

The Triple Mezzogiorno

The point of view of  
Osservatorio Regionale Banche  
Imprese di Economia e Finanza

A project work

Warsaw, September 25th/26th

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Written by:

Dr. Antonio Corvino

Dr. Riccardo Achilli

Dr. Maria Patrizia Marino

Translated by:

Dr. Maria Patrizia Marino

Dr. Emma Suaria

## **The Triple Mezzogiorno:**

**the point of view of Osservatorio Regionale Banche Imprese di Economia e  
Finanza**

**(Regional Centre Banks Companies of Economy and Finance)**

**A project work**

### *Introduction*

#### *The Southern Question in Italy*

The issue of the South of Italy has the roots in the unitary history of the Italian Nation. From the 2<sup>nd</sup> World War there were some important innovations and changes made by the economic and national policies, named the “Extraordinary intervention for Southern Italy”. There were promoted and developed infrastructural interventions and encouraged the set up of public heavy industry (chemistry, petrolchemical and iron and steel industry) and established the conditions for the achievement of private industry.

There were interventions also in the basic sector and energetic field, that did not give the expected result concerning the employment problems. After the end of the extraordinary intervention the planning of European structural funds started and now we're in the 4<sup>th</sup> cycle (2007-2013). The cohesion policies had some positive esteems, first of all a better planning culture has been introduced, giving importance to subsidiarity, local development, socio-economic partnerships, transparency, monitoring and evaluation of the interventions. Also some relevant results were obtained in the telematic and infrastructural field, in the problem of the digital divide, in the development of strategic logistic infrastructures (airports and harbor works) and in some of the big utilities (renovation of water net, differentiated disposal of rubbish) including as well as the recovery of old urban

centers. To these we should add the touristic development of some geographical areas, modernization of cities and infrastructures for the R&D and technological transfer.

There were relevant results in a effort to raise the South from a condition of poverty, backwardness and isolation, creating a productive system in industry, tourism and tertiary. This productive system previously, existed only in major urban centers, it improved the living standards of citizens and reduced the traditional isolation of the territory, which needs to be connected with the rest of the world to create the basic infrastructure for scientific research and technologic innovation. Anyway the gap in the economic growth related to the North wasn't recovered. Nowadays, the GDP per capita of the South is 57.9% of the Central and Northern Country (in 1951 was 55%). The density of firms is equal to 78,5% of the national average (in 1951 was 89,9%). The unemployment rate is equal to 179% of the national average, while the negative difference between the south of Italy and the rest of Italy grew in the last years from 17 pts in the year 2003 to 20.3 pts in 2008. The index of violent crime is steadily increasing and its differential to the national average grows from 2.6 pts in 1995 to 3.3 pts in 2006. The big flow of resources for the South (according to a study of Svimez in 1951 the public expense for Southern Italy was equal to a share of GDP that differs from year to year from 0.5% to 1%) did not satisfied those expectations for the recovery of the gap, immediately before the 2<sup>nd</sup> World War. The question is: why wasn't there a recovery in comparative terms?

### ***1.1 The Regional Centre Banks Companies of Economy and Finance***

The Regional Centre Banks Companies of Economics and Finance (OBI - Osservatorio Regionale Banche Imprese di Economia e Finanza) can provide, based on its decades-long experience of research on production systems of the South, some important answers to the question above mentioned. OBI was created in Puglia in the year 1996 in order to deepen the understanding of regional production systems, improve relations between banks and enterprises and it can be considered a good instrument for analysis and planning of the development processes on the territory, with a particular focus on

employment problems. For this purpose and in order to acquire the necessary cognitive elements OBI produces systematically since 1997, the monitoring of industrial systems (for the sectors: manufacturing, construction, ICT, tourism) in the Southern Regions through structural and cyclical surveys to assess changes in industrial development, employment and GDP. To carry out these activities and by following his vocation to seek fruitful exchanges of knowledge, OBI has made a series of agreements with some of the most important public research Institutions and individuals. The Centre also collaborates with public universities at local and national level for the preparation of projects and sector studies. In this field OBI worked, most recently, with the Department of Economics of the University of Bari, at the Project Aquifalc "The eagle and the falcon fly together" the target was to create a support for the policies of international cooperation and socio-economic development to public administrations in Italy and in Albania. OBI's partners are the major banks operating in southern and most of the major national banks, local and regional governments of Southern Italy, regional associations of industrialists. This type of composition allows OBI to have different points of view about the economic development of southern Italy, including the views of banks, the enterprises, as local administrators and of course of economic research. The research is addressed specifically to analyze the characteristics and evolution of structural models of competitiveness adopted by Southern firms, and if there is correspondence in terms of market performance, in a context where competition inevitably plays on a global scenario.

