

# The Balkan Area Development: Threats and Opportunities for Italian Companies' Investment Strategies

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## Abstract

The globalisation of markets has called for, among others, two complementary requirements: on the one hand, the need to develop policies that are able to attract FDI (Foreign Direct Investment) by a number of transition economies, in order to boost the economic growth of the countries concerned and reduce the technological and socio-economic gap that separates them from the industrialised economies; on the other, the priority choice for companies to promote internationalisation, that is now considered as a necessary step to safeguard their competitiveness.

In particular, the analysis carried out starts with the evolution of the Balkan market, by collecting and describing the macroeconomic data concerning the four Western Balkans countries (Albania, Macedonia, Montenegro, Serbia), representing those economies that are likely to join the EU in the coming years following the process started (official candidacy or accession negotiations).

Thus, the first part of the present paper aims at describing and analysing the operational and strategic behaviour of Italian companies, as well as their process of internationalisation in the abovementioned economies.

The analysis was carried out through submitting a questionnaire to managers and employees of companies operating in the Balkans; the results highlighted the main areas of the companies' international management decision-making process (internationalisation decision, operating methods adopted and the results achieved).

Afterwards, the second part of the research sets the focus on the attractiveness degree reached in the area, following the reforms made by local governments that helped in improving the business climate, leading many Italian investors to operate in that area.

**Keywords:** business climate, SME, reforms, strategies, Western Balkans, development area

## 1. Introduction

The international economic situation has deeply changed in recent years. In fact, new players have come into the limelight, supplanting the Old Continent industrialised economies.

Thus, first the BRICS countries (Brazil, Russia, India, China, South Africa) came on the scene, leading the way for years, achieving unexpected results and reaching a high GDP value. Then, in recent years, they were outweighed by emerging economies, namely those of the MINT countries (Mexico, Indonesia, Nigeria, Turkey) that, in spite of the severe international recession have managed to pull off very satisfactory economic results (Scalera & Žáková Talpová, 2014).

Consequently, in a strongly globalised world like the present one, the companies decision-making process is marked, more than ever, by such characteristics as complexity, conciseness, probability as well as a systematic approach (Miolo Vitali, 1993), that are necessary to enable them to create value for the customer.

Within the economic scenario that has just been outlined, it is interesting to analyse the evolution of some European countries, i.e. those covering the Balkan area, especially the Western Balkans region for two reasons.

The first one because they have started for a long time the long way that would lead them, over the next few years, to be part of the EU; the second because their market is becoming increasingly attractive to international investors, that with their strong presence in the area are going to facilitate the transition of these economies, seizing at the same time interesting competitive opportunities for their businesses.

Italian investors share this approach as well. In fact, because of their geographical proximity to the abovementioned area and due to the extremely positive relationships established with Government leaders in the countries concerned, they are considered as privileged partners by Balkan entrepreneurs.

With this in mind, but without claiming documentary completeness or empirical relevance, the research starts from these simple considerations to investigate a series of questions concerning the strategic role that the Western Balkans area plays at the moment for Italian investors, as well as the development level that the region is expected to achieve in the coming years, based on the reforms adopted.

In particular, this paper aims at answering the following questions:

- 1) What are the macro-policies adopted by local governments to make the Western Balkans area attractive to investors?
- 2) What are the results achieved in terms of improving the business climate?
- 3) What are, based on the investment priority factors to develop internationalisation, the strategies adopted by Italian companies to penetrate the area and with what results?
- 4) What are the operational problems to be faced by Italian companies in the area and their future development opportunities?

## 2. Literature Review

In order to well understand the context of the present research, as well as its objectives, it is necessary to examine the international literature on the process of companies internationalisation, with special attention to the Italian ones, as well as the more convenient business climate to make a particular economic area, namely the Western Balkans, attractive.

The Italian financial crisis of recent years has led many entrepreneurs, often running passive businesses, to undertake the process of internationalisation in transition countries as a sort of last resort, to make up their deficit (Li & Ng, 2002). On what grounds? Depending on what model of internationalisation have they developed their companies?

In particular, it is evident that the reasons leading Italian companies to this process can be of an internal origin, such as exploiting or strengthening a competitive advantage or realizing products in foreign markets, thus allowing their market power increase (Hymer, 1970; Buckley-Casson, 1976).

Among the external reasons, however, the “passive” internationalisation of the sector can be mentioned (growth of competition on import or entry of foreign competitors in the domestic market with foreign direct investment or acquisitions) leading domestic companies to develop beyond their internal borders.

