

Enterprise in globalisation

From the multinational dimension to the global enterprise

Honourable Rector, Distinguished Professors, Ladies and Gentlemen,

I would like to express my heartfelt gratitude for the unexpected high recognition that the historic, prestigious University of Pavia has decided to bestow on me with this *Laurea honoris causa* in International Business and Economics.

Please excuse my nerves, but you must know that a 40-year old dream has come true here today. I began at the University of Messina when I was 20, and when I was 50 I started studying again in Pavia, the city I have lived in for more than 30 years, and now here we are today.

Apart from the **Honourable Rector** and the **Academic Senate**, I would also like to thank the **Economics Faculty Council** and in particular, its Dean, Professor **Carluccio Bianchi**, together with Professor **Piero Mella**, who is well-versed in the history of my company Valvitalia, because he was an eye witness to its birth and its development.

I would also like to thank my **family**, in particular my two **sons**, valuable managers and fathers of three – almost four – delightful grandchildren, and to all my **associates** with whom I want to share the pride and joy of this prestigious honorary degree, which is the fruit of everyone's passion and work.

Lastly, my thanks to the **Academic Authorities**, to my **friends** and to everyone who wanted to be here today to share this memorable moment with me.

In this speech, I would like to present some thoughts on globalisation and on the particular nature of enterprises that operate at the global level; I have matured these ideas by observing, from the entrepreneurial point of view, the characteristics of enterprises that have undertaken the road to internationalisation but whose structure places them in an even broader dimension, which means they can be defined as *global enterprises*.

Globalisation. Production network and consumption

I would like to begin with some thoughts on *globalisation*, pointing out how it, in my opinion, represents the most important capitalist process in history, a process that began last century and that is still underway, and that way back in 1928, **Don Sturzo** had prophesied as inevitable and irreversible, writing the following significant words:

“Some fear the enormous power that international capitalism has and continues to gain by overriding state boundaries and geographical limits, becoming a State in the State itself. This fear resembles that of the rivers' water; threatened by flooding, people make an effort to safeguard the city and

countryside with channels, dams and other defence facilities: they also use them for navigation, irrigation, power and so on. A large river can be a great resource and a big threat: it's up to men, largely, to avoid this danger. What does not depend on man is its existence. The same is true for the large international river of economy”.

Don Sturzo concluded:

“[...]. Against the enlargement of economic frontiers from single States to Continents, small and large national interests arise, but the movement cannot be stopped; the extension of economic boundaries will anticipate political ones. Those who do not perceive it are out of touch with reality”.

To define the globalisation process, I believe the **reticular production system model** proposed by Professor Piero Mella is significant.

In this model, the production system, which represents the driving force of the economy, is interpreted not as the set of activities by companies that produce to meet the demands of the consumers in a given territorially circumspect basin, but as a complex production network consisting of the companies themselves, which form the nodes of that network and that can only exist inasmuch as they are connected by ongoing flows of goods, services, information and capital.

No enterprise can exist and operate separately; it can only exist if it is part of a production network, where it is physiologically connected to other enterprises through the network of tangible and intangible flows that the same network produces and that it feeds off, so that only by maintaining that network can the enterprises that form its nodes operate in the long term.

With this model it is clear that we cannot assume that consumption is satisfied by single enterprises, because goods and services for consumption are the result of the action of a production and distribution network. The financial enterprises that produce financial flows to feed investments join this network as well.

If we can fill up the fuel tank in our car every day, we don't owe this to the service station that supplies the fuel or even to the oil company or the oil refinery: hundreds of enterprises form the network that makes it possible to construct and maintain the oil rigs and all their machinery, to lay thousands of kilometres of oil pipelines, to build refineries, fuel transport and fuel pumps.

My company, VALVITALIA is also part of this network, as well as the natural gas, electricity, nuclear power and water networks; its products, extremely high quality components that are essential to regulate the huge flows of oil and gas, can be found in all oil and gas pipelines and without these it would be hard to fill our car fuel tanks on a daily basis and it would be difficult for the gas stoves in our home to function.

The network is not a fixed, immutable structure. The corporate search for increasing efficiency and productivity drives inefficient nodes out of the network; these are replaced by other more efficient ones and this way, thanks to the outsourcing, delocalisation, group formation processes together with the innovative processes leading to technological specialisation, the network expands and becomes increasingly full of nodes and efficient at producing.

The first production networks were smaller, of local value. The progress in transport, the creation of infrastructures and the rapid spread of information have produced subsequent groups of local networks, generating larger networks that “encompass” increasingly wider territorial areas, with bigger and bigger user basins, in an interconnection between **consumers** and **production** and **distribution nodes** that is hard to represent but easy to grasp if, back in the late 1960s, Martin Luther King, as consumer, already clearly perceived the action of the global production network:

“When we arise in the morning, we go into the bathroom where we reach for a sponge provided for us by a Pacific Islander. We reach for soap that is created for us by a Frenchman. The towel is provided by a Turk. Then at the table we drink coffee which is provided for us by a South American, or tea by a Chinese, or cocoa by a West African. Before we leave for our jobs, we are beholden to more than half the world”.

