MAIN CHANGES IN THE GROWTH PROCESS OF THE ITALIAN INDUSTRIAL SYSTEM

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KEYWORDS: financial data, companies, growth, competitiveness

JEL CLASSIFICATION: H81

1. ESSENTIAL ROLE OF INVESTMENTS FOR THE COMPANIES' GROWTH.

In a previous paper (Gallo 2011) the aggregate balance sheet of 1,790 industrial companies surveyed by Mediobanca was analyzed for the period 2000-09[4]. These companies at that time were representative of 43 percent in terms of Italian manufacturing total sales and concerned mainly the Italian activities of large and medium-large companies. The analysis was carried out by developing indicators of growth, age of tangible fixed assets, operating performance, profitability, and financial soundness. The main findings over the surveyed decade were as follows: i. Capital expenditure ("Capex") and investments were lower than the self-financing, both because the self-financing was wiped out by dividends paid and because of gradually decreasing rates of depreciation; ii. probably they were producing with totally depreciated machinery running a risk that the tangible fixed assets could hide a dangerous aging; iii. the tax burden was very high, moreover calculated on an inflated base due to low depreciation; iv. the companies therefore had been characterized by a process of entrepreneurial spirit waning, whose origin could be linked to the gap of Italy competitiveness compared to other countries. The research performed in 2011 reopened and developed a topic introduced three years before in a debate (Gallo 2008).

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The paper is a fruit of profitable cooperation among the authors. The paragraphs attributed to Gabriele Barbaresco are: nr. 2.1, 2.2, 2.3, 2.4, to Domenico Mauriello the paragraph nr. 2.5, to Riccardo Gallo from 3 to 8, while paragraphs nr. 1 and 9 are collective.
[4] Mediobanca (2011), "Dati cumulativi di 1790 società italiane (2010)"

The work carried out in 2011 had two main drawbacks concerning the time span of the sample in observation. The first regarded the starting year. In fact, the year 2000 was too close both to the introduction of the single European currency in 1999 and to the beginning of circulation of Euro in 2002, to allow to distinguish between the possible causes of the entrepreneurial spirit waning. The risk was to draw the probably hasty conclusion that this process was originated with the Euro. The second drawback concerned the final year of the analysis, because 2009 was coincident with the bottom of the international economical cycle and undermined the process of restructuring that many Italian companies had undertaken a few years before. In the following years, 2010-13, the prolonged Italian economical downturn has caused the shrink or disappearance of many small companies and has drawn away from Italy some important multinational companies. But it also revealed a number of medium-sized companies that have demonstrated to be able to innovate, to internationalize and to achieve attractive levels of performance and profitability. It has then been accentuated a sort of natural differentiation between companies, beyond the sector they belong to.

For all these reasons, it turned to be useful to set the current work on two goals. The first is related to the time period; it was decided to extend it backward, going back to 1992 and onward updating it up to 2013 included. The year 1992 was chosen because it was a watershed year in many ways. It put an end to the system of state ownerships and opened the privatization period. The second goal concerns a greater articulation of the analysis, with the exploration, limited to the most recent decade 2004-2013, of following five aggregates:

a. industrial companies;
b. Italian companies under foreign control, also in comparison with the aggregate of multinational companies worldwide;
c. companies controlled by large Italian groups;
d. companies of the so-called IV capitalism;
e. small manufacturing companies limited to the period from 2007 to 2012, due to data availability.

2.2 COMPOSITION OF THE COMPANY AGGREGATES

The aggregates used in this work were entracte from the publication “Dati Cumulativi di 2050 Società Italiane” (Ufficio Studi Mediobanca, 2014) or in the directory “Osservatorio sui Bilanci delle Società di Capitale” (Centro Studi Unioncamere, 2014). In the first case, the choice was driven by the level of significance (48% of manufacturing companies’ sales with more than 20 employees). The analyzed period is the time frame 2004-2013. In order to ensure comparable historical series in the decade, the aggregates were produced on closed sets of operating companies. The 2,050 companies are all based in Italy and their foreign subsidiaries are not included.[5] The international comparison was done using the aggregate of multinational companies, included in the survey "Multinationals: Financial Aggregates (R & S 2014)" and based on consolidated data. Regarding the Unioncamere aggregate, only parent company accounts of small companies were considered due to limited group organization in that size range.

