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A taxonomy of Italian firms' internationalization models

In the current decade, also due to an exceptionally long-lasting recession (2011-2014), the Italian business system faced a large gap between the (sluggish or decreasing) internal demand and the (increasing) foreign one. In the most recent years of cyclical recovery, the gap has been decreasing, but it is still relevant. In such conditions, the ability to sell their products abroad comes out as a fundamental determinant of firms' competitiveness.

Moreover, the major worldwide developments in production processes, such as the globalization of trade and the changes in global value chains, increasingly challenge the Italian business system and make it crucial, for Italian firms, not only to export, but also to choose the very *strategy* of operating on international markets, such as the market scale, the possible import activity and its interactions with exports, the offshoring of production activities.

The economic literature,¹ in its turn, has shown that more "complex" forms of internationalization tend to be associated, on average, with larger firms' size and better performance (especially in terms of productivity).

All this represents a challenge to the ability of NSIs to classify and measure the phenomenon of firms' internationalization. However, the new integrated business registers recently developed by Istat make it possible to identify a new taxonomy of the internationalization models adopted by Italian firms, which is able to capture the phenomenon showing all its various forms and taking into account the different degree of strategic and organizational complexity connected to the latter.

In particular, it is possible to propose a taxonomy of the internationalization models that is composed of six mutually exclusive classes, representing different modes of operating on foreign markets. Ideally moving from more "elementary" forms to more and more complex structures, the first four classes relate to the trade internationalization, while the other two refer to productive internationalization:

- **Only importers:** firms that only carry out import but not export activities;
- **Only exporters:** firms that do not import but export to EU countries and/or to less than five non-EU geographical areas;²
- **Two-way traders:** firms involved in both import and export activities;
- **Global:** firms exporting to no less than 5 non-EU areas;

¹ See, among others, Helpman E., M. Melitz and S. Yeaple, "Export versus FDI with heterogeneous firms", *The American Economic Review*, vol. 94, pp. 300-316, 2004; and Altomonte C., T. Aquilante and G. Ottaviano, "The Triggers of Competitiveness: the EFIGE Cross Country Report", *Bruegel Blueprint Series*, Volume 17, 2012.

² There are ten geographical areas considered: EU-28; Europe non-EU; North-Africa; Other African countries; North America; Center-South America; Middle East; Central Asia; West Asia; Oceania; Other destinations.

- **MNE_FOR**: firms operating in Italy which belong to foreign-controlled groups.
- **MNE_IT**: firms operating in Italy which belong to Italian control groups which have foreign affiliates.

Each firm is assigned to only one class; if an enterprise has characteristics relating to more than one class, it is included in the highest class (i.e. the one corresponding to the most advanced form of internationalization). This implies that, for example, the "Global" class may also include firms that import and/or export to the EU countries (as well as to at least five non-EU areas). Analogously, in the "MNE_FOR" and "MNE_IT" classes there may be firms that export and/or import, and belong to multinational groups (with foreign and Italian control respectively).

Table 1 shows the main characteristics of the internationalization models adopted by Italian firms in 2011 and 2014.

Table 1 – Firms’ characteristics by internationalization model. Years 2011 and 2014

	Number of firms	%	Average size (persons employed)	Share of persons employed (%)	Share of value added (%)	Productivity (value added per person employed; euros; median)	Share on total export (%)	Share of exported turnover (%; median)
2011								
Only importers	167651	47,1	6,3	17,0	10,8	24523	-	-
Only exporters	69907	19,6	6,7	7,5	4,4	30994	2,2	3,4
Two-way traders	80963	22,7	15,2	19,9	15,8	44846	13,8	4,2
Global	12094	3,4	35,4	6,9	6,4	57477	16,1	46,1
MNE - Foreign	10914	3,1	109,6	19,4	24,3	72689	27,9	7,8
MNE - Italian	14468	4,1	124,7	29,2	38,3	63623	40,0	24,4
Total	355997	100,0	17,3	100,0	100,0	33456	100,0	5,1
2014								
Only importers	149246	44,1	6,5	16,2	10,2	21810	-	-
Only exporters	72577	21,4	6,1	7,5	4,4	27572	2,0	4,2
Two-way traders	78909	23,3	14,9	19,7	16,3	42327	12,9	4,8
Global	12926	3,8	34,8	7,6	7,7	57373	16,9	49,4
MNE - Foreign	10026	3,0	115,2	19,4	24,2	73375	29,5	9,2
MNE - Italian	14837	4,4	118,6	29,6	37,2	62020	38,7	29,1
Total	338521	100,0	4,2	100,0	100,0	30920	100,0	6,1

Source: calculations on Frame-SBS data.

This taxonomy provided the basis for analyses on Italian firms’ internationalization published in several Istat publications, such as:

1. the annual **Report on the competitiveness of business sectors**, where the taxonomy was first introduced in 2013 edition (<http://www.istat.it/it/archivio/82456>) and used again in 2017 edition (<http://www.istat.it/it/archivio/197346>);
2. the 2013 edition (ch. 2) of the **Annual Report** (<https://www.istat.it/it/archivio/89629>);
3. the 2016 **Istat-Cnel joint Report** on “Productivity, structure and performance of exporting firms; labour market and supplementary bargaining” (<https://www.istat.it/it/archivio/181931>).

In all these circumstances, the new taxonomy proved to be a useful tool in analyzing the performance of the Italian business system in a period when the ability to operate on international markets was a crucial factor even for firms' survival itself. Finally, the quality and robustness of the taxonomy obtained have fostered further analyses, whose evidences have been published also in both institutional³ and academic works.⁴

³ See for example Costa S., F. Luchetti e C. Vicarelli, "*Be Global*: le modalità vincenti dell'internazionalizzazione delle imprese in tempo di crisi", Rapporto ICE "Reti produttive internazionali", di prossima pubblicazione.

⁴ See for example Costa S., C. Pappalardo e C. Vicarelli, "Internationalization choices and Italian firm performance during the crisis", *Small Business Economics*, Springer, vol. 48(3), pp. 753-769, 2017; Costa S., F. Luchetti, E. Mazzeo, F. Sallusti e C. Vicarelli, "Struttura, performance e potenzialità di crescita delle imprese esportatrici italiane negli anni del «double dip»", *L'Industria*, vol. 1, Gennaio-Marzo, pp. 71-100, 2016.