49.7
Northeast	54.7	59.1	45.3	40.9
Center	41.5	43.3	58.5	56.7
South and islands	46.4	36.4	53.6	63.6
Size				
SMEs (< 249 employees)	47.2	47.7	52.8	52.3
Large (> 250 employees)	51.7	54.3	48.3	45.7
Revenues				
< EUR200 million	50.9	54.7	49.1	45.3
> EUR200 million	44.9	41.4	55.1	58.6

Source of Table 1: Analysis for HSBC based on AIDA 2019 figures

Globalisation as a key strategy to improve a company's economic performance

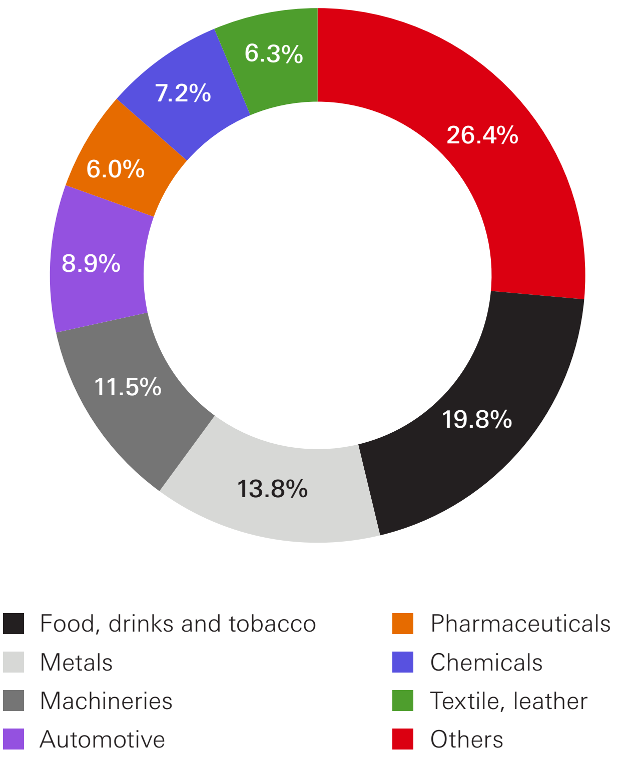
Thinking of an economy like Italy, one of the world's leading exporters, it is easy to ask: what are the benefits of internationalisation? Do the most internationalised companies outperform the others? The answer to these questions comes from the analysis of large Italian manufacturing companies' financial statements, showing that there are very different strategies and behaviours, from pure export to Foreign Direct Investments (FDI).

Who are the Italian exporting companies?

By analysing the revenue distribution of the surveyed companies by geographical area, the companies' financial statements show that businesses with more than 100 employees generate 64.5% of total Italian exports, and that more than a third of exports (34.3%) came from companies with more than 500 employees, of which one out of four (23.3%) is exporting more than 75% of its turnover.

Unsurprisingly, the sectors the country is best known for abroad (under the "Made in Italy" label) are among those exporting the most. This includes in particular the food (19.8%), machinery (11.5%), automotive (8.9%) and textile (6.3%) sectors.

Chart 1 – Sectors exporting the most



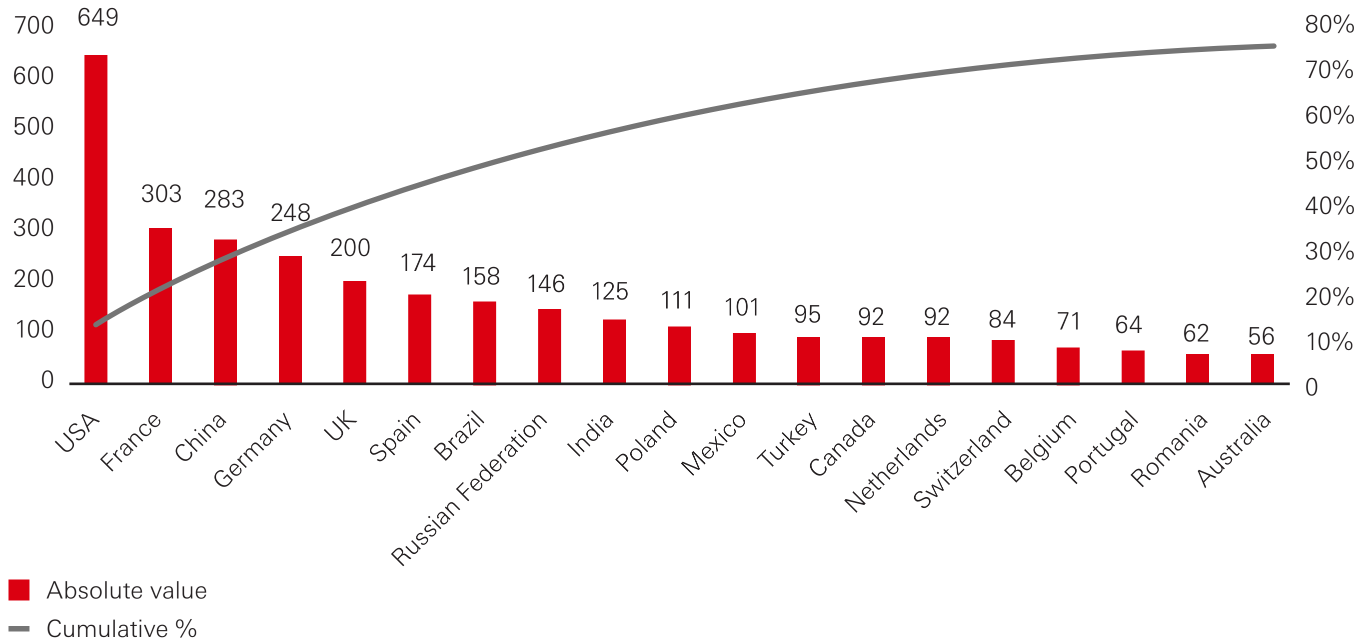
Among the companies analysed, only 6.3% of them exclusively trade in their domestic market. 16.7% export up to 10% of their turnover; 13.2% between 10% and 24%; 14.9% between 25% and 49%. 48.9% of companies export more than half of their turnover. 21% export between 50% and 74%, and 27.9% more than 75% of their turnover.

Source of Chart 1: Analysis for HSBC based on AIDA 2019 figures

Where are the Italian companies going?

If we look at how large Italian manufacturing companies strategically manage their international presence through foreign shareholdings,[2] 61.9% of companies have a stake in at least one company abroad, adding up to a total of more than four thousand companies located in 115 countries around the world. It will come as no surprise that the USA is the first internationalisation partner of large Italian companies through Foreign Direct Investment (FDI), with 649 cases, followed by France (303) and China (283), which attracts more investment than Germany (248) and the United Kingdom (200). The top 20 target countries represent as much as 73.1% of Italian shareholdings.

Chart 2 – Distribution of investee companies per country (absolute value and cumulative %).



