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NURTURING LOCAL CAPABILITIES? FOREIGN MULTINATIONALS' ENTRY STRATEGIES IN THE ITALIAN ECONOMIC HISTORY[1]

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1. INTRODUCTION

The relationship between foreign direct investment (FDIs) and host country's economic growth is one of the dominant topics in international business (IB) literature. This relation is frequently analyzed under the perspective of the "good" or the "bad" of multinational presence inside a domestic economy. This (often static) research perspective sees the relationship between FDIs and local contexts as univocal: good, or bad, the presence of the foreign investment is going to affect the host country, both at the macro level of the economy in terms of aggregate figures of employment, added value, gross product and the micro level of the single companies, their innovative behavior and competitiveness. Other sides of the relationship between foreign investors and the local context are less investigated, especially in historical perspective. Among them is, for instance, the *amount* of the investment, which is often influenced by considerations which have to do with the conditions of the local economy in terms of potential risks and rewards. Another area in which the host country exerts a relevant influence on investment decisions of foreign investors is that of *entry strategies*, that is the way in which investors concretize their decisions to invest directly abroad investing in new facilities, acquiring existent ones or creating new ventures with local producers.

[1] These pages are to be considered a little more than notes for discussion and are not intended as a research paper at this stage. Please do not quote or cite. English not revised.

Historically, if one considers the inflow of FDIs in one country during a given period of time, the mix of the investments, in terms of entry strategies put in place by the companies involved, is determined by many elements. These include the institutional and legal framework (which may incentivize some strategies and deter others), the incentives' policy, the aggressiveness and competitiveness of local producers. When a more dynamic perspective is taken into account, however, one must consider that the evolution of the local industrial demography radically affects not only the opportunities of entry, but also the entry strategies themselves. This is linked to the idea that the evolution of the domestic economy, both in terms of aggregate supply and demand, changes the mix of incentives to the investment decision and towards the adoption of one form of entry instead of another – both for new entrants and for companies already present in a certain country. [2]

In order to take into account the relationship between development and its relationship with the pattern of FDI, the IB literature has developed an interpretative framework, known as Investment Development Path (IDP).[3] The IDP, in its simplest form, suggests that the international investment position of a country changes, from only receiving inward FDI to exporting FDI, following the process of development of the country itself. In this basic formulation, the net flow of direct investments into a country becomes progressively negative during the process of economic development of a country. An underdeveloped country has a negligible level of inward and outward investments; in a following phase, when the process of development starts, the inflow of FDI

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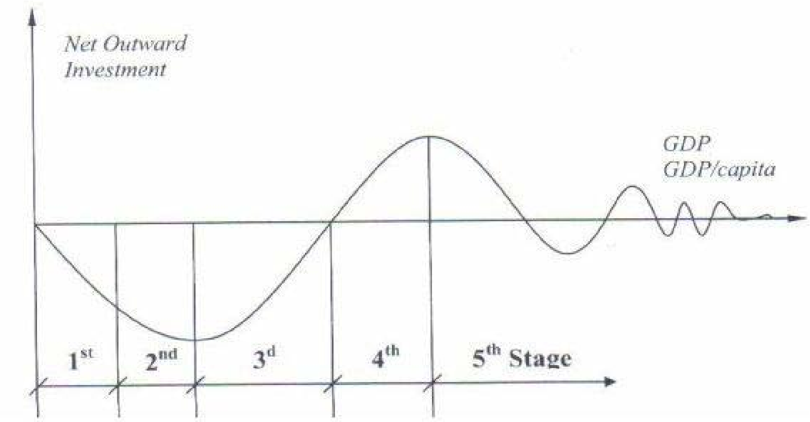
[2] Sanjeev Agarwal and Sridhar N. Ramaswami, "Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalization Factors," *Journal of International Business Studies*, 23, no. 1 (1st Qtr., 1992): 1-27; Dunning, "Location and the Multinational."

[3] John Dunning and Rajneesh Narula, "The Investment Development Path Revisited: Some emerging issues" in John Dunning and Rajneesh Narula, eds., *Foreign Direct Investment and Governments: Catalysts for economic restructuring*, Routledge, London and New York 1996.

largely exceeds the outflow, a situation which further changes following the process of development of the country itself, according to what depicted in Figure 1.

Since its early formulation, the IDP framework has been tested frequently in empirical research, in particular on emerging and transition economies. The resulting literature has largely focused on the stages in which the developing economy matures, outward investments increase and eventually exceed inward ones. At the same time, the *nature* of outward investment activity has largely attracted the scholars' interest.[4]



Source: Dunning and Narula (1996).

This article takes both a similar and a different perspective than the IDP framework in its original formulation. It is similar in the fact that the host economy is considered in the course of the process of its long term economic development, and that the maturing of the host economy is considered to exert a considerable influence on FDIs in general. It is different because it does not assume that the process of economic growth results into a progressive increase of outward investment activities

[4] See e.g. Fabienne Boudier-Bensebaa, "FDI-assisted development in the light of the investment development path paradigm: Evidence from Central and Eastern European countries", *Transnational Corporations*, Vol. 17, No. 1 (April 2008), 37-67; Rajneesh Narula and José Guimon, The investment development path in a globalised world: implications for Eastern Europe, *Eastern Journal of European Studies*, Volume 1, Issue 2, December 2010, 5-19 ;

over inward investments, something which is greatly country-specific and dependent on the development path of the host economy. It focuses, instead, on the changing pattern of inward foreign investments, in their composition in terms of entry strategies more than in their relative reduction in respect to outward foreign investments. In this, the approach taken in this article diverges too from the section of IB literature which correlates entry modes to the characteristics of the *home country* of the agent undertaking the investment.[5]

This paper aims at assessing this issue, through the investigation of long-term trends in inward foreign investments in Italy in the course of the whole of twentieth century, conducted upon the basis of new quantitative evidence. Its purpose is to analyze the patterns in foreign multinationals' entry strategies in the context of the country's modern economic growth in order a) to test the IDP framework, or some of its assumptions; and b) to suggest some stylized patterns in multinationals' entry strategies.

