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Thesis in

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The Internationalization as a Process of Expansion and Cultural Change

Supervisor

Prof.ssa

Cecilia Jona Lasinio

Signature

Student

Pierluigi Mauceri

Signature

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Summary

Introduction

Globalization has profoundly changed the breadth and nature of the competitive environment for many Italian companies, leading to undeniable repercussions on the corporate strategy. The growing liberalization of global markets, the use of ICT technology, the reduction of transport costs and the new Supply Chain Management techniques have increased the opportunities for internationalization of companies, including SMEs (George et al. 2005).

In a context like the Italian one, where the continuation of the economic crisis seems to leave little room for a recovery in domestic consumption, the internationalization of companies seems to be one of the few viable ways capable of restoring oxygen to the country's industrial fabric, made up of most from small and medium-sized businesses, many of which are family-owned.

Small and medium-sized enterprises (SMEs) play a fundamental role within the European economic fabric. They represent 99.8% of the total companies in the European Union and the their importance is such as to consider them the heart of its economy. If we look at the Italian context, SMEs represent 99.92% of the total number of businesses in the area, around 80% of the employed work in these and are the cornerstone of the development of our country (Cerved, 2016).

Small and medium-sized enterprises are distinguished by their innovative capacity deriving from closer contact with the final consumer, the greater flexibility given by a more elastic internal structure compared to that of large companies and their ability to adapt to the market; on the other hand, they have limits relating to financial, technological and human resources.

The phenomenon of globalization together with advances in communications have opened up a new world for SMEs: that of digital technology. This has given rise to new scenarios and the opportunity for small and medium-sized enterprises not to be excluded from the global market, thus increasing the chances of being successful with a view to expansion on an international scale and not limiting the market within the borders of the country. Internationalization processes have taken on a key role in the business strategies of small and medium-sized enterprises, which have seen outside the national borders an opportunity for growth and conquering new outlet markets for their products / services. In a domestic context, in which the market is struggling to grow, the Internet has allowed SMEs to reach geographically distant markets that are not easily accessible (especially in terms of costs for small businesses) making them accessible in terms of time and costs; and it has become a must for companies that want to grow and look beyond national borders. In this way, the limits and dimensional barriers typical of these companies have been overcome. Web technologies have also made it possible to reduce the resources and skills necessary to appear in new markets, allowing all companies to open their own "window on the world".

Although still limited, a number of studies suggest the existence of a relationship between governance and the level of exports and internationalization of the company in general (Hobdari et al. 2001). According to these studies, the power, influence and expertise of different actors within the company's governance have a strong influence on the strategic decisions of the company, including those related to internationalization (Strange et al. 2009) . Taking note of this scenario, the following study is part of the research aimed at studying the relationship between corporate governance and internationalization. In particular, we intend to make a contribution to the nascent line of research aimed at investigating whether and how the family presence in the governance of the company affects the decisions taken on the subject of internationalization (Fernandez & Nieto, 2005, 2006; Graves & Thomas, 2006; Majocchi & Strange, 2012). Although in literature there is now a wide recognition of the peculiar characteristics of family businesses, relatively few studies have analyzed how the family nature of the business influences the internationalization process (Chrisman et al. 2003; Cerrato & Piva, 2012). It is believed that this area of research is particularly relevant in Italy, given the predominance of family-run businesses in the economic scenario.

The study presented in the next pages, albeit in a synthetic way, is based on one of the most famous SMEs in Italy: Amaro Lucano, belonging to one of the most representative districts of Made in Italy. In general, empirical studies have shown the existence of a negative relationship between the level of family presence in the company, understood both as property and as a presence on the Board of Directors, and the level of internationalization of the company, measured through exports . The positive impact of the presence of independent directors on the company's international performance was also noted. Amaro Lucano seems to be an exception, having been able to catch the signs of a change in the market, it has been fundamental for management in the changed and unpredictable competitive scenario. So with the arrival of the third generation, new technologies and skills acquired throughout the company's history, Amaro Lucano has managed to reach different corners of the world thanks to e-commerce, social networks, advertising campaigns, partnerships and presentations in international events, restaurants and bars.

CHAPTER 1: THE GLOBAL ECONOMY

1.1 Foreign direct investment (FDI): some definitions

The central role that multinational companies have today in the world economy, and their growing influence, is highlighted by a set of important historical facts. First of all, one of the aspects was the strong increase in foreign direct investment (FDI), accompanied by a strong growth in international acquisitions and mergers and by an increasing number of collaboration agreements and strategic alliances between independent companies. Another important feature that highlights the role and importance of multinational companies concerns the fact that the sales of the affiliated companies are far superior to the commercial exchanges between non-multinational companies and that intra-firm trade is an increasingly important part. consisting of total trade.

The objective of this chapter is to highlight the main characteristics that distinguish the evolution and growth of multinational companies in the international economy. In particular, the definitions of foreign direct investment and multinational enterprise are presented and the evolution of foreign direct investment worldwide is briefly reviewed. The different ways to enter a host country are examined, the phenomenon of collaboration agreements and strategic alliances and intra-firm trade. Finally, after presenting the main statistical sources relating to FDI, some synthetic indicators are discussed to measure the complex phenomenon of globalization.

A multinational enterprise is an enterprise that carries out its activities in at least two countries. On the basis of this definition, a multinational company will be made up of a parent company and one or more affiliated companies owned or controlled by it. The fifth International Monetary Fund's Balance of Payments Manual (BPM5) defines foreign direct investment as that international investment made by a person residing in a given country that has the aim of establishing a lasting interest in a company resident in another country. The ongoing interest implies the existence of a long-term relationship and the exercise of significant influence on the management of the company[1].

The IDE can be both inbound (FDI inward) when it is carried out in the country that carries out the survey, and outgoing (FDI outward) when it is carried out abroad by the country that carries out the survey.

Another distinction is between foreign direct investor and direct investment enterprise. The first represents that individual, company (with or without legal personality) public or private, government, group of individuals (or companies) who owns an enterprise invested in a country other than that (or those) of residence of the Direct investor. The second is that company, with or without legal personality, of which a foreign direct investor has a stake equal to or greater than 10 percent of the share capital (or voting rights in the case of a company with legal personality) or the equivalent (in the case of a company without legal personality).

[1] The same definition is also followed in the third edition of the Benchmark Definition of Foreign Direct Investment (1996) of the O.E.C.D.

Among the companies subject to direct investment (which we will generically call foreign affiliates) it is necessary to distinguish:

- subsidiary companies, i.e. those companies, with legal personality, in which the foreign investor holds, directly or indirectly, a participation greater than 50% of the share capital and has the right to appoint or remove the majority of the members of the board of administration;
- associated companies, that is, those companies with legal personality, in which the foreign investor and its subsidiaries hold a share capital participation of between 10 and 50 percent;
- branches, those companies, without legal personality, owned entirely or jointly by the foreign direct investor.

The FDI flow is made up of the capital that the foreign direct investor transfers, directly or indirectly (through other companies connected to that investor), to the company subject to direct investment. Following the indications of BPM5, the IDE flow is composed of:

- shareholdings (or other types) in the company's share capital (capital equity);
- reinvested earnings, or that part of the operating income produced by the company subject to investment not distributed to shareholders in the form of dividends, nor remitted to the direct investor.
- Other capitals. This item includes inter-company debts transactions, both short-term and long-term, between the parent company and an affiliate, or between two affiliates belonging to the same direct investor.

FDI stocks, according to BPM5, consist of the value (market or balance sheet) of the shareholding in the capital, the reserves (including undistributed profits) attributable to the parent company and the net debt of the affiliates towards it ultima.

Two principles can be followed to evaluate the FDI stock:

- book value principle: the FDI stock is measured on the basis of the values that the company uses to record its assets and liabilities in the financial statements. In most cases, the value of the balance sheet items coincides with the purchase prices (historical cost);
- market value principle: all financial assets and liabilities are valued at current market prices on the reporting date.

Regarding the valuation of FDI stocks, BPM5 recommends using the market value principle. In fact, this method has the advantage of allowing a temporally coherent assessment basis between the flow and the stock data. However, because the balance sheet values of companies represent the only source of assessment of assets and liabilities readily available in many countries, the O.E.C.D. also accepts the assessment based on the book value principle.

Direct investment income includes all forms of remuneration that derive from foreign capital holdings (income on equity) and inter-company debt (income on debt).

In particular, following the indications in BPM5, IDE's income, for a given period, for subsidiaries and associated companies includes:

- dividends (gross of withholdings) declared payable, in the relevant period, by the company being invested to the direct investor net of dividends (before deductions) declared payable by the direct investor to the foreign affiliate;
- reinvested income;
- income on debt, i.e. the interest (before taxes) accrued, during the relevant period, by the foreign affiliate towards the direct investor net of the interest (before withholding taxes) accrued, in period of competence, by the direct investor towards the foreign affiliate.

Note that the item of reinvested income is recorded twice in the Balance of Payments, once, in the current part, between the flows of income from direct investments and another, in the account of the movements of the capital, between the flows of FDI.

1.1.1 The geographical distribution of FDI

Foreign direct investment (FDI) is fundamental to rapidly evolving international economic integration (globalization). It enables steady and extensive links between economies. Under the right policy conditions, FDI can support local enterprise development and promote the competitive position of both host (destination) and home (source) economy (OECD, 2015).

Furthermore, FDI reassures the transfer of knowledge and technology between economies. It also creates the opportunity for host economies to promote their products and services more widely in international markets. Additionally, FDI has a positive effect on international trade development, and is an important source of capital for a range of home and host economies. The significant growth of FDI over the past years, and its international universality reveal an increase in the monetary size and number of FDI transactions, plus a rising diversification of enterprises across economies and sectors (OECD, 2015).

The geographical distribution of FDI is determined by the value-added activities of MNEs, because the locational advantage of different places influences the location decisions of the firm (Dunning, 1998). In turn, this affects the development of human resources, employment, technological progress and trade. FDI is considered an important engine for economic growth in recipient countries and is said to be more beneficial than other forms of capital such as loans or stock. Although strictly speaking FDI only concerns capital movements, it also serves as a facilitator of employment, higher productivity, competition and technology spill-overs and facilitate higher economic growth and development (Asiedu, 2002). Almost all FDI research is carried out at the country level. Unique to this study is that it explores FDI flows from source cities to destination cities. This is important because the world is urbanizing fast, and the role of cities in the world economy are increasingly important (Alderson and Beckfield 2004; Wall, 2016). Furthermore, drawing conclusions from country level analysis is too general to advise cities (Fu, 2016). This is because almost all FDI flows to cities, and the distribution the cities in a country is very uneven (as will be shown in this study). Therefore, if we aim to achieve urban sustainability, it makes sense to explore FDI to cities, to reveal regional differences and hereby address specific territorial disparities.

In Table 1, we see the distribution of total FDI between world regions over the period of 2003-2018. It is seen that Southern Mediterranean (MED) receives 28.2% of its investment from the Middle East. This is its strongest source region. Next, it receives the second most FDI (17.2%) from its own region (MED). At third place it receives 2.9% of FDI from the Rest of Europe, and 1.8% from West Europe. Lastly, we see that MED receives 2.7% of the world total FDI compared to 40% for Asia and the Pacific captures. It is also clear that MED only receives 0.6% investment from Africa, while Africa receives 32.3 % of its investment from MED. Similarly, MED only receives 4.7% of its FDI from Europe, while it invests 11.3% of Europe's total FDI. Clearly, there is a better balance between how much MED invests in the Middle East (24.4%) and how much it receives form the Middle East (28.2%).

Table 1 Distribution of FDI between World Region's (2003-2018)

Row Labels	Africa	Southern Mediterranean	Asia and Pacific	Latin America	Middle East	North America	Rest of Europe	West Europe
Africa	38.2	0.6	10.5	2.1	3.5	34.0	3.3	7.8
Southern Mediterranean	32.3	17.2	10.4	0.5	24.4	4.0	1.3	10.0
Asia and Pacific	3.2	0.6	62.9	4.3	5.2	10.1	5.4	8.3
Latin America	4.4	0.6	14.7	45.8	2.3	19.1	3.1	10.0
Middle East	3.7	28.2	26.4	1.6	20.0	3.6	7.4	9.2
North America	2.4	0.9	42.4	10.7	6.2	7.0	6.5	23.9
Rest of Europe	0.8	2.9	23.4	2.3	3.8	3.3	49.4	14.2
West Europe	2.9	1.8	27.7	8.9	4.8	13.9	17.6	22.5
WORLD TOTAL	**3.3**	**2.7**	**40.3**	**7.9**	**6.0**	**10.7**	**11.5**	**17.6**

Source: Author's calculations based on the Financial Times' fDi Markets database

Let us now focus more carefully on the geographical distribution of trade in italy and foreign demand. In 2017, Italian exports recorded the highest value ever. In December 2017, foreign sales of Italian products experienced, compared to the same month in 2016, an increase of 2% which was accompanied by a larger increase in purchases (+ 3.8%). Regarding the entire year, 2017 was also characterized by bringing yet another record to our foreign trade: Italian exports to the world, which grew by 7.4%, touched the record share of 448.1 billion euros. Since 2010, our exports have continued to experience positive growth rates. From the point of view of the geographical destination of our products, it is noted that the increase recorded in the non-EU area (+ 8.2%) was more considerable than that achieved within the European Union (+ 6.7%). Also during the past year, Italian intra-EU sales achieved improvements in all the countries in the area. In this regard, it is necessary to underline the particularly favorable dynamics in our main trading partners, such as Spain, the Netherlands, Germany, France and the United Kingdom. As regards our exports to non-EU countries, there has been an improvement that has affected almost all the areas. Exceptions are North Africa and Oceania which, however, together they represent just under 4% of national exports. The most significant increase, in relative terms, materialized in East Asia: from 35.6 billion euros in exports in 2016, the 40 billion mark was exceeded for the first time ever, equal to a change of + 12.6%. Growth was driven by Japan (+ 9%), the so-called NIE's (+ 7.9%) and above all China. In the latter market, Italian exports - with a + 22.2% - have had the widest acceleration since 2011. Also with reference to imports, 2017 was characterized by growth (overall equal to 9%) which, with the exception of other African countries, concerned the various geographical areas. The most significant relative increases came from the energy-producing regions of the world. It is no coincidence that purchases from the Middle East rose by 39.1%, from Russia by 15.7% while imports from North Africa experienced a + 19.5%.