However, this group of motivations may also include the company’s behaviour in response to the internationalisation of its domestic competitors, driving the company itself to act as a follower, because the internationalisation of other companies is considered as a threat to its stability in the sector.

According to the literature, the factors lying behind the internationalisation process are related to:

- Characteristics of the property/manager (level of training and managerial ability, ethnicity, age, knowledge of foreign languages, the risk, cost and opportunities perception in foreign markets);
- Characteristics of the business (past international experience, company’s history, product features, willingness of the staff to transfer);
- Characteristics of the environment (institutional factors, the size of the domestic market, infrastructure elements, government regulations in foreign countries, fundamental information to analyse foreign countries).

It is to be noted that the start of the internationalisation process of a company can cover any of the value chain activities.

Specifically, it can be assumed that commercial, productive and financial reasons may account for internationalisation.

In particular:

- The reasons for commercial internationalisation are represented by such factors as saturation of the internal market, diversification of country risk, support to national sales, possibility of increased selling prices, imitation of the behaviour of a “first mover” leading company (Hawk, Pacheco-De-Almeida, & Yeung, 2013), exploiting the brand reputation, product obsolescence on the domestic market, business growth through changes in ownership or quotation;

- The reasons for internationalisation of production can be linked to such factors as proximity to the sales market, low labour costs (particularly for labour intensive companies), the advantage of complementarity and the increase/transfer of business know-how (Li & Shapiro, 2012), the planning of economies of scale, scope and experience for a given geographical area, “country-specific” advantages (labour and manufacturing skills). For example, reducing the cost of labour, energy, raw materials supply, as well as the cost of money are just some of the motivations that drive Italian companies such as Diadora, Fiat, Benetton, Ferrero, etc., to outsource a part of their production process abroad or to settle on site (Mariotti & Mutinelli, 2003; Valdani & Bertoli, 2006; Scalera & Todri, 2015).

- Finally, as far as financial reasons are concerned, they are represented by the following: the diversification of currency risk, the enlargement of the capital raising base as well as its lower cost, tax benefits and governance, reproducing an entrepreneurial successful formula in other markets (Dematté & Peretti, 2003).

However, once the case study concerning the reasons for companies internationalisation, including Italian ones, has been determined, it is evident that the success of “Made in Italy” cannot be traced back to the stage model (Johanson & Wiedersheim-Paul, 1975) or the product life cycle model or the Uppsala model (Johanson, Vahlne, 1990; Andersen, 1993) in which the paradigm of incremental changes succession is central.

In fact, by analyzing Italian companies - mostly small to medium size companies (SMEs) - that have been exporting for a long time, it seems evident that they have adopted not much structured internationalisation and marketing models, with information gained from the observation of competitors in the sector (Fisch, 2012), a tendency towards imitating their competitors’ strategies, little financial involvement, remaining unchanged in size and keeping their research and production centres within national boundaries.

The reasons for this behaviour are related, first, to the will not to stiffen the structure and make it less flexible and, above all, to the extreme difficulty, which is typical of Italian businesses, to be able to reproduce the quality of their production based on specialised production networks.

As a result, Italian companies are inclined to adopt abroad the same strategy and segmentation applied at a national level, to replicate a successful strategy implemented in a country in all the others and to adapt the product to local requirements only when they are obliged to.

Thus, the failure to adopt structured internationalisation models combined with problems of governance and market capital access do not allow Italian companies to grow from a dimensional point of view and to acquire a certain stability abroad in the medium and long term (Hagen, Zucchella, Cerchiello, & De Giovanni, 2012).

From what has been shown, it is clear that it is increasingly necessary for Italian companies to plan their internationalisation process in a structured way by analysing thoroughly the accessibility and attractiveness level of the countries in which they are going to operate (Douglas, Craig, & Keegan, 1982; Invernizzi, 2004), in order to identify the right approach to be developed (naïf, pragmatic or strategic), (Root, 1994), the entry strategies (side attack, outflanking, frontal attack, encirclement, guerrilla), (Kotler, Fahey, & Jatusripitak, 1985), as well as the entry modes (direct and indirect export, international partnerships, foreign direct investment), related to the degree of risk that the entrepreneur intends to take in the competitive environment in which he is going to operate (Cuomo, 1995; Nanut, 1995; Fiocca & Vicari, 1997; Marcati, De Luca, & Galli, 1998; Ferrucci, 2000; Wolf & Pett, 2000; Albaum, Strandskov, & Duerr et al., 2005).