This paper is based upon the systematic collection of quantitative evidence on FDIs in Italy in the course of the whole Twentieth century. Micro data about flows and stocks of foreign direct investments in Italy are scarce and episodic until the last decade of the past century, particularly at micro level.[6] Extensive research into archival and secondary sources as well as the systematic analysis of business directories has thus been carried out in order to assemble a new and original database[7] containing information about the first one hundred largest joint stock companies under

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[5] Ulriche Mayrhofer, "International Market Entry: Does the Home Country Affect Entry Mode Decisions?", *Journal of International Marketing*, 12 (4) 2004, 71-96.

[6] For a review of the literature, see Andrea Colli, "Foreign Enterprises (1913-1972)," in Andrea Colli and Michelangelo Vasta (eds.), *Forms of Enterprise in 20th Century Italy*, (Cheltenham, 2010): 89-90.

[7] The main problem in studying the history of foreign investments in Italy is that, as elsewhere and with a very few exceptions, no systematic recording of inflows and stocks of foreign capitals with the purpose of exerting strategic control exists for periods before the 1980s. The only way to proceed is through a process of micro-data collection and the construction of a database with detailed information about companies under foreign control. The process of data mining which has followed has been explained in detail elsewhere. See Colli, "Foreign Enterprises."

foreign control,[8] - ranked by total assets - operating in Italy from 1913 to 2001. For each company, information has been collected about the size (measured by the amount of share capital and total assets[9]), the nationality of the parent company,[10] the activity,[11] the location of the headquarters/legal office, the incorporation year,[12] the entry year, the entry strategy,[13] and, finally, the technological intensity.[14] Information has been collected and cross-checked for 8 benchmark years: 1913, 1921, 1936, 1952, 1960, 1972, 1982 and 2001.[15]

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[8] In the most recent OECD definition, the control threshold is put at a minimum of 10% of the voting power. In the dataset, controlling stakes are normally far higher. What is relevant in this paper, however, is the nature and objectives of the investment, which, according to the OECD definition, "are different from those of portfolio investment whereby investors do not generally expect to influence the management of the enterprise." OECD, Benchmark Definition of Foreign Direct Investment, Fourth Edition, 2008, available at http://www.oecd.org/dataoecd/26/50/40193734.pdf, last accessed November 2011. To assess the influence on management is not only sufficient to identify the portion of the capital owned, but also the nature of the other shareholders, and the amount of their shareholdings. The companies are thus included in the database upon the basis of at least one of the following criteria: a consistent (above 25%) block of shares have to be held by foreigners; and at least one seat on the board of directors has to be assigned to a representative of foreign investors. Furthermore clear evidence, from qualitative primary and secondary sources, of influence of the foreign investors in the management of the enterprise is required.

[9] Total assets are the sum of PPE (property, plant, equipment), long-term investments, short-term investments, cash and cash equivalents, inventories, and securities. The choice of total assets as the main size indicator is justified by the fact that they are basically a proxy of the amount of the investment, thus more effective than other indicators (such as, total sales or market share). Clearly, this choice is not without its limitations, the most serious being the bias towards capital-intensive industries, characterized by a high amount of fixed investments in plant and inventories. Labor-intensive industries –textiles, for example – are thus probably not so well represented in rankings based upon total assets. See Alfred Chandler, *Scale and Scope. The Dynamics of Industrial Capitalism*, (Cambridge, Mass., 1990): 157.

[10] In the case of multiple international ownership (quite frequent before World War 2) the main shareholder's nationality has been considered.

[11] The activity has been standardized according to the ATECO-ISTAT-ISIC 1991 classification. See Renato Giannetti and Michelangelo Vasta, *Evolution of Italian Enterprises in the 20th Century*, (Heidelberg, 2006).

[12] Year of incorporation may be subsequent to the year of subsidiary foundation under a legal form different from that of the joint stock company, but presumably coincides with a turning point in terms of size and strategic relevance.

[13] Basically, the following strategies have been considered: greenfield investment, acquisition of an existing facility, joint venture (both with domestic and/or foreign partners). In the aggregate analysis of investment strategies, freestanding companies have been considered as greenfield investments.

[14] Technological intensity is based upon Giannetti and Vasta, *Evolution*, Tab. 4.4, p. 72.

[15] The benchmark years are homogeneous with other research based upon consistent quantitative evidence (Giannetti and Vasta, *Evolution*; Colli and Vasta, *Forms*). For 2001 the basic information used to reconstruct the data was provided by Reprint, a research group including some researchers and scholars of the Politecnico di Milano, who kindly put the data at my disposal. I want here to thank Sergio Mariotti, Marco Mutinelli and Lucia Piscitello for their support. However, the Reprint data have been integrated, and double-checked by additional research.

2. MAYOR PHASES IN ITALIAN ECONOMIC HISTORY

The IDP model puts a strong emphasis on the structural evolution of the host country's economy in explaining the behavior of foreign investors towards the domestic market and hence the entry strategies they select. To understand the Italian case is worth summarizing (briefly) the main stages of the Italian economic history.

A successful latecomer (1861-1914)

In 1911, only few years before entering the First World War, Italy celebrated the 50th anniversary of its political unification. In half of a century, the country had been able – sole among the other Mediterranean countries – to engage successfully in a process of industrialization, which brought her from the economic periphery of Europe, closer to its centre. The process, which started immediately after the political unification of the country, was initially fostered by the State infrastructural policy, and was rooted in a diffuse presence of artisanal manufacturing activities both in the countryside and in the main cities of the North and the Centre, and fostered by a widespread integration between agriculture and manufacturing brought by the production of raw silk. Cotton production, the other main manufacturing activity - often carried on by foreign entrepreneurs - was diffused mainly in the Northern regions, and carried on both in centralized plants and through efficient putting-out networks. This situation lasted at least for two decades after the Unification. During the 1880s, a consistent step beyond was taken, due also to the State policies set up in order to protect the primary sector challenged by Russian and American Midwest' cheap foodstuffs production. Protectionist policies were extended to manufacturing and were at the basis of an effective take off of the Italian secondary sector. Since the beginning of 1890s industries as metallurgy, mechanics, electro-mechanics, steam engines, experienced a double-digit production growth.

