

Italy: Country Briefing

Introduction

Home to both a highly-industrialized urban economy (Northern) and a largely agrarian rural economy (Southern), including many family-owned small to mid-sized businesses, Italy has established itself as a highly desirable place to conduct business, producing the third largest GDP in the European Union (EU) and the 8th largest nominal GDP in the world (International Monetary Fund, 2018).¹ However, Italy is not without its problems. Rising political tensions both within and between other countries and government bodies (e.g. the EU), a sluggish economy, high levels of taxation, an ineffective judicial system, and a high cost of conducting business cast a shadow over creating and sustaining a business in the country. Therefore, this briefing will cover the essentials of doing business in Italy, namely, a review of the country's socio-cultural characteristics, economic history, technological capabilities, and political climate.

Socio-Cultural

Located on the Mediterranean sea, Italy is home to approximately 61 million citizens (Google, 2017). The capital of Italy is *Roma* (Rome) and the country operates on 0 Central European Time. The national language is Italian, though English is spoken around parts of the country. The government is a republic and was founded in 1946. Like most nations in the EU, Italy's currency is the Euro, which has a current exchange rate of 1 Euro = 1.12 USD (Google, 2019). The predominant religion is Roman Catholic, but Protestant, Jewish, and Muslim communities are also growing (Commisceo Global, 2019). Italian culture begins and ends with *famiglia*, the family (Santander, 2019). And like the family, relationships are essential to business (ibid). Playful rhetoric, theatrics and hand gestures, and a preference for face-to-face conversation and transactions are common place (ibid). However, in a business setting, it's important not to seem intrusive, rude, or casual. Table 1, below, displays the recommended business etiquette, given the social and cultural norms of the country.

¹ Italy's nominal GDP was \$2.1 Trillion in 2018. The IMF predict a percent change of 0.1 from 2018 to 2019.

Table 1: *Businesses Etiquette Dos and Do Nots*

Do	Do Not
Give a firm handshake. Hug and/or use the air kiss (left cheek first) once gifted one	Talk about politics (esp. WWII), family, and/or mafia
Develop a personal relationship with your clients/ business partners	Openly criticize Italy or it's people
Adhere to verbal agreements	Give a gift (A small gift may be appropriate down the line, but not at first)
Begin all business conversations formally and move to more casual language upon building a relationship	Use high-pressure sales tactics (Negations can be lengthy and data is highly regarded)
Be on time	Organize meetings in August or around Catholic festivities
Follow the lead of the host at any business-related dining (The host usually sits down first, takes the first bite, and is the first to rise at the end of the meal)	Refuse a top off of wine. This is interpreted as rude (Keep glass full if a refill is not desired)
Make a good first impression—dress up and speak formally. (Dress is indicative of lifestyle, status and skills)	Be surprised if an Italian openly disagrees with your idea. Constructive criticism is commonplace in business negotiations.
Hire an interpreter	Talk negatively about Italian food

(Kwintessential, 2019), (Commisceo Global, 2019), (World Business Culture, 2018), (Capuano, 2011)

Though business etiquette is more or less unified across the country, slight differences vary between the North and the South. The industrialized North, which includes many of Italy's most famous cities—*Roma*, *Venezia* (Venice), *Firenze* (Florence), and *Milano* (Milan)—is considered more modern, individualistic, and business-minded (Cultural Atlas, 2019). Conversely, the South, known for small enterprises, agriculture, and tourism, is associated with traditional business values and a slower pace of life (ibid). As such, business models and structures tend to be more centralized and top-down in the North, whereas they are more family-based and flat in the south (Santander, 2019).

Economic

Italy is the world's eighth largest economy and the Euro zone's third largest economy by nominal GDP (International Monetary Fund, 2018). However, the country has historically suffered—and continues to suffer—from political instability, economic uncertainty, heavy bureaucracy, stagnant productivity, and a rigid labor market (ibid). According to the Italian Institute of Statistics (Istat), Italy's economy dropped by 0.2% in Q4 2018, following a 0.1% drop in Q3 2018 (Kelley, 2019). Istat, in their analyst report, noted, a “decrease of value added in agriculture, forestry and fishing as well as in industry and a substantial stability in services” (ibid). Due to decreases in the manufacturing sector, business confidence is at its lowest point since the 2008/2009 recession (ibid). Despite the decrease in manufacturing, Italy

still remains Europe's second largest manufacturing economy and third largest exporter of flexible, manufacturable technologies (The Technology Review, 2017). For context, Table 2, below, displays key Italian economic data from 2015 to 2017.