2.1 Industrial Companies

It concerns 1,849 companies operating in industrial and construction sectors. The aggregate sectorial composition measured in terms of sales in 2013 showed a predominance of the oil companies (22.7%), followed by mechanical-electronics (14%), energy (13.7%), chemical (12.7 %), food and transport (9.7% each), household and personal goods (6.9%), metallurgy (5.4%), construction companies (2.1%) and other residual sectors (3.1%).

2.2 Italian companies under foreign control and multinational companies

It concerns 518 companies controlled by persons or entities of foreign nationality [6]. The aggregate sectorial composition measured in terms of sales in 2013 is as follows: chemical (17.9%), mechanical-electronics (16.4%), retail (10,6%), petroleum derivatives and other fuels (15.2%) and household and personal goods (2.2%). Over the past ten years, the foreign presence has changed significantly only in the service sector as a result of a change of control in telecommunication and large scale distribution.

The cumulative foreign data contains an aggregate of balance sheets of 383 multinational companies worldwide. In 2012, the latest year available, the sectorial composition shows a clear dominance of energy and oil companies (28.6% in terms of sales), services (15.8%), mechanical branch of automotive (11.5%) and electronic companies (12.1%).

2.3 Companies controlled by large Italian groups

[5] The main Italian manufacturing groups with a multinational organization made in the Italian market only 9% of their total sales in 2013. The 24% of overall turnover was generated by export. The remaining 67% was produced by foreign subsidiaries. This means that data used in this analysis refer to about one third of the overall companies' sales.

[6] The control was attributed to the ultimate controlling shareholder, regardless of the nationality of any intermediate holding. For the companies controlled by private equity funds the predominant nationality of the funds has been assumed. In the case of joint control of Italian and foreign owners, the companies were considered under Italian control and are therefore excluded from this aggregate.

It concerns 237 companies, belonging to groups that in 2013 achieved consolidated worldwide sales over three billion Euros, State owned or controlled by 21 private Italian groups, 16 of which are multinational. The sectorial breakdown of the 237 companies registers a predominance of oil companies (32.7% of the aggregate sales), followed by manufacturing (29.3%), the energy (21%), the service sector (16%) and construction companies (1%). The manufacturing sector is mostly represented by companies operating in the construction of transport equipment (52.8%).

2.4 Companies of the so-called IV capitalism

It concerns 1,190 manufacturing medium-sized companies represented by 683 medium[7] and by 507 medium-large companies. The medium-sized companies do not belong to large groups and did not overpass both the number of 499 employees and the sales of 355 million Euro in 2013. The medium-large companies set themselves beyond these limits without exceeding the threshold of 2.99 billion Euro of sales. The IV capitalism accounts for 44.8% of manufacturing turnover analyzed in the publication “Dati Cumulative di 2050 Società Italiane” (22.4% of 2,050 companies’ revenues), attributing 15% to medium-sized companies and 29.8% to medium-to-large companies.

The companies of the IV capitalism stem mainly from district firms, evolving towards more structured corporate arrangements and higher professional and managerial capabilities, in this way becoming leaders of local networks. They successfully integrated the locally-rooted, often informal or unspoken core knowledge, with innovations stemming from external, more formalized science-based knowledge, becoming system integrators of smaller firms. They have been able to achieve market leadership by locating themselves at the top of the quality ladder, thus making their products difficult to imitate. They operate in market niches, mostly produce in factories located in Italy (mainly in the Centre North East and North West) and are involved in goods labeled as "Made in Italy", which are characterized by quality and customer service.

Within the aggregate, medium-sized companies account for 33.6% of sales and the medium-large for 66.4%. The sectorial composition measured in terms of sales marks the prevalence of food companies (23.2%, of which 13.4% are medium and 9.8% medium-large), followed by mechanical-electronic equipment (20.5%, of which 4.9% are medium and 15.6% medium-large) and household and personal goods (17.9%, of which 5.6% are medium and 12.3% medium-large). The minor presence is in the transport sector, dominated by larger companies (2.2%, of which 0.2% are medium and 2% medium-large).

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[7] The 683 medium-sized companies represent, in terms of sales, 33.8% of surveyed universe by Mediobanca and Unioncamere (2012 data).

2.5 Small manufacturing companies

It concerns 18,602 manufacturing companies for the year 2007, and 17,307 for the year 2011, and 16,716 for the year 2012, all included in the small size range, each having a workforce of between 20 and 49 employees.