Entrepreneurial opportunities emerged by the fast process of urbanization of the main centers of the peninsula, and were readily grasped by native entrepreneurs (as for instance Giovanni Agnelli, the founder of Fiat, Leopoldo Pirelli in cautchouch, Giorgio Enrico Falck in steel, Ernesto Breda in heavy mechanics and many others) which benefited of the favourable conditions in terms of market expansion and pro-active economic and industrial policies. In the same years, new, and modern universal banks were founded, as the Banca Commerciale and the Credito Italiano, channeling finance to the manufacturing sector. In the same years, however, a massive contribution to this ambitious "leap forward" was given by foreign investments. Belgian, French, Swiss and German capitals targeted the sectors which showed a promising rate of growth and in which easier was foreign penetration.

The driver of this massive inflow of capitals (but also of competencies) was fundamentally of market-seeking nature. On the one side, the fast urbanization process which followed the first industrial "boom" of the country made necessary (and convenient) investments in utilities, transport and energy-supply and distribution, all industries in which the high degree of technological specialization made almost irresistible the foreign penetration. On the other, the take-off of the manufacturing base made indispensable the availability of machine-tools and other industrial goods which made convenient for foreign leaders to start producing domestically, instead of exporting.

The true takeoff (1914-1945)

The takeoff of the Italian industrial system took however place during the First World War. All energy and scale intensive industries (as hydro-electricity, heavy mechanics, steel and chemicals) expanded at maximum speed in order to fed the necessities of the Army. Existing first-movers consolidated their position, and initiated a process of internal and external growth. Investments and acquisitions were incentivized by the favorable fiscal treatment of re-invested war-profits. This brought for instance existing leaders as Fiat, in automotive, Montecatini (chemicals), SNIA (artificial fibers) and Ansaldo (heavy mechanics) to engage in ambitious project of horizontal and vertical integration through the creation of large business concerns. The consolidation of capital intensive industries went on in the early years of the Fascist dictatorship and during the Great Depression. The economic crisis, in addition to strong protectionist and autarchic policies, had structural consequences.

Firstly, it took Italian largest corporations almost completely out of the global market, at the same time granting them a virtual monopoly in the internal one – not particularly large and dynamic. This led often to suboptimal consequences: in steel making real mass production could not be attained, since modern technologies were not in use. In other cases internal demand dictated commercial strategies: Montecatini, for instance, kept a strong leadership in fertilizers, with very little diversification in advanced chemicals. However, if some industries ended to be almost completely dominated by Italian incumbents which – as for instance Montecatini itself – enjoyed the unconditioned support of the Fascist regime, in others (in particular those characterised by an high degree of technological advancement) the nationalistic Regime demonstrated a high level of realism and "liberal" attitudes, allowing foreign investors to settle in the country and approach local consumers.

A second structural consequence emerged from the way in which the effects of the Wall Street crash were managed in Italy. In short, in order to avoid the risk of a massive disruption of both the banking and the industrial systems, the country's three largest banks – the Banca Commerciale Italiana, the Credito Italiano and the Banco di Roma – were bailed out, and their industrial holdings transferred to a State Agency, the Istituto per la Ricostruzione Industriale (Agency for Industrial Reconstruction), or IRI. Therefore, in 1933, and almost overnight, the Italian Government, through IRI, became one of the largest business players in the economy, virtually owning, or controlling, hundreds of companies in almost all sectors of the economy. It has been calculated that with the creation of IRI around one-quarter of the cumulate capital of all Italian joint stock companies fell under the control of the State. The so-called “State-Entrepreneur” had, before the Second World War, merely to deal with emergencies, that is companies on the verge of bankruptcy. But soon (and increasingly after the War) emerged that it could play a key-role in leading the efforts of the Italian industry to catch up the technological frontier, particularly in industries in which private entrepreneurship was absent or unwilling to invest giving high entry barriers, mainly of technological nature. This catching up effort involved a great deal of collaboration with foreign technological leaders.

The Golden Age (1946-1975)

After the Second World War, many of the constraints deriving from a small domestic market characterized by low dynamism were removed. The Italian economy (and society) joined the rest of Europe in what have been defined as the “thirty glorious years” of growth and expansion. The affirmation of a consumer society, together with a virtuous infrastructural policy carried on by the Governments mainly through the State-owned enterprises had crucial impact on Italian big business. Meanwhile, the process of European economic integration opened to Italian firms a market which was at least in principle larger than the domestic one. Italian big business became stronger, as well as the degree of concentration in capital intensive industries. The State intervention through direct ownership became pervasive. In 1953 Ente Nazionale Idrocarburi (ENI) was created, an agency for oil and gas search and exploitation, while in 1962 the whole electric sector was nationalized into the Ente Nazionale dell’Energia Elettrica (ENEL). Alongside the private sector, the State was running companies in a leadership position in airlines, motorways, cement and other scale-intensive industries. The aggregate sales of the top two hundred companies accounted in the Sixties for about one-third of Italian GDP—a percentage similar to that of the United States, Germany, or Britain, even though their organizational structures remained substantially backward. Such a promising market could not be ignored by foreign investors which also faced the “export vs.

direct production" dilemma in front of the creation of the European Common Market. Even if not much different from other European countries in terms of institutional, political and fiscal location advantages[16], Italy was particularly well-placed in geographic terms, like a bridge across the Mediterranean (which became a significant location advantage for oil, chemical and petrochemical producers) and generally characterised by a cheap and disciplined workforce, at least until the beginning of the Seventies.

Crisis and change (1975-2000)

To understand what happened during the last quarter of the Twentieth century to the Italian economy, it is crucial to turn again to the shift in technological paradigms introduced by the information and communication revolution started after the Second World War. In the 1960s, in fact, Italian big business was at its zenith, and many of the largest firms could cross the new technological frontier, as actually happened in microcomputers with Olivetti, microelectronics (with the IRI-controlled SGS Ates), telecommunications (STET, Alenia and Telespazio, again all under the control of the State), which successfully established collaboration networks and joint ventures with the main foreign players in their respective fields. Only a handful of these initiatives, however, survived, always in marginal position and not really able to reach a global exposure and keeping Italy as a marginal player in third revolution industries. In the meantime, the giant State-controlled sector of the economy was crumbling under the combined pressure of corruption and inefficiency, due to its closer and closer intertwining with political parties. This thus paved the way for a ambitious privatization program which during the 1990s virtually dismantled and sold out a huge section of the Italian big business.