Focusing on the trade relations between Italy and the European Union at 28, it is noted that, as has been the case for about 5 years, with some rare exceptions, Italy's trade relations also in December 2017 with the European Union they highlighted favorable dynamics: compared to the corresponding month of 2016, in fact, both exports (+ 2.1%) and especially imports (+ 7.4%) recorded positive growth rates. Equally favorable signals come from reading the data concerning the whole year. In fact, during 2017, if from an hand, sales of our products in EU countries have increased by 6.7%, on the other hand purchases increased more significantly (+ 7.8%). In absolute terms, however, the most significant increases came from Germany, with exports going from 52.7 billion euros in 2016 to 55.9 billion, and from France and Spain, with an additional influx of money from abroad which overall it was 4.3 billion. During 2016, Italian companies distinguished themselves both by strengthening their presence in international markets and, above all, by attracting more foreign investments. During 2016, foreign direct investment in our territory more than doubled, going from 11.7 billion euros in 2015 to over 25 billion.

The significant increase is attributable to growth which, with the sole exclusion of Africa, has affected all continents. In particular, the most profitable trend occurred within Europe, where the overall flow of net FDI - over a year - improved by 12.2 billion euros, exceeding 22.5 billion euros (the best result since 2008). At the level of individual countries, the increase in investments of French origin (in particular in the finance, large-scale distribution, fashion and telecommunications sectors), Dutch (with important acquisitions in the food and beverage sector) and the UK (especially in the wholesale, logistics and marketing sectors).

Outside the European continent, we note the considerable recovery in investments from the United States, thanks - among other things - to the acquisitions made in the agri-food sector. Another good news also comes from Ernst & Young. In fact, according to the survey called "Attractiveness Survey Italy - Foreign investments back on track" - which analyzes the attractiveness of the countries Europeans as a destination for foreign investment - Italy is, among the mature economies, the one that has significantly increased its position. Italy, with 89 FDI projects, ranks 16th in the European ranking of foreign direct investment, recording an increase of 62% compared to 2015; increase second only to that of Sweden (+ 76%). For Italy it is the fourth best result ever, which brings it back to the pre-crisis levels of the spread, when in the years 2008, 2009 and 2010 there were 96, 100 and 103 investment projects respectively. The data, although provisional, released by the Bank of Italy throughout 2017, however, show a contraction in FDI in both directions, with more marked decreases on the side of outgoing flows.

1.2 The forms of expansion through foreign direct investment

A multinational company that has decided to carry out an IDE can implement this strategy through two possible forms, such as greenfield investment or the acquisition (partial or total) of an existing company:

- greenfield investment: it is represented by the creation "ex novo" of a foreign affiliate by one or more direct investors. Its main advantage lies in the fact that the parent company can transfer all the firm-specific advantages it has to the foreign affiliate, without running the risk of losing control of it.
- acquiring an existing company: It can concern a national company and / or an affiliated company.

The acquisition can also turn into a merger when two or more companies decide to combine their activities to form a single company aimed at achieving a common goal. Technically, there may be three types of merger:

- merger by statutory merger: the acquired company ceases to exist and merges all its assets and liabilities among those of the acquiring company;
- subsidiary merger: the acquired company becomes an affiliate wholly owned by the parent company;
- the merger by union occurs when two or more companies cease to exist and form a completely new company whose shareholders become those of the old companies.

In the period between 1990 and 2000, the mergers and acquisitions (M&A), both national and international, grew by about six times in terms of value and by about three times in terms of number. International M&A operations, which represent one third of the total, have increased more than five times in value and about three times in terms of number.

This circumstance can be interpreted as a consequence of the efforts made by multinational companies, on the one hand, to strengthen global competition in their core businesses and, on the other, to reduce competition within increasingly globalized markets.

From a geographical point of view, different patterns are observed between industrialized and developing countries. M&A operations, in particular the majority type operations, are the preferred form of multinational companies to enter developed countries. Others are the preferred entry methods for developing countries: two thirds of FDI flows can be classified as greenfield type investments. These differences can be explained by various reasons. First, developed countries have a larger number of target companies for any international M&A operations (Svensson, 1998). In addition, developing countries often have particularly restrictive regulations regarding the acquisitions of domestic companies by foreign companies. In this regard, it should be noted that countries that traditionally had an unfavorable attitude are becoming increasingly open towards the acquisitions of foreign investors; an example is that of Korea which in 1998, following the implementation of the structural reform program drawn up after the economic crisis, eliminated all restrictions on acquisitions by foreign investors.

A study by the O.E.C.D. (2001) shows that the industries with the highest number of international M&A operations were, within the manufacturing sector, those of electronics, of means of transport (including cars) and of chemistry and, within in the services sector, those of business services, wholesale and retail trade and finance.

1.3 The spectrum of organizational modes: cooperation and strategic alliances

Traditionally, intercompany cooperation agreements have been seen as a fallback choice with respect to the foreign direct investment option dictated mainly by external pressure exerted by the governments of the host countries (for example, the existence of restrictive regulations concerning foreign investments) which, to grant the necessary permits, required foreign companies to associate with local businesses.

In the nineties the general framework changed profoundly and the increase in international M&A operations was associated with a similar increase, both in number and in importance, in international business cooperation agreements (Gerlach, 1992; Dunning, 1997). Cooperation has become an important tool to cope not only with the pressures of global competition, but also to stimulate the technological and innovative capacity of companies. In particular, intercompany cooperation agreements are increasingly being made between companies of similar size, both of which are international and which carry out similar rather than complementary activities; in these cases the main purpose of the agreement is to carry out a joint activity in a particular phase of the value chain (production, search for supplies and R&D activities).

The Manual on Economic Globalization Indicators recently developed by the O.E.C.D. (2002) defines the international intercompany cooperation agreement as any form of long-term cooperation between independent companies, based in different countries. Intercompany collaboration agreements can be divided into equity agreements and contractual agreements (non-equity agreement).

Table 2 presents some of the main types of collaboration agreements of a patrimonial and contractual nature.

Table 2 Main types of collaboration agreements

Property agreements	**Joint venture**: two companies, of different nationalities, constitute - in one of the countries in which they are located or in a third country - a new independent company, participating together in the share capital (usually equal to 50 percent), in operational responsibilities, financial risks and returns.
	Investments with minority participation: means the acquisitions of minority shareholdings, (unidirectional or cross jointly) between two or more companies for the purpose of economic collaboration.
No property agreements	**License assignment**: one company grants another, for a limited period, the right to exploit and use a patent or a trademark.
	International subcontracting contract: a client company instructs a supplier company, issuing its own directives, to manufacture products, provide services or perform works intended for the client or performed on behalf of third parties.
	Franchising: one company grants another the right to exploit a brand and a commercial formula ensuring the necessary assistance and some support services.
	Management contracts: the supplier company undertakes to ensure the management of the company for a certain period of time.

	Turnkey contracts: an enterprise undertakes to supply another enterprise with the know-how, plants, machinery and to assemble and provide the technical assistance necessary for the operation of the plant.
	Contract produced in hand: a company undertakes to build a plant and a certain production level, using local staff whose training it ensures
	Market **contract** in **hand**: the company provides, in addition to the plant, commercial assistance to sell the products on the domestic or foreign markets.
	Buy-back agreements: the supplier company undertakes to import the products manufactured in the foreign country.
	OEM (original equipment manufacturing): the company acquires the right to market, with its own brand, the product made by another company, possibly making slight modifications and enhancements that personalize it.
	Passive transfer contracts: a company temporarily exports products on which some stages of processing will be carried out and which will subsequently be re-imported for the development of further stages of processing and for the application of the trademark.

There may be different purposes that push companies to form strategic alliances. Most of the strategic alliances were formed to undertake joint production activities. The alliances related to R&D were the primary reason for the strategic alliances, while those related to activities related to sales and marketing were the other important motivation. It should be noted that strategic alliances in the service sectors have increased in recent years (in particular in the information and communication sectors and business services).

1.4 Intra-company trade

Multinational corporations today play the main players in international trade. According to the U.N.C.T.A.D. World Investment Report (2002) multinational corporations generate around two thirds of all world trade. Of this trade, a substantial share - estimated at around 30 percent of total trade - is conducted within the company of multinationals, in the sense that exchanges of finished (but not final) products, intermediate products, services and other intangible assets that take place between the affiliates belonging to multinational groups. This form of commerce, which takes the name of intra-corporate commerce, is at the center of a vast research activity conducted by both theoretical economists (Hipple, 1990a, b; Bonturi and Fukasaku, 1993; Encarnation, 1993; Eden, 1998) that by operating agents within national and international institutional bodies (Whichard and Lowe, 1995; Mataloni, 1997; Zeile, 1997; UNCTAD, 1999a). The fundamental characteristic of trade within the company is represented by the fact that exchanges, rather than reflecting the existence of price differences or other market characteristics, are the result of centralized orders which represent a global group strategy. The availability of statistics on trade within the company is an international level, very important.

Intra-firm trade can be divided into two categories: the first includes the exchanges that take place between the parent companies of the country of origin of the multinational company and their affiliates in the rest of the world; the second category includes the exchanges that take place between the parent companies of foreign multinational companies and the affiliates operating in the national country.

Intra-firm trade between US parent companies and their foreign affiliates is essentially represented by exports (on average 25.3 percent of total US exports), while trade between foreign parent companies and affiliates in the United States is made up, mainly by imports (on average 25.5 percent of total U.S. imports).

1.5 The measures of globalization

1.5.1 The statistical sources of globalization

The structural changes associated with globalization processes require critical reflection on the adaptation of the statistical instrumentation available to analysts and policy makers. This adaptation is necessary in order to be able to carry out an effective exegesis of the complex and articulated forms of productive and commercial interrelation connected with the progressive opening and liberalization of the markets. The objective must clearly be to offer adequate tools to correctly measure the size of the phenomena, their intensity and their structural impact on economic performance and the statistical community is necessarily called upon to provide adequate operational answers also to consolidate its credibility and his degree of social accountability.

if the policies of greater liberalization in the fields of trade, foreign direct investment (FDI) and financial capital flows have significantly fueled the process of market integration, the methods of its appearance are also the result of the intensification of other activities. In particular, the role of multinational companies is referred to, the reorganization of production processes according to the subcontracting model and the adoption of new information and telecommunications technologies. The recognition of these dimensions in economic integration processes makes the measurement of the "globalization" phenomenon more complex. The need to quantify them get up not only from purely descriptive objectives, but above all from the need to fully understand the evolution of the international division of labor and its effects on long-term economic development.

1.5.2 Some indicators to measure globalization

The construction of adequate indicators to measure the role of multinational companies is strictly dependent on the data available. In this regard, it is possible to identify two categories of indicators: the first is the one that uses Balance of Payments data and concerns FDI flows and stocks; the second category is based on data concerning the activity of multinational companies. It is important to note that if, on the one hand, the balance of payments data are based on internationally accepted definitions (IMF, OECD) and on a satisfactory degree of comparability between countries, on the other hand, they are generally only available to a high level of aggregation and are difficult to couple with industrial data. Conversely, data on the activity of multinational companies if, on the one hand, they present a higher level of disaggregation and allow more direct comparisons with industrial activity at the sectorial level, on the other hand, they are available for a more limited number of countries. and their basic definitions have not yet reached a satisfactory degree of international harmonization.

SOURCE	VARIABLES	NAME OF THE PUBLICATION
O.E.C.D.-EUROSTAT	Incoming and outgoing flows and stocks of FDI from O.E.C.D. countries	International Direct Investment Statistics Yearbook (2019)
I.M.F.	Incoming and outgoing flows and stocks of FDI from all world countries	International Financial Statistics and Balance of Payments (annuale)
U.N.C.T.A.D.	Incoming and outgoing flows and stocks of FDI from all world countries	World Investment Report (annuale)
O.E.C.D.- AFA (Activity of Foreign Affiliates)	Number of enterprises, employed, gross production, turnover, added value, wages and salaries, total exports and imports, intra-firm exports and imports, gross profit, R&D expenses, number of researchers, gross fixed capital formation, gross operating surplus , FDI stocks, share of foreign capital, expenses and revenues for technology exchanges.	Measuring Globalization. The role of Multinationals on O.E.C.D. (2003)
Eurostat –FATS (Foreign Affiliates Trade Statistics)	Number of enterprises, turnover, production value, added value, purchases of goods and services, personnel costs, gross investments in tangible goods, number of persons employed, number of persons employed. The database includes foreign affiliates with majority control in eight EU countries.	Foreign owned enterprises (2001)
O.E.C.D.-Eurostat FATS (Foreign Affiliates Trade in Services)	Turnover (production), number of employees, added value, exports and imports. The database contains statistics on the activities of multinationals, for incoming and outgoing investments in the services sector.	

1.5.3 Measuring the Internationalization of the Company

The degree of internationalization or DOI, expresses the business volume generated by the company beyond the borders of its country of origin. In the literature, there is no generally accepted standard for measuring the degree of internationalization (Oesterle at al. 2013), therefore, the studies have adopted different approaches, which can be divided into two main categories.

A first type of measurement makes use of one-dimensional indicators. There are two types of one-dimensional indicators. The first measures what is called the "degree" or "intensity" of internationalization, and tries to capture the weight that foreign operations have for the company in relation to the total of the activities carried out. For example, the relationship between foreign sales and total sales or FSTS (Foreign sales / Total sales) (Zahra, 2003; Fernandez & Nieto, 2005, 2006; Gomez-Mejia et al. 2007; Calabrò et al. 2013; Calabrò & Mussolino , 2013; Oesterle et al. 2013; Sciascia et al. 2013). Other measures used are the relationship between assets used abroad and total assets, or FATA (Foreign assets / Total assets), the relationship between foreign employees and total employees, or FETE (Foreign employees / Total employees) and the relationship between foreign offices and total offices (Foreign subsidiaries / Total subsidiaries) (Hitt et al. 2006). The main problem with these measures is the fact that they operate a clear division of the world into two categories: country of origin and abroad; therefore, they do not offer any information on the geographical spread of the company's activities. In fact, with the same values, two companies can have an extremely different international structure.

The second category of one-dimensional measures instead measures the "breadth" of the company's international business. Measures used for this purpose are the number of countries (Zahra, 2003; George et al. 2005; Naldi & Nordqvist, 2008) or geographical macro-regions (Cerrato & Piva, 2012) in which the company exports or sells its products. and the number of foreign branches (Sherman et al. 1999). The one-dimensional measures have been criticized by international business scholars (Oesterle et al. 2013) as they provide an incomplete image of the company's international activity. However, this type of measures, in particular the FSTS report, is still the most used in studies analyzing the internationalization of companies, for the ease in finding and processing information, and for a question of comparability between results obtained from different studies.

