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## AN INVESTIGATION INTO MEDIUM-SIZED MULTINATIONAL ENTERPRISES

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**ABSTRACT.** The paper provides an investigation of medium-sized Italian industrial enterprises that have become multinational companies. It concentrates on the set of medium and medium-large enterprises who seem to grow more in foreign markets, either through exports or through foreign direct investment. The work also offers a descriptive empirical picture of the performance of medium-sized Italian multinationals, which is compared with the performance of large corporations. From this analysis, which is based on several data sources, it is possible to outline a profile regarding the medium-size Italian multinational enterprises; the aim is to understand the complex strategy towards internationalization of these companies, where the dimension of production is important and, therefore, innovation has a key role. Also the commercial dimension is crucial, because it leads to point to the direct supervision of foreign markets and to look very carefully at the customers, offering them a wide range of services. Finally, the paper highlights some critical issues that the medium sized multinational enterprises have to face for competing: namely, the stagnant productivity, the high taxation, the insufficient institutional support for internationalization, the bureaucracy and its high costs, the lack of skilled human capital available in the labor market due to inadequate policy training.

### 1. Introduction

The Italian manufacturing firms must conquer foreign markets and internationalize if they want to cope with competitive pressure that globalization imposes on the productive system.

Unfortunately, Italy is a country that in the last ten years has seen its industry and the economy as a whole lose ground in terms of competitiveness, due to the fact that Italy has had a real annual growth differential productivity of  $-1.2$  percentage points compared, for example, to the average of the EU-27 countries. Among the components that weigh on the overall competitiveness and productivity in Italy there are infrastructure and bureaucracy, but equally important are innovation and the quality of human capital. So some actions need to be taken to tackle this critical situation. This paper offers some reflections on the issue of the Italian medium industrial enterprises, some of which are increasingly taking on the features of multinational companies. In particular, it focuses on the set of medium and medium-large enterprises who seem to grow more in foreign markets, either through exports or through foreign direct investment. The paper carries out a descriptive empirical analysis of the performance of medium-sized Italian multinationals and compares it to

the performance of large companies. From this analysis, which is based on several data sources, it is possible to outline a profile of the medium Italian multinational enterprises, which highlights the positive aspects and the critical factors, partly dependent on firms' organization and their structure, partly dependent on economic environment as bureaucracy, taxation, institutions. However, these internationalized medium-sized enterprises or "pocket multinationals", despite they are a limited number, have gained a growing role in the Italian production system.

## **2. The internationalization of medium Italian enterprises**

The Italian medium-sized enterprises, in recent years, have become more and more the protagonists in foreign markets. These companies have a turnover of between 15 and 330 million euro, a workforce included in the class of 50 – 499 employees, and are also capital companies (Mediobanca–Unioncamere 2012). Medium-sized enterprises, despite the diversity of territories and sectors to which they belong, have similar characteristics and share common strategies, of which innovation and internationalization, underlined by Quadrio Curzio (2008), are the guidelines.

The ownership structure, typical of the new generation of medium-sized enterprises, seems to justify their representation as a distinctive component of the Italian industrial system which economic historians before (Colli 2002) and, later, industrial economists have called the "fourth capitalism" (see Coltorti 2006, 2008; Schilirò 2010, 2011a; Varaldo *et al.* 2009).

Medium-sized Italian enterprises, despite the low use of capital, manage to succeed in international markets focusing on the quality of the workforce, on continuing education, on the maximization of the value produced per employee (and this translates into innovations), on a virtuous finance characterized by few debts, on the ability to control the organization, at the same time concentrating on the competitive advantages (Coltorti and Garofoli 2011), where the intangibles (brand, communication, customer relationships) are the factors who have acquired increasingly importance (see Schilirò 2011b; Varaldo *et al.* 2009).

The medium industrial enterprises operate maintaining the relationship with the territory of origin and look towards wider and extended horizons. In fact, the "fourth capitalism", to which these enterprises now belong, it looks like an evolution of the capitalism of the districts ("the Third capitalism"), rather than an entity that pursues the capitalism of large private companies or large public companies (see p.14 Varaldo *et al.* 2009). As a result, by changing the implications of the binomial local / global, medium-sized enterprises aim to combine the presence of networks of historical and consolidated relations in the productive system, as it is the case for many of them that belong to districts, with the new relational opportunities that present themselves at international level. The networks thus become a constitutive element of the medium industrial enterprises. The companies of the "middle class" are able to withstand the challenges of globalization with a business model characterized by high flexibility which combines internal economies of the enterprise with economies of scale derived by the networking between enterprises (Marini 2008; Schilirò 2011b). A model showing a remarkable ability to create business networks increasingly large aimed to capture a significant share of global demand. This capability constitutes a strategic key to the success of the medium-sized enterprises in global competition. Finally, the

medium-sized enterprises of the “fourth capitalism” represent a business model specialized in quality products with a strong presence in the areas of “Made in Italy”, able to create market niches that are significant in terms of sales and profits and also to differentiate products that are often placed in high-income customer segments (Schilirò 2010, 2012). Internationalization, in this context, must be understood as the process by which companies not only put their sales on different foreign markets, but also draw from the same markets or other markets the raw materials for their supply, as well as technologies, systems, equipment, components for the production of goods, financial resources and, ultimately, the workforce. This process often involves also the localization in different foreign markets of the same production activities or parts of them (Schilirò 2010).