Source of Chart 2: Cumulative % for HSBC based on AIDA 2019 figures

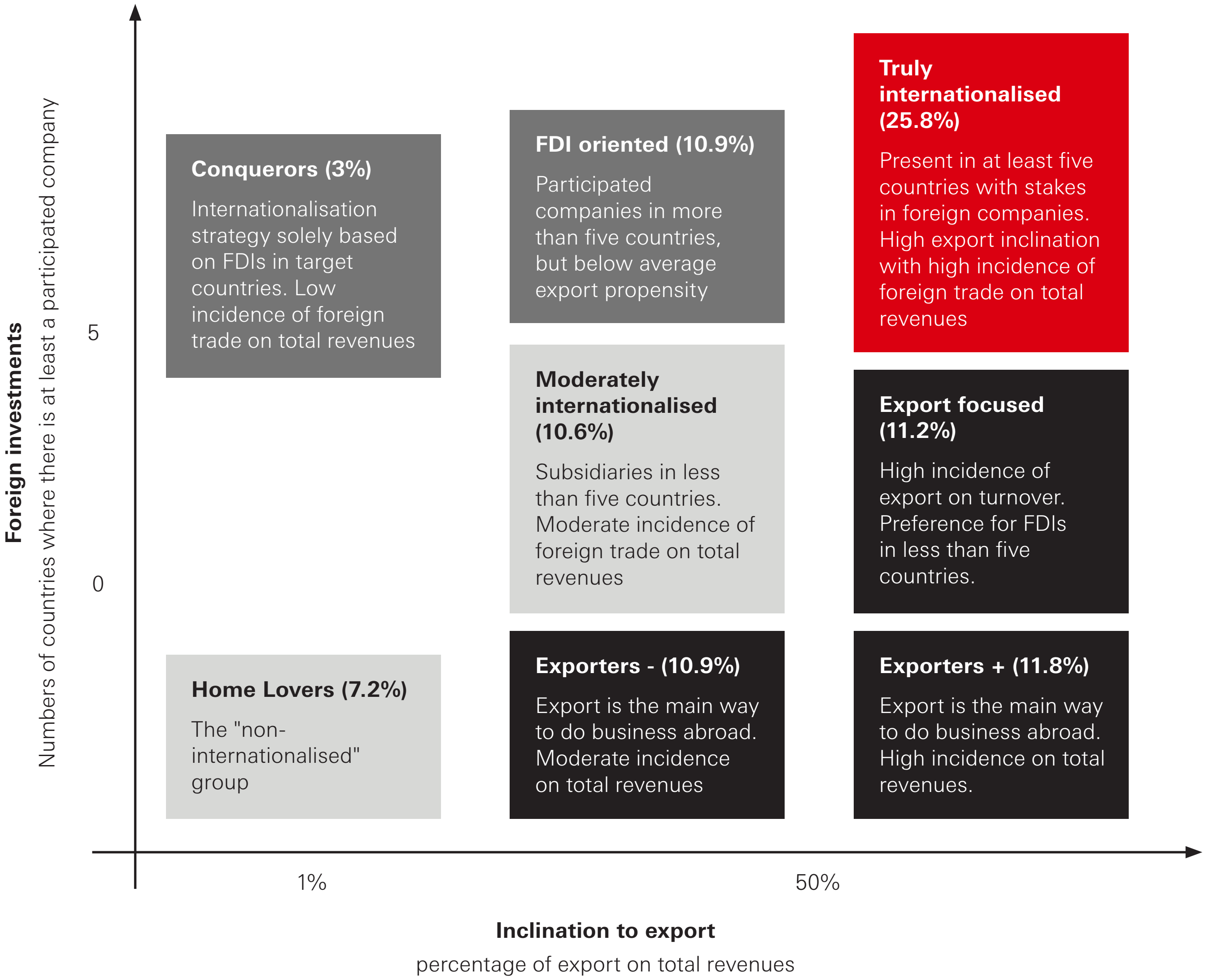
[2] All equity investments were considered, even minority stakes.

Internationalisation strategies for large Italian companies

Studying the companies' patterns of foreign direct investment and exports, eight internationalisation strategies of manufacturing companies can be identified[3] and they can be grouped into four classes:

1. **Champions:** companies with a high inclination to export (more than 50% of turnover) and a high propensity for foreign investment (controlling stakes of companies in at least five foreign markets).
2. **Exporters:** companies that have focused mainly on exports.
3. **Investors:** companies that are focused mainly on investment opportunities abroad.
4. **Market Sailors:** companies that have implemented mixed strategies involving both direct investments abroad and exports, with varying levels of intensity.

Figure 1 – Eight internationalisation strategies of Italian manufacturing companies



Source of Figure 1: Padua University-CMR for HSBC

[3] The analysis covers 348 Italian companies

What are the companies' criteria to choose between export and direct investment?

The analysis of the sample and the literature[4] shows that if the dominant factors are firm-specific (i.e., based on technologies and brands that represent some advantages over the given company's competitors, regardless of its localisation), the prevailing strategy will be based on FDIs. On the other hand, export is the most suitable choice if the company's competitive advantage is based on country-specific factors and the costs of logistics do not have a significant impact.

Is it really worth it to be more internationalised?

Going back to the original question, does being more internationalised generate more profitability and productivity?

The answer must also take into account the analysis made on the main performance indicators of large Italian manufacturing companies, namely: EBITDA/sales, Return on Assets (ROA), Return on Sales (ROS), Return on Investment (ROI), Return on Equity (ROE), Productivity as the ratio between Value Added and Cost of Labour.

The research also demonstrates that the Champions – companies that have an internationalisation model providing both a strong inclination to export and a presence in at least five markets abroad through subsidiaries – have a higher level of profitability, making them more important for the Italian economy. As for level of productivity, there are no substantial differences between the four business groups.

[4] Nanut and Tracogna (2011)

This study and previous research show that internationalisation processes are suitable only for the most efficient companies, normally increasing profitability for those that are already profitable in Italy.

Italian companies looking for new internationalisation models

While internationalisation is beneficial, on average the business of large Italian companies has become slightly less international. This phenomenon started following political and economic uncertainty and was exacerbated by the pandemic, demonstrating that companies' strategies are not only based on numbers and profitability, but also on their managers and entrepreneurs' expectations. Behind business decisions there are complex drivers including both rational and emotional/psychological factors. However, this latter "softer" component could be positively influenced by aspects such as the choice of the right business partners, regulatory changes or geopolitical and macroeconomic context.

