

THE INTERNATIONALIZATION OF ITALIAN COMPANIES: A GEOGRAPHICAL PERSPECTIVE

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Abstract: In an increasingly globalized economic environment, businesses wishing to operate in foreign markets must be familiar with the cultural context of the host country, its rules and the rules of entry. Cultural shock between subjects with very different beliefs and values can lead to costly failures. The culture is therefore one of the key aspects to consider in the internationalization strategies. In fact, if cultural difference is well-managed can lead to innovative business practices and sustainable sources of competitive advantage in the opposite case the failure of the operation with the entire business consequences. In the light of contemporary social events, economic and political, the study of Islamic cultural variable for entry of Italian companies in the countries of the southern Mediterranean is a necessary condition to avoid the bankruptcy of any type of commercial operation and the more of the operations direct investment on site.

Key words: investment, Egypt, Italian companies

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INTRODUCTION

The cross-border M & A and greenfield investments nature represent a widely used mode in the years to operate in Egypt. Egypt has long been a destination for investments from abroad because of its natural resources and geographical location. Policies to support investments came to fruition in tax breaks and accessibility of ports from both side of the Mediterranean from the Red Sea. The flow of direct Italian investments to Egypt has relied primarily on a series of measures introduced by the Government relating to the start-up procedures, the tax reform, and the rules relating to the stability of the currency, by measures to reduce the bureaucracy, the establishment of a one stop shop can save time in setting up a business and the establishment of Special Economic zones, Franche, NUC and Technology Parks. However, the difficulties of accreditation from the local market, due in part to the close cultural and partly to the explicit will of the government to protect the local economy, they push to prefer as a mode of less demanding as commercial agreements. Bureaucratic delays and gray areas in the local law lend themselves, in some

cases with the explicit will of the government, to attitudes that hinder foreign operators pushing them towards group forms with local operators in order to foster the growth of the Egyptian operator skills. Barriers to entry that can be identified in the political risk, the presence of many unresolved domestic problems, the lack of liquidity, the fixed exchange rate, difficulties in access to information, cumbersome bureaucracy and the many customs difficulties.

The risk of terrorism in the tourism sector threatens the Egyptian stability since 2004 (October 7, 2004, 7:30 April 2005). The various forms of repression and censorship, restriction of certain fundamental freedoms and the impossibility for the Egyptian people to elect their representatives are the main drivers of poor economic performance. Besides these two factors, the Italian embassy's commercial office in Egypt has highlighted the problem of poor liquidity and the fixed exchange rate that determine the lengthening of payment times and the risk of insolvency of the Egyptian companies. Other challenges they may face European investors in Egypt are related to the difficulties of access to information in Egypt. The contacts with the right people are in fact the only form of access to the most relevant information. It is recommended to contact the General Authority for Investments and Free Zones (GAFI) to obtain information about the characteristics and opportunities that arise in the various sectors of the productive system.

The state and administrative-bureaucratic Egyptian system is extremely complicated and complex. Overlapping rules, the Office of skills procedures are the daily realities they face economic operators. A further difficulty for Italian companies of any size in Egypt is the lack of coordination between the Authority which promotes investment (FATF) and the customs authority formally depend on the Ministry of Finance, but in fact are completely autonomous. In addition, cultural shock between bearers of different beliefs and values can lead to costly failures. The analysis of values, beliefs, customs and language of culturally distant geographic areas is a prerequisite, although not sufficient, the entrance into new countries. The culture is therefore one of the key aspects to consider in the internationalization strategies. In fact, if cultural difference is well-managed can lead to innovative business practices and sustainable sources of competitive advantage, otherwise the operation to fail with the entire business consequences. In the light of contemporary social events, economic and political, the study of Islamic cultural variable for entry of Italian companies in Egypt represents a necessary condition for the successful completion of any type of commercial operation.

THEORETICAL FRAMEWORK

Culture is a collective mental programming, characterized by different levels of training of the process of programming. Individuals who do not have the same genes, but they received the same teachings and are subject to the same cultural norms may present values, ideas, behaviors largely common. Studies conducted by Hofstede (1980) and by scholars of Wharton published in the *Globe* on the cultural dimension common to all the Mediterranean countries in a single category called Arab world.

