



FEDERCHIMICA
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**The role of
foreign-owned
chemical companies
in Italy**

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Features and importance of foreign-owned chemical companies in Italy

Foreign-owned chemical companies (from now on called also “foreign companies”) represent a **precious resource for the Italian chemical industry**. Considering only those producing in Italy, we can say that:

- they employ almost 40 thousand chemical employees, equal to 31% of the entire sector workforce in Italy, that become 85 thousand including indirect employment activated through investments and purchases;
- with a production value realized in Italy near to 17 billion Euros they cover almost 36% of total Italian production and their induced economic activity is above 9.5 billion Euros;
- they satisfy 44% of Italian chemical demand (also by importing products from abroad) which can be estimated in 27 billion Euros.

Share of foreign owned companies on the Italian chemical industry		
	Foreign companies	% on total Italian chemical industry
Companies producing in Italy (number)	288	16%
Production value realized in Italy (billions of Euros)	16.8	36%
Exports (miliardi di euro)	6.6	43%
Sales realized in Italy (billions of Euros)	26.9	44%
R&D expenditure (millions of Euros)	211.9	37%
Fixed Investments (millions of Euros)	566.4	39%
Employees (thousands)	39.5	31%

Note: last year available Source: Istat, Reprint and Federchimica calculations
 All estimates exclude foreign companies which do not produce in Italy
 Production value realized in Italy excludes imports from the headquarter
 Sales realized in Italy includes imports from the headquarter and exclude exports of products realized in the Italian branches

Foreign presence in Italy and Europe (percentage on sector employment)		
	Italy	Europe
Manufacturing	10	21
Chemicals and pharmaceuticals	44	42

Note: last year available Source: Eurostat
 European average based on Austria, Bulgaria, Czech Rep., Estonia, Italy, Latvia, Netherlands, Slovenia, Spain, France, Lithuania, Hungary, Portugal, Slovakia, Sweden

In general Italy has a deficit in terms of attraction of foreign direct investments: in manufacturing as a whole, in fact, only 10% of the employees works in foreign enterprises compared to a European average of 21%. In the chemical and pharmaceutical sector, however, the share of foreign enterprises, equal to 44%, is the highest among Italian industrial sectors and in line with European average. As a consequence, the important presence of foreign-owned chemical companies in Italy **is not a symptom of impoverishment but, on the contrary, an index of attractiveness**.

Foreign companies are active on all Italian chemical sectors. They present a geographical distribution similar to that of the entire Italian chemical industry, but they are more concentrated in the northern regions and particularly in Lombardia (which accounts for almost half of the foreign companies employment and is the second European chemical region in terms of employees and the first in terms of enterprises).

The role played by foreign enterprises is important also because **they represent a relevant portion of large chemical companies in Italy**:

- their average size is equal to 140 employees whereas it reaches only 55 employees in the whole Italian chemical industry;

- they cover almost half of the employment in chemical companies with more than 250 employees;
- among about 40 chemical companies having in Italy a production value above 200 million Euros, 24 are foreign-owned.

Employment of foreign chemical companies by size class in Italy

	% on total foreign companies	% on total chemical employment
1-49 employees	2.9	6.1
50-249 employees	20.5	17.8
250 employees and more	76.6	49.0
Total	100.0	31.2

Note: companies belonging to the same group are considered together
Source: Reprint

A further aspect, partially related with size, is their role in **research and innovation**.

- 72% of foreign enterprises producing in Italy also carry out R&D activities in our Country.
- Nearly 2400 Italian chemical researchers work in foreign enterprises and their share on total employment (actually equal to 6%) is increasing.
- Their contribution to total chemical R&D is estimated to be around 37%, but it even reaches 57% if we consider only the more structured forms of research (in fact many Italian chemical SMEs carry out innovation based on creativity and experience).
- Cooperation with public research is stronger than in other chemical companies, involving 43% of foreign enterprises against a sectorial average of 28%.