[16] Colli, "Foreign Enterprises".

At the beginning of the new millennium, the overall contribution of big business to the growth of the Italian economy was steadily declining. While the backbone of the domestic economy was to be found in a multitude of small and medium-sized enterprises, often organized in industrial districts enjoying agglomeration economies, the few remaining Italian large firms remained focused in scale intensive industries characteristic of the second industrial revolution, as automotives, steel, oil and gas, electricity, and cement. As a matter of fact, and limiting the confront to European leading economies, at the beginning of 2000 Italy counted only three companies (ENI in energy, Assicurazioni Generali, an insurance compny, and Fiat) among the Europe's top-50 by revenues[17], against 10 British, 10 French and 14 German. An increasing section of the Italian big business was in the meantime becoming under foreign control, a trend which accentuated progressively over time. In the first years of the new millennium roughly the 40% or even more, of the Italian top-200 enterprises were under foreign majority or full control.

3. FOREIGN INVESTMENTS IN ITALY IN THE LONG RUN. AGGREGATE EVIDENCE FROM THE SAMPLE

The availability of the "micro-data" collected in the dataset allows to appreciate some general trends in the foreign investment activity in the long run. Table 1 allows to appreciate the overall foreign presence among the largest companies of the country in the long run.

The foreign presence in Italy shows a quite clear U-shaped trend, with the bottom of the curve in the period immediately following the first World War, and a steady, monotonic positive trend (with the exception of the beginning of the 1980s) after until today. At a first glance, it appears clear that the extent of foreign presence in Italy – at least among the largest companies – has been fluctuating,

[17] http://money.cnn.com/magazines/fortune/global500/2006/europe/

even if never negligible. The reasons for this fluctuating attractiveness have been discussed in another article.[18]

Table 1: Foreign-controlled companies (FCC) among the largest of the country, 1913-2001

Year	FCC in the top-200 (by assets)	FCC as a percentage of the top 200	Assets of FCC in Italy as a percentage of the largest Italian 200's assets
1913	80	0.40	0.44
1921	41	0.21	0.16
1936	44	0.22	0.19
1952	51	0.26	0.18
1960	60	0.30	0.19
1972	64	0.32	0.19
1982	57	0.29	0.15
2001	88	0.44	0.41

Source: own data.

Table 2, which reports a breakdown of the sample by the entry year of the companies present in at least one of the benchmarks presents a more dynamic perspective. The period under examination has been sub-divided into homogeneous sub-periods as in paragraph 2. The first period largely coincides with the first acceleration of Italian economic growth, the second with the interwar years, while the third includes the years of the re-construction and of the so-called "economic miracle".

[18] Andrea Colli "Host Country Attractiveness and Economic Development: Multinationals in Italy during the Twentieth Century", Business History Review, forthcoming 2014

The last period goes from the crisis of the mid-1970s to the end of the century, and includes the liberalization and privatization phase of the 1990s. Obviously the adequacy of the data is highly questionable. In many cases, the "entry" year coincides with the year of incorporation as a joint-stock company, regardless if the company was already present in Italy under another legal form.[19]

Table 2: Breakdown of the sample by entry year

	1885-1914(*)	1915-1945	1946-1975	1976-2001	Total
Total	139	109	114	60	422

(*) Includes 32 investments done before 1885.

Source: own data.

Probably, the most interesting data emerging from the table is the high number of new entries in the interwar year, a period traditionally considered as characterized by closure and autarchic attitudes by the Fascist regime. Such a persistent FDI inflow in a phase characterized also by policies aiming at currency stabilization and re-valuation can be explained by various factors, among which a general increase in the level of protection, more accentuated in some industries such as chemicals and pharmaceuticals, accompanied by a period of intense economic growth and political stability. In addition to this, the autarkic attitude of Fascism was clearly selective. The regime maintained good relations with several foreign companies, especially when they were global leaders such as I.G. Farben, Siemens, Bosch, IBM and General Electric and could transfer to Italy forms of technology and capabilities which otherwise could not be found among domestic companies.

[19] It is however also true that the decision to incorporate as joint stock company marked the decision of transforming a pure commercial branch into a manufacturing one, or to enlarge significantly the activity.

Easier is to explain the high level of entry in the years following the Second World War, when the advent of a modern society that was characterized by consumerist attitudes made Italy (like other European countries) attractive for foreign firms which were expanding the range of their international operations. The steady rise in public and private consumption due to a growing GDP and *per capita* income meant not only the consolidation of domestic big business in capital-intensive industries, but also the opportunity for global players to establish themselves in the Peninsula. For the first time, pro-active policies aiming at attracting foreign investments were put in place, including both new favourable legislation,[20] and incentives for companies (both domestic and foreign) willing to open plants and facilities in less developed areas, mainly in the Central and Southern regions.

This phase of enduring growth came to a standstill in the 1970s, coinciding with the global economic slowdown. In the Italian case, however, there were also some internal factors that should be considered, including a deterioration in the labor market and in the system of industrial relations coupled with an unstable political scenario, which, in principle, could deter investments decisions. At the same time, the favorable attitude towards foreign investment turned into increasing hostility, often due to a mixture of political and ideological reasons. This is a probable explanation for the (small) decrease in the number of the large foreign multinationals among the top-200 Italian firms (Tab. 1), but, above all, in the considerable fall in the number of new entries in the course of the

[20] The first law explicitly concerning foreign investments was issued in 1956 (Decree 43; February 7, 1956), after a first, but less organic, attempt in 1948 (Decree 211; March 2, 1948). The act explicitly emphasized that foreign citizens were free a) to start an economic activity in the country, b) to decide about the sectoral destination of the investment, c) to sell the activity, and d) to choose the legal form of the activity itself. The conditions for establishing a production facility in Italy were generally considered fully satisfactory after the promulgation of the 1956 law, particularly for US companies for which some archival evidence is available. See AS IMI, IIO, 91, “Checklist for investigating foreign operations”, addendum to letter 21907, “Visita di industriali statunitensi”. See, also, the (more critical) AS IMI, IIO 271, “Memorandum. Business International. Riunioni esecutive Italo-Americane. Roma-Milano 14-18 ottobre 1957”. The idea of providing stimuli for foreign investments was shared also by other institutions, as the Bank of Italy. See Bank of Italy Historical Archives (ASBI), Banca d’Italia, Ufficio Studi, 282, f. 2, sf. 1, “Investimenti di capitali esteri in Italia e loro incidenza sullo sviluppo economico del nostro Paese”. See, also, ASBI, Carte Caffè, 1, f. 1, “Questionario sugli investimenti internazionali”, and ASBI, Carte Caffè, 71, f. 6., “Investimenti stranieri in Italia ed Italiani all’Estero”.