As a result, a correct analysis of the Balkan countries business climate becomes an indispensable element to be considered by companies, in order to avoid unpredictable and unfortunate situations when they decide to operate in that geographic area (Scalera & Uruci, 2011a; Scalera & Uruci, 2011b).

Therefore, there are a number of factors that influence the strategic choices of companies operating in a given economic environment: considering whether or not some facilities are granted for the process of business start-up, as well as what is the movement of labour force and capital from one sector to another which, especially in times of financial crisis, tends to greatly increase due to streamlined formal procedures and the reduced costs associated with business creation (Cicccone & Papaioannu, 2007); assessing the existence of a public credit registry to allow businesses in transition countries to have access twice as fast than large companies (Brown & Zender, 2007; Brown, Jappelli, & Pagano, 2008); being in the presence of a state guarantee that protects the investors’ property (Doidge, Karolyi, & Stulz, 2007) or, finally, taking advantage of a lower tax revenue than in Italy for instance, together with easier tax payment procedures (Diankov, Ganser, McLiesh, Ramalho, & Shleifer, 2008).

### 3. Methodology

The present research was developed in three phases. The first one, which is of a descriptive character, tries to

understand the kind of economic policy implemented in the abovementioned countries in recent years, aimed primarily at adjusting local reforms to EU requirements, with a view to future entry and, secondly, at improving the business climate of the Western Balkans area, in order to increase its degree of attractiveness for international investors.

In order to achieve the purposes mentioned above, a research methodology was used that started with gathering the macroeconomic data concerning the four economies under study, which were drawn from secondary sources (World Economic Forum, The Heritage Foundation, Economist Intelligence Unit, Embassy of Italy, ICE Agency, International Monetary Fund, World Bank).

The analysed macroeconomic data for the last three years, such as real GDP, unemployment, public debt, inflation, as well as such indices as Global Competitiveness and economic freedom, openness to international trade and Doing Business, all concerning the degree of ease allowing the business start-up phase in these countries, were useful to highlight, after appropriate revisions, the Western Balkans area development degree and the impact of the business climate upon the degree of attractiveness of the area for international entrepreneurs.

The second and third phase of the research followed one another chronologically and were both of a quantitative nature.

In detail, the investigation, started in March 2015, was carried out through a questionnaire sent to a sample of 70 companies and drawn up by Italian entrepreneurs, managing directors, marketing managers operating in the abovementioned countries, to understand the features of their internationalisation process.

The investigation, ended in July 2015, highlighted the reasons that led Italian companies to operate in the Western Balkans and the main operational practices.

The last phase of the research, which lasted three months starting from September 2015, was based on a survey consisting in interviewing top managers and employees, as well as collecting their testimonies with the aim of identifying the main problems to be overcome to start a business in the abovementioned economies.

In particular, 12 issues were identified that represent a potential obstacle to business start-up. Each interviewee pointed out the four major issues (given a score ranging from 1 for the less important to 4 for the most important), summarised, afterwards, in a separate table in which the answers were weighed according to their position in the overall ranking.

Finally, all the data collected made it possible to draw up a summary SWOT analysis showing the main features characterising the Western Balkans competitive scenario, thus allowing some final reflections about the possible evolution of the region in the international competitive scene, as well as about the prospects for future development for the Italian businesses operating in it.

#### 4. The Western Balkans Development

In recent years, the Western Balkans area has benefited from the activity of local governments that have adopted a series of macro-economic policies focused on two main objectives. On one side, these policies were aimed at favouring adjustment to EU standards by Albania and Macedonia, the official EU candidates, as well as by those countries, like Montenegro and Serbia, that have started EU accession negotiations. On the other one, they aimed at favouring the internal development of the above mentioned countries, by improving their degree of accessibility and, above all, their attractiveness for international investors, linked to improved performance concerning some significant macroeconomic data for the area, in particular, real GDP variation and the inflation rate from 2010 to 2015 (Table 1).

Table 1. Macroeconomic indicators

Indicator average	Real GDP Variation (%)	Unemployment	Public Debt (GDP %)	Inflation
Western Balkans Area average 2010	2.2	21.37	41.85	4.03
Western Balkans Area average 2015	3.85	20.62	54.75	1.43

Source: Elaboration of EIU (Economic Intelligent Unit) and IMF (International Monetary Fund) data.

In this regard, among the major reforms implemented in the area in this direction, Montenegro and Albania are two examples that are worth mentioning. In the former, the rate of income tax was reduced to 9%. In the latter, bureaucratic procedures to obtain licenses were streamlined (with the creation of the “One Stop Shop” for

issuing licenses in the energy sector).