The second major category of measures adopted to calculate internationalization consists of multi-dimensional measures, obtained by combining individual indicators. An example is the Transationality Index obtained from the average of three indicators: FSTS, FATA and FETE. The index has limits since it does not consider the extent of foreign operations. Ietto - Gillies (1998) proposed to integrate it into a broader index, the Transnational Activities Spread Index, or TASi, which considers both the intensity and extent of the company's international operations. The index is obtained by multiplying the Transnationality Index by the Network Spread Index. Similarly, other authors have tried to represent both the degree and extent of internationalization through the International Diversification Index, a sales-based entropy measure (Cerrato & Piva, 2012; Majocchi & Strange, 2012; Hautz et al. 2013):

$$\text{International Diversification Index (INTDIV)} = \sum_{j=1}^{n} x_j \ln\left(\frac{1}{x_j}\right)$$

In the formula, j indicates one of the geographical regions into which the international market is divided; x_j represents the sales made by the company in the market j and $ln\left(\frac{1}{x}\right)$ is the relative weight assigned to each market. The index takes the value 0 if the company's sales are concentrated in a single country.

At the end, the table below summarizes the main multi-dimensional indicators used to measure the degree of internationalization of a company:

Table 3 Principal multi-dimensional measures

Transnationality Index (UNCTAD)	Arithmetic mean of 3 ratios: • FSTS • FATA • FETE
Transnational Activities Spread Index, TASi (Ietto-Gillies)	Transnationality Index x NSi
International Diversification Index, INTDIV (Cerrato & Piva)	$\sum_{j=1}^{n} x_j \ln\left(\frac{1}{x_j}\right)$ j = geographic region x = amount of sales

1.6 Multinationals: heroes or villains of the global economy?

Foreign-owned multinationals employ one worker in every five in European manufacturing and one in seven in US manufacturing. They sell one euro in every four of manufactured goods in Europe and one dollar in five in the United States. Yet policy-makers and the public around the world have mixed feelings about multinationals: they see them either as welcome bearers of foreign wealth and knowledge or as unwelcome threats to national wealth and identity. Policy-makers want multinationals to invest in their country, but are unhappy when national firms' close domestic activities and open up foreign ones or when foreign brands compete successfully with national ones. Indeed, the debate on multinationals is rarely grounded on economic arguments and there is little understanding of what multinationals are, or of what costs and benefits they bring to local economies. Multinationals are often different from purely national firms and some concerns are legitimate. They are relatively large and they do have competitive power in the market place and bargaining power in the policy-making arena, particularly in smaller developing countries. They are global players that can circumvent local regulations and policies more easily than national firms. They are footloose, able to move activities between their plants at relatively low cost, removing benefits as rapidly as they deliver them. And they do mass-produce standardized products, jeopardizing product variety. Other features of multinationals also explain why countries compete fiercely to attract them. They often bring scarce technologies, skills and financial resources. They are fast in taking advantage of new opportunities and contributing to national wealth creation. They are bound by international standards and market competition and they often offer better employment conditions and product qualities than national firms.

Moreover, multinationals are not just giant corporations like Microsoft or Coca Cola. Many small and medium-sized enterprises, firms with limited market power in domestic and foreign markets, have one or more foreign subsidiaries. Investing abroad and thus becoming a multinational is a strategy open to many types of firms.

FDI is long-term compared with highly mobile capital flows like portfolio investments or bank credits. Such investments cover the cost of starting or buying and then running foreign plants or other activities, and are best thought of as movements of firms rather than movements of capital. The key difference is that firms bring in their own very distinctive bundle of capabilities. Whether a loan is granted by Citicorp or Credit Agricole does not make much of a difference. But whether FDI is carried out by Renault or Monsanto makes a great deal of difference. Indeed, each firm is a unique bundle of factors, competences and procedures that get transferred to foreign operations. Consequently, different investments might have substantially different effects on the host and home economies.

The heterogeneity in the characteristics of multinationals is mirrored in the variety of reasons why firms become multinationals. Much FDI is 'horizontal', intended primarily to serve host country markets. In some cases, these investments arise to circumvent trade barriers and are boosted by protectionism. In others, they are promoted by trade liberalization, as when regional economic integration provides a boost to inward FDI. The standard explanation of why firms invest abroad is rooted in 'scale economies'. Some firms develop intangible assets like a brand name or new technology, the benefits of which can be spread across several plants: the brand name of Coca Cola benefits Coca Cola plants in the United States as well as in Ghana. These intangible assets are a source of increasing returns to scale and market power. That is why multinationals are often giant corporations. So why is a medium-sized firm like Calzaturificio Carmens a multinational? Because firms also invest abroad for reasons other than the exploitation of market power and by so doing are able to save on production and distribution costs. They go abroad to gain market access, to look for cheap factors of production, to source specific technologies and to exploit location-specific externalities. These motives can be pursued by relatively small firms that implement flexible and fragmented operations across several countries. Increasingly, firms are organising their production to benefit from the advantages that freer trade and lower transport costs have created. There are complementarities between the capabilities of firms and the characteristics of countries that can be effectively achieved by FDI as well as by trade in goods. Multinationals generally perform better than national firms in home and host economies alike. Such firms are able to expand by becoming multinational, applying their higher productivity to a wider range of inputs. Multinationals are also on average larger than other firms, they do more research and development and they use more skilled personnel. There is consistent and robust evidence of this when comparing the activities of multinationals in both home and host countries with those of national firms.

If multinationals are more efficient than national firms, then the larger their share of world activity, the more efficient will be world production and the higher world income. But these global benefits may not necessarily make everyone better off. At the country level, world efficiency gains might not always trickle down to improve welfare. For example, outward FDI diverts national resources to foreign countries and this diversion could impoverish home countries if it leads to a contraction of activities at home. But the evidence is that outward FDI strengthens firms, leading to expansion rather than contraction of activities at home. The relocation of labour intensive activities is a key concern in high-income countries. But in general, this is an opportunity for firms to reduce their production costs and remain competitive. Although some activities get transferred, they become an element of a strategic process that strengthens activities that remain in the home country. There is evidence of technological upgrading as home activities become more skill intensive and productivity growth accelerates. Inward FDI creates employment in the host country, although there are also concerns that it causes profits to be channeled abroad and local industry to be damaged. But the evidence is generally that 'crowding out' affects only the most inefficient local producers, local resources that are released are put to a better use and prices decline to the benefit of local consumers. Multinationals generally pay higher wages than local firms and in some countries, the impact of job creation by multinationals has been so large that wages have risen rapidly, this being most obvious in the case of Ireland. There is also considerable evidence that inward investment is associated with linkages to local firms and with technology transfer, raising the productivity of local firms. These effects are strongest where host countries have sufficient skills and technology to interact with multinationals. But when technological and income gaps are too wide, this transfer is limited and FDI is no shortcut to faster income growth. The nature of the interaction between foreign firms and domestic activities in host countries has long-term implications for the convergence of world income. FDI in developing countries is of particular importance here. Such investments provide an important source of capital formation even in very backward economies, and more importantly, a source of firm-level capabilities that would otherwise be absent. But the impact on host economies is small if there is little interaction with domestic activities. Consider the creation of human capital, a key ingredient for growth. The evidence is that even in developing countries, multinationals employ more educated personnel than national firms. If there is no effort to expand and enhance local skills through education policies, the gains are likely to be small. Ireland is the shining counter-example here: the high-tech US multinationals that invested there in the 1980s and 1990s generated a massive demand for local skills. Irish engineers based abroad moved back home and an explicit policy to enhance high education in science and technology was launched. This was, of course, to the benefit of the whole Irish economy.

Another problem for long-term income growth is that the presence of multinationals could be short-lived. The cost to multinationals of relocating activity is generally low as production is already organised across countries. But while the only available evidence on the volatility of multinationals is for high- income economies, surprisingly it shows that they are less volatile than national firms. Multinationals react faster to shocks but the overall magnitude of their reaction is less than that of national firms. This need not be the case for developing countries. Many recent FDI flows to developing countries are essentially seeking cheap labour and many are concentrated in cheap labour countries neighbouring large high-income markets, like Mexico or the Central and Eastern European countries. And thanks to FDI, these economies have been able to achieve high rates of growth. But wages rise with income. For these foreign activities to stay in the longer term, other attractions must be developed. Many of these favourite locations of the 1990s are already falling out of favour as activities move to new locations where labour is cheaper. Particularly worrying are reports that even countries with an obvious locational advantage like Mexico are seeing FDI moving to locations further away from the United States but where labour is cheaper. Foreign firms may go as they come and their positive effects could be short- lived. For this reason, developing countries cannot just rely on cheap labour to attract FDI. The strategy successfully followed by Ireland managed to use its initial cost advantage to create substantial clusters of foreign firms drawing on a highly skilled labour force.

CHAPTER 2: THEORY OF FOREIGN DIRECT INVESTMENTS AND MULTINATIONAL ENTERPRISE

2.1 Traditional theories of FDI

Starting from the application of the Heckscher-Ohlin-Samuelson (H-O-S) model, a first theoretical approach has assimilated FDI to capital movements and explained its cause based on the interest rate differential that exists between different countries. In particular, since interest rates reflect a country's abundance of capital, net investing countries can be expected to be relatively capital-rich and FDI to head to the capital-intensive sectors of the countries they are relatively less abundant. Closely linked to this approach is the hypothesis of the rate of return differential according to which FDI originates in those countries that have a lower rate of return on capital and goes to those countries where a rate of return on higher capital. In a cross-sectional framework, the implications of this hypothesis are that the sectors that have the highest expected returns on capital will experience a faster flow of incoming FDI.

A unifying hypothesis underlying both the capital transfer theory and the rate differentials hypothesis is that markets are perfectly competitive. From an empirical point of view, the hypothesis that the FDI is motivated by the existence of a positive expected yield differential in favor of the foreign country has not found convincing support either at the intertemporal level, or on a cross-country basis (Weintraub, 1967; Bandera and White, 1968; Bandera and Lucken, 1972). The empirical checks have linked the expansion of the stock of foreign assets owned by multinational companies with the profit rates in the national and foreign country. This approach also presents other weaknesses due to its basic theoretical hypotheses; in particular, (i) it does not allow to explain the phenomenon of intra-sectoral investments, that is, the fact that countries simultaneously carry out mutual investments (cross-hauling); and (ii) it is unable to explain the industrial composition of FDI.

Another theoretical explanation of FDI was based on the extension of the neoclassical functions of investment demand. The basis of this approach is the hypothesis that foreign investment in fixed assets has characteristics like the national one and that, therefore, it is possible to apply and extend neoclassical theories of investment demand to the FDI analysis, such as the Chenery accelerator model (1952) or Jorgenson model (1963).

The theory of capital transfer, the hypothesis of the differential of the rates of return and the approaches based on the extension of the neoclassical investment function, all suffer from some significant limits that derive from the unrealistic premises on which they are based. In the first place, FDI is not a matter connected with the accumulation of capital in the neoclassical sense and cannot therefore be described as a process of adjustment to a temporary imbalance in the capital endowments of countries. This phenomenon should be configured as an internal transfer of a package of intangible proprietary assets in which the transfer of capital is only incidental to the entire process, but is not the main reason. Secondly, the markets are characterized by failures and imperfections and, therefore, the hypothesis of perfectly competitive markets is not applicable. Finally, all these approaches move within a macroeconomic framework that represents a context that is not entirely appropriate to provide satisfactory explanations of the FDI. An appropriate context is that which is based on microeconomic foundations which is therefore inseparable from a theory of multinational enterprise.

2.2 The financial theories of FDI

In the literature, there have been several approaches that have considered FDI as an essentially financial transaction. Unlike what is asserted by the Modigliani-Miller theorem (1958) according to which the value of a company and its investment decisions are independent of the financing methods, the liquidity hypothesis considers the cost of the internally generated funds lower than that of external funds. Therefore, the expansion of a company's international operations is considered conditioned by the availability of a continuous source of internal resources. Consequently, although there are empirical grounds for believing that the financial constraint hinders the expansion of foreign investment, they do not seem to offer a valid explanation of the impact of FDI.

A second approach is that of the portfolio diversification hypothesis. The basic assumption in a portfolio choice model is that investors, companies or individuals, are interested not only in the rate of return on the investment but also in the risk associated with their portfolio of assets. The pioneering studies of Grubel (1968) and Levy and Sarant (1970) showed that it was possible to reduce risk by maintaining an efficient diversified portfolio of international assets. In an integrated and perfectly competitive international capital market, individual investors will be able to diversify their activities without cost and will make portfolio investments. The presence of imperfect and / or segmented markets creates interference which negatively affects portfolio investments and favors diversification through direct investment. These theories offer a plausible explanation of cross-hauling, but are not able to clarify the causes of the strong preponderance of FDI in certain sectors and in certain countries.

A third approach is that of the currency premium hypothesis. According to Aliber (1970, 1971), the international economic environment is characterized by the presence of various currency areas in which risk-averse investors operate. Due to risk aversion, the owner of assets denominated in a weak currency asks not only for the interest rate (or, more generally, the yield) in this weak currency to cover it against the expected depreciation, but also a premium currency which compensates him for the fact that he holds an uncertain asset. Aliber also assumes that portfolio investors are short-sighted: when they purchase securities of multinational corporations located in a strong currency area, they myopically assume that all investments by multinational corporations take place in the currency area of the parent enterprise. Therefore, they neglect the exchange rate risk. For these reasons, companies located in a hard currency area have a lower discount rate than those located in a weak currency area.

Aliber's thesis seems particularly suitable for explaining control acquisitions rather than greenfield type investments and was very useful in describing the expansion of US investments in Europe during the 1950s and 1960s. However, it suffers from some limitations: first of all, it is based on rather weak hypotheses; secondly, in terms of explanatory power, it is inadequate to explain a large number of important empirical phenomena.

Aliber does not consider how expectations about the prospect of a currency depreciation (appreciation) are formed. From an empirical point of view, Aliber's thesis does not explain why some currency areas have high flows of mutual investment, while other areas do not have any at all. It also provides few indications on the industrial composition of FDI. Ultimately, Aliber's thesis can only provide a fragmented and purely financial view of the FDI phenomenon, a vision which is however based on rather controversial premises.