3.3 INDICATORS ELABORATED

Seven groups of indicators have been drawn for the aggregates described above:

3.1 Value of production

The ratio of added value to net revenues (i.e. net sales plus other revenues) is a good and easy measure for the industrial content of companies and it gives a market-like judgment. Setting the price level of the input and the output, the market implicitly expresses the value contributed by the company over its working-cycle and over its use of internal production inputs. If for a certain aggregate this indicator decreases year by year, it means that the corresponding production system is losing weight and industrial content.

3.2 Growth

To measure the growth of a company it has been preferred to calculate the cash flow per annum, as a difference between the cash in-flow and cash out-flow. The first is the operating cash flow and it is given by the sum of net income for the year, less the dividends paid, plus the depreciation of tangible fixed assets (PPE, i.e. Property Plant & Equipment) and plus the amortization of intangible assets. In other words, the cash-flow from operating activities is the annual self-financing available to the management for new capital expenditure and investments. The cash out-flow is the cash used for the year in investing activities and it is given by the sum of payment for purchase of tangible assets , less the income from the asset disposal, plus any investment in intangible and financial assets and plus the annual change in net current assets. If the cash flow is negative, it means that the company makes capex and investments in excess of the available self-financing generated from the operations and, therefore, assumes to grow in the years to come, when the new PPE will be operative. If it is positive, there is a surplus of unexpended cash flow and the company is in decline. If it is zero, the company is static.

A variant of this indicator is the cumulative cash flow. This indicator is even more significant, because it reflects the tendency of growth or decline and captures the ongoing process much better than a single annual flow.

3.3 Age of the production equipment

The useful life, i.e. the life expectancy of PPE, is calculated as the ratio of the tangible fixed assets at the previous year end to depreciation of the ongoing year. When the depreciation in the denominator decreases year by year and the useful life extends, it means that companies either believe in greater longevity - maybe due to the slow technological dynamics on the specific market - and therefore feel entitled to pay-out their initial capex (capital expenditure) over a longer span of years; or continue to use a fully depreciated equipment, physiologically slated to be shut down, perhaps bearing some higher manufacturing cost .

The age of tangible fixed assets, in turn, is calculated as the ratio of the accumulated depreciation to depreciation. The higher is this ratio, the higher is the age of the PPE.

3.4 Operating performance

To measure operating performance three indicators were developed. The first is the days of inventory, calculated as the ratio of the current year average inventories to the working day industrial cost. This latter is equal to net sales less the net operating income divided by 365. The second indicator is measured by the number of deferred days granted to customers, calculated as the ratio of net trade receivables of the current year average and the daily net sales plus VAT. The third indicator is measured by the number of deferred days obtained from suppliers, calculated as the ratio of trade payables of the current year average and the daily consumption plus VAT. Independent of the model adopted, fewer are the days of inventory and deferred days granted to customers, and greater are the deferred days obtained from suppliers, the more efficient is the management, obviously in a physiological range of values.

3.5 Productivity

An added value per employee has been drawn for the productivity measure, calculated as the ratio of added value to average number of employees per year.

3.6 Assets' and financial solidity

Among the available variety, three asset and financial indicators have been chosen: the debt/equity ratio, calculated as the ratio of financial debt, both at medium / long and short-term, to net worth; the index of financial stability, that is the ratio of reliable finance (net worth plus medium /long-term liabilities) to total assets, net; sharp liquidity index, calculated as the ratio of current assets less inventories to current liabilities.

3.7 Profitability

Also for the profitability measure three indicators have been selected: ROS%, return on sales, as a percentage of operating income compared to net sales; RONA%, the profitability of the production equipment, as a percentage of operating income compared to average total assets for the year, net of current liabilities; ROE%, return on equity, as a percentage of net profit compared to average net worth.