And again, land sold to foreign investors at the symbolic price of 1 Euro, VAT exemption on the import of machinery and equipment, granting incentives and easy-terms loans for investment in the country, tax abatement on profits from 1 to 10 years based on locating in specific regions, greater work flexibility, improved bank transparency, a new public register on credit, a guarantee fund for SMEs and the real protection of the investments made; these all represent critical success factors.

The impact of these reforms on the economic development of the area is evident. In fact, among the major benefits derived from the reforms to the region development, the following can be mentioned: the creation of new businesses in a shorter time, higher productivity of the existing businesses, as well as of their employees, increased employment, increased labour turnover and capital movement, greater resort to credit, greater protection of minority shareholders, lower internal revenue and evidence of hidden business income, greater openness to international trade.

The present research focuses not only on macroeconomic indicators, but also on other indices that can provide useful information to entrepreneurs who wish to evaluate their presence in the abovementioned countries.

In particular, with reference to the Global Competitiveness Index, for the sake of brevity, the table includes only the position of the four countries under study with reference to the last three-year period, showing a substantial stability of those countries with the most significant increase recorded by both Macedonia and Serbia, the latter being, however, the bottom of the list (Table 2).

Table 2. Global competitiveness index

Index	2013	2013	2015	2015
	Value 0-100	Position out of 148 countries	Value 0-100	Position out of 144 countries
GCI Albania	3.9	95	3.9	93
GCI Macedonia	4.1	73	4.3	60
GCI Montenegro	4.2	67	4.2	70
GCI Serbia	3.8	101	3.9	94
GCI Western Balkans Area average	4.0	84	4.07	79

Source: elaboration of the world economic forum data.

Going deeper into the analysis it is possible to break down the overall result under three groups of factors carrying each a different weight: basic requirements (Institutions, Infrastructure, Macroeconomic Environment, Health and primary Education) weighing 40% of the total, efficiency enhancers (Higher Education and vocational Training, goods and labour market Efficiency, potential market Development, technological Readiness and market Size) weighing 50%, and innovation and sophistication factors (Development of the productive structure and Innovation) whose weight is marginal, being only 10%. In particular, all the 4 countries concerned improved their position with regard to the basic requirements: Albania was ranked 87<sup>th</sup>, Macedonia 60<sup>th</sup>, Montenegro 58<sup>th</sup> and Serbia 96<sup>th</sup> out of 148 countries in the overall ranking.

The data shown prove that the reformation process started in various sectors-respecting property rights, reducing corruption levels, improving the efficiency of justice, strengthening and creating industrial and civil infrastructure, improving public finances and inflation rate, as well as healthiness of the working environment and the population's literacy skills levels - is beginning to bear fruit, although there is still a long way to go.

As regards the other two groups of factors mentioned, Albania, Serbia and Macedonia improved their position in 2015 compared to 2013 (Macedonia was ranked 64<sup>th</sup> concerning efficiency enhancers indicator, with particular reference to goods market efficiency, ranking the country 33<sup>rd</sup>, while for the third group, relating to innovation and sophistication factors, the country was ranked 62<sup>nd</sup> in the ranking).

It is to be noted that another index which is likely to influence the strategic choices of international investors is that of economic freedom including the following indicators: Business Freedom, Trade Freedom, Monetary Freedom, Government Size/Spending, Fiscal Freedom, Property Rights, Investment Freedom, Financial Freedom, Freedom from Corruption. These data support the leadership of Macedonia that, though worsening the most its position among the four countries analysed, was ranked 53<sup>rd</sup> out of 186 economies in the ranking, followed by Albania, Montenegro and Serbia (Table 3).

Table 3. Index of economic freedom

Index	2013	2013	2015	2015
	Value 0-100	Position out of 184 countries	Value 0-100	Position out of 186 countries
Index of Economic Freedom Albania	65.2	58	65.7	63
Index of Economic Freedom Macedonia	68.2	43	67.1	53
Index of Economic Freedom Montenegro	62.6	70	64.7	66
Index of Economic Freedom Serbia	58.6	94	60	90
IEF Western Balkans Area average	63.6	66	64	68

Source: Elaboration of the Heritage Foundation data.

Another important index to evaluate the Business Climate in the Balkan area is the one obtained by means of a survey by the World Bank out of 189 world economies, whose results are summarised in the annual report drawn up by the Doing Business team.