Consequently, internationalization is not only export activity, it is rather a process of geographic deployment of the entire production chain of the enterprise in order to take advantage of the best conditions in the various markets: like those regarding supply factors, outlet of products and those where best manufacture the production (Demattè 2003). The internationalization strategies of medium Italian enterprises tend to take more complex configurations up to cover the entire value chain.

The processes of internationalization concern the various stages of production and trade: the management of suppliers, distribution channels, research and development. It can be said that internationalization is articulated by these companies on different dimensions: the first is the commercial dimension, which plays a considerable importance because it aims to increase sales volumes and whose share of turnover with foreign countries is a significant indicator. The second dimension is that of production, represented by various forms of relocation of production, but also from foreign direct investment; choices motivated by geographical expansion of the market and by the interest to exploit foreign technology, not only, therefore, exclusively by mere logic of cost savings (Gereffi, Humphrey, and Sturgeon 2005). The third dimension is strategic, aimed at enhancing the differentiation from competitors and develop know-how and innovation. Internationalization is, moreover, a way to convey the knowledge that becomes the primary element in modern knowledge-based economies (Schilirò 2005, 2009).

The process of internationalization of medium-sized businesses therefore concern the following aspects: the value of exports, the ability to be present in an organized way in foreign markets on the trade front, the use of international production networks of foreign markets in order to achieve the finished product. In particular, as regards the commercial internationalization, there are partial forms of direct control of the markets through commercial subsidiaries, or franchising networks, or even point of sales which belong to the companies that produce finished products, but also to those that make intermediate products. As regards instead the productive internationalization<sup>1</sup>, interventions follow different modes. We have, in fact, foreign direct investment (FDI), through various forms of control of foreign enterprises, or international relocation of production (international outsourcing) which involves specific agreements with companies operating in foreign markets<sup>2</sup>. These

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<sup>1</sup>The productive internationalization of Italian firms seem to focus primarily on the areas of mechanics and fashion and affects mostly firms in the North-East.

<sup>2</sup>(Barba Navaretti *et al.* 2010; Tattara, Corò, and Volpe 2006). The offshoring seems to be the preferred strategy of Italian enterprises than FDI.

TABLE 1. Italian medium industrial enterprises. Year 2007 = 100 (source: Mediobanca (2012))

	2007	2010	2011
Turnover	100.0	93.9	101.8
VA	100.0	95.0	97.1
EBIDTA	100.0	84.0	84.2
EBIT	100.0	74.0	73.9
Net Result	100.0	82.8	77.8

two different modes of internationalization of production are adopted to produce product components or finished products that can be imported and used, in turn, by the same company or sold in the domestic market or be sold in the market of the host country or other countries (for a survey see Helpman 2006). Internationalization processes can, in turn, lead to the decomposability of production cycles, to the intra-industry modularity, to the fragmentation of production in the districts to which the medium-sized enterprises are linked (Schilirò 2008, 2011a).

The enterprises then follow a variety of types of models of internationalization, characterized by the internationalization processes mentioned above. From the commercial point of view, they translate into a strong presence in the final markets abroad, while from the point of view of productive activity, they take the form of an international reorganization by the enterprises of their supply chain through the use of strategic suppliers and / or subcontractors abroad, or in foreign direct investment, or even in mixed forms of internationalization<sup>3</sup>.

### 3. Performance of medium-sized multinational enterprises

In the previous section we have shown that the internationalization process is particularly important for medium industrial enterprises, often arranged in groups, representative of our traditional “Made in Italy”, which many scholars (Colli 2002; Coltorti 2006, 2008; Schilirò 2010, 2011a) define as the protagonists of the “fourth capitalism”.

The present analysis of descriptive empirical nature is to compare the performance of medium-sized multinational enterprises, regarding a certain number of variables, with the performance of large companies. First, however, we consider the Italian medium industrial enterprises as a whole. Table 1 – which shows indexes of turnover, value added, EBITDA, EBIT, Net Result of the Italian medium industrial enterprises in the period from 2007 to 2011 – reveals that these enterprises were partly able to overcome the crisis of 2008 – 2009, showing an increase in turnover from 2007 to 2011, while it was more difficult for them the recovery of margins, so the value added (VA), EBITDA, EBIT and Net Result in 2011 were still significantly lower than pre-crisis levels of 2007.

The crisis has thus affected the Italian medium-sized enterprises and this result confirms and is consistent with the loss of competitiveness the Italian industrial system. Obviously the aggregate data hide the wide differences among the enterprises and the heterogeneity of the Italian enterprise system, but the low productivity remains a common weakness.