4.4 CHANGES IN THE ITALIAN INDUSTRIAL COMPANIES 1992-2013

4.1 Period 2010-2013

The same processes of change already reported for the previous decade continued in the years 2010-13 and have reached higher amplitude. In fact:

- The turnover, that in the previous ten years had an overall increase of 29 percent at current prices, in the last four years rose by 12 percent;

- the share of net export sales, that had already risen from 30 percent in 2000 to 34 percent in 2009, increased further to 39 percent in 2013;

- the incidence of added value on net revenues, that had declined from 22 percent in 2000 to 18 percent in 2009, lowered further to 15 percent in 2013;

- the cash-flow was always positive in each of the four years from 2010 to 2013, cumulating in the four years the amount of almost € 8 billion;

- the useful life of PPE, that was extended from 16 years in 2000 to 26 in 2009, reached 29 years in 2013;

- PPE, that were 10 years old in 2000 and 16 in 2009, aged further approaching 19 years in 2013;

- the labour productivity, measured at current prices, diminished from 103k Euro in 2007 to 93k Euro in 2013, despite the number of employees over the period had an overall decrease of 2.4 percent. In just six years, between 2002 and 2007, the labour productivity had increased by as much as 31 percent. This latter finding is consistent with what has been observed in general for Italian companies by Brandolini and Bugamelli (ed, 2009). They explained it by the increase in the quality of labour, improved by higher average education of workers;

- the profitability from operations, despite decreasing, continued to be acceptable. For example, the profitability of sales (ROS), which was equal to +5.2 percent in 2000 and +4.3 percent in 2009, amounted to +3.1 percent in 2013. The profitability of the net worth (ROE) amounted to +4.8 percent in 2001 and +4.9 percent in 2009, then it stabilized at +4.6 percent in 2013;

- the financial structure has been perfectly preserved, with all parameters stable or improved, thanks to the surplus of the cumulative cash-flow. For example, the debt/equity ratio remained stable at 0.8, the index of financial stability was equal to 1.2, the sharp liquidity index to 0.8.

At the end of 2013, the system of industrial companies appeared therefore with an increased export capacity, efficiently managed, profitable, with an excellent financial structure but dramatically de-industrialized, with very old production equipment and declining labour productivity. In fact:

- the 15 percent incidence of the added value on sales is equal to that historically considered to be specific of the commercial distribution sector, that by definition should have instead a lower added value respect to the industry. Despite the process of decentralization of business functions aimed at reducing fixed costs continued during the period along with a loss of industrial weight, the level of 15 percent reached looks more like a dangerous anorexia;

- in the four years 2010-2013 the dividends distributed were higher than the net profit for the year. This means that shareholders, probably pessimistic about the future, began to withdraw the reserves. Depreciation was meager, presumably because most of the production equipment has already been fully depreciated. Thus the incoming cash-flow was low. The fact mentioned above that the cumulative net cash-flow was positive and amounted to 8 billion, makes it clear how low was the outgoing flow, i.e. the capex, not only in tangible, but also in intangible assets;

- fixed assets depreciated in 29 years, being 19 years old at the present, mean that companies continue to take advantage of the equipment that should have been instead scrapped, resulting in lower technical yields, worse product quality, greater risks to the environment and safety.

Regarding the timing of the changes, it emerges that in the period 2000-2009 the changes were particularly pronounced between 2003 and 2004; but after 2009 the deterioration continued at more or less uniform annual rates. This situation of relative inactivity involved many industrialized countries and may have pushed entrepreneurs, other conditions being equal, to postpone their investment decisions in awaiting of better times (Carnazza 2014).

Some scholars (Accetturo et al., 2013) have explained that:

- part of the Italian companies has started an intense process of restructuring in 2006-07;
- the common factor was the investment in production activities at any level;
- the added value of goods tended to be generated always less in production itself, and more in those activities that preceded, accompanied and followed the production, in many ways comparable to services. These activities included, the pure technological features, design, marketing, product sales and after-sales services.

The changes between 2003 and 2004, however, were placed in the aftermath of the introduction of the Euro. This could justify the interpretation that the de-industrialization in the course has grown as a pessimistic reaction to the single European currency and the rigidity of the exchange rate.

4.2 1992-1999 period

The analysis carried out for the period 1992-1999 showed a substantial stability in the above reported trends, so that it prevented from predicting the subsequent process of de-industrialization. An important parameter made an exception, the cumulative net cash-flow. In fact, in those eight years:

- the ratio of added value to net revenues slightly decreased, from 27 to 24 percent;
- the useful life slightly increased from 17 to 18 years, the age from 10 to 12 years;
- operating performance was stationary or slightly improved: the days of inventory decreased from 104 to 97 days, the days sales outstanding from 97 to 86 days, and payable outstanding from 92 to 87 days;
- the financial structure was stable and excellent in every aspect, the level of financial debt, financial stability, liquidity;
- labour productivity increased by as much as 43 percent compared to the reduction in staff of 15 percent. Thus, in the 90s the corporate restructurings and reorganizations were aimed at increasing productivity, and up to five years after had also benefited of better employee education, as we have seen. However from 2010 and onwards both number of employees and productivity has been reduced, as a consequence of the crisis;

