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The Italian SMEs in the International context.  
A model to succeed in the global arena

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Quaderno di Dipartimento n. 52

Marzo 2009

# **The Italian SMEs in the International context. A model to succeed in the global arena**

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## **Abstract**

This paper explores the internationalization process of the Italian SMEs, and aims to investigate their behaviour in the international contexts to ultimately outline general models able to optimize their peculiarities.

The empirical study firstly examines 546 SMEs along their internationalization. The internationalization process is examined through its phases: decisions, marketing strategy, achievements and future perspectives. A second aim is to define sustainable paths for SMEs willing to expand successfully over the Country borders. It also proposes important issues and management implications to be considered in the international development of Italian SMEs.

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# 1 Introduction

Globalization is an expression of a rapidly growing and changing economy that has driven both large firms and small to medium sized ones to the same competitive arena (Fraser and Oppenheim, 1997). As a consequence it is very difficult for SMEs to operate in their traditional and protected markets (Etemad, 1999; Levitt, 1983). Despite their size and limits in structure, resources, organization, culture, etc, SMEs are forced to compete or collaborate with larger companies. As a matter of fact, internationalization has become a mass phenomenon, covering all businesses and all activities (Grandinetti and Rullani, 1996).

To answer to the new scenario and the new competitive arena, small and medium enterprises have to face more changes than their larger counterparts. On one hand they must develop the basic conditions to achieve the requirement of competitiveness (Fahy, 2002; Grant, 1991; Mathew, 2003) starting from a disadvantageous position (Bell and Murray and Madden, 1991; Bonaccorsi, 1992; Etemad, 1999; McNaughton and Bell, 2000; Miesenbock, 1988). On the other hand, they have to face the lack of adequate theories and guidelines for an effective and efficient international growth.

Even if a literature review on marketing and international business outlines an unexpected vitality within small and medium enterprises in the international arena (Kohn, 1997; Hutchinson and Quinn and Alexander, 2005), theory has offered few contributions on their internationalization process. (Etemad, 2004). Some researches has given interesting contributions on the achieved and forecasted benefits (Battaglia and Tzannis, 2007; Battaglia and Corsaro and Tzannis, 2006) and other scholars have focused on the analysis of the reasons why firms do internationalize (Cedrola, 2005). So far both theory and research have not adequately answered to the specific needs of SMEs when internationalizing.

The purpose of this paper is to identify the behaviour of Italian SMEs in international markets in order to catch the strategy adopted by these firms (reactive, active or proactive strategy) (Cedrola, 2005). Furthermore another aim is to outline paths of sustainable development for SMEs that wish to engage themselves across borders continuously.

## 2 Small and medium enterprises, international markets and districts

The globalization has highlighted the competitiveness or even the survival problems of small enterprises, mainly because important competitive factors,

such as scale economies and technological research/innovation, are generally not very developed within Italian small and medium enterprises (Cedrola, 2005). Small enterprises are too often focused on product and on use innovation (Von Hippel, 1988), than on intangible resources such as knowledge and information (Rullani, 2006).

On this basis, some scholars argue that small sized companies will face numerous and significant difficulties in the international competition (Levitt, 1996; Ohmae, 1985) when focusing on domestic markets or on personalised products for the international markets. For other authors, however, “the downsizing phenomenon, the outsourcing processes, the development of network models, the growth of spin-off (but also spin-in partnership), as the development of franchising and, more generally, the mechanisms of ‘business creation through firms’, draw an organizational form of production that seems to reward small business” (Corò, 1998: 191). An enterprise that is part of a global value creation chain needs to feed its competitive capability through a continuous exchange with the local context from which it draws relational cognitive, and identity resources. It is also fundamental to spread knowledge through the transnational enlargement of the production chains, upstream and downstream, enhancing the ability to access to what is newly produced in the world in terms of materials, aesthetics, communicative models and information systems (Rullani, 2006).

Ultimately, the globalization of markets and competition do not automatically mean a lack of future for small and medium enterprises. These companies will keep on operating on final goods markets in specific segments, using concentrated (niche) marketing policies and exploiting their specific and original competencies. “The new internationalization processes will require a qualitative improvement in the management, that not all small and medium enterprises will be able to achieve. Flexibility, that is one of the traditional strengths of small firms, will take new forms and cover both tangible and intangible resources ” (Silvestrelli, 2001: 145).