The starting point of OBI's research is just such competitive globalized scenario in a context in which the model of productive specialization of a great part of the southern economy, presents common aspects with the others emerging countries with a low labor cost. In this way the southern enterprises are exposed to a strong competition. To eliminate these risks it's necessary to abandon the traditional schemes of competitiveness, based just on the cost control, adopting a mix of economic development lever with high added value as innovation, total quality, operative flexibility, globalization of commercial and productive policies, use of good strategies of marketing and communication. OBI's

analysis want to verify the status of the development of these new paradigms of competitiveness in the southern enterprises from an internal and external point of view. The first one can be carried on in terms of “make or buy” strategies, policies for human resources. The second concerns the externalities coming from the external context, such as the relation between banks and enterprises, the economic crisis and finally some support policies for enterprises and efficiency in the Public Administration.

### ***1.2 Analysis of competitive development of the southern productive system achieved by OBI***

From our point of view, we can give a complete answer to the question above mentioned, concerning the economic-productive component. Of course, for a 100% complete study we need others types of analysis but we also have some good instruments to explain the reason of the gap between South and North of Italy.

Our study shows how the problem of inequality is not only a question of cultural differences. Reading and analyzing different studies (Assolombardia, 2007 and Osservatorio Banche Imprese, 2006) is clear how there aren't substantial differences between the competitive model of the two parts of the Country.

Actually through a benchmarking of two different studies, based on samples (a group of some enterprises of Milan and another group from Southern Regions) built with different methods, whether for Milan enterprises or Southern ones the company policies based on quality and innovative content of goods, are considered more important than any other competitive factor, such as policies of production costs reduction and prices reduction. The last ones, in fact, are adopted by Emerging Economies that have better conditions to pursue them.

Also the factors linked to the distribution widespread channels are considered very important, even if a little bit more for Southern enterprises, because they have to recovery more disadvantages than the others, in terms of control of the new markets. The human

factor seems to be less important for the both of them. Finally the Southern enterprises have acquired the same awareness of the Northern ones concerning the winning factors of competitiveness. The problem of the different growth between North and South of Italy could be explained answering to the following questions:

1. The reduced investment capability of Southern enterprises;
  2. The negative externalities coming from the external contest;
  3. The underestimation of managerial strategies related to the company organization and the human resources.
1. Southern enterprises have patrimonial and financial conditions that prevent the implementation of new competitive paradigms, that unlike need huge investments of capital. The inclination to invest became essential in order to verify the existence of an effective competitive model. In all the regions of Mezzogiorno, the percentage of companies that invested in 2006-2007 and during 2008 is always less than 50% of the total. In other words, more than an half of the southern companies is out from the process of competitive development.

*Tab. 1 – Percentage of investing Enterprises in 2006-2007 or in 2008*

	Manufacturing	Construction	ICT	Tourism
Basilicata 2007	22,6	43,3	32,5	32,7
Basilicata 2008	27,9	21,6	29,2	19,0
Calabria 2007	18,0	15,0	18,0	20,0
Calabria 2008	13,7	10,8	9,0	19,6
Campania 2007	33,3	19,8	27,5	30,4
Campania 2008	19,2	9,5	18,1	24,3
Puglia 2007	29,6	36,0	34,8	29,8
Puglia 2008	19,4	14,1	27,7	27,4
Sicilia 2007	40,4	44,3	44,3	41,5
Sicilia 2008	31,0	28,3	27,5	25,1

*Source: OBI*

We can also notice the dualism between a small group of dynamic companies and the others. These are few investing companies and they do that in a consistent way, so that the existing gap with the other part of these companies increases more and more.

Generally investing companies have the following features:

- First of all they're medium-large enterprises, so they have more financial and capital resources to invest with own means or to obtain from the banks the necessary credit; moreover they have a bigger awareness about the need of investment because they face out competitors all over the world.
- These enterprises adopt competitive and integrated strategies aiming at invest upon all relevant factors based on human capital, innovation, global quality, internationalization.

The others (smallest enterprises) aren't able to adopt this competitive model, because of financial problems.

Therefore it's clear how enterprises tend to finance own investments mostly through their own internal capability of self-financing.

All that is due to a closed governance model, that does not allow the entry of equity of the external environment. The southern productive systems are constituted mostly by SMEs with a very small capitalization degree, cash flow and assets. So, for them, it is very difficult to try self finance significant investment programs or to provide sufficient warranties to obtain credit from banks. Their small dimensions don't allow them to access to the stock exchange to obtain external capital.