2.3 The industrial organization approach

Hymer's Ph.D. thesis (1976) has opened new horizons to the study of the origin of foreign direct investment by breaking the frame of reference of neoclassical theory: the IDE involves the continuous control of foreign operations by the investor: the investor can both appropriate the returns linked to the possession of superior skills and qualifications, and effectively counter the competitive pressures coming from possible local rivals. According to Hymer, the advantages that foreign companies typically enjoy deriving from a higher degree of knowledge, from a better product design, from higher production techniques, from less expensive access to production factors and, finally, from a better network of distribution.

The industrial characteristics of the IDE have been underlined, in particular, by Caves' work (1971, 1974a, 1996). The dominant elements associated with the horizontal FDI are the presence of oligopoly and product differentiation. To have a horizontal FDI, there must be two requirements: first, multinational companies must have unique intangible assets such as to balance the cost of "foreignness" associated with operating in a little-known market. Second, FDI should be the best alternative for appropriating the returns obtainable from the exploitation of these activities in foreign markets. Why should the sectors characterized by product differentiation be particularly sensitive to foreign direct investment? Firstly, because successful product differentiation gives its creator the opportunity both to own a unique intangible asset that can be exploited in foreign markets, and to create a source of barriers to entry. Furthermore, because the demand for a differentiated product, given its particular sensitivity to the preferences and needs of local consumers, can be better satisfied through the establishment of a local production unit which allows close contact with the final market. The main aspect of Caves' work and its originality consist in the fact that it has identified, theoretically justified and empirically verified how industrial characteristics of structure and conduct are associated with the IDE process.

2.4 The product life cycle model

If Hymer used industrial and organizational economics to explain MNE activity, Vernon and his colleagues at Harvard were the first to acknowledge the relevance of some of the newer trade theories put forward in the 1950s and 1960s to help explain this phenomenon. In a classic article published in 1966, Vernon used a microeconomic concept - the product cycle - to help explain a macroeconomic phenomenon, namely, the foreign activities of US MNEs in the post-war period. His starting-point was that, in addition to immobile natural endowments and human resources, the propensity of countries to engage in trade also depended on the capability of their firms to upgrade these assets or to create new ones, notably technological capacity. He also hypothesized that the efficiency of firms in organizing these human and physical assets was, in part at least, country specific in origin.

Drawing upon some earlier work by Posner (1961), Vernon (1966) argued that the competitive or ownership advantages of US firms - particularly their willingness and capabilities to innovate new products and processes - was determined by the structure and pattern of their home country factor endowments, institutions and markets.

However, it was quite possible that any initial competitive advantage enjoyed by innovating enterprises might be eroded or eliminated by the superior competence of firms in other countries to supply the products based on them. Without explicitly bringing market imperfections into his analysis, Vernon then switched his unit of analysis to the firm, and particularly to the location of its production.

Looking at the positive aspects, the product life cycle model could incorporate dynamic considerations in the determination of the comparative advantage which, as noted, changes with the age of the product and with the evolution of the external environment. It also enclosed international trade and FDI within a single conceptual framework and specified how these are mutually linked. Finally, the product life cycle model introduced and based its analysis on hypotheses that incorporate features such as demand stimuli, technological advantages, information and communication costs, which have proven to be useful tools for studying production and international exchange.

Like Hymer, Vernon offered a theory which was partial in that it addressed itself to only some of the issues surrounding Multinational Enterprises activity. On the other hand, the product cycle was the first dynamic interpretation of the determinants of, and relationship between, international trade and foreign production. It also introduced some novel hypotheses regarding demand stimuli, technology leads and lags, and information and communication costs, which have subsequently proved useful tools in the study of foreign production and exchange.

2.5 The internalization approach

The main exponents of the internationalization approach theory were Buckley and Casson (1976).

The starting point of Buckley and Casson's analysis is that businesses undertake many operations that are additional to the production of goods and services. These complementary operations, for example, marketing, R & D, worker training and the production of financial services, generate flows of tangible and intangible intermediate factors that accumulate at the final product and determine its features. The markets for these intermediate inputs are imperfect due to the presence of time delays, communication costs, asymmetric information, unilateral or bilateral market power and impediments imposed by governments. Therefore, companies will have an incentive to replace these external markets with their own internal markets through the path of internalization. In this regard, Coase's theorem (1937) asserts that the advantages of replacing the market mechanism with a centrally administered control system can only exist in the presence of imperfect markets.

The internalization of the markets between different countries gives rise to multinational companies which therefore can be considered as a special case of multi-plant companies which maintain different interdependent activities under common ownership and control.

According to Buckley and Casson, direct foreign investment should not be attributed to the possession of any knowledge-based advantage, but to the particular characteristics that make knowledge attractive for internalization. Unlike Hymer (1976) or Johnson (1970), the authors therefore implicitly assume that some companies enjoy specific knowledge-based advantages and transpose the problem to a logically later stage such as determining how these advantages can be better used.

The emphasis placed on internalization is implicitly based on the idea that the alternative strategy for the company would be to sell or rent its specific business using the market. Although this option would theoretically be the most immediate, it is nevertheless the least likely. The empirical works of Davies (1977) and Telesio (1979) show that the agreement that provides for the transfer of a license is usually seen, from the perspective of investors, as a second-best alternative to be used when external constraints preclude them the opportunity to undertake a controlled investment.

The potentially more interesting alternative, which is also associated with internalisation, is that of exports. This last option would be chosen, for example, if the cost of the production factors required was lower in the country of origin or if the relevant activities were spatially immovable.

2.6 The eclectic paradigm

The eclectic paradigm seeks to offer a general framework for determining the extent and pattern of both foreign-owned production undertaken by a country’s own enterprises, and that of domestic production owned or controlled by foreign enterprises. Unlike internalization theory, it does not purport to be a theory of the multinational enterprises per se, but rather a paradigm which encompasses various explanations of the activities of enterprises engaging in cross-border value-adding activities (Dunning, 2001a).

The eclectic paradigm prescribes a conceptual framework for explaining 'what is', rather than 'what should be', the level and structure of the foreign value activities of enterprises.
The eclectic paradigm starts with the acceptance of much of traditional trade theory in explaining the spatial distribution of some kinds of output (which might be termed Heckscher–Ohlin–Samuelson (H–O–S) output). However, it argues that, to explain the ownership of that output and the spatial distribution of other kinds of
output which require the use of resources, capabilities and institutions that are not equally accessible to all firms, two kinds of market imperfection must be present. The first is that of structural market failure which discriminates between firms (or owners of corporate assets) in their ability to gain and sustain control over property rights or to govern multiple and geographically dispersed value-added activities. The second is that of the intrinsic or endemic failure of intermediate product markets to transact goods and services at a lower net cost (or higher net benefit) than those which a hierarchy might incur (or achieve).
Such variables as the structure of markets, transaction costs and the managerial strategy of firms then become important determinants of international economic activity. The firm is no longer a black box; nor are markets the sole arbiters of transactions. Both the geographical distribution of natural and created factor endowments, and the modality of economic organization, are relevant to explaining the structure of trade and production.
Moreover, firms differ in organizational systems, innovatory and institutional abilities, and in their appraisal of and attitude to commercial risks; and, indeed, in their strategic response to these (and other) variables. This framework is no less applicable to explaining certain kinds of trade where the advantages of the trading firms are not country but firm specific.
To try to explain eclectic theory, Dunning (1981a) suggests grouping the advantages of ownership, internalization and location owned by multinational companies according to three types of structural determinants:

a) determinants related to particular countries (country-specific determinants),

b) determinants relating to particular sectors (industry-specific determinants),

c) determinants relating to particular companies (firm-specific determinants).

In other words, the propensity of companies of a particular nationality to undertake international production would depend on: the economic characteristics of both the country of origin of the investment and the host country; the structural characteristics of the industrial sectors in which companies decide to invest; the management and organization strategies followed by multinational companies.
It is important to note that the eclectic approach does not rest on a context of general equilibrium, but simply outlines the set of conditions that make the economic environment more favorable to FDI than to trade or contractual forms.

2.7 The new theory of international trade and FDI

Starting from international trade models with imperfect markets, some models have examined horizontal international production, analyzing the choice of a single-product company to serve a specific foreign market through two possible alternatives: exports and international production. Assuming that the multinational company acts as a monopolist (Horst, 1974; Hirsch, 1979; Swedenborg, 1979), both in the national and in the foreign country, its decision to become a multinational depends on the interaction of some parameters that express a series of advantages of proximity (transport and tariff costs, firm-specific fixed costs and size of the foreign market) and concentration (plant-specific fixed costs, barriers to FDI, information costs and size of the national market). International production will be preferred when the proximity advantages - which represent incentives for the multinational company to produce locally - will be higher than the concentration advantages which instead represent incentives to serve the foreign market with exports.

Assuming that a second company (a potential local company) can also operate in the host country's market, the model takes the form of a multi-stage game within a duopolistic market (potential duopoly). Considering a world economy composed of two perfectly symmetrical countries, it is assumed that in a country (country of origin) there is an enterprise that produces a homogeneous good and that is considering the possibility of entering the foreign market with exports or with production international. In the other country (foreign country) there is a national company that is considering the possibility of entering the market and selling the goods produced locally. The structure of the market equilibrium is determined by a two-stage procedure. In the first stage of the game, both companies make their own market entry decisions[2]. In the second stage, if the two companies entered the market they will decide the level of production. If companies follow non-cooperative behavior and make their entry decisions simultaneously, the solutions obtained will represent different market structures that will depend on the values assumed by the parameters that define the advantages of proximity and concentration. International production is more likely to emerge, as a balance solution, the higher the transport costs (including duties), the greater the size of the foreign market and the lower the information costs and the fixed plant costs. specific.

The model has some limitations. First of all, it is based on some very stringent hypotheses such as that of the identity of production costs and technologies between countries. Furthermore, the potential duopoly model postulates the existence of a substitutable relationship between international trade and production and is able to explain only the international horizontal production of an inter-industrial type.

The international trade models of general equilibrium with differentiated products and monopolistic competition have been extended in order to explain the emergence of multinational companies and the horizontal production patterns of the horizontal type (Krugman, 1983; Brainard, 1993). In particular, if the

[2] In this regard, we assume that the potential multinational company can follow one of these three alternative actions: i) operate in the foreign market through exports; ii) operate in the foreign market through international production; (iii) not to operate on the foreign market.

two countries are perfectly symmetrical, the possibility of having international production will be greater, the lower the fixed production costs, the greater the transport costs and the greater the economies of scale at the enterprise level.
Using a model with two sectors and two factors, where the activities of the differentiated sector have the same factorial intensities, Markusen and Venables (2000), have shown that, in balance, the presence of multinational companies depends on the values of the proximity advantage parameters and concentration but also from some country-specific characteristics such as the absolute and relative size of the factorial endowments. In particular, if the two countries are not identical, for given levels of the advantages of concentration and proximity, the possibility of having international production will be greater the more similar the countries are in terms of both absolute and relative factorial endowments.

CHAPTER 3: THE CASE STUDY - CAV. PASQUALE VENA & FIGLI AMARO LUCANO SPA

3.1 The company

Amaro Lucano srl was born in 1894 in Pisticci, a small town in the Lucania province of Matera, in the well-known biscuit factory Vena and its founder Pasquale Vena created the recipe, which is still secret. A few years later Amaro Lucano was known and appreciated throughout Italy and the award-winning Vena house became a supplier of the Savoy house. During the Second World War, production was stopped due to lack of raw materials. In the second half of the 1950s, thanks to the work of Leonardo and Giuseppe Vena, sons of the founder, the artisan workshop turned into an industrial reality and production saw a strong growth.

The historical path of the product called "AMARO LUCANO" must necessarily be divided into three moments:

- A first course that goes from the beginning of production to the 1960s when the liqueur had an artisan production and a mainly regional market; The production of the company experienced a great growth from 1956 to 1960. The work took place continuously, day and night; the artisan laboratory was led by the Vena, becoming an important industrial reality in the reference area. In a certain sense, the Vena company has been ahead of its time, thus remaining firmly faithful to the artisan production, to the limited quantity in favor of quality. Despite this, times also changed quickly for the Pisticci company. The bet of loyalty to the artisan care of the product did not prevent the requests from continuing to grow, indeed, to flock. Production increased: in 1961, for example, a year remembered as very significant in the history of the company, three thousand bottles were produced per month. With the contribution of the Cassa per il Mezzogiorno and with the reinvestment of profits, in July 1965 the new factory in Pisticci Scalo came into operation
- A second short period from 1965 until the early 1970s, characterized by industrial production destined for a market in southern Italy; In 1965 the first and new factory in Pisticci Scalo (current company headquarters) was inaugurated. The opening of this plant marked the transition from artisan production to the highly automated one that still distinguishes the company today. But let's see the stages: in 1965 117,000 liters of bitter were sold in 1967, or a triple quantity compared to the previous period. In the early years of the new arrangement, all profits were reinvested in the upgrading of the factory.
- The last period goes from the 70s to today, when the company began a slow but steady climb towards the leading positions on the national liquor market. By now consolidated the southern market, the Vena embarked on the great national adventure, encountering at first difficulties in creating an image and obstacles (obviously) from the big competing firms.

- It was the right time for important advertising campaigns, which in fact gave excellent results. In the 70s 645,000 liters of bitter were sold, then in the 80s there was the definitive leap: one million, two million, up to the current three and a half million liters.

The production line has also recently doubled; from five thousand bottles it passed to ten thousand, iterating in an impressive quantity the miracle of a genuine liqueur cured by hand, yet supported by the most modern production technology. Also as regards the corporate structure, three distinct moments are identified. Until 1965, the organization took on the role of a de facto company.

The construction of new plants, the consequent reorganization of the work and the launch of the product in the 1960s, led to the definition of a new legal status for the company; in these years, in fact, Leonardo and Giuseppe Vena, formed a S.n.c., a corporate structure that held until 1978.

Since 1978 further enhancements of the production activity and the introduction of the new corporate and tax reforms made it necessary to transform the company into the current legal form of a joint-stock company, with an initial share capital of Lire 480,000,000 fully paid. and subsequently converted and increased to the current 480,000 euros fully paid.

3.2 The hard liquor market

3.2.1 Introduction to the hard liquor sector

The spirit sector falls within the broader and generic market of drinks from which it is clearly distinguished by the presence of alcohol in the volume of product, for this reason the two segments: alcoholic and non-alcoholic drinks.