These studies consider as determining the basis of beliefs and values of the population of the Arab countries, the Islamic religion, which affects not only the religious life, but all aspects of social and economic life. Islam is the religion of commerce and business. In the Qur'an only a small part is about the religious

precepts to be observed, while the rest is dedicated to the social and economic behavior of individuals. According to the Sharia the property belongs to God and man is the possessor pro-tempore. If the owner makes a bad use, the community of believers can deprive him of that straight. Always according to the Moral Law, the income of an individual is to be divided into three parts: consumption, the zakat (tax Koranic) and investment. Equality and respect of the community represent an aspect of Islamic culture that creates many problems for businesses from other cultural contexts.

The clear separation from all non-Islamic cultures and the close connection between the spiritual and social life has led over the years to the affirmation of the principles of self-identity and self-categorization analysis and interaction with actors from different cultural contexts. It follows that the Islamic culture makes that Egypt has changed over time as the characteristics of a monolithic context closed to diversity which has partly broken the economic development potential.

The study of Islamic culture conducted by Hofstede (1980) has placed emphasis on the size of the high acceptance of power-distance, uncertainty rejection, individualism and masculinity orientation. As for the distance from power, Egypt prefers hierarchical bureaucracies, where the leaders are feared and respected and tend to have a paternalistic or authoritarian style, while the subordinates tend not to question the requests made to them. The measure power the degree to which individuals less powerful an organization accepts that power is distributed unequally inside. While the uncertainty waste is understood that so far as the members of an organization feel threatened by unknown situations. The Egyptian community has a low tolerance of uncertainty and minimize it adopts rules and very precise laws. From a managerial seen the Egyptian organizations refuse uncertainty, trying standardization and workplace safety. When the size of power-distance and uncertainty refusal combine, you accentuate the hierarchical bureaucracies, strong leaders emerge and confirm a change aversion on the part of local actors who become hostile to the acceptance of different cultures. According to Hofstede (2001) the relationship between the acceptance of the hierarchical distance and low uncertainty tolerance determines a strong aversion to change. The continued legitimacy of established power, in fact, merely the dominant culture to confront ideas other than their own, and in particular those of their leader.

Individualism, as opposed to collectivism, which measures the degree of interaction between individuals and between groups. Unlike the collectivist society where the relationships between the actors, in individualist societies are valued there was a resistance to have relations that may result in opportunistic behavior. In Egypt there was strong collectivist logic internal to the vertical group and a strong external individualism to the group. In other words, the individual grows in cohesive groups and numerous protective (like the family), founded on trust and obedience to the leader and is hostile to interactions with outside groups.

Finally, the degree of masculinity / femininity identifies patterns of behaviors and managerial styles. Egypt will highlight a very masculine culture that is highlighted in the status in the position, in wages. Women in Egypt are limited in their rights because of a strong religious influence. In the design of internationalization strategies of Italian companies in Egypt to consider cultural differences is a prerequisite for business success.

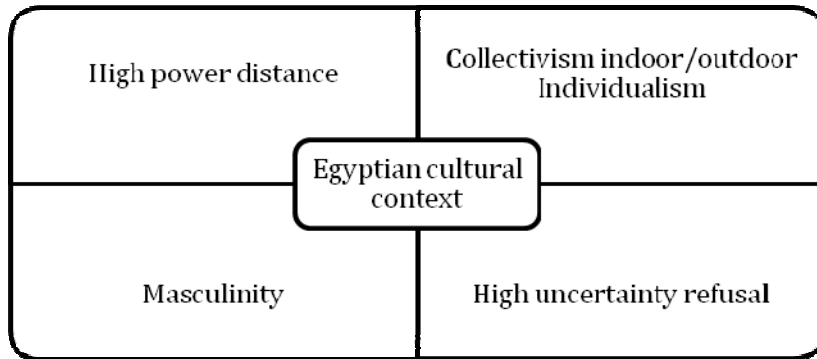


Figure 1. Egyptian cultural context
(Source: Our elaborations after Hofstede 1980)

Investigations conducted by scholars of Wharton and rissunte in Globe confirm the cultural aspects highlighted by Hofstede stressing, however, that Egypt has a level of human-orientation (4.37), performance-orientation (4.27) and future-orientation (4.27) higher than in other Arab countries. Cultural and religious peculiarities make the extremely closed the Egyptian context to trade with foreign operators. Except for the large companies that for years have been accredited in the Egyptian market, such as Eni and Pirelli, for medium-sized enterprises it is very difficult to enter the Egyptian market except by local operators. Cultural closure are added also inconsistencies and gray areas in the legal system and bureaucracy that make it difficult to enter the country is not carried by local operators.