<sup>3</sup>In this case there is a combination of models based on market presence abroad and the international reorganization of the supply chain, this combination leads to a “open network”.

TABLE 2. Large manufacturing groups. Year 2007 = 100 (source: Mediobanca (2012))

	2007	2010	2011
Turnover	100.0	88.3	94.7
VA	100.0	83.1	77.0
EBIDTA	100.0	56.5	35.6
EBIT	100.0	14.9	-28.2
Net Result	100.0	72.5	-73.8

A further confirmation of the loss of competitiveness in the crisis years is given in Table 2, which shows the data of large manufacturing groups. The largest Italian manufacturing groups have had a worse performance than the medium-sized enterprises, in terms of turnover, but especially with regard to the indicators of the margins. The EBITDA decreased to 35.6 in 2011, but above all the Net Result became strongly negative and amounted to -73.8. In the analysis that follows we will refer to the first dataset of Unicredit Bank, while the second is of Mediobanca. These two sources of data have different features and cover different periods and, consequently, make their comparison difficult in terms of methodology. However, the use of two sources of data enables a more articulated analysis. The indicators used for comparison between the different types of enterprises relate to employment, sales, export sales (as a share of exports in turnover), investments in R&D and foreign direct investment<sup>4</sup>.

#### 4. The analysis on the data Unicredit Bank

The analysis in this section is based on data of the tenth survey of Italian manufacturing firms of (Unicredit Group 2008)<sup>5</sup> conducted on a sample of about 5000 units, statistically representative of the universe of Italian firms in the manufacturing sector. The data were processed by us, identifying medium industrial enterprises in the sample of tenth survey according to the standard parameters indicated by (Mediobanca–Unioncamere 2012). From this extracted set of medium-sized enterprises, we have identified the set of medium-sized multinational enterprises. The methodology adopted to achieve such classification was as follows: first, it is isolated from the subset of medium-sized those firms that in the questionnaire survey of Unicredit said they had exported all or most of its products in the 2006 abroad and have also made part of their production activities abroad. Following this methodology, it has therefore formed a sub-sample of 126 enterprises classified as medium-sized multinational enterprises. Secondly, in order to carry out a comparative analysis, within the sample Unicredit has been identified a number of large companies,

<sup>4</sup>Regarding this latter variable the available data are not always sufficient and complete.

<sup>5</sup>The dataset made available by Research Unit of Unicredit Bank is that on which is based the tenth Unicredit survey on manufacturing firms. Concerning the methodology of data collection, the databases used, the extraction of the sample and the detection technique in the tenth survey (see Appendix A, pp. 99-106 Unicredit Group 2008)

TABLE 3. Average number of employees and percentage changes from 2004 to 2006; source: our processing of Unicredit data.

	Average values			Percent changes	
	2004	2005	2006	2004/2005	2005/2006
MME	169,8	164,9	167,5	-2.9	1.6
LC	1902,0	1924,8	1912,2	1.2	-0.7

with at least 500 employees and a turnover of more than 290 million euro<sup>6</sup>. The period covered by the data is for the years 1998 to 2006, but some tables cover only the years 2004, 2005, 2006, which are years in which the processes of internationalization have played an important role in the competitive strategies of Italian industrial firms, in particular medium-sized enterprises and sectors representative of the “Made in Italy”. Undoubtedly they are statistical data prior to the crisis of 2008 – 2009, which continues to have significant effects on the enterprises, and should therefore be assessed in an economic environment that is different than the current one.

The survey data by Unicredit Bank on Italian manufacturing firms reveal that medium-sized enterprises (class 50 to 499 employees), that export between 25% and 50% of sales, represent 30% of all the medium-sized enterprises, a lower result only with respect to small firms (class of 21 and 50 employees). The data as a whole also show that the traditional sectors, often representative of the “Made in Italy”, account for about half of the total export turnover (see p. 86 Unicredit Group 2008)<sup>7</sup>. It is also clear that the growth of exports on turnover leads to an increase in geographical diversification of export markets for countries outside Europe. The spread of different forms of internationalization by exports, or penetrations and trade agreements, foreign direct investment, recordings of their own brands abroad, etc. tends to rise with the increase in the share exported.

In general, the characteristics that influence the export performance of firms are productivity, innovative activity, specialization and quality of the workforce and also the size of the enterprise. Italy is also the country whose companies have a high propensity to export, which is higher than that of firms in other European countries, regardless of the above features (Barba Navaretti *et al.* 2010).

Our analysis, descriptive in nature, refers primarily to the variable employment, and records the data in Table 3. This table summarizes the average number of employees and their percentage changes in the years 2004, 2005, 2006 referred to two categories of enterprises: MME, LC. Obviously, the average size of large companies in terms of employment, is greater than the medium multinational enterprises.