Small and medium enterprises will also focus on strategies based on the exploitation of distinctive resources and competencies (technology, product, brand, . . . ), as well as on alliances, business chains, franchising and shared networks of enlarged knowledge. The benefits of this effort are explained in the opportunity for the company to share research, design and production costs with new markets. In many cases, this remains for SMEs the only way to feed their activities, thus ensuring the own survival on the market (Håkansson and Snehota, 1995).

Some scholars of Italian industrial districts are of the same opinion (Varaldo, 2006; Varaldo and Bellini and Bonaccorsi and Riccaboni, 1998; Varaldo and Dalli and Resciniti, 2006). They stress the importance of the district for

specialized manufacturing expertise, knowledge, and resources rooted in the local culture (Garofoli, 2006). But they consider its inadequacy to spread skills and knowledge pertaining to innovation, marketing, exploitation, and development of intangible assets. Indeed, the business model in the districts is based on rooted manufacturing traditions and shows strong limits in terms of culture, strategy and organisation. The time horizon is often short term. A change in the attitude is then crucial: it is important to create a district governance to guide efforts and investments of all enterprises towards cost efficiency, value innovation and market protection with an appropriate brand policy and an ability of development and integration into the international markets (Varaldo, 2006).

When approaching international markets the leading companies will have the important role of guiding the other small and medium enterprises towards an investment on intangible assets. This will drive them to “think and act big” (Selz, 1991). At the same time companies are also exposed to culture that is linked to the international business relationships and includes several concepts such as those of ‘psychic distance’ (Johanson and Vahlne, 1977), ‘cultural sensitivity’ (Fletcher and Fang, 2004), ‘cultural norms’ (Battaglia and Nadin and Gobbin, 2004) and ‘interpersonal relationships’ (Agndal and Axelsson and 2002; Hallén, 1992). The cultural elements to be taken into account are both the individual factors of the negotiators and the cultural dimensions of the specific enterprise, and finally the national cultural factors (Kostova and Zaheer, 1999; Usunier, 1996; Ghauri and Usunier, 2004). The cultural context largely impacts on how individuals act, think, communicate and do business with other actors, and this means that, very often, a country will prefer a particular type of relationship with another country depending on the perceived cultural distance between them (Battaglia and Tzannis, 2007).

Clearly new business models require a general upgrading of the human capital, both within leader companies and in all companies of the district (including associations and consortia). This means that business growth is also linked to training, listening and to the capability of managing relationships .

### **3 Objectives and research method**

This research is born as a deepening of the companies’ internationalization processes and aims to identify the behaviour of Italian SMEs on international markets. It also wants to define the paths and models of internationalization for small companies, taking into account the Italian peculiarities of sectors and districts, the international marketing policies and the instruments used

in foreign markets. To achieve the objectives above mentioned, a two steps research has been defined: a quantitative research to gather general information on the internationalization phenomenon, and a qualitative research to deepen the most innovative or significant issues emerged in the quantitative step. The qualitative research also aims to support the definition of sustainable internationalization patterns that could absorb operational, organizational and cultural peculiarities of the companies we considered.

The first part of the research required the definition of a questionnaire structured in two macro-sections: in the first part the main areas of decision-making of companies on international markets have been analysed. The issues we considered relate to the decision to operate abroad, the selected operational ways, the results achieved over time and the perspectives of further development (table 1). The second section of the research aims to understand the reasons why some small and medium enterprises do not have commercial or productive activities abroad, the motivations and the main difficulties encountered by managers.

The questionnaire was submitted via e-mail (by fax in case of no e-mail reporting) first to a pilot sample of companies, then to a wider sample randomly selected by the databases of the Chamber of Commerce and some trade associations (data collected from the third quarter 2006 to the third quarter 2007). The resulting sample consists of 5000 Italian SMEs belonging to different industries. The respondents were 546.

The research focuses on the main Italian industries involved in the international markets. Findings related to the textiles and mechanics industries can be considered significant, because of the number of questionnaires received. The results of the first quantitative research are presented below following the sequence shown in Table 1. The article also presents an interpretative model of the international development of Italian SMEs. The model comes from the study of quantitative data and the first qualitative interviews.

## 4 Empirical evidences

Here below we give some information about the sample. The geographical and the sector distribution of the companies surveyed is reported in table 2.