CASE STUDY

The Tide is an Italian family-run company that deals with the production of aluminum and calcium oxide hydrate. The company's entry into Egypt was authorized by the GAFI (General Authority for Investment), for the production of aluminum sulphate. In 1991 the Director-General of the Tide, came into contact with the GOFI (General Authority for industrialization). On the basis of assurances from the local authorities in 1993, the company settled in Egypt, to produce Aluminium Sulphate. When the Tide partners decided to enter Egypt thought they could count on political stability and a latent market in strong growth. In addition, the Egyptian authorities gave full support to the Tide showing you want an industry with an international quality product. The GOFI and FATF supported the President of Tide ensuring the modification of the 1700/89 standard of Aluminium Sulphate, after the change of the drinking water standard. The only change to the standard, would lead to create fair conditions for the market, and make the product competitive and better quality, promising also an exemption from taxes for ten years to the Tide.

The presence of a monopolist in the market of aluminum sulfate, which sold a low-quality product, at a very high price represented a competitive challenge easy to win. In 1986, some Egyptian businessmen bought from Sweden an obsolete technology which generated an obsolete product. This technology was used for the production of liquid aluminum sulfate for the treatment of drinking water. The product purchased from Egypt, was considered dangerous by the Authority of the Swedish health that was conforming to standards used in Europe.

The same technology imported into Egypt in 1986, was considered dangerous even in Japan that same year they adjourned the standard on liquid aluminum sulphate for the treatment of drinking water. In Egypt, this obsolete technology has been used by the monopolist. The local monopolist Shabba Masreia treated the Aluminium Sulphate polielettrolisi through a process that accelerates the arrangement of the solid component of sulfate using polielettrolisi called particles remained in the production process and thus found them in the drinking water. The chemical reaction between the chlorine and polielettrolisi produces cyanide, a cancerous substance. So Shabba Masreia producing Aluminium Sulphate also produced poisonous materials. The product of the monopolist could not cross the borders of Egypt, because its quality was not required by the European and international market.

The Tide does not use solid aluminum sulphate, aluminum hydroxide, but according to the international quality standard "EN-878 Type1". This standard does not provide for the increase of pollutants in the water without resorting to polielettrolisi process. The competitive advantage of Tide is based on the use of recognized standards both on the European and international market at a lower price than that of the monopolist. Thanks to Tide the Egyptian market has had the opportunity to buy a better quality product at a lower price than that charged by the monopolist market.

To cope with the competitiveness of the local monopolist company was pushed to make a number of capital increases. In February 1994, the capital was brought \$ 1.2 million for an annual production of 20,000 tons of liquid aluminum sulphate. In December 2001, the share capital was increased to \$ 28 million. In August 2002 the production came to a halt, because the guarantees offered by the local authorities in the investment proposal were not kept. With the presence of Tide in the Egyptian market, the Egyptian treasury has saved more than \$ 175 million, while the company has lost everything they had invested. When Tide entered Egypt effected substantial increases in capital in order to increase production and to face a fair competition that would have been due to the increase of the standard 1700/89. During the stay Tide managed to reduce the price, however, such action was not appreciated by the monopolist. With the closure of the monopolist Tide, in the absence of competition, he began to raise the price while putting a low-quality product on the market.

In 2002 there was a change of the standard, which instead of being improved was worsened Tide managed to stabilize prices, and let the Egyptian treasury to save more than million dollars. The local authorities allowed the company was closed, because the partners could not cover the losses of the competition in an unfair market. The will of the Egyptian standards it was not brought to the international specification, and if this persists, there will always be the presence of only one manufacturer offering a product below the internazionali standards, with the approval of the Egyptian authorities. The lack of enforcement of the Law Tender and the change of the Egyptian standards on product quality have, however, led to the closure of Tide

Political decisions have given preference to products with higher polluting matter content, adopting a standard that in European countries is not considered safe for human health. This decision led to the non-application of Article. 16 of the 89/98 law called Law Tender that the product with the best quality had to have the chance to get a better price. According to this law, the Tide companies would have to get a better price, given the better quality product

than the monopolist. The monopolist used in its local Kaolin process while Tide used aluminum hydroxide which is not produced in Egypt even charging of import charges.

