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STRATEGIC PUBLIC MANAGEMENT FOR SME COMPETITIVENESS IN
PROCESSES OF INTERNATIONALISATION OF THE ITALIAN ECONOMY

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# STRATEGIC PUBLIC MANAGEMENT FOR SME COMPETITIVENESS IN PROCESSES OF INTERNATIONALISATION OF THE ITALIAN ECONOMY

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Giorgia Citarella’s PhD Thesis “Strategic Public Management for SME Competitiveness in Processes of Internationalisation of the Italian Economy”, collocated in the applied scientific research & development strand which examines problems from their structural elements inserted within a rigorous theoretical and methodological framework, deals with and discusses an issue of extreme interest for the Italian economy.

The multi-perspective knowledge-intensive study contributes to no small extent to considerable added value to the issue of Small and Medium-sized Enterprises (SMEs) that constitute the backbone of the Italian economic system not only in terms of size and contribution to GDP (in excess of 90%), but also for the ability to innovate within the global competitive context in terms of product quality and services. Secondly, internationalisation is a crucial dimension for a country such as Italy, desiring more sustained and sustainable growth compared to the last two decades. Thirdly, public-private partnership, frequently evoked in debates and conferences is still little applied in practice, partly due to the fact that the process has not yet overcome the limits of mutual distrust.

The objective of the present study is to analyse the factors contributing to country competitiveness which depend on internal and external conditions. The former, of a positive nature, are mainly linked to the entrepreneurial profile of SMEs, dynamic and flexible, capable of resisting and reacting to external shocks deriving from scientific and technological progress as well as from the expectations of consumers or new markets more difficult to penetrate given their geopolitical dynamics. Further elements of impact include country-related negative aspects and internal issues linked to the relations between enterprise and the financial system, businesses and the Public Administration, but also to the lack of organic economic and industrial policies. In geopolitical terms, the external issues impacting on
competitiveness are mainly represented by Italy’s limited relevance in global relations, in particular in the European context.

Appreciable is the applied scientific research & development strategic approach, because Citarella does not dwell on the tools and techniques, but on one hand, analyses the underlying reasons for the difficult relationship between SMEs and the Public Administrative System, on the other, she identifies the key factors of success in the global competitive arena. In particular, in PART ONE “THE ITALIAN ECONOMY AND INTERNATIONALISATION” the analytical framework is presented, while in PART TWO “STRATEGIC PUBLIC MANAGEMENT FOR THE COMPETITIVENESS OF ITALIAN SMEs” articulated proposals on potential strategies are highlighted.

PART ONE, in an organically structured literature review, presents numerous references concerning the Italian economy and the factors of competitiveness in international markets. The interesting and systemic interpretation of the evolutionary dynamics of the global economy and Citarella’s ability to grasp the implications of the processes of deconstruction and renewal of the productive system should be underlined. Such reference is of significant importance for assessing the problematic issues of a country such as Italy, which, despite being burdened by an extremely onerous national debt, is in any case the second most important industrial economy in Europe.

In this context, the difficulties of various business sectors, accentuated by the austerity policies that prevailed in Europe following the 2007-2008 crisis, have been balanced by the flexibility with which many enterprises have been able to innovate and rediscover a new strategic positioning, highlighted with particular effect in Paragraph 3 of CHAPTER 1 “COMPETING ON INTERNATIONAL MARKETS”.

CHAPTER 2 “SMES AND THE EUROPEAN HORIZON” declines the positioning of SMEs with reference to European policies. The Chapter is introduced by an affirmation that represents the leitmotif of the entire discussion: «A more efficient public sector also has repercussions in a specific territorial context» (p. 40). Evoking the relation between European policies, national policies, business choices and
territorial areas of reference, the link is also reiterated in Paragraph 2, dealing specifically with the Italian context.

CHAPTER 2 closes by stating that, in our modern economy, policies are no longer feasible in “managerial” terms, but must be characterised as support, direction and definition of rules that respect and even enhance entrepreneurial autonomy, which finds its maximum expression in SME viability. In this respect, it has been observed opportunely, that large companies thrive above all for their power to influence the markets and the behaviour of hundreds of millions of consumers, while SMEs thrive for their ability to innovate, to grasp opportunities, to “slough off their skins”, keeping unchanged what Keynes defined as “animal spirit”.

PART TWO clearly, is a programme of applied scientific research & development, for qualifying, in a modern sense, public policies in support of internationalisation. The analyses start with the realistic observation that «in a scenario of productive internationalisation, Italy lags behind other major European countries in terms of foreign investment depending on whether incoming FDIs are the terms of comparison» (p. 69).

Subsequently, the reflections continue with a detailed analysis of the role of SMEs for competitiveness, as exports and internationalisation have always been determinants of development in counties such as Italy with no raw materials and which rely on transformation processes for the creation of added value (extremely significant in the 1960s and 1970s, while more limited in the 1980s, less so in the 1990s and negative with the crisis of 2007-2008) (CHAPTER 1 “STRATEGIES FOR INTERNATIONALISATION”, Paragraph 2).

The relation between public policies, business decisions and territorial areas is the object of the specific focus on the economy of the Southern Italian Regions (CHAPTER 1, Paragraph 5). In this regard, Citarella highlights, with appropriate technical-scientific arguments, that the strategies of public intervention will remain only on paper or in laws, if they are not accompanied by suitable tools that enable the shift from objectives to programmes to implementation. Therefore, the study can be collocated in the ambit of those that claim the results of “good laws or policies with limited implementation” are inferior to “mediocre laws or policies with high implementary capacity”.
In Chapter 2 “The Vision of Italian Organisations, Institutions and Public Corporations, Part Two, Citarella develops the issue of the various tools, in line with a classical theoretical-methodological framework: first of all a vision is needed, strategies coherent with the same and interventions considered not separately but unitarily or, so to speak, able to activate positive synergies. The vision entails a Public Administration that overcomes the bureaucratic model and New Public Management (focused on internal efficiencies) adopting the model of “system governance”. The coherence of the strategy derives from the definition of functions, roles and responsibilities of various public Institutions and Organisations, not superimposed (as this would create inter-institutional conflicts), without leaving operational gaps (as this would not allow companies, especially SMEs, to develop) and without contradictory principles (as this would cause uncertainty and blocked decision-making for entrepreneurs and managers).

Subsequently, the role of ICE, SIMEST and SACE are analysed in detail, the potential of which is highlighted, as well as elements of weakness in the processes. The critical analysis put in place by the young researcher, emphasises above all such potential, even if highlighted against the backdrop that they have not been fully expressed to date, due especially to the difficulties of public Institutions and Organisations to avail themselves of the necessary knowledge and skills required by the challenges of global competition, totally different from those of mere export processes of recent decades.

Paragraphs 3 and 4 of Chapter 2 focus attention on a further critical issue, that of limited investment for competing not in terms of individual companies, but in systemic terms of the country as a whole. Also in this case, the study proposes a “proactive” model in relation to the investment needs of SMEs, which in practice are limited in the Italian financial system. Finally, Paragraph 5 is symptomatic, with the focus on the “problem of problems” i.e. coordination. Italy has always been characterised by excellence relative to individuals, businesses and various Public Administrations, but finds itself in difficulty when acting in a “team” context. In other words, joining forces for strong competitive positioning.
This closes the circle of technical-scientific analyses and reflections with the recovery of a strategic vision, without which the obstacles deriving from the limited dimensions of the country cannot be overcome, in terms of territory, population and GDP.

Certainly, this broad ranging and scrupulous commitment to applied scientific research & development, conducted according to the canons of modern academia, gives the attentive reader much stimulus for reflection.

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Preface. – In recent decades the nature and objectives of government action have been influenced by a series of interconnected phenomena such as the globalisation of socio-economic and cultural processes, the transition to a ‘post-Fordist’ production and regulatory model, the renewed interest in socio-economic dynamics at territorial scale but above all, by the significant process of reform of the public sector in response to the transformations of contemporary society and economies. Such changes have led to new challenges for Public Administrations not only in terms of internal management, but also in response to new territorial needs for guiding processes of development, territory enhancement and competitiveness. In this context, both the literature and praxis confirm that the penetration of foreign markets constitutes an efficacious response to environmental change by strengthening corporate competitiveness, given that any enterprise, large or small has, at least in theory, an extremely relevant number of potential options for development abroad. It is well known that to obtain results, especially on highly competitive markets, time and investment are essential.

In coherence with the PhD curriculum in MANAGEMENT & INFORMATION TECHNOLOGY – ECONOMICS AND MANAGEMENT OF PUBLIC ENTERPRISE, the Research Project STRATEGIC PUBLIC MANAGEMENT FOR SME COMPETITIVENESS IN PROCESSES OF INTERNATIONALISATION OF THE ITALIAN ECONOMY pursues the strategic goal of proposing interdisciplinary reflection on the interactions of Organisational, Institutional and Public Corporation systems in the dynamics of competitive development of Small and Medium-sized Enterprises (SMEs). In particular, our aim was to investigate and study the role of Strategic Public Management in the reorganisation of the SME value chain, with reference to internationalisation processes of the Italian economy.
Stakeholders albeit with often conflicting objectives, through their knowledge, skills and actions contribute to local government commensurate with their characteristics and relative areas of interest. For the purpose of this study, particular attention was addressed to the capacity of Strategic Public Management to activate reticular relations between SMEs, organisations and other relevant subjects of the territory, individual and collective, public and private and Public Administrations (See Klijn and Koppenjan, 2000). Such relations furthermore, being multiple and multifaceted can be analysed on the basis of various approaches (See Zuffada, 2000; Borgonovi, Marsilio and Musi, 2006)\(^1\). This implies discussing how public strategies of support for SME competitiveness are formulated; how entrepreneurial strategies for internationalisation are supported by Public Administrations and the type of relation established (vertical or horizontal), characterised by top-down processes – able to ensure coherence of the system, including the optimal allocation of available resources – and/or of the bottom-up type, to meet the needs of the territory\(^2\); how strategies of public support for competitiveness are devised and how corporate strategies are sustained by Public Administrations.

A further objective of the study, based on qualitative research methodology, was to devise an interpretative model in terms of analytical tools, functional roles and interactions from an interdisciplinary perspective, including the analysis of primary and secondary sources, documents and observed trends.

From the initial stages of the PhD thesis the study, underpinned by a deductive approach starting from the theoretical backdrop of a literature review examined, the main research strands on public policies supporting processes of SME internationalisation, at national and international scale.

\(^1\) Relations are direct, relative to enterprises (regulated or limited by legislation) or indirect (conditions established by Public Administrations in terms of institutional policy and socio-cultural and economic elements of the territory in which SMEs operate).

\(^2\) Moreover, the relationships described above can be interpreted differently according to the variable degree of interdependence between Public Administrations and SMEs. Therefore, exchanges can take place with a view to: - separation, which provides for a hierarchical relation between Public Administration and SMEs; - occasional collaboration; - network or networks characterised by more or less stable forms of collaboration, where each subject maintains its identity and performs specific functions, the results of which influence more or less significantly those of others; - public-private partnerships, i.e. forms of collaboration governed by specific agreements and contractual forms.
Subsequently, specific case studies to ascertain coherence between theory and practice were analysed in depth together with the tools and methods Strategic Public Management puts in place to achieve such objectives, highlighting potential critiques or elements of theoretical-applicative interest.

Scientific contributions to a comprehensive theoretical framework of support for the studies initiated, took into account the interrelations between the themes of globalisation of the world economy, the internationalisation of the Italian economy and the reorganisation of SMEs, the dynamics of which were discussed by Prof. Marco Pellicano (TUTOR), internationally trained experts and scholars, including Prof. Christian Sellar (University of Mississippi) and Prof. M. Jean-Pierre Lozato Giotart (Université Sorbonne Nouvelle Paris III) providing valuable research indications, in-depth analysis and reflection on issues concerning the Research Project. Furthermore, problematic issues related to competitiveness and the models of economic and territorial development in a scenario of rapid technological transformations and changing global conditions, were examined through specific technico-scientific investigation and applied research carried out by OPSAT (OBSERVATORY FOR SUSTAINABLE DEVELOPMENT AND TERRITORY PLANNING) of the University of Salerno.

An issue of extreme public interest, our study attempts to contribute to research on internationalisation by analysing the fundamental role Institutions and Public Sector Organisations play in supporting competitiveness, a decisive factor which emerges from numerous studies (See Bianchi, 2001; Panozzo, 2005), dependent on a complex system of exogenous and endogenous variables.

In recent decades, public/private relations have changed significantly to meet needs arising from changed socio-economic scenarios, increasingly characterised by the complex integration of real and financial markets. In particular, from the analysis of national and international literature, two paradigms emerge: that of the modernisation processes of Public Administrations of the late 1990’s, to offer businesses services adapted to multiple and differentiated needs, in consideration of the rapid changes in act and that of Public Administrations at both individual

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3 Competitiveness is defined by OECD as “the degree in which it can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the longer term” (See OECD, 1992, p. 237).
enterprise and at systems scale evolving with the awareness of the needs of society and the Community (stakeholders, citizens, enterprise and the Third Sector) that they cater for. However, such processes do not always occur contemporaneously and often lead to various tensions. An analysis of institutional change and in particular, the role Strategic Public Management has to play in modern society highlights the shifting vision of the conception of the State and its functions. Such evolution can be articulated in 4 phases: 1. State and Citizen Rights; 2. Welfare State; 3. Service State; 4. New Public Management and Governance.

The consolidating of the ‘entrepreneurial’ role of the State (See Borgonovi, 1996) and the growing diversification of Public Administration functions and activities (See Rebora and Meneguzzo, 1990) led to the so-called ‘Service State’ characterised by the direct production of goods and services on the part of the Public Administrations. During this phase, fiscal measures were increased to meet the costs with relative citizen malcontent and domestic demand increased together with the quali-quantitative levels of services expected. Tax relief measures and limited State intervention led to the fourth phase consisting in policies for privatisation, outsourcing and deregulation. New Public Management covered entire sectors of the economy while the tendency to include stakeholders in the definition and implementation of public policy was defined within the paradigm of Public Governance (See Mayntz, 2006).

New Public Management and Public Governance therefore, play a significant role in the evolution of the theories of Public Administration. New Public Management (See Aucoin, 1990; Hood, 1991; Barzelay, 2001; Gruening, 2001; Pollitt and Bouckaert, 2004) studies processes of change and rationalisation in Public Administrations relative to organisation, management, information and control. In particular, the focus pivots on the search for the best technical-

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4 In its traditional conception, the State was a super partes body in line with the model of the State and Citizen Rights entrusting to the Public Administrations the delivery of collective goods, i.e. non-exclusive and indivisible in use where private enterprise had no interest in producing nor the market, interest in trading for profit. Subsequently, the Model of Welfare State obliged Administrations to distribute resources and to balance periods of crisis with political or economic intervention of public interest. During this phase generally, State intervention which had been limited merely to tax measures and management of the collective heritage, included the production of goods and services previously the prerogative of private enterprise.
productive solution using typical business principles, logics and tools, appropriately adapted to public realities. Despite the application of this paradigm, albeit in different forms and ways, in numerous countries (See Jones, Schedler and Mussari, 2004), criticism is a constant, focused on the excessive proximity to enterprises and rigidity to some extent impeding the devising of appropriate solutions to the organisational and management specificities of Public Administrations (See Hood, 1991; Meneguzzo, 1995).

From a historical viewpoint, some of the theories that have created consensus for rationalising the public sector include: the neo-classical economic theory (See Friedman and Friedman, 1980), the ‘public choice theory’ (See Stigler, 1975) and the ‘principal/agent theory’ (See Vickers and Yarrow, 1988). According to the ‘public choice’ theory, public employees like politicians are motivated by the pursuit of personal interests rather than the collective good and in effect, compared to the private sector, the State has insufficient means to impede such trends. A further element takes into account that the market boasts far more efficacious mechanisms of transparency and responsibility. Consequently, theory favours resort to the private sector as opposed to the public sector.

The goals of the theory of the principal/agent, were initially developed for the private sector basically to define mechanisms of control and governance. In the public sector, shareholders and stakeholders are represented by the community or groups of citizens with often contrasting interests. In this case, the re-dimensioning of the State in favour of the private sector enables systems of monitoring between principal and agent.

Recently, the issue of transition from the model of ‘Service State’ has been discussed given the critiques related to the initial phases of New Public Management where a series of economic and political crises during the 1980s and 1990s seriously questioned the viability of deregulation and privatisation processes.

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5This model of management of the public sector at the beginning of the 1990s had become widespread in most of the economically advanced and ongoing in developing countries. For Pollitt (1993) managerialism has impacted to a limited extent as it merely represents a simple re-proposing of Taylorism. Critiques of New Public Management pivot on the problems resulting from applying standard approaches to the public context. In other words, economic theory applied to the private sector loses significance when applied to the public sector given that the relation supplier/consumer differs markedly from that of the Public Administration/citizen (See Pollitt, 1993).
A change in the economic and social context has pushed towards overcoming the ideological dichotomy between State-market and the real dichotomy between public-private. Mintzberg (1996) underlines how the application of the business model to govern the Public Administration would lead to the limited approach of treating stakeholders as consumers when in effect, citizens have rights and clients have complex needs.

The new approach called Governance replaced the model of direct government both in the definition of public policies and in the delivery of public services. While government can be intended as the exercising of decision making powers deriving from the formal institutional system, the concept of governance is associated to the exercising of formal and informal powers to create consensus for public choices and is characterised by the centrality of interaction with actors at various tiers of the social scale and the coordination of networks oriented towards the external socio-economic context (See Meneguzzo, 1996).

With particular reference to the Public Administration, governance represents the capacity to blend the interests of various stakeholders approving mutually advantageous policies both within the Administrations and with actors outside (See Mayntz, 1998). Rhodes (1996) meanwhile defines governance as a non hierarchical form of government in which enterprise and private sector institutions participate in defining and implementing public policy. The governance approach in terms of public decision making should lead to more effective solutions given that more detailed information can be analysed and a wider range of opinions and diverse values taken into consideration to guarantee greater adaptation and flexibility (Scharpf, 1996).

Borgonovi (2005) for his part, highlights how governance logics depend exclusively on the formal exercising of power on the part of government bodies, in other words, on established rules that enable or otherwise, to overcome the traditional conception of direct government. Determining factors are the political and administrative culture widespread among the ruling classes; the division of power and the level of decentralising between central and local Administrations; the formalising of procedures and the strictness of regulations relative to public
employment, the formal and informal relations between Public Administrations and private sector enterprise, the range of public-private partnership and the mutual knowledge triggered, not to mention the propensity for corporate social responsibility in the private sector.