21% of the respondents (112) do not currently operate in foreign markets. This occurs because firms are satisfied with domestic profits (73%) and are aware of being in short of adequate skills and tools (27%). Companies currently not operating abroad talked about the inadequacy of the commercial and organisational structure as the lack of experience on international mar-

kets (table 3). 16% of the sample attempted to relate to foreign customers (16%) without any success. These firms have come across several difficulties when approaching foreign markets. The two main difficulties mentioned are the high operating and distribution costs, and the strong competition. Less frequently firms mentioned difficulties in the control of selling and risks. Price control is perceived as a less critical factor (3%).

Turning to 79% (on 432) of companies operating abroad, 72% of them have been operating for more than 10 years, and 16% for more than 5 years. At a first analysis we can state that internationalization is a consolidated and a widespread phenomenon for these companies, particularly for those belonging to the footwear industry (with all companies in the sample indicating a presence on foreign markets for at least 5 years), to the mechanic (92% for more than 5 years) and to the textile-clothing (89% for more than 5 years). Other industries, such as food, furniture and building have a hybrid situation, that does not express a strong tradition in terms of presence on foreign markets.

The analysis of correlation between the company size and the number of employees give us less significant data (table 4). Both micro and bigger enterprises express a strong tradition in internationalization. This is true for different industries. Nevertheless there is a more consolidated presence abroad within bigger companies (between 250 and 500 employees).

Regarding the amount of business turnover, for the 60% of the sample the relationship with foreign customers is extremely important: 37% of companies in fact achieve more than 50% of the turnover abroad, while 21% between 30% and 50%. These data further confirm the observations we did previously: relevance and tradition in internationalization are important issues to succeed abroad. The majority of respondents to the questionnaire (74%) also point out a growth in foreign turnover in the last year. As for type and number of customers, the vitality of the enterprises is demonstrated by the presence in the portfolio of both old and new customers (90%) and of a number exceeding 20 customers equal to 61% of companies.

With respect to product destination countries, companies say to export in many countries and these do not seem necessarily linked to geographical and psychic proximity, or to cultural affinity. There is a substantial number of companies operating in many countries, in particular in the textile and footwear industries (figure 1): 15% of the enterprises export in 1 to 3 countries, while the mechanic industry tends to be present in many countries simultaneously (5% in 9 countries, 1% in 10).

This is due to various reasons such as the technical/product specialization, the presence on niche markets and the stage of the product life cycle. The analysis per geographical area instead did not show significant differences.

## Reasons driving SMEs to internationalize

The entrepreneurial experience and international literature about SMEs categorize four distinct but complementary perspectives as reasons affecting the way companies do internationalize:

- *factors related to the company* (internal resources, production capacity, specialization degree, ...)
- *factors related to the management* (management skills, managerial orientation and strategic vision)
- *factors related to the network* (resources and links with other actors)
- *factors coming from the external environment* (foreign markets and industrial situations) (D'Amboise and Muldowney, 1988; Antoncic and Hisrich, 2000).

From the data analysis it emerges that these perspectives are valid also for Italian SMEs although with some differences. The process of internationalization is driven by both internal and external contingent factors. Indeed, the data show a high percentage of firms considering the product as a big boost for the development on international markets: in fact 73% of the respondents and 25% of the companies replying 'other' (28) indicate, as motivation, the ownership of differentiated products that are unique in a specific segment.

The growing global competition seems to have left Italian SMEs with no other choice but a productive specialization to position themselves in a specific international niche market. Moreover, 22% of the sample points lower production costs as an additional motivation to internationalization. Supplementary reasons that are external and independent to the firm, regard the highly concentrated situation of the national markets, the industry dynamics or the tight competition in the domestic market. Indeed, 91% of firms consider the search for new markets, the defence from an increasingly fierce competition (for the 24%), and the seeking of greater profits (69%) as driving motivations. Apparently the presence/knowledge of institutional incentives (EEC 1%, Region 2% or Government 1%) does not seem to modify these main reasons further.

Additionally alignment with the categories highlighted by the literature analysis can be found in some of the responses reported. Indeed, having a bridge relationship to access to other markets is a driving motivation by 33% of the sample. Moreover Italian SMEs lightly sustain, the hypothesis that resources and also links with other actors are determinant and competitive factors to succeed abroad. The network itself let an SME enter distant markets



through the realisation of new relationships in new markets, or through the connection with existing networks in other countries (Johanson and Vahlne, 1990; Bell, 1995; Coviello and McAuley, 1999).