- operating profitability had improved: ROS from +3.4 to +5.3 percent; RONA from +4.7 to +7.4 percent; ROE from -10.6 to +12.5 percent;

- the cumulative cash-flow was kept moderately negative between 1993 and 1998, which means that the system of industrial companies had a development process, although modest. Instead, in 1999 the situation was reversed and since then until 2013, there has always been a surplus of un-invested cash, resulting in a gradual process of industrial decline (Figure 1).

It is important to emphasize that the reversal in the cumulated cash-flow occurred shortly before the introduction of the single European currency (1999) and, therefore, long time before it came into actual circulation (2002). In truth it is interesting to observe another somewhat anomalous fact.

In 1992 all industrial companies together for each 100 Euro of risk capital, had 60 Euro of outstanding debt in the medium to long term, i.e. 60 Euro of loan to be repaid, while in 1998 this number was 37. This means that in the mentioned period the loan shares repaid were much higher than the new borrowings. It is useful to recall that in 1993 the launch of the universal bank though TUB (revised banking law) overcame the division between commercial banks, that finance the short term debt, and industrial lenders that finance the medium-long term debt. And that between 1994 and 1999, the commercial banks incorporated five industrial lenders (BNL Credito Industriale in 1994, Icipu in 1995, Credito Industriale Sardo in 1997, Imi in 1998, Isveimer in 1999). This legal and organizational arrangements may have contributed to reduced borrowings and consequently reduced investments.

On the basis of the real options theory, according to Carnazza and Travaglini (2001), it was the nature of capital irreversibility and the uncertainty of the future to determine the changes in investment expenditures in 1998.

5 CHANGES IN ITALIAN COMPANIES UNDER FOREIGN CONTROL

The Italian subsidiaries of multinational groups have shown over the past decade qualitatively similar and quantitatively different changes respect to what has been seen for the aggregate of industrial companies, and quite different compared to the aggregate of industrial multinationals in the world. In fact, in the year 2013, the Italian companies under foreign control:

- have increased the turnover (+22 percent) respect to the 2004 and exported it (28 percent of the total sales), these numbers being smaller than those of industrial companies (respectively +36 percent and 39 percent). The +22 percent increase in turnover is also much lower than that of multinational companies worldwide (more than 50 percent);

- have a slightly better industrial content, with a ratio of added value to net revenues equal to 18 percent compared with 15 percent of industrial companies;

- have reduced staff by 8 percent. Their labour productivity in 2013 amounted to 95k Euro, being identical to that of 2004 at current prices. Companies have on average 750 employees each;

- have depreciated PPE in fewer years. In fact, they show a shorter useful life of fixed assets than industrial companies (22 versus 29 years), but it is the longest among the multinational companies around the world (15 years). They have renewed their PPE in a way that it is less old (14 years) than that of industrial companies (19 years), but older than that of multinational companies (8 years);

- have accumulated a strongly positive cash-flow at the end of 2013, amounting to as much as 17 billion Euro, a sign that they are also in a strong industrial decline;

- have still a very good operating performance ;

- have an equally good financial position and profitability.

These facts conduct to objective evidence which disproves the common believes and confirms new concerns. On the one hand, it is not true that the Italian branches of multinational companies have a purely commercial activity, perhaps aimed at the packaging and distribution of products imported from other multinational companies they belong to.

Obviously they export less, possibly because outside Italy other group subsidiaries operate. Nor is it true that they have to follow the transfer pricing policy of the parent company aimed at closing the balance sheet at the breakeven, to minimize taxes to be paid in a country like Italy, notoriously oppressed by a very high tax burden. Nor is it true that they are made to be overwhelmed with debt. On the other hand, however, the levels reached by de-industrialization, aging of the production equipment and the decline in labour productivity together with the decrease in number of employees cause an alarming concern similar to the one emerged for the industrial companies. Therefore, considering the behavior and strategy, these companies can be placed in an intermediate position between the Italian industrial companies and multinational companies worldwide.