The governance model seems to meet the requirements of efficacy and efficiency of the complex challenges Public Administrations are obliged to face in this particular phase, and the potential risks involved in participation and cooperation.

From a theoretical point of view, the line of studies known as Public Governance expresses the need to modernise Public Administrations, implementing policies based on a virtuous relationship with the external environment (See Kooiman and Van Vliet, 1993; Kickert, 1997). The need for compatible development not only from an economic, but also environmental and social point of view, determines the inability to solve many problems autonomously. In order to tackle them, innovative methods of governance should be activated based on public-private cooperation and on interaction with civil society (See Meneguzzo, 1995). In short, the themes selected, in-depth analysis, in line with the field and domain of study of the Economics and Management of Public Companies contribute to creating a solid scientific basis for the development of the content of the PhD thesis.

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6 Diverse models of governance characterise the forms of cooperation between government and external subjects in defining public policies: - Direct Negotiation between Public Administrations and private enterprise, typically aggregated into groups of interest; - Public-private partnerships for the devising of public policies; - Corporate self regulation where private organisations carry out regulatory activities for the satisfaction of collective interest. In recent years an ulterior model of governance has emerged i.e. citizen and association co-participation in defining public policy. An example is participation in local Authority balance sheets, planning, participation or joint local Health Plans, the use of new technologies for citizen inclusion and citizen preferences in defining public services.
ABSTRACT

A brief overview of Italy’s macroeconomic scenario in the context of EU dynamics has triggered reflection on the effective possibility of promoting a potentially strategic vision for SME internationalisation. In particular, scientific interest was targeted at Strategic Public Management for SME competitiveness, centred on guidelines for internationalisation. At the same time, developments in processes of internationalisation in Italy, the focus on competitiveness in foreign markets as well as the relations underpinning SMEs within the European scenario were examined.

Macroeconomic outcomes of globalisation were found to be even more evident in the destructuring processes in terms of organising production, prompting Governments to put in place non interventist policies, extending delocalisation and mobility of investments. Findings from our research highlight that notwithstanding various characteristic traits (such as a limited awareness of foreign trade scenarios, constraints deriving from the liability of foreignness and that of newness, the disinterest shown for activities at the lower end of the value chain and for governance models), SME competitive advantages are mainly those of a local nature i.e. the need to enhance their own identity in a system of territory based values (See Barney, 2015).

To date, in order to overcome criticalities, the tendency has been to put in place efficacious business strategies and adequate reform processes. Notwithstanding, in particular, performance indicators highlight that the competitiveness of Italian SMEs is lower than that of the other most important European economies. It was found that the main problematic issues concern the administrative burdens generated by legislation, the difficulty of access to finance, taxation, the incapacity to attract professional profiles and not least, the lack of adequate capacity for project
design and access to calls for tenders. Finally, our research findings evidenced how Strategic Public Management plays a significant role in determining trade flows and comparative advantages, not to mention economic appeal.

Research carried out in the field and domain of Economics and Management of Public Companies, and in particular of the Management of Institutions, Organisations and Public Companies (De Luca, 2010; Pfoestl, 2012; Cioppi, 2012), indicates that innovation appears to be the most relevant strategic factor for inclusion in programmes in support of SMEs, especially as it fosters a competitive economy, provided that research, in particular basic research which promotes the creation and dissemination of knowhow is funded. In this respect, Knowledge Intensive Business Services and Smart industrial specialisation targeted policies are required to increase the effectiveness of accumulated knowledge and to encourage technological diversification, to promote competitive repositioning in new productions and the strengthening of governance capacity by means of advanced managerial, organisational and production management models, delineated in the field and study of Economics and Management of Public Companies (See Franzoni and Salvioni, 2014). In addition to the above proposals, it is considered that targeted interventions be included in articulated governance policies to promote organisational innovation, simplify procedures, increase autonomy, decentralisation and accountability. Such interventions should also promote the spreading of product and organisational innovation relative to Strategic Public Management, assigning responsibility for industrial policy and sustainable development to the Regions and local Authorities. In this respect, the contribution of scientific research related to Management & Information Technology is essential, if aimed at designing models of innovation for SMEs, structured on regional specificities (See Gambino and Di Pinto, 2016).

Our research findings furthermore, affirm that the regional model of endogenous innovation, within a scientific/technological network – supported by Strategic Public Management – has to strive for the cross fertilisation of ideas and knowledge, for the solution of innovative technical problems of a particular territorial area (See Foray, 2009; EC, 2010b). In this respect, various public support tools for internationalisation are available to Institutions, Organisations and
Companies belonging to the public sector, such as the Institute for Foreign Trade (ICE), the Italian Company for Business Abroad (SIMEST) and the Foreign Trade Insurance Services (SACE). Such subjects boast a statutory and organisational structure which also leads to reflection on the duplication of intervention and on the scarce attention addressed to the promotion of economic activities on national territory.

In the context of the promotion of foreign investments, the role of Strategic Public Management in supporting SMEs moving from their countries of origin to foreign markets was considered. In this respect, Investment Promotion Communities (IPCs) act as interfaces between States and SMEs, supporting SMEs overseas with tools of development policy. Such tools and levers are not merely examples of the introduction of greater managerial skills in the Public Administration, but important for implementing a new *forma mentis* in the managerial class. In particular, the formulation of strategies devised in concrete operational mechanisms leads to the provision of effective services when Strategic Public Management intercepts SME needs and expectations and disseminates the culture of internationalisation thus improving the socio-economic system. Such cultural change is essential not only at Strategic Public Management scale, but also at political level. Roles and tasks have changed, as well as the powers of Public Administrations. Local Authorities and Regions, in particular, programming resources for the management and implementation of public policies. In this sense, efficiency and managerialism is intended as the ‘mission’ that the local Authority must pursue when formulating strategies for local development. In other words, political choice underpinned by communion of intent with management level. In this respect, the contribution made by IPCs in terms of introducing management models for innovation processes on the part of Organisations, Institutions and Public Corporations was also guaged. It was found that the most significant process of innovation was the establishment of the Regional Spaces for Internationalisation (SPRINT) – a reference point, in terms of organisational flexibility with intervention modulated on the peculiarities of local production contexts – even if the
assessments of merit on the outcomes of the activities evidenced a lack of systemic strategy.

Our analysis shows that an important area concerned the regulatory management of public funds for the support of internationalisation, both at central and peripheral levels. In this respect, available resources should be allocated according to criteria that are strategic, transparent and impartial, maximising the effectiveness of expenditure and compatibility with Community guidelines on State aid. In this context, it emerges that the process of public intervention for SME internationalisation at regional scale is still at an evolving stage while there persists to some extent fragmentation relative to enhancing the territorial dimension in support of the productive system. In short, objectives, programmes, assessment procedures and methods that meet the challenge of global competitiveness, are therefore essential if self-referential policies and the misuse of funds for primary purposes are to be prevented.
PART ONE

THE ITALIAN ECONOMY AND INTERNATIONALISATION
1. **Recent dynamics at international scale.** – In early 2016, Gross Domestic Product (GDP) at global scale continued to grow albeit more slowly than expected and depending on the area, quite unevenly. The International Monetary Fund predicted a decline in the world economy from +3.4% to +3.2% for the whole of 2016, the second revised estimate in twelve months.

The global downturn had been buffeted to a certain extent by slow growth in the newly industrialised economies by virtue of the low prices of commodities, in particular oil. However, there had been no corresponding compensation on the part of advanced economies, taking into account their slow investment rate, quite detrimental to potential growth. The scenario highlighted the deflationary pressures exerted during the six-month timespan distinguished at the beginning of the year by stunted growth and destabilised financial markets. At the end of the period, the outcome of the referendum on Great Britain’s exit from the European Union had provoked further concern about international growth and the risks on financial markets1.

Stagnant international trade also reflected the situation. Revised predictions of GDP on the part of leading international organisations were common yet again. The OECD for example, had predicted a growth rate of 2.1%, in 2016 (+3.4%) in the previous November, in sharp decline compared to 2015 (+2.6%). Prices of raw materials had touched new levels in February of the current year, had strengthened and then consolidated until the end of the first few months of the same period.

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1 The US economy continues to grow, notwithstanding some uncertainty, while in China the Government and Central Bank have contributed to curbing the slowdown in economic activity (which alone represents almost 30% of growth in newly industrialised countries). As concerns the Japanese economy, trends are erratic and after unexpected positive results in the first quarter of 2016, due to high consumption, net exports and public spending, a slowdown in the second quarter was estimated, by virtue of the weakness of foreign demand, especially Chinese, and the strong appreciation of the yen compared to major currencies.
Oil prices had recovered considerably since the beginning of the year, reaching around $45 a barrel (WTI) by the end of June. During the first six months of 2016, growth (albeit still weak) in the Euro area was fostered by domestic demand especially during the first quarter. Inflation remained approaching (and in some member Countries) below zero  

Progress in terms of the job market (unemployment in May steadied at 10.1%, the lowest since July 2011 and inflation in the Euro area (at +0.1% per annum in June) had defended disposable income. Growth was stimulated as well as by price dynamics thanks to the European Central Bank’s monetary policy and further intervention in June with its Quantitative Easing strategy. Notwithstanding, the Italian economy growthwise, proceeded quite slowly, despite domestic demand. Exports suffered from the drop in international demand that had also been provoked by a slightly stronger single currency. In Italy in particular, the Quantitative Easing monetary policy and budget flexibility had had more than positive effects.

Many of the current processes of reform that have taken place over recent years and which continue to impact on the Public Administration in Italy, came into being under the pressure of different needs, often external, in the economic context characterised by the push towards internationalisation, the liberalisation of markets and the decentralisation of government functions.

Such changes concern, in particular, roles, functions and intervention in terms of efficiency and managerial skills.

In recent decades the traditional separation and contrast between the public and private sector has progressively diminished. Moreover, the role assumed by the former in the economy and in contemporary society has been re-dimensioned and

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2 GDP grew in excess of expectations in the first quarter (+0.6% in the economic downturn), thanks to higher consumption and investments which offset a negative net foreign contribution for the third consecutive quarter (-0.1%), with imports that continued to grow almost twice as fast as exports. For the second quarter, estimated GDP growth was more moderate: +0.3% in economic terms.

3 GDP after growing 0.3% in the first quarter (1.0%), according to available estimates, increased by 0.1% in the second quarter (0.7% upward trend).
innovated\textsuperscript{4}. In particular, significant stimuli for reform was triggered by New Public Management (See Hood, 1991; Osborne and Gaebler, 1992; Ferlie et al., 1996) fostering efficient and efficacious Public Administration\textsuperscript{5} underpinned by principles and instruments of managerial inspiration. The trend has spread, albeit differentiated, to various countries (See Pollitt et al., 2007). This has led not only to a marked re-dimensioning of roles, responsibilities, functions, relations between the various administrative tiers, but also significant challenges for the public bodies, Institutions and SMEs obliged to find ways of operating more economically and to respond to local needs (See Pattaro, 2007).

Attention has been focused on both concepts with a privileged interpretation: on efficiency in the management of the res pubblica, services, with particular reference to economic, concepts of efficiency, technical efficiency and allocative efficiency. On the concept of managerial skills, however, reference has often been made, at least in the interventions of business economists, to management models, to the relationship between managerialism and entrepreneurship in public services, to the importance of more adequate and consistent management assessment models, the importance of a series of reforms in operational mechanisms, from management control to the most suitable organisational models, to information systems, to the leverage of managerial training.

However, for Mangia, De Nito and Hinna (2009) it could be dangerous to attempt to adapt models and solutions that are effective in a business environment.

\textsuperscript{4} The need for regulation, planning and control manifested by society (the so-called ‘audit society’ (See Power, 1997) and by the economic system has prompted the public sector to revise and to invent a new role. Planning and regulation activities (See Majone, 1996; Hood et al., 1999; Panozzo, 2000) are now being privileged together with the shaping of the new skills required, in cooperation with other stakeholders (See Baldwin and Cave, 1999).

\textsuperscript{5} Starting from the 1990s, the Public Administration in Italy has been constantly targeted by a series of reforms aimed at introducing efficiency, efficacy and to a certain extent methods deriving from a business mindset/culture. Gradually within the Administrative fabric, there has been resort to management tools typical of private sector business, such as strategic planning, budgets and analytical economic accounting. Such tools have the remit of enhancing the quantity and quality of knowledge thus contributing to improving decision making processes.

\textsuperscript{6} As a result of such change, the public sector has generally ‘emptied’ (the ‘hollowing out of State’ of Rhodes, 1997), to assign the related tasks, functions and responsibilities: to the lower tiers of Administration in application of the principle of vertical subsidiarity or to other local experts from a horizontal subsidiarity perspective.
to the Public Administration, in the belief that the public system can or should have the same characteristics. In terms of competitiveness, this has become increasingly dynamic and unpredictable, and pushes companies to identify the most suitable tools to face strategic and/or operational contingencies that require flexibility (Volberda, 1998; Costa, 2001). In this sense, the ability of SMEs to adapt rapidly becomes central.

The speed of change imposed by incessant innovation obliges SMEs to adopt trial and error processes that require great organisational agility. Job flexibility, for example is only one of the aspects of improving the efficiency of production systems and increasing competitiveness\(^7\). The flexibility required also by Strategic Public Management is the ability to ‘change’, to respond quickly to new needs, to increasingly ‘turbulent’ environments.

The Public Administration given its bureaucratic nature has always lacked flexibility analysed as an *ad hoc* response capacity to specific and varied needs or as organisational agility and speed of change to satisfy new needs.

The changes in act in Italy’s socio-economic and productive system (from globalisation to the creation of the European Single Market and to processes of delocalisation) have contributed not only to reform in the Public Administration but also to the general context of reference. In this respect, an agile and efficient Public Administration and the definition of an institutional context sensitive to change in the productive system necessarily underpin conditions requiring SMEs that operate in a highly competitive dynamic market, characterised by constant technological advances to make constant efforts to adapt and innovate in order to retain competitive advantage.

Clearly, therefore, the organisational complexity of the Public Administration is certainly comparable to that of a large multinational operating on a global scale with

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\(^7\) A company can satisfy its flexibility needs not only by managing human resources (work flexibility) but also by intervening on other fronts: strategic (strategic flexibility), organisational (organisational flexibility), productive (productive flexibility) and not least, technological (technological flexibility).
numerous products. However, the private company has more levers available for flexibility and rapid adaptation, but above all, can respond promptly to the differentiated needs of its clients.

2. Destructuring productive activity. – The internationalisation process as is well known, involves penetrating new foreign markets and securing market shares in foreign countries in which the company chooses to invest.

Delocalisation in contrast, is the transfer to low cost emerging markets of low value-added production units from their market of reference. Delocalisation is an integral part of the internationalisation process as companies start new production activities in emerging markets with greater potential for economic and commercial development.

Internationalisation goes well beyond the spheres of trade and economic transactions. With its pervasive implications on politics, society and culture, the process has become a powerful driver of integration and change in Society and represents the building blocks upon which the complex process of globalisation rests.

From a historical perspective, globalisation can be considered the modern phase of development of the neo-liberal capitalistic market, facilitated by shorter distances and the greater interlinking of areas around the world whereby an ever-growing series of techniques, languages, different cultures and products become global. Three basic factors have triggered the process of globalisation: i) scientific-cultural: pertinent to technological development, informatics and systems of communications; ii) political: the collapse of political strongholds in the aftermath of the decline of socialist regimes fostering a market model approach; iii) economics: i.e. free trade policies and integrated financial markets.

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8 A private company has different organisational structures for diverse products/services, customers or geographical areas.

9 Transfer to such markets, however, has the sole purpose of significantly reducing production costs in order to offer the same products at more competitive prices.

10 The aim is not necessarily that of cutting production costs, but rather to penetrate new foreign markets and to acquire significant market share by means of specific entry strategies.
In this context, globalisation has caused the destructuring of existing models of production and economic-political relations, redefining the priorities of States and Governments whereby policies are subordinate to the laws of free trade and the marketplace. Companies have grasped the opportunities offered by globalisation both through vertical (enhancing the importance and dimension of multinational and transnational companies) and horizontal integration processes (incrementing the weight of foreign trade in national economies). Relocation and foreign investment are also on the increase. Delocalisation enables companies to avoid restrictions and regulations as concerns workers’ rights and environmental protection. Naturally, this favours unfair competition at country level while mobility is the most important issue for transnational corporations11.

With reference to SMEs and to the economic fabric of Italy, the modernisation of the Public Administration and its competitive system is sorely needed. This implies that Strategic Public Management has the responsibility for economic development and the creation of jobs and policies which privilege a more rational use of resources.

In other words, a Public Administration capable of devising and putting in place efficacious policies of governance that enhance both the quality of services delivered and the efficiency of SMEs imposed by the new economic dynamics of globalisation. It goes without saying that such a model of economic development and management is not without cost.

In particular, social costs and unsustainability and the drastic changes in the nature of economic relations resulting from globalisation require that economists and politicians work together to shape a better economic model of governance with the contribution of relevant scholars of economics and Public Governance in order to research and investigate alternative business theories12.

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11 Any slight change in local legislation or contractual conditions is often sufficient to push companies to put off workers with all that means in social terms, and move to a country where more favourable laws and conditions are the norm.

12 The literature and experience show in recent years in several countries the spread of networks between public companies and local Authorities (See Zuffada, 2002), or forms of cooperation with the private for profit sector – generally through representative associations, opinion leaders or the
The literature on Public Governance (Kooiman and Van Vliet, 1993; Minogue et al., 1998, but also Meneguzzo, 1999) has attempted to extend and broaden the New Public Management paradigm with a focus on individual public companies: from Public Administrations cooperating with one another to the involvement of stakeholders and citizens in the definition and implementation of public policies.

Forms of collaboration and partnership in the public sector or in relations between the same and other relevant actors have paved the way for the Network Management approach (See Bekke et al., 1995; Kickert and Vught, 1995; Klijn and Koppenjan, 2000) that considers Public Management a governance activity of complex networks in a specific social context and analyses its dynamics, roles, processes and effects.