Finally, it does not emerge a particular sensitivity to managerial or strategic matters. While performance on international markets is a function of the accessibility and also of the management skills, it is confirmed a general reactive attitude of the Italian enterprises, rather than a proactive one. Only 29% of respondents pointing 'other' (8 companies) recognizes these reasons, indicating precise strategic choices, previous background or specific managerial skills as drivers towards foreign markets.

### **Preliminary activities to internationalization**

Marketing researches are one of the key instruments available for managers to plan the international presence and select entry modes, timing, countries, marketing mix, etc. However the empirical data show contradictory signals: although companies are supposed to collect data in order to partially eliminate the uncertainty linked to the process, there is not a clear preponderance of this attitude. In fact the percentage of companies doing or not doing researches is almost equal, respectively 34% and 45%, to which it can be added 12% of SMEs that buy data from specialized agencies. Comparing this results to the percentage of companies to have a direct knowledge of markets (only 5%), it emerges a tendency to internationalize through actions that are not planned or that are random. Moreover, being part of a district system, a network of knowledge, or of a consortium seems to be irrelevant. Only 4% of Italian companies relies on these structures to be guided across borders or to acquire information about foreign markets. According to the previous considerations the data analysis of the type of researches carried out by our sample is then extremely interesting. Unsurprisingly, the principal items emerging from the research relate the size and the characteristics of the markets of interest (38%), and the kind of products and their rate of receptivity, rather than the degree of customization required. This is an element representing a source of further efforts for the exporting companies (20%). These data strongly confirm the reasons leading companies beyond national boundaries that were mentioned.

According to the previous results, only 2% of the respondents reported the search for partners as item of investigation. In fact, although firms feel the need for networking to ensure the success abroad, the lack of trust and of confidence stop them in the process. Finally, only 12% and 10% of the respondents reported an interest respectively towards the different types of distribution channels or to the customer type and characteristics.

## **International behaviour and operative procedures**

As far as the performance of the analyzed companies, the existence of an active or passive position towards internationalization was first of all considered. From this point of view, the prevalence of active entrepreneurial positions is apparent. In fact, only 15% of the companies present abroad declared to operate only on demand, while 11% on their own initiative and 74% in both ways. This is quite different from theoretical writings, where the international activities of the SMEs are largely concentrated on participation at trade fairs, followed by a waiting for orders. In terms of average number of foreign customers, 61 companies out of 100 declared to have a foreign portfolio of over 20 customers, 13%, between 10 and 20 and 17% between 4 and 10 foreign customers.

In view of this decisively active position, our research also identified a change in course from an organizational/managerial point of view. The difficulties on foreign markets are often attributed to a lack of specialized resources, as well as organizational skills, since all the decisions would be made by the entrepreneur (Nanut, 1989; Fiori, 1995). Indeed 57% of the sample developed new company skills: in 30% of the cases a foreign office has been established to look after staff training, while specialized personnel have been hired in 25% of the companies.

As it already appears in the literature supporting this research, the subject of collaboration among companies has gained importance in the area of empirical research, aiming at a better understanding of the processes of international development. The results obtained on this subject are shown in the following paragraph. Collaboration among companies and the accomplishment of international networks is one of the strong elements on which SMEs can and must invest in order to facilitate and make their penetration on foreign markets more profitable. Furthermore other factors are exploited and developed by the companies and, among these, the most cited in literature (Cedrola, 2005; Moini, 1995; Namiki, 1988) include product quality, price, ability to adapt to the variations and specifications of the different clients, innovation, design and service level connected with the offer. On average, companies declare to have largely invested on product quality (57%) followed at a distance by innovation and the other factors. The importance attributed to flexibility is surprising medium level, despite flexibility is known as a specific characteristics of Italian SMEs management. It is interesting then to explore the different entrepreneurial approaches in the various industries (table 5).

Only 17% out of 72% of companies choosing export, opted for a direct way with an export manager and sales offices. The majority use almost exclusively

agents, representatives and distributors in the markets of interest. In some way this ensure a certain proximity to the customer. Both direct investments and collaboration abroad are small, even if they should contribute to improve the international performance of the SMEs, especially of smaller ones.

As far as promotional activities abroad are concerned, the data show that communication has an important role in the process of internationalization. Indeed, 82% of the sample are active promoters of their business and it is not surprising that new technologies are the dominating instrument; for 75%, in fact, the company website is the quickest showcase to promote the firm and its products. Although 43% of companies publish advertisements in specialized magazines, direct contact remains the Italian entrepreneurs favourite tool. In fact trustworthy relationships are created and consolidated through face-to-face contact, during which an exchange of viewpoints and adaptations can be more easily managed. Whether this happens during specialized or non-specialized trade fairs, during visits to customers, meetings or conventions or seminars, the important thing is to seize the moment of contact in order to better know the clients and gather the necessary information to prepare an offer for the new market. Lastly, confirming what previously affirmed, there is a tendency to use more tools simultaneously (83%), but in limited number (for example the web and trade fairs).