Table 2: Economic Data from Italy, 2015-2017

	2015	2016	2017
Population (million)	60.8	60.7	60.6
Economic Growth (GDP, annual variation in %)	0.8	1.0	1.6
Exports (GDP, annual variation in %)	4.2	2.6	6.0
Imports (GDP, annual variation in %)	6.6	3.8	5.7
Unemployment Rate	11.9	11.7	11.3
Inflation Rate (HICP, annual variation in %)	0.1	-0.1	1.3
Stock Market (annual variation in %)	12.7	-10.2	13.6
Trade Balance (EUR billion)	41.8	49.6	47.4

(Focus Economics, 2018), (International Monetary Fund, 2018)

The Italian economy edged out of recession in Q1 2019, growing by 0.2% (Romei, 2019). Yet, just two months later, in March 2019, unemployment hit a 7-year low (ibid). The biggest challenge for Italy, however, is its rising national debt, which is currently at 132% of national GDP, the second largest in the EU behind Greece (ibid). Given the gravity of the circumstance, the EU is threatening disciplinary action against the country, but no resolute decisions have been made as of yet.²

Technological Capabilities

Once known for its production of sports cars (*Maserati, Ferrari, Lamborghini*, etc.), Italy has since transformed itself into a hotbed for tech talent. Out of the top 100 most innovative universities, Italy is home to three: Polytechnic University of Milan (#44), University of Milan (#66), and Sapienza University Rome (#81) (Lavinder, 2018). PoliHub, the incubator at the Polytechnic University of Milan, is ranked one of the top 10 best incubators in all of Europe (ibid).³ From a talent perspective, these universities provide great human capital to both local and global tech companies.

² The Italian government continues to face tremendous pressure, both from other countries and the EU, to jumpstart the local economy. The EU could fine the Italian government up to 3 billion euro for breaking spending/borrowing rules (Boffey and Giuffrida, 2019).

³ PoliHub has incubated nearly 100 startups and 5 major international and national acquisitions (Lavinder, 2018).

According to the Italian Trade Agency (ITA), 60% of Italy’s exports are machinery, technology, and robots, suggesting strong innovation by Italian businesses, both large and small (The Technology Review, 2016). More than 500 Italian companies, for example, conduct business regularly with U.S. tech organizations, including Boeing, Ford, and NASA (The Technology Review, 2017). Additionally, in 2017, IBM announced plans to launch its first Watson Health European Center of Excellence in Milan (ibid). “The [IBM] center will be responsible for developing new diagnostic systems, new therapeutic solutions, and personalized medicine,” according to Michele Scannavini, President of the ITA (ibid).

However, Italy still has room to grow technologically. Largely due to the socio-cultural emphasis on conducting business in-person, internet penetration is only at 58% (Passport to Trade, 2019). In fact, in 2016, the ITA noted “that only about 10 percent of Italian companies sell goods and services online and only about 25 percent use the web for purchasing,” indicating a need to “catch up” with other advanced societies (The Technology Review, 2017).

Political Climate

The Italians are no strangers when it comes to political unrest. Since World War II, Italy has had 66 different governments (BBC News, 2019). Currently, the Italian Prime Minister, Giuseppe Conte, has threatened to step down if political infighting between The League and the Five Star Movement, two of the country’s leading political parties, does not cease (ibid). Figure 1, below, displays the political parties currently represented in the the Italian parliament. Notice that the Five Star Movement and the League hold the greatest share of seats.

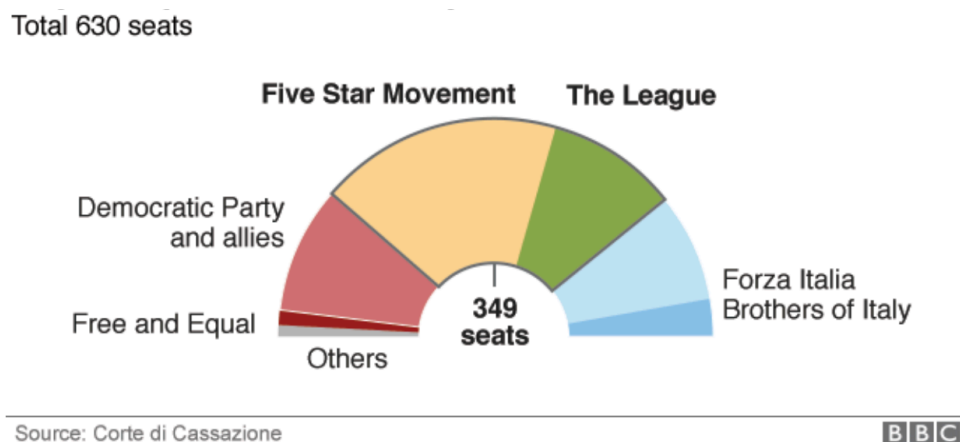


Figure 1: Populist Parties in the Italian Government (BBC News, 2019)

At this time, the Italian government faces a complex 2020 budget process, in response to increasing pressure from the EU, and Prime Minister Conte has asked financial markets to “have confidence” in his government in both their negotiation with the EU and in leading the country (Ellyatt, 2019). Though political tensions are high, this should not affect the day-to-day operation of businesses.

Conclusion

Despite economic and political uncertainty, Italy provides a strong environment for business. Home to technologically-advanced universities and technology-capable companies and businesses partnerships, Italy provides an intriguing environment to conduct business, be it in the form of a startup, local office, or satellite office.

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