1970s. The fate of domestic entrepreneurship, however, to some extent counterbalanced this trend. During the 1970s, a number of promising initiatives in the fields of nuclear energy, electronics and computer technology were aborted, leaving foreign investors basically unchallenged. Italian companies were able to achieve only a marginal position in the international market of telecommunications and aerospace, a situation which paved the way for foreign investor activity in industries which belonged to what is commonly defined as the third industrial revolution.[21] Additional opportunities for foreign acquisitions came from the crisis of domestic firms, many of which were still under the control of their founders, as happened in the above-mentioned case of the food and beverages industry or in another sector characterized by medium-large entrepreneurial or family companies, that of household appliances.

Starting in the early 1990s - and coinciding with the new wave of globalization - the structure of the Italian industrial system underwent some radical transformations. The most relevant changes affected the area of the state-owned enterprises, which were large but inefficient and characterized by heavy losses. Following the European trend at the time, at the beginning of 1990s, a vast program of privatization was launched, with the explicit purpose of creating modern public companies as well as of attracting foreign investors.

A second component of the process (which, in the long-run, had an important impact on the demography of Italian big business at the beginning of the new millennium) was the policy of de-regulation and liberalization, mainly in public utilities. As had occurred a century earlier, this framework provided – together with the privatization of consistent segments of the huge state holdings – sound opportunities for foreign investors.[22] The sample counts an average of two

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[21] The failed catching up process in high-tech industries is investigated in Camillo Bussolati, Franco Malerba, Salvatore Torrisi, *L'evoluzione delle industrie ad alta tecnologia in Italia. Entrata tempestiva, decline e opportunità di recupero,* (Bologna, 1996).

[22] OECD, *Reviews of foreign investments: Italy*, (Paris, 1994): 26 ff. and 36 ff.

acquisitions per year between 1990 and 2000, against a total average of one. Half of them were related to the liberalization and privatization policies undertaken by the Italian governments from the beginning of the 1990s. The best opportunities for foreign investors, however, came from the privatization of former state-owned enterprises, which took place intensively from the beginning of the 1990s to the first years of the new millennium.[23] With very few exceptions, foreign investments in privatized companies were made by global leaders in the same industries, with the intention of expanding productive capacity, adding new competencies, or gaining access to new markets.[24]

4. ENTRY STRATEGIES IN A DEVELOPING COUNTRY. A DYNAMIC PERSPECTIVE

Table 3 summarizes the entry strategies of the foreign companies present in at least one benchmark year of the database. Greenfield proved to be the most frequent entry strategy followed by the foreign companies in the sample,[25] albeit with a declining trend over time, in contrast to acquisitions and joint-ventures, which steadily increase in number (with the exception of the last phase for joint ventures).

It is clearly difficult to single out a univocal explanation for these tendencies. Multiple factors were at work, from both sides. As is also suggested by the literature in the field of international business strategy[26], a high rate of greenfield investments may be the consequence of strong advantages of a technological nature by foreign investors, coupled with the absence, in the host market, of suitable targets. As Table 4 - which breaks down the whole sample of entries by entry strategy and industry's technological intensity[27] - shows, greenfield investments mainly cluster in high-tech

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[23] Ricerche e Progetti, Italia Multinazionale 2000, Rome: Consiglio Nazionale dell'Economia e del Lavoro, 133.

[24] Massimiliano Affinito, Marcello De Cecco and Angelo Dringoli, *Le privatizzazioni nell'industria italiana*, (Rome, 2000).

[25] This is true also for other peripheral European countries. See, for example, Peter Sorensen and Kenn Tarbensen, "US Investments in Denmark 1945-1972. An overview with focus on motives and attitudes", in Bonin and De Goey, *American Firms*, 229-282.

industries, such as refining, mechanics and, above all, chemicals and pharmaceuticals.

Table 3: Entry strategies: breakdown by typology and period

	1885-1914(*)		1915-1945		1946-1975		1976-2001		Total	
Greenfield(**)	102	0.73	53	*0.48*	53	0.46	16	0.43	224	0.53
Acquisition	27	*0.19*	37	*0.34*	42	0.37	36	0.60	142	0.34
Joint-venture	10	*0.08*	19	*0.18*	19	0.17	8	0.13	56	*0.13*
Total	139	*1.00*	109	1.00	114	1.00	60	1.00	422	1.00

(*) Includes 32 investments done before 1885.

(**) Greenfield investments include free-standing companies.

Source: own data.

The logic behind these investments was that, given the absence of local challengers and in front of an expanding market, foreign companies were incentivized to undertake direct investments, which had to be created "from scratch". Mid-tech sectors are instead mainly targeted through acquisitions: well-established domestic companies are bought in order to strengthen the position in the market of the investor or to push forward integration. Acquisitions of existing facilities are quite common in mining, food and beverages, and textiles.

[26] Jean-Francois Hennart, Young-Ryeol Park, "Greenfield vs. Acquisition. The Strategy of Japanese Investors in the United States," *Management Science*, 39, (1993): 1054-1070, 1055 ff.

[27] The definition of ttechnological intensity is based upon the one proposed by Giannetti and Vasta (*Evolution*, Tab. 4.4, p. 72) which in its turn is based upon the one adopted by OECD. The classification in use in this paper thus takes into account the changes in technological intensity in the long run, in particular in some industries as precision instruments, motor vehicles and transportation equipment which after the Second World War cannot be longer considered as high-tech ones.

Table 4: Entry strategies. Breakdown by technological intensity

	low-tech	mid-tech	high-tech	#
Greenfield	0.18	0.34	0.48	224
Acquisition	0.19	0.45	0.36	142
Joint-venture	0.09	0.41	0.50	56
All	0.17	0.39	0.44	425

Source: own data; about the definition of technological intensity, see note 19.