In the following paragraphs we will give some empirical evidence to the issues ‘collaboration among companies and consortia’ and ‘culture and cultural dynamics’.

### **Collaboration between companies and consortia**

Apart from the industrial districts, the internationalization of SMEs is favoured by other types of collective processes that stimulate the exchange of formal or informal knowledge owned by different organizations. The reference is made to the ‘constellation of companies’ evolving around their own leading companies (Lorenzoni, 1990), and to the experiences of cooperation and collaboration among companies (Lorenzoni, 1989). In these cases a network takes form. It widens the production base and the use of knowledge: each business increases the information it has access to and the usage of its own information, thanks to investments made in the construction and development of a social system that is able to exchange highly complex knowledge. This concept is not valid just for the relationships established by SMEs with the subjects that belong to their system, but also for relationships built with subjects that represent the counterparts of transactions, such as customers and trade intermediaries. This is possible by introducing the new elements of analysis contained in the model of Normann’s Value Chain Constellation

(Normann, Ramirez, 1993) developed in the theoretical paradigm known as the Network Approach (Johanson, Thorelli, Snehota e Håkansson are the main supporters and scholars).

The research deepens the collaboration among companies. 60% of the respondents declared to have not yet started collaborations to internationalize, and only a few companies show an interest in collaborations (8%). The remaining group of companies have concentrated on the following sorts of collaborations: among companies belonging to the same sector 8%, and belonging to a consortium 11%, while 20% improperly declared collaborations with external distributors. The study confirms that Italian companies show a general reluctance to collaborate with each other.

An in-depth study was then carried out on the members of consortia. Results show a strong pulverization among consortia and associations (on 52 companies, 45 different organizations or consortia were indicated), and in general, consortia supply basic export services (table 7), and promotional activities.

A correlation analysis between membership of a consortia, number of markets entered and turnover of firms was then realized. The results actually indicate an absence of correlation. The information is nevertheless meaningful as it highlights poor utilization of the internationalization services offered by consortia, and the presence of organizations that support the approach to foreign markets offering merely basic services.

### **Culture and cultural dynamics**

In order to adequate also SMEs' offer to Country's needs, values and expectations, it is necessary to understand the elements that connote local culture. Culture influences the needs and desires of end users, the local marketing mix and the way the firm operates, interacts and communicates with individuals, companies and Countries (De Burca and Fletcher and Brown, 2004). The business practices of a Country or the enterprise' culture do not always represent the best way to satisfy the cultural needs of a foreign market. 'To export' one's commercial methods without adapting them to the hosting cultural context may be risky: local commercial partners could reject them and, consequently, business relations could be ineffective and preclude the progress in negotiations (Battaglia and Tzannis, 2007).

In the research the term 'culture' has been included in some questions related to the localization of marketing mix elements and, more specifically, to the identification of cultural difficulties that came up with international business. About one quarter of the respondents localize their services (22%) or products (25%) on the basis of foreign markets needs. Product modifi-

cations, besides technical adaptations to a country's different standards or regulations, also include changes related to the final user, e.g. 'taste adjustment', 'client needs, . . . of the various markets', 'customization'. Such issues not only indicate the attention to the selected market, but also underline the attention of Italian SMEs to the product and its customization. It is also interesting to point out the indication of 'colours' and 'style-design' which are specific cultural elements.

Service localization indicates various elements, from language to information and manuals, to assistance and web services. Service localization does not necessarily imply a local presence, but it stimulates the development of alternative and innovative approaches to foreign markets by Italian SMEs, who are generally supposed, for instance, to exploit insufficiently the Internet (Cedrola, 2007).