The report was developed through interviews with more than 8,000 local experts (lawyers, accountants, business consultants, government officials, carriers) who answered questions concerning legal and fiscal matters in writing, through conferences or personal visits to the country on the business standard case (which analyses the legal form of the business, its size, its position on the market and the nature of the transactions made). The results, suitably revised, offer the advantage of being compared even between different countries over the time.

In particular, the analysed indicators are the following: Starting a Business, Dealing with Construction, Permits, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, Closing a Business (World Bank, 2016a).

Among these, the most interesting for our research is undoubtedly the Starting a Business indicator, highlighting openness to international investment concerning the Western Balkans 4 countries (World Bank, 2016b).

The results summarised in Table 4 show that the leading country is definitely Macedonia which is ranked 12<sup>th</sup> in 2016 out of 189 economies examined, gaining 11 positions compared to 2013 and ranking 1st among the Western Balkans countries that are hardly ranked 53<sup>rd</sup>, on average, in 2016.

What is the reason for the exceptional result achieved by the small Balkan country?

Definitely the reforms implemented. In fact, thanks to the opportunity offered by the Government to set up a company in a single day through an almost zero-cost procedure, among the ten above-mentioned indicators, the major contribution is represented by the Starting a Business indicator which ranks the country 2nd just behind New Zealand alone.

Other indicators show the country's leadership in the Western Balkans. In fact, the Paying Taxes indicator ranks it 7<sup>th</sup>, due to a reduced tax burden; the Dealing with Construction permits indicator ranks Macedonia 10<sup>th</sup>, thanks to simplified and accelerated construction permits procedures and finally, the Protecting Minority Investors indicator, ranking the country 14<sup>th</sup> out of 189 economies examined, due to reforms aimed at increased protection for foreign investment in the country.

These results are evidence of how the political class considers the cooperation with foreign investors as essential, especially in this country, in order to speed as quickly as possible the development of the area (Table 4).

Table 4. Doing business index-starting a business 2013-2016

Index – Year	Albania		Macedonia		Montenegro		Serbia	
	2013-16	2013-16	2013-16	2013-16	2013-16	2013-16	2013-16	2013-16
Position in global ranking	85-97		23-12		51-46		86-59	
Starting a Business (Pos. in ranking)	62-58		5-2		58-59		42-65	
Procedures - (number)		4-6		2-1		6-6		6-6
Time (days)		4-5.5		2-1		10-10		12-12
Cost (% of income per capita)		22.1-10.4		1.9-0.1		1.6-1.4		7-6.6

Source: Elaborations of the World Bank data.

## 5. Presence and Results of Italian SMEs in the Western Balkans

The empirical research carried out aims at analysing the behaviour of Italian SMEs in the Balkan context.

To this end, two main aspects were considered: the operational aspect (customer management phases, product and process expertise, attention to quality), and the strategic one (choice of markets and entry strategies development), as well as the best approach to internationalisation aimed at supporting Italian SMEs in achieving attractive competitive advantages in the above-mentioned area.

To achieve this objective, 70 companies were considered in the four Western Balkans countries covered by this research (Table 5).

Table 5. Countries

Countries	N°. of Businesses
Albania	18
Macedonia	22
Montenegro	16
Serbia	14
Total	70

Through an analysis of the various business sectors and typology, the data collected show that the most represented are the manufacturing sector, whose development is mainly due to low local labour costs and the energy sector, due to the numerous waterfalls existing in the Balkans allowing the development of hydroelectric power plants (Table 6).

Table 6. Sectors of Italian companies operating in the Western Balkans

Sectors	N°. of Businesses
Manufacturing	13
Energy	11
Banking and Insurance	8
Construction	8
Services	7
Motorvehicles	4
Drinks and Foodstuff	4
Information Technology and Communications	4
Metallurgical Industry	4
Furnishings	4
Textile	3
Total	70

The research involved a questionnaire drawn up by experts (directors, managers, entrepreneurs, marketers, etc.) that investigated the main areas of international management decision-making process, such as the decision to operate abroad, the operating mode implemented, the results achieved over the time, the prospects for future development (Table 7).

The analysis shows that in most cases companies fail due to a random approach to international markets lacking an adequate strategic planning, to a total absence of international experience by the managers involved, as well as to an internationalisation management philosophy characterised by a reactive and not proactive attitude, depending on the belief that the business practices adopted within national borders can be successfully reproduced abroad in exactly the same way (Perlmutter, 1969).