The behaviour of large Italian companies

To complete the financial statement analysis, respondents were also asked to define the geographical distribution of their sales. The comparison with the previous study (end of 2017)[5] highlights a general trend, also underlined by the institutional data[6]: a decreased focus of Italian companies on foreign markets. On average, in 2020 the surveyed companies generated a larger part of their revenues domestically (68.2%) compared to 2017 (60.8%), selling their products and services in Italy.
The remaining percentage (31.8%) is divided among those with outlets in the European Union (18.1%, decreasing from the 22.6% of 2017) and those outside the continent (13.7% decreasing from 2017's 16.6% as well). The increased focus on domestic sales is more pronounced in the service sector than in manufacturing. Companies in the construction and engineering sector are the most affected by the slowdown. In the manufacturing space, engineering, food and textile sectors are falling further, while chemical and other manufacturing companies (e.g., furniture, eyewear) appear to be unchanged. From a territorial point of view, businesses in the Northwestern part of the country have seen a slight decline, but as we move from the Northeast toward the Centre and the South this slowdown is more evident. This is a crosscutting phenomenon with respect to business size and turnover, but it has a smaller effect on the less-complex companies. Finally, it is worth noting that the companies' difficulty in projecting themselves into foreign markets seems to have a greater impact on

5 D. Marini, Internationalisation of Italian companies. Strategies of entrepreneurs, Collana sondaggi no. 18, Milan-Treviso, Community Media Research

6 ICE's 34th edition of Italian foreign trade https://www.ice.it/it/sala-stampa/xxxiv-edizione-rapporto-sul-commercio-estero-litalia-nelleconomia-internazionale and Istat's foreign trade data on December 2020 https://www.istat.it/it/archivio/253636#:~:text=A%20dicembre%202020%20si%20stima,Ue%20(%2D3%2C7%25)

the EU area compared to those operating in non-European spaces. This is in line with the observed slowdown of continental economies. However some industries, particularly within the manufacturing sector, continued to increase their international focus: the engineering sector grew its European sales from 34.8% in 2019 to 40.4% in 2020; the textile and fashion sector saw a similar increase for Europe (from 30.5% to 36.7%), with even steeper growth outside the region (from 25.7% to 34.3%).

Table 2 – Sales distribution (%)

	Italy			EU			Extra EU		
	2020	2019	2017	2020	2019	2017	2020	2019	2017
	68.2	68.3	60.8	18.1	18.2	22.6	13.7	13.5	16.6
Sector									
Manufacturing	47.2	49.3	45.8	29.6	29.8	31.4	23.2	20.9	22.8
Engineering	33.4	39.0	31.4	40.4	34.8	36.3	26.2	26.2	32.3
Chemical	50.4	52.7	54.5	25.3	28.5	30.9	24.3	18.8	14.6
Food	74.1	76.0	69.7	12.5	12.9	16.0	13.4	11.1	14.3
Textile and fashion	29.0	43.0	37.7	36.7	30.5	40.5	34.3	25.7	21.8
Other	50.7	47.0	49.3	26.7	33.7	32.7	22.6	18.4	18.0
Tertiary	88.7	87.0	83.1	6.7	6.8	9.7	4.6	6.1	7.2
Construction and engineering	95.5	83.1	53.2	2.5	8.7	19.9	2.0	8.2	16.9
Trade	91.0	88.0	85.9	5.7	6.6	9.1	3.3	5.4	5.0
Services	83.2	86.6	78.5	9.4	6.7	10.7	7.4	6.7	10.8
Area									
Northwest	65.3	66.1	61.6	20.4	20.0	22.2	14.3	13.9	16.2
Northeast	66.0	64.8	57.0	20.1	19.4	25.4	13.9	15.8	17.6
Centre	74.8	75.1	66.3	12.2	13.1	17.1	13.0	11.8	16.6
South and Islands	78.9	80.1	62.9	9.9	13.4	22.7	11.2	6.5	14.4
Size									
SMEs (< 249 employees)	68.4	71.8	63.6	17,8	16.4	21.7	13.7	11.8	14.7
Large (> 250 employees)	67.9	64.7	58.3	18.4	20.1	23.4	13.7	15.2	18.3
Revenues									
< EUR200 million	65.6	66.7	59.9	19.2	19.4	23.3	15.2	13.9	16.8
> EUR200 million	73.6	71.5	64.1	15.7	15.6	20.3	10.7	12.9	15.6

Source of Table 2: Padua University-CMR for HSBC, October 2020 (cases: 326), April-November 2019 (cases: 771-786); November 2017 (cases: 548-605)

Looking at what happened in the last year, Italian companies have strengthened their exports to Germany (from 27.7% to 31.7%), while the trade channels with France (from 23.3% to 22.5%) and Spain (from 10.1% to 8.3%) have weakened, with the United Kingdom[7] taking over third place (from 9.0% to 9.4%). Austria (4.3%) is the fifth destination market for Italian companies. Together, the top five European destination countries account for three-quarters (75.9%) of all countries cited by the surveyed companies as their top destinations.

Table 3 – EU (plus UK) destination markets
(1st and 2nd most important, %)

	2020	2019
Germany	31.7	27.7
France	22.5	23.3
United Kingdom	9.4	9.0
Spain	8.3	10.1
Austria	4.3	1.8
Poland	4.0	4.0
Netherlands	2.7	3.8
Greece	2.7	2.1
Romania	2.4	2.0
Slovenia	2.3	2.1
Belgium	1.9	2.9
Hungary	1.5	1.5
Croatia	1.1	1.8
Portugal	1.1	1.3
Luxembourg	0.8	0.1
Sweden	0.6	1.0
Bulgaria	0.6	0.3
Czech Republic	0.5	1.3
Denmark	0.5	1.0
Ireland	0.4	1.0
Slovakia	0.4	0.5
Finland	0.4	0.3
Malta	0	0.8
Lithuania	0	0.1
Latvia	0	0.1
Estonia	0	0.1
Cyprus	0	0.1

Table 4 - Non-EU destination markets
(1st and 2nd most important, %)

	2020	2019
North America (USA, Canada, Mexico)	26.9	5.2
Russia and other European non-EU countries (ex UK)	16.6	47.9
Arab and Middle Eastern countries	12.8	6.5
China	12.0	5.4
South and Central America	8.8	5.6
Southeast Asia (Vietnam, Philippines etc.)	7.8	8.5
Africa	6.4	15.2
Australia, Oceania and Pacific	5.3	2.4
India	3.3	3.3

Source of Table 3: Padua University-CMR for HSBC, October 2020 (cases: 326) April-November 2019 (cases: 788-805)
Source of Table 4: Padua University-CMR for HSBC, October 2020 and April-November 2019 (cases: 1,055)

[7] While the UK has left the European Union, it is included in this chart to show trends versus 2019

The COVID-19 pandemic had an important impact on international trade with non-EU countries, increasing the level of uncertainty of future strategic decisions.

While in 2019 the most important non-EU destination markets were Russia and other European countries not belonging to the EU (47.9%), this year the main route for exports to non-EU countries went to North America, where USA, Canada and Mexico had the opportunity to gain market share, passing from 5.2% to 26.9% according to respondents' preference. Other destination markets include again Russia and other European countries (16.6%), Arab and Middle Eastern countries (12.8% in 2020 vs 6.5% in 2019). Although China was the first country to be hit by the pandemic, its importance for Italian export significantly increased, from 5.4% to 12%. Africa (from 15.2% to 6.4%) and Southeast Asia (from 8.5% to 7.8%) became less relevant export destinations.

The most promising markets for large Italian companies are Italy and Europe

The research shows a tendency to shorten the range of trade, further amplified by the pandemic, with a growing number of companies focusing on the sale of products and services in Italy (+3.9%) and in Europe (+10.1 %), to the detriment of non-EU markets (-30.9%). An exception is the choice to sell products and services via e-commerce in a long-range perspective, seeing an increase of +24.6%, though still less than the +45.9% and +38.2% of companies targeting Italy and Europe respectively.