Only 25% of the companies indicates a major difficulty in cultural diversity when operating abroad and 14% points this out to be more important than others. In addition, as an evidence although they consider this a difficult topic, other 11 companies mentioned, among other difficulties, cultural elements (language and communication problems, cultural distance, adaptability of the product, tastes, difficulties in establishing relationships). As a further confirmation, only one of the 112 companies not exporting indicates as critical limit to internationalization 'linguistic difficulties, cultural differences' and 'different distribution systems'. Cultural dynamics, after all, are often underestimated by companies and are considered an isolated phenomenon compared to the economy. Therefore companies are not interested in elaborating strategies to manage cultural diversity. However, the experiences on foreign markets are often negative, or the opportunities are not fully exploited, as a result of a 'non-management' of the existing cultural differences. This lack of awareness is partially due to the way companies work on the international market. Companies hardly get indirect contacts with customers. Frequently they use intermediaries as entry mode, and intermediaries act as filters for cultural aspects. But the awareness of differences and cultural factors, would allow firms to avoid misunderstandings, both verbal and behavioural, and to establish long lasting relationships with their counterparts.

## 5 Results and future perspectives

The opening up of markets has made more difficult, if not practically impossible for SMEs, to seek refuge in their own 'protected' traditional markets. In particular, the difficulties encountered by companies abroad are divided

into two macro categories: those regarding the economy of Countries (customs, instability. . .), and those related to their characteristics (culture, trust, . . .). Among these topics, the protective barriers in some extra UE Countries, are an obstacle for 44% of the respondents. Such a result echoes the data previously noted regarding the motivations for which companies expand abroad, and confirms how cultural differences can preclude this expansion, as pointed out by 25% of respondents. Furthermore, 31% of them pointed out difficulties regarding the lack of trust against counterparts, fearing that their products might be counterfeit.

Despite all those difficulties, even Italian SMEs of different sectors succeed abroad. Efforts in communication and investments in export bring new foreign customers for 88%, and national ones for 19%. These improve the image not only on a national level, but also internationally for 67% of the cases, with a possible business expansion (52%), and lastly an increase in turnover in 72% of cases.

From the percentages seen above, we deduce the willingness of SMEs to venture abroad, seeking to take advantage of these benefits through the expansion on other markets. In fact 87% of the sample declared that they would like to expand their exports to a larger number of Countries.

## 6 Conclusion and managerial implications

In order to adapt a company and its products to Country's needs, values and expectations, it is necessary to realize a process of internationalization that involves all company's decision making, management, organizational and marketing procedures, and the people who operate directly or indirectly abroad.

This research presents the main empirical data resulting from the questionnaire and from the first interviews with the more proactive companies of the sample. Although the weak managerial approach was proved, some original considerations emerged on companies' behaviour. These can be summed up according to two interpretative lines: one referred to operations and the other referred to strategies. Here below we give a rough representation of the aspects that characterize the two trends.

In the *operational domain* two themes related to both the operational management as to the marketing choices have come up.

Italian small and medium enterprises are consolidated and widespread on the international market in terms of a lengthy presence abroad, in terms of number and type of customers and of percentage of foreign turnover.

They have been operating abroad for over ten years and are both micro

and larger companies, and operating in a large number of Countries simultaneously, independently of geographic closeness and reduced cultural distance.

Moreover Italian SMEs show an entrepreneurial behaviour in all operative phases of the internationalization process, contact and attention to certain customers, specialization of product or service, attention to quality or to elements which are focus factors of the business. In synthesis firms show a punctual reaction to the extreme competitiveness.

Almost all of the companies have promotional activities abroad. Companies that operate on niche markets prefer specialized press and fairs, other companies concentrate on fairs and websites and adopt a general approach. They tend to ‘non-localize’ the product, favouring quality and design rather than flexibility of the production process and product modification. This is due to excess of production capacity, niche specialization and to a limited knowledge of the cultural differences of Countries.

Finally, they dedicate little attention to service, limiting themselves to supply formulas that are mainly requested by indirect channels.

As for *strategies*, Italian SMEs show a predominantly reactive behaviour, and operate abroad more for necessity than for strategic vision.

They typically look for ‘new markets’ and ‘respond to requests coming from abroad’. This means a lack of a long term vision and entrepreneurial management.

Companies think that collaboration and alliances are not much significant because they do not foster the business expansion. Suspicion and lack of trust limit and prevent innovation and working together.

SMEs consider not so relevant the fact of being Italian. The ‘country of origin factor’ seems to be less important than quality, thus showing a mistrust both in collective actions to support the brand, as in relation to public/private institutions and bodies whose mission is to promote the “made in Italy” and related products and companies.

They use traditional distribution channels and do not employ more efficient and efficacious developed ones, such as joint ventures and franchising. This probably because they do not understand their potentiality and mistrust what they scarcely know (control procedures, contracts,...). These elements further underline the scarce knowledge of cultural differences and distances.

