

SOCIAL-ENVIRONMENTAL IMPACTS OF ITALIAN WOOD-WORKING INDUSTRY INTERNATIONALISATION: a case-study in Romania

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Milano, June 22nd, 2006

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INTRODUCTION

Limited CSR initiatives in the Italian wood processing sector

INTERNAL factors

EXTERNAL factors

- mainly SME (97% with less 20 emp.)
- DESIGN – QUALITY – FLEXIBILITY
- limited direct marketing
- Reactive, NOT PROactive to CSR

- limited commitment of public authorities (Italy is 14th in EU for implementation of FLEGT – WWF 2004)
- limited consumers awareness on illegality in wood supply chain (fashion, design, quality of furniture)

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THE ITALIAN WOOD-WORKING & FURNITURE SECTOR 1/2

- World leader productive sector (now, since 2005, 2nd after China)
- 400,000 employed (directly & indirectly)
- 42 billions Euro (2000) ⇒ 5,3% of Italian industrial production
- SMEs with production-oriented culture (low R&D)
- scarce domestic wood supply

high consumption of high quality timber (tropical & temperate hardwood)

1st importer from: Cameroon, Ivory Coast, Romania, Bosnia, Albania, ... (2000)

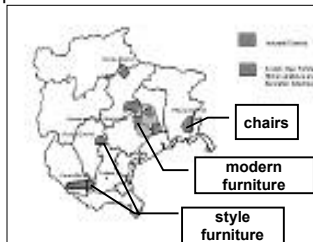
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THE ITALIAN WOOD-WORKING & FURNITURE SECTOR 2/2

- Industrial Districts (IDs) = spontaneous local networks of SMEs*
- Strong vertical integration
- High differentiation
- Few large enterprises
- Wood-working machineries
- International leadership and new competitors (Asia & CEE)



*family based

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INTERNATIONALISATION AND DELOCALISATION

- Enterprises, industrial groups, companies decide to re-allocate over the national borders their productive units driven by 3 main forces:

1. MARKET EXPANSION
2. MINIMISATION of COSTs (wages, transportation, administration, low taxation, low environmental cost)
3. GLOBALISATION processes (combine market strategy, cost strategy, growth strategy and social dynamics)

Products are generally re-imported to keep the *Made in Italy* (design & control)

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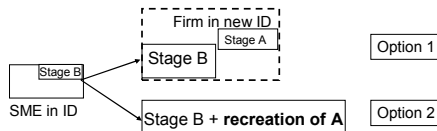
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INTERNATIONALISATION OF WOOD-FURNITURE SECTOR

Special features:

- late reaction to international pressure
- **first:** market expansion by showrooms and trade points
- **later:** delocalisation of productive stages (labour intensive – high quality timber)

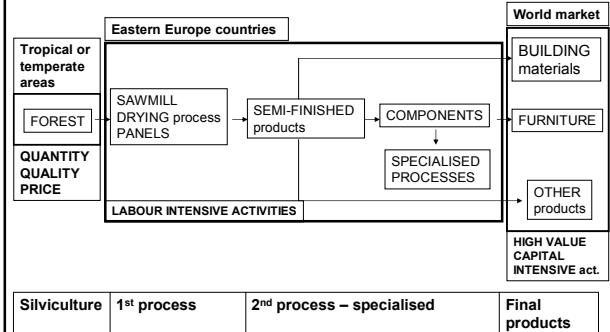


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DELOCALISATION of INDUSTRIAL ACTIVITIES IN THE WOOD PRODUCTS VALUE CHAIN



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DELOCALISATION in ROMANIA 1/2

REASONS & FEATURES

- Italy is the **first commercial partner** for Romania
- more than **3,000 enterprises** in different sectors (SMEs from IDs of NE-Italy) - 50% are *Limited Company*
- Italy is only the **6th country** for direct investments (ICE, 2004)
- **similar cultural and linguistic background**
- **“pushing factor”** by Italian Gov. to stimulate the investments in the EEC (FINEST and SIMEST financing institutions)