More interesting is to look at the percentage changes. In the time interval 2005/2006 the employed in medium-sized multinational enterprises grew by 1.61%, while in large companies decreased by 0.65%. This is a positive result for medium-sized enterprises with

<sup>6</sup>This classification of large companies (LCs) does not coincide, as we will see, with the one used by Mediobanca, as for the latter are to be considered LCs those companies with a turnover of more than 3.3 billion euro. While the definition of Unicredit includes among LCs also the medium-large enterprises also of the “fourth capitalism” of the classification by Mediobanca.

<sup>7</sup>Furthermore, in 2006 the trade surplus with other countries of the “4 A” of the “Made in Italy” has reached the level of 92 billion euro (see p. 11 Quadrio Curzio 2008)

TABLE 4. Share of Turnover due to exports. Year 2006; source: our processing of Unicredit data.

	% Export/Turnover
MME	44.19
LC	42.50

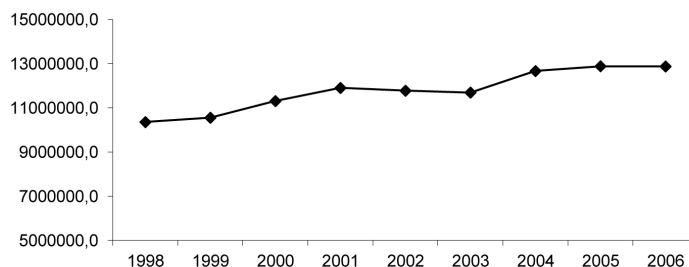


FIGURE 1. Value added medium-sized multinational enterprises 1998 – 2006; source: our processing of Unicredit data.

respect to 2004/2005, when there was a rather different pattern, with large companies that did record a positive change in employment, while medium-sized multinational companies had registered a negative change of  $-2.90\%$ .

The tenth survey by (Unicredit Group 2008) supports the view that, in general, firms that are stronger on foreign markets and export increasing amounts of sales are those that have a more qualified human capital, with a tendency to an increase in the proportion of graduates and, therefore, of white-collar with respect to the portion of the workers. In fact, the medium-sized enterprises of the "fourth capitalism" tend to use qualified and skilled human capital to create and maintain their global niches (Schilirò 2010, 2011a).

A significant variable to understand the degree of internationalization of firms is the share of turnover due to exports. Table 4 takes as reference variable the share of turnover due to exports in 2006 showing the percentages of export sales by medium-sized multinational enterprises and large companies. These percentages express the propensity to export by firms. The proportion of export sales amounting to 44.19% of the medium-sized multinational enterprises is high. This is consistent with a fundamental feature of medium-sized multinational enterprises: they tend to have a higher propensity to export, as it reflects their greater openness to foreign markets than other firms and, in general, a higher degree of internationalization. Large companies, that are also normally strongly projected foreign markets, have a percentage equal to 42.50%, which is lower than that of medium-sized multinational enterprises.

After considering the propensity to export of medium-sized multinational enterprises and large companies, our analysis focuses on the value added. Figure 1 shows the evolution of the value added of medium multinational enterprises in the period 1998 – 2006.



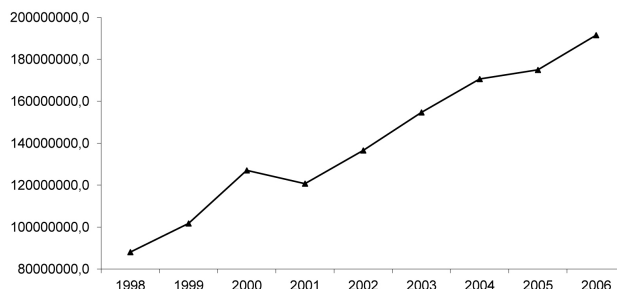


FIGURE 2. Value added large companies 1998 – 2006; source: our processing of Unicredit data.

Figure 2 shows the trend of the Added Value of Large Companies in the period 1998 – 2006. In it you can clearly see the trend of continuous growth of value added of this category of firms since 2001. In fact, in 1998 there was a level of value added lower than the medium-sized multinational enterprises, but in later years the value added of large companies tends to grow steadily until in 2006, a level far greater than that of medium-sized multinational enterprises.

Of particular interest are the data in Table 5, which relate to the percentage change in R&D spending in 2004/2005 and 2005/2006. It is clear that the percentage change in investment in R&D of medium-sized multinational enterprises becomes noticeable in the range 2005/2006 and reached 86.5% compared to the more modest variation of that of large companies, which was equal to 6.38%.

The survey data by Unicredit Group (2008) support the view that among the medium-sized enterprises those that invest more in plant and machinery, in information technology and communication, spending, in turn, a greater share of investment in software, are those that export more, and among these are the medium-sized multinational enterprises. Innovation activity is mainly concentrated in traditional and specialized sectors that form the basis of the Italian model of specialization of production and represent mainly the “Made in Italy”. In addition, the medium-sized enterprises have a growing share of turnover from innovative products (see p. 88 Unicredit Group 2008).