Italian SMEs look for information about new and potential markets in a discontinuous and unstructured way; they search, and only occasionally use external service agencies to find ad hoc information.

Finally, they scarcely invest in service, although they are aware they cannot avoid a direct and continuous contact with the market, whether they operate in a niche market or not.



The above considerations, even though they do not include all the outcomes of the research, encourage us to propose an interpretative model that can be useful both to sketch the present situation, and to lay out an evolutionary pathway for those companies which intend to play an active role on the international markets. The importance of product and process innovation is confirmed, but this is not the only focus of a small and medium firms that want to survive and consolidate their position on international markets. In many cases an enterprise alone has not enough financial resources and expertise to afford the innovation. And the focus on process or product does not guarantee markets alignment.

We highlighted as elements of the ‘evolutionary’ pathway, on one hand companies’ behaviour on international markets, and on the other hand companies’ strategic orientation. The ‘evolutionary’ pathway is shown in figure 2. The behavioural development of Companies, represented on the vertical axis, shows the importance of a move from an individualistic approach to a cooperative and inter-territorial network one, passing through an intermediate stage where local/regional/national collaborations predominate. In other words we state how crucial alliances and collaborations are. But to collaborate or to realize alliances trust development is a must.

The abscissa, illustrates the strategic development of internationalization: it goes from very passive entrepreneurial interpretations, excessive production capacities, waiting for orders from abroad,... to the localization of the strategy and the marketing mix. Also in this case, we notice intermediate levels of offer that is customized and specialized for transnational niche markets. In this case we underline the importance, for Italian SMEs, to realize a real customer orientation. Customers orientation implies the understanding of customers and markets, so the understanding of culture is crucial.

The development line of the two combined dimensions leads the companies to grow along the diagonal of the graph. To express it in photographic terms, companies move from a ‘standard/compact’ situation to a ‘wide-angle’ one, stimulating innovation in process/product and in market approach, and using information and knowledge as prior requirements. In this case, information and knowledge must be diffused, shared and distributed within the company and its networks.

The Culture and trust are critical factors for the development of the firm.

From the managerial point of view the study and the acknowledgement of cultural distances, make way for a clear understanding of potential markets, and a better definition of both strategic and tactical approaches. Trust is the true obstacle for Italian SMEs, as it implies an effective sharing of expertise and knowledge without which a small or medium sized company cannot put into practice durable growth and internationalization policies.



The best practices analyzed show unbalanced approaches: some firms stress their attention on marketing, other ones on alliances, others on innovation. It is difficult to find out behaviours that are a good mix of the three ways. This is the real challenge for Italian SMEs in next future.

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**TABLE 1**  
**Thematic table of the quantitative research (section: enterprises operating abroad)**

General information on the firm	How long have you been working on the international markets
	Number of foreign customers
	% of foreign turnover on total turnover
	Turnover trend
	Foreign countries the firm works in or for
Motivation	Why the firm decided to internationalize
Propedeutic activities	Market researches on foreign countries
Operative behaviour	Active or driven internationalization process
	Number and characteristic of foreign customers
	Existence of alliances or networks to support the internationalization
	Firm's strength on international markets
	Human resources needs and organisational changes for internationalization
	The internationalization marketing mix: ethnocentric, globalized or adapted to the local peculiarities
	The international promotion
Results	Advantages of the internationalization
	Problems and difficulties of the internationalization and their impact on the management
Future perspectives	Other interesting countries to work in or for

**TABLE 2**  
**Sample distribution per industry and geographic area**

Industries	Number of firms	%
Food	27	5%
Furnishing	25	5%
Footwear	25	5%
Chemistry, rubber and plastic materials	20	4%
Commerce	17	3%
Construction	14	3%
Mechanics	238	44%
Services	12	2%
Textile and clothing	126	23%
Others	42	8%
Firms in the sample	546	100%

