

Chapter 2

The system of Italian enterprises: competitiveness and growth potential

Ownership structure and business strategies during the crisis

- Over 70% of Italian enterprises in industry and services were family run; the main shareholder owned an average of over 68% of the shares and the first three members over 93% (provisional data of the 2011 Census industry and services).
- Business management was uncommon among small-sized firms but characterized 40% of those with at least 250 employees, among which membership in a group was widespread (over 86% of large firms).
- The strategies adopted by Italian companies in recent years were mostly of a defensive type: in 2011 about 64% of small-sized businesses and 69.4% of the large ones tried to maintain their market share. Over half of medium- and large-sized enterprises pushed towards new markets and about 50% focused on product diversification; these strategies were adopted by 35% and 20% of small businesses, respectively.
- The Italian production system is characterized by close working relationships between firms; over 40% of small-sized enterprises and 65% of medium- and large-sized firms (the latter being more integrated into domestic and international value chains) signed partnership agreements; while subcontracting relationships involved about one third of small-sized businesses and 55 % of large firms. About 25% of the latter, finally, prefer formal agreements such as consortia or joint ventures.
- Family-run businesses with less than 10 employees in general, present a primary strategic profile: more than a third choose an exclusively defensive strategy (maintenance of market share or downsizing the activity), and another 30% limited themselves to applying only one strategy among the most "complex" (innovation, increase the range of products, access to new markets, intensification of relations with other companies).
- About 14% of micro enterprises showed, on the contrary, high levels of strategic dynamism and performance. Holders of these manufacturing units had a high average level of education (with a share of graduates twice that of firms with a more "elementary" strategic profile), relatively high mean age and greater work experience (mainly in self-employment). These features resulted in a more managerial business model and a greater presence in foreign markets, also through agreements with other companies

- Two-thirds of small-sized businesses and over three quarters of the medium- and large-sized ones indicated product or service quality improvement among their competitive strong points, while about 30% of small- and medium-sized and 25% of large firms aimed at price competition. One out of three larger firms and less than one out of five smaller-sized enterprises also listed flexibility and diversification of products and services offered among their strong points.
- The lack of financial resources, administrative and bureaucratic burdens, lack or shortage of demand and the socio-environmental context were deemed as performance limiting factors by about one-third of the Italian enterprises. Lack of infrastructure, qualified resources and difficulties in finding staff or suppliers, on the contrary, were considered less relevant obstacles.
- Almost 40% of small-sized enterprises (units with less than 50 employees) perceived the lack of financial resources as an obstacle. For this segment, the financial aspect represented a more frequent hindrance than the lack of demand (reported by 33% of firms)

Business competitiveness and strategic profiles

- Italian enterprises can be grouped into five types, according to the combination of three main strategic profiles: dynamism (the presence of various types of innovations, expansion into new markets), external projection and complexity of governance. The five types are: "Small cabotage", "Conservative", "Pocket dynamics", "Challenging dynamics" and "Complex units".
- About three quarters of the enterprises, accounting for half of employment, showed simplified profile and strategies and weak boost to growth: these firms, belonging to the "Small cabotage" category, are small-sized (with an average of five employees), family-run, show little dynamics and target local market. Innovations are limited, as well as integration into value chains, especially international. They had low labour productivity and modest growth in employment between 2007 and 2010 (+1.1% workers). They are active in traditional manufacturing, construction, personal services and entertainment, commerce (especially retail), accommodation and catering services. Over 80% of micro enterprises identified in this category, along with almost 60% of small-sized and just over a quarter of medium-sized enterprises.
- 8% of the enterprises belong to the "Conservative" category; it includes businesses of all sizes (with an average of 17.3 employees), with poor dynamics and external projection, but with a complex business organization. More than a third of large-sized enterprises belong to this profile, as well as more than a quarter of the medium- and a sixth of the small-sized businesses. Besides these features, in the years 2007-2010, they presented an increase of employees second only to that of the most dynamic ones (+4.4%). They are mostly active in trade and business services.

- Another 8% of businesses belong to the so-called "Pocket dynamics" category. It includes innovative, small- and medium-sized enterprises, very active in foreign markets (even through inter-firm relations) and with low organizational complexity. This category includes more than one-fifth of medium-sized companies, about one-sixth of the small-sized ones and 7% of micro enterprises. It is the segment of businesses that registered the most modest employment performance in the early years of the crisis (+0.9% workers between 2007 and 2010). They are active in the most typical Italian specialization sectors (machinery, clothing, leather).
- The most dynamic companies, belonging to the "Challenging dynamics", represent 4% of the total. Have an average size which is almost double that of the overall enterprises (15.4 employees) and include approximately 10% of small-, medium- and large-sized enterprises and only 3% of micro enterprises. They make extensive use of product, process, organizational and marketing innovations, and are oriented to foreign markets. This seems to compensate for a non-complex organization, based on a family and non-managerial management; these companies have recorded the best employment performance in the most acute stage of the crisis (+8.1% in the 2007-2010 period). They are mostly active in the manufacturing sector (especially food products, metal products, machinery) and in the information and communication services.
- Less than 1% of companies is represented by "complex units", ie medium-large companies (with an average of 111.3 employees), dynamic, active on international markets, with a complex organization and management structure (managerial enterprises belonging to business groups, including foreign ones). More than a quarter of large enterprises and one medium-sized enterprise out of ten fall into this category. Labour productivity is very high and the employment trend has been higher than the average in the most difficult years of the crisis (+3.3% workers between 2007 and 2010). They are active in high-tech manufacturing sectors, such as chemical and pharmaceutical industry, in highly capital-intensive activities, in wholesale trade and advanced service sectors, such as telecommunications and financial services.

Role of foreign demand and performance of exporting firms

- In recent years, foreign demand has played a key role in supporting the productive activity. The contribution of net exports to GDP growth was very high, both in 2011 (1.4 percentage points) and in 2012 (three percentage points). Nevertheless, in 2012 the export growth saw a sharp slowdown from the previous year.
- Among the companies that showed a contraction in exports, 19.3% reported a lack of dynamism in non-Eu markets; 14% reported declines in both areas, while about 13% of the decline in sales affected the Euro area only.
- The relative weight of EU countries as target markets dropped in all sectors for the benefit of non-European countries. This trend was observed in 30 of the 40 sectors of economic activity.

- Meeting the demand of non-European countries, however, requires efficient management and high levels of productivity: in the years 2011-2012 significant differences in performance emerged within the more restricted group of Italy's leading export industries, namely those who traditionally hold the largest share of total exports in value.
- In 2010-2012, the nine best performing sectors account for over 60% of total exports in value, compared to 17% of the less dynamic sectors.
- Machinery and products for metallurgy, coke and oil refining by-products, food, vehicles and clothing are among the sectors that recorded in the same period, the largest increases in the value of exports. Means of transport, furniture and textiles, on the contrary, are among the worst performing sectors.
- Despite the difficulties encountered, between 2010 and 2012, 64.5% of exporting firms, however, registered a growth of exports in value in the EU market.
- 37% of the observed companies, on the contrary, increased their sales both on the EU and on the external markets.
- For the 2013-2014 period, a cumulative export value growth of slightly less than 10% is expected, with manufacturing (+10%) growing more intensely than services (+7.5%). The expansion of the industrial sector would affect all sectors, with increases in exports in the two-year period ranging from 8,3% for intermediate goods and 11, 6% of agribusiness.
- The increase in foreign demand, expected for the 2013-2014 period, would result in the value added being equal to 1%