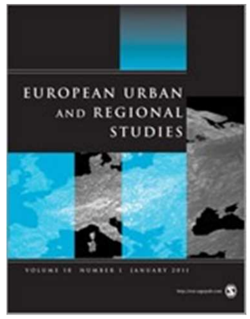

Italian Banks and Business Services as Knowledge Pipelines for SMEs: Examples from Central and Eastern Europe

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Abstract:	There are few analyses available of the role played by finance and business consultancies in post-socialist economic geographies and even fewer on the internationalization of small and medium enterprises (SMEs). Both issues are addressed in this paper with a focus on Italian banks and business services as well as their relationship to SME outsourcing in Central and Eastern Europe. The basic premise of this paper is that a relationship exists between the internationalization of banks, services, and SMEs when analyzed within the framework of the Uppsala Internationalization Process Model. Specifically, banks and services allow the mobilization of resources forming knowledge pipelines between Italian firms and Central and Eastern European regional economies.

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Abstract
There are few analyses available of the role played by finance and business consultancies in post-socialist economic geographies and even fewer on the internationalization of small and medium enterprises (SMEs). Both issues are addressed in this paper with a focus on Italian banks and business services as well as their relationship to SME outsourcing in Central and Eastern Europe. The basic premise of this paper is that a relationship exists between the internationalization of banks, services, and SMEs when analyzed within the framework of the Uppsala Internationalization Process Model. Specifically, banks and services allow the mobilization of resources forming knowledge pipelines between Italian firms and Central and Eastern European regional economies.

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Introduction

The literature on postsocialist transformation has highlighted the central role that foreign direct investments (FDIs) has played in the restructuring of Central and Eastern European firms (Bandelj, 2008; Broadman, 2006; Pavlinek, 2008; Pickles et al., 2006; Smith et al., 2008). Recent work on the global financial crisis has also shown that the financial sector has become overly dependent on Western European sources of credit (Smith and Swain 2010, Myant and Drahokoupil 2012). How did such a ‘fragile’ development model come into being during the years of transition preceding the crisis? With very few exceptions (Kamaras, 2001), there are no systematic analyses of the relationships between Western manufacturers, financial and service institutions in Central and Eastern Europe. In order to investigate the nexus between them, this paper therefore analyzes foreign investment and outsourcing by a number of Italian financial institutions and manufacturing firms. The paper focuses on one major banking group (Unicredit), a smaller banking group (Italo Romena), one consortium of consultancies (IC & Partners), and a collection of small and medium sized (SMEs) textile and clothing producers. These businesses established operations in several regions of Central and Eastern Europe, and the author conducted interviews in three of them: Bratislava (Slovakia), Timis County and Bucharest (Romania), and Sofia (Bulgaria). As banks and consultancies have common organizational structures, visions and strategic approaches throughout Central and Eastern Europe, the result is a macroregional analysis.

The paper addresses the following questions: a) What were the investment strategies of Italian banks and business services in the region? b) How did conditions in Italy and in Central and Eastern Europe affect those strategies? and c) What kind of relationships did they establish with Italian SMEs operating in the region? In answering these questions, the paper argues that banks and service firms act as knowledge pipelines between Italian SMEs and the local communities hosting them. In practice, Unicredit, Italo Romena, and IC & Partners play the role of cultural mediators, providing manufacturers with information about local norms and customs in addition tofacilitating labor relations and business opportunities.

Theoretically, the paper contributes to the literature on the internationalization of SMEs. Specifically, it adapts the Uppsala Internationalization Process Model (Johanson and Vahlne, 1977; Luostarinen, 1980) to explain the connections between some Italian manufacturers, business services and banks. It also contributes to the debate on clusters and innovation systems in which scholars have examined whether or not Italian firms abroad reproduce the thick web of relationships typical of Italian industrial districts, and to what extent Italian firms transfer knowledge and professional culture abroad (Chiarvesio et al., 2006b; Coro and Volpe, 2006; Dunford, 2006; Rullani, 2002; Sabel 2003). The paper takes an intermediate position on this issue: while I found no evidence of a reproduction of the district system in the three areas investigated, I also show that Unicredit, Italo Romena, IC & Partners and some manufacturers have established a loose relationship based upon the provision of Italian language business services and knowledge of place that allow resource-scarce SMEs to thrive in foreign environments.

The paper is organized as follows: The following section focuses on issues specific to the internationalization of Italian SMEs within the framework of clusters and innovation systems, as well as the relatively recent internationalization of retail banks. The second section describes the reasons why the postsocialist environment attracted Unicredit and Italo Romena to Central and Eastern Europe, and the reasons why conditions in Italy led to the internationalization of banks in the 1990s. The third section analyzes how the manufacturing firms involved in this research have intensified their commitment to Central and Eastern Europe since the 1990s. The fourth section discusses how the relationships between banks and manufacturers have evolved since 2000 and how they are explained by an adaptation of the Uppsala Model. The final section describes the internationalization of a large consortium of business consultancies known as IC & Partners, and its focus on providing place-specific knowledge to Italian firms. Together, these consultancies and banks provide Italian firms with cultural services that allow knowledge spillovers between these firms and Central and Eastern European regional economies.

The research is based on eighty-five semi-structured interviews with Italian manufacturers, local partners, Italian banks, government officials at national, regional, and local levels, and trade unions which were undertaken between 2005 and 2006 in Slovakia, Romania, Bulgaria and in the Western part of Ukraine.[1] Using a case study method (Yin, 2003), the paper uses part of this research: Western Ukraine is excluded because during the research period it was at the margins of Italian outsourcing. Only a handful of Italian manufacturers were working there, there was no major Italian banking group operating in Western Ukraine, and there was only one independent business consultant (for more information on the geography of Italian outsourcing, see Sellar, 2009). The author also collected information at IC & Partners' headquarters in Italy, and at its branches in Bratislava, Sofia, Timisoara and Bucharest. Interviews with Unicredit were conducted in Bratislava and Sofia, while Bank 'Italo Romena' was interviewed in Timisoara. In Romania, Slovakia and Bulgaria, the author interviewed officials at 40 textile and clothing firms (thirty Italian-owned firms and ten local suppliers of Italian firms). Information on events after 2006 is derived from Unicredit and IC & Partners' websites. Open-ended questions focused on how banks and services decided to invest in Eastern Europe, the changes in their customer base, and how a sample of Italian firms made decisions about financing and the use of services.