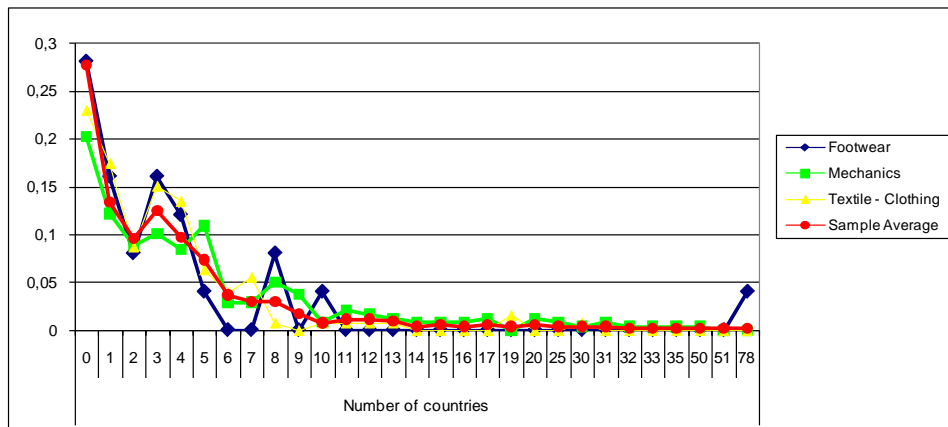
**TABLE 3**  
**Difficulties encountered by an enterprise wishing to operate in foreign markets**  
**(112 replies of the companies that do not currently operate abroad)**

	Number of answers	% out of 112
Inadequacy of the commercial and organizational structure	57	51%
Lack of experience in the international context	56	50%
Lack of specialized personnel for the international markets	36	32%
Lack of information about the international market	31	28%
Difficulties in elaborating an international business plan	27	24%
Fear to undertake an activity highly expensive and scarcely rewarding	21	19%
Product not suitable for foreign customers	15	13%
Fear that the product could be imitated by competitors	10	9%
Other	11	10%

**TABLE 4**  
**Distribution of companies per industry and internationalization lifetime**

Industry	> 10 years	Among 5 and 10 years	Among 1 and 5 years	Few months
Food	42%	37%	16%	5%
Furnishing	29%	29%	29%	14%
Footwear	91%	9%	0%	0%
Chemistry, rubber and plastic materials	60%	33%	7%	0%
Commerce	57%	43%	0%	0%
Construction	33%	33%	33%	0%
Electro mechanics	86%	0%	14%	0%
Mechanics	78%	14%	7%	0%
Services	63%	0%	38%	0%
Textile and clothing	75%	14%	9%	3%
Other	57%	13%	22%	9%

**FIGURE 1**  
**Presence of companies per industry and number of countries**



**TABLE 5**  
**Factors on which companies invest mostly to face internationalization**

	Food	Furnishing	Footwear	Chemistry	Trade	Construction	Mechanics	Services	Textile-clothing	Others	Average
Flexibility	26%	32%	20%	15%	12%	21%	31%	8%	33%	19%	28%
Product innovation	7%	20%	48%	30%	6%	14%	39%	8%	39%	29%	34%
Quality	59%	40%	64%	55%	24%	21%	65%	25%	60%	45%	57%
Design	15%	36%	56%	10%	12%	7%	11%	17%	44%	17%	23%
Price	33%	28%	12%	25%	12%	7%	29%	25%	23%	33%	26%
Services	7%	20%	28%	15%	12%	14%	33%	0%	20%	17%	24%

**TABLE 6**  
**Entrance methods to foreign markets**

	N	%
<b>Export</b>	<b>393</b>	<b>72,0%</b>
- National export	71	13,0%
- International export	75	13,7%
- Trading company	27	4,9%
- Cooperative structures	3	0,5%
- Agents, distributors located in the markets of interest	301	55,1%
- Own sales staff located abroad	38	7,0%
- Representative offices and branches	56	10,3%
<b>Licensing</b>	<b>4</b>	<b>0,7%</b>
<b>Franchising</b>	<b>2</b>	<b>0,4%</b>
<b>Production contracts</b>	<b>14</b>	<b>2,6%</b>
<b>Management contracts</b>	<b>2</b>	<b>0,4%</b>
<b>Service contracts</b>	<b>2</b>	<b>0,4%</b>
<b>Construction contracts</b>	<b>3</b>	<b>0,5%</b>
<b>Joint venture</b>	<b>23</b>	<b>4,2%</b>
<b>Acquisitions of a foreign company</b>	<b>11</b>	<b>2,0%</b>
<b>Ex novo establishment of a company</b>	<b>23</b>	<b>4,2%</b>

**TABLE 7**  
**Services offered by the associations and used by companies**

Basic services (e.g. fax, telex, fairs)	46%
Advice services for export issues	38%
Support services for international marketing policies	35%
Conventions to take advantage of services by private and public operators	
Promotional services	52%
Brand of the consortium	17%

**FIGURE 2**  
**Interpretative model**