TABLE 5. Investment in R&D 2004 – 2006. Source: our processing of Unicredit data.

	Percent changes	
	2004/2005	2005/2006
MME	22.53	86.50
LC	13.98	6.38

With regard to the geo-economic features of innovation by the firms (Unicredit Group 2008, 2010), the North West of Italy is the area that allocates major resources for investment in R&D mainly due to the role played by large and medium-sized private enterprises, while the North East has too a model based mainly on private firm, but it is the area in which, more

than any other, has established the model of innovation without research, although in recent years (data available up to 2007), investment in R&D have grown significantly. Central Italy, in regions such as Marche, Tuscany, Umbria, is dominated by a model of innovation similar to that of the North East, because the average size of firms, including medium-sized enterprises, is lower than that of firms in the North West. In Lazio has established a model where investment in R&D return to play an important part, as in Piemonte and Lombardia, but with the difference that this expenditure is mainly supported by public institutions. In Southern Italy, the area that from the point of view of the innovation performance has been confirmed as the weakest of the country, are mainly universities to bear the brunt of the costs of innovation.

The analysis of data allows us to state that investments in R&D as a strategic factor of production when the threshold of turnover exported exceeds 50%, so the strongly export-oriented medium-sized enterprises, and among these the medium-sized multinational enterprises tend to choose this type investment to innovation, which allows them to make a qualitative leap.

Among the medium-sized manufacturing enterprises tend to prevail product innovations with respect to process innovations and, specifically, those of the incremental type instead of radical nature. But the focus is mostly on the quality of the product and, increasingly, to the relationship with customers. These require, in turn, organizational innovations and innovation in the commercial sphere.

With regard to the variable foreign direct investment, the survey dataset Unicredit Group (2008) provides a number of very limited data for medium manufacturing enterprises which are exporters. Yet it is possible to make some general considerations. First, there is considerable dispersion in behavior regarding individual companies, reflecting their different strategic positioning in the market and their different degrees of competitiveness. However, the share of foreign direct investment generally tends to grow with the increase of propensity to export, or with the growth of export sales. This trend is significant for medium-sized multinational enterprises, although these companies are not in absolute those that adopt more foreign direct investments. Among the forms of internationalization that medium manufacturing enterprises choose, those preferred are market penetration and commercial partnerships, they are in fact the most frequent also with respect to foreign direct investment.

In conclusion, according to the data by Unicredit Bank is strengthened the view that internationalization is for the medium-sized enterprises a obligatory path to succeed in the markets and to grow. In turn, the internationalization process tends to transform these enterprises in multinational enterprises. Certainly the modes of internationalization processes vary from industry to industry and from firm to firm, so there is no unique solutions already predetermined, but, on the contrary, is confirmed the specificity of the various enterprises (Schilirò 2010, 2012).

The performance of the medium-sized multinational enterprises is therefore quite good, considering the different variables taken into account, even if the period does not include, once again, the years 2008 – 2009 global economic crisis, as enterprises that have been exported more, have suffered most from the collapse of global demand. The comparison with large companies leads to considerations not unique, confirming that the relationship between firm size and performance is a significant relationship, but that it is both a complex relationship and linked to many other factors.

## 5. The analysis on the data of Mediobanca

The descriptive analysis in this section is based on a dataset of the Research Department of Mediobanca<sup>8</sup>, containing the aggregated data of 98 large industrial companies (firms established in Italy and belonging to the major groups with Italian control and with a consolidated turnover of over 3 billion euro) of 520 medium-large industrial enterprises of the "fourth capitalism" (Italian firms with a turnover between 330 million and 3000 million euro). These data are derived from annual survey of Mediobanca on the main Italian companies. They are balance-sheet data of the companies, and they regard variables such as turnover, value added, exports, EDTIBA, Net Result. The period referred to by these data is from 1999 to 2008. In the dataset of Mediobanca, there are also data on medium manufacturing enterprises, divided into classes based on the percentage of foreign sales, these data are derived from the annual investigation of Unicredit Group (2010) on the Italian medium-sized enterprises (1998 – 2007).

TABLE 6. A sample of large companies and medium-large enterprises (aggregate data, 000,000 euro and percentage). Years 1999 – 2008. Research Unit Mediobanca, 2010.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Large Companies</b>										
Net Turnover	64,070	73,362	71,513	70,081	68,784	73,418	76,186	86,711	93,716	94,215
Value Added	13,061	15,170	13,250	12,103	13,247	13,783	13,547	15,168	16,942	15,043
Export Turnover	29,029	34,092	32,899	32,039	31,066	33,178	34,359	40,578	46,915	48,509
Export Turnover (%)	45.3	46.5	46.0	45.7	45.2	45.2	45.1	46.8	50.1	51.5
EBITDA	2,994	5,164	3,560	2,519	3,809	4,513	3,990	5,175	6,497	4,718
Net Result	613	362	-1,720	-7,193	-4,758	56	936	4,646	4,167	2,879
<b>Medium-Large Enterprises</b>										
Net Turnover	57,799	66,263	69,675	70,898	72,753	77,432	79,533	88,127	94,002	94,232
Value Added	15,234	16,563	17,008	17,290	17,387	18,184	18,727	19,630	20,705	19,661
Export Turnover	21,381	25,945	27,303	27,718	27,462	29,485	30,571	34,868	38,708	39,878
Export Turnover (%)	37.0	39.2	39.2	39.1	37.7	38.1	38.4	39.6	41.2	42.3
EBITDA	6,630	7,481	7,602	7,578	7,266	7,790	7,934	8,498	9,186	7,794
Net Result	2,360	2,236	2,060	1,938	1,112	2,824	2,786	3,657	3,601	2,167