The issue of local governance directly or indirectly has been the object of the study and analysis of various disciplines and research areas of the social sciences through specific ‘disciplinary lens’ ranging from Public Management and Public Administration to political science, territorial studies, management and business strategies, geography and economic sociology. Ample space has been attributed to the role of supranational organisations, i.e. the European Union or the OECD in influencing, or in many cases determining, policies at national and local scale and, as expected, the relative implications of power and authority (See Sbragia, 2000; Messina, 2003). These contributions offer theories, paradigms and pose research questions highlighting not only the diverse ‘facets’ of Strategic Public Management but also showing that, beside the heterogeneity and complexity characterising the literature, significant common ground can be identified.


14 From the contribution of political scientists come not only the main questions and the analysis of the problem of governing in the new conditions of contemporary society and its Institutions (See Rhodes, 1996; Hirst, 2000; Pierre, 2000; Peters, 2000) but also the analysis of the renewed implications of governance in terms of the distribution of powers, legitimacy of governance, participation and accountability (See Rhodes, 2000; Hirst, 2000).
Over the years, economists and business studies scholars have addressed attention to the growing importance the role the various tiers of government play in conditioning and directing processes of economic growth (See North Douglass, 1990; Weingast, 1995; Temple and Johnson 1998; Aron, 2000). The outcome is that Institutions are no longer conceived purely in terms of the market but also in terms of fostering favourable conditions for development and growth, such as spreading and enhancing the quality of education, encouraging hands on learning, extending the division of labour, the variety of production and not least, enhancing the quality of relations between the various categories of economic agents.

In the era of globalisation, the Administrations of individual States are crushed on the one hand by international Institutions and on the other, by the private sector. In particular, multinationals and large financial Institutions are global players, often uprooted from countries and territories of origin.

In this context, Strategic Public Management can still constitute significant competitive advantage for a country as it helps to create an environment that retains and attracts people and capital. In other words, an efficient administrative framework increases the chances of a country’s success in the global economy.

Public Administrations can even become technological, organisational and managerial drivers of innovation. Furthermore, strategic management of local Administrations can make the difference in the competitive ability of a territory.

In other words, an important element for the success of a territory in the global economy is the ability to extend its ‘rules of the game’. The growth and internationalisation of SMEs are not sufficient to guarantee their success in the long term. Only if their territory of origin has the political, economic and institutional force to export their regulatory framework, will SMEs be able to operate in a favourable environment.

A further element to consider is that internationalisation processes are also levered by the search for new outlet market environments either because the domestic market is too limited, or is showing signs of saturation15. New market

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15 The resulting competitive advantage stimulates growth and contributes to the achievement of goals through resources and knowhow typical of enterprise. Often there is a desire to exploit the
environments can be defined in dual terms: a competitive system where SMEs compete by means of their systemic output and that of socio-economic interlocutors (whereby SMEs ask for contributions, i.e. resources in exchange for rewards and benefits). In this context, interlocutors provide the necessary resources and funding within a framework the core of which is corporate governance. Credibility and trust are the basic cementing elements aggregating further resources towards the company (See Coda, 2000).

Taking into account the above, Public Administrations should pursue strategies of involvement (in the case of the main interlocutors with whom relations of a contractual or transactional nature can be initiated), of cooperation (with free-thinking/liberal interlocutors), of defence (with antagonistic interlocutors) and of monitoring (with random interlocutors) (See Pellicano, 2002).

In defining internationalisation strategies, a series of variables that underpin the process require taking into account. Predominant factors for a SME is the choice of markets or the geographic area. In this respect, a company starting to undertake the internationalisation process needs to analyse carefully the choice of location of the investment. From this perspective, all the major variable macroeconomics characterising the markets in a given period require careful attention. A SME furthermore also has to consider all the variables that affect investment and in particular, whether the local Authorities have developed a favourable environment for foreign investments. In order to gauge trends in international trade, the benefits of delocalisation and those deriving from economies of scale. Finally, another major reason for internationalisation is the low cost of raw materials and labour, characteristic of most emerging markets.

16 Corporate governance, a system of direction and control of an organisation (public or private) and the series of juridical and technical institutes and regulations that guarantee an efficient and efficacious government to safeguard the rights of all subjects involved. The concept deriving from large company management processes in which the controversial issue of ownership and corporate control provokes that of safeguarding investors from management risks inspired by logics of a merely speculative nature.

17 Low tax levels, less local bureaucracy, acknowledgement of major international conventions on international law and the launch of fiscal and legal liberalisation processes are factors that inevitably have affected the choice of markets for investment.

18 This is the case, for example, in the Slovakia Republic, in which the automotive industry has developed in recent years, with positive effects on all the related activities, and many SMEs have developed around it, even in the neighbouring Czech Republic.
analysis of Foreign Direct Investment (FDI) flows is a useful tool. FDIs illustrate how a particular market attracts productive foreign capital and the self-propelling process triggers a virtuous cycle of growth.

In addition to the macroeconomic variables that distinguish a given market, the company should assess the degree of development of its own particular market segment taking into account that some sectors have a higher level of saturation in some markets than others. Alternatively, in a given market, a specific industry has developed well, offering great opportunities for sub-suppliers\textsuperscript{19}.

The economic and legal analysis of new markets has to take into account the objectives the SME intends to pursue with the internationalisation process. Such objectives linked to company goals are affected by the peculiarities of a company’s structure and size. As the Italian industrial fabric is distinguished mainly by SMEs this inevitably, impacts on the internationalisation strategies that they are able to implement. This means that businesses frequently decide to internationalise only because they have had investment opportunities, but with a short-medium-term basic strategy on how to guide the process of internationalisation\textsuperscript{20}.

As mentioned previously, another factor driving internationalisation is the search for new outlet markets as that in which a company is already operating is too limited, or is showing the first signs of saturation. The search for new markets sometimes makes it easy to meet business growth goals through retailing products with competitive advantages, the use of resources and knowhow that already characterise the enterprise, or the desire to exploit delocalisation benefits and those deriving from economies of scale. Finally, as already pointed out, another major cause of business internationalisation is the low cost of raw material and labour that

\textsuperscript{19} The absence of a precise strategy affects the final result. Indeed, the lack of coordination between internal and external activities will inevitably lead to an increase in costs, or make the company unprepared for short-term strategies and unable to define the strategies needed to respond to the shocks that result in emerging markets.

\textsuperscript{20} Along with the low cost of production factors, these markets also offer great opportunities, both in terms of potential consumers and in geographical prospects. In fact, many of these countries could become logistical platforms and production centres relevant to export to other countries in the near future. This would allow these SMEs to expand their presence on foreign markets by gaining new market shares and, ultimately, significantly reducing the costs associated with internationalisation.
characterise most emerging markets. In short, success in acquiring significant market share in the country where the SME has internationalised, flexibility and cost control, could help penetrate not only neighbouring markets, but also those facing intense competition such as the American and European markets.

i. **Competitive advantages.** – Internationalisation in recent years has become a strategic and in many ways mandatory choice for the survival and growth of SMEs seeking new markets to penetrate and competitive advantage.

The presence of Italian SMEs on foreign markets have to adjust to the new conditions resulting from processes of internationalisation, assisted necessarily by Public Administration support. In this context, the latter is currently evolving towards a systemic model based on the rationalisation of roles and competence. The many Entities charged with interacting businesses if on the one hand respond to the objective of narrowing distances between the Institutions and SMEs, favouring processes of international expansion of local enterprise systems, on the other, require strong legislative commitment and intervention. As in past decades, foreign demand will also represent the most dynamic component in growth of income and employment over the coming years, compensating for the lack of domestic demand in Italy and in Europe.

The capacity to link global growth and to defend and increase Italian market share worldwide is a determining factor for economic recovery and for overcoming the current productive and employment crisis. Italy is one of the main industrial countries that can benefit most from a further opening to foreign trade and a greater presence on international markets. It is therefore, imperative to go beyond the mercantilist paradigm and to draw support for internationalisation with tools to benefit repositioning processes in the value chain, both in terms of greater added value and of establishing a position of leadership.

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21 They operate as the end links of the ‘chain’, fine-tuning the finished product and serving a domestic or local market, but buying from an international chain supplier of goods and services or making intermediate goods and services for industrial users who serve an international market.
From an academic perspective, the theme of internationalisation of SMEs in Italy has attracted significant attention in studies on business (Varaldo, 1992; Grandinetti and Rullani, 1992; Silvestrelli and Gregori, 1994), management of Institutions, Organisations and Public Corporations (See Aprile, 2015; Wood and Demirbag, 2012) and the Economics and Direction of Public Companies (Anselmi, 2014), particularly during the last two decades.

Research and analysis, given the specificity of the Italian case, i.e. a very small incidence of large companies with a strong international presence, have highlighted the paradigmatic nature of an internationalisation model, centred on the role of SMEs and industrial districts quite different to the great multinational schemes. The distinctive feature of internationalisation processes with regard to Italian SMEs highlights the fact that the companies considered are not always aware of their position within an internationalisation scenario. Most SME experience is indirect or what Cafferata (1993) and Rispoli (1994) call ‘objective’ forms of internationalisation.

SMEs, in other words, can have links with the international environment, independently of the direct placing of their goods or services on foreign markets. In addition, even when a proper internationalisation strategy is in place, SMEs – as well as even more so than large companies – come up against two major limitations: the liability of foreignness (See Hymer, 1976) and the liability of newness (See Stinchcombe, 1965). Perhaps, because of such constraints, Italian SMEs have always opted for the export mode, with low propensity for foreign investments. In most cases, internationalisation has involved the finished product rather than activities upstream of the value chain. For these in the main, even in the case of decentralisation, local territory is exploited proficuously in terms of resources and suppliers (See Barney, 2015).

The preference for less demanding modes of internationalisation has undoubtedly underpinned the governance models of businesses. The focus on the family nature of an entrepreneur’s company implies a limited use of managerial figures and structured forms in order to address the challenges of internationalisation adequately. The competitive advantages of Italian SMEs reflect
the local advantages that Porter illustrates in his diamond model (See Porter, 1990). Therefore, retaining the advantages of belonging to value-based territorial systems induces Italian SMEs to prefer the export model to FDIs.

As Grandinetti and Rullani (1996) point out, Italian SMEs foster a natural relationship with internationalisation, given that their niche skills can only create value through sales worldwide. The competitive advantages of Italian businesses are deeply rooted in the territory; however, they are intrinsically of a global nature as they are exploitable internationally without having to adapt supply to different markets. In other words, they are essentially the core features of Made in Italy: products/supplies that are particularly suited to niche but at the same time, global markets. Furthermore, the products are in the luxury goods range targeted at top bracket segments of the market, thus price levels and margins of profitability can often withstand even high production differentials compared to low-cost producers.

From a more detailed analysis, however, the path of internationalisation is still incomplete (See Grandinetti, Micelli and Rullani, 1993). One reason is the selective nature of such processes, in the sense that they are often only limited to a few functions and activities of the value chain (predominantly sales). Another reason is that often, no clear-cut strategy of internationalisation that sums up a series of strategic choices is evident.

Moreover, if it is true to say that the export mode is still the most suitable to support internationalisation of Made in Italy, the lack of a structured approach to international operations appears to be a potential factor of weakness. The scenario is gradually changing however by virtue of evolving trends such as the growing scale of markets (with related problems of size), competition coming from new players worldwide and the delocalising trend on the part of Western enterprises towards low-cost countries.
To date, Italian entrepreneurs have favoured more qualitative and dimensional
development, preferring to enhance their relational system\(^{22}\) rather than growing rapidly by running the risk of losing control of their activity.

For SMEs with a strong relational vocation, profit as such is not the only criterion but rather, socio-economic value which is more appropriate to deal with the complexity of the viable system enterprise, the confines of which are made up of the series of intense governed and stable relations (no longer considered external to the enterprise for the co-production of value) (See Pellicano, 2002).

To govern their growth in the coming years, with the further opening up of markets globally, SMEs will have to change their traditional governance and management models radically given that enterprise size is increasingly important in achieving competitive advantage\(^{23}\). In other words, with corporate governance and a broader system of control exerted by stakeholders for the common good of the enterprise combined with the right of participation and the freedom to dissent (See Panati and Golinelli, 1991). In this respect, SMEs should operate within an innovative system of corporate governance based not on traditional management but on guidance and coordinated relations (systemic rationale)\(^{24}\).

The goal of the relational enterprise is the creation of socio-economic value. Contrary to widespread belief that sees investment for social purposes in terms of erosion of profit, virtuous enterprise with a strong ethical vocation, sense of social responsibility and multifaceted (horizontal, vertical, transversal) relations based on

\(^{22}\) It would be more appropriate to use the term ‘higher or lower relational intensity enterprises’ rather than relational enterprises as a whole which substantially, are merely ideal-type models useful for research and analysis but not as concerns day to day realities (Pellicano, 2002).

\(^{23}\) Over the last decade, attention with regard to the role carried out by administrative systems in determining the extent of competitiveness of an economic system, depends to a great extent on the intensity of the process of globalisation. The competitive capacity of a productive system in effect depends on the one hand on structural factors linked to the commodities element of production, the productive and technological structure, the geographical distribution of target markets and on the other, institutional elements relative to the system of regulations, economic and juridical relations and quality of services delivered by the Public Administrations which over the years have taken on an ever more central role in determining competitive capacity for the economy as a whole.

\(^{24}\) Although the relational enterprise model would seem more appropriate for modern environmental conditions (internal and external), in models of governance of environmental interaction, the relational approach and the transactional approach co-exist quite satisfactorily integrating with one another yet not becoming entirely amalgamated (Pellicano, 2000).
reciprocal trust, will obtain greater economic benefits and enhanced image thus guaranteeing viability and long-term survival. Cultural dialogue is also important to foster solid and interpersonal relations, facilitated in the context of a limited organisational dimension where strong interpersonal relations are effectively created thanks to cultural resonance (i.e. as is the case in industrial districts) (See Pellicano, 2002). So many internationalised business models, all equally suitable and effective concur in achieving the goals of internationalisation, contingently taking into account sectoral realities and the types of businesses considered.

The preferred model of large multinational corporations, relative to FDI and global strategies, contrasts with that of SMEs, predominantly based on export methods. New forms of development in the international sense added to these traditional models blur the line between export and FDIs and focus more on broad forms of delocalisation and global sourcing, and on the construction of transnational business clusters, which question the value of traditional home-based localisation benefits. Despite the fact that many multinationals have long been adopting highly complex internationalisation models, very few companies in Italy are currently able to do the same. The point is not however, whether Italian SMEs will be able to penetrate these new internationalisation circuits in the future but whether the Italian system, and the district system in particular, will be able to attract internationally-imported forms from abroad electing itself as a global business platform able to offer attractive localisation potential for foreign companies.

25 The change of shift concept is clarified by Thompson (1967) when he defines three potential types of corporate relations: General, the main most simple kind where each component contributes to creating unity in the firm for the survival of the system; Sequential, where sectors of the organisation produce results that are reutilised by other components (along the lines of Porter's concept of value chain); Reciprocal, the most complex kind, is bidirectional in which output for each sector of the organisation becomes input for all the others.

26 What qualifies a district as such is the cultural uniformity existing between enterprises and the social system of reference where most stakeholders through a cementing cultural tradition, work together in that particular type of production.
ii. *External factors in territorial contexts.* – Territories and their relevant socio-economic and environmental variables are interdependent. Such interdependence generates inter-territorial negative and positive externalities (e.g. global warming, non-human epidemics, consumer/tourist flows) that are not limited by administrative borders\(^{27}\). Each local context has its particular characteristics, peculiarities, strengths and weaknesses – the result of local historical, political, social, cultural, economic evolution and the specific resources available, relevant actors and relational dynamics – that condition choices of government, the paths of development, a territory’s attractiveness and its enhancement. Such traits also specify the contingency of conditions, tools and strategies of local governance and the processes involved. The strength of local government initiatives for development is linked to the ability to mobilise a mix of economic and social factors, public intervention and private sector initiatives in order to put in place policies, projects, initiatives and services within the various areas of local government.

Interests of a public nature that each Institution seeks to promote are profoundly affected by what happens elsewhere in other territories (horizontal interdependence) and by other tiers of governance (vertical interdependence)\(^{28}\).

Thus governance of the territory starts from the enhancement of the local ‘heritage’ – material and immaterial, human and instrumental – and from the choice of areas in which to intervene, policies and initiatives to undertake, actors involved and specific tools to adopt.

Frequently, the choice of initiatives and stakeholders depending on the knowledge/skills they possess and interests to be satisfied is the result of deliberate planning and organisation on the part of the actors involved.

\(^{27}\) Even cultural and political processes cause reciprocal interdependence. Globalisation, the result of demographic-economic thrusts and the growing mobility of persons, information and goods intensifies the process. Growing migratory pressure, open economies, and the popularity of higher education abroad also make a fundamental contribution.

\(^{28}\) For example the policies relative to the safety and security of the goods produced by exporting countries determine the regime of control of the countries that import such goods. Moreover, the quality of life of a metropolis impacts on the residential flows in the suburbs, while the educational efficacy of junior schools condition the curricula of secondary schools.
As internationalisation permeates all levels of our society, it is no longer feasible to reason only in terms of enterprise, delocalisation and foreign investments, rather a general upgrading of territories and enterprise is an essential requirement. Therefore, internationalisation policies also consist in policies for the competitiveness of the country, its regional systems, enterprise and in particular, the Public Administration’s role in the definition and implementation of policies and tools to stimulate and manage the dynamics of competitiveness and international collaboration. It is crucial therefore, for Public Institutions to organise interdependence both horizontally, e.g. Agreements between States or with Institutions characterised by similar tiers of governance but with complementary competence and responsibility (i.e. relations between local Authorities and Local Health Services) and vertically with Institutions that represent a higher or lower tier of governance (i.e. Regions interacting constantly with the European Union and with the local Authorities).

The type and number of Institutions involved depend on the distribution of responsibility that differs in the various States and territories. The current process of devolution with reference to the Public Administrations based on processes towards Regional, Provincial and local Authorities and on the growth of specialist Public Companies, implies the need for integration and the development of efficacious inter-institutional coordinating skills to promote socio-economic development as a whole and the construction of networks which can be defined as ‘networks of public interest’. The remit of the Public Administrations in other words, is to foster collective interests. Therefore, they are obliged to organise and govern their interdependency, the timescale of which depends on the extent of complexity of the process and the availability of resources to attract other partners to participate in the coordinating of the networks.

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29 In any event, interdependence is a given as any geographical distribution of responsibility determines the need for coordination and integration; at times prevalently of a horizontal nature at others, of a vertical kind.