The community regulation n. 1576/89, defines spirits, "the liquid alcohol intended for human consumption obtained or by distillation of products fermented naturally or through the infusion of vegetable substances in ethyl alcohol".

Within this segmentation of the broader and generic beverage market, a further breakdown based on the alcohol content and therefore on the alcohol content higher or lower and equal to 21% of the volume.

The Alcoholic Drinks market includes all alcoholic beverages that are produced by fermentation or distillation. The market is further divided into four main segments: Beer, Spirits, Wine and Cider, Perry and Rice Wine. Beer is the most-consumed alcoholic beverage by volume. Beer here encompasses fermented alcoholic beverages from malted cereal grains, hops and water. Also included are beers that have been mixed with soft drinks (Ready-to-drink beer mix beverages) and beers to which additional flavours have been added. Beer typically has an alcohol content of around 5 vol%.

Spirits, or distilled liquor denotes alcoholic beverages that have been generated via distillation from wine, fermented fruits or grains. The most important types of Spirits covered in the Consumer Market Outlook are Whisky, Vodka, Rum, Gin, Brandy as well as Liqueurs & Other Spirits (including local spirits like Baijiu in China).

Due to the distillation the alcohol content of Spirits is much higher than that of most wines and beers and typically ranges from 20 vol% to 50 vol%.
Wine includes all fermented juices generated from grapes but excludes fruit wines like cider that are shown separately. Volume-wise, Wine is currently the smallest segment among Alcoholic Drinks, but its growth has been above average in recent years as demand in emerging countries like China has risen. The wine segment is further broken down into Still Wine, Sparkling Wine and Fortified Wine.
Cider, Perry & Rice Wine includes all wines generated from fruits other than grapes, grains or other plants. This includes cider and perry which are mostly relevant in Europe and North America, rice wine, which is particularly popular in East Asia and some special local alcoholic drinks like palm wine that are important in Africa or elsewhere. Because of beer's popularity and a generally higher degree of concentration, breweries dominate industry rankings in Alcoholic Drinks. The biggest players in the industry at large by revenue are Anheuser-Busch InBev, Heineken, Diageo, Kirin Holdings, Molson Coors, Pernod Ricard, Carlsberg, Kweichow Moutai, Constellation Brands, Suntory, Thai Beverage, Wuliangye Yibin, Brown-Forman and Jiangsu Yanghe Brewery.
The structure of the sector is that of a market in monopolistic competition. In fact, the competitive scenario is dominated by a few large companies which in most cases are owned by multinationals and by the simultaneous presence of numerous smaller companies.
There are barriers to entry which are represented by the production system. Moreover the capillary distribution of the product, given the competition from major companies, and the centralization of turnover in the large-scale distribution and in Organized Distribution. The latter barrier is an element
structural of modern distribution channels and transversal to the various categories' commodity. This distribution system generates fierce competition, which involve corporate restructuring processes with consequent rationalization of the production processes and drastic reduction of production workers and a correspondent increase in distribution workers. Another barrier to entry, perhaps more important than the previous one, is represented by strength of the brand of the companies present in the sector. The brand indeed constitutes in the most cases the assumption that cannot be ignored in order to position its products on the profitable shelves of the Modern Distribution.
The spirits sector is characterized by a highly fragmented production by the presence, in each segment, of a multiplicity of products transversely competitors. The sector includes several product categories such as rum, vodka, whiskey, bitters, gin, grappa, liqueurs and other types and every major producer tends to expand the range, also to take advantage of any distribution synergies. Businesses in the sector use marketing strategies to emphasize or consolidate its market share and implement a no-price policy by focusing on brand and on the differentiation of the product and, making an intense use of the advertising and promotion communication.

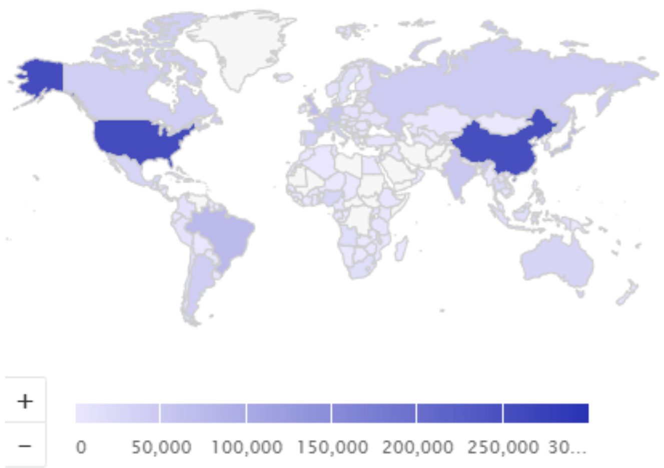
The market for Alcoholic Drinks is structured into retail sales for at home consumption and on-premise or foodservice sales for out-of-home consumption. The at-home market, also called off-trade market, covers all retail sales via super- and hypermarkets, convenience stores or similar sales channels. The out-of-home market, also called on-trade market, away-from-home market or HORECA encompasses all sales to hotels, restaurants, catering, cafés, bars and similar hospitality service establishments.

The shown market share of eCommerce currently references the share of eCommerce sales of all food and beverages in the selected region in relation to total (off-trade) consumer spending on food and beverages that are also part of the Key Market Indicators table below. It therefore presents an indicator regarding the overall online penetration of eCommerce's last frontier, food and drink, but cannot be used to track the performance of the Alcoholic Drinks as opposed to Non-Alcoholic Drinks, Food, Hot Drinks or Tobacco Products.

3.2.2 Europe and Italy Market

The spirits market in Europe continent is the largest market globally. Revenue in the Alcoholic Drinks market amounts to US$450,868m in 2020. The market is expected to grow annually by 2.5% (CAGR 2020-2023). In Europe, the market's largest segment is the segment Wine with a market volume of US$186,523m in 2020. In global comparison, most revenue is generated in the United States (US$259,148m in 2020).

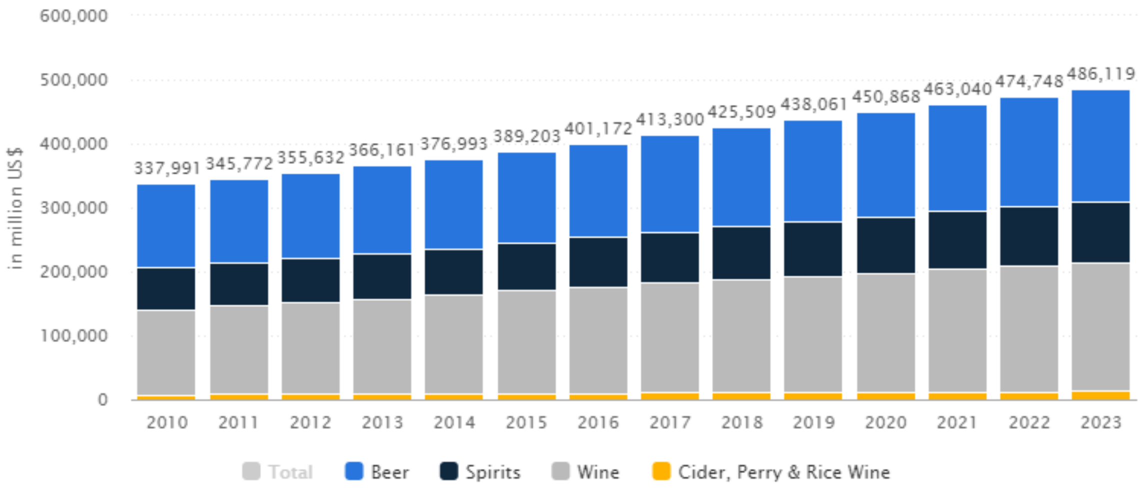
Figure 1 Global Comparison – Revenue in million US$



Top 5	
1. United States	US$259,148m
2. China	US$252,413m
3. Japan	US$82,001m
4. Brazil	US$76,107m
5. United Kingdom	US$72,341m

Source: Statistica 2019, Natural Earth

Figure 2 Revenue in Mio $



Source: Kenresearch, January 2019

The market of spirits in Italy has grown more significantly with the significant development in the technology of product making and effective increment in the disposable income of the consumers. Not only has this, the healthier lifestyle of the consumers also lead the market growth in Italy. The key players of this market are playing an important role by dominating the handsome amount of share in Italy by doing effective development in the technology of product making and adopting the effective strategies and policies for developing the techniques of leading fastest market growth during the forecasted period. In addition, the introducers of spirits are establishing the e-commerce platform for dominating the handsome amount of share not only in Italy but also across the globe. With the e-commerce platform the consumers of the spirits are having the huge variety of product by which they can differentiate with the price, quality, and quantity of the product. Not only the consumers are benefitted with this facility, the key players or introducer of the product are also get various benefits which includes highest market share across the globe, accomplishment on the growing demand for liquors and leading the fastest market growth more significant during the forecasted period.

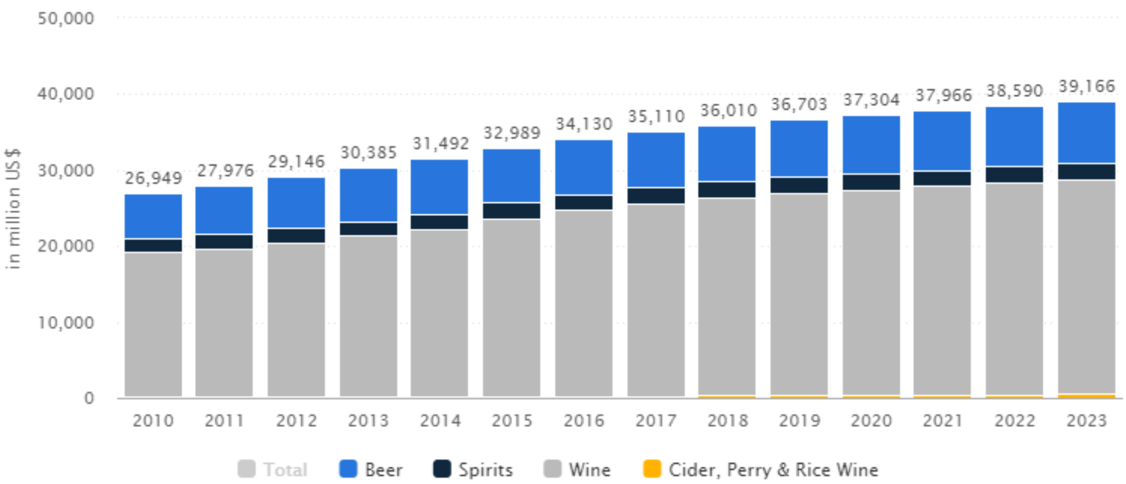
Additionally, the market of this is fragmented with the unorganized and organized key players while, it is expected that the market of spirits in Italy is dominated by the organized key players. Furthermore, the unorganized key players are working by folding up their sleeves on the development of the product which further make the market more competitive and profitable for the investors and existing key players. With the competitive nature of the market the coming investors are investing the huge amount in the development of the product and for getting highest return on investment. There are several key players which are presently functioning in this market more significantly by dominating the handsome amount of share across the globe by doing effective developments in the distribution channel of the product and attractive developments in the packaging material of the product includes Davide Campari-Milano S.p.A, Pernod Ricard SA, Diageo plc, Molinari Italia S.P.A, Illva Saronno S.p.A, Stock Spirits Group PLC, COMPANHIA MULLER DE BEBIDAS, Gio. Buton & C.S.P.A, Mast-Jagermeister Se, Stock Spirits Group PLC, Emperador Distillers Inc and several others.

Whereas, with the further research it is stated that Aperol Havana Club and Campari are the leading brand in the Italian Spirits sector.

The key players of this market for attaining the handsome amount of share are distributing their product with the help of numerous channels which includes hypermarkets & supermarkets, department stores, convenience stores, drugstores, food & drinks specialists, cash & carries and warehouse clubs, ‘dollar stores’, variety store & general merchandise retailers, vending machines, e-retailers, on-trade, and other general retailers.

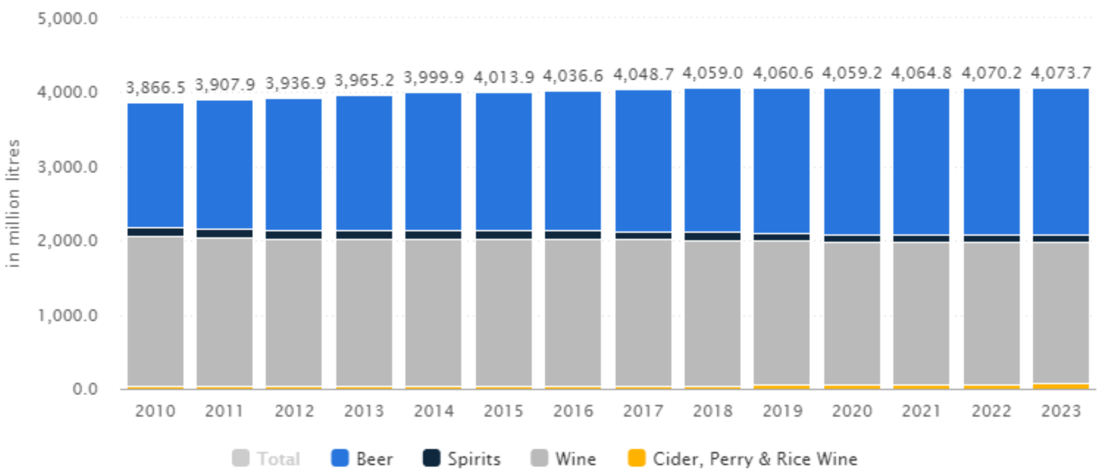
Although, the introducer of the spirit is producing different products for dominating the highest market share which includes brandy, gin & jenever, liqueurs, rum, specialty spirits, tequila & mezcal, vodka, and whiskey. For instance, out of these categories, the liqueurs were the largest in value terms in the Italian spirits sector. Furthermore, it is expected that in the near future, it is expected that the market of spirit in Italy will grow more significantly over the recent few years.

Figure 3: Revenue



Source Statista 2019, Natural Earth

Figure 4 Volume (Million litres)



Source: Statista 2019, Natural Earth

3.2.3 Distribution channels

The sales market is divided into two main sectors:

- Body sales (or takeaway) sector, that is, those for single bottles and that occurs in commercial outlets both in large and small distribution
- "mescita" sector mainly consisting of the bar, restaurant and hotel channel, where the product is consumed at the counter.