6 CHANGES IN THE COMPANIES CONTROLLED BY LARGE ITALIAN GROUPS 2004-13

It has been previously shown (Gallo 2009) that in Italy large companies were born some decades before the other companies. They export a large share of their sales. In addition, beyond what is commonly believed, the large companies remain numerous and continue to represent 15 percent of all European companies. In fact, although some of the most famous among them frequently exit the international rankings, others rise from the category of medium-sized to large. The companies examined in this aggregate have increased the turnover by little bit less than 40 percent, therefore a lot, a higher jump than the other aggregates did, especially in 2008. However they cut their workforce by 8 percent with a loss of employment concentrated in the four years 2008-11. Presumably, the economic downturn has affected these companies more than any other previous reorganization process aimed at recovering labour productivity. The latter has fallen from 119k Euro in 2004 to 113k Euro in 2013.

There is a confirmation of this conclusion. The added value increased until the end of 2010, but less than net sales. Instead, from 2011 to 2013 the added value even declined by 12 percent, so that its impact on the value of sales has fallen from 23 percent of 2010 to 18 of 2013.

The share of export sales had increased by ten points from 2004 to 2011, reaching a third of sales, then it stayed constant in the last two years.

It has been shown that in 2013 the useful life of the industrial companies PPE amounted to 29 years. In the case of large group companies, thus, this data rises to 38 years. It is reasonable to presume a couple of reasons: a) large groups operate mainly in the basic industry, where the technological dynamics is lower and therefore the companies feel confident to pay-out their initial capital expenditure over a longer span of years without running the risk of equipment obsolescence; b) large groups have almost completely depreciated technical assets, while keeping them among tangible fixed assets in the balance sheet.

In parallel, the age of production equipment in 2013 amounted to 22 years.

At the end of 2013, the cumulative net cash flow raised up to 50 billion Euro. All other parameters were normal, and perfectly stable throughout the decade, in terms of days of inventory outstanding (50), days sales outstanding (70), days payable outstanding (85), debt ratio (financial debt equal to the capital at risk), liquidity.

7 CHANGES IN THE COMPANIES OF THE SO-CALLED IV CAPITALISM

The turnover increased by a fifth in the period. In 2013, the average per company turnover was 120 million. Foreign sales had also increased by a fifth, passing from 36 to 43 percent of sales, more than any other company aggregate made. The ratio of added value to net revenues had slightly declined, from 22 to 19 percent of the sales value, keeping, however, to be higher than in any other aggregate (Figure 2). The number of employees (362k) at the end of 2013 was identical to that of 2004. On average, each of these companies has 300 employees. Labour productivity, amounting to 80k Euro in 2013, is lower than in all the other aggregates, but it is the only one to have had an increase, at current prices, by 75k Euro at the beginning of the period. In addition, labour costs per employee (50k Euro) are a little less than that of the other aggregates (around 55k Euro).

The PPE is aged (18 years of age and 27 of useful life), but less than that of both industrial companies and large groups (Figure 3). Regarding the warehouse, the days sales outstanding and days payable outstanding are at the range of three months, a physiological time.

The financial structure is excellent; it was stable during decade or even improved. The turnover increases, as the shareholders have invested more risk capital. The profitability, examined in its various aspects, has shrunk in the past decade (ROS from 6 to 4 percent, RONA from 10 to 6 percent, ROE from 10 to 5 percent), but has always stayed discreet.

The IV capitalism thus emerges as really good news in the Italian industrial landscape. These companies account for about 50-60% of the Italian manufacturing added value, considering the small companies engaged in their network. In addition, district areas, where these companies are mostly located, has been able in recent years to produce net export surplus while large companies areas have shown deficit.

8. CHANGES IN THE SMALL MANUFACTURING COMPANIES

The companies of this sample, as has been previously mentioned, are small but at the same time manufacturing. Each has sales of little less than 7 million and a staff of 31 employees.

Their added value was equal to 22 percent of net revenues in the year 2007 and so remained until to the year 2012. Therefore, in apparent contrast with their small size, these companies have an industrial content, measured by the incidence of the added value, superior to all other aggregates of industrial companies (15 percent), to the companies under foreign control (18 percent), to large groups (18 percent) and even to the IV capitalism (19 percent). Still, the labour productivity, amounting to 50k Euro, is far away, or almost half, from that of all other aggregates. But so is also the lower cost per employee, which is about 37k Euro.