What is the reason for this slowdown in the internationalisation processes? In order to better understand this phenomenon aside from the influence of the pandemic and its related uncertainty, we gathered data from 2019 about the companies' view on the most promising markets in the coming years where they were planning to invest, comparing them to the 2017 ones.

Table 5 - Most promising markets in the next three years (1st and 2nd most important, %)

	2019	2017	
Italy	36.5	34.0	+
The rest of European Union	27.5	26.9	+
North America (USA, Canada and Mexico)	9.1	9.0	+
China	6.2	7.1	-
Non-EU countries (ex Russia and UK)	4.7	5.2*	+
Russia	2.8		
Arab and Middle Eastern countries	3.5	6.8	-
Southeast Asia	3.3	3.0	+
India	1.8	1.8	=
Africa	1.6	3.0	-
South and Central America	1.5	2.1	-
United Kingdom	1.1	N/A	N/A
Australia, Oceania and Pacific	0.4	1.0	-

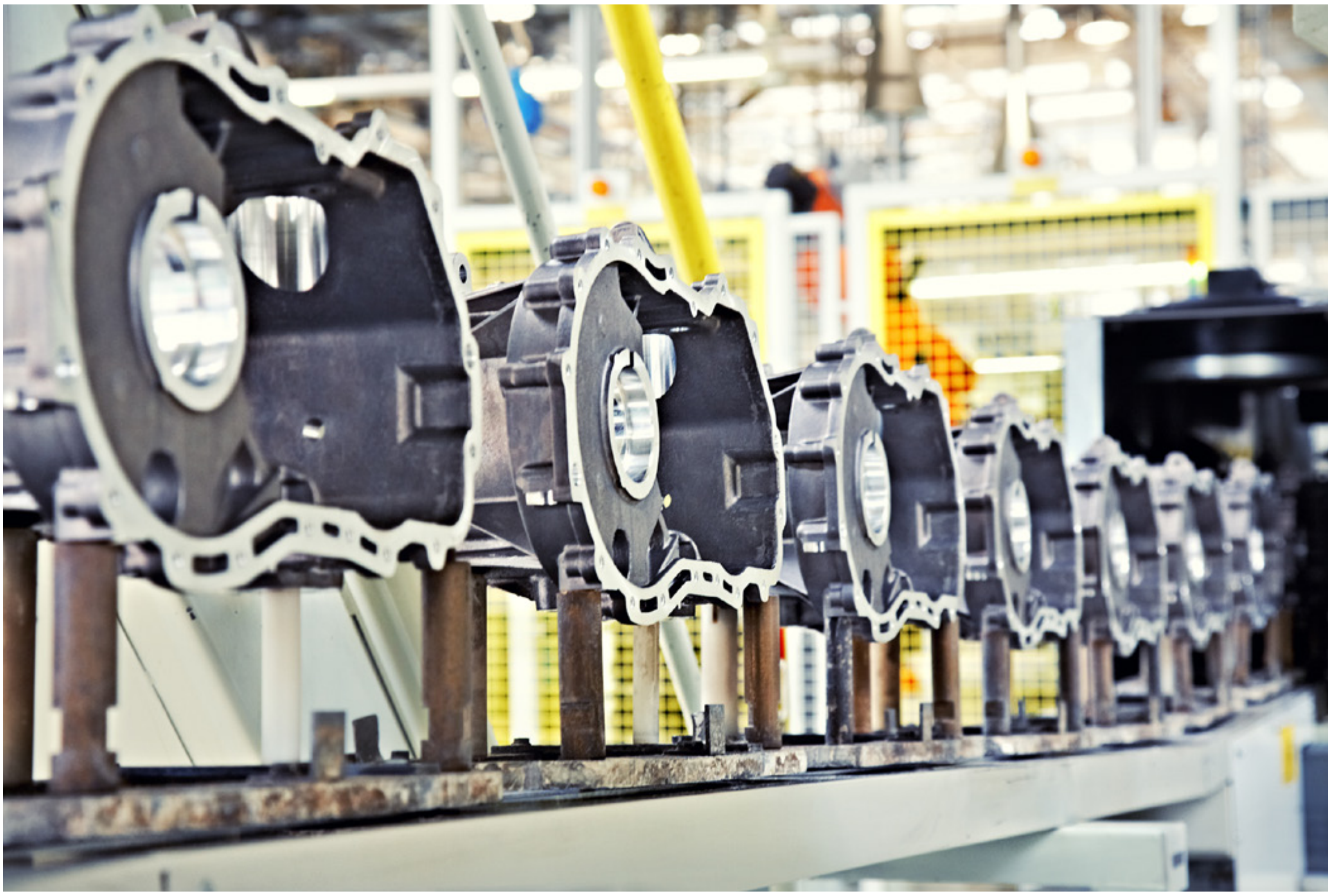
Source of Table 5: Padua University-CMR for HSBC, April-November 2019 (cases: 1,374); November 2017 (cases: 1,359)
(*) Russia and other European countries were considered together

It is clear that the overall prevailing area (64.0%) is represented by a "domestic" market consisting of Italy (36.5%) and the European Union (27.5%). This represents a slightly higher share compared with 2017, pointing to a geographic contraction in international trade. Other internationalisation targets are: North America (9.1%), Russia and other European countries (7.5%), China (6.2%), Arab and Middle Eastern countries (3.5%) and Southeast Asia (3.3%), i.e., the richest markets able to offer significant growth. Fewer opportunities seem to be allocated to some markets, such as India, Africa, South-Central America and Australia. The United Kingdom, which is among the top four export outlets, has little appeal due to the uncertainties around Brexit's full effects.

However, it is possible to identify differences in companies' orientations. First, manufacturing businesses (35.3%) pay more attention to the markets outside Europe compared to the service sector (12.5%). There are also some differences within the manufacturing sector. While textile (63.0%), chemical (40.3%) and engineering (39.2%) sectors seek extra-EU development, the food sector (61.3%) expects to grow in more domestic markets over the next three years.

Once again, considering the economic areas with the greatest commercial development opportunities, we can underscore how engineering companies look especially to the EU (34.0%) and North America (14.4%). The chemical sector's outlet markets are located in the EU (22.6%) and in China (12.9%). Textile businesses turn their attention to North America (29.6%), Russia (11.1%) and China (11.1%).

Furthermore, compared to their peers located in other areas, businesses in the North-eastern part of Italy (48.6%) tend to internationalise more, as they look to invest at a global level and in several different markets.



International openness

Opening up to foreign markets, especially during recessions – such as the one that affected the Italian economy and others after the start of the global crisis in 2008 – represented a real opportunity for the whole production system. Due to the historical decline of domestic demand and public investment, the internationalisation processes of large companies resulted in competitive momentum, with significant reverberations not only for individual companies but also for the whole business fabric. However, global trade has slowed in recent years due to the uncertainty generated by the US-China trade conflict, Brexit-related uncertainties and the slowdown in continental Europe's economy.

The decreased presence of Italian businesses in foreign markets compared to previous years is the result of growing uncertainty, the pandemic and the economic slowdown. 70.9% (71.3% in 2019 and 79.8% in 2017) of the companies analysed have commercial and production relationships outside of Italy. A minority of the companies studied does not have any activities in foreign markets (25.4%) and only 3.3% have ended this kind of relationship.