R&D realized in Italy by foreign companies

R&D expenditure	
Million Euros	212
Share on total R&D carried out by the chemical industry	37%
Share on structured R&D carried out by the chemical industry	57%
Employees involved in R&D activities	
Number	almost 2400
% on total employment in foreign companies	6%
% change 2002-2006	-0.9%
Collaboration with public research	
% on foreign companies	43%

Source: Federchimica, Istat

Italy has a large and important manufacturing industry and is the third largest European market. However, in most cases (58%) foreign company production in Italy is not targeted only to the local market.

- **40% of the sample exports more than half of the production realized in Italy.**
- Export propensity is increasing and is higher than in the chemical industry as a whole (41% on average compared to 29%).
- Altogether foreign enterprises are responsible for 43% of chemical exports and represent more than half of the 40 major Italian exporters.

The activity of the multinational group carried out in Italy	
Italian share on total production realized in 2006	3.2%
Italian share on total sales realized in 2006	6.1%
Italian share on total employment in 2006	2.8%
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Trend of the production share realized in Italy in the last 5 years (% of companies)	
on World total	
- increased	27%
- stable	52%
- decreased	20%
on European total	
- increased	32%
- stable	57%
- decreased	11%
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Companies which exports more than 50% of production	40%
Average share of production exported	41%

Source: Federchimica

Trend of the chemical activity carried out in Italy between 2002-2006		
	Foreign companies	All companies
Change in production realized in Italy	19.0%	19.3%
Change in exports from Italian branches	22.6%	24.0%
Change in sales realized in Italy	25.3%	19.9%
Change in the Italian workforce	-7.2%	-7.4%

Source: Federchimica, Istat

In general media tend to underline cases of foreign firms leaving Italy. However, our survey does **not indicate a reducing presence of foreign chemical companies in Italy, on the contrary, in many cases it has increased.**

- Only one fifth of the sample shows a reduction in the production realized in Italy.

- In the last 5 years 27% of the surveyed companies declares that the share on the global company production made in Italy has increased. Such a share on European production reaches 32%.
- In the same period the number of employees decreased of about 7%, therefore in line with the whole Italian chemical industry (part of this reduction is due to the outsourcing of activities).

Strengths of Italian-based chemical industry

The capability to export showed by Italian branches of multinational groups is a strong index of competitiveness of the Italian-based chemical industry. This evidence becomes stronger if we consider that multinationals tend to rationalise production and concentrate it in Countries presenting competitive advantages. Actually managers from foreign-owned firms underline a number of key features of doing chemical business in Italy.

Strengths of the Italy-based chemical industry
Human resources (technicians, managers, researchers)
Creativity
Flexibility
Capability to adapt and quickly react to changes
Orientation to continuous improvements
Capability to work under stress
Know how in specific chemical areas
Quality and reliability of equipment suppliers
Features of the Italian market
Third European market (about 70 billion Euros)
Demanding and high quality customers
Customers being trend setter
Great number of customers
Widespread entrepreneurship
Willingness to collaborate for developing and testing new products
R&D
High quality graduates
Know how in specific chemical areas
Competitiveness in terms of costs and results
Capability to understand markets needs
Creativity and problem solving attitude
Applied research and product development

Source: Federchimica

The quality of **human resources** is the feature more heavily highlighted.

- **Creativity** is a real professional skill as it becomes innovation propensity and problem solving capability.
- **Flexibility**, mixed up with creativity, generates high responsiveness to changes, orientation to continuous improvement and capability to work under pressure. All these characteristics are essential to address the most important challenges of present markets.
- **High level technical and scientific skills** are available. In particular many chemical areas present a specific and well developed know-how (some examples are plastic materials, polyurethanes, applied chemistry to textile and leather, adhesives, personal care and cosmetology).
- These features do not regard only the chemical sector, but all the value chain. In particular the quality and reliability of equipment suppliers make it possible to carry out quick changes at low costs with personalised and innovative solutions.

The Italian market is considered attractive not only for its size, but also for the **characteristics of its customers**.