Data in Table 3 suggest another (complementary) explanation of the trends in entry modes. Entry strategies through the acquisition of existing facilities increase proportionally over time, becoming the majority of the operations in the two last decades of the century, exceeding greenfield entries by far (36 against 16 in absolute number).[28] The transformation in the pattern of foreign investment, from greenfield to acquisitions, confirms the growing relevance, after the Second World War, of what has been defined the "modern multinational" model,[29] which is characterized by investment strategies largely based upon the acquisition of existing companies instead of *ex novo* investments as had occurred up to the interwar period. At the same time, the maturing nature of Italian capitalism in the decades following the Second World War further increased the opportunities for acquisitions, confirming the role played by the host conditions in influencing the entry strategy itself, and the probabilities of the success of the investment.[30] As suggested above, privatization in the 1990s added further opportunities for the takeover of consolidated domestic players.

[28] OECD, Reviews of foreign investments: Italy, (Paris, 1994): 14.
[29] Harm Schroeter and Geoffrey Jones, *The Rise of Multinationals in Continental Europe*, London, Elgar 1993, 20.
[30] Similarly, Chandler, *Scale and Scope*, 159 ff.

*Greenfield investment*s

Superior advantages of a technological nature coupled with a) the absence, or weakness, of domestic players, and b) with a market expanding in size and becoming increasingly sophisticated, are at the basis of the waves of greenfield investments reported in Table 3. Entry mode based upon the creation of new subsidiaries characterized various industries in different periods. The first bulk of greenfield investments were those undertaken by free-standing companies (mainly incorporated in Belgium, followed by France, while the British presence looks almost negligible) largely before the end of the nineteenth century, almost exclusively in urban transport, railways, water and gas distribution.[31] In this case, the absence of domestic competitors coupled with a rising demand, due to the urbanization process in many areas, and technological competences was the main driver of the market-seeking investment, often undertaken in a logic of vertical integration.

A second consistent wave of greenfield investments took place in the period preceding the Second World War, mainly clustered in chemicals and pharmaceuticals, electric appliances and machinery, which were again all industries in which Italian companies manifested a structural competitive weakness. Global leaders in electric appliances (as Siemens, AEG, Western Electric) and machinery had started to invest in Italy even before the First World War, and became dominant players in an industry that was quickly expanding thanks to the diffusion of hydroelectricity as one of the main energy sources in the Peninsula. In communication equipment greenfield investments began immediately after the First World War, undertaken by companies which were already active internationally as Ericsson, Automatic Electric, Standard Electric and, after the Second World War, Alcatel and ITT. A similar combination of technological leadership and expanding market was at

[31] Peter Hertner, "Free Standing Companies in Italy, 1883-1912," in: Mira Wilkins and Harm Schroeter (eds.), *The Free-standing Company in the World Economy*, (Oxford, 1998): 151-60.

the basis of greenfield investments in office machinery, where IBM and Underwood were present from the interwar period, followed, after the Second World War, by other global leaders such as Honeywell, Remington-Rand, and Rank-Xerox.[32] In the case of chemicals and pharmaceuticals, the idiosyncratic nature of the assets and the high research intensity of the production process made the establishment of new investments almost compulsory.[33] Immediately after the First World War almost all the international leaders started to produce in Italy: Sandoz opened a plant in 1922, Bayer founded its subsidiary, CO. FA, in 1926. The following year, Hoffmann La Roche opened a branch in Italy (Prodotti Roche), while Glaxo has been running a facility in Verona, the Laboratori Glaxo, since 1932. All these companies were struggling to establish themselves as leaders in the global pharmaceutical industry, and the clustering of their investments can be easily explained not only by the competitive weakness of the domestic players, but probably also by a strategy of imitation of the main competitors.

*Acquisition*s

In other industries, foreign investors found the opportunity to exploit their technological leadership by benefiting from available competences, integrated into a more efficient structure characterized by solid managerial competencies and organizational capabilities. Initially, this happened randomly,[34] but the progressive maturation of the Italian industrial apparatus made entry strategies possible through the acquisition of targets in which some degree of technical expertise was present.

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[32] Wilkins, The maturing of Multinational Enterprise. American Business Abroad from 1914 to 1970, Cambridge, Mass. 1974 , 77.

[33] Hennart, “Greenfield vs. Acquisition”, 1055-56; Jones and Bostock, “U.S. Multinationals in British Manufacturing,” 229.

[34] This was for instance the case of *Tecnomasio Italiano*, a electro-mechanic firm acquired by the Swiss *Brown Boveri* only five years after its incorporation in 1898 (but three decades after its foundation in 1871). *Brown Boveri* took over the company in order to enter the Italian market as a supplier of railway electric engines before the nationalization of the network in 1905 in order to meet the future orders from the State Railways. See Stefania Licini, “Ercole Marelli e

Clearly, acquisitions responded to a wide array of competitive strategies. A telling example is provided by General Electric, which, in the interwar period, invested intensely in the peninsula directly via its UK-based subsidiary, International General Electric or through its Italian main subsidiary, the Compagnia Generale di Elettricità. In order to establish direct control on the expanding market of electric light bulbs, in 1919, it took over a licensee, the Milan-based Società Edison per la Fabbricazione delle Lampade Ing. C. Clerici & C. Ten years later, vertical integration was behind the acquisition of Scotti & Brioschi, a producer of radio components which had been founded at the beginning of the century.[35] The backward integration move was justified not only by the good technical level of Scotti & Brioschi, but also by the autarky laws and the protection policies, which practically made it a necessity to control a domestic producer, instead of importing components from abroad. The attractive market for military procurement was what lay behind General Electric's acquisition, in 1941, of the Società Anonima Fabbrica Apparecchi Radio – Safar (components and earphones), which had been founded two decades earlier. The acquisition of specialized producers with superior technology and leaders in strategic market niches also continued after the war, when General Electric bought Fabbrica Italiana Valvole Radio-elettriche – Fivre, which produced vacuum tubes, valves, kinescopes and other television components.