30 In order to organise interdependency therefore, and to create networks, individual nodes have to renounce some government prerogatives in favour of a meta-organisation, i.e. supraordinate organisation created ad hoc by the partners involved.
Given the new modes of international competition, Italian SMEs and in a general sense the national economy, face a growing risk of marginalisation compared to the European and global economic scenario. The causes are chronic and longstanding, interacting and summing their negative effects, they create situations that as opposed to the past, are no longer offset by recurring currency devaluations. In economic terms the causes are twofold.

The first lies in the fragility of Italian industrial SMEs and the structure as a whole. Although dynamic and flexible, they hinder the overall capability of Italian capitalism for innovation, especially in terms of specialist production.

Italy is virtually absent from almost all the most dynamic and innovative sectors in the world and the Italian production system abroad remains weak and undersized. The latter depends essentially on the so-called system externalities and the well known backlogs of the economic system in terms of infrastructure, administrative procedures and external diseconomies in the public sector.

To reverse such trends, efficient business strategies and appropriate adjustment processes to the changing technological context at international level are required in Italy. Above all, this means eliminating the inertia and obstacles of the traditional institutional and market system, and ensuring the externalities of the context, the technical and social infrastructure necessary for the growth of an economic system that has to make its primary productive factor knowledge (the Information Society). This concerns not only SMEs and their strategies but also the territorial context in which they operate, and therefore the main economic and intervention policies in their various mode and content.

In recent years, contemporaneously with intensified processes of internationalisation and globalisation of the world economy, the Regions of Southern Italy have undergone significant transformations and differences, in terms of socio-economic development. The result has been more integration within the global economy confirming the significant presence of ‘più Mezzogiorni’. Traditionally considered a typical example of the periphery of Europe, the ‘Mezzogiorno’ has recently indicated evident signs of transformation and differentiation, the interpretation of which has led to conflicting valuations.
In general, significant differentiation characterises the development paths of the Southern Regions reflected in the evolving specialist models for export of individual products during the 1985-2000, period in which the European Union passed from the completion of the internal market to the adoption of the single currency\(^{31}\).

The specialist model of Southern Italian exports as a whole changed in many respects during the period of reference: the geographical breakdown of our analysis highlights, however, strong specificity and differentiation at local level, resulting in an articulated relationship between territory and competitiveness. Differences in the performance and dynamics of internationalisation are therefore, reflected in the mixed set of factors that underline the importance locally both at micro level, impacting on competitiveness, and at macro level impacting on the competitive performance of the whole region.

The growing presence of the different areas of the ‘Mezzogiorno’ confirmed in studies by means of various socio-economic indicators and the classification of Southern Regions through a variety of economic, cultural and social variables shows the multidimensional nature of the scenario investigated (Guerrieri and Iammarino, 2002). Findings show, in line with the most recent Meridionalist literature, that between the mid-1980s and the end of the last decade the gap between economically developed and relatively backward Regions of the South has expanded considerably.

The marked differences in the Southern area in recent years associated to a broad range of variables is far more widespread than evidenced in the traditional literature on convergence/divergence. Above all, the traditional GDP indicator per capita appears less able to reflect evolutionary trends in the different areas of the ‘Mezzogiorno’ during the second half of the 1990s and, therefore, to effectively grasp regional imbalances.

Numerous empirical studies (Arrighetti and Seravalli, 1999; Helliwell and Putnam, 1995; Knack and Keefer, 1995) highlight how action, efficiency and

\(^{31}\) In the 1990s, in spite of the delay in evolving towards the necessary international integration, the ‘Mezzogiorno’ economy showed clear signs of transformation, at the same time differentiating itself even further. International competitive performance was surprisingly positive in the second half of the 1990s and underwent major changes in its production and territorial structure.
competitive capacity on the part of economic structures and government (good government) have direct effects on incrementing income per capita and the capacity to explain the persisting of growth differentials among nations and Regions of the same Country.

The outcome of such studies confirms how the contribution of Strategic Public Management concerns not only intervention capable of impacting on market performance (elimination of barriers limiting access to resources, regulatory competitiveness, regulations on foreign trade etc.) but extends also to compensating market failures that occur with respect to public goods, external issues and the lack of coordination and information.

On the whole, the weaknesses that distinguish the Italian productive system from those of other advanced countries consist mainly in the limited number of large enterprises, the presence of many SMEs and the extremely limited presence of medium-sized enterprises. Furthermore, the focus of the Italian production structure remains targeted to traditional and non-dynamic sectors in the sphere of technology and world demand. Such weaknesses and the evident fragility of Italy's international specialist model provoke the most concerns. Consequently, fostering multinational growth in the Italian economy, together with a significantly more robust competitiveness of her productive system, can only occur by radically modifying the current Italian international specialist model with its characteristic peculiarities compared to the rest of Europe. In this respect, in addition to more open policies and stimulus towards internationalisation processes, is the need for structural reforms and collective efforts to raise the innovative and knowledge intensive skills of the Italian productive system as a whole.

32 The Italian industry, for several years, unlike other major European countries, appears strongly despecialised in almost all high-tech sectors and economies of scale (chemistry, pharmaceuticals, computing, consumer electronics, means of transport). World demand growth rates are much higher than the average. Such despecialisation calls into question the technological and organisational fragility of the Italian industrial structure which has led to the almost total disappearance of the large private manufacturing companies and to the exit of Italy from many leading oligopolistic sectors, real technological drivers of globally active restructuring.

33 It will be necessary to remove some of the existing constraints on the growth in terms of company size the outcome of the nanism of the Italian production system. Focus on the alimenting of medium-sized businesses and entrepreneurs which have achieved significant sales levels in recent years, leverages innovative solutions from an organisational and managerial point of view.
Such effort for innovation is fundamental taking into account the key role of new Information and Communication Technologies in all the advanced countries towards building a new economy based on production and the exchange of knowledge.

New opportunities are currently being offered to many SMEs and slow developing countries will have opportunities for a new competitive updating in terms of renewed spaces for extensive restructuring and conversion in important sectors and activities, to a real technological upgrading of the economic-productive system in the direction of new techniques, competences and infrastructure. Encouragement and incentives, with appropriate medium-term strategies, of the restructuring and internationalisation of Italian territorial enterprise systems will be required if such a scenario is to be achieved. The optimum would be technological districts of SMEs. In the light of the above considerations, an overall effort has to be made to complete internationalisation of the Italian productive system as a whole. The implications would be twofold: a more qualified and numerous presence of Italian businesses on the international scene and the intense, diversified presence of foreign investment and delocalisation, supported by adequate territorial strategies. Furthermore, functional and territorial decentralisation in the management of internationalisation policies and tools will be strategic. For example, independent, decentralised local branches would be useful both for productive activities and for internationalisation in the above mentioned process of facilitating the approach to local territories often cut off from the circuits of knowledge and proximity to policies, institutions and tools.34

In short, the current phase of globalisation is leading to more inter-business competition, but also between national and regional territorial systems, in terms of production and service localisation.

34 There is a need for a strategic planning and monitoring centre for intervention policies and instruments in the field of internationalisation to avoid the risk of excessive fragmentation. Various macro-institutional reforms have been promoted in this direction in recent years, but widespread weaknesses remain in the mechanisms of both coordination and system related priorities.
In order to achieve goals and implement strategies, advanced countries have in place a varied range of policies and tools to promote the internationalisation of their businesses and individual territorial systems.

In this respect, policies have now shifted from more traditional commercial policies to those promoting the internationalisation of both businesses and territories. Public support for internationalisation besides financial measures has also increased especially as regards the provision of high-quality services, information management and tools adapted to the needs of the market and international competition. Italy naturally, is part of this broad context of change in the global economy. However, it should be highlighted that although the internationalisation processes of Italian companies have become more frequent recently, the gap between them and their other major European counterparts remains extremely wide, especially as concerns the category of SMEs.

3. **Exports and Italian GDP.** – Policies for internationalisation have long been understood as policies to support and develop exports. This uni-dimensional approach – one interlocutor enterprise and one prevalent aim, export – has long distinguished the development of policies aimed at the internationalisation of countries and economic systems, at national and international scale.

The export perspective becomes a process that also involves SMEs, which can benefit from the expansion of their markets to grow and to maintain competitive advantage. Internationalisation policies have therefore been focused on enterprise as the first category to target with measures for guaranteeing penetration on foreign markets of national productions, overcoming the information, economic and structural barriers of a given economic system.

The link between growth and exports of goods and services in Italy stems from the strict interdependence between the two. Statistics indicate that during the last decade, variations in exports of goods and services have nearly always resulted in variations in GDP.
In particular, at the end of 2008 and throughout 2009, during the world trade crisis, the indicators of economic development were also negative, while during the two-year period 2010-2011 both factors improved. Exports have a crucial role in the Italian economic system and in contributing to GDP and an open Italian economy, internationally orientated and traditionally based on manufacturing. During the three year period 2006-2008 significant percentages (about 27%) were recorded and, in contrast, significantly lower in 2009 (22.5%), following the worldwide trade crisis.

Since 2010 there has been an upward trend in growth of GDP and during the three-year period 2012-2014, the contribution of Italian sales abroad to national wealth was circa 29%. Between 2015 and 2016, according to the latest national data published by ISTAT, the relative incidence was 30%. In general, for the two-year period 2017-2018 a particularly significant contribution to revenue from exports is predicted: 32% during the current year and 32.5% for the following.

From 2010 to 2015 (See Tab. 1), exports of goods and services grew – in real terms – to a greater extent than other components of GDP, providing the main contribution to national growth. In particular, in 2011, against a 6.1% increase in Italian sales abroad, consumption and investment slowed by 0.5% and 1.7% respectively. In 2012, a 2% increase in exports was associated with a decline in consumption and investment, equal to -3.3% and -9.4%, while in 2013, despite

Moreover, from 2012 to 2014, exports of goods and services were the only component to make a positive contribution to national wealth. Finally, over the last two years, real GDP growth of 0.7% in 2015 and 1% in 2016 was associated with a sharp increase in exports of 4.1% and 2.6% respectively.

Starting from September 2014, with the publication of a new release of national accounts, Member States of the European Union adopted the new European system of national and regional accounts – Esa 2010 – replacing Esa 95. The new system, defined in the EU Regulation No. 549/2913, published on 26 June 2013, is the result of close cooperation between the Statistical Office of the European Commission (Eurostat) and the national accountants in the Member States (https://www.istat.it/en/archive/110843).

According to estimates of the Economist Intelligence Unit - May 2017.

Economic Observatory on ISTAT Data (seasonally and calendar adjusted, chain linked volumes 2010=100).
lower domestic demand\(^\text{39}\) (-2.8%), exports of goods and services compensated with higher levels achieved compared to the previous year (+0.9%).

However, according to ISTAT Data, during the three year-period 2014-2017 Italy began an upward trend in growth once again, albeit to a limited degree. In 2014, the slight increase (+0.2%) of GDP was the result of an increase in the percentage of exports (2.4%), which compensated for the sharp drop in investments (-2.2%). Also in 2015, Italy's GDP registered a modest increase (+0.7%) driven by domestic demand (+1.1%) and, above all, by exports (+4.1%).

A similar trend was also registered during 2016 when the simultaneous increase in domestic demand (+1.5%) and – to a greater extent – exports of goods and services (+2.6%) increased for the first time in years, with growth to national wealth equal to 1%.

Despite difficulties on the domestic market, the good performance of Made in Italy worldwide was confirmed once again.

Tab. 1 - National accounts (Percentage change – seasonally and calendar adjusted, chain linked volumes 2010=100).

<table>
<thead>
<tr>
<th>YEAR</th>
<th>GROSS DOMESTIC PRODUCT</th>
<th>IMPORTS OF GOODS AND SERVICES</th>
<th>DOMESTIC DEMAND</th>
<th>EXPORTS OF GOODS AND SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>CHANGES IN INVENTORIES AND ACQUISITION OF VALUABLES</td>
<td>FINAL CONSUMPTION EXPENDITURE</td>
</tr>
<tr>
<td>2011</td>
<td>0.7</td>
<td>1.2</td>
<td>-0.7</td>
<td>-0.5</td>
</tr>
<tr>
<td>2012</td>
<td>-2.9</td>
<td>-8.3</td>
<td>-4.5</td>
<td>-3.3</td>
</tr>
<tr>
<td>2013</td>
<td>-1.7</td>
<td>-2.3</td>
<td>-2.8</td>
<td>-1.9</td>
</tr>
<tr>
<td>2014</td>
<td>0.2</td>
<td>3.1</td>
<td>-0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>2015</td>
<td>0.7</td>
<td>6.7</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>2016</td>
<td>1.0</td>
<td>3.1</td>
<td>1.5</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: Economic Observatory on ISTAT Data.

\(^\text{39}\) Domestic demand excluding inventories.
i. **Italy’s Foreign Trade.** – Focusing only on foreign trade, the processing of data of the International Monetary Fund highlights that Italy, during the first ten months of 2016 (last available data)\(^{40}\), was ranked – with a market share of 2.9% – the eighth exporter in the world, preceded by China, the United States, Germany, Japan, the Netherlands, France and South Korea.

An analysis of Italian export dynamics over the last few years indicates that from February 2010 to March 2012, sales of Italian products abroad showed positive growth rates (year over year). Conversely, since April 2012, exports have continued to report fluctuating trends with a sharp decline in April, September and December 2012, during the two-month periods of February-March, May-June and in the months of August and November 2013, August 2014, January and October 2015 and January, March, April, June, July and October of 2016. In general – from 2010 to date – exports of Italian goods have increased on average every month by about 6%. Confirmation of the renewed attractiveness of Made in Italy derives from the dimensions of Italian exports of goods (current prices) in 2016: Italian foreign sales, which rose by 1.2%, amounted to 417.1 billion Euro, the best result ever when compared to the performance of exports in previous years. The European Commission\(^{41}\) also predicts that the 2017-2018 two-year period will feature export growth rates of 6.7% and 4.9% respectively.

The most striking result has for some years now been the consolidation of Italy’s trade balance surplus: in 2016 the trade balance, backed by the large surplus of non-energy products, was 51.5 billion Euro, resulting – compared with the values obtained in previous years – the largest surplus ever. The surplus is the result both of the success of Made in Italy products on foreign markets, but also of the contradictory signals concerning purchases and consumption coming from the domestic market. In this respect, it is worth pointing out the sudden decrease in imports over the three-year period 2012-2014 (-5.3% in 2012, -5.1% in 2013 and

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\(^{40}\) Economic Observatory on IMF – DOTS Data, March 2017.

\(^{41}\) AMECO Data.
1% in 2014): enabling the reduction of the trade deficit and highlighting the contraction of Italian purchasing power and consumption.

In contrast, positive indications from the analysis of 2015, show that increment in imports equalled that of exports (+3.8%), notwithstanding in 2016, the contraction in imports yet again of -1.3%. As concerns commodities, energy continues to weigh heavily on Italy’s trade balance. Had the energy sector been excluded, the Italian trade balance would have reached a surplus of just over 78.8 billion Euro in 2016, slightly in excess of what Italy exported during the same period to the United States, the United Kingdom and Switzerland.

With respect to Made in Italy, traditional sectors such as machinery, fashion, agro-food and furnishing are decisive for Italian export performance. The four sectors alone account for over half (55%) of national exports.

In the European Union countries, the Italian market registers the second trade/manufacturing surplus after Germany; in antithesis to Italy’s alleged decline and evidencing, in contrast, the relevance of the top sectors of Made in Italy.

Following the penetration of China and other BRIC countries of the world market, Italy still manages to retain 78% of its export share compared to 2000; a performance not comparable to that of Germany (100%), but surpassing Japan, whose share was reduced to 55%, France (62%), the United Kingdom (58%), Canada (57%) and, even if only slightly, better than the USA (76%).

In short, it is the appeal and strength of the top sectors of Made in Italy that enables the country to balance the strong energy deficit and the structural loss of other sectors (chemistry, cars, computers and consumer electronics), where the lack of a nucleus of large national groups relegates Italy inevitably, to dependence on imports from abroad. In particular with regard to Made in Italy, on processing the most recent Information Handling Services (IHS) Data for 2016, it emerges that:

- Italy has the world’s fourth largest surplus in the mechanical sector (+43.9 billion

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42 The energy sector includes, in particular, crude oil and natural gas.

43 This is also accomplished in spite of the overwhelming rise of developing economies in world trade: among the advanced countries, Italy with the advent of globalisation, has retained a higher percentage of market share at international level.

dollars in 2016), preceded only by Germany (+82.9 billion), Japan (+69.5 billion) and China (+63.2 billion); - Italy is the third exporter in the world, behind China and Germany, in the home furnishing sector, with a market share of about 6%; - in the fashion system, Italy is, behind China and India, the third-largest exporter in the world – with a market share of 6% – and has the third trade surplus market.

Furthermore, although Italy is the eighth largest exporter in the food sector in the world, if the data are examined in depth, Italy results first in the pasta sector, second in both wine (behind France) and olive oil (behind Spain) and fourth in cheese.

The dynamism of Italy’s commodity trade within the EU is confirmed by the +3.1% increase achieved last year – from exports – from 226 billion Euro in 2015 to 233 billion and, although less marked, by the +1.8% increase in imports. These results have enabled Italy’s trade surplus to peak 11.6 billion Euro, improving even on the surplus of 8.6 billion achieved in 2015.

As far as the geographical destination of Italian goods is concerned, in 2016, Italian intra-EU sales, if compared with 2015 figures, registered an increase with all the major trading partners, such as Spain (+6.1%), Germany (+3.8%), France (+3.0%), the Netherlands (+1.7%) and the United Kingdom (+0.5%). At the same time, the good performance in the Czech Republic (+6.5%) should not be underestimated.

The decline in Italian exports in 2016 in the non-EU areas can be attributed to the contraction in non-EU Europe, mainly a consequence of the multiannual decline in Russia (resulting from the impact of well-known international events), together with the slow growth registered in Central America, the Middle East, and in the entire African continent. In contrast, sales of Italian products continued to be extremely good in North America, driven by the US market (+2.6%), in East Asia.

45 Another peculiarity is the tendency of Italian entrepreneurs to reposition their products where there is a greater demand. In fact, from the point of view of the geographical destination of Italian goods, 2016 saw a 3.1% increase within the EU28, which more than compensated the fall of 1.2% in non-EU countries. Data for the first quarter of 2017 indicates that Italy’s intra-EU exports increased by 8.2% while extra-EU exports increased by 12.4%.