If we consider the main features of the Italian SMEs operating on the Balkan markets, it is evident that internationalisation is an established phenomenon: in fact, about 70% of the companies involved in the survey have been working in foreign markets for over ten years. Italian SMEs show, surprisingly, an active and not passive attitude, as falsely published by the national media, leading them to constantly seek for new customers (90%). In addition, about 70% of the companies surveyed said they had a foreign customer pool including over 25 companies.

Table 7. Questionnaire

General information	Length of business activity abroad
	Number of foreign customers
	Foreign countries in which the business operates
	Foreign to total turnover ratio
	Last three-year period turnover and its trend
Reasons	The reason for operating abroad
Operational mode	Number of customers and their typology
	Possible kinds of partnership for internationalisation
	Foreign market entry modes
	Organisational changes and new professionals required by internationalisation
	Market and business strengths justifying the international presence
Results	Benefits derived from internationalisation
Prospects for development	Typology of new markets to be penetrated in the future

The study shows that the aspect of increased profits, indicated by 21% of the respondents, is paramount in the decision of operating abroad. Another 19% significantly indicates the reduced production costs, thanks to the possibility of obtaining competitive advantages abroad in terms of labour costs, raw materials, energy, etc..

Another element of significant importance is the identification of strategic partners representing a signal of a proactive approach, as well as of an evolution affecting managerial behaviour, favouring the operational readiness of the businesses in the Balkans. This motivation, indicated by 16% of the companies employing between 100 and 249 workers, is particularly important especially in highly dynamic and turbulent markets such as the Balkan one (Table 8).

Table 8. Motivations for internationalisation

Reasons for Internationalisation	%
Increased profits	21%
Reduced production costs	19%
Identification of strategic partners	16%
Government incentives	12%
EU incentives	10%
Meeting foreign demand	8%
Seeking new markets for production	7%
National market protection	4%
Similarities between national and foreign needs	2%
Other	1%
<b>Total</b>	<b>100%</b>

From the analysis carried out, it comes out that the preferred entry mode by Italian SMEs is undoubtedly, by far, the one based on indirect export (75%) through agents, representatives or distributors, representing more than 40%, operating in the Balkan country where a commercial activity is going to be developed.

This option is certainly the less demanding and binding for the manufacturing company, since it allows investment to be reduced, it does not oblige the manufacturer to achieve a minimum level of sales and it turns out to be the most effective among marketing actions because it is carried out by local dealers that are well aware of the domestic market demand (Yi & Wang, 2012).

International partnerships, the joint venture in the first place, are still quite limited due to the difficulty of finding reliable partners with solid assets at their disposal. It is to be noted, finally, that among the few FDI made, the preferred option is that of a totally new creation of the production structure (4%) that, though being considered as the longest way to be pursued from a purely operational point of view, is often far cheaper than the acquisition of a business already existing on the market (Table 9).



Table 9. Italian SMEs entry modes into foreign markets

Entry Modes	Entry submodes	%
<b>Export</b>		<b>75%</b>
	National	10%
	International	12%
	Trading Companies	3%
	Cooperatives	2%
	Balkans-based agents or distributors	41%
	Business staff based abroad	11%
	Affiliated companies and branches	12%
	Direct contact	9%
<b>Joint venture</b>		<b>8%</b>
<b>Franchising</b>		<b>2%</b>
<b>Piggy back</b>		<b>1%</b>
<b>Licensing</b>		<b>3%</b>
<b>Foreign Direct Investment (existing company acquisition)</b>		<b>2%</b>
<b>Foreign Direct Investment (greenfield)</b>		<b>4%</b>
<b>Internet</b>		<b>5%</b>
<b>Total</b>		<b>100%</b>

Another important indication highlighted by the research concerns those that are recognized by Italian companies as the critical success factors to be met to penetrate the Western Balkans region markets (Schuster & Holtbrügge, 2012).

According to the results, such elements as product quality, its design and degree of innovation (Beckman, Eisenhardt, Kotha, Meyer, & Rajagopalan, 2012; Kaul, 2012; Li, Qian, & Qian, 2012; Mollick, 2012), which are typical of the “Made in Italy” brand, are placed in the first 3 positions (Table 10).

This is mainly true for Albania and Macedonia as a result of the “country of origin effect” (Moeller, Harvey, Griffith, & Richey, 2013), given the greater presence of SMEs in the textile and manufacturing sectors, food and drinks as well as furniture-i.e. the traditional sectors representing Italian excellence in the world.