The presence of efficient domestic producers allowed foreign investors to exploit their co-ordination capabilities, particularly in the case of multiple acquisitions, when existing facilities were assembled into a single unique organization. French companies provide telling examples in this respect. Air Liquide[36] merged, in 1909, three small local companies (Società Italiana Aria Liquida

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Tecnomasio italiano, dalle origini agli anni Trenta: un tentativo di comparazione," in *Annali di storia dell'impresa*, 1989-90, n. 5-6.

[35] Alberto Cova, *Economia, lavoro e istituzioni nell'Italia del Novecento*, (Milan, 2002): 531; regarding International General Electric in the interwar years, see Wilkins, The maturing, 65 ff.

[36] As of 1906, the company's global expansion takes off at a staggering rate, with a new country added every year. Michael Stephen Smith, *The Emergence of Modern Business Enterprise in France 1800-1930*, (Cambridge, Mass.,

in Genoa, Magazzini Raccordati e Industrie Diverse in Milan and another one in Turin, Ossidrica Italiana), each one located in fast-growing industrial areas in which the market for cryogenics was expanding. The merger transformed the three companies into three local plants of a co-ordinated complex, Società Industriale Ossigeno (SIO), which quickly consolidated its position on the Italian market, becoming the main domestic provider of cryogenic gases and one of the largest companies in Italy. The best example of a policy aiming at the establishment of an oligopolistic position on the Italian market through multiple acquisitions is that of Saint Gobain in glassmaking, an industry characterized by a high incidence of transportation costs. Saint Gobain had established a presence in Italy during the last decade of the nineteenth century, with a greenfield investment in Pisa, where it built the Fabbrica Pisana di Specchi e Lastre Colate di Vetro in order to obtain access to a promising market in which competition was absent. After this initial investment, followed by the establishment of agreements with other domestic producers, in order to strengthen its dominance on the Italian market, the number of acquisitions carried out by the French glassmaker in Italy immediately after the war rose at an impressive rate.[37] In 1920, it bought out Manifattura Isolatori e Vetri d'Acqui, an acquisition which was strategic also because it was strengthening the company's ties with the Fascist government. In 1928, Vetro Italiano di Sicurezza was founded, a joint-venture between Saint Gobain and another Italian glassmaker, Manifattura Specchi e Vetri Felice Quentin, while, in the following year, the French company took over a relevant stake in one of its main domestic partners, Vetreria Milanese Lucchini e Perego. In 1930, Vetreria Meccanica & C. Ricciardi was incorporated, in which Saint Gobain had a stake of 54 per cent, while, in 1932, another partner of Saint Gobain, the Leghorn-based Vetreria Italiana Balzaretti e Modigliani came under its control together with another producer based in Rome, Vetrerie Riunite Angelo Bordoni e

2006): 446 ff.

[37] Marco Bertilorenzi, La méthode Saint Gobain. Strategia di un'impresa multinazionale in Italia, 1887-1939, M.Sc. Thesis, University of Florence, 2006.

di San Paolo. Thus, after a first greenfield investment, Saint Gobain found the progressive acquisition of local producers to be more convenient after having established various kinds of partnerships and collaborations. By the late 1930s, Saint Gobain had become the main glass producer in the Peninsula, a position which was going to last for a long time after the Second World War. The French glassmaker's technique of progressive expansion was replicated not only in Italy but also in other European countries, such as Spain.[38]

Joint-ventures

Joint-ventures are a form of entry strategy which can be seen as intermediate between the establishment of a new facility and the acquisition of an existing one. This entry mode is normally based upon the relationship between a foreign company and a domestic partner who provides some kind of specific resources which are not easily replaceable.

Fifty-six out of the 422 companies present in at least one benchmark year entered the Italian market through the establishment of a joint-venture with an Italian partner.[39] Clearly, as in the case of acquisitions, some cases of collaboration between foreign firms and Italian partners can be found in the years preceding the First World War, even if the majority of these agreements took place in the years between and after the Second World War.[40]

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[38] Esther Sánchez, "Un siglo de vidrio francés: Saint Gobain en España, de 1905 a la actualidad," *Investigaciones de Historia Económica*, 7, (2011): 395-407.

[39] Companies founded on foreign initiative and capital which run by straw men with negligible shareholdings are not considered as joint-ventures.

[40] Notwithstanding its short life, a good example can be found in *Società Tubi Mannesmann*, founded in 1908 by the German Mannesmann in a joint-venture with a domestic competitor, the Italian *Società Metallurgica Italiana*, of the Orlando family. The aim of the agreement was to establish a plant for the production of vacuum steel pipes, a technology developed by the Germans years before and still not in use in Italy, in a market which was extremely promising given the increasing use of steel pipes in the construction of gas and water networks. Mannesmann thus provided both the technology and a portion of the original investment, while the Italian group had access to the German technology subscribing a portion of the capital but, above all, being granted a privileged access to the market given its connections with local administrations and municipalized companies. The joint-venture lasted until the beginning of the

In the case of agreements, the contribution of the domestic partners proved to be essential in many ways. Not only could they provided part of the necessary expertise, financial resources, physical assets or even the components necessary in the production process, but also immaterial resources, such as the credibility for operating with local municipal administrations. An interesting case is that of SIRTI - Società Italiana Reti Telefoniche Interurbane - which was incorporated in 1921. The company was established in order to build long-haul communication networks connecting the main cities in the northwestern area of the country (Milan, Turin and Genoa). The initiative was undertaken by the two Italian leaders in natural rubber cables production, Pirelli and Tedeschi (CEAT), who joined together with the US company Western Electric, a leader in the production of telephones, switching systems and communication equipment. The involvement of the Americans in the initiative from the very beginning was quite substantial; two of the seven board members represented the US company, which provided equipment together with licensing and expertise. Representatives of Western Electric sat on SIRTI's board until the mid-1950s.

If, in these cases, the raison d'être of the joint-venture was a kind of mutual exchange, in others the presence of a strong and established domestic partner shaped things differently. This frequently happened in two fields in particular, advanced chemicals and oil refining (together, they amounted to 50 per cent of all the joint-venture initiatives in the sample), both – as stressed above – otherwise accessed by foreign investors through greenfield investments.