The reading of Table 6, shown below, which compares the large enterprises and medium-large enterprises, suggests some considerations of a certain interest. First, the variable net turnover has been growing for the entire period 1999 – 2008 for the two groups of firms. However, medium-large enterprises of the "fourth capitalism" have had a slightly better performance of net turnover than larger firms, while using a smaller amount of capital than the large enterprises. The favorable cycle, which began in 2004, but that is strengthened in 2005 – 2007, it was caught very well by medium-large enterprises, who were able to reorganize production, reduce costs, increase efficiency and competitiveness, focusing on quality of the product and exploiting the changes in the volumes of demand.

The data of Table 6 also show that the large companies tend to have a turnover due to exports steadily greater throughout the period examined. This trend can be reasonably explained by the fact that the large companies, because of their size, are usually limited by

<sup>8</sup>The data, provided by Mediobanca's Research Department are derived from annual Mediobanca on the major Italian companies, can be found on the website <http://www.mbres.it> to "Dati cumulativi di società italiane" (edizione 2009).

TABLE 7. Average turnover, total turnover, turnover in Italy, export sales of medium-sized manufacturing enterprises for classes of firms according to the ratio export/turnover (in percentage). Year 2007; source: Unicredit Group (2010).

Classes of firms export/turnover (%)	N. firms	Average turnover (000 euro)	Total turnover (000 euro)	Turnover in Italy (000 euro)	Export sales (000 euro)
>75%	552	41,590	22,957,456	3,448,393	19,509,063
50-75%	993	39,501	39,224,597	15,008,422	24,216,175
40-50%	407	40,594	16,521,806	9,071,162	7,450,644
15-40%	988	40,494	40,007,900	29,038,851	10,969,049
<15%	699	44,898	31,383,378	29,257,271	2,126,107
zero export	844	31,632	26,697,574	26,697,574	0
<b>Total</b>	<b>4,483</b>		<b>176,792,711</b>	<b>112,521,673</b>	<b>64,271,038</b>

the home market for their needs dictated by economies of scale and commercial strategy, and, therefore, need to focus on foreign markets<sup>9</sup>. However, the ability of medium-large enterprises to penetrate foreign markets and to ensure global niche for their products is undoubtedly important. It constitutes one of the characteristics of multinational enterprises of the "fourth capitalism" and a strength in terms of competitive advantage (Schilirò 2010, 2011a).

Regarding the percentage of export turnover, Table 6 shows that in 1999 – 2008 the percentage has increased for large enterprises from 45.3 (1999) to 51.5 (2008), an increase of 6.2%. For medium-large enterprises the same percentage increased from 37.0 (1999) to 42.3 (2008), an increase of 5.3%. Thus, it can be said that the increase of the percentage of export turnover for these two groups of firms was very similar with a small advantage by the large companies belonging to the major industrial groups.

If one looks at data on value added, Table 6 shows that medium-large enterprises in the period 1999-2008 have had a value added consistently higher than that of large companies and that there has been a steady growth of this variable with a reduction contained in the time interval 2007 – 2008, unlike the large companies who have had a trend with stronger variations.

With regard to profitability, Table 6 shows that EBITDA is constantly higher for medium to large compared to large enterprises. In addition, it increased from 1999 to 2007 for the two categories of firms, reaching a maximum value in 2007, while it decreased for all companies in 2008 as a result of the crisis. However, it is interesting to calculate the decrease of this variable in percentage terms over the period 2007 – 2008. From Table 6 we deduce that this decrease was much stronger for large companies. that is equal to -27.4%, while it was smaller for medium-large enterprises, ie equal to -15.1%. With regard to net income, medium-large enterprises have done generally better than large companies in 1999-2008. In fact, the latter showed in the years 2001, 2002, 2003 a net loss, and a positive result in the other years. On the contrary, medium-large enterprises recorded a net result always positive for the whole period 1999 – 2008.