2. The contextual factors create negative externalities, that make difficult to these enterprises to adapt rapidly and with low prices their competitive model to The New

Competitive Paradigm. First of all the relationships between banks and enterprises remain difficult and make hard the investment activity of the enterprises. From this point of view when it's necessary to invest, the entrepreneurs are forced to trust mainly in their own internal resources, so that the propulsive role of the credit system on the growth of enterprises and economy is under-used. Often the enterprises use public funds to finance their investment and this type of fund raising is equal or bigger than the procurement to the banks. It's clear that the huge availability of public help for the investments caused a low demand of credit from banks. This fact prevents a kind of permanent relation between banks and enterprises. There are also many internal difficulties such as the degree riskiness of the credit is high (amount of bad loans in Southern Italy is 189% of national average). This level of riskiness maintains high interests rates on loans. So the southern enterprises that borrow capitals from banks have to pay 0.7% more than enterprises of the rest of Italy. Moreover the loans from banks remain low: the ratio between investment of capital and GDP in the south of Italy is just 59% of the national average. The rules of Basel 2 have imposed strict rating systems that aren't adequate to the characteristics of the southern Italian SMEs.

Moreover, innovative finance tools (fit for investment in technological innovation in which there's a shared risk between who finances and who invests) are quite unknown in the Southern regions, except Apulia region.

The traditional and centralized framework of enterprises and the lacking in proper entrepreneurial groups determined meagerness of loans inter-company. The social forms are elementary and very often they tend to not corporate juridical forms, so that the contributions of the partners are a very rare kind of financing.

*Tab. 2 - Structure of sources of coverage in the investment of manufacturing firms, values %, multiple answers.*

	Basilicata	Calabria	Campania	Puglia
Self-financing	67,17	67,14	70,73	51,36
European/national/regional funds	24,17	15,69	9,05	19,94
Venture Capital (placement in the Stock Exchange) & innovative financial instruments	0,00	1,38	0,00	7,57
Easy and secured credit by Consortium	1,49	5,92	1,34	8,44
Medium-long term banking financing (loan agreement, mortgages)	14,00	19,14	14,88	21,05
Financing from brokerage, leasing, factoring	8,29	8,42	10,14	6,18
Short terms banking financing (loan agreement, bank discount and so on)	6,58	8,31	3,67	3,94
Others	1,71	0,55	2,69	1,42
Ns/Nr	5,02	0,49	3,44	4,66

*Source: OBI*

The negative factors of the contest have effect whether on the quantity of the investments or the quality as well. A territorial system unable to build network, where the collaboration is not diffused and the quality of the share capital is quite low, makes difficult the innovation capability of the southern enterprises; moreover all that can cause the increase of the social network costs.

The analysis of the technological district (Antonelli, 1986) and of the innovation net carried out by the economist of the GREMI (Groupe de Recherche Europeen sur les Milieux Innovateurs) states that the process of the technological transformation is promoted by

relations among enterprises and their proximity, in this scenario the role of external economies is crucial: innovation is also a consequence of local net. Unlike, the inclination to innovation of the southern enterprises is very low and even with a drop between 2006/2007 and 2008.

The collaborative research whether with the public research Institutions or with the other enterprises or kinds of district networks is very rare. The most of the enterprises are characterized by a trend to develop Innovation activities inside the firms in a autarchic way that is very suitable with the southern enterprises context since it's very fragmented.

This model for innovation is very weak because it uses just the internal resources of the enterprises and neglects the output coming from the external environment in which the firms work. The inadequacy of links with the public research system is the effect of the frame itself of this system that is yet self-referential and therefore the academic career is not market - oriented.

The funding system of Universities is yet based on the number of students and not on the quality of the research activities; moreover the potential channel of research contracts, coming from firms, is neglected.

The relations between enterprises and Academic world is limited to the single consultant contracts to a Professor or a Researcher. To make worse things, it's the fact that the southern enterprises, above all the smallest, have a limited knowledge of the innovative dynamics of their own sector, so that they aren't able to asses rightly the medium-long term utility of a collaboration with the external scientific environment such as University, Research Center or with other firms that could be potential partners. Moreover, the innovation very often is acquired through specialized suppliers but that means just the physical transfer of machinery and not even the know-how.