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DELOCALISATION in ROMANIA 2/2

PRESENT SITUATION

- **competitive advantages are less attractive:**
 - Labour cost
 - Timber price
 - Energetic costs
- Italian investors are facing the **challenge:**
 - a) to reinforce the previous investment
 - b) to move to even eastern part of Europe
 - c) to go back to Italy

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EFFECTS of DELOCALISATION in ROMANIA

Impacts at various levels (from statistics):

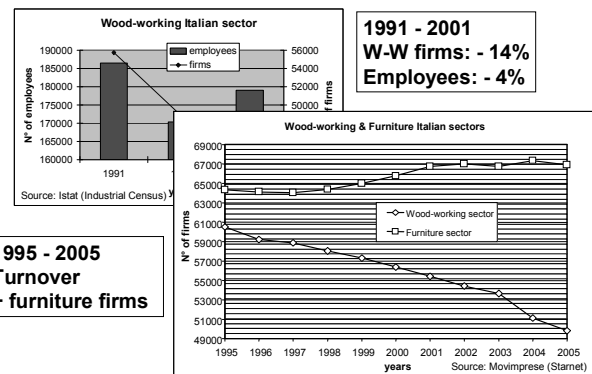
- A. decreased level of economic activity of the wood working companies based in Italy;
- B. impacts in Romanian wood-working capacity;
- C. specialisation of industries operating in Italy;
- D. strong pressure on Romanian forest resources

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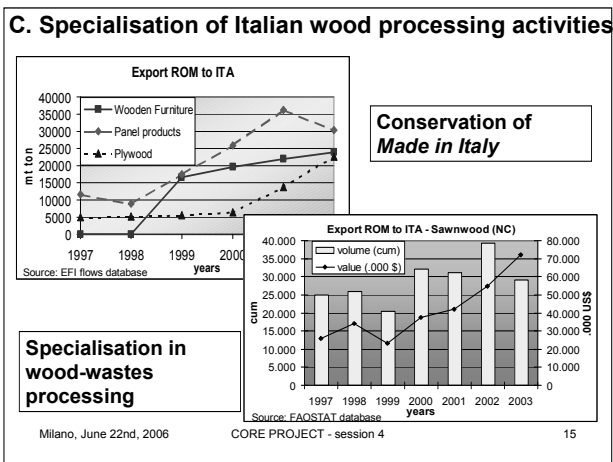
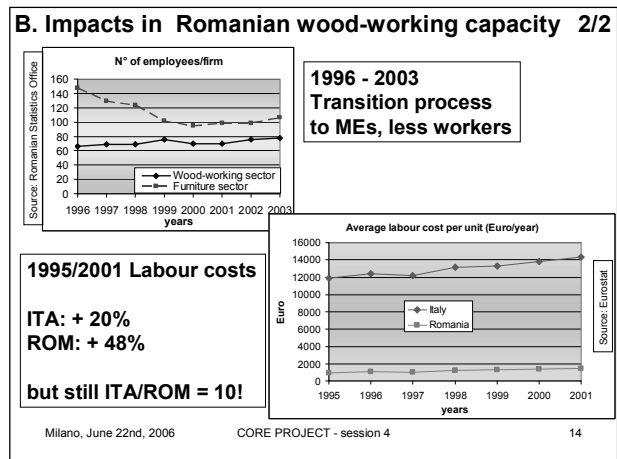
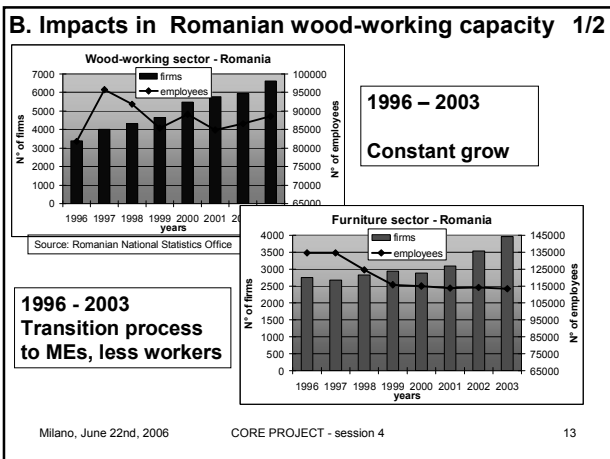
A. Reduction of Italian wood-working capacity