The relationship between these two sectors has reversed since the 1990s, also as a consequence of both changed consumer habits and the ever more impressive presence of modern distribution.

In fact, initially it was the "company" that had a prevalent role in sales: today, however, with the advent of modern distribution and the globalization of markets, the sale by body, covers more than 70% of the distribution with the prospect of a further growth in the immediate future, thus becoming the leading sector of the market. Today the consumer, due to necessity and culture, has changed his consumption habits, favouring the consumption of the product in his home corner bar rather than outside in authorized premises.

In the context of body sales, the reference market is without a shadow of a doubt, as already mentioned, the "Modern Distribution" formed by the Large Distribution and Organized Distribution. Large-scale retail or modern distribution, abbreviated by large-scale retailers, represents the evolution of trade from wholesale to ever-increasing retail.

It is composed of large structures or large groups (in some cases multinational) with many structures distributed throughout the national, international or even world territory. In technical jargon yes

distinguishes between structures of large-scale distribution (GD) and structures of organized distribution (DO). The former sees large central structures managed by a single owner, who manage almost always direct sales points. The most important players on the Italian market are certainly Carrefour, Auchan, Esselunga. The secondly, they see small subjects aggregate according to the logic of "union is strength": in fact, by joining the purchasing groups, small and medium-sized retailers can obtain economic benefits in terms of supply, deriving from the greater contractual power in the supply of the industry by the power plants. Furthermore, there are also advantages that can be achieved by exploiting the brand and obtaining support in terms of know-how and strategic coordination. In our country the most important groups are certainly Interdis, Selex, Sisa and Despar. For a long time in Italy, Organized Distribution has achieved and maintained a competitive advantage over its large-scale distribution.

However, the GD has recently radically changed its growth strategies, to the point of equalizing and, only recently, overcoming the dominance position of the DO. A decisive aspect that caused the "change of leadership" is precisely to be identified in the structural characteristics of the two operators. In fact, the classic network structure of the DO has revealed some weaknesses attributable to the contractual relations with suppliers. In fact, in the DO there are often cases of "negotiation overlap" due to the dimensional growth (and consequently contractual and economic) of individual members belonging to the same group who do not delay in claiming greater independence from the power plant, also for strategic issues and of governance. This evolution of the “takeaway” sales channels creates many problems compared to that achieved with respect to the traditional market102, which is almost non-existent and destined to completely disappear.

Modern distribution aware of its role and its strength, conditions through its sales and price policies, the manufacturing companies, which at times are severely penalized. The Horeca channel is of considerable strategic importance. In addition to accounting for 40% of the total consumption of bitter, it represents for this type of product most of the time the first step for the realization of the act of purchase in the "takeaway" channel.

In other words, the “a vendita” channel, given the high level of consumer loyalty to the taste of the few large brands on the market and the low unit price, could constitute the transmission belt towards an increase in turnover in the “take away” channel. Through tastings limited to just a drink and therefore not necessarily to the entire product unit or the bottle.

3.2.4 Consumers

The market for final bitter consumers can be divided into three different types: the strong consumers (they drink bitter almost every day) equal to 29%, the medium consumers (at least once per week) equal to 44% and occasional consumers (at least once a month) for the remaining 27%.

By reason of the strongly male audience the main brands, and among these Amaro Lucano, for many years now carry their brand on the sports fields of the Italian football championships.

Historically, the average consumer has always been male, aged between 40 and 60, who evaluated the brands of bitters indifferently even if he mainly favored those of high quality, preferring to consume them in the end lunch or in the company of friends.

The latest investigations have provided a distinctly different picture, which has conditioned also the advertising investments of the producers. In fact, the average age of consumers has dropped significantly, which now varies from 25 to 45 years: a very encouraging sign for the market prospects. The consumption of bitter is significantly affected by the culinary culture and traditional of the territories of consumption. It is in fact a typical product of the regions only of central Italy, but especially of southern Italy where the largest is concentrated number of consumption (about 40% of the entire Italian body sales market and the 30% of the Horeca channel).

3.3 Analysis of the economic, financial and equity performance of the pre-positioning company

3.3.1 The analysis of the balance sheet

Before the competitive repositioning of Amaro Lucano Spa, its financial structure was stable and solid.

In a particular aspect, the financial independence index indicates the firm's solidity on the balance sheet side. The trend of this index in the three-year period considered, as the planning period for a new internationalization strategy, is almost unchanged, fluctuating from 1.19 in 2002 to 1.21 in 2004, with a 2003 that stands at 1.19. Not taking into account the financial or functional nature of the debt positions, it means that the total amount invested is financed for a little more than half by the capital (PN) and the other half by third party capital (CT) representing satisfactory values of the same index.

The solidity of the company's share capital is analyzed by means of the following report: equity (equity) on share capital. This report highlights the "weight" of the equity components other than the contribution of the shareholders. Amaro Lucano Spa has high levels of this index with a trend in growth from 26.55 in 2002 to 29.63 in 2003 up to a value of 32.10 in 2004 symptomatic of profit distribution policies which, in fact, despite the legal reserve has already reached the maximum limit established in the 5% of the share capital, have been set aside in the extraordinary reserve. The solidity of the capital is therefore optimal.

	ATTIVO	2002	2003	2004
A	**CREDITI V/SOCI PER VERSAMENTI ANCORA DOVUTI**			
B.I	Immobilizzazioni immateriali	5 €	80 €	53 €
B.II	Immobilizzazioni materiali	1.148 €	1.809 €	3.230 €
B.III	Immobilizzazioni finanziarie	43 €	38 €	32 €
B	**IMMOBILIZZAZIONI**	**1.197 €**	**1.927 €**	**3.315 €**
C.I	Rimanenze	940 €	1.051 €	1.022 €
C.II.1	Crediti esigibili oltre l'esercizio successivo			
C.II.2	Crediti esigibili entro l'esercizio successivo	12.738 €	12.258 €	11.859 €
C.II	Crediti	2.305 €	2.252 €	3.414 €
C.III	Attività finanziarie che non costituiscono immobilizzazioni	1.744 €		
C.IV	Disponibilità Liquide	4.496 €	8.633 €	8.496 €
C	**ATTIVO CIRCOLANTE**	**22.224 €**	**24.193 €**	**24.791 €**
D	**RATEI E RISCONTRI**	**15 €**	**54 €**	**65 €**
TOTALE ATTIVO		**23.435 €**	**26.174 €**	**28.173 €**

	PASSIVO	2002	2003	2004
A.I	Capitale sociale	480 €	480 €	480 €
A.II - VII	Riserve	10.412.244 €	11.061.936 €	13.000.095 €
A.VIII	Utile (perdita) portati a nuovo			
A.IX	Utile (perdita) dell'esercizio	1.754 €	2.586 €	1.739 €
A	**PATRIMONIO NETTO**	**12.742 €**	**14.224 €**	**15.410 €**
B	**FONDO RISCHI E ONERI**	**683 €**	**702 €**	**656 €**
C	**TFR DI LAVORO SUBORDINATO**	**444 €**	**460 €**	**499 €**
D.1	Debiti esigibili oltre l'esercizio			
D.2	Debiti esigibili entro l'esercizio	9.554 €	10.323 €	11.155 €
D	**DEBITI**	**9.554 €**	**10.323 €**	**11.155 €**
E	**RATEI E RISCONTRI**	**14 €**	**464 €**	**452 €**
TOTALE PASSIVO		**23.435 €**	**26.174 €**	**28.173 €**

Source 1: Balance Sheet 2002 - 2004

3.3.2 Analysis of the financial structure

With regard to the financial structure indices, the analysis is essentially based on the calculation of the composition indices of the loans and sources highlighted in the balance sheet.

The structure analysis tends to highlight the following characters:

a) elasticity characteristics of investments taking into account the liquidity of the invested capital

b) elasticity characteristics of the loans

The two composition indices indicate the rigidity or elasticity of the invested capital respectively. In the case of the AMARO LUCANO company, the values of these ratios are shown in figure n. 5

Figure 5: Asset composition indices

	IMPIEGHI	2002	%	2003	%	2004	%
A.I	**Attivo Immobilizzato**	**1.204 €**	**5,14%**	**1.953 €**	**7,46%**	**3.348 €**	**11,88%**
	Immobilizzazioni immateriali	5 €	0,02%	80 €	0,31%	53 €	0,19%
	Immobilizzazioni materiali	1.148 €	4,90%	1.809 €	6,91%	3.230 €	11,46%
	Immobilizzazioni finanziarie	51 €	0,22%	64 €	0,24%	65 €	0,23%
AC	**ATTIVO CIRCOLANTE LORDO**	**22.231 €**	**94,86%**	**24.221 €**	**92,54%**	**24.825 €**	**88,12%**
D	Disponibilità Liquide	940 €	4,01%	1.051 €	4,02%	1.022 €	3,63%
Ld	Liquidità differite	16.794 €	71,66%	14.536 €	55,54%	15.305 €	54,33%
Li	Liquidità immediate	4.497 €	19,19%	8.634 €	32,99%	8.498 €	30,16%
k	**TOTALE CAPITALE INVESTITO**	**23.435 €**	**100,00%**	**26.174 €**	**100,00%**	**28.173 €**	**100,00%**

Source: Balance Sheet 2002 - 2004

Investments have a very elastic nature since the total of fixed assets weigh on the total invested capital for very low values, even if there is a consistent growth of this weight in the three-year period that from 2002 to 2004 doubles from 5.14% to 11, 88% evidence of new material investments in the technical production system.

The weight of the gross working capital is consequently considerable even if in a downward parable due to the increase in tangible fixed assets not compensated by an increase in absolute terms of the same circulating assets.

Within working capital, a significant decrease in deferred liquidity, which went from 71.66% in 2002 to 55.54% in 2003, combined with a significant increase in immediate liquidity, which fell from 19.19% in 2002 to 32.99% in 2003 , can be explained by the various commercial policies applied to customers and in particular by a decrease in the extension times allowed.

Confirming this hypothesis is the growth in turnover from 2002 to 2003, going from around 25.3 million euros to around 27.2 million and that under constant conditions of applied delays it should have resulted in an increase in the deferred liquidity which, on the contrary they have decreased.

The elasticity of funding, however, is observed through the analysis of the capital structure acquired in the following aspect:

1. the weight of equity
2. the weight of consolidated liabilities
3. the weight of current liabilities

Figure 6 Liabilities composition index

	FONTI	2002	%	2003	%	2004	%
PN	**Patrimonio Netto**	**12.742 €**	**54,37%**	**14.224 €**	**54,34%**	**15.410 €**	**54,70%**
CS	di cui Capitale sociale	480 €	2,05%	480 €	1,83%	480 €	1,70%
Pc	**Passività Consolidate**	**791 €**	**3,38%**	**1.044 €**	**3,99%**	**1.056 €**	**3,75%**
Pb	**Passività correnti**	**9.902 €**	**42,25%**	**10.906 €**	**41,67%**	**11.707 €**	**41,55%**
K	**TOTALE CAPITALE ACQUISITO**	**23.435 €**	**100,00%**	**26.174 €**	**100,00%**	**28.173 €**	**100,00%**

Source: Balance Sheet 2002 - 2004

In the case of the AMARO LUCANO company, we see that the weight of equity is greater than 50% in the three years. Consolidated liabilities, in which there is no presence of financial items relating to payables, grow in the three-year period (except in 2004 whose values in percentage terms decrease) not due to the financing of tangible fixed assets but due to the increase in TFR funds, risks and charges and for the increase in the portion beyond 12 months of accrued expenses and deferred income.

The most important data is that the weight of financial debt on total sources is zero, i.e. the company does not have financial debt exposures, but finances itself exclusively with its own resources.

The weight of current liabilities (Pb) is basically constant over the period of time considered. In absolute terms, on the other hand, their value grows from 9,902 in 2002 to 11,707 in 2004 due to either a probable increase in prices applied by suppliers or to having increased longer payment terms which could be linked to the increase in cash and cash equivalents.

3.3.3 The analysis of the economic situation

The financial statement analyzes observe, from an economic point of view, the profitability of the management, in its relations with the remunerative capacity of the revenue stream.

In the case of Amaro Lucano Spa, the analysis of profitability coincides with the analysis of the "bitter" product and its life cycle, being able to consider the company as a single product. In fact, this reference weighs on average for over 90% of the total turnover achieved. The table (figure 7) below shows the economic results achieved by the company "Cav. Pasquale Vena & Figli Amaro Lucano SpA "in the last three years and referring to the three approved financial statements (amounts expressed in €/1000) and the values of the main profitability ratios (figure 8):

Figure 7 Income Statement

	CONTO ECONOMICO	**2002**	**2003**	**2004**
A.1	Ricavi delle vendite e delle prestazioni	25.397 €	27.269 €	25.651 €
A.2	Variazioni delle rimanenze, di prodotti in corso di lavorazione, semilavorati e finiti	37 €	106 €	- 14 €
A.3	Variazioni dei lavori in corso su ordinazione			
A.4	Incrementi di immobilizzazioni per lavori interni			
A.5	Altri ricavi e proventi	62 €	15 €	38 €
A	**VALORE DELLA PRODUZIONE**	**25.449 €**	**27.436 €**	**25.675 €**
B.6	Materie Prime, sussidiarie, di consumo e merci	3.059 €	2.925 €	2.375 €
B.7	Servizi	10.549 €	10.655 €	11.623 €
B.8	Godimento di beni terzi	46 €	53 €	84 €
B.9	Personale	1.850 €	1.943 €	2.016 €
B.10	Ammortamenti e Svalutazioni	325 €	366 €	380 €
B.11	Variazioni delle rimanenze, di materie prime, sussidiarie, di consumo e merci	- 51 €	- 5 €	14 €
B.12	Accantonamenti per rischi			
B.13	Altri Accantonamenti			
B.14	Oneri diversi di gestione	6.065 €	7.149 €	6.053 €
B	**COSTI DI PRODUZIONE**	**21.843 €**	**23.087 €**	**22.545 €**
	RISULTATO DELLA GESTIONE CARATTERISTICA (A-B)	**3.606 €**	**4.349 €**	**3.136 €**
C.15	Proventi da partecipazioni			
C.16	Altri proventi finanziari	175 €	189 €	190 €
C.17	Interessi ed altri oneri finanziari	18 €	9 €	34 €
C	**Proventi ed oneri finanziari (C.15+C.16+C.17)**	**157 €**	**180 €**	**156 €**
D.18	Rivalutazioni			
D.19	Svalutazioni	183 €	27 €	
D	**RETTIFICA VALORE ATTIVITÀ FINANZIARIE (D.18-D.19)**	**183 €**	**27 €**	
E	**PROVENTI ED ONERI STRAORDINARI**	**- 228 €**	**- 20 €**	**- 214 €**
	RISULTATO ANTE IMPOSTE (A+B+C+D+E)	**3.351 €**	**4.482 €**	**3.073 €**
	Imposte d'esercizio	**1.596 €**	**1.896 €**	**1.334 €**
	UTILE (PERDITA) D'ESERCIZIO	**1.754 €**	**2.586 €**	**1.739 €**