In addition, the current assets (two-thirds of the total) largely prevail on fixed assets (a third). In other words, the manufacturing activity of these small companies is performed in light manufacturing activities, and the financial needs result more from the working capital than from the technical assets involved in.

The warehouse is below three months, thus the pathology is not there. Working capital consists rather primarily of trade receivables, also because the collection from customers is getting increasingly difficult. This is a serious point, a problem to solve.

Accordingly, despite the net worth (equal to one third of the total assets) is to be considered absolutely adequate, the short-term debt to banks equals one and a half times the net worth and it is hardly sustainable over the long period of time.

Trade receivables are more or less covered by onerous financial exposure.

Despite a high level of added value, the net operating margin is small and, after the borrowing costs, the profit before tax amounts to just 1.9 percent of net sales. The taxes account for as much as 1.5 percent, so that, on average, the year ends in a poor economical breakeven. The net worth consists of just one-fifth of share capital and of four-fifths of reserves. This figure reveals that the company members make plenty investments in risk capital, but maintain a certain hesitation to leave the meager profits in the company. How not to agree with them?

9 CONCLUSIONS

The analysis showed that in the period 1992-99 the Italian industrial companies kept at a solid and stable level both of the operating performance, and of the financial structure. With one exception: cumulative cash-flow. In fact, between 1993 and 1998, it was represented by slightly negative values, because the outflow was higher than inflow, demonstrating that a development process, although very modest, was present during these years. But then, in 1999, it turned positive and since then until 2013 it has always resulted as an uninvested surplus with a consecutive gradual process of industrial decline. The timing of the change of 1999 seems to be consistent with the conclusions of those who, with an application of real options theory, have attributed the changes in company spending on investment in 1998-99 to the combination of the uncertainty in future with the character of capital irreversibility. It seems to be also consistent with the indication of those who recognize in 1999 the best moment of the improved Italian economical system competitiveness in the last fifteen years. At the end of 2013, on the one hand the industrial companies benefited of the increased export capacity; operating efficiency; scarce, but still positive profitability and a good financial structure. On the other hand showed a dramatic de-industrialization process, with very old production equipment and waning labour productivity.

The analysis was also conducted for four other company aggregates. The Italian subsidiaries of foreign groups have increased their turnover, but exported it less than industrial companies; in addiction they have increased it much less than multinational worldwide companies did.

On the contrary, they have preserved a slightly better industrial content respect to the Italian industrial companies. Thus it is not true that they have a purely commercial mission, perhaps aimed at the packaging and distribution of products imported from other multinational group companies they belong to. Nor is it true that they have to follow the transfer pricing policy of the parent company aimed at minimizing the taxes to be paid in Italy.

Those companies, classified as large remain numerous because, although some of them, the most famous, exit the international rankings, the others rose from the category of medium-sized to large. Over the past decade, in general, the large companies transformed their activity from industrial to commercial. In fact, while their sales has jumped by 40 percent, from 2011 to 2013, their added value diminished a lot, and despite a staff downsizing concentrated between 2008 and 2011, the labour productivity has declined as well.

The companies of IV Capitalism in average had sales of 120 million each in 2013, had exported a little less than half that number, had lost industrial content less than any other company aggregate. The level of employment at the end of 2013 was identical to that of 2004. On average, each of these companies has 300 employees. The labour productivity is lower than that of other companies', but it is the only one to have had an increase in the last ten years. Their production equipment is aged less than that of other companies. The management is efficient. The financial structure is excellent. With the growing turnover, company shareholders have invested more risk capital. The profitability, declined in its various aspects, has shrunk in the past decade, but has always stayed discreet. These companies are the really good news in the Italian current industrial landscape.

The small manufacturing companies had sales of little less than 7 million each with a staff of 31 employees in 2012. In apparent contrast with the small size of the company, these companies have a relative industrial content superior to all other aggregates. The labour productivity is low, but so is also the cost of labour per employee. The current assets largely exceed the fixed assets. In other words, the manufacturing activity of these small companies is performed in light production cycles, and the financial needs result more from the working capital than from the technical assets of production cycle.

Despite the net worth is absolutely adequate, the short-term debt to banks is high and it is hardly sustainable over the long period of time. In spite of an excellent level of added value, the margins are small. The net worth consists of one-fifth of share capital and of four-fifths of reserves, possibly because company members maintain a certain hesitation to leave the meager accumulated profits in the company.

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