*Tab. 3 – Research and innovation activities in manufacturing enterprises, values %, multiple answers.*

Research with others companies	9,6	-	6,4	13,5	5,6
Projects developed through collaboration with Districts	1,0	0,8	20,6	6,4	3,0
Purchase of patents or technological licenses	8,0	3,6	11,0	2,7	2,1
Purchase of advanced machines/procedures	39,7	34,9	70,3	22,3	16,1
Other		-	-	-	3,1
Unspecified	2,1	-	-	-	13,5

*Source: OBI*

3) the southern enterprises, maybe because of the reduced size, have very often neglected the policies for the enhancement of internal organization and the human resources. The competition is pushing out towards a re-centralization in the hands of enterprises of some complex functions with an high content of knowledge and skills such as logistics, R&D, strategic planning, marketing, assistance after sale.

The new concept of “modular firm ”focus the attention on keeping the direct control upon the phases with an higher content of knowledge and towards the decentralization of the phases that are properly manufacturing.

Taking in account the enterprises in the south of Italy, except some small local differences, it's evident a common trend. They are concentrated mostly on the functions that are directly bounded with the minimum functioning of the organization i.e. the productive, commercial, administration and accountancy ones.

The complex functions like R&D, strategic planning, environment and safety are not very well considered. And the meaning of this matter is: or the firms don't deal with this kind of

activities or when they do that, they delegate to external consultants. The consequences of this kind of organization so simple is that the executives are very rare. Actually the entrepreneurs of the South take under their control the strategic and the executive direction of their own firms without any support of experts with technical skills. This way of management, taking in consideration the current situation of global competition and challenge, becomes obsolete and inadequate for the surviving of the company itself. As Rifkin said: “When you’re alone, you lost”.

So, the southern enterprises don’t do strategic planning and when they do it, this function is taken under the complete control of the owner-entrepreneur, with a minimum involving of the internal organization structure. Moreover the human resources, seen as a potential lever of development, are neglected also for the economic problem linked to the current crisis. First of all firms don’t acquire high skilled people from the labor market (a very few graduates) and the enterprises that have labor force with a low level of education don’t provide an adequate degree of training and vocational education.

*Tab. 4 – Percentage of Investing Enterprises in Vocational Training in 2007*

	Manufacturing	Constructions	ICT	Tourism
Basilicata	17,1%	42,1%	22,4%	27,1%
Calabria	11,7%	31,7%	23,7%	19,9%
Campania	25,8%	39,5%	47,7%	29,7%
Puglia	26,4%	36,4%	37,6%	12,7%
Sicila	46,1%	68,7%	50,6%	49,4%

*Source: OBI*

## **Conclusion and perspectives: OBI role in a project work on The Triple Mezzogiorno**

The survey on Southern enterprises system achieved by OBI, stresses systemic deficiencies such as absolute insufficient social capital to achieve efficient nets among enterprises, between banks and enterprises, and enterprises and public research system. And also deficiencies inside the productive system such as obsolete governance, lacking of skilled employees and complex functions. OBI thanks to decades long experience and know-how in socioeconomic research, in order to contribute to the project of The Triple Mezzogiorno, achieved a proposal that can be drawn in two essential points:

- A. To achieve a comparative study between the outcomes carried out by OBI about the productive scenario of the south and what has been done by local Institutions (to fulfill in the existent gap) in terms of policies for enterprises, for vocational education activities, for research and innovation initiatives, for cohesion policies, through the benchmarking of the regional government documents for strategic planning and assessment reports. So it will be necessary to verify if the existent gap in the competitive models of the southern enterprises has been faced up by local Institutions and, if not, why.
- B. For the project work The Triple Mezzogiorno, OBI could act as executive arm for the research activities and further draft of a common proposal of reforms and re-launch of the structural policies which takes in account the common problems and the specificities of the three different involved territories involved: Eastern Germany and Eastern Poland and the South of Italy.

From a technical point of view, OBI could use the method of direct survey to apply at samples and panels of enterprises and as well as at local Institutions, development agencies, trade unions, and so on.

This research will achieve with the collaboration of the partners of the project.

Before achieving the final part of the survey, it will be necessary a pre-phase in which establish the definition of the sample to use and the issues to deepen, also

this step will be set up in very close collaboration with delegations of Eastern Germany and Eastern Poland, involved in the project in order to choose the aspects, the issues that are actually relevant for the three territories.

So the outcomes of a such research will be analyzed all together with the partners of the project in order to stress the common problems from which to draw a proposal of revision and re-launch of policies for enterprises. For the achievement of these results, the decades long know-how of the South of Italy in structural funds will be very helpful. Of course, this kind of analysis will be able to be extended to the Triple Mezzogiorno.

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