Source: Income Statement 2002 – 2004

Figure 8 Economic indices

INDICI DI SITUAZIONE ECONOMICA		2002	2003	2004
ROE (Return on Equity)	Rn/PNm	13,77%	19,18%	11,74%
ROI (Return on Investment)	Ro/Kom	19,08%	23,90%	16,85%
ROS (Return on Sales)	Ro/Rv	14,20%	15,95%	12,20%
ROT nell'area operativa	Rv/Kom	1,34%	1,50%	1,38%

Source: Income Statement 2002 – 2004

The income ratios used for the analysis are divided into:

- ROI (return on investment) indicates the ability of the company to remunerate the capital acquired through the income of the only characteristic area; it is obtained by comparing the operating income (Ro) with the average global invested capital (K); ROI = Ro / K
  The trend of the index is irregular; from the initial 19.08% of 2002 it grows up to 23.90% in 2003, to go down to 16.85% in 2004. The reasons are to be found on the one hand by the increase in operating income in 2003 alone and on the other by the constant increase in the capital invested due, as has already been pointed out, to useful distribution policies which in fact was in the time set aside and not distributed. As we will see later from the analysis of the two subsequent indices, the greatest inefficiency in costs that occurs in 2004 and which makes the values of this index anomalous weighs more on the ROI values.
- ROE (return on equity) can be interpreted as the rate of return on equity and indicates the level at which the return on capital acquired by the company is commensurate with the "full risk" constraint. The global profitability ratio is defined by the ratio between the global net income resulting from the balance sheet (Rn) and the average equity resulting from the combination of two consecutive balance sheets (N).

The trend is swinging. It went from 13.77% in 2002 to 19.18% in 2003, before falling back and settling on values equal to 11.74%. Understanding this index presupposes the study of the individual components into which it can be broken down.

All this reflects a company that finances all its assets with its own means and operating debts. On the contrary, financial payables are absent and therefore there are no financial charges charged to the income statement which affect operating profitability.

Therefore, the leverage effect is not exploited, which means that in the case of ROI> ROD (Return on debt or burden of financial debt), ROE increases with increasing leverage and therefore debt, even if this increases the business risk perceived and consequently lowers the value of the same company as it raises the risk rate which serves as the basis for discounting the income or cash flows used to quantify and the value of a strategy and the value of the company itself.

3.4 Diagnosis and strategies

3.4.1 The 5 competitive forces and the Amaro

In being able to evaluate a repositioning strategy and its opportunity, from the market in which it operates in order to evaluate, through the analysis of the structure of the sector, its attractiveness and tastiness. The reference model underlying this study is that of Porter's five competitive forces, also known as the model of extended competition.

- **Internal competition:** the spirit sector is a mature sector with low growth rates that continue to persist. The degree of concentration is very high. The sector is indeed be very fragmented with the presence of almost 600 companies between small and large. In fact more than 60% of the total sales are made by the top four leading brands on the market (Averna, Montenegro, Lucano and Ramazzotti). Excluding Amaro Lucano Spa which achieves approximately 90% of its turnover in bitter segment, the other main competitors also operate in other segments of the spirits market and are part of, apart from the Averna F.lli which is developing intense strategies to expand the product portfolio to multinationals owning the majority well-known brands in the sector at European and global level. Price does not seem to be a competitive variable on which to base strategies competitive advantage.
- **Customers**: the distribution channels that companies use to reach their end customers they influence the direct customers of the companies. At this level of the production chain these they are essentially wholesalers and organized distribution. Segment in itself is the large-scale retail trade which, given its ever-growing importance, represents the real challenge for the manufacturing companies since it reduces the bargaining power of companies. Both levels of analysis are characterized by a remarkable concentration, especially the second, which negatively affects the bargaining power of companies manufacturers. Threats of downstream integration or acquisition by companies producers of the distribution channels are completely absent for the GDO but are not from all excluded for wholesalers given the belonging of Montenegro and the Ramazzotti to large multinationals.
- **New entrants**: The entry of potential entrants into the sector seems to be averted by the low rates of market growth. Beyond this variable, however, there are no particularly high technical barriers to entry. The saturation of the market makes it difficult to penetrate it from additional brands without triggering possible reprisals from the companies already present. In others terms in markets with low growth trends there is no room for further players if not the one obtainable from the competition with those already present who in this case already are established. The strength of the brand represents a significant barrier to entry, the most important given the high customer retention rate. The huge spending on advertising campaigns of possible new entrants able to attribute fame and

cancel the costs of passing from one bitter to another or "Nomadizing" consumers constitutes a disincentive to entry.

- **Replacement products**: The type of product and its consumption makes the threat of replacement products that are placed outside the same segment of bitters. This however, the order of conclusions is the result of a non-functional segmentation of the market of spirits based on product categories and which prevents being able to seize to full threat of replacement products. A personal segmentation of the spirits leads to consider as a substitute product for the bitter product, since on the demand side, grappa which however has different production processes in the upstream phases which therefore require different know-how.
- **Suppliers**: The main suppliers are represented by the companies that supply herbs, used in the processes of maceration and infusion, sugar, for the production and of caramel e of the bitter itself, alcohol that makes up the finished product, and bottles, caps and labels used for the final packaging. To have a greater impact on the production value chain in terms percentages on the total cost, are mainly the purchase of alcohol and sugar whose supplier companies, present on the market, are sufficiently large in number to do not attribute particular contractual force to it. The same order of considerations apply to the other types of bottle suppliers, caps and labels. Ultimately, suppliers do not particularly affect profitability achievable by companies operating in the sector. The intensity and direction of the five competitive forces of the model confirms the situation of a structurally mature market, whose low growth rates, the high barriers to entry, the stable positions of leading companies, make it difficult attachable from the outside. However, within it the low degree of contractual power of suppliers, the absence of concrete threats from the outside for the reasons mentioned above, makes profitability high among companies that already operate there. The only real external threat to its profitability could come, as well as from overpowering large-scale distribution.

3.4.2 The strategic group and the 4big

It is essential for our analysis to identify the defined strategic groupings as "groups of companies pursuing similar strategies" and among which there is one direct competition. It is important to consider in this regard that in the same sector there are companies that are not in direct competition with each other, but at the same time, one should not make the mistake of neglecting and underestimating others strategic groupings and the movements within them that they could represent potentially a threat. therefore, correct application of the instrument is fundamental, as always, the correct one delineation and segmentation of the market in which the company operates. To overcome this drawback, the tool must be combined with the analysis of the sector of Porter and in particular with the force "replacement products" and "new entrants" as they are it provides indications on the concept of extended competition.

The main variables in the particular amari-china-fernet segment and at the level national arise for this purpose are identified in:

- **brand awareness,** identified through market share, represents the highest mobility barrier within the groupings, given the high level of loyalty and embodies the territorial dimension (with brands characterized by high notoriety is reflected in a greater territorial dimension) this variable assumed are high notoriety, low notoriety;
- **competitive advantage** explains the types of positioning pursued. The values are cost leadership and differentiation leadership.

All companies in the sector are grouped into two large strategic groupings and penetration or maintenance strategies at the level of internal pricing policies of the two groups are essentially the same: both within the Big group (brands with a high level of notoriety) and in the Low Cost one (brands with a low level of notoriety) le price ranges are the same and tend to be higher in the
first group and basically lower in the second.

The only exception is the Vecchio Amaro del Capo case which constitutes a separate group defined Follower because despite not enjoying great media notoriety it has levels of prices similar to the Big ones and it is increasingly present on the shelves of the large-scale distribution it represents the real "battlefield" for companies.

3.4.3 The range of action

The identification of Amaro Lucano's direct competitors in the Averna brands only, Montenegro, Ramazzotti, arises with the aim of delimiting its competitive sphere those that pursue the same strategies, providing information on the lines operating strategies and on the probable evolution of the intentional strategies of the other players. The mere identification of strategic groupings does not allow, however, to be able to assess the true potential of the companies that underlie its positioning or to perceive its real dimension with which to compete.

The phenomenon of multinationals with the game of investments in subsidiaries or connected and therefore more or less disguised belonging to an industrial group or financial, it becomes of fundamental importance to assess the effective strength of direct competitors. In other words, it is not possible to find a strategy aimed at outclassing other brands ignoring the production combinations behind them. Observing the range of action of the three main competitors (Ramazzotti, Montenegro, Averna), with the exception of Lucano which operates exclusively in its core business, i.e. the spirits segment, and at an almost national level, all other companies they operate not only internationally but also in other sectors.

In particular companies such as Ramazzotti and even if to a lesser extent Montenegro, base their portfolio on multi-brand strategies which, given theirs importance in terms of reputation, has significant repercussions on their bargaining power especially towards large-scale distribution and organized distribution.

In fact, both have important brands on which to pivot in order to exploit any distribution synergies in the various channels.

Companies such as Lucano, on the contrary, aim to expand their brand references or creating an umbrella brand and therefore capitalizing on investments advertising of the past that are then spread on the various types of products. The reputation acquired over time represents a guarantee seal for consumers and a Trojan horse to penetrate new market segments. They are therefore realized

image synergies to be exploited in the various distribution channels. The same considerations apply to Averna which, however, pursues both types of synergies. In fact, in addition to being able to boast a large portfolio of branded products it also focuses on a multi-brand strategy thus strengthening its presence on the market through an increase in bargaining power. Instead, Amaro Lucano Spa presents itself as a company focused on its core business of bitters and more generally of spirits exclusively with a brand name.

3.4.4 The product and the repositioning between the competitive "advantages" and the market

The growth of Amaro Lucano in the bitter market was characterized by a constant improvement of its position towards the competition, more and more pressing from the eighties until today. The growth and expansion phase is the one in which a company is practicing economies of scale, pricing and investment policies, try to be more competitive, in order to enter new market segments and new channels distributive, insisting on convincing the consumer to appreciate the qualities of your product.

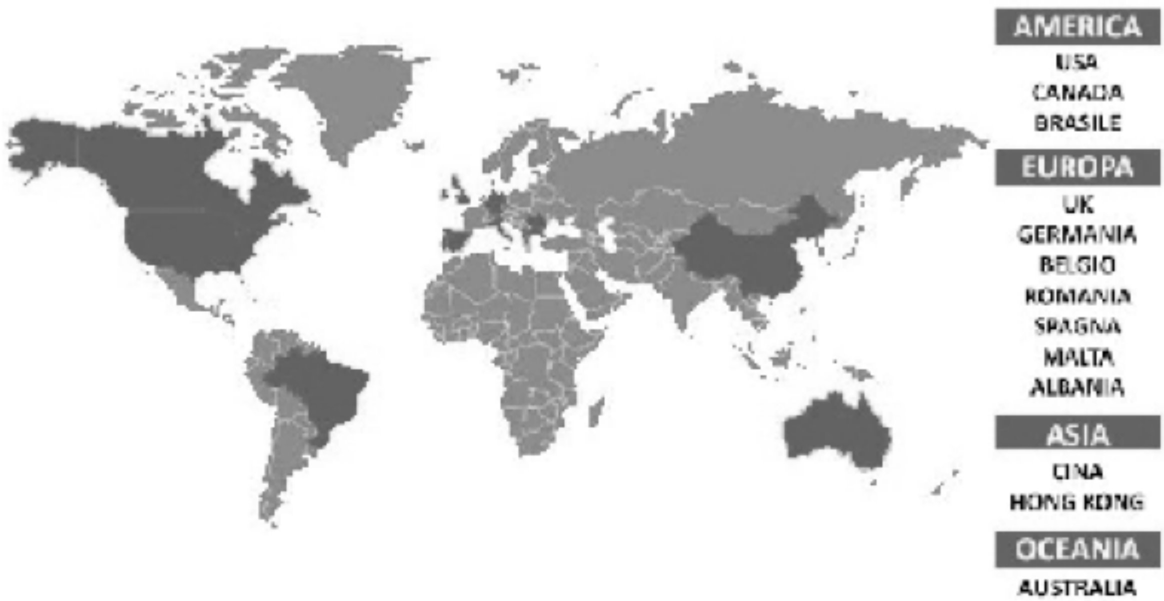
From this it follows that one of the objectives in the medium term is precisely that of strengthen its position at national level by filling the gap in given areas vis-à-vis the other leading competitors.

The company aims to strengthen its image both on the national market and in the foreign market, thus achieving greater competitiveness, which is also imposed by the current one context in which the same work, characterized by the now known process of globalization, through higher product quality and adaptation to new standards regarding environmental certification, safety at work and therefore with a marked tendency towards differentiation.

The new pricing policies instead are the basis of the cost strategies. This type of repositioning of the Amaro Lucano reference to produce improvements in business performance must necessarily translate into value proposition for the consumer or create value. The process of perception and, therefore, of effective communication of the differential advantages offered through appropriate marketing activities, it represents an extreme moment importance that acts as a glue and transmission belt of the strategy to the market. The value proposition consists of differentiation and cost which, at least in appearance, are prosecuted simultaneously and are instrumental in maintaining and strengthening of its market share with the aim of its growth. The quality of the product, on the other hand, is a real business objective, representing a factor successful critic in the bitter market with which it is therefore consistent. The differentiation pursued both in terms of quality and social nature aims at creating consensus among various stakeholders in periods characterized by a constant number growing social demands. If quality directly impacts the target market that is, on final consumers, the certifications represent a first step towards the Corporate Social Responsibility and therefore the ethical response and the social commitment that aim to create consensus not around the product but on the whole company.