- The typical Italian customer is very demanding, for this reason a product developed for Italy can be easily sold all over the world.
- There are many customers, in particular SMEs, which are very open to innovation so that it is easy to find a partner ready to risk for testing and developing new products.
- Italy for many customer sectors, in particular for those belonging to the so-called Made in Italy, is still one of the most important markets in the World. Sometimes this is not true any more in terms of volumes but it certainly is for quality and the capability to be trend-setter.

All these characteristics become extremely interesting if we consider that globalization is leading Italian branches of foreign companies to leave mass productions (as it is happening also in other developed Countries) and to focus on niche markets characterised by tailor made products.

Multinational companies often carry out R&D in “centres” which are generally located in one Country and work for all the group by defining research strategies and by coordinating all the research projects related with a particular business line. In many relevant cases **Italy has been selected as an “R&D centre” for a well defined business segment**.

Italy is a suitable location for doing R&D.

- Italian chemical graduates are well prepared, have a strong theoretical background and are also very motivated.
- A specific know how – sometimes even considered unique – is available in different areas (fluorine chemicals, woven and non-woven polyester, polyurethanes, special polymers, leather chemicals, adhesives, pharmaceutical active principles, cleaning additives);
- Research groups are competitive in terms of costs and results.

In particular Italy is specialised in applied research and product development. This is fostered by:

- the great number of bright clients willing to cooperate in order to develop new products;
- the capability of Italian chemical operators to understand market needs;
- their creativity and problem solving capacity, which makes it possible to quickly find innovative and effective solutions.

Contribution of foreign-owned chemical companies to Italian economy

Sometimes it seems that Institutions and the public opinion look at foreign-owned companies with suspiciousness. On the contrary, **foreign companies create value and positive spillovers on the host Country**. Actually, by supplying intermediate goods to many different sectors, they have an important role in **promoting the competitiveness of all Italian industry**. We could even say that Italy, thanks to foreign enterprises, can better face the challenge of globalisation.

The **typical Italian customer**, either industrial or active in downstream chemicals, has the opportunity to work in partnership with major actors, often World leaders, for the development of innovative and tailor made products. This is true in particular for Italian SMEs of the so-called Made in Italy (textile, leather, furniture). These sectors present a

strong chemical content and Italian SMEs – after having won European competitors – are now facing competition from emerging Countries which require to focus more on innovation. SMEs however are seldom able to carry out structured research inhouse and need to develop innovation with a partner. As a consequence a partnership with a multinational group can be a winning solution as such companies:

- having a deep-rooted presence in Italy, **share with clients the same culture** and so are able to better understand their needs;
- thanks to their size, are able to carry on innovation strongly based on structured research, which requires large economic resources, highly qualified human resources and sophisticated equipments;
- by operating on the global markets, also single niches assume the necessary **critical mass**;
- **manage research activities in an efficient way**, also thanks to screening and systematic reporting activity.

<p>Positive contributions of foreign-owned chemical companies</p> <p>Induced economic activity Purchases from Italian suppliers for 9.5 billion Euros</p> <hr/> <p>Research and innovation Partnership with Italian SMEs (especially with Made in Italy) Worldwide leader groups Sharing of local culture Structured research Managerial approach to research activities</p> <hr/> <p>Access to international markets Clients Suppliers</p> <hr/> <p>Development of professional skills Global know how Technical and managerial skills International culture Innovation as a mental attitude</p> <hr/> <p>Training in schools and universities Scientific culture Corporate culture</p> <hr/> <p>Advanced organizing models Best practices generated all over the World High quality management Continuous strain towards improvement Organization as an instrument to develop full potential</p> <hr/> <p>Social responsibility Leadership Shared corporate culture Training of the employees Anticipation of regulatory constraints</p> <hr/> <p>Associative culture Deep-rooted presence in Italy Information exchange and benchmarking seen as real values Sensors of the competitiveness of the Italian system Staff employees</p> <hr/> <p>Safety and Environment Advanced managerial approach Widespread of best practice in local enterprises Involvement of the entire productive chain</p> <hr/> <p>Source: Federchimica</p>

Chemical multinational companies spur **Italian customers and suppliers to look at global markets:**

- they make them know new markets;
- they tend to raise the quality standards of all the value chain in which they are integrated;
- the centralization of purchases offers to Italian companies (for examples in the machinery sector) the opportunity to become supplier of the entire group, at a European or even World level.