Table 6 - Presence in foreign markets (%)

	2020	2019	2017
Yes	70.9	71.3	79.8
Not at the moment, but will soon start	0.3	1.6	1.0
In the past yes, but not now	3.3	3.1	2.0
No	25.4	24.0	17.2

A detailed analysis allows highlighting additional elements to better understand these types of relationships and the level of openness towards foreign markets.

First, we see an 8.9% decrease of openness compared to 2017. This is true for all sectors, but manufacturing (-9.6%) remains more open to internationalisation, with a better performance compared to the service sector (-8.4%). Within this sector, the most marked decreases were experienced in the food (-27.3%) and chemical (-10.3%) industries, which were among the sectors most impacted by the effects of the COVID-19 pandemic. As for the tertiary sector, by far the biggest drop was recorded by building and constructions companies (-35%), whose openness towards foreign markets was dramatically impacted by the global lockdown of the past months. From a territorial point of view, the businesses that have had more impact are located in the Northeast (-13.8%), where companies are more open to foreign markets and the 2020 economic crisis forced businesses to review their choices. Less impacted was the area South and Islands, where there has been a positive trend (+4.2%). Companies of all dimensions and revenues were equally impacted (about 9%).

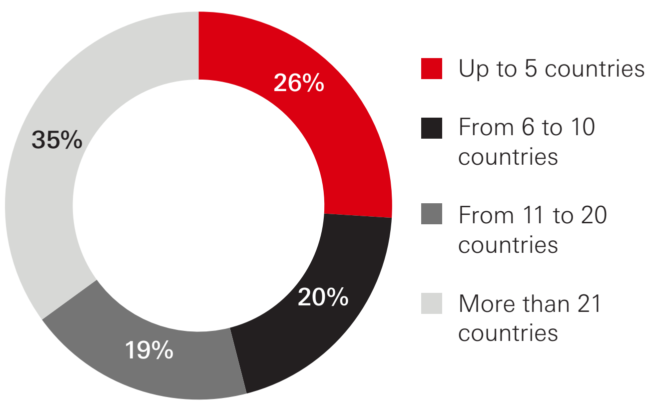
Source of Table 6: Padua University-CMR for HSBC, October 2020 (cases: 326); April-November 2019 (cases: 808); November 2017 (cases: 810)

Table 7 - Openness towards foreign markets (%)

	2020	2019	2017
Total	**70.9**	**71.3**	**79.8**
Sector			
Manufacturing	84.9	88.4	94.5
Engineering	88.9	91.3	98.6
Chemical	86.2	92.2	96.5
Food	71.0	81.3	98.3
Textile	98.9	85.7	100.0
Other manufacturing	88.0	87.6	91.1
Tertiary	57.0	53.8	65.4
Engineering and construction	25.0	59.1	60.0
Trade	61.2	57.9	69.6
Service	53.7	47.7	59.9
Area			
Northwest	77.0	75.0	84.5
Northeast	69.8	73.0	83.6
Centre	56.6	64.6	65.4
South and islands	71.4	56.9	67.2
Size			
SMEs (< 249 employees)	71.7	69.6	80.8
Large (> 250 employees)	69.7	73.1	78.8
Revenues			
< EUR200 million	70.2	71.,0	79.5
> EUR200 million	71.7	73.6	80.4

Looking at the internationalised companies, how many countries do each of them have production and commercial relations with? On average, each company has established relations with 26 foreign countries. Country groups show a polarisation between production with a relatively small network (26.1%, up to five countries and from six to ten a further 20.0%) and those with a sustained projection (from 11 to 20 countries 18.6% and over 21 as much as 35.0%).

Chart 3 - Number of countries reached (%)



Source of Table 7: Padua University-CMR for HSBC, October 2020 (cases: 326); June 2019 (cases: 793-809); November 2017 (cases: 418-609)
Source of Chart 3: Padua University-CMR for HSBC, June 2019 (cases: 489)

By using the average number of 26 countries as a benchmark, it is possible to identify internal differentiations in the analysed sample. In this case, one-third (31.5%) are above the average of the 26 countries, while the remaining 68.5% are below this threshold. Looking at what we might call the "big exporters" (above the average of 26), the manufacturing sector definitely stands out (40.4%) compared to the service sector (16.2%), and among these the engineering (44.9%) and the production sectors (43.2%) lead the way, giving the greatest boost.

How do such relations translate for companies that have a foreign reach? First of all, we can point out that there are no appreciable changes between the two surveys (2020 vs 2017) in the strategies undertaken by the analysed companies, despite the observed decline in international relations. Therefore, two prevailing forms remain.

First, there is the sale of products and services (93.2%), which is more rooted among manufacturing companies (97.2%) and – to a lesser extent – among businesses of the tertiary sector (85.6%), with the exception of service companies (90.0%). A similar number of companies (90.1%) buys products or services from foreign suppliers, and this behaviour mainly applies to manufacturing companies (91.4%). The commissioning of products or services abroad is a much less common practice (44.2%).

A mix of factors whose differences can be primarily found in each sector's peculiarities is the reason why large manufacturing companies extend their relationship networks beyond national borders. As with the internationalisation strategies, here again there are no particular deviations between the results of the two analyses performed. On average, the presence of customers for sourcing or selling products/services is the most important driver (43.7%).

Table 8 - Reasons for companies to open up to foreign countries (%)

	Cost containment	Availability of qualified local partners	Proximity to outlet markets (B2C)	Local presence of key customers (B2B)	Availability of workers useful for production needs
2019	**20.4**	**15.7**	**18.1**	**43.7**	**2.0**
2017	22.1	19.8	18.4	39.2	0.5

Source of Table 8: Padua University-CMR for HSBC, June 2019 (cases: 543); November 2017 (cases: 535)

Here are some other instances that almost have a similar weight for about a fifth of respondents: 20.4% are looking for a way to reduce costs, 15.7% want to track down qualified foreign partners to penetrate the local market, 18.1% want to be as close as possible to their end customers. Virtually no one is motivated by the need or the idea of finding foreign labour useful for their own production processes (2.0%).

These reasons are mainly linked to each sector's peculiarities rather than to the company's size or turnover. For example, the manufacturing sector (46.9%) is particularly sensitive to the presence of key local customers, especially among textile and engineering companies. The cost containment issue is mainly visible in the textile sectors (30.4%), while the search for locally qualified partners is a key element for the food (24.0%) and chemical (21.1%) sectors. Food companies pay more attention to the proximity to outlet markets (24.0%), while chemical businesses (46.6%) pay greater attention to the presence of key customers.

While on the one hand there is a limited but not marginal share of companies that have a major physical presence in the foreign target country – such as a new plant or new offices – on the other hand the number of companies that have relocated production abroad continues to decrease (14.5% vs 25.7% in 2017), in line with recent trends also confirmed by Istat.[8]

Other distribution choices include the opportunity to rely on agents' and distributors' networks (46.8%) and the signing of contractual agreements with local partners. The implementation of these two strategies is growing compared to two years ago (41.8%, 33.9% in 2017).