It was, for instance, almost impossible for foreign companies to avoid some kind of relationship with the most powerful national player, Montecatini, which was well connected, especially during the interwar years, with the political power, and which, in turn, took advantage of any opportunity to diversify from its main and most profitable business (chemicals for agriculture in which it had

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First World War. Peter Hertner, "German Multinational Enterprise Before 1914: Some Case Studies," in Peter Hertner and Geoffrey Jones, *Multinationals: Theory and History*, Wiley 1991, 113-134: 122-123.

become the undisputed leader after the First World War[41]). Montecatini and Rhone Poulenc joined together in Rhodiaseta, producing artificial fibers (rayon). The joint-venture was based upon French technology and on Montecatini's intermediate materials that were produced by a Società Elettrochimica del Toce, a firm which it controlled. When incorporated in 1928, the majority of Rhodiaseta's directors were from Rhone Poulenc. On the eve of the Second World War, it was the fourth domestic producer of artificial fibers in the country, in terms of assets. A few years after its incorporation, in 1935, the two companies launched another joint initiative in pharmaceuticals, Farmaceutici Italia Farmitalia.[42] Montecatini had been a partner in a similar way with one of the main global companies in the chemical industry during the interwar period, IG Farben. In 1930, the two companies jointly bought out a chemical company, Società Chimica Lombarda Bianchi e C. which specialized in artificial dyestuffs. Immediately afterwards, in 1931, another similar investment occurred, with the joint acquisition of Aziende Colori Nazionali e Affini - ACNA. In both cases, the technology was of German origin, while Montecatini provided access to the domestic market together with its extremely good relationships with the government. In the field of coatings, Montecatini also had joint initiatives with Dupont, after the incorporation of another joint-venture, DUCO, in 1928. These initiatives, in which "brokerage" played a relevant role, continued to be fruitful long after. During the 1970s, Montecatini (as of 1966 it had merged with Edison to become Montedison) was deeply involved in the process of industrialization of one of the poorest areas of the country, Sardinia. Montedison was the vehicle through which foreign investors could establish operations on the island, benefiting from government incentives. This was evident, for instance, in the case of aluminum. Particularly relevant is the case of Eurallumina, a joint-venture,

[41] Franco Amatori, "Montecatini: un profilo storico," in: Franco Amatori and Bruno Bezza (eds.), *Montecatini 1888-1966. Capitoli di storia di una grande impresa*, (Bologna, 1990): 19-68.
[42] Vera Zamagni, "L'industria chimica italiana dalle origini agli anni '50," in: Amatori and Bezza, *Montecatini*, 69-149, 97.

established in 1968, with four partners: Alsar – in its turn a joint-venture between Montedison and Alcoa, which had begun two years before[43] - Montedison, the Australian Comalco (Rio Tinto) and the German conglomerate Metallgesellschaft AG.[44] Here, too, the nature of the agreement was multiple: Alcoa was providing the necessary technology, the other foreign partners the raw materials (the plant was built in order to transform Australian bauxite producing aluminum oxide), and Montedison the access to the system of incentives set up in order to attract investments in the area.[45]

A similar framework lay behind the agreements linking other national leaders, both private, such as Fiat or Edison – the leader in the electric industry - and state-owned, such as ENI. As can be expected, refining was an activity in which foreign companies had to deal with the domestic leader, established in 1953.[46] In 1947, Agip (which had, before the creation of ENI, embodied the Italian interests in oil and gas refining and distribution) created a 51-49% joint-venture with British Petroleum, the Industria Raffinazione Oli Minerali – IROM, in order to re-build a refinery located in Porto Marghera with the best technology available. In 1949, another company which was going to become a division of ENI, ANIC – Azienda Nazionale Idrogenazione Combustibili - had started a 50-50% partnership, named Stanic with Standard Oil of New Jersey. Stanic was running the refineries of Leghorn and Bari, with American technology. ANIC and its mother company ENI later associated together in the Chimica Ravenna with BASF in order to obtain access to technology in the field of chemicals and polymers.[47]

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[43] Maurizio Rispoli, "L'industria dell'alluminio in Italia nella fase di introduzione: 1907-1929," *Annali di Storia dell'Impresa*, 3 (1987), 279-322.

[44] Senato della Repubblica, V Legislatura, 32esima seduta pubblica. Resoconto Stenografico, 11 October 1968, p. 1799.

[45] This is, in some ways, similar to the concept of "political" international investment activity suggested by Nuria Puig and Rafael Castro, "Patterns of International Investment in Spain 1850-2005", *Business History Review*, 83 (3), 2009.

[46] Daniele Pozzi, "Entrepreneurship and Capabilities in a 'Beginner' Oil Multinational: The Case of ENI," *Business History Review* 84, (2010): 253-274.

[47] Frequently, these agreements had their origin in licensing contracts and technology transfers that were stipulated even

5. CONCLUSION

Drawing on the Italian case, this paper has focused on the complex relation between the conditions of the host economy and foreign investment decisions.

The perspective adopted is different from the classic one suggested by IB literature and condensed into the IDP framework, which predicts an increase in the net amount of outward investments during the process of economic development of a country.

The perspective of the present study looks instead at the impact of the home country's development on the entry strategies of foreign investors.

The results of the analysis are quite straightforward. The composition of the inward investments stock changes, in fact, according to the maturing of the Italian economy. Greenfield investments – the majority of the investment decisions – decline in their relevance over time, remaining the principal strategy in the case of new technological shifts. Acquisitions increase progressively in number, witnessing the increasing attractiveness of the Italian companies for foreign investors, and thus their overall efficiency and competitiveness. Joint ventures maintain, over time, their instrumental role of "do-ut-des" (I give, you give) between foreign technological leaders and local companies, and particularly those belonging to the State which pursued an active policy of technological catch-up.

As its main conceptual contribution, this study suggests that in looking at the relationship between a country's economic development and foreign direct investment activity it is important not only to look at the variations in the balancing between inward and outward investments, but also at the composition of the investments themselves, in terms of mix of different investment strategies.

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before the Second World War, and not only in chemicals. See Rolf Petri, "Innovazioni tecnologiche tra uso bellico e mercato civile," in: Vera Zamagni (ed.), *Come perdere la guerra e vincere la pace*, (Bologna, 1997): 245-308.