So, with the production network model, it becomes relatively simple to grasp the meaning of *globalisation* that can be interpreted as the *process of progressive and accelerated interconnection of local and national production networks*, to form a single network that “envelops” the entire *globe*, thus becoming – *global*; a network whereby the connections between the enterprises-nodes enable the spread of innovation at a faster pace, improving productivity and the quality of goods and services and making it possible, although still unequal to improve *global* wellbeing.

Internationalisation and global enterprise

On the basis of the above considerations relative to the meaning of *globalisation*, I would now like to present some thoughts on the process of *internationalisation* and on the creation of global enterprises.

While the **globalisation** phenomenon is *exogenous* to enterprises, even if they are developed by those same enterprises, their **internationalisation** and the formation of **global enterprises** are *entrepreneurial processes* so produced by corporate *strategies* with the goal of growing in size and improving efficiency.

By **internationalisation** I mean the strategic process whereby an enterprise, *set up and located in a national production network in a given country*, becomes part of the *transnational production network* stably extending its flows with nodes-companies located in other countries.

The enterprise can internationalise in a number of ways: it can stably hook up with nodes of suppliers, clients, other production companies, distributors or consumers; or it can add other nodes to the network by creating foreign branches through offshoring processes or by acquiring foreign production units, again with the goal of making the input or output flows more efficient.

The concept of **global enterprise** and the globalisation strategy is different.

Global enterprise exceeds international enterprise, because not only does it buy or sell in different foreign countries, it also *produces with a number of production units located in different nations*, selling in different nations again to reach new geographical markets.

To describe the difference between international enterprise and global enterprise, I believe there are no more effective words than those of the economist **Alberto Quadrio Curzio** who, in an interview given more than a decade ago on the theme “Dall’impresa multinazionale all’impresa globale” (from the multinational enterprise to the global enterprise), so clearly stated:

“... while multinationals have a dominant historical country of origin, global enterprises do not have a prevalently relevant historical country of origin. There are now global enterprises with more than 70% of their sales, their assets, their employees outside their historical country of origin. Now, if an enterprise only had 70% of sales outside its historical country of origin, but most of its assets and employees inside its historical country of origin, then we can talk about an internationalised enterprise or even a multinational enterprise. But when the enterprise has more than 70% of both its assets and its employees outside its country of origin, this is **no longer a multinational enterprise, it is a global enterprise**. So these enterprises, located in several places round the globe, move and localise in markets, following the advantages that the market itself offers”.

As we can see, furthermore, on the Nextonline site of the La Sapienza University in Rome:

“Compared to the past, the new global companies have their own intrinsic capacity to be independent from any sovereign state to the point where it is difficult to pinpoint their actual nationality”.

Normally, global enterprise is a multi-product and multi-business enterprise, which obtains and trades its products in a number of countries and develops its different business units in various nations, with legally autonomous units, taking on the typical structure of the *horizontal* or *vertical group*. In fact, the most commonly adopted form is the group.

Consequently, the global enterprise can be itself structured as a **micro network of production units** that extends into several nations, within the global network and not as a single node with branches in several countries, which is the typical structure of multinational enterprises.

The top 20 most globalised companies, which are part of a broader classification of the 100 most global companies in the world, drawn up by “**Global Finance**”, includes companies from every sector such as DHL, Bayer, Shell, Nissan, IBM, Lufthansa and IKEA, even though some of these, as global as they may be, still retain strong ties to their respective countries of origin.

Valvitalia Group

In recent years, the VALVITALIA group has also undertaken an important globalisation path that can make it Global but not at the expense of losing its Italian identity. Valvitalia aims to be a global enterprise and still remain, starting from the name itself, Italian, with the undoubted advantages deriving from this, beginning with the great value that “Made in Italy” holds everywhere.

Valvitalia was established in 2002 to accomplish the entrepreneurial idea of grouping together small and medium Italian enterprises already operating in the production of specialist equipment and components, to give life to an Italian centre of valves, systems, fittings and supplementary products for the natural gas, oil and electricity industries.

In a few years, thanks to the high quality of its products and services, to the consolidated experience of its management, to the wide range and intense technological research to come up with innovative solutions, Valvitalia has acquired a unsurpassed position amongst its competitors, in this also favoured by the far-reaching choice of renowned, excellent Italian sub-suppliers of materials and mechanical works.