[8] According to the latest ISTAT analysis, in 2015-2017 only 3.3% of medium and large companies moved their businesses. In 2002-2006, this percentage was 13.4%: https://www.istat.it/it/files//2019/06/REPORT-TRASFERIMENTO-PRODUZIONE-ALLESTERO_2019.pdf

The impact of the pandemic on Italian companies' strategies

The COVID-19 pandemic arose in the midst of a quite positive yet fragile economic scenario. Most successful Italian companies were solid and highly projected abroad, especially the larger ones, navigating tariffs and betting on growing non-EU markets for their sales.

The health emergency injected a high dose of uncertainty into the Italian economy, society and companies, as making predictions suddenly became hard or even impossible. The global effect of the pandemic, lockdowns and the subsequent economic downturn has forced numerous companies of all sizes to review their strategic plans, following clear paths towards shortening supply chains and strengthening e-commerce instead of a physical presence in outlet markets.

Large companies are the most likely to be rethinking their internationalisation strategies

Over 35% of Italian companies have in fact already changed their internationalisation strategies or are considering doing so, with a peak of almost 40% of the sample of the manufacturing sector, concentrated in the Northeast and on the Islands. Specifically, large companies (> 250 employees) with a turnover of over EUR200 million a year are engaged in this process (respectively 39.6% and 38.2%).

Table 9 - Changing internationalisation strategies (%)

	Are you changing your internationalisation strategies?	Are you evaluating a change in your internationalisation strategies?	No change in internationalisation strategies with no intention to do it
Total	**9.1**	**26.4**	**64.5**
Manufacturing	11.0	28.7	60.3
Tertiary	6.3	23.2	70.5
Area			
Northwest	11.4	20.2	68.4
Northeast	9.0	35.8	55.2
Centre	3.3	23.3	73.4
South and islands	5.0	40.0	55.0
Size			
SMEs (< 249 employees)	7.0	25.0	68.0
Large (> 250 employees)	10.9	28.7	60.4
Revenues			
< EUR200 million	4.6	29.8	65.6
> EUR200 million	17.1	21.1	61.8

Source of Table 9: Padua University-CMR for HSBC, October 2020 (cases: 326)

The major areas of change include a greater strengthening of e-commerce for the sale of products and services, the establishment of corporate joint ventures and the signing of contractual agreements abroad, while in light of the global economic crisis the supply of products and services from abroad and the opening of commercial branches have been reduced.

Table 10 - How internationalisation strategies have changed due to the pandemic (*)

	Italy	Europe	Outside Europe
Sale of products/services	+3.9	+10.1	-30.9
Sale of products/services via e-commerce	+45.9	+38.2	+24.6
Purchase of products/services from suppliers	-5.5	-29.1	-32.0
Commissioning production/services to suppliers	-17.5	-14.8	-21.1
Opening commercial branches	-5.7	+1.8	-9.9
Acquiring a share of offices/plants abroad	0.0	0.0	0.0
Establishing corporate joint venture	+16.8	0.0	+3.0
Signing contractual agreement	+13.3	-4.0	-12.1
Opening new plants or operating offices	-9.5	+5.3	+2.8
Network of representatives	+1.4	+5.8	+5.8

Shortening supply chains

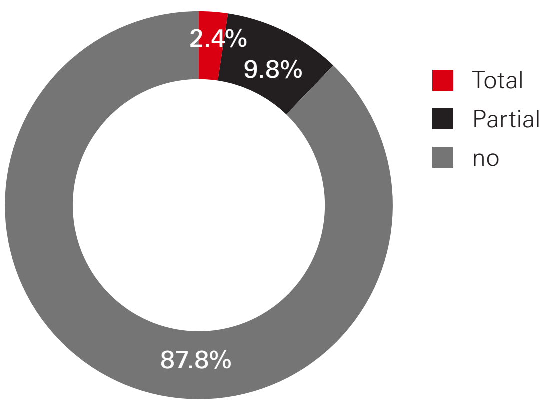
The crisis has made clear the need to shorten production chains, considering the shock on supplies linked to provision difficulties in countries affected by lockdowns from both a production and logistical point of view. Only 7.3% of companies that have relationships with foreign markets continued to shift part of their production abroad, 8.6% have suspended any project to do so, while 84.1% continue to produce in Italy.

Of the large Italian companies that produce abroad, over half of them (55%) have factories in non-EU countries. Specifically, almost a fifth of Italian factories abroad are in China (19.5%), while 16.1% are in North America, 12.9% in Romania, 6.5% in Brazil and Tunisia and 3.2% in India and Dominican Republic.

A micro step towards reshoring

Aware of the difficulties related to the pandemic, only 2.4% of companies have completely brought their production back to Italy, while 9.8% moved a part of the previously delocalised production.

Chart 4 – Companies choosing to reshore (%)



Source of Table 10: Padua University-CMR for HSBC, October 2020 (cases: 326)
Source of Chart 4: Padua University-CMR for HSBC
(*): difference between those who answered "increased" or "diminished"

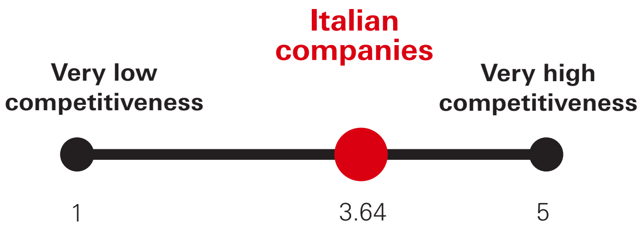
Competitiveness, Europe and the European Union