In the dataset provided by the Research Department of Mediobanca, there are also data on medium manufacturing enterprises, divided into classes based on the percentage of foreign sales, these data are derived from the annual investigation of Unicredit Group (2010) on the Italian medium-sized enterprises (1998 – 2007). Table 7 shows the total turnover and

<sup>9</sup>The situation would be different if the large firm is a monopolist in a large field. In this case the domestic market is sufficiently broad.

average turnover of 4,483 medium-sized Italian manufacturing firms (dataset Mediobanca), but also provides a breakdown of total revenues in *turnover in Italy* and *export turnover* for classes of enterprises classified according to the percentage of foreign turnover/ turnover. The data refer to the accounts of individual firms and, where available, the consolidated accounts and, therefore, include direct activities in foreign countries for the year 2007.

The average Italian manufacturing firms – in the dataset provided by the Research Department of Mediobanca –, as can be seen from Table 7, are divided into classes based on the ratio export/turnover. Of the total of 4,483 medium-sized manufacturing firms, 1,952 (552 + 993 + 407), or 43.5% of the total, belong to the class with more than 40% of export/turnover. Of these medium-sized enterprises can be said that they are highly internationalized. The internationalization becomes an obligatory path to grow for the medium-sized manufacturing enterprises, and also for the medium-large firms. There are enterprises for which the home market has a marginal role, in fact their share of foreign sales reach rates of over 75%. As for the remaining 2,531 medium enterprises (988 + 699 + 844) of Table 7, they constitute 56.5% of the total and have a ratio export/turnover which is less than 40% (from zero to 40%), but of these firms only 19% has a ratio equal to zero. The medium-sized enterprises, which belong to the latter group, would seem, therefore little internationalized, even if one can not use the percentage of the average turnover abroad as an absolute indicator of their propensity to international markets. In addition, the sectors in which the medium manufacturing enterprise operate generally are those exposed to international competition. Then establish a direct link between competitiveness and export is problematic, consequently it follows that the share of foreign sales and competitiveness do not necessarily go together.

In fact, there are certainly medium enterprises with important foreign investments that do not export or do so to a limited extent, as they produce and sell directly to foreign markets through FDI or international production relocation<sup>10</sup>.

These choices, in terms of internationalization, were made by multinational enterprises for having cost advantages, but also to be in advance of their competitors. All this confirms the pro-active process of internationalization, although they may require significant financial resources and efforts to innovate the organization, production and marketing with the aim of implementing new strategies are primarily functional to enterprise growth<sup>11</sup>.

Finally, there is another dataset provided by the Research Department of Mediobanca, which contains a sample of 31 medium-sized enterprises that appear in the "Sectors online" by Mediobanca<sup>12</sup>. These medium-sized enterprises can be considered as multinational enterprises, since they have investments in foreign companies or controlling firms abroad. The dataset contains information on foreign direct investment of these medium-sized multinational enterprises (reference year: 2006), but also on their balance sheet data relating to 2008<sup>13</sup>. The 31 medium-sized Italian multinationals had in 2006 foreign direct investment that determined the control of 122 foreign companies (both manufacturing firms

<sup>10</sup>Mediobanca data referred to in Table 7, however, do not allow the traceability of these phenomena.

<sup>11</sup>Ferraro (in Marini 2008), however, provides warning of ready-made recipes to be applied in every context and situation. This is also true for internationalization.

<sup>12</sup>The source of the data set is Mediobanca Research Department, Sectors online, 2009 edition, <http://shop.mbres.it/cgi-bin/calepinonline.storefront/FR>.

<sup>13</sup>For privacy reasons we show only some information on the aggregate sample.

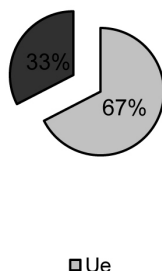


FIGURE 3. Percentage composition of foreign firms controlled by the medium multinational enterprises in EU and extra EU countries – Year 2006; source: our processing on data by Mediobanca.

and commercial enterprises), these foreign subsidiaries companies were spread over 23 countries<sup>14</sup>.

The countries where the medium-sized Italian multinationals possess more foreign companies are the United States, Spain, China, the United Kingdom and France; then follow Poland, Germany, Brazil, Argentina and Tunisia. Very important is, therefore, the presence of medium-sized Italian multinationals in the United States, it is also good presence in China, the most dynamic emerging country; in Europe a leading role is that of Spain, followed by the UK, France and Poland an intermediate position is taken by Germany, the stronger economy of Europe, as well as by Brazil, another emerging and important economy. This means that the internationalization of production and sales of medium-sized multinational enterprises, at least with respect to this limited sample of firms, tends to involve a fairly large number of countries and does not neglect the most dynamic economies and markets<sup>15</sup>.

Figure 3 summarizes in a “pie” graphic the composition, for large geographical areas (EU and non-EU), of foreign companies controlled or participated by medium-sized Italian multinationals (Mediobanca sample of 31 firms) in 2006. The graph shows that 52% are located in countries outside Europe, while the remaining 48% in the European Union.