Table 10. Critical success factors to be met for the internationalisation of SMEs in the Western Balkans

Balkans region countries	Competitive price	Product quality	Innovation	Product design	After-sales service	Flexibility
Albania	10 %	41 %	15 %	20 %	8 %	6 %
Macedonia	13 %	38 %	17 %	22 %	6 %	4 %
Montenegro	16 %	28 %	18 %	24 %	5 %	9 %
Serbia	16 %	24 %	18 %	22 %	9 %	11 %

In the light of what has been shown so far, as well as of the improved business climate in the Western Balkans, two questions remain to be asked: the first about the real size of the Italian presence in the region nowadays and the second, even more prominent, about whether it has increased or not compared to the past.

The answer is undoubtedly positive. In fact, in 2015, the import-export trade with Albania stood at 2,039.7 million Euros, while the overall import of Italian products in the country was 33.2%, ranking Italy 1<sup>st</sup> among the investors in the country.

Instead, Italian growth in Macedonia was supported by a record of 673 million Euros for the import-export trade in 2014, while in Montenegro it was confirmed by 110.64 million Euros in the period January-July 2015 placing Italy 4<sup>th</sup> among investors behind Serbia, China and Bosnia-Herzegovina.

Finally, in Serbia, Italy has been the 3rd investor in the country since 2015, with 3,600 million Euros, just behind Germany and Bosnia-Herzegovina, but what is more, it is present with such a great Italian brand as Fiat that, in 2008, made the most important initial foreign investment in the country amounting to 700 million Euros over 3 years.

This allowed decentralisation of 500L model production at Kragujevac factory, to take advantage of low labour costs in the country, in addition to a series of tax benefits granted by local government (Scalera, 2011).

## 6. Obstacles to Italian SMEs Strategic Development in the Western Balkans

At this point, after having made it clear that a significant Italian presence has settled within the competitive scene of the Western Balkans countries, the research focuses on the major obstacles that international competitors had to overcome to set up a business.

To achieve this purpose, as previously highlighted, the last phase of the investigation, started in September 2015 and lasted three months, provided for the elaboration of a questionnaire focusing on 12 possible issues representing an obstacle not only for the business start-up, but also for its subsequent development.

The questionnaire was submitted to the 70 Italian companies chosen as a sample for the survey and operating, as already mentioned, in different fields. The work of gathering and processing information was hard because of the difficulty in creating a feed-back with the management.

Nevertheless, without pretending to be exhaustive and apart from official data, it allowed an accurate and deep understanding of the real environmental and competitive context with which Italian companies have to be faced to achieve satisfactory competitive advantages.

More specifically, the managers contacted were asked to indicate, in the list supplied, the four issues which, according to them, represented a real obstacle to the development of their business in these countries (giving a score from 1, the most important to 4).

The results, given below (Table 11), show that corruption and lack of access to funding represent, despite the reforms, some obstacles to be reduced as soon as possible (Pehrsson, 2012), to encourage foreign direct investment and to allow the area to grow faster.

Table 11. Obstacles to SMEs development in the Western Balkans

Countries	Albania	Macedonia	Montenegro	Serbia
Factors	2015-2016 (%)	2015-2016 (%)	2015-2016 (%)	2015-2016 (%)
Corruption	14.5	10.5	12.2	12.8
Inefficient state bureaucracy	9.4	10.9	12.8	13.8
Access to funding	19.6	19.7	19.4	16.9
Inadequate infrastructure	6.8	8.6	10.6	7.8
Crimes and Theft	2.9	4.7	4.8	5.9
Unskilled labour	3.3	13.8	8.5	6.8
Tax rates	22.5	2.8	9.2	6.5
Tax regulations	10.4	3.5	5.9	6.3
Political instability	3.3	8.4	4.8	12.8
Poor ethical sensitivity by the local labour	3.7	11.1	8.7	6.9
Poor public health	2.8	2.3	1.8	1.9
Regulations on foreign currency	0.8	3.7	1.3	1.6

## 7. Conclusions

This work highlighted how companies have to relocate their production activities to secure a competitive advantage in order to survive in the present economic climate, caused by the great recession of recent years and characterised by high dynamism and turbulence.

A great opportunity is offered to them by the Balkan market that has become, at present, one of the most attractive areas for international investors, due to improved business climate in the Western Balkans thanks to the reforms implemented by local governments. This led to an overall improvement in macroeconomic data, in the Global Competitiveness and openness to international trade data in all the 4 countries analysed, and highlighted the undisputed leadership of Macedonia, which is the most likely to favour the business start-up.