The competitiveness index of Italian companies in Europe

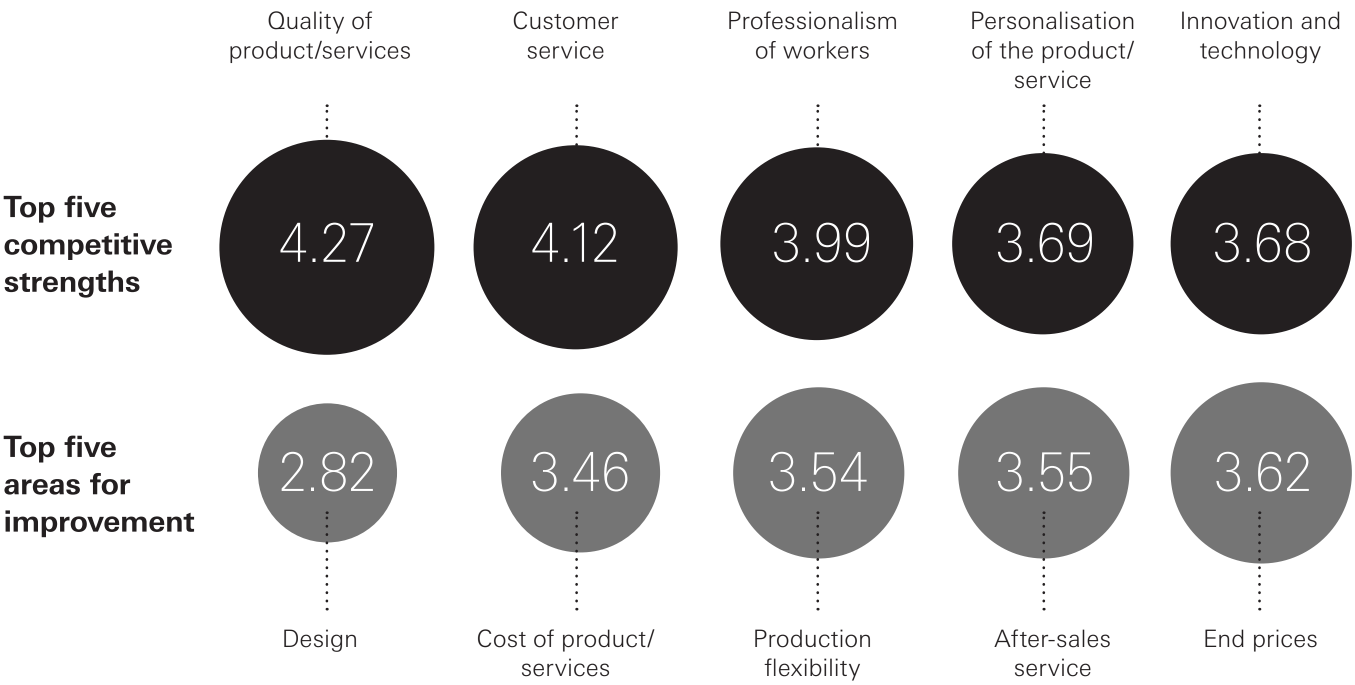
In an ever-widening "domestic" market within the European Union, the chance for a large Italian company to be competitive and to perceive itself as such becomes a strategic factor for the whole country. Italian companies are considered to have a good level of competitiveness overall, according to a self-assessment: on a scale from 1 to 5 (where 1 is "not at all" competitive and 5 "very" competitive), the average value is 3.64.

Owners and managers assign an overall positive score to the companies they lead compared to the European average. Considering the ranking of different factors, we can see that the greatest perceived advantages are mainly product and service quality (4.27) along with customer service (4.12). There are some other distinguishing factors, such as worker professionalism (3.99, even higher – 4.21 – in the construction and engineering sector), the ability to tailor the product or service to the customer's needs (3.69, with a maximum of 4.34 for textiles), the use of technology, the innovations used in production (3.68, which among metalworkers climbs to 4.12). These factors more than others make Italian companies highly competitive in Europe.

Figure 2 – Competitiveness of Italian companies



These aspects are counterbalanced by some other factors that are viewed to be less competitive. We have, in order: end prices (3.62, even more accentuated in construction and engineering: 3.04), after-sales service (3.55, significantly lower in the construction and engineering sectors, with 3.20), production flexibility (3.54, significantly lower in trade: 2.97), the cost of products/services (3.46, with the textile sector at the bottom of the ranking at 3.01) and product design (2.82, with services coming in last at 2.22)



In order to identify a synthetic measure, we created a "competitiveness indicator" of Italian companies by splitting those above and below the average.

Just over half of respondents (53.4%) consider themselves more competitive than the average European companies in the same field. Manufacturing companies (60.7%) are included in this group, and among these the engineering (68.4%) and "other manufacturing" (63.7%) stand out. From a territorial point of view, North-western companies (57.5%) show a higher perception, mainly the largest ones (56.5%, over 250 employees).

Conversely, a minority – but a decidedly non-marginal share (46.6%) – believes there are companies abroad who can better compete on the European markets than them. This minority includes service companies (55.5%), those located in the Centre part of the country (58.3%), and the smaller ones (50.4%, less than 249 employees).

Competitiveness also depends on the country system

An economy's competitiveness is not only defined by some business factors as the importance of territorial and country factors is increasing. In this respect, how do the surveyed companies assess the situation compared to other European countries' averages? The overall outcome reveals a mixed assessment for Italy. Considering the balance of opinions expressed, both the labour and the education factors can be identified as strengths. For the former, respondents felt that the quality of the Italian workforce is much better than that of other European countries (balance of 55.3), followed by the presence of highly local subcontracting (13.9) supporting larger companies. The education system, both at the university (5.2) and at technical and professional levels (2.4), is also important.

Source: Padua University-CMR for HSBC, April-November 2019 (cases: 674-746) – 1 = very low competitiveness, 5 = very high competitiveness

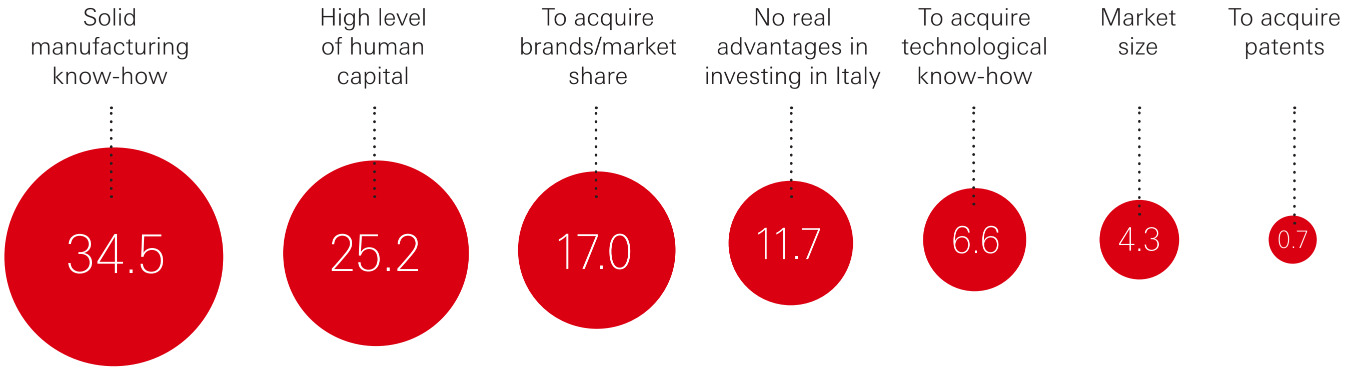
In addition to these aspects, however, Italy's tangible and intangible infrastructure has had very poor results compared to other European countries, starting from the lack of research centres (-41.7), intangible networks (broadband, Wi-Fi, etc. -46.8) and physical networks (roads, highways, etc. -52.5), which would allow fast movement of information, people and goods. The results related to incentives for starting new companies (-68.9) and bureaucracy (-92.6) are even worse, as the latter is the true ball and chain of the production system.

Table 11 - How much do you think the following aspects of Italy are better, equal or worse than the average of other European countries? (*)

	Worse	Equal	Better	difference
Workforce quality	3.6	37.5	58.9	+55.3
Presence of local suppliers	11.9	62.3	25.8	+13.9
Universities	22.5	49.8	27.7	+5.2
Technical and professional schools	23.5	50.6	25.9	+2.4
Availabilities of research centres	47.9	45.9	6.2	-41.7
Intangible network quality (broadband, Wi-Fi, etc.)	49.3	48.2	2.5	-46.8
Quality of infrastructural networks (roads, highways, airports, ports)	55.2	42.1	2.7	-52.5
Incentives for starting companies	72.0	24.9	3.1	-68.9
Bureaucracy	93.6	5.4	1.0	-92.6

Consistent with what was stated above, the reasons why a foreign company should invest in Italy can mainly be found in factors related to the workforce. Suffice it to say that more than half of respondents (59.7% overall) cited solid manufacturing know-how (34.5%) or the presence of highly professionalised human capital (25.2%) as key factors for settling in Italy.