Thanks to its industrial success, a few years after its establishment, Valvitalia managed to develop a growth strategy for in-house lines by developing new products, and external lines with the acquisition of companies bearing historical products and brands.

This enabled the Group to expand its product range even further and to join the market segment of fittings and flanges, actuators, systems and numerous other supplementary products, following the *one stop shop* philosophy, thereby responding to the need for market operators to concentrate their orders with a single supplier.

The creation of an advanced quality management system to stimulate staff involvement and to produce ongoing improvement in all company processes, and the involvement of prime Italian financing institutions in the company structure enabled Valvitalia not only to become, in a very short time, a leading enterprise in its sector, but also to face the challenge of globalisation, turning into the

fifth biggest manufacturer in the world – and number one in Italy – with a product offer unique in its breadth.

Now, VALVITALIA can be considered an enterprise heading towards globalisation, although, as I have already said, firmly rooted in Italy, operating with 13 production plants, five in Italy and the others in England, China, India, Canada, Russia, Brazil, Saudi Arabia and the Arab Emirates as well as sales offices in Ho Chi Minh City, Abu Dhabi, Beijing, Houston, Lugarno, New Delhi, Kuala Lumpur, Moscow, Calgary and Alger.

In 2009, the Group turnover was more than 350 million euro and the total number of employees now exceeds 1000, with an average age of 38 – 40% women. These figures meant that in the 2010 edition of “Le principali Società Italiane” (leading Italian companies) compiled by Mediobanca, the Valvitalia group is in 402nd place, rising by a some 85 positions compared to the year before.

Management complexity of the global enterprise

I would like to conclude this speech with some brief thoughts on the management complexity of the global enterprise, thoughts that I have matured during the development of VALVITALIA.

Since the global enterprise is in itself a **transnational micro network**, producing and selling in various countries, through quasi-independent units, its management is more or less strongly affected by the “*local diversities*” that characterise those countries. It is precisely this that forces global enterprises to adopt strategies marked by *flexibility*, in its three forms: **investment/divestment** flexibility, flexibility of **entering/exiting** markets and flexibility in the **cultural adaptation** to the realities of the countries they operate in.

Without claiming to provide a complete list, and without giving them any order of importance, I believe that the most obvious operating specifics resulting from *local diversities* are connected to the fact that the global enterprise:

1. operates, at the same time, in different **cultural, religious and ethical contexts** that evaluate its economic and social contribution in a different way;
2. operates, at the same time, in different **political contexts** and must therefore adequately evaluate the risk of change, also unexpected. For example, Valvitalia recently had to deal with the deteriorating relationship between the international community and Iran and with the subsequent sanctions against that country, by promoting appropriate awareness in the government, which was successfully resolved.
3. is often subject to a **global opinion** in the country where the parent company of the enterprise-group is formally recognisable; therefore, an elaborate and progressive system of corporate communication with stakeholders is required;
4. operates in diverse **legal contexts** that make the management of the different companies in the group extremely complex and burdensome, often creating problems of coordination of the regulations that govern the flow of goods, services and capital;
5. develops its trade in diverse **local pricing systems**, subject to different inflation and therefore currency exchange dynamics. One example for all is the Valvitalia group factory in China that on the one hand has the advantage of production at lower costs, but on the other has to manage different inflation and currency exchange dynamics. We are all clearly aware of the recent tensions as regards the revaluation of the Chinese Yuan.

How did VALIVTALIA handle the challenges deriving from operating in a context of *local diversity*? Three solutions have been adopted to date.

The first was to create a highly qualified management in each geographical reality, attempting to acquire the best managers available with international as well as local experience.

The second solution was to guarantee qualified and compact group governance, aware that the production of value for shareholders must proceed through professional improvement of employees and the economic and social development of the local diversified realities without however losing sight of the important Italian cultural roots and leadership.

The third was to also involve the university structures – including the University of Pavia – which appeared to have more lively research into technological and management solutions useful for VALVITALIA. I would like to point out here, amongst other things, the profitable collaboration for research in the nuclear field.

To confirm the effectiveness of the choices we made and the path we have undertaken to now, Valvitalia has faced and successfully come through the recent global crisis, and continues to hire, invest, export and amass excellent results. Being global was an essential element for this success: it enabled the group to offset the weaknesses of some markets with the strength of others, to use the global job market and raw materials and to respond, with flexibility and timeliness, to a crisis that had very different characteristics in the diverse geographical and political areas of the globe.

Honourable Rector, Distinguished Professors, Ladies and Gentlemen, I would like to thank you for the opportunity you have given me and for your attention and now conclude my thoughts testifying to my entrepreneurial experience. This experience enabled me to reflect on these issues, now vital for me, and it makes me proud to have created in the Province of Pavia a flagship in world industry: Valvitalia.

Thank-you