Foreign enterprises contribute to the **training of human resources** for all the system, generating an asset which is also useful for many SMEs, inside or outside the chemical sector:

- they transfer specialized skills that University is not able to provide;
- they create managerial culture but also international culture, that is capability to quickly adapt to different local realities and to assume innovation as a mental attitude;
- they pay great attention to young people and, by organizing training courses in schools and universities (also using innovative instruments), they spread scientific and industrial culture.

Another relevant aspect is related to the introduction of **advanced management models**, which represent a point of reference and, thanks to the turnover of employees within the value chain, can be applied by many Italian SMEs. Multinational companies, in fact,

- have access to the best practises generated all over the World;
- contribute to the creation of new know how, thanks to the quality of their management and to the continuous strain towards improvement;
- consider organization as an important instrument to develop productivity and the potential of employees;
- generate winning alchemies, for example by mixing up creativity and the typical Italian innovation propensity with well-structured processes.

The leadership on the market forces foreign companies to be **leader also in social responsibility.**

- A structure “dispersed” over several Countries needs an intense training of human resources in order to create corporate culture, seen as the belonging of all the employees around the World to shared principles that should inspire daily behaviours.
- The pursuit of continuous improvement, the global presence and the importance recognised to reputation lead to anticipate regulatory constraints (for example in the areas of health, safety and environmental respect).

Foreign-owned chemical companies **take part very actively to the work of the Sector Association.** Actually 70% of the participants to all technical and scientific working groups organised by Federchimica come from those enterprises. These companies

- consider a real value the exchange of information, sharing of business practises and models, benchmarking;
- being subjected to international competition, are strong “sensors” of the competitiveness of the Italian system able to suggest more effective models on the basis of the experience in other Countries;
- being large companies, have staff employees to follow activities that are partially beyond the core business.

Such attitude of foreign chemical companies is due to the fact that, for the specific characteristics of the sector, **their presence in Italy is deep-rooted** and the host Country

cannot be considered only as a target market for their products because operating in Italy requires highly qualified and well trained human resources, innovation and a careful management of environmental and safety issues.

Especially in the area of **health, safety and environment** (HSE), the contribution of foreign enterprises to the spreading of best practises is of great relevance. Compared with companies active only on the local market, what characterises multinational groups is not really the attention to the topics related with HSE – which is shared by all companies – but the **approach adopted which is really progressed from an organisational and managerial point of view**. HSE, in fact, cannot be reached simply by respecting the rules and adopting behaviours of “common sense”. They require specific technical and managerial skills, procedures, technologies and management systems.

Actually, many of the initiatives and training courses organised by Federchimica arise from the stimulus of multinational companies. To cite only the most emblematic examples,

- Responsible Care – a voluntary program with which chemical companies adopt a systems aimed at improving products, processes and behaviours – was born in Canada and it has been spreading all over the World through the experience of multinationals.
- The will to involve all the value chain in the effort to reach the objectives of HSE led to the creation of Product Stewardship, a management system that involves the whole product life cycle and so the whole value chain.
- By joining the Emergency Transport Service (S.E.T.) – which aims at providing a specialized support in the management of emergencies related with the transportation of chemical products – foreign enterprises (but also the Italian ones) make their technical and managerial skills at disposal of Institutions.

Conclusions

In the perception of multinational companies there are many strengths connected with doing chemical business in Italy. On the other side we cannot forget the disadvantages which are related to the choice of operating in Italy. This theme, in fact, is particularly relevant for foreign enterprises that – being part of multinational groups – have to compete with the other foreign branches of the group located in other Countries. These penalizing factors are well-known and common to all industrial sectors because they are connected with the inefficiencies of the Country (energy cost, infrastructures, legislation and bureaucracy) . If such negative factors were properly solved trough an industrial policy in favour of competitiveness, foreign enterprises, as well as the Italian ones, could increase their presence, by fully developing the growth potential stemming from the strengths of Italian-based chemical industry.