Figure 3 - Reasons for a foreign company to invest in Italy (%)



Source: Padua University-CMR for HSBC, April-November 2019 (cases: 742-778)

Europe as an institution to support Italy's production system

The European Union's role as an institution has to be mentioned among the system factors. We proposed to the owners and managers of the surveyed companies some hypothetical initiatives that the European Union could carry out in favour of Italy's production system. All the proposed projects achieve remarkable results, from supporting companies in their sustainability efforts (average rating 4.09), to promoting sustainability-related innovations for cities and territories (4.02), greater trade integration between single EU member countries (4.00) and greater economic integration (3.93) with the aim of strengthening the EU's power and international influence (3.91). Ultimately, it could be argued that all Italian companies, without any significant differentiation within the sample, want European institutions to have a more active and decisive role.

Nearly 20 years after European monetary integration, how do business owners and managers assess the single currency? Three out of four respondents (73.5%) give a "pragmatic" opinion: the currency has created some difficulties, but it was absolutely needed in order to achieve the European project of a single market. In contrast we have the "enthusiasts" of the single currency (they are 17.4%, mainly manufacturing companies) and the "disappointed", believing that the disadvantages far outweigh the benefits. This is a smaller group (9.1%), with a higher presence in the services (11.0%), textile sectors (28.6%), in Central Italy (12.5%) and in companies with a lower turnover (10.6%, up to EUR200 million).

Figure 4 - Assessment of potential EU initiatives

5 - totally positive

4.09

Support companies in sustainability projects

4.02

Promote innovation linked to sustainability (low environmental impact cars, waste management, smart cities, etc.)

4.00

Greater trade integration among countries

3.93

Increase trade exchanges

3.91

Reinforce the international role of the EUR to increase the influence of Europe internationally

1 - totally negative

Source: Padua University-CMR for HSBC, April-November 2019 (cases: 749-760)

A focus on sustainability

The issue of companies' ethical and environmental sustainability has emerged as a competitive factor for the companies themselves, as well as for the social value attributable to these entities.

The COVID-19 pandemic has strengthened this feeling, increasing the presence of a sustainability angle in the daily business. Recent data highlighted how a greater focus on sustainability is good for business and is projected to drive growth.

Where are the big Italian companies at?

Despite the economic crisis, 70% of respondent companies will preserve their investment on sustainability, highlighting the importance it has for businesses. Even before the pandemic, just over half of respondents (57.1%) believed that their company has emphasised this aspect and that they were making continuous progress in this regard. Manufacturing companies (63.7%) were the ones underlining this option the most, particularly those in the chemical (75.8%) and engineering sectors (62.4%), companies in the North-western part of the country (61.4%) and especially the largest ones (64.1%, more than 250 employees) with a higher turnover (65%, over EUR200 million).

The number of companies saying that they do not have such a focus is very small: 11.7%. These include companies working in the tertiary sector (14.1%), those active in commerce (21%), those in the South of Italy (16.1%), the smallest ones (16.2%, less than 249 employees) and those with lower turnovers (12.5%, less than EUR200 million).

A significant part of Italy's large production system (76.3%) is turning its attention to ethics and sustainability, particularly the larger, North-western manufacturing companies.

Why invest in sustainability

With regard to the future, all the surveyed companies stress the importance and the need to invest in these aspects, deeming them pivotal for competitiveness (21.9%) or important together with other strategic goals (55.4%).

The main reasons behind sustainable investment reveal a symbolic and value orientation and lie in compliance with both market and sector standards (86.9%) and in being genuinely perceived as an ethical and ecological company (85.8%).

Of course, there are also some important economic motives, as it is clear that pursuing ethical and sustainable goals enables companies to improve their revenues (74.0%) and to support cost efficiency (77.4%). However, value-related aspects seem to have a strong influence on the orientation of Italian companies' managers and owners, who are prioritising investments in the areas of environment/pollution (54.7%), human capital and training (22.0%) and relations with local communities (12.3%).

More and more, the positive economic aspects of companies' focus on this specific dimension are assuming a social value as well, the so-called "impact economy".

Chart 5 – Do you believe that investments in the transition to an ethical and sustainable company for your business are: (%)

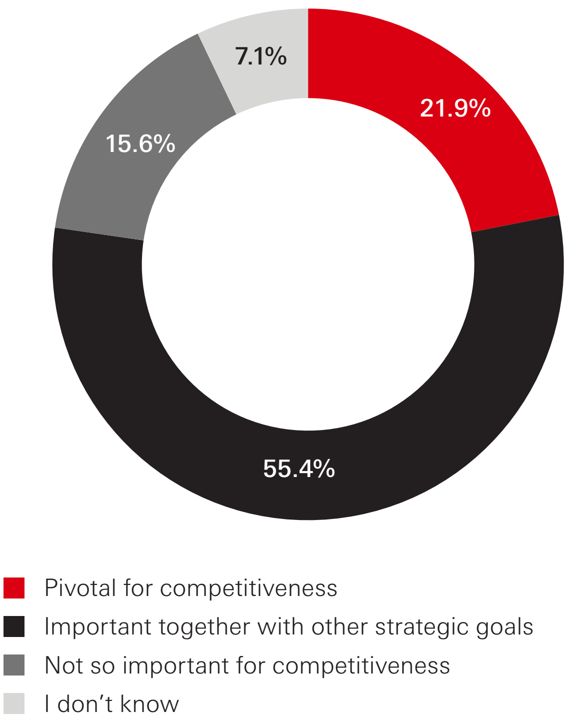


Figure 5 - Future importance of sustainability to the enterprise (fairly and very much in agreement, %)

Source of Chart 5: Padua University-CMR for HSBC, October 2020 (cases: 326)
Source of Figure 6: Padua University-CMR for HSBC, April-November 2019 (cases: 762-771)

Methodological note

This study aims to provide a clear picture of the international business activities of 1,607 Italian companies as well as their expectations and business strategies. The research also included a survey of about 800 entrepreneurs and managers in order to fully understand the process of globalisation. These results were also confirmed through 15 in-depth interviews with C-Level representatives of large Italian corporations.

Designed and coordinated by Professor Daniele Marini of Padua University, the study was commissioned by HSBC and carried out by CMR. It included a survey conducted on a sample of medium and large-sized Italian companies identified through the AIDA database and broken down by geographical macro-region (Northwest, Northeast, Central, South and Islands) and production sector (manufacturing, services). Distortions were balanced during post-survey processing through weighting procedures that took into account the aforementioned sampling stratification variables. The questionnaire-based study was carried out with CATI (Computer-Assisted Telephone Interviewing) and CAWI (Computer-Assisted Web Interviewing) systems in the period April - November 2019 and in October 2020.

The study also included an analysis of the scientific literature on the internationalisation of companies, an analysis of financial statements of all Italian companies with over EUR200 million in turnover and a survey of Italian companies.

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