The Internationalization of SMEs and Banks

Following the seminal work of Raymond Vernon, transnational firms have been portrayed in the literature as large and powerful (Vernon, 1971, 1972, 1985, 1998) with sufficient resources to access any information needed. They could invest nearly anywhere in the world and would have sufficient political influence to access the highest levels of any government administration. However, is it possible to conceptualize such enterprises in a different way? Gibson-Graham (1996, 2003), for example, portrayed the capitalist system as contested and limited. In doing so, they laid the theoretical foundation for "alternative social representations, in which non-capitalist economic practices proliferated, gender identities were renegotiated, and political subjects actively resisted industrial restructuring, thereby influencing its course" (1996, viii). Extending this view to transnational firms, Vernon's assumption is still valid for large transnational firms, but it does not apply to SMEs. Indeed, the latter often lack resources, have limited investment capabilities, and have difficulty accessing government administrations. Equally, even though one cannot construe giants like Exxon or Microsoft as small and weak, there is empirical evidence that at least some multinational firms are not giants capable of influencing governments. For example, Aspelund and Butsko (2010), Calof and Viviers (1995), Kalogeresis and Labrianidis (2010a, 2010b), and Welch and Loustarinen (1988) have described case studies of successful internationalization of SMEs in Norway, South Africa, Greece, and the UK. For those SMEs, issues which many large corporations take for granted may become serious problems. For example, how do firms with sparse human and financial resources deal with geographically distant headquarters, unfamiliar language and business practices, and unknown legislation? Nina Bandelj describes foreign direct investment in Central and Eastern Europe as the product of "social structures, power and culture, and negotiated by practical actors" (2008: 218). Taking Bandelj's argument further, large corporations occupy a position of power when they negotiate their inclusion into the normative and institutional framework of Central and Eastern European states; SMEs do not.

Notwithstanding their inherent weaknesses, in some cases SMEs have been at the forefront of internationalization. For example, Kalogeresis and Labrianidis demonstrated that small Greek firms pioneered investments in the Balkans in the 1990s (2010b). Italy also provides an excellent case study of the internationalization of SMEs in Central and Eastern Europe because the Italian system of SMEs, the aptly named 'industrial districts' or 'Third Italy', is well known (Becattini, 1979; Locke, 1995; Piore and Sabel, 1984; Storper, 1997) and Central and Eastern Europe is the most important investment location for several key Italian industrial districts (Coro and Volpe, 2006). Such districts are "dense concentrations of interdependent small and medium enterprises in a single sector and in auxiliary industries and services" (Dunford, 2006: 27; Marshall, 1919). In the 1980s and 1990s, district firms supplied locally; in the mid 1990s and early 2000s, they expanded abroad, establishing new contracting relations and/or foreign direct investments (Chiarvesio and Micelli, 2006; Corò and Micelli, 2006; Di Maria and Micelli, 2006; Rabellotti, 2001). Some firms were so successful in their foreign operations that both Italy's academic and popular press defined them as *multinazionali tascabili* — 'pocket multinationals' (Bonomi, 1997).

Studies on Italian industrial districts are part of an international literature that focuses on worldwide regional economies (Marshall, 1919; Martin and Sunley, 2003; Markusen, 1996; Porter, 1990; Scott and Storper, 1987). This literature partially pinpoints innovation and knowledge to explain the success of clusters of firms. Revamping and deepening Schumpeter's interest in innovation (1942), since the late 1980s the literature has highlighted the progressively beneficial cycles of development among research institutions, companies, and infrastructures (Perrin, 1993). Innovation is considered a source of success in both high tech regions such as Silicon Valley and Route 128 in the USA (Markusen, 1986; Saxenian, 1994), and traditional sectors such as the mechanical or textile districts in Italy (Becattini, 2003; Brusco, 1986; Rabellotti et al., 2009). The literature on regional economies identifies two main sources of knowledge and innovation. The first is the industrial atmosphere or 'local buzz' (Marshall, 1919; Storper, 1997) in which face-to-face interactions and shared culture generate specific professional cultures and developmental trajectories within regions. Some claim that the region is not the only source of innovation but rather that innovation requires sustained social relationships and social capital, or the "social structure that enables social actions" (Dolfsma, 2008:19; Bourdieu, 1986; Granovetter and Swedberg, 2001; Putnam et al., 1993). Using the concept of social capital, scholars have shown that innovation systems depend on social structures which, in turn, encompass nations, regions, and sectors (Cooke et al., 2004; Freeman, 1987; Malerba, 2004; Nelson, 1993). A second source of innovation is the use of 'knowledge pipelines' through which firms acquire knowledge and process innovation through sustained relationships with partners or suppliers located in distant areas (Gertler, 2008; Malmberg, 2003; Moodysson, 2008; Powell and Grodal 2005).

According to Italian scholars, ‘pocket multinationals’ acted as knowledge pipelines and brought the professional culture of Italian districts to foreign locations (Chairvesio et al., 2006; Coro and Volpe, 2006). In doing so, they had to acquire sufficient local knowledge to establish good partnerships, provided in some cases by Italian banks and services. In turn, following a worldwide trend of internationalization in the banking sector, banks acquired knowledge about Central and Eastern Europe through their significant investment in the region. In the 1980s, Tschoegl argued that since proprietary knowledge is difficult to protect from imitation, “there is no reason to expect foreign banks to have any particular advantage over domestic banks familiar with their local environment” (Tschoegl, 1987: 67; see also Guillen and Tschoegl, 2000). In spite of this argument, by the late 1990s large banking groups began to enter the general commercial and mass retail markets of developing countries at an increasing pace. It has been a global process, but one that occurred earlier and with stronger intensity in Western Europe than in North America. Indeed, the European Monetary Union (EMU) has led to the further consolidation of the European banking system and mergers of pre-existing groups (De Paula, 2002; Padoa-Schioppa, 1999). At the same time, normative and economic changes at the global level have facilitated acquisitions by European banks outside the EMU. For example, Brazil has allowed the “gradual flexibilisation of legal restrictions with respect to the presence of foreign banks" (De Paula, 2002: 59).

The following sections analyze the interaction and overlapping geographies of internationalization in relation to Unicredit, Italo Romena, IC & Partners, and selected manufacturing firms. The Uppsala Internationalization Process Model is used in this analysis to explain the emergence of a systemic, but imperfect and limited, relationship among these actors. In the Uppsala (or Stage) Model, internationalization has a sequential nature, from 'lighter' to 'deeper' degrees of commitment abroad (Johanson and Vahlne, 1977; Luostarinen, 1980). It is an experience/knowledge-based model: the more experience firms gain abroad, the more they will commit. Davidson (1980) identified two forms of intensification of commitment. One is 'spatial', i.e. firms will invest first in culturally and geographically close countries and once sufficiently experienced, they will move further afield. The other concerns the amount of capital and human resources deployed abroad; progressively moving from exporting, to distribution, to joint venture manufacturing, and finally to wholly owned manufacturing. Summarily, the Uppsala Model identifies four stages of internationalization, repeated in two phases of international expansion (see Table 1). In the first phase, firms first begin exporting to, or sourcing from, countries culturally and geographically close to their headquarters (stage one). In the second stage, they establish permanent distribution networks. Together, these two stages correspond to 'light' forms of commitment as they do not entail large investment or technology transfer. Stages three (joint-venture manufacturing) and four (wholly owned manufacturing) are considered strong forms of commitment as firms are required to use larger amount of resources and take greater risks. In the second phase of the model the same sequence is repeated in culturally and geographically distant places. It should be noted, however, that firms do not necessarily complete all four stages of phase one before starting phase two.

In developing the model, Barkema *et al.* (1996) argued that the progressive acquisition of information plays a key role in shifting from one stage to the next as it reduces uncertainty, thereby enabling firms to make better evaluations of future expansion potential. Similarly, Henisz and Delios (2001) argued that the accumulation of international experience reduces the barriers to skills and knowledge, thus furthering international expansion. They critiqued and expanded the Stage Model to include the influence of political hazards on corporate expansion, revealing that "firms that have followed a sequential process of international expansion exhibit a lower sensitivity to the deterring effect of political hazards". However, they also noted the existence of "a robust relationship between the extent of policy uncertainty and FDI entry rates" (Delios and Henisz, 2003: 1162). Another critical study found that the Uppsala model was more suited to explaining the behavior of small manufacturing firms rather than large firms or services, as large firms have enough resources to jump-start internationalization and service firms must locate near their customers and cannot increase or decrease their commitment (Cattani and Tschoegl, 2002). The following sections conclude that Cattani and Tschoegl are correct when a separate analysis of each Italian service provider and manufacturer is done but not when the interactions between them are considered.

The Strategy of Unicredit and Italo Romena: from Customer Following to Market Seeking, from an Italian Industrial District to the Wider World

One of the largest Italian banking groups, Unicredit, adopted an internationalization strategy that does not obviously follow the Uppsala Model. In particular, since its formation in 1998, the group has focused on a strategy involving "the acquisition of the largest bank in each Eastern European country" (interview high level manager, Bulbank: 05-22-2006). However, this section shows that the Uppsala Model acquires explanatory power when the history of the group and the conditions in one industrial district (Treviso) are taken into account.

In 1998 Cassamarca, a leading bank in Treviso merged with several local banks based in Northeastern Italy In doing so, they established Unicredito. In the same year, Unicredito merged with the state-owned, large firm oriented bank Credito Italiano, forming Unicredito Italiano. At around the same time, changes in the Italian banking regulations made foreign acquisitions easier (interview high level manager, Bulbank: 05-22-2006). Thus, in 1999 Unicredito Italiano began its acquisition campaign – becoming Unicredit Group. By 2007, it had become the largest bank in both Italy and Central and Eastern Europe. In spite of considerable problems in managing the newly acquired subsidiaries (Ambos et al., 2009), and in spite of the 2008-09 financial crisis, up until 2012 the group has maintained investments. A manager working for Bulbank (Bulgaria's largest bank, part of Unicredit Group) summarized the reasons why the group invested so heavily in postsocialist Europe:

> Those countries have … a GDP growth much higher than Western Europe, and banking activity used to be low, if not very low. Thus, there were good chances of development for our sector. … the banks we acquired through privatization were sold at reasonable prices, which allowed us to invest without going into debt and putting our Italian investors at risk . … There were episodes that reminded us of the impossibility of further growth in Italy. … [Also], in these countries there was not much interest from American or, in general, non European banks (interview high level manager, Bulbank: 05-22-2006).

In his view, the combination of the perceived lack of opportunities in the homeland, low cost acquisitions through privatization, economic growth in Central and Eastern Europe, and the absence of strong North American competitors shaped the geography of Unicredit's expansion. Figure 1 shows the Western European core of the group and the Eastern European acquisitions in the banking sector, while it omits the most recent expansion in Central Asia, and the acquisition of financial institutions in North America.

<Figure 1 here>

Unicredit is similar to other case studies reported in business literature. Spain's Banco Santander shares similar origins to Unicredit; that is, being rooted in provincial banks and demonstrating a push towards internationalization due to competitive pressure (Guillén and Tschoegl, 2008). Similar to the case of Norwegian banks, legislation in the homeland influenced the processes of internationalization (Jacobsen and Tschoegl, 1997); however, it is the particular relationship with Italian manufacturers in the context of postsocialist Europe that makes Unicredit unique. Taken together, the eastward expansion of manufacturers as well as Unicredit follows the pattern of the Uppsala Model. In so doing, they built knowledge pipelines between Italy and Central and Eastern Europe.

Geoeconomic circumstances during the 1990s shaped the behavior of Unicredit and manufacturers. First of all, postsocialist transformation created opportunities that were attractive to Italian firms. Both Unicredit and Italian manufacturers focused their overseas investments in Central and Eastern Europe. Indeed, half of all employment generated by Italian manufacturers abroad is in Central and Eastern Europe (Coro and Volpe, 2006). Such geographical overlap between manufacturing and finance is uncommon (Buckley et al., 1992; Hellman, 1996), but not unique. Particularly, Kamaras (2001) and Kalogeresis and Labrianidis (2010b) suggest a similar pattern for Greek manufacturers and banks in the Balkans. In both cases, banks followed their customers and found a welcoming environment thanks to the aggressive promotion of foreign investment by Central and Eastern European governments (Bandelj, 2008).

Second, conditions within Italy in the 1990s pushed Italian firms to invest abroad. Already in the 1980s Piore and Sabel (1984) had noted that the close connection between manufacturers, services, and banks, being cemented by local institutions had been one of the key factors behind the success of small Italian firms. Thus, not surprisingly, many of the regional banks that in 1998 merged into Unicredit came from the Northeast; the area with the highest level of internationalization in Italy (Cainelli and Zoboli, 2004; ICE, 2006; Rabellotti, 2004). Even more strikingly, one single town, -Treviso, was home to the most internationalized textile and clothing district in Italy – firms employed two people overseas for every one employee in Treviso (Corò and Volpe, 2006:15), as well as the first two local banks to invest in Central and Eastern Europe: Cassamarca Trevigiana (now part of Unicredit) and Banca Italo Romena.

In Treviso, internationalization has characterized the whole district across both the manufacturing and the financial sectors due to the close relationship between economic actors. When, as a group, manufacturers began to increase their commitment in Central and Eastern Europe, the demand for financial support began to change. Banks in Treviso initially reacted with suspicion to requests for loans for international projects. However, ultimately the tradition of cooperation between local banks and manufacturers prevailed thereby transforming the whole district. In describing the banking sector's initial resistance to financing the international operations of local firms, a former manager of Cassamarca Trevigiana stated:

> If a customer came to my bank in Treviso asking for money to go to do business in Slovakia, it was very difficult to grant him credit. It sounded like a dangerous adventure (interview high level manager, Unibanka: 06-28-2006).

Over time, however, the bottom-up pressure of long term corporate customers grew. Business owners increasingly complained that they could not be competitive against other foreign investors because "other foreigners had support from their governments and banks, while they were alone" (interview high level manager, Unibanka: 06-28-2006). Finally, Cassamarca decided to acknowledge this customer input, and in 1996 established a joint venture in Slovakia, consisting of an exchange of shares with the Slovak bank, Polnobanka. The goal of the joint-venture was "to know this market and help commercial relations between our customers and Polnobanka customers" (interview high level manager, Unibanka: 06-28-2006). In 2000, Unicredit acquired Polnobanka, and renamed it Unibanka.

Another leading bank from Treviso, Veneto Banca, internationalized by following a pattern similar to Cassamarca. In both cases, local manufacturers pushed their banks to establish some kind of presence in Central and Eastern Europe. Veneto Banca targeted Romania, the country with the largest presence of firms from the Veneto region. It opted for a stronger involvement than Cassamarca and in the late 1990s acquired a pre-existing Italian-Romanian joint venture, Banca Italo Romena. It was an attempt to deepen the existing networks. In the 1980s, during the socialist era, the Commercial Bank of Romania and three Italian banks formed Banca Italo Romena to bolster the already strong commercial ties between the two countries. Again, bottom-up pressure from corporate clients played a key role in influencing the acquisition, because:

> Almost the entire body of subcontractors from the Veneto region moved to Romania to produce here …. Veneto Banca perceived the need of entrepreneurs from Veneto to have a bank that could act as contact point between Veneto and Romania. Thus, the acquisition of Italo Romena is essentially due to the outsourcing from Italian entrepreneurs (interview country manager, Banca Italo Romena: 04-07-06).

In this interview excerpt, the Italo Romena country manager draws direct connections between the changing geography of manufacturing in Treviso and the surrounding areas and the decision to invest in Romania. In the 1990s, the large number of investments in Central and Eastern Europe created demand for financial support that pushed Italo Romena and Cassamarca to invest in the region. Thus, their customer-following investment strategy was due to manufacturers which, as a group, affirmed the patterns predicted by the Uppsala Model. However, between 2000 and 2010, the strategies of both banks changed. Cassamarca "was very strong in

Northeastern Italy, but not strong enough to support [large] investments abroad" (interview high level manager, Polnobanka: 06-28-2006). Rooted in a close-knit and relatively small community, the bank was equipped to listen to the demands of local businesses. However, as soon as Cassamarca and other banks merged into Unicredit, the group adopted a large scale market seeking strategy, independent from Italian manufacturers. Even the smaller Italo Romena shifted its focus away from Italian customers:

> We came at the end of the 1990s. We have been here for six years already, and we had great satisfaction. Essentially, we began following Italian entrepreneurs, and year by year our customers became more and more heterogeneous (interview country manager, Banca Italo Romena: 04-07-06).

Therefore, in spite of their initial role in pushing the internationalization of Italian banks, Italian entrepreneurs soon became a minority among the customers of Unicredit and Italo Romena, among others.

The strategy of manufacturers: from 'light' to 'deep' commitment to Central and Eastern Europe

The existing literature on economic change in Italy suggests that the Uppsala Model is applicable beyond the firm level and that it can be extended to sector and district levels. For example, analyzing the textile and clothing industry, Dunford explained the mechanisms underlying an intensification of FDI in the last decade: a handful of service firms located in Milan led the entire industrial sector and they consciously induced outsourcing as a cost containment strategy (2006: 56). Manufacturers responded with a progressive intensification of their commitment abroad, from subcontracting to foreign investment. Italian scholars have made similar arguments concerning the internationalization of single industrial districts, as well as the SME sector as a whole. For example, a report from the Italian Trade Commission (ICE) showed that there is a correlation between firms' internationalization and industrial districts, and that the highest degree of internationalization is found in some of the districts in Northeastern Italy (ICE, 2006a). Other studies have identified a specific time frame for the internationalization of the Italian economy. For example, Federico showed that Italian firms began to relocate abroad in the mid 1980s, following a pattern consistent with the Uppsala Model, first establishing sub contracting relations, and then pursuing acquisitions (Federico, 2004; see also Graziani, 1998). Sellar noted that within two decades Italians "became permanent residents of Slovakia and Romania in order to control their investments"[2] and began to consider those countries their homes (2009: 338). In doing so, investors increased their stakes in host countries. Italians formed associations and chambers of commerce to lobby local governments (Sellar, 2009), especially in Timisoara, Romania, where they became an elite group that contributed to the postsocialist transformation of the city (Sellar, 2011).

Firms interviewed in this research clearly followed the pattern identified by Federico (2004) and by Sellar (2009). Not only did firms intensify their commitment over time, but their geographical distribution also changed according to the Uppsala Model. Western Romania, geographically the closest to Italy and speaking a romance language related to Italian, is still to date the area with the largest concentration of Italian FDI (Sellar, 2011). According to interviewees, the quality of investment has changed significantly over time. An entrepreneur in the customs and logistics sector, working in Romania since 1994, described the change mercilessly:

> Italians came in large numbers, in waves. The first who came were attracted purely by cheap labor. … They had no margins in Italy anymore, so they came here. The good times didn't last. Very few remain of those who came in 1994. Those who had a counterpart, a parent company in Italy survived; all the others are gone. So, there were those desperately hoping to solve their problems here, and then there were adventurers hoping to come here with a few coins and buy a palace. I do not have a good vision of our presence in Romania, because as usual, we were dispersed, with no direction, with no support from institutions (interview Italian entrepreneur, anonymous, Timisoara: 04-10-2006).

In sum, this interviewee argues that there has been a shift from a migration of entrepreneurs who came to Romania as a last resort to avoid bankruptcy, to foreign investment by more established firms. Accordingly, the other firms interviewed for this research were mostly foreign subsidiaries of an Italian company, all established in the late 1990s or later. There were only two cases of diasphoric entrepreneurs (Kamaras, 2001). One of them established Frara in 2005, after leaving the management of a foreign company (interview entrepreneur, Frara Ricami: 04-11-2006). Frara Ricami is important because it shows one of the ways in which Italian entrepreneurs in the apparel sector intensified their activity in Romania. After a sufficient number of producers were established, a market opportunity emerged for firms that provided Italian speaking, high tech services for apparel producers. Frara Ricami uses laser cutters to provide a specialized product previously unavailable in Romania. Similarly, Intercolor is a large professional washing and dyeing service firm, active in Italy since 1987, that decided to establish a factory in Romania in 1999. Intercolor followed its main customer (a jeans producer), and established a facility near Timisoara with the help of an expatriate entrepreneur (interview entrepreneur, Intercolor: 04-11-2006). The other firms interviewed followed a more traditional form of intensification. For example, after several years of subcontracting to Romanian producers, a company called CHP established a small logistics center to coordinate its operations more effectively and to provide technical support to their Romanian subcontractors (interview entrepreneur, CHP: 04-12-2006). The other firms interviewed began working with Romanian subcontractors, and later established facilities in Romania to enhance their control over the production process. All these firms grew rapidly in terms of both output and employment, thanks to the low labor costs in Romania. In some cases, firms that employed twenty or thirty workers in Italy could employ several hundred in Romania for the same cost (interview entrepreneur, anonymous, Romania: 04-14-2006).

Firms interviewed in Slovakia followed a very similar pattern to those in Romania, but with a smaller number of firms involved. The author therefore found no evidence of Italian firms similar to Frara or Intercolor, because there were not enough Italian producers in Slovakia to support them. However, Italian firms in Slovakia grew rapidly in terms of employment, output, and the quality of product. The firm Twista, for example, located in Eastern Slovakia, is part of a large Italian group that at the time of the interview had production sites in both Italy and Slovakia. This firm:

> officially began manufacturing in Slovakia on February 15, 1999, with twenty-five workers producing about 15,000 kilograms of yarn per month; now we have 270 workers producing a half million kilograms per month. The trend is still growing (interview entrepreneur, Twista: 06-28-2006).

Compared with Romania and Slovakia, Italian investments in Bulgaria were, on average, larger and came to the country later. Two conditions attracted them: new, pro-business laws following a financial crisis in 1997 and the acquisition of Bulgaria's largest bank by Unicredit (interview Chief Economic Officer, Italian Embassy in Bulgaria: 11-04-2005). In the textile sector, one large company, Miroglio, constitutes the largest share of Italian investment. This company followed quite closely the pattern predicted in the Uppsala Model in that it had already established a small company in Bulgaria in the 1980s, a logistics firm that coordinated the work of local subcontractors. This company was crucial for future investment, because, in the words of Miroglio's country manager:

> In fifteen years of activity of this company, we got to know normative, geographical, even personal aspects of Bulgaria. We established a good number of personal relationships and contacts that turned out to be important when we decided to invest (interview country manager, Miroglio: 05-07-2006).

Miroglio owned similar logistics firms in other countries as well – including Romania – but in the end they chose Bulgaria for expansion because of the political situation after the crisis in

1997:

> The decision to invest was taken in late 1997. It had been an extremely important year for Bulgaria; in my opinion it was the year in which the new Bulgaria was founded. In 1997 IMF came. ... The political climate totally changed, and the political and institutional premises for investments were created (interview country manager, Miroglio: 05-07-2006).

After an initial investment of 45 million euros in 1998 that led to the establishment of the first factory near Sofia, Miroglio progressively added new facilities, peaking at around 200 million euros worth of investment in 2006. Later, the growth of wages in Bulgaria and the financial crisis led Miroglio to disinvest from several plants (follow up interview: 06-25-2009).

To summarize, in the 1990s, the internationalization of both banks and manufacturers originated within the culture of the industrial districts and, when analyzed together, followed the pattern of the Uppsala Model. Italian firms then intensified their investments in Bulgaria, Slovakia, and Romania as predicted by the Uppsala Model. In the early 1990s, Western Romania quickly became the preferred region for SME investment, due to a combination of cheap labor, geographical proximity with Northeastern Italy, and a language related to Italian. At the same time, Slovakia attracted a smaller number of firms due to higher wages and a different (Slavic-based) language (interview Italian entrepreneur, anonymous, Slovakia: 07-09-2006). Bulgaria – farther geographically than Romania and Slovakia, began to host significant investments later and by larger firms (interview Chief Economic Officer, Italian Embassy in Bulgaria: 11-04-2005). Banks followed suit. The smaller banks in this study had already invested in Romania and Slovakia in the 1990s and when the large Unicredit Group was constituted they reached Bulgaria in 2000. Did banks and manufacturers maintain some type of systematic relationship when banks increased their investments with large acquisitions? The following section reflects a weak relationship between Italian banks and manufacturers based upon the specific needs of SMEs to establish flows of knowledge between Italy and Central and Eastern Europe.

Relationship between Banks and Manufacturers: the Importance of 'Cultural Services'

The literature on regional economies emphasizes the need for social capital and sustained social interactions in order to produce innovation and notes that repeated interactions along global pipelines are effective in reaching that goal (Moodysson, 2008). However, José-Luis Hervas-Oliver and José Albors-Garrigos have shown that the internal capabilities of firms are crucial in accessing external knowledge (2009). In other words, firms require resources to establish the relationships they need in order to be competitive and innovative. The Italian banks interviewed in this research were attractive to Italian manufacturers because they could provide resources helpful in establishing many types of relationships in a foreign environment, from offering a staff fluent in Italian to providing a link with the Italian credit system. In doing so, banks created the preconditions necessary for effective knowledge pipelines. In practice, Italian banks provided Italian manufacturers with 'cultural' support: manufacturers received information about credit conditions, as well as information on trustworthy service providers; all in their native language. Moreover, Italian banks had the expertise and information to interpret the financial conditions of their Italian corporate customers better than non-Italian banks and were therefore able to avoid situations such as the one presented in the following statement:

> If a foreign company establishes a 'daughter' here, to evaluate the 'mother' is more important than to evaluate the daughter. However, when entrepreneurs came showing balances written in Italian, using … [a system] different from the Slovak, then you may well understand that the Slovak colleague could not understand the one sitting in front of him or her (interview high level manager, Unibanka: 06-28-2006).

Currently, 'culture' is the key service provided by Italian banks: they provide Italian manufacturers with the means to respond to “first, the language barrier; second, the different legislation, third, the different banking system" (interview high level manager, Unibanka: 06-28-2006). Unicredit has institutionalized its function of cultural support to Italian firms by establishing a department called a "New Europe Desk"[3] in each of its eastern European-controlled banks. Each New Europe Desk addresses the specific needs of the foreign (and therefore, mostly Italian) customers of the group. The head of the New Europe Desk in Bulbank, for example, described the reasons for the establishment of the desks as follows:

> [We established New Europe Desks] first, because of the link between Unicredit and local banks. Second, although we are a European level bank, Italy is our most important market. Thus it is our interest to support the internationalization of Italian companies … because often our group finances these companies' headquarters in Italy. (Interview high level manager, Bulbank: 05-22-2006).

Unicredit has kept a large percentage of the management involved in these mergers. Additionally, Unicredit's largest corporate market is still Italy. Providing support to Italian-owned firms in Central and Eastern Europe thus directly contributes to the financial health of the group's corporate customers in Italy.

However, support in establishing knowledge pipelines has not necessarily led to an exclusive relationship between Italian banks and firms. Manufacturers interviewed often chose not to work with Italian banks. According to interviewees, this is a characteristic that distinguishes Italians from other western Europeans, who tend to "live and die together with their bank" (Interview country manager, Banca Italo Romena: 04-07-06). Rather, Italians "come [abroad] by themselves, and look around for the best offer. There is no loyalty at all" (interview high level manager, Unibanka: 06-28-2006). Italian firms explore investment options without explicit agreements with their banks in Italy, and then look for financial support locally. Therefore, firms respond to the weak contracting powers of the banks by exhibiting a lack of loyalty.

The non-exclusive link between Italian banks and manufacturers is not free of conflicts. Bank managers expressed frustration with the time spent advising entrepreneurs, only to see those same entrepreneurs signing loans with their competitors:

> An Italian coming here for the first time needs everything. We tell him "look, if you want to go to a good consultant, we have five or six names, if you want to go to a notary, we have a few names too." …. Thus, Italians come first to us, we talk, discuss, help, then, clearly, they go around. They check where they can find the best conditions and the best rates (interview country manager, Italo Romena: 04-07-06).

In this interview excerpt, the Italo Romena manager highlighted not only the power of his bank to attract Italian customers, thanks to the language connection, but also the uncertain character of the relationship between banks and firms. Similarly, manufacturers perceived an existing tension within business communities even sharing the same language, especially with regard to trust; sometimes expressed in the bitter language of disillusionment:

> Obviously, an Italian entrepreneur goes to the Italian bank because he thinks he will have a more direct and familiar relationship. Oftentimes this is an illusion (interview Italian entrepreneur in Bucharest, Romania: 03-20-2006)

> [Banks] don't help us much. People talk about an 'Italian team,' of joint efforts, but these are words, not facts. Quite the opposite: here banks ask for more guarantees than in Italy, therefore they give firms a harder time (interview Italian entrepreneur in Timisoara, Romania: 04-10-2006).

Italo Romena and Unicredit played an important role in supporting the establishment of knowledge pipelines between Italian manufacturers and local business and legal environments. As a result, banks and manufacturers did not necessarily re-establish the same close-knit relationship as in Italy's industrial districts. Instead, banks have offered manufacturers a less pervasive, arms-length relationship, based on the provision of cultural services, which is not free of conflict. The following section discusses the case of IC & Partners Group, the largest Italian consultancy in Central and Eastern Europe. The case itself reveals that 1) the group reinforces a system of manufacturer support based on cultural services, 2) the causality of the Uppsala Model is in some instances reversible: i.e., according to the model, firms increase their commitment because they acquire sufficient knowledge of the foreign market; inversely, Italian firms began to demand more knowledge because they decided to increase their investments, and 3) such a system is geographically bound to Central and Eastern Europe, since postsocialist transformation offered favorable conditions to Italian firms.

The strategy of IC & Partners Group: Cultural Services as a Connection between Services and Manufacturers

Analyzing the internationalization of Finnish banks and insurance companies, Pasi Hellman demonstrated that "banks tended to move to international banking centers, whereas the internationalization patterns of insurance companies followed more closely the internationalization of manufacturing companies" (Hellman, 1996: 191). However, the geographies of IC & Partners and Unicredit are very similar (Figure 2) due to the importance of Central and Eastern Europe for Italian manufacturers as well as the relationships within Italian industrial districts. The IC & Partners group started as an association and in 2000 formed a consortium. It all started as an initiative of five chartered accountants, each owning at least one firm in Italy and one in Central and Eastern Europe. By the mid-2000s, with the exception of Central Asia, IC & Partners was active in the same countries as Unicredit.

<Figure 2 here>

From the start, the goal of IC & Partners has been to create synergies and a common brand to provide homogeneous services across the area (interview Chairman, IC & Partners Group: 10-

10-2006). The logic behind this decision was that several firms had interests in more than one Central and Eastern European country and they needed a network of chartered accountants to support them. As in the case of Italian banks, a combination of conditions within Italy and opportunities in Central and Eastern Europe shaped the choices of IC & Partners. Specifically, the average small size of Italian accountancy firms channeled their expansion toward Eastern Europe. The chairman of the IC & Partners group describes the situation as follows:

> Here, in this office, we have twelve professionals; it means we are a large firm [for the Italian standard]. The situation is very different with respect to, for example, Northern Europe. I had a partnership with a German firm with 550 chartered accountants; overall they have 2000 employees in 150 offices throughout Germany (interview Chairman, IC & Partners Group: 10-10-2006).

In this interview excerpt the chairman singles out the structural weakness of service firms in Italy in comparison with Germany. On the average much smaller than their North European counterparts, Italian accountancy and business services firms do not have the financial means to enter North European markets, where they would be obliged to compete with larger and more established local firms. The geographical proximity of Central and Eastern Europe, together with the particular conditions of the market in the early phases of the 1990s postsocialist transformation provided the low costs and low competition necessary for the internationalization of the group (interview Chairman, IC & Partners Group: 10-10-2006).

IC & Partners has a strategy somewhat similar to that of Unicredit, one centered on providing cultural services to Italian firms, although the two companies understand culture and cultural services in a slightly different way. Unicredit focuses on the provision of information (in Italian) about credit conditions and about trustworthy business services. IC & Partners adopted a broader focus, providing knowledge of spoken and unspoken rules of professional behavior. The range of services provided by IC & Partners, together with the reasons underlying its internationalization strategy, suggests that the implied causality in the Uppsala Model can be reversed. Barkema et al. (1996) and Henisz and Delios (2001) argued that the progressive accumulation of knowledge about foreign markets leads firms to further investment. On the contrary, the relationship between IC & Partners and its customers suggests that Italian firms tend to seek information after making the decision to increase commitment. Specifically, when Italian investments shifted from short term and speculative to long term and relatively stable, they had to transform subcontracting relationships into joint ventures or acquisitions. In doing so, they had to acquire new knowledge, ranging from organization of the facilities and their relationships with local labor to the legal details of the contracts. Thus, they turned to their own consultancies and tax advisors in Italy for help:

> Twelve or thirteen years ago the approach of the Italian entrepreneurs was – and mostly still is - not very organized. They go [abroad], they do business, and they face problems afterwards. This is not a complaint; this is just what it is. Some of our clients (very few at that time) went abroad to invest, and found troubles. Then, they asked us to follow and solve their problems (interview Italian chartered accountant, Boscolo & Partners Bucharest: 03-30-2006).

This unflattering excerpt highlights both the weaknesses and the strengths of the Italian system for small firms. Although many firms did not have sufficient resources to internationalize, they could indeed turn to the support networks within their own industrial districts in Italy.

The origin of IC & Partners within the environment of the Italian industrial districts clearly influenced the activity of the group. IC & Partners' members followed their customers to Central and Eastern Europe, providing services and a structure that reproduced the Italian standard. This was not simple, especially before Central and Eastern European countries became EU members and introduced new laws. For example, an IC & Partners representative in Romania described the work undertaken as follows:

> We reproduced our Italian model. We are a fully fledged '*studio dottori commercialisti*' [chartered accountancy firm] even though this professional qualification does not exist in Romanian law. Here we became '*expert contàble*' and were enrolled in the chamber of auditors. With time, we became a structure similar to the one we have in Italy (interview Italian chartered accountant, Boscolo & Partners Bucharest: 03-30-2006).

Thus, in order to provide 'Italian' services in Romania, IC & Partners' members had to combine the qualifications of two different professional categories.

Since IC & Partners targets knowledge-seeking SMEs as their main customers, it is not surprising that the group's mission statement focuses on local knowledge and cultural mediation: "IC & Partners Group has the goal of reconciling the expectations of economic operators and the reality of the markets in which they want to make their way" (IC & Partners, no date). In Slovakia, the firm EDAS (www.edas.sk) is the IC & Partners Group local member. In the vision of EDAS founder and owner, cultural mediation is at the heart of the firm's work:

> 70% of EDAS work is not to help Italian entrepreneurs build a copy of their business in Italy, but to create new entities adapted to thrive in Slovakia (interview entrepreneur, EDAS: 09-26-2005).

Examples of the cultural support provided by EDAS to Italian firms abroad are primarily aimed at "organizing the human resources in a correct way" (interview) in order to help entrepreneurs understand spoken and unspoken rules in the organization of the labor force. To do so, EDAS insists on listening to input from local people. Secondly, EDAS provides detailed information on local norms and customs, highlighting the importance of continuity with the past.

> For example, in Slovakia contracts of employment specify in detail employees' duties, while in Italy they tend to be much less detailed. … [Italian firms should] balance continuity with the past and innovation, retaining the positive aspects of the old system, re-using them in a more modern way. [EDAS suggests initiatives such as] medals for excellent employees, prizes for senior workers, feasts organized for the village, health assistance beyond what is required by law (interview entrepreneur, EDAS: 09-26-2005).

EDAS advisors highlight the relationship of Italian firms with the socialist past of the host countries: socialist legacies must be used to support capitalist production. The examples provided here of continuity with the socialist past are instrumental in gaining employee loyalty. In the EDAS owner's words, "the objective is to motivate employees, to let them share the goals of the enterprise" (interview). More precisely, Italian entrepreneurs must be able to organize the technology, structure and goals of their enterprises, while at the same time manage personnel in a way familiar to local workers in an effort to minimize any friction between the Italian management and local labor.

The structural limitations of Italian capitalism and especially the predominance of small firms, explains why the causality of the Uppsala Model can be reversed: The customers of IC & Partners did not decide to internationalize because they acquired more knowledge through their subcontracting relationships. On the contrary, the decision toward internationalization created a demand for local knowledge. Rooted in the tradition of the industrial districts in Italy, service firms like IC & Partners and banks like Unicredit and Italo Romena aided in the survival of Italian firms outside the districts. In doing so, IC & Partners attempted to reproduce the relationships it has within its districts by providing 'Italian standards' in Central and Eastern Europe. However, banks which are less dependent on Italian customers, provided cultural services but did not attempt to establish exclusive relationships with Italian firms. This peculiar relationship between Unicredit, Italo Romena, IC & Partners, and manufacturers is geographically centered in Central and Eastern Europe due to a window of opportunity opened by postsocialist transformation, which established an environment favorable to foreign investments in both the manufacturing and financial sectors. Geographical proximity with Italy also allowed small firms to invest, thereby creating a demand for cultural services as fulfilled by banks and service firms.

Conclusion

The literature on postsocialist transformation highlights the crucial role of foreign direct investment in the restructuring of the economies of Central and Eastern Europe. However, few analyses have considered the interactions between investors in the financial and service sectors with investors in manufacturing. Moreover, there are few studies concerning the role of the country of origin in shaping investment, with the exception of work on Greek firms in the Balkans (Kalogeresis and Labrianidis, 2010a, 2010b; Kamaras, 2001). This paper explored both issues, discussing the internationalization of two Italian banks (Unicredit and Italo Romena), a consortium of consultancies (IC & Partners), and a sample of SMEs in Central and Eastern Europe.

The Uppsala Internationalization Process Model provided the theoretical framework to discuss both the internationalization of banks, services, and manufacturers, as well as their relationships. This model assumes that firms progressively increase their international commitments, shifting from subcontracting to joint ventures and foreign direct investment, and from geographic and cultural proximity to more distant places. The increase in commitment is a function of knowledge; the more experience firms acquire abroad, the more ready they are to shift to a higher commitment. Building on interviews and secondary literature, this research has argued that the Uppsala Model applies not only at the firm level but also at the level of (some) sectors and industrial districts. In Italy, internationalization depended upon conscious decisions of the leaders of the textile and clothing industry, as well as conditions in the national economy, and within industrial districts. As a result, a large number of firms internationalized in a similar time-frame and in a way that is consistent with the Uppsala Model. Interviews in Romania, Slovakia and Bulgaria confirmed that Italian firms intensified their commitment in various ways. In the 1990s, Italian textile and clothing SMEs invested in large numbers in Romania, which is both the closest geographically and culturally to Italy. Slovakia, also geographically close, attracted a smaller number of investors. Bulgaria, more distant than Romania or Slovakia, became a popular site of investment later, after a financial crisis in 1997 led to pro-market reforms and attracted larger firms on average.

The analysis of banks and services presented here also suggests that the causality of the Uppsala Model can be reversed. According to the model, firms increase their commitment abroad after they gain enough knowledge of foreign markets. However, some Italian SMEs decided to increase their commitment abroad first and sought knowledge afterwards. Not having enough resources to gain such expertise on their own, these firms pushed the internationalization of their banks and service providers, which became knowledge pipelines between Italian firms and Central and Eastern European regional economies.

These findings contribute to the literature on internationalization of SMEs and particularly to the debate on the reproduction of industrial districts outside of Italy. This paper demonstrated that the conditions within Italian districts (especially Treviso) shaped the patterns of internationalization of Italian firms, connecting the decisions of manufacturers, banks and services. However, once located in Central and Eastern Europe, these firms established at best a loose connection with each other, based on the provision of 'cultural services', i.e. knowledge of local languages, norms, and customs. Similar to the Greek case (Kalogeresis and Labrianidis, 2010b), the resulting geographies of internationalization of Italian firms were shaped by the postsocialist transformation of Central and Eastern Europe. Both the Greek capitalist diaspora and Italian district firms were followed by banks in the late 1990s (Kamaras, 2001: 55). While the Greeks initially focused on the Balkans, Italian banks and consultancies invested in a broader area as mergers in Italy and postsocialism offered them unique opportunities. In the mid-1990s to early 2000s, the lack of competition and the low cost of intellectual labor allowed IC & Partners and other consultancies to enter Central and Eastern European markets, notwithstanding their small size and limited financial means. In the early 2000s, large scale privatization and lack of interest from American competitors, together with the resources acquired in Italy through mergers, allowed Unicredit to acquire major banks in the whole region. At this time (2012), notwithstanding the financial and sovereign debt crisis affecting both Italy and most economies of Central and Eastern Europe, Unicredit, Italo Romena, and IC & Partners are still major players in their respective markets.

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[2] This is a very different phenomenon from the Greek ‘capitalist diaspora’ identified by Kamaras (2001) and Kalogeresis and Labrianidis (2010b). According to them, a large number of Greek SMEs fully relocated to the Balkans, especially in the early 1990s, and were later followed by larger firms establishing FDIs. In the Italian case, the literature presents no evidence of a large scale ‘migration’ of firms. Most of the firms interviewed in this study maintained headquarters in Italy, and sent one of the owners, or a close associate, to live permanently or semi-permanently in Central and Eastern Europe. There was a minority of expatriate entrepreneurs, mostly former directors of Italian-owned companies.

[3] All ‘New Europe Desks’ were renamed ‘International Desks’ following the merger between Unicredit and the Austrian group HVB in 2005. This paper maintains the old name ‘New Europe Desk’ to be coherent with the content of the interviews.

Figure 1 Expansion of Unicredit in Central and Eastern Europe

Author elaboration of Unicredit's webpage

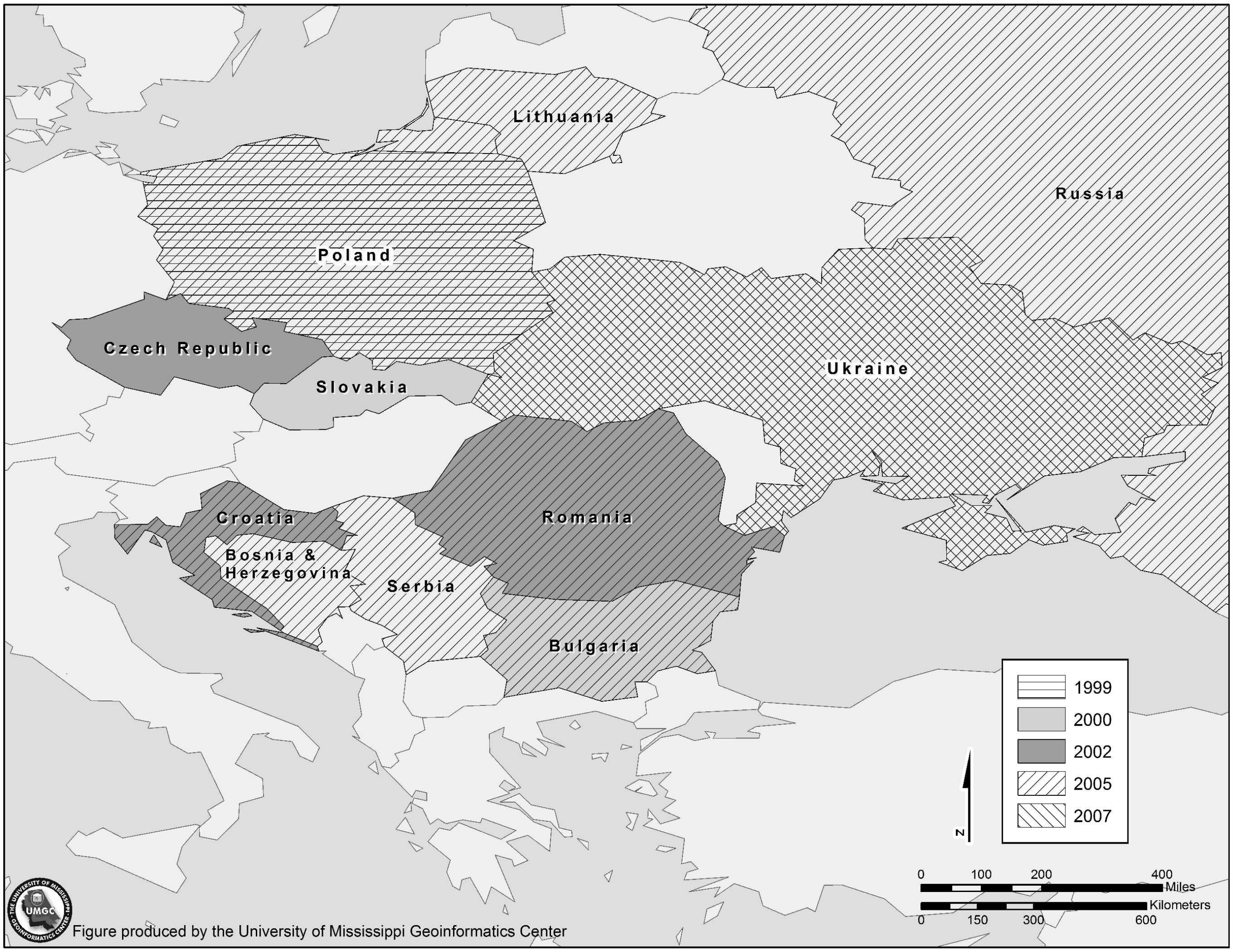

Figure 2 Countries covered by IC & Partners

Author elaboration of IC & Partner's webpage