3.4.5 The internationalization of Made in Italy: Amaro Lucano's export to the world

Today Italian brands are highly appreciated in the international market for their innovative design and for the quality of the materials. The expression made in Italy, pride for Italian producers, represents the quality, creativity and inventiveness characteristic of Italy and its craftsmen. An internationalization process for the Italian SMEs that today represent it is a real and proper must as the growth of emerging markets has sanctioned the birth of a new economic-commercial order that moves within it and a new concept of doing business, aimed at launching an expansion path towards new markets. Amaro Lucano fully reflects these parameters and today is part of that niche of Italian SMEs capable of exporting Made in Italy products to the world. Especially in the last 10 years it has embarked on an internationalization path towards non-European countries.



The challenges linked to the growth of these markets are also accompanied by significant opportunities for the Lucano Group, deriving from the expansion of the world middle class: the now famous BRICs[3], as well as the most recent Next Eleven[4], are increasingly configured as breakout markets with enormous potential. it is

[3] Brazil, Russia, India and China

[4] Acronym to indicate a group of economically emerging countries, which indicates 11 countries which according to Goldman Sachs are: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, Vietnam.

an almost obligatory choice to stay on the market, to continue to be competitive in such an economic context. To define the right internationalization strategy, the Lucano group also had to take into account and analyze the three main strategic levers, which are based on market and competitor's analysis, on the internal and on the internationalization modalities.
Together with the strategic lines, Amaro Lucano also analyzed the following aspects:

- contractual terms
- economic feasibility of the project
- knowledge of the interlocutors and business partners, attention to cash flows, avoiding unclear or illicit business, not accepting compromises or shortcuts, Acting within the rules of the WTO, evaluate potential problems and learn from one's and others' mistakes, limit exposure, be present.

Developing and producing your own product in a given market, while maintaining its specificity but also adapting it to the particular needs of the country of destination, represents the most correct way to present yourself successfully on the international scene and face the fierce foreign competition that always becomes every day harder. To do this it is necessary to have a direct presence in the markets in which you intend to operate. For Amaro Lucano it is the long history of the company that speaks, a century-old history, which has always known how to renew itself and expand beyond national borders despite the limited size. It has transformed obstacles into strengths: it is not easy for an SME to compete with multinational brands, but the history of the Lucano group can be a teaching for many SMEs that want to be present on transactional markets following a few simple rules: tradition, innovation, ideas, transparency but above all family.
The company's further development area is exports. As the heir Pasquale Vena declares, before 2008 the national market was sufficient, after the crisis to survive it was necessary to open up to new markets. It was not easy, the bitter was known only in Italy and Germany where 40 million liters of it are consumed. Then in the United States they started using it as a cocktail base. Thanks also to the association of bartenders to which the best mixology belongs, we have opened ourselves to bars and restaurants.
Also in 2015, Amaro Lucano acquired the Limoncetta di Sorrento liqueur from the Campari Group, which by tradition and market has affinity with Amaro, so that it can be enhanced in synergy. Today, with 1 million bottles, it is the second limoncello in Italy. A family finance company has recently been created which 100% controls the operating company; the holding includes Pasquale Vena, namesake of the founder, president and CEO of the subsidiary, his wife Rosistella, general manager, and his three children: Leonardo, marketing director, Francesco, for legal affairs and Letizia, engaged in marketing.

3.4.6 Amaro Lucano: innovative processes

To cope with the continuous changes both from within the company and in the needs and purchasing power of customers and obtain competitive advantages, it is necessary to focus on innovative processes, above all current and precise ones. Amaro Lucano in its centennial history has been able to make innovation its strength to expand globally. Already from the 60s the foresight of the Vena brothers pushed them to invest in large national advertising campaigns that amplified the brand's reputation and transformed it from a local product to a liqueur appreciated all over the world. After the 2008 crisis, in addition to conquering the USA and Brazil, the landing in China took place in 2014. The company has therefore set up some fundamental changes:

1. investing in new technologies both through investments in development and through the purchase of technologies available on the market
2. the redesign and optimization of business processes both as a consequence of changing customer needs and for the development of technologies.
3. Design as added value. In addition to functionality and a reasonable price, customers require an aesthetic product that is pleasing to the eye. Amaro Lucano introduced several creative figures and sold stories, no longer produced.
4. Customer relationship management (CRM), or effectively managing the relationship with the customer is an increasingly widespread strategy. It is used by companies to identify and manage the profiles of acquired and potential customers, so as to develop activities and strategies that on the one hand help to capture new customers and on the other to maximize profits on loyal customers, trying to understand their needs and expectations.

3.4.7 Amaro Lucano: product and process innovations

In recent years, Amaro Lucano has wanted to expand its reference market by introducing product and process innovations, substantial improvements in technical characteristics, components, materials, ease of use or other functional characteristics. To do this, the company has changed the characteristic of the product, lowering the alcohol content from 30 to 28 degrees and raising the glucose content to be used not only as a digestive, but also as a base for cocktails and to expand the target audience not only male but also female.

Important steps forward were also made for the innovation of business processes and business management logics.

Process innovation involves the company's technological organization, the management of human resources and the various stages of the production process, in other words all that is related to the growth of efficiency in the supply. Over the years, Amaro Lucano has totally changed the company organization with special electronic applications, especially as regards product bottling. Today this phase is completely automated and has made it possible to conspicuously increase production up to 5000 bottles / h. Also as regards the supply of raw materials, avoiding to buy raw materials out of season at huge prices and if the herbs arrive in an unfinished maturation phase, the company is able to provide for their complete maturation. Amaro Lucano in collaboration with Sud Sistemi has undertaken since 2010 a project which requires the adoption of the

Web MyBusiness platform with the aim of making order collection and sales force management methods more innovative and efficient.
Finally, knowing how to influence the behavior of people involved in the process with their own contribution of ideas is crucial for the company's competitiveness.

3.4.8 Marketing innovation

Marketing innovation aims to best meet customer needs, open new markets or position a company's product on the market from scratch, in order to increase the company's sales. The Amaro Lucano bottle for example received a slight restyling in 2011, with which we wanted to make the handle more ergonomic with a flared shape and reinforce the image of the strengths that are the year of creation (1894) and local roots, enhancing the image of the woman in the traditional costume of the Pcchiana. Amaro Lucano then renewed its image with the new advertising campaign curated by the agency MC Cann Erickson, which introduces a new one: "Chi vuole un lucano alzi la mano" which precedes the now well-known "Cosa vuoi di più dalla vita?". To promote its brands, Amaro Lucano continues to focus on advertising and communication, investing 10 million between 2016 and 2018.
Between 2012 and 2013 it is well thought to focus on label innovation by taking advantage of the technological proposals offered by the world of communication-graphics. The brand review project is entrusted to Robilant and the production of labels to Nucerina Adesivi.
The collaboration with IED European Institute of Design was also innovative and creative with the creation of the "Lucano Celebrating Lab" where the students created the new packaging for the 120-year-old bottle with a multidisciplinary team work and the coordination of professional tutors. Furthermore, on the occasion of 120 years Lucano 1894 consolidates its online presence by launching a new portal dedicated to e-commerce. In the new portal you can quickly and easily purchase the famous products of the Lucano range: Caffè Lucano, Sambuca Lucano and limoncello Lucano, as well as the selection of spirits.
In addition to the products, it will be possible to find many gift ideas and numerous branded gadgets, for all true enthusiasts, the mignon of Lucano products, shot glasses, tumblers, pens, laces, lipsticks, playing cards, ties and Moleskines. The development of an e-commerce portal allows the Lucanian company to be more available to all its customers, arriving directly in their homes.
Finally, in the continuous and growing challenge of advertising the various bitters, Amaro Lucano has always wanted a concise, lean, simple and essential communication, free of praise and adjectives. A fundamental element is the value of a tradition that is maintained: what most transpires from the Company's communication strategy is a fair pride for its history. Having highlighted this trend, emphasis should be placed on some aspects related to the external presentation of Amaro Lucano: the natural figure of the woman on the label in Lucanian costume, the basket of herbs collected, the medals, the motto "Work and honesty" which is a symbol of the company.

creative and original marketing strategy is completed by a Facebook campaign, which involves sponsoring posts and conveying cuts of the spot created ad hoc for social media.

3.4.9 Cooperations

SMEs have to deal with the limits of their capabilities, which prevent them from dealing effectively with certain opportunities offered by the market. Cooperation can extend from a simple project agreement to a real merger between pre-existing companies. Starting from 2013 Amaro Lucano started a commercial partnership with N.F.Food, owner of the Natfood brand. The agreement provides for the exclusive distribution for the horeca channel in the regions of Northern Italy and in Tuscany of Amaro Lucano, Limoncello Lucano, Sambuca Lucano and Caffè Lucano, in special dedicated formats. To manage the sales network, an ad hoc company has been created, in which the two companies participate: Nat for Lucano. Lucano thus strengthens its distribution capacity through a sales network, which allows it to reach 25 thousand customers. Natfood supplies more than 40,000 bars, hotels, cafés, restaurants and cafés, with more than 300 vendors on the national territory.

In 2015, the Campari Group signed an agreement for the sale of the Limoncetta di Sorrento business to Lucano 1894 s.r.l. for 7 million euros. The sale includes the brand Limoncetta di Sorrento and 100% of the share capital of Alimenta S.r.l. which owns the production plant. The structure of the agreement provides for some price adjustments, subsequent to closing, linked to the stock values and other assets and liabilities. On the basis of the agreement, the Campari Group continues to manage the bottling activities until 2015. This acquisition has allowed Amaro Lucano to develop by external lines and this experience has proven to be very positive. In 2015 alone, the first year of the acquisition, the revenues for this brand were 1.5 million. Finally, to finance the next operations, we do not exclude the use of Minibonds, it would be an initial opening to the capital market of a company strongly in the hands of the founding family.

3.5 An evaluation on the course and new references and synergies

The company produces and markets one of the best known "Amari" on the market national: The "Amaro Lucano". This reference is accompanied by other minor importance “Caffè Lucano, Limoncello Lucano, Sambuca Lucano, Grappamaro Lucano and Grappa Lucano ". Although the core business is represented by the well-known bitter, the others, thanks to a series of new advertising investments, they are starting to be present in increasingly imposing manner, even if the reference market is characterized by the presence of numerous other similar and competing products.

By placing these references on the market, the company pursues one intentional strategy to expand the branded product portfolio which directly competing companies are already implementing.

Competitors are implementing this portfolio strategy whose solutions they can essentially be divided into two types:

- expansion of branded products
- expansion of brands

Company policies that aim at the expansion of brands include one diversification more or less driven according to whether one intends to always penetrate the same spirits market or in others.

The Lucano company aims to achieve the first type of portfolio strategy by presenting itself on the market certainly not as a first mover, but as a follower as brands like Ramazzotti and Averna are pursuing, among others, the same growth path for more or less time.

Through these strategies, Amaro Lucano Spa aims to achieve the following synergies.

- **image synergies:** The brand's notoriety is the result of campaigns previous advertising and product quality to get around barriers to entry of the other market segments. The use of the same known brand represents one guarantee of the quality of the product and of the intangible components that it evokes. It is not possible to achieve these synergies with mere brand expansion strategies
- **distribution synergies**: The knowledge of the distribution channels is used for inserting the new references
- **supply, production synergies:** The use of the same raw materials and therefore of the same supply channels, the implementation of similar production processes that make the systems flexible and multifunctional. All this however limited to the sun product categories spirits that are obtained by the same infusion and mixing processes. It is not possible for spirits and in particular for grappa achieve these synergies as there are different production processes at their base e different types and supply policies.

The synergistic potential of the previous points is made possible by the interrelationships among the activities of the value chain of each type of reference and in particular by having in common certain types of such activities that make it possible exploitation of economies due to the larger scale with positive repercussions in terms of average costs and therefore of efficiency.

It is clear that the purpose of the investment in the production system is also linked to encourage the insertion on the market of these latest references, the presence of which definitely be made possible through better value for money product and through persuasive advertising campaigns.

The environment in which Amaro Lucano operates today appears increasingly competitive and full of new challenges. By observing the competitors, the Vena Company was able to develop its turnover with Amaro Lucano alone, without selling company shares to the outside as competitors did. This applies even if we compare the financial and managerial skills of the Lucana company with the large multinationals in the sector. Amaro Lucano is the product sold at the most competitive price, for this reason it attracts a large part of the public. A future goal for Amaro Lucano is the great challenge from abroad. In fact, 60% of bitters are consumed in Italy, it is therefore a difficult market, but we are aware of the appreciation reserved for Italian products, especially in Canada and the USA where the company has established a very solid distribution network , by establishing a contract with the Canadian liquor monopoly, which means that the Canadian state is buying directly. In 2015 Lucani products are distributed for the first time in Asia, a continent that is characterized by economic, political and cultural heterogeneity, represents a real asset for the future export of the Lucano Group.

CONCLUSIONS

The purpose of this work was to analyse the phenomenon of internationalization and the development paths of our small and medium-sized enterprises. In the first part, an attempt was made to photograph the globalization process that has affected markets all over the world, trying to identify the determinants and elements that more than others have contributed to delineate the globalization process of the world economy: it has been taken into consideration the process of internationalization of SMEs, referring to the stimuli coming from both external and internal environments of companies. The elaborate had the aim of demonstrating that SMEs, especially Italian ones, despite the backlash of the 2008 crisis, had the strength and the will to put their potential to use. Even in the absence of an efficient system for accompanying the public entity, they have not avoided the competitive challenges imposed by globalization. Our SMEs have proven to be competitive abroad and able to export Made in Italy by changing their strategic positioning thanks to unique adaptive capabilities that have allowed them to overcome both economic and structural limits. This is especially true for the company that is analysed in this report, that of Amaro Lucano. For this company, internationalization has been a powerful driving force and at the same time has offered important opportunities to diversify its markets, reorganize its value chain, renew the corporate structure, acquire and develop new resources and modify its ways of doing business. Furthermore, the internationalization process has contributed to influencing competitive capabilities on the market, showing adaptability both at a strategic and operational level. Therefore Amaro Lucano has been able to exploit its efforts over the years both on marketing innovations, and on product and process innovations such as to expand the value of the company. The company has won the bet, has broadened its horizons, has gained greater market share; it has been renewed in the correct way, in particular thanks to marketing and advertising policies that have determined to exponentially increase the value of the company, widening the target of consumption and changing the way of drinking Amaro Lucano; no longer just as a digestive, but as a base for cocktails. All this has allowed Amaro Lucano to climb the rankings of Italian liqueur products in more than one hundred years of history and to establish itself on international markets.

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