46 EU28.
(+2.4%) – by virtue of the positive performance achieved in China, Japan and the so-called ASEAN countries\textsuperscript{47} – and Oceania (+11%).

However, during the early months of 2017 the particularly favourable dynamics of Italian products should be taken into account. During the first quarter of 2017 (January-March), Italian products achieved a widespread increase in all non-EU areas, consolidating positioning already acquired during the first quarter of the previous year. As far as the destination countries of Italian exports are concerned, Germany is the most important (representing 12.6% of sales abroad), followed by France and the United States, with a share of respectively 10.5% and 8.9%.

In the ranking of Italy’s main client markets, only three non-European countries – the USA, China and Japan – are ranked in the top 15 places\textsuperscript{48} (See Tab. 2).

Tab. 2 - Main Italian trade partners in 2016.

<table>
<thead>
<tr>
<th>Pos.</th>
<th>Client Countries</th>
<th>Bn. €</th>
<th>%</th>
<th>Supplier Countries</th>
<th>Bn. €</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Germany</td>
<td>52.7</td>
<td>12.6</td>
<td>Germany</td>
<td>59.5</td>
<td>16.3</td>
</tr>
<tr>
<td>2</td>
<td>France</td>
<td>43.9</td>
<td>10.5</td>
<td>France</td>
<td>32.5</td>
<td>8.9</td>
</tr>
<tr>
<td>3</td>
<td>United States</td>
<td>36.9</td>
<td>8.9</td>
<td>China</td>
<td>27.3</td>
<td>7.5</td>
</tr>
</tbody>
</table>

\textsuperscript{47} Association of Southeast Asian Nations: Brunei, Cambodia, the Philippines, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Singapore, Thailand and Vietnam. ASEAN has established itself as a platform for Asian integration and cooperation, working with other Asian nations to promote unity, prosperity, development and sustainability of the region, as well as working on solutions to resolve disputes and problems in the region. While mainly focusing on the Asia-Pacific nations, ASEAN also established communications with other parts of the world, to better promote world peace and stability. The Organisation has a global reputation for promoting goodwill and diplomacy among nations, ignoring any opinion or decision considered biased while carrying the principle of non-interference and mutual respect. Four proposals for improved financing of development in ASEAN SMEs are of great socio-economic significance although their long-term growth and competitiveness has been compromised by the chronic and often acute constraints on their access to formal-sector finance, among other systemic and institutional problems in developing, including ASEAN, countries. Largely as a result, SMEs’ share of financing resources is disproportionately less than their relative importance in domestic employment and, to a lesser extent, value added. SME financing problems are due to both demand – and supply – factors which have to be addressed as part and parcel of the on-going development and modernisation of the financial sector in response to the increasing volume and complexity of business transactions associated with the integrated growth and globalisation of ASEAN economies. Proposals relative to the demand relate to the needs for more systematic disclosure of information on finance and governance, and better business planning by SMEs. Parallel capacity building efforts relative to supply include greater reliance on credit information systems, and SME risk scoring and competitiveness benchmarking (See Wattanapruttipaisan, 2003).

\textsuperscript{48} On the other hand, as far as the markets of origin of Italian imports are concerned, Germany remains the leader – accounting for 16.3% of Italy’s purchases of goods abroad – preceding France (8.9%) and China (7.5%).
At a regional level more than two thirds of the Italian trade exchange concerns Northern Italy. In particular, the North West has the lion’s share: on the one hand this area contributes for more than 39% to Italy’s overall sales abroad and about 42% of the purchases from international markets are directed to this area.

Decisive is also the role of the North East which accounts for 32% of exports and for more than 23% of imports. It should also be pointed out that more than 1% of exports and about 5% of imports are inserted – by ISTAT – in the *different and unspecified* category. The latter entry, in fact, collects commercial transactions for which it is not possible to specify exactly the Province/Region to which the transaction refers. Such is the case, for example, of purchases of goods aimed at meeting non-immediate internal demand and that, for this reason, are destined to reach the places of actual use at different times; or of those sales abroad made by *groupage* for which it is not easy to indicate the places of production; or transactions executed by operators submitting quarterly or annual summary recapitulative statements.

Regarding the Regions, about 27% of Italian exports to international markets come from Lombardy, followed by Veneto (14%), Emilia Romagna (13.5%) and
Piedmont (just under 11%). Fifth is the first Region of Central Italy, Tuscany (8%), while the first Southern Region is in ninth position, Campania (about 2.5%). Milan, Turin, Vicenza, Brescia and Bergamo are the provinces that, in this order, export more; in total, the sales flow in 2016 amounted to 105.5 billion Euro for a contribution to national exports of just over a quarter. Among the first twenty exporting provinces three are from Central Italy (9th Florence, 15th Rome and 17th Arezzo) and one is from the South (20th Chieti). Lombardy and Veneto are – in that order – also the most active Regions in terms of Italian imports, absorbing over 40% of the total. Lazio is third (9%) and precedes, by just some tenths of a percentage point, Emilia Romagna and Piedmont. Also in this field Campania, which is in seventh position, represents the most dynamic Southern Region. As far as the provinces are concerned, Milan – followed by Rome, Turin, Verona and Vicenza – is leader. In this context, the ranking of the first twenty provinces shows the presence of two from Southern Italy, namely Naples (9th) and Syracuse (14th); the latter, in particular, thanks to the intense port activity in the energy field.

From ISTAT’s source data, surprisingly, the decisive role of SMEs stands out. Constantly looking for alternatives to the contraction of domestic demand, even small-scale companies have been able to manage foreign markets by increasing the number of exporting firms – between 2012 and 2014 – by 1.7%. In addition, from ISTAT’s Report “Statistics on the competitiveness of manufacturing sectors - Edition 2015”, it is clear that exporting companies also perform better on the domestic market. In 2014, companies that exported more than 75% of their total production had an average revenue growth of 4%, those that exported more than 25% and less than 75% increase revenue by only 0.6% and those that exported less than 25% decreased their sales (-2.3%). From recent editions of the report, i.e. 2016

51 The difference is significant compared to 2009 when the impact of the crisis had severe consequences. According to the National Statistics Institute, about a third of the total export-oriented companies, which have operated at least in five non-EU areas with a growing number of products, have increased their sales over the last few years.
and 2017, the highest degree of competitiveness required to operate on international markets seems to be associated with a better employment performance\(^{52}\).

According to the data from the ISTAT-ICE AGENCY Report “Foreign Trade and International Business Activities” (2016), Italian exporting enterprises number slightly less than 193,000, accounting for 4.5% of all active Italian companies. This includes companies present on foreign markets – those with annual exports of over 250,000 Euro\(^{53}\) – total more than 49,000, accounting for about 26%. Around 191,000 (99%) of exporting companies are micro, small and medium-sized, i.e. 4.4% of all Italian SMEs. Exporting SMEs attain a total volume of foreign sales of 206.5 billion Euro and contribute to Italy’s total exports by 54.5%.

They also give work to just over 2.5 million people, accounting for 57.5% of the total number of employees operating in exporting Italian companies. Again, according to the same report, during 2015 ‘the exporters in Italy’\(^ {54}\) (i.e. all individuals and businesses that – identified on the basis of the VAT code – have completed at least one foreign trade transaction during the period considered) were 214,113, an increase of +0.5% compared with 213,010 of 2014. Exporters are mainly located in Lombardy (28.9%), Veneto (13.2%), Emilia Romagna (10.5%) and Tuscany (9.1%). At EU level, by analysing Eurostat’s latest statistics\(^ {55}\), it is noted that Italy ranks second in terms of number of exporters, behind Germany (just under 312,000) and ahead of the Czech Republic (in excess of 163,000), Spain (just under 157,000) and the United Kingdom (137,000). As concerns the size of the companies, it is evident that Italy is leader in the EU, both in terms of SMEs, by registering a share – on the total of EU exporters of equal size – respectively of

\(^{52}\) For example, medium-sized exporting companies operating in the manufacturing sector have a higher chance of creating jobs of 10 (in the class 50-149 employees) and 14 (in the class 150-249 employees) percentage points, compared to companies operating only on the domestic market. In addition, enterprises that sell globally (the so-called “Global companies”) have increased – between 2011 and 2014 – both employment of 21,800 employees (+5.1%) and added value of 1.8 billion Euro (+6.5%).

\(^{53}\) As defined in Chapter 6 “La imprese”, “L’Italia nell’economia internazionale”, ICE-ISTAT.

\(^{54}\) The expressions exporting enterprises and exporters are often used as synonyms. However data on exporters are available for 2015 whereas data for export/import companies are available only up to 2014.

\(^{55}\) Data are referred for 2013.
13.2% and 15.5%, in front of Germany, which instead is first both for SMEs (preceding UK and Italy) and large enterprises.

As far as companies with at least 250 employees are concerned, Italy – with approximately 1,900 – accounts for 6.3% of the EU total, sixth following not only Germany, but also the United Kingdom, France, Poland and Spain. In European terms, Italy ranks 16th, totalling 1.8 million Euro\textsuperscript{56}, significantly below the EU average (2.5 million Euro). This result epitomises the very low value obtained when referred to micro enterprises (0.2 million Euro), a value in line with EU average if referred to small enterprises (1.3 million Euro) and of a value above the average of the EU if referred to the medium sized (10.4 million Euro) and large enterprises (91.8 million Euro)\textsuperscript{57}. It is no commonplace that the year 2016 was considered the lowest point in the history of international trade. The slowdown of emerging economies, static trends in global chains, weak investment cycles not to mention protectionist tendencies led to declining world trade growth rates year-on-year of 1.7%. Such contraction however, due to the high quality of her production, made far less impact on Italy’s exports. With regard to 2018, prospected opportunities envisage interesting challenges for Italian SMEs relative to sectors of significance. Mechanics e.g. moderate worldwide demand on average 2.4% per annum over a two-year period with greater potential for those seeking new horizons, Vietnam, Indonesia and South Africa among the major border markets. For those meeting the demand of advanced technology, the United States and Germany are the most important in terms of size and growth, for customisation and quality services and competitive advantage in the luxury goods but definitely more remunerative markets. Concerning consumer goods, demand for imports in the Foodstuffs sector is predicted to grow by 3% per year over the next two years.

With favourable global trends regarding imports, average annual growth in Italy is predicted to match worldwide demand (particularly from Europe and the United States) especially given their increased sensitivity in terms of health and wellbeing.

\textsuperscript{56} Confirmed by provisional Eurostat Data of 2014.

\textsuperscript{57} Data for 2014 confirm the trend in average exports for micro and small enterprises whereas for medium and large enterprises export average value reveals an increase of respectively 11.2 and 92.3 million Euro.
As concerns the other two sectors of Made in Italy, Design ranks top of the range in global terms and Fashion where Italy is the only industrialised country to benefit from world import demand (3.7% and 5% respectively, over the years), still maintaining competitive advantage throughout the national supply chain (See Bucci, Codeluppi and Ferraresi, 2011). Fundamental will be the combination of manufacturing excellence with intangible and distributive elements (including the enhancement of e-commerce)\textsuperscript{58}.

\textbf{ii. Italian Foreign Direct Investments.} – Internationalisation has expanded rapidly over the last two decades in Italy and the world at large. Much more than just foreign investment on the part of SMEs, from a more general perspective, internationalisation also involves the ability to attract capital from abroad\textsuperscript{59}.

A globalised and by definition, internationalised economy, i.e. globalisation, is the growing interdependence between economies (See Bordo et al., 2003).

By virtue of the progress made during the past thirty years the nature of such economic interdependence between countries has changed becoming more intense and operating through trade, the labour force, information and technology exchange, productive investment and financial capital flows.

Structural change has impacted on the technical and economic potential of dividing and distributing production processes, locating individual phases and ‘activities’ in different areas of the world in a centralised process. Goods and services now produced globally make products in one country highly dependent on economic activity in a range of other countries (See Helpman, 2006; Baldwin, 2012; Grossman and Rossi-Hansberg, 2008). Internationalisation strategies, together with

\textsuperscript{58} A unique tool for the upgrading process lies in the Made in Italy brand which crosscuts individual sectors, but for this reason ideally attracts those who consider quality a distinctive trait. In the knowledge-based economy, intangible (dematerialised) goods play the main role. Intangible production is an advanced manufacturing process performed at information level, where input materials, semi products and final products are in a digital form. The production network consists of nodes, each of which performs processing of information and knowledge through collaboration with other nodes (See Różewski, 2011).

\textsuperscript{59} Italy is classified in terms of stock and foreign investments as the least active of the most important European partners.
product diversification, were the timely response on the part of the most circumspect of Italian entrepreneurs to the lengthy economic stagnation that preceded the 2008 crisis (See Rossi, 2006).

Analysis relative to the international dimension of economics initially favoured the propulsive transnational and multinational drive of SMEs, reserving a marginal role for Public Institutions as a consequence of their substantial loss of effectiveness and capacity for governance beyond the limits of territorial reference.

In this context, the role of Strategic Public Management had mostly been purely informative and representative, confined to the screening of areas of the country and to the circulation of information on macroeconomic elements, risk quotient and a general overview of business opportunities. This has now been replaced by a more proactive vision and a more qualified and articulated concept of service for SMEs. This is confirmed by the numerous initiatives and projects that Public Administrations at all tiers have undertaken in order to assist SMEs in starting internationalisation programmes.

The literature on economics has offered various explanations relative to the reasons why a company decides to penetrate foreign markets. Findings from an initial analysis on FDIs show that the main interest derives from expected yield differentials of the investment.

Subsequently, theoretical considerations highlight reasons of a practical rather than financial nature, underpinning the expansion of FDIs. The tool has grown

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60 The economic crisis has impacted on Italy to a greater extent due to imbalance in the productive structure in traditional sectors where the competition of less advanced economies is stronger, the prevalence of SMEs hinders the adoption of new technologies and innovation is limited by structural problems of the economy (See Brandolini and Bugamelli, 2009; Accetturo et al., 2011).

61 From a purely informative function, Public Administrations now offer services to promote Italian enterprise abroad, support the creation and consolidation of international production networks, and accompany the startups of new enterprise abroad (Esposito, 2005).

62 The analysis of global trends in international production shows that, between 1990 and 2010, the world stock of FDIs was decimated, far more rapidly than GDP and international trade. The geographical context of FDIs has also changed. Emerging economies play an important role not only as markets for foreign investment flows, but also as startups both for advanced and emerging countries.

63 Subsequently, the analysis shifted attention onto the characteristics of international SMEs, highlighting a substantial uniformity between them in terms of profitability and efficiency (Bernard and Jensen, 1999; Bernard et al., 2003).
progressively during the past decade due to the economic expansion of emerging countries, to which capital flows are in search of higher returns (Borin and Cristadoro, 2014). In addition, trends in FDI flows have changed not only in terms of destination, but also as concerns derivation. An increasing quota derives from China and other emerging economies and currently, one fifth of FDI global resources lies there, due to the dynamics of BRIC countries (Brazil, Russia, India and China). Such dynamics have been accompanied by the gradual regionalisation of trade and investment (Baldwin and Lopez-Gonzalez, 2015), linked, on the one hand, to the emergence of new forms of international division of labour and, on the other, to the rapid increase in commercial, regional or bilateral investment treaties.

The financial integration of the world economy, the revolution in digital technologies, trade agreements that have reduced tariffs and other barriers and the abolition of transport costs have all contributed to a new ‘technological paradigm’ that has changed the organisation of production processes and expanded the range of goods and services. As a result, the international division of labour has intensified and production processes structured according to Global Value Chains (GVCs) have enabled comparative advantages among different countries (See Greco, 2016). In other words, the internationalisation of the intermediate goods market.

The territory also becomes, from a further perspective, a platform for the destination of economic activities from abroad. Such passive internationalisation envisages potential orientation towards the development of appropriate policies for the attractiveness of investments as well as qualified human capital, capable of strengthening the skills at local level and supporting the growth of a specific territory in the context of international competition.

Even Strategic Public Management in the broadest sense is affected by the process of internationalisation at dual scale. A preliminary direction concerns the international opening of administrations abroad, through planning and
organisational relations with foreign institutions up to a more stable presence abroad with purposes that go beyond representation.

A second direction concerns the mobility of the personnel of the Public Administration, through the possibility of opening up its internal system to knowledge accumulation and experience at international scale, in the prospect of potential enrichment and the development of new services and planning.

Besides multidimensionality, a second element connoting policies for internationalisation concerns multilevel governance, which is essential for policy implementation. Central government defines policies for internationalisation and envisages a plurality of actors – the Regions above all – involved in activating forms of coordination and identifying subjects that specifically follow the implementation of the policies devised at diverse scale.\footnote{The outcome has been more flexible forms of planning focused on concertation and negotiation practices. Furthermore, the widespread tendency to organise the design of national economic policy within the framework of ‘multilevel governance’ has been consolidated in parallel with a process of progressive reviewing of the content and objectives of the various policies supporting the processes of territorial economic internationalisation envisaged as the primary mission of regional policies.}

With reference to FDIs, as of December 31st, 2015 (latest data available), Italian investments in foreign companies amounted to 29,483 (Reprint Database, eds. Politecnico di Milano - ITA AGENCY). Over fifty per cent were delocated within the EU, providing jobs for a total of just under 1.5 million people and reaching a total turnover of about 512.6 billion Euro. The sectors involved included wholesale (44.2%), manufacturing – in particular automation-mechanics and metallurgy (28.2%) –, and professional services (10%), mainly financial and insurance activities. It should also be noted that in 81% of investments, Italy retained a majority participation, with an equal or minority participation in the remaining cases. The main target markets of Italian investments – in terms of number of participated companies – include the United States, France, Romania, Germany, Spain, the United Kingdom, China, Brazil and Poland.

On the other hand, at the same time, Italian foreign-owned companies numbered 11,294 (of which fewer than half in Lombardy), with the number of employees of around 988,000 and with a total turnover of over 504.3 billion Euro. The
companies, mainly of EU (60%) and US (19%) origin, wholesalers (31.3%), manufacturing (27.4%) – operate mainly in mechanics, metallurgy and chemistry-pharmaceuticals – and professional services (18%). In addition, over 90% of foreign companies investing in Italian companies had a controlling stake. All told, Germany, the United States, France, the United Kingdom, Switzerland, Spain and Japan – in terms of number of participants – are the main countries that invest in Italy.

4. The positioning of SME production. – Given that minor growth in trade is a threat to development, foreign markets are crucial platforms for SMEs and exports represent the most dynamic elements of GDP. Economic studies carried out in recent years show fluctuating trends in growth and stagnation concerning the internationalisation process. During the first quarter of 2009 (the lowest point of the global crisis) foreign business turnover grew by 45% (ISTAT Data July 2016), while that for domestic demand remained unchanged. Furthermore, the growth of world trade in manufacturing, predicted for the following two years, will undoubtedly spur on the internationalisation process. In this context, a record number of exporters were active in 2015 (over 214,000 according to ICE)66.

The analysis of world trade flows in 2016 highlights significant demand for Made in Italy, coming from the traditional areas of Europe and North America, while in those farther afield (Asia, Africa and Latin America) trends were not quite so positive. The classification of the top 20 Italian export markets for the three-year period 2016-2018, ranks Germany, the United States and the Emirates among the most relevant importers.

China potentially has a significant role, while Russia and Brazil (certainly making headway, still lag behind), France (the least dynamic of the great markets of the Euro zone) and the United Kingdom where SMEs, that have developed their own niche of competitiveness – through flexibility, industrial tradition, dedicated

66 The recovery of trade remaining at average rate at times rewards combinations in line with Italian specialisation, at others penalises it.
technologies – controlling specific market segments (such as pleasure boats) show positive trends or are an active part of GVCs\(^67\).

In sum, the analysis of Italian production positioning indicates numerous strengths, but also limits to future export potential. Past efforts that have been crucial for improving product competitiveness should continue to be put in place, in particular those involving action with regard to foreign distribution channels and the promotion of direct knowledge of the products by consumers. Synergies to enhance the growth of international tourist trade in Italy would also be beneficial.

In addition, fundamental is the management of risks in terms of purchasing processes and consumer patterns relative to the various markets. In this respect, if e-commerce is defined as an opportunity for SMEs, especially in order to reinforce a direct link with consumers, more complex is the relation between Made in Italy and the change in consumer preferences at global scale\(^68\). In this context, the decline in consumer choices in qualitative terms that further divides markets in social terms, impacts most on intermediate brands rendering the average consumer class the ideal target for Italian products.

Appropriate product placement therefore becomes a strategic priority, particularly by reinforcing brand complementarity on the markets of Europe and the United States. At the same time, SMEs have to target additional border markets on the global industrialised landscape being particularly active in Made in Italy production. Furthermore, smaller firms play a greater role in production where national traditions are more exalted, and it is therefore imperative that Public Institutions consider the relationship between dimension supporting operations and

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\(^67\) Frequently (as in the case of pharmaceuticals), SMEs have made widespread efforts in developing a direct supply chain through their foreign customers, in other cases (e.g. the automotive sector) they have capitalised on the growing internationalisation of leaders in the national supply chain.

\(^68\) Both in mature and emerging markets a decline in consumer choices in qualitative terms is taking place. The process is only in part linked to the recession and reduced spending power or to new priorities in spending. Western countries, albeit representing the most attractive market in terms of wealth and demand, are undergoing the impact of a generational turnover and growing immigration flows, elements that should be taken into account in decision making on market positioning.
cultural incentives favouring penetration onto foreign markets. Italy’s ability to adapt to new productive systems however, will enable the country to grasp the economic opportunities offered by the new frontier markets lacking in technology (such as Vietnam, Indonesia and the South of Africa, and by countries with older or obsolete industrial traditions, which find in Italian products the key to improving the quality and efficiency of their own production. Finally, interest in traditional markets and more complex demand segments will be an opportunity to strengthen, through new investments, the service component incorporated in the goods sold (from after-sales assistance to proximity with the end customer) increasingly crucial for the ultimate success of the product, protecting SMEs from unfair competition from new manufacturers.

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69 Italian SMEs and their specific role on foreign markets is often underestimated both in terms of their contribution to national exports and the scale of their Value Chain. However, companies require adequate financial support for commercial/marketing promotional and productive activities.
CHAPTER 2
SMEs AND THE EUROPEAN HORIZON

1. SMEs and EU Action Programmes. – The literature on Economics reiterates the importance of SMEs in the economic and social fabric of national economies constituting as they do the main driver of new employment. Moreover, SMEs are innovation and knowledge intensive with relevant spillover effects and fully able to exploit synergies offered by the territory. In short, the research and innovation effort on the part of most innovative SMEs is distinguished by the following characteristics: SMEs tend to produce innovation (often radical) rather than processes. The focus is also on producing products for niche markets and on creating strong ties with research institutions. At the same time, some economists also argue that the presence of numerous SMEs in a country is a necessary but not sufficient condition for the competitiveness of its economic system. On the contrary, the economic characteristics and above all the context of the sectors in which SMEs operate are decisive in exploiting their potential to the full.

A more efficient public sector also has repercussions at a more general level and positively influences the work and activities of SMEs and all the operators in a specific territorial context. However, this presupposes an approach to local government that acknowledges stakeholder capacity to enhance collective local resources, by means of innovative actions, producing benefits that increase the competitiveness of a territory (See Panozzo, 2005).

In the above context, in particular, as concerns the sectors in which SMEs operate, not to mention their dimensional distribution at national and regional level,

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1 The main stakeholders and actors involved in local government initiatives, development and enhancement of territorial competitiveness are represented by: Public Institutions and other public companies; Chambers of Commerce, businesses and trade associations, trade unions, credit institutions, investment companies and the financial system in general; educational institutions, i.e. schools, training institutes; cultural institutions, i.e. libraries, museums, theatres; Universities and Research Centres including technology/science parks; cooperatives and social enterprises, related consortia, voluntary associations, NGOs; the OECD and the WTO.
optimal size varies depending on the sector, according to scale economies, competition, maturity of the products and the technologies used to manufacture them.

Not all SMEs consequently, contribute in the same way to economic growth. Evidently, especially in terms of high-growth SMEs these can be found in all production sectors, claiming specific relevance in those of manufacturing and high-knowledge intensity. Such SMEs invest heavily in research and development with human resources characterised by specialist skills and expertise, especially managerial, and the high quality of the workforce. Strong growth in short, results from meeting the objectives set by the entrepreneur.

SMEs\(^2\), considered businesses which employ less than 250 member of staff, have an annual turnover of less than 50 million Euro, and/or their balance sheet total is less than 43 million Euro. They comprise three categories: micro, small, and medium-sized. These definitions are important when assessing which enterprises can benefit from EU funding programmes aimed at promoting SMEs, as well as in relation to certain policies such as SME-specific competition regulations.

The size-class definition is reported in the Eurostat Structural Business Statistics (SBS) database, based exclusively on the number of persons employed. In contrast to the concentration of enterprises in the micro SME segment, the relative importance in 2014 of the three SME groups in total non-financial sector business employment and value added was much less significant. Micro SMEs accounted for 29.2% of total employment, and small and medium-sized SMEs for 20.4% and 17.3% respectively; Micro SMEs accounted for 21.1% of total value added, small and medium-sized SMEs for 18.2% and 18.5% respectively. Within the micro

\(^2\)As regards the definition of SMEs, the proposal is adopted by the European Commission by Recommendation 2003/361/EC. Companies are divided into four categories: - micro-enterprises that employ less than 10 people and with an annual turnover or balance sheet total not exceeding 2 million Euro; - small businesses which employ less than 50 persons and annually a turnover or a balance sheet total not exceeding 10 million Euro; - medium-sized enterprises which employ less than 250 persons with an annual turnover not exceeding 50 million Euro or a balance sheet total not exceeding 43 million Euro; - large companies that employ 250 or more persons, or that have an annual turnover exceeding 50 million Euro and a total budget of more than 43 million Euro. In Italy, the Community definition was integrated without amendments in the Ministry of Productive Activities Decree dated 18th April 2005 classified as Adaptation to the Community framework of the criteria for the identification of small and medium-sized enterprises.
SMEs, businesses with no employees accounted for 59% of all businesses in 2012, the last year for which such detailed information is available.

While SMEs as a group accounted in 2014 for 67% of total employment and 58% of total added value in EU28 non-financial business, the relative contribution of SMEs to total employment and total value added varies greatly across Member States (Fig. 1).

Fig. 1 - Share of SME employment and value added in total employment and value added of non-financial business sector 2014.

Source: Eurostat, National Statistical Offices and DIW Econ.

Typically, the quota of value added generated by SMEs in the non-financial business sector is inferior to their job quota. In the EU28, SMEs accounted for 58% of value added in 2014 while their job quota was 9 percentage points higher.

The economy-wide labour intensity difference between SMEs and large enterprises in the non-financial business economy (the labour intensity gap) varies across Member States, reflecting a combination of differences in labour intensity of

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3 In the United Kingdom, for example, SMEs account for less than 54% of employment in the non-financial business economy. In a group of 14 Member States, the share of SME employment ranges from a minimum of 63% (Germany) to a maximum of 70% (Belgium, Czech Republic and Hungary). For another set of Member States in Eastern and Southern Europe, as well as Ireland, the employment share ranges from 70% to 80%. Lastly, in the case of Malta, Cyprus and Greece, SMEs account for more than 80% of employment.
the different sub-sectors of a Member State’s economy and differences in the relative importance of the various sub-sectors across Member States. Consequently, an increase in SME activity results typically in a proportionally larger increase in employment than in an increase of similar magnitude in the activity level of large enterprises.

It should be noted that the greater labour intensity of SMEs does not imply that SMEs are less productive than large enterprises, as the activities of the latter are often capital intensive. Any comparison between the productivity of SMEs and large enterprises would need to take account of both labour and capital combined.

In the EU28, of all the economic sectors in the non-financial business sector, the ‘wholesale and retail trade and repair’ sector accounts for the largest share of SME employment, number of SME, and SMEs value added: 26% of all SME employment and 22% of SME value added.

The four sectors of importance for SMEs in the EU28 comprise ‘manufacturing’, ‘construction’, ‘business services’ and ‘accommodation and food’. Together with ‘trade and repairs’, they account for 79% of total SME employment in the non-financial business sector, 78% of SME enterprises and 71% of SME value added.

In particular, SMEs in the manufacturing sector make a significant contribution to economic growth, yet most of the research into innovation management in the manufacturing sector has focused on large organisations. Therefore, SME performance is likely to improve as they increase the degree to which they mirror large manufacturing firms with respect to formal strategy and structure, and of which they recognise that innovation culture and strategy are closely aligned throughout the innovation process.

The enterprise population consists almost entirely of SMEs in all Member States. The share of SMEs in the total enterprise population ranges from around 99.5% in Luxembourg and Germany to more than 99.9% in Portugal, Italy and Greece.

While SMEs account for practically the same share of the overall number of enterprises active in the Member States, their economic contribution varies
markedly. Indeed, in 2014, the number of SMEs per million Euro of valued added generated in the non-financial business sector ranged from 2 in Luxembourg to 27 in Bulgaria (Fig. 2). Overall, most of the Central European countries are characterised by a high number of SMEs per million Euro of value added generated in comparison to Western European countries.

Fig. 2 - Number of SMEs per million Euro of value added in the non-financial business sector across EU Member States in 2014.

Source: Eurostat, National Statistical Offices and DIW Econ.

Not only does the relative importance to SMEs of the various sub-sectors of the non-financial business sector vary across EU28, but the relative importance of SMEs in each of the 5 key sectors varies as well. SMEs account for a very large share (more than 70%) of total sector employment and value added in ‘construction’ and in ‘accommodation and food’, ‘business services’, and ‘wholesale and retail trade’. In contrast, the contributions of SMEs and large enterprises to employment and value added in the ‘manufacturing’ and ‘other’ sectors are more evenly balanced. Among the various sectors comprising the ‘other’ category, the ‘real estate’ sector is the only one where SMEs account for a very large share (85% and over) of sector-wide value added and employment (Fig. 3).
Our analysis provides a brief overview of the past and forecast performance of SMEs from 2008 to 2016, and reviews in greater detail the contribution of SMEs to job creation. SMEs accounted for 71.4% of the increase in employment in 2014 in the non-financial business sector, which includes all sectors of the economy except for ‘financial services’, ‘government services’, ‘education’, ‘health’, ‘arts and culture’, ‘agriculture, forestry and fishing’. SMEs are highly diverse enterprises, and are present everywhere in the economy, with activities ranging from the production of foods to that of high-tech space exploration equipment, from retail services to the provision of highly specialised professional services, ranging from a focus on serving domestic customers as opposed to those of the export markets.

In short, SMEs are present everywhere, and in 2014 accounted for 99.8% of all enterprises in the non-financial business sector in the EU28. For every km² of territory, the EU has an average of 5 SMEs. Moreover, in 2014 SMEs employed almost 90 million people, 67% of total employment, and generated 58% of the sector’s value added. Within the framework of European enterprise it emerges that almost all SMEs (93%) are micro SMEs employing less than 10 people. About three quarters of SMEs are active in the five key sectors: ‘wholesale and retail trade’,
‘manufacturing’, ‘construction’, ‘business services’ and ‘accommodation and food services’. Among the five key sectors, the ‘business services’ sector was at EU28 level the best performer across all three SME performance indicators (i.e. increase in employment, value added and number of SMEs). Value added in this sector grew by more than 5% in 2014.

The other four key sectors and the ‘other’ sector also recorded good value added growth ranging from 2.7% to 3.4%, but the employment growth performance of these sectors was much weaker, especially in ‘construction’ where employment continued to fall in 2014 (despite an increase of 3.4% in value added) and ‘manufacturing’ where employment grew by only 0.8%.

The latest developments in EU28 SME performance reflect improving macroeconomic and business conditions.

The positive developments for EU28 SMEs were expected to gain momentum in 2015 and 2016, with annual growth of, respectively, 3.3% and 3.7% expected for EU28 SME value added, 0.8% and 0.9% for SME employment, and 0.5% and 0.7% for the number of SME enterprises. Medium-sized SMEs were forecast to do slightly better than small and micro enterprises in both 2015 and 2016 and across all three indicators.

SME growth was also expected to be more balanced in terms of sectoral growth, with all the major SME sectors predicted to take part in the overall upswing of SME activity. However, ‘construction’ and ‘manufacturing’ are forecast to continue to lag behind the other sectors. Furthermore, Member States were projected to continue to exhibit a great deal of diversity in terms of SME performance in 2015 and 2016.

Finally, general economic conditions, especially the macroeconomic environment, have a major influence on SME employment creation performance. This implies that many of the job-creating firms were based in Member States with a more favourable macroeconomic environment.

Thus, while the analysis found that newly established firms active in knowledge-intensive service sectors and based in favourable macroeconomic conditions were the main job creators, the importance of all the other SMEs for growth and jobs in the EU should neither be neglected nor underestimated.
In conclusion, three major findings emerge from the various analyses of SME job creation: - first, as a group, new SME firms have been the main creators of SME jobs in recent years; - second, data show that contribution to SME job creation is highly concentrated among a small group of SMEs; third, a large number of SMEs managed to retain their staff.

SME job creation (and cuts) takes place in highly varied circumstances, but macroeconomic developments appear to be the main factor explaining differences observed over the last few years in the performance of SMEs across European Union Member States.

However, an exception is the set of policy measures in favour of self-employment and sole entrepreneurship, which has boosted the number of micro SMEs in countries such as France and the Netherlands.

Five key policy implications also arise from the analysis of SME actual and predicted performance and their job creation record: - first, and not surprisingly, a good macroeconomic and business environment is a sine qua non condition for good SME performance; - second, and equally important, policy-making should take account of the fact that it is the group of newer SMEs that have created jobs in recent years in a number of countries while the group of more traditional SMEs have cut jobs; - third, the various analyses suggest that typical job creating firms during the economic and financial crisis were newer firms active in one of the service sectors.

A fourth factor indicates that SMEs exporting solely intra-EU should start exporting beyond the European Union and finally, the fifth element highlights that while analyses show that although in recent years, SMEs in more technology intensive industries have not created jobs on a net basis, this could be attributed more to recent recessive circumstances rather than to a systemic and structural feature of the European Union economy. It may well be in addition, that the relative contribution of technology and knowledge intensive firms could change radically in the near future.
2. **SMEs and the Italian Context.** – Within the context of the European Union, specifically the Italian enterprise system is characterised by numerous micro-enterprises and a marked specialist production in manufacturing higher than in the other EU countries and second only to that of Germany (See Accetturo and Giunta, 2014).

Findings from the analysis of performance indicators show that: - the competitiveness of Italian companies is lower than that of the major European economies (i.e. France, United Kingdom, Germany and Spain); - despite the relative cost of labour, the competitiveness of Italian companies (measured as the ratio of added value per employee and labour cost) compared to the sectors of industry and construction is higher than that of France and Germany, but significantly lower than that of Great Britain and Spain; - the investment rate is in line with that of the other countries while gross profitability in Italy is usually below that of the EU average.

This is the case albeit some industries including the building industry continue to maintain a discreet profitability rate in excess of that of France and Germany; - from a detailed analysis of the performance indicators of Italian and European manufacture by category of size, it emerges that micro enterprises present the worst results and require greater intervention in terms of support for competitiveness; - the issue of size is relevant even from the perspective of the structural financial vulnerability of Italian firms compared to their European counterparts. Generally, micro enterprises are heavily indebted, shock vulnerable in the short term and distinguished by lack of cash flow. The European Commission has acknowledged in recent years the need for SME support policies recognising the difficulties encountered by them in their economic activity. Consultation of the Small Business Act for Europe (2008)\(^5\) has led to a clearer picture of the main problems facing SMEs. For most European SMEs, issues concern the administrative burdens generated by legislation (and the consequent need for administrative simplification and regulation), access to finance, taxation, identifying and attracting professional

profiles or adequate skills on the labour market and access to tenders. From the analysis of Italian SMEs, the burden of ‘easy access to finance’ has effectively emerged and is considered one of the key elements for the development of enterprise. While in France and Belgium only 6% of SMEs consulted consider easy access to finance the main problem, the percentage in Italy (21%) was much higher than the European average (14%). Such assessments certainly affect national productive specialisation, since the manufacturing industry is the sector in which the problem of easy access to finance obtained the highest percentage 15%, compared to the service sector (just 9%)\(^6\).

These problems, common to other European countries, combined with challenges that are typically linked to the dynamics of the Italian economic system, require synergistic integration of policies for SMEs at all levels (European Community, National and Regional) of competence on the labour market and with regard to access to tenders. In conclusion, among others, access to credit is the most stringent problem for Italian companies as they depend most on the banking system. In addition, the risk capital market is very poorly developed in Italy. Therefore, access to financial resources, in the form both of credit and venture capital, is an endemic problem for all Italian SMEs.

In the context of the EU27 enterprise scenario, it appears that a considerable number of European SMEs were engaged in international activities yet only a small percentage were involved in the internationalisation process beyond the domestic Market. The two most common modes of internationalisation were exports and imports: 25% of SMEs within the EU27 exported, of which about 50% also beyond the domestic Market (13%); 29% of SMEs within the EU27 imported, 50% from countries outside their domestic Market (14%).

In addition: 7% of SMEs within the EU27 were involved in technological cooperation with a foreign partner; 7% subcontractors to foreign partners; 7% had foreign subcontractors; 2% of SMEs were active in direct foreign investment. In

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\(^{6}\) European Central Bank (2009), Flash Eurobarometer - SMEs access to finance in the EU-15 (http://ec.europa.eu/enterprise/newsroom/cf/document.cfm?action=display&doc_id1&request.id =0).
short, there was a direct link between the level of internationalisation and size of the company. The larger the company, the more it tends to internationalise. This applies to any single mode of internationalisation. Regarding EU27 exports 24% of micro, 38% of small and 53% of medium-sized SMEs were active, for imports the respective percentages were 28%, 39% and 55%. The smaller the country, the more its SMEs are internationalised, but SME proximity to national borders does not have any significant effect on its level of internationalisation.

Furthermore, there was a negative correlation between the size of the SME’s home country population and its level of international activity. Countries such as Estonia, Denmark, Sweden, the Czech Republic and Slovenia had a much higher percentage of exporters than the EU average of 25%. Germany, France and UK scored below average.

SMEs located close to a border showed much higher activity rates with their cross border Regions but this was not followed by their being more internationally active as a whole. Trade, manufacturing, transport and communication and research were the most internationalised sectors. The analyses carried out highlight several aspects and issues shown below: 1. - Companies involved in e-commerce are more internationally active⁷; 2. - Barriers to internationalisation considered by SMEs⁸; 3. - Low SME awareness of public support programmes⁹; 4. - Less exploiting of

⁷ The opportunity to sell products or services online is positively correlated with being active on export or import markets (also when controlled for other effects such as size of firm). By virtue of the Internet, SMEs of all sizes have succeeded in overcoming certain barriers to internationalisation.

⁸ The most significant barriers reported by SMEs include domestic barriers (price of home products or services and the high cost of internationalisation); barriers abroad (insufficient capital, inadequate information and public support and the costs of and/or difficulties with paperwork for transport). As concerns insufficient capital and adequate public support, the score is even higher with reference to EU-EEA markets rather than third world markets. Furthermore, lack of capital and lack of adequate public support score even higher with reference to EU-EEA markets than with reference to third markets. This might be related to the fact that generally somewhat larger and more experienced SMEs are active in third markets. Both barriers are more important the smaller the SME.

⁹ SMEs are generally ill-informed with regard to the public support programmes for internationalisation available to them. Percentages range from 15% for well-informed micro enterprises to 27% for SMEs and from only 10% for enterprises not internationally active to 22% for internationalised SMEs. By sector: 20% to 25% of SMEs in wholesale and manufacturing are aware of support programmes, whereas for retail, transport and personal services this is only 10%
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5. - Effects of internationalisation on business performance. The ratio between internationalisation and innovation is relevant. 26% of internationally active SMEs introduced products or services that were new for their sector in their home country, for the other SMEs the percentage was only 8%. In addition, internationally active SMEs are also more active with process innovation new in their sector in their home country (11% vs 3% for non internationalised SMEs).

3. Support policies. – The multidimensional nature of the internationalisation process has highlighted the need for an integrated approach to policies to encourage the dynamics of internationalisation.

The strict relation between internationalisation and competitiveness requires that policies for coherent and sustainable intervention take into account the economic system, human capital and the role of Strategic Public Management. Planning, one of the fundamental elements of Strategic Public Management, is the capacity to use resources in an organic, goal oriented manner and to intervene based potentially on territory needs analyses.

Therefore, appropriate planning is an indicator of Strategic Public Management capacity for good territory governance, particularly in the case where short-medium term national and regional financial resources (besides European) are destined for compared to 13%. Step one in adequately supporting SMEs to access international market opportunities is to raise awareness among SMEs of business support programmes.

10 Only a small number of the SMEs avail themselves of public support measures. Financial support in 2009 was exploited more by larger SMEs: micro 10%, small 13% and medium-sized 16% of enterprises boasted international activities. Non-financial support was exploited more by small firms: micro 10%, small 8% and medium-sized enterprises 6%. By country the differences are extremely relevant. A high percentage of SMEs in Austria (47%) and Turkey (32%) reported using financial support whereas in countries such as Portugal, Denmark, the Netherlands, FYROM (Former Yugoslav Republic of Macedonia) and Iceland this was 1% or less. Exploitation of non-financial support is highest in Slovenia (23%), Cyprus (19%) and Latvia (16%), but only between 2% and 10% in 10 countries, and below 2% in 15 of the 33 countries.

11 A positive correlation is evidenced between internationally active firms and high turnover growth. More than 50% of SMEs investing abroad and SMEs involved in international subcontracting, report higher turnover compared to the two year period 2007-2008. With regard to all SMEs the percentage amounts to 35%.

12 Multidimensionality is widespread, involves different areas, market activities and productive processes and implies a reorganisational framework of economic activity and international division of labour at global scale.
allocation. An effective system of public support is all the more important in Italy given that production is mainly through SMEs, called upon to deal with increasingly distant and difficult markets.

Public support for international integration, furthermore, generates benefits for the whole system, since SMEs exposed to international competition become more efficient and competitive even on the internal market.

Effective public financial services reduce the costs of internationalisation, otherwise excessively burdensome for SMEs. At the same time, they contribute to aggregating the offer, carrying out marketing actions on international markets and to increasing the professional skills of management.\(^{13}\)

Nonetheless, SMEs are generally unaware of public support programmes for internationalisation with an extremely limited use of such instruments.

**FACILITATED ACCESS TO SUPPORT MEASURES FOR MICRO FIRMS** - The smallest (micro) SMEs are the most needy in terms of benefiting most from support programmes. Despite this, they are the least aware and consequently exploit them least. This is particularly relevant in the case of financial support, especially considering that insufficient capital is prominent among the barriers reported in the survey. Therefore efforts should be made to improve small and micro SME access to public financial support mechanisms. Support programmes, financial and otherwise should be more specifically addressed to targets and objectives and should include monitoring tools.

**SUPPORT INNOVATION TO FOSTER INTERNATIONALISATION** - The results of our study confirm that there is a strong link between activities on international markets and different forms of innovation.

This suggests – notwithstanding that the direction of random effect is not always evident – joint design and policy support measures to stimulate innovation and internationalisation.

\(^{13}\) The literature on Management has identified a skills gap on the part of SMEs facing the challenges of internationalisation and has contributed to developing projects and policies for the shaping of new professional profiles. In addition to the purely entrepreneurial perspective, more recently, the need for innovative skills has also characterised the debate on the role of the Public Administration in internationalisation processes (Barocchi, 2007).
FOCUS ON EXPORTS AND ON IMPORTS - The analysis shows that imports are extremely important for SMEs, not only as such (sourcing input to remain competitive) but also as a stepping stone to a broader process of internationalisation.

FOSTER E-COMMERCE - E-commerce is positively correlated with participation on export or import markets. The Internet has facilitated SMEs of all sizes to reduce barriers to internationalisation. Policy makers should facilitate growth of e-commerce. In this respect the approval of electronic signatures would be a significant step.

COOPERATION BETWEEN SMEs IN COLLECTING MARKET DATA - Insufficient information remains a crucial barrier to successful international business. Causes could include market failure. Costs relative to narrowing the gap could be reduced considerably if the amount of 'duplicated work' within the EU were limited to a greater extent.

PERCEIVED BARRIERS FOR INTERNATIONALISATION - The analysis of SME perceived barriers with regard to international business on the part of internationalised firms or those in the planning stage concern the distinction between internal barriers related to firm capacity and external barriers related to the business environment\textsuperscript{14}. When SMEs decide to internationalise they may still be vulnerable to constraints during the process. Insight relative to the type of barriers that SMEs may encounter either before or during internationalisation is a fundamental element.

Support for the specific needs of SMEs can thus be targeted. It can happen that firms not yet active on international markets underestimate particular barriers and overestimate others. Given such differences in perception on the part of firms with little and firms with more international business experience, consideration of the latter’s experience should be taken into account in the design and development of business support services.

\textsuperscript{14} The two types of barriers are closely related: the larger the enterprise's resources the easier it is to deal with external barriers. The barriers perceived as most relevant are: price of own products, lack of capital and information, high cost of internationalisation and inadequate public support.
INTERNAL BARRIERS - Internal barriers related to the enterprise itself include insufficient capabilities. Average scores – for internationally active SMEs only – are shown in Figure 4 by size of firm on a scale ranging from 1 ‘not at all important’ to 5 ‘very important’. About 5% state that they have no barriers at all and the response of a further 6% (ranging from 3% on language barriers to 12% on high cost of internalisation) indicate ignorance relative to the importance of barriers.

Fig. 4 - Importance of internal barriers for internationalisation, by size class of SMEs, average score on scale 1 (not important) to 5 (very important), for internationally active SMEs only.

Source: Survey 2009, Internationalisation of European SMEs EIM/GDCC (N=9488).

The most important barrier in SME perception is price. This relates to the general level of prices on the home market linked to level of efficiency of the firms. Therefore, specific internationalisation support measures are not likely to address such barrier\(^\text{15}\). The second is the high cost of internalisation. Here a range of

\(^{15}\) However, integrating measures for increasing firm efficiency, either by combining internationalisation and innovation policy or by stimulating efficient sourcing of inputs, perhaps by direct imports, may prove effective. Considering the joint dynamics of internationalisation and innovation strategies and measuring the impact of this strategy mix on the financial performance of French SMEs, both strategies imply, technical, financial, commercial, and organisational resources. The antagonism and the complementarity of international development and innovation activities are explored. Based on a sample of 335 French SMEs, the results confirm a strong interdependence between technologically equipped internationalised SMEs and their business growth. The combination of product development and geographical market expansion is the most valuable
support measures could be relevant such as making information on international markets easily accessible for SMEs, subsidising trade missions or facilitating participation at foreign trade fairs. For internal barriers the differences by size class are generally quite small. Only in the case of ‘qualified personnel’ is there a distinct size class pattern: the smaller the enterprise the more significant the barrier (‘lack of sufficiently qualified personnel’). There are differences between SMEs already involved in international activities and starters.

Figure 5 shows clearly that all the barriers listed are much more important in the perception of starter SMEs compared to those already active. On a scale from 1 (not important at all) to 5 (very important), the absolute difference is on average 0.50, or – considering the average scores – more than 20% higher for starter SMEs with concrete plans than for those already engaged in international activities. The significant gap between the importance attributed to barriers by enterprises already active in international markets and starter enterprises that have only plans to penetrate such markets indicates a further need for information and awareness raising for interested enterprises. However, some barriers might be perceived greater than actually supported by effective SME experience.

Fig. 5 - Importance of internal barriers for internationalisation, average score on scale 1 (not important) to 5 (very important), for SMEs that are active and SMEs that have plans to become internationally active.

Source: Survey 2009, Internationalisation of European SMEs EIM/GDCC (N=9480).

combined strategy that is positively related to research and development intensity (See Lecerf, 2012).
EXTERNAL BARRIERS - For SMEs as a whole the difference between the importance of these external barriers in EU-EEA markets and on third markets is presented in Figure 6. Lack of capital and lack of adequate public support score even higher with reference to EU-EEA markets than to extra EU-EEA markets. This might be related to the fact that generally larger and more experienced SMEs are active on third markets.

Fig. 6 - Barriers related to the business environment for enterprises in EU-EEA markets and non-EU-EEA markets (percentage of SMEs that state important).

As with internal barriers, the differences by size class are fairly small for most external barriers in EU-EEA markets. Figure 7 shows two major exceptions: other laws and regulations in foreign countries are perceived to be more important by the larger SMEs and lack of capital is especially high with micro enterprises. It shows that also with regard to third markets the differences by size class are fairly small. The same two exceptions apply: other laws and regulations in foreign countries score higher with larger SMEs, lack of capital is more important for micro firms.

16 The perceptions of SMEs that only have plans to enter international markets have been compared to those of SMEs that are already active. For most external issues with regard to EU-EEA markets the SMEs with plans only feel that the following issues are more important: lack of adequate information, cost of difficult paperwork and cultural differences. Lack of adequate public support and other laws and regulations are only slightly higher with SMEs with plans only. Finally tariffs and other trade barriers score even lower with SMEs with plans only.
Fig. 7 - Barriers related to the business environment for the enterprises in EU-EEA markets, by size class (percentage of SMEs that state important).

<table>
<thead>
<tr>
<th>Barriers</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
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<tbody>
<tr>
<td>Lack of capital</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Lack of adequate public support</td>
<td></td>
<td></td>
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<tr>
<td>Lack of adequate information</td>
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<tr>
<td>Costs or difficult paperwork for transport</td>
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<tr>
<td>Other laws and regulations in foreign countries</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Tariffs or other trade barriers in foreign market</td>
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<td></td>
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<tr>
<td>Cultural differences (incl. business culture)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Tariffs or other trade barriers in home country</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other external barriers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No external barriers</td>
<td>10%</td>
<td>30%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Survey 2009, Internationalisation of European SMEs EIM/GDCC (N=9480).

With regard to non-EU-EEA markets, SMEs with plans tend to attach a higher value to external barriers in comparison to active SMEs. However tariffs and other trade barriers and other laws and regulations score much lower with SMEs with plans only.

EXTERNAL BARRIERS - For SMEs as a whole the difference between the importance of these external barriers in EU-EEA markets and on third markets is presented in Figure 6. Lack of capital and lack of adequate public support score even higher with reference to EU-EEA markets compared to extra EU-EEA markets. This might be related to the fact that generally larger and more experienced SMEs are active on third markets.

4. The Juncker Plan and economic recovery. – In the uncertainty of the global market in a context where national barriers are dismantled, macro models of consumption linked to life styles become ever more uniform (albeit considering distinct local specifics) and free movement of goods, people, information and capital has become the norm.

In a perspective of corporate mission and basic vision, SMEs represent a crucial element in the EU’s response to change in the global market together with their role...
in contributing to adapting the EU economy to such change. SMEs account for two-thirds of all employees in the private sector, guarantee dynamism to the job market thus concurring in creating a competitive, innovative and inclusive European economy. In addition, economic and specialisation processes of fragmentation typical of globalisation create niches that SMEs could exploit to their advantage if their significant role in augmenting prosperity and enriching the different social, entrepreneurial and cultural models in the EU (in Italy in particular), are acknowledged\textsuperscript{17}. Notwithstanding adequate support of SMEs is fundamental for entrepreneurs to deal with global market changes save influencing decision making or risk prevention. Policies of support for SMEs should entail rewarding innovation and not involve risk unless such policy is devised as a response to specific market failure. In similar circumstances, changes in the global market could impact heavily on smaller businesses (i.e. those operating in the GVCs or in economies where SMEs are the prevalent form of enterprise).

To support SMEs with interests in export, efforts should be put in place in order to create open markets via trade negotiations and to ensure legally valid instruments applied to third countries in defence of trade not to mention the application of global rules and regulations for trade and the support of domestic markets and not neglecting the issue of asymmetrical access. In short, SMEs should be guaranteed against trade barriers in terms of low or non-tariffs.

As concerns trade competitiveness, studies have pinpointed actions to undertake in order to improve quality. These include a) marketing campaigns organised by Member States, the European Commission and Business Associations in Third countries, b) communication addressed to the relevant Business Associations in Third countries relative to improved quality and the positive effects deriving from respect of European standards and requirements and participation in quality improvement programmes. In sum, trade policy strategies should envisage the enhancement of productive specificities, partnerships to ensure access to markets\

\textsuperscript{17} SMEs solidly underpin the EU’s productive system and are perfectly capable of contributing to job creation and EU added value, despite a certain degree of non-uniformity and the fact that many lack the strength, resources or even the desire to penetrate the global market.
are to develop and above all coordinate with SMEs to enable them to deal with the complex process of trade negotiations. More generally, policies should be designed to meet SME needs given the gap between how SMEs consider obstacles to internationalisation and where such obstacles are perceived by policy makers. At the same time, effective pathways should be encouraged to assist SMEs in terms of intermediation, tax relief, punctual payments and measures contributing to the rapid distribution of funds, especially for the sectors of economic activity most exposed to globalisation and the recession.

In this context, equally important is support for SMEs to provide a skilled and knowledge intensive workforce given that SME competitiveness is guaranteed by high-level skills, particularly in areas such as engineering, technical maintenance and construction. This would contribute to tackling global changes, promoting European partnerships and long-term cooperative projects between SME organisations, Management, Universities and Research Institutes in emerging economies. Particular attention should also be addressed to networks that are strategic for globally active SMEs. In this respect however, the EU has not fully exploited its potential to improve the position of SMEs as exporters to Third-country markets and importers from such markets. In this context, of particular interest is the role that the EU and the Member States can play in supporting SMEs that are sufficiently competitive to operate as initial and intermediate enterprises (I&I) in the GVCs. Thus, innovation in the real economy is important, especially in complex economic, socio-environmental situations.

The strategic aim of the Juncker Plan (JP) (Paganetto, 2015) was essentially to attract private capital, by virtue of greater quality funding the outcome of the EU-EIB dual guarantee. Within this scenario, strategic investments, such as broadband

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18 Practical and accessible support measures on the part of local and national intermediaries, SME experts, and business links should be provided.

19 Policies must provide a timely response to new challenges, be ready for assessment on tangible elements of quality and should create open dialogue with relevant stakeholders to exploit best practices and evolving results.
and energy networks, and SME development would be financially supported. In this respect, greater investments would create positive spillover effects on the level of debt-to-GDP ratio and deficit/GDP ratio, by a more than proportional increase in denominator as opposed to numerator terms.

Investments in infrastructure are characterised not only as significant economic multipliers, but also as fiscal multipliers, which can play an important anti-cyclical role (Pennisi, 2015a). Such investments, however, are remarkably important also from the crucial viewpoint of the building of Europe, to remove the numerous gaps still characterising the EU (Bassanini, 2014). In terms of the JP, however, serious doubts remain, including the innovation gap, which counts for 50% of JP funding. Innovation processes are almost entirely carried out by private sector companies, therefore – the EIB stipulates – private sector innovation and innovation projects must have access to EU financial instruments. The implications are that radical changes in EU policy strategy are required. In some European capitals, the seven-eight year period of ongoing recession has adversely affected project design and preparation. This implies that there are no projects ‘ready’ that could have positive effects on the economies of European countries, including Italy where the high rate of savings on the part of families are channelled with difficulty into infrastructure.

The issue of the role that development (or promotional) banks play in the JP is highly relevant. The contribution of national ‘savings banks’ and ‘national banks’ to the financing of investment may take several forms, in the event that pre-equity participation is prevalent. To date however, the governments of the main EU countries have found it more convenient to play a direct role in project financing, through investment platforms, rather than guarantee themselves rebates/refunds on quotas paid into Capital Funds thanks to the greater flexibility of the rules and regulations on public spending. Notwithstanding, Italy is not likely to be among the major beneficiaries of the JP given that infrastructure is only put in place in Italy with extreme difficulty and slowness given the country’s chronic systemic incapacity.

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20 Bini Smaghi (2015) presents an estimated sectoral division for the European Union as a whole and a more detailed estimate for Italy based on information/data provided by European Union services and by national Administrations.
as a whole together with that of the Public Administrations, in particular to prepare, plan, design and contract works of public interest. When the JP reaches the operational phase, it is feared that the quality of Italian project design concurring with that of European counterparts, will risk the incapacity to generate investment demand compared to that of the other EU countries, with imaginable negative implications. Regarding economic recovery, many economists have highlighted the inefficiency of macroeconomic (fiscal and monetary) policies in starting the recovery process in the Italian and other European economies. These scholars believe that a flexible combination of expansive monetary and fiscal policies, together with modern industrial and regional policies based on innovation and infrastructure investment, is more appropriate and effective (Baravelli et al., 2015). Albeit in a situation of substantial monetary liquidity, created time and again by the ECB’s policy of Quantitative Easing, the supply of public and private financial resources has failed to stimulate production except in cases of increased demand for credit on the part of SMEs. Such demand however, can occur only if expectations on the part of entrepreneurs relative to the future economic recovery are perceived.

As concerns the demand for credit by both households and SMEs, industrial and regional policies could more appropriately target such demand. In this context, public operators should start initially, trusting in the follow-up by the private sector.

In particular, the links between the ECB and the EIB, on the one hand, and the role played by the EIB itself in the JP, on the other, seem to be extremely haphazard, whereas greater coordination would play a crucial role in promoting projects of private and public sector investment, thus raising the demand for credit.

The JP certainly appears to be a preliminary positive change on the part of the EU in terms of a diverse approach to economic policies. However, it is fundamental to pursue industrial and regional policies that encourage investment in construction and plants on the part of the private sector by means of facilities for new productions or innovative production lines, potentially in high demand by European (and also Italian) consumers. This would guarantee the European economy a new role in global competition. Industrial and regional policies, on the one hand,
encourage investment and innovation on the part of SMEs, and on the other, render spending for investment more effective. At the same time, the interdependence between them in the various territorial areas, therefore increases their rate of financial returns incremented by virtue of particular of measures taken through regional initiatives managed and coordinated by them. Finally, industrial and regional policy is fundamental not only in the long term but also to promote growth in the short and medium term. Such policy is complementary to growth-oriented macroeconomic policies and creates not only new innovative productions, but also more employment in SMEs (Cappellin, 2014). A similar need is perceived by many scholars, according to whom, given the current situation, the government should embark on industrial and technological policies (Dosi, 2015).

Intervention would range from technological policies – which foster the accumulation of skills in SMEs and knowledge in the public sector – to structural intervention in the industrial sector, including Public Corporations. The most effective policies comprise the so-called ‘mission oriented’ ones, i.e. those where SMEs should follow government guidelines. Anyway, countries will have to go on combining these policy directions, but with an emphasis on the fourth direction, i.e. national differentiation building on the upgrading and knowledge-intensification of already proven industrial strengths.

This kind of policy at European scale should address specific technological advances – in fields such as energy efficiency, renewable energies, disease prevention and treatment – through mission-oriented policies and public contracts/tenders for the development of new products and processes with a wide market potential. Obviously, this new industrial policy should combine with other European Union policies, linked to a renewed long-term sustainability strategy for Europe. Moreover,

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21 On the other hand, any growth in GDP is unfeasible without the development of new production and more modern reconversion processes relative to current specialisations typical of the European and in particular Italian economy.

22 The suggestions proposed by Dosi at national scale are integrated within the EuroMemorandum (2015). Contributions from international experts in the field of innovation, economic development and industrial policy are published in AA.VV. (2015). For this particular group of economists, an alternative European industrial policy should be structured on three directives: research, development and innovation at public scale, public investment to stimulate production, mission-oriented innovation and public tenders.
existing and operating institutions and intervention tools, including Structural Funds and EIB Quantitative Easing could be renewed and integrated within the new industrial policy radically changing methods of operating. In the long term consequently, dedicated institutions, such as the European Public Investment Bank or European Industrial Agency should be defined more consistently with the objective of reforming the EU country production structure\textsuperscript{23}.

Growth, development and employment\textsuperscript{24} are extremely relevant issues and are the foundations underpinning the focus for reflections on eventual policies to put in place. Taking into account that Italy has only been able to recover competitiveness in part, given her endemic incapacity to define efficacious economic policies capable of steering economic recovery. Such policies would include specific drivers to increase market share at home and abroad in the economic context of reference, in particular that of SMEs. More credit delivery should be made available, fluctuations in financial markets should be dealt with, consumption triggered and more balanced international agreements strived for. Not least, the impetus deriving from globalisation and the innovative digital revolution should be exploited. At the same time reforms already delineated in 2014 should also be put in place\textsuperscript{25}.

As regards credit to SMEs, substantial stagnation is registered, despite the fact that expanding monetary policies continue to have positive effects on the cost of loans. However, it should be noted that the total credit granted to SMEs, with

\textsuperscript{23} The funding of an EU industrial policy should be put in place via European resources thus avoiding the onus on the national budgets of countries in economic difficulty. The size dimension considered adequate for implementing an Industrial Policy Programme as envisaged by Euro Memorandum should also be taken into account.

\textsuperscript{24} The employment rate of 57.5%, +0.8% compared to 2016 and 2.2% higher than the minimum of September 2013, remains at 1.4% below the maximum pre-crisis period of April 2008. Opposed to the pre-crisis peak, self-employment declined to the extent of 535,000 units. On the other hand, employment rose by 206,000 units. In addition, economic recovery remains weak and forecasts for the 2017-2018 biennium indicate that Italy is the country in the EU economy with the lowest GDP growth rate.

\textsuperscript{25} In 2016 GDP – with prices steady – grew by 0.9%. Compared to the other European countries the Italian economy showed a delay in recovery. Italy’s growth rate is the lowest of the entire EU, showing no change in GDP. Product trends last year were one decimal point above predictions indicated in the updated financial economic document (DEF 2016) drawn up in September. Recovery of investments consolidates positive trends in terms of firm demographics which in 2016 recorded a development rate of 0.7% in line with +0.8% of the previous year. Manufacturing, Building Works and Trade registered a persistently negative balance.
respect to five years ago, has decreased by almost 120 billion Euro and that for less structured businesses there is still considerable difficulty in accessing funding at all\textsuperscript{26}. In addition, the fragility of the current recovery is underlined by the changing trends in exogenous variables, despite the fact that in 2016 net indebtedness continued to grow at -2.4% of GDP (-2.7% in 2015)\textsuperscript{27}.

The constraints imposed by participation in the Monetary Union risks jeopardising the fragile growth processes of the Italian economy as well as interrupting the path of reducing fiscal pressure. In effect, economic policies with more flexibility are needed to prevent austerity leading to a negative spiral in terms of development, jobs and public spending. Therefore, it is of concern that despite the spiralling decline already recorded in recent years, investment spending since 2018 shows a further downward trend that puts it at a minimum of 2.0% of GDP at the end of the programming period.

Having summed up the macroeconomic scenario in Italy from an EU dynamics perspective, some conclusive reflections might be of use relative to the effective opportunities for promoting a strategic vision for the development of SMEs, taking into account that they represent the mainstay of the Italian economy. The problematic issues highlighted could be resolved by an organic Master Plan of structural reforms that have long been expected and defined in the Italian National Plan of Reforms.

The strategic importance of such reforms lies not so much in their value as such, but rather for the positive effects they would be able to deploy in slow development areas. In effect, action is needed to redress general policy guidelines on competition and liberalisation policies that were already revised in the 2015 Law, taking into account the potential new arrangements to be made within the Community, the emergence and dissemination of new digital brokerage platforms, the increasingly

\textsuperscript{26} Growth processes are conditioned by risks and uncertainties linked to the trends in fiscal and trade policies in the USA, to electoral timescales in the most important European countries, to negotiations relative to Brexit, to effects on emerging countries of tighter monetary policies in the USA and to the growing high levels of national debt in China.

\textsuperscript{27} The programmed macroeconomic framework shows a growth rate of 1.0% for 2017 and of 1.1% for 2018. During this year the DEF 2017 reported a two decimal points drop below the predicted trends set out in the October Budget and three decimal points below the trends predicted in the updated DEF 2016 of last September.
important role of technical standards and the changing need to regulate the free movement of goods and people and the freedom of settlement in internal and international markets.

In recent years, credit and credit support policies and instruments have not been sufficient to divert trends away from the growing credit crunch in the SME business system. The main tool available to SMEs, to date still sustained by significant resources, is the Central Guarantee Fund, intervention that has created, in Italy in a short period of time, the most important financial instrument of public guarantee constantly growing to an exponential degree.

Despite the success of the Fund however, we have not observed equally important accompanying skills of the same to market needs. This prevents the Fund from becoming the target of firms actually in need of public intervention and from becoming progressively functional to the needs of banks undergoing losses observable from the exponential growth of operations of ‘direct collateral’ to mitigate the absorption of credit institution capital. This trend, not countered by appropriate reform policies, has led to ineffective allocations of large amounts of public resources, also resulting in a shift in confidence towards trusted intermediaries, as natural support for certain categories of businesses, and to ensure access to credit and finance to weaker and smaller businesses.

Finally, innovative actions are required to enable SMEs to implement strategies – including proximity – to steer their financial management to intercept funding to the company’s capital and to mitigate, through high-value-added intermediation, the disadvantages that occur in the management of small loans by the credit institutes. It is necessary to define the programming of irrefutable infrastructural intervention and upgrading of the territory, depending on the relaunching of the construction sector and its value chain, support for the mobility of goods and people, tourism attraction and cultural

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28 This contingent situation furthermore, can be combined with structural issues typical of the Italian financial system where firms with up to 20 members of staff receive a far inferior credit quota compared to other types of enterprise.

29 On the contrary, greater synergy between public funds and ‘confidi’ operating at territory level could with an equal amount of resources increment the multiplier effect of such resources to assist a greater number of firms, above all if guarantee integration and diversification levels were established between ‘confidi’, guarantee funds and banks.
heritage, for which areas SMEs could make major contributions and at the same time, receive non-negligible economic benefits. As concerns Cohesion Policy strategies, these are mainly addressed to the Regions of the South, which use almost 80% of the EU Structural Funds, in addition to the Development and Cohesion Fund and capital expenditure for investment. An integrated planning strategy is essential if intervention processes via different sources of funding are to successfully support investment processes.\footnote{The Funding Programme 2014-2020 is ongoing. Organisational innovation linked above all to central level with the creation of a Cohesion Agency is working well and should enable more efficient spending trends with full absorption of the resources without the need for additional financial resources as was the case during the period 2007-2013.}

In this respect, measures designed to encourage the diffusion of digital technologies in the production system, Industry Plan 4.0 could represent a cultural revolution capable of giving the Italian production system of SMEs the capacity to increase competitiveness and development\footnote{A process of reorientation and cultural updating is fundamental and comes before the application of technology. On the contrary, it is a pre-condition for the spread and use of digital technologies beyond current borders and produces systemic and revolutionary effects.} (See Paganetto, 2016). On the other hand, as has already been pointed out, the Italian production system consists of 99.4% micro and small businesses spread across every sector of the economy, from manufacturing to services, from traditional to more innovative sectors.\footnote{The project of digital development has to consider the peculiarities of the productive system and pose among its objectives not only the inclusion of SMEs in the digital innovation process but also the maintaining of excellent and diverse Italian production. In other words, specialisations and productive excellence characterising Italian firms of cultural value representing the Italian way up to Industry 4.0 as opposed to import models.}

It is evident from our analyses that the digital transformation of SMEs, i.e. the application of digital technologies to improve and transform business, could be an effective opportunity for renovation and could produce effects from development and innovation of the system starting from investments in technology startups. In particular, the digital transformation path has to rely on bureaucratic preferential lanes and special resources attributed to startups and technological SMEs to promote employment growth. We are convinced that strategic guidelines have to cover all types of SMEs (manufacturing, trade, artisan crafts, tourism, services) enhancing innovation (being replicable and generating multiplier effects) in the
broadest sense. This also impacts on how enterprise changes its approach to the market, with profound implications on its business model. It is to be hoped that a ‘broadband’ action plan will define an organic framework implying not only technological innovation but also organisational and business innovation for SMEs.

From the analyses carried out, a positive, consistent and well-defined government strategy has emerged in support of SME internationalisation processes, despite the fact that the economic and productive environment is quite complicated and addressed mainly to the growth of new product sectors and the support of innovative performance of traditional sectors competing on global markets.

Various analysis and design experiences highlight the need for differentiation in the demand for services to internationalisation, rethinking the logic of service and the approaches by public bodies, Institutions and companies. From the studies and analyses carried out, in fact, different types of economic actors emerge, with a consequent differentiation in terms of demand for services. Traditionally, institutional actors appointed to offer services for internationalisation, not only have responded to the demand of the first segment, through standardised information, training and support services, based on a ‘front desk’ logic. The leading companies, however, have already internalised skills and professionalism to meet basic needs notwithstanding a support system of services and consultancy is required which however, Strategic Public Management has encountered difficulty in putting in place. From our study it emerges that particular consideration applies to the appropriate reorganisation of financial instruments to support internationalisation strategies and much more needs to be done to secure SME financial support aimed at specific requirements to enhance trust networks, particularly with regard to efficient transaction management and credit insurance.

33 Particular emphasis has been placed on the factor ‘territory’ for SMEs, above all in terms of trade, public services and tourism which have a significant role in local Communities. For example, Historic Centres which are feeling the brunt of closed market activities weighing heavily both on the quality of life of residents and on the tourist appeal of the area. The hinterland also undergoes risks of abandon and desertification in the same way, due mainly to the lack of market services.

34 As concerns Programmes relative to technical assistance, vouchers for Temporary Export Managers are considered a positive financial tool in a bid to assist SMEs in engaging specific professional figures in order to consolidate their internationalisation processes abroad.
PART TWO

STRATEGIC PUBLIC MANAGEMENT FOR
THE COMPETITIVENESS OF ITALIAN SMES
CHAPTER 1
STRATEGIES FOR INTERNATIONALISATION

1. The Internationalisation process in the Italian productive system. –
In a scenario of productive internationalisation, Italy lags behind other major European countries in terms of foreign investment depending on whether incoming FDIs are the terms of comparison.

The industrial structure is made up mainly of SMEs that are far less inclined to face the high costs and risks associated with manufacturing abroad, with the relevant implications for settlement or involvement in foreign markets\(^1\). However, it should be pointed out that during the last decade, Italian foreign investments have increased in the most intensive technological sectors and in Asian and emerging countries, due to the dynamism of SMEs attracted by the growth prospects of the above mentioned economies.

The devastating decline in world trade, well in excess of GDP and industrial production has been studied in depth by various scholars (Bems et al., 2013). Motivations range from the financial crisis (the credit crunch), which also affected trade finance to the predominance of GVCs, highlighting interesting implications on the reactions to the crisis in Italy.

Recent studies show that the impact of the crisis on enterprises mainly depends on their position in GVCs (Altomonte et al., 2013; Barba Navaretti et al., 2011)\(^2\). Companies classified as the most productive make significant FDIs, those classified in terms of intermediate productivity rely on outsourcing and the last group remain

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\(^1\) On the other hand, at greater scale, among the top 100 multinationals in the industry, only three are Italian (Eni, Enel and – until 2013 – Fiat), compared to the United States, (22) France and the UK (14) and Germany (10). However, in recent years, the number of Italian companies with foreign investments has grown, as has the quota of smaller size multinationals whose subsidiary branches operate mainly in traditional manufacturing sectors.

\(^2\) Inclusion in GVCs by SMEs enhance their competitive status depending on the role and skills they are able to bring, as well as the innovation processes they can take part in, thus broadening not only domestic markets (focus on sales), but also specialisations (upgrading).
vertically integrated within their home country. These data have been empirically tested and confirmed through various studies (with reference to Italy, Federico, 2010). Other findings from research indicate that the marked differences in business characteristics are directly linked to positioning in the GVC supply chain, with intermediate production units the least dynamic, in other words, SMEs, employing strategies that do not entirely cover innovation, human capital and internationalisation. However, in sum, the impact of the crisis has been quite uniform in the companies present in GVCs, depending on their role as end-users or intermediaries, and their ability to pursue aggressive and innovative strategies (See Accetturo and Giunta, 2014).

Internationalisation processes require adequate financial resources as entry into countries that are often geographically distant entails additional costs linked to the diverse legal systems and linguistic and cultural barriers.

Just as crucial is the banking system in terms of support for exporting SMEs with their need for capital, being exposed as they are to higher costs and greater uncertainty. On the other hand, the strict correlation between limited credit from banks and exports implies the need for a financial system and tools capable of absorbing the eventual shocks deriving from such credit supply, fundamental factors for preserving and promoting international competitiveness and growth.

From a general perspective, banking services in support of SME internationalisation and production are divided into three sectors: cash loans (ordinary loans or specifically for export or import transactions, so-called trade finance), risk cover (including letters of credit protecting the exporting company from foreign insolvency) and information and SME support services.

Taking into account the link between financial constraints and internationalisation, international SME activities are generally more credit-intensive and therefore have greater funding requirements. On the other hand, financial