The legislative inconsistency that favored the monopoly position has had effects on the balance of payments, on the environment and health. So the problem, analyzed by the president of Tide, is that these difficulties exist only by the will of the powerful groups to protect a status quo that allows you to create profit without taking into account the health of the population. These subjects, in fact, do not want to create the right conditions for small and medium-sized enterprises which produce international quality products to protect the economic interests of a few at the expense of the proper function of the free market.

The approval of the 1700/2003 standard in 2003 represented a clear manifestation of the political will not to support more Tide. The company's shareholders decided to then resort to all political authorities. Egyptian President remitted the issue to the Ministerial Committee for the Arrangement for Investment Disputes. The Committee stated that the Egyptian standards was mandatory and had to be respected. The General Council of the asserted ministries recognize only the Aluminium Sulphate produced with local raw materials, not recognizing at all the usefulness of Aluminium Sulphate produced by Tide mattered some materials from abroad. He was then asked to Tide of change of production lines by local standards. Even the Ministry of Industry and Technological Development Noting that Tide used as raw material aluminum hydroxide which carries a high final cost, in addition to a high cost for the technology supported the Shabba Masreia which used local raw materials.

The notes of the respondents state that the Ministries 1700/2003 was compatible with the American standard and in accordance with European specifications. But for Tide such claims were untrue because standards were established by official organizations, and the various specifications have only a technical validity for products that are usually available on the market. The FATF addressed to the Ministry of Agriculture and Land Recovery to promote the Technical Committee, after the Committee for Investment Disputes, should have led to study the problem submitted by Tide the study was never carried out, and it was instead decided to form a committee to evaluate the Tide goods.

The FATF has freed himself from responsibility by refusing to repay what has been considered mere risk of market failure and not the agreements to respect local authority. Tide in the case, in fact, the market risk is only a consequence of the inability of the FATF to live up to the agreements reached with the company at the time of its constitution. The FATF was the only one of the Tide reference point on the sole ground that just such an authority had proposed the project to the President of Tide for the production of aluminum sulphate with certain conditions. The FATF has denied taking any commitment to the company stating that the market risk is the responsibility of investors and not the country and then Egypt.

The Tide shareholders came to Egypt to take advantage of an investment opportunity, and then to deal with a commercial competition, and instead suffered losses due to a context characterized by the unreliability of the authorities, the lack of transparency in information, of freedom in the competition. Incorrect action, denial of truth, false allegations, the abuse of power and other improper operations suffered by Tide during his presence in

Egypt, were the work of authorities and various offices. The Tide shareholders have experienced at their expense that the Egyptian authorities continue to apply the law of power and not the power of the law as it should happen to increase investors.

To solve the problem Tide, the FATF has attempted to deny the president of Tide, permission to stay in Egypt. In late December 2006, the shareholders have been accused by the political authorities to blackmail the FATF to obtain an undue benefit. The president of Tide permission is recognized and because the promoter and largest shareholder of Tide and also out in force a law that foresee for those who are over sixty years and are resident in Egypt for more than 10 years the right to renewal of residency permit. The plan prepared by the FATF to expel from the country the President of the Tide did not succeed as the president of Tide was recognized license of residence, but he is not allowed to work.

In the absence of dialogue with the authorities, the shareholders of Tide decided to publish their advertisements. What she led him to do what he was intending to convince the FATF and the Egyptian political arena Authority that they had been subject to unfair treatment and was properly re-examine everything from the point of view of investors again once again, in as the promise was not kept.

President of Tide was subsequently informed by the Italian Ministry for Foreign Affairs, that the hope of seeing the answer to the question has come to an end because the Egyptian authorities believe that the problem of Tide society is its inability to compete within the market Egyptian, is a problem only due to commercial reasons and there is no involvement of the country. So for the same company if the Authority may wish to resume production but with the aim of exporting to foreign market and not the local design, the possibility of a sale or start of legal liquidation procedures.

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