Table 8 summarizes some relevant data of the 31 medium-sized Italian multinationals. The data refer to the turnover, number of employees and the number of subsidiaries. Such data are average values for the year 2006. First of all, it should be noted that the average size in terms of employees of the 31 enterprises in the sample Mediobanca is equal to 360 employees, which is a value that reveals a dimension of a certain relevance. The average value of the turnover is nearly 110 million euro<sup>16</sup>. The average number of subsidiaries of foreign firms is equal to 4.

<sup>14</sup>The 23 countries are: Bulgaria, Pakistan, Slovenia, India, Serbia, Ireland, Turkey, Indonesia, Slovakia, the Republic of San Marino, Czech Republic, Argentina, Romania, Hungary, Germany, Tunisia, Brazil, Poland, France, USA, China, United Kingdom, Spain.

<sup>15</sup>This evaluation is obviously a bit partial, given the limited sample examined.

<sup>16</sup>However, the threshold for access to the dataset online of Mediobanca is 50 million euro.

TABLE 8. Turnover, number of employees, number of foreign subsidiaries by medium-sized multinationals (Mediobanca sample of 31 medium-sized multinationals) – Year 2006, average values; source: our processing on data by Mediobanca.

	Average values
Turnover (000 euro)	109,507,26
N. Employees	360,45
N. foreign subsidiaries	4

TABLE 9. Turnover, value added, EBIT, net result and foreign turnover of medium-sized Italian multinationals (Mediobanca sample of 31 firms), balance-sheet data (000 euro) – Year 2008; source: our processing of data Mediobanca.

	Aggregate values 2008	Average values 2008
Turnover	3,728,236	120,265.68
Value added	845,537	27,275.39
EBIT	215,102	6,938.77
Net result of the year	59,978	1,934.77
Foreign turnover	1,672,515	53,952.10

Table 9, in turn, provides a series of mean values related to some significant variables of the 31 medium-sized multinational enterprises of the Mediobanca dataset, derived from balance sheet data referring to 2008, as turnover, value added, net result, operating income, foreign sales. In particular, the net operating margin and the net result constitute indicators of the profitability of these firms. All the indicators (aggregate values and average values) of these specific sample of firms are positive. In addition, about the net result for the year, the sample reveals that of the 31 enterprises<sup>17</sup>, ten companies reported an operating loss in 2008, while the remaining 21 showed a positive net result. Moreover, only three companies have earned a negative EBIT.

From the examination of this limited sample of the Research Department of Mediobanca it is possible to outline some interesting elements of these 31 medium-sized multinational enterprises. In short, the data show a follows a strong and articulated internationalization of these companies and also good performance on some relevant indicators.

## 6. Conclusions

This essay has shown, first, that the medium-sized multinational enterprises appear to be an important and dynamic component of the Italian productive system. Their strong propensity to international markets and, in general, towards internationalization, supported by their capacity for innovation and organizational makes them important protagonists in the global competition. Second, this paper has carried out, using two different dataset on Italian manufacturing firms (Unicredit Bank and Mediobanca), a descriptive analysis on the performance of medium-sized multinational enterprises, using as reference variables turnover, value added, foreign sale, investments in R&D, foreign direct investment, as

<sup>17</sup>These informations do not appear in Table (6).

well as indicators on profitability. The different nature of the two datasets used does not allow a direct and consistent comparison between them, but it has allowed us to provide some useful indications on medium-sized multinationals. This analysis reveals a profile of the medium-sized multinational companies characterized by a complex strategy towards internationalization, where innovation plays a key role, but also flexibility and specialization are equally important, because such elements guide the choice to invest and produce abroad. However, no less important is the commercial dimension, which forces firms to focus on product quality and point to the direct supervision of foreign markets; in addition, it leads to look with great attention to customers, offering a wide range of services. The above data are limited to the period 1999 – 2008 and have partly neglected the biennium of crisis (2008 – 2009) that continues to this day with its negative effects in Italy and in many European countries, so much that the indicators related to profit margins showed a striking decline even in the face of an increase in turnover, revealing the difficulties and weaknesses of Italian manufacturing firms. The 1999 – 2008 data have therefore highlighted growth in turnover, a significant innovative activity, high and rising export propensities, good earning capacity. Of course, within this representative framework, certainly interesting, that shows a good competitive ability of the medium Italian multinationals, there are critical elements that result in reduced competitiveness. First, a trend of the productivity, which tends not to grow. Second, the level of taxation higher than the medium Italian multinational enterprises must undergo in relation to other European competitors. Third, the time-consuming and costly bureaucracy. In addition, the lack of support and assistance from government institutions to companies operating in foreign markets, especially in emerging or still little explored. But also the need for a more constructive relationship with the banks, taking into account the peculiarities and difficulties of emerging markets in awarding credit, the lack of qualified human capital available in the labor market due to insufficient policy training. Despite this, the medium multinational enterprises are protagonists of global markets, striving to keep pace with innovation and the evolution of knowledge, to restructure and reorganize production with great attention to cost and quality, to develop business strategies best suited to capture new demand signals and to conquer new markets.

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