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D. Environmental Impacts

- Between 1990 and 2000, Romania lost 500 ha/year of forest (0.01% year)
- Deforestation mainly in high value timber forests

⇒ to compensate the decreasing availability of high quality-large diameter logs companies declared they have to import up to **30% of their supply from Ukraine**

indirect (by *triangular trade*) environmental impacts may affect also tropical forests...

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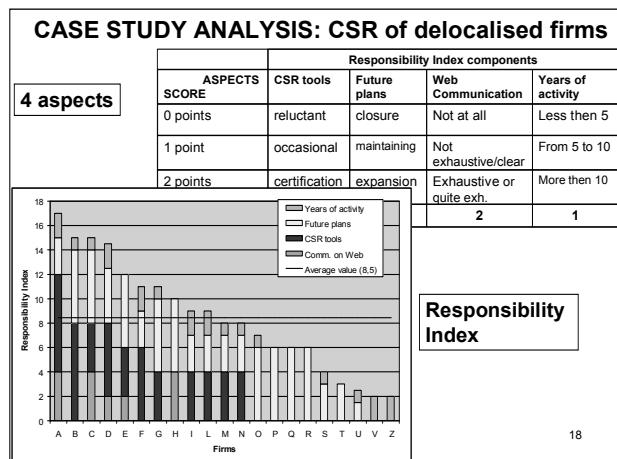
THE CASE STUDY

- 25 enterprises interviewed (different dimensions)
- 22 Limited Companies
- 7 operative for more than 10 years
- not all "real" delocalisation cases, some FDI
- scarce re-creation of IDs

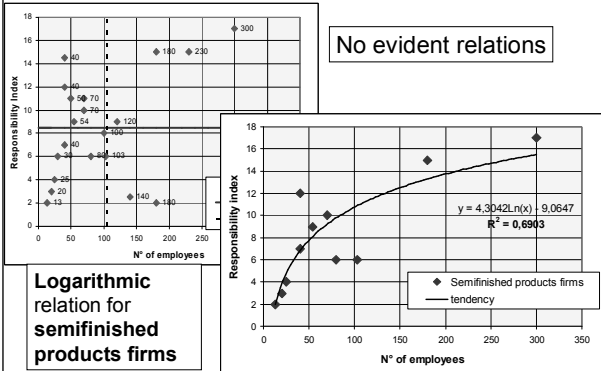
THE SAMPLE

Product	Firms	Average n° of employees	Processed volumes (cum/year)
Furniture	7	65	800
Panels	1	230	10,000
Floors	4	197	10,333
Semi-finished products	11	84	10,050
Laminated beams	1	50	35,000
Timber trade	1	180	n.a.
Average values		106	10,081

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CASE STUDY ANALYSIS: Results



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CONCLUSIONS

- ✓ **similar aptitudes of delocalised SMEs, in terms of CSR initiatives**, assumed by the original firms in Italy
- ✓ flexible **Romanian legislation** contributes to reduce the social responsible approach
- ✓ **labour intensity seems not to be sufficient** to adopt CSR initiatives.
- ✓ companies that decide to adopt higher level of CSR tools **react to a specific request of the market**
- ✓ **much more attention should be put on CSR issues** by Italian delocalised companies, at least as **new competitive tools**.