The research showed that streamlined bureaucracy, tax relief, simplified access to credit, increased protection for investors, a more transparent tax and commercial law allowed international entrepreneurship to develop.

The comments just referred are also the result of the analysis based not only on the data gathered from secondary sources in the 4 countries covered by this work, but also from the questionnaire submitted to the management, concerning the major problems to be faced in the development of their business in those countries.

This enabled the development and drafting of the SWOT Analysis, which highlighted the main factors of attractiveness of these economies and the elements that political reforms should improve, as well as the opportunities that entrepreneurs should seize to develop their business and the possible threats that can endanger the business penetration in these markets (Table 12).

Table 12. Personal elaboration Western Balkans area aggregate SWOT Analysis

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
- Strategic location for productive and commercial expansion	- Corruption
- Spread of skilled labour at low cost	- Access to finance
- Compatibility of the area with the Italian productive system	
- Spread of the Italian language among the local population	
- General favourable taxation	
- Favourable investment legislation	
- Free access to third markets	
- “Business Friendly” environment	
- Macroeconomic stability	
- Stability and security	
- Economic growth and dynamic development	
- Hub for regional businesses	
- Incentives and financial, fiscal and territorial benefits	
- Bureaucracy and charges for setting up a company	
- Market aimed at reforming to adjust to EU standards	
<b>OPPORTUNITIES</b>	<b>THREATS</b>
Where to invest	- Problems of customs regulations
- Machinery and equipment	- Tax issues and delays in VAT refunds
- Other service activities	- Inefficient judicial system
- Textiles (clothing, leather)	- Dependence on foreign direct investment
- Foodstuffs	- Political stability
- Education	- Difficult access to credit
- Furnishings	- Economic stagnation
- Basic pharmaceuticals and pharmaceutical preparations	- Elements of political assessment
- Construction	- Productive structure level
- Drinks	
- Electricity, gas, steam and air conditioning	
- Water supply, sewer system, waste management and land reclamation	
- Computer, electronic and optical products; electro-medical equipment	
What to sell	
- Agriculture, fishery and forestry	
- Construction	
- Tourist flows	
- Electricity, gas, steam and air conditioning	
- Textiles	
- Motor vehicles, trailers and semi-trailers	
- Water supply, sewer system, waste management and land reclamation	
- Accommodation services and catering	
- Transport and storage	
- Financial and insurance activities	

Key stakeholders are definitely Italian companies that, favoured by geographical proximity and the privileged relations with local institutions, have poured into the Western Balkan area, investing significantly in Albania.

In particular, the Western Balkans markets penetration has affected all sectors (food processing, manufacturing, securities, textiles), i.e. those representing “Made in Italy”, allowing interesting competitive advantages due to raw materials and labour costs at more competitive prices, which have encouraged the development of labour intensive sectors.

The main motivations of Italian SMEs influencing their decision-making process were the realisation of profit and minimisation of production costs and business risks, so as to favour indirect export that is considered by entrepreneurs as the most reliable entry mode to penetrate the area.

At the same time, the study carried out found that competitiveness cannot be separated from the fulfillment of critical success factors such as the product quality, its design and degree of innovation. On the other hand, companies wishing to operate in the area cannot fail to consider access to financing and the corruption which is still spreading in the area as obstacles to their development.

Future growth prospects of this highly dynamic and turbulent area are thus related to its internationalisation capacity and to the fact of being perceived by investors as a single macro-region (Hoon & Rugman, 2012), pursuing the elimination of administrative and infrastructural barriers and promoting links between the economic communities of different countries, ensuring that integration from below that can only bring security and stability to the region.

In particular, Italian investors are in a privileged situation concerning the relations with the area because of some specific features that can be considered as “comparative advantages” for the realisation of its internationalisation processes.

In fact, the mechanisms and dynamism of decentralised cooperation, as well as the variety of the parties concerned, the widespread organisation of SMEs in industrial districts with a strong territorial connotation, exchange between transnational areas sharing both geographical and cultural proximity are an interesting laboratory compared to the prospects of economic cooperation between local systems.

Therefore, it is in this view that instruments to promote economic cooperation should be considered even in the form of partnership between territories, such as the European Territorial Cooperation programme including the Interreg V-B Adriatic-Ionian programme 2014-2020 (ADRION) concerning the area included within the EU macro-regional Strategy for the Adriatic and Ionian region (EUSAIR). These represent an excellent opportunity to be seized by Italian investors to strengthen their penetration into an area that is certainly going to be extremely dynamic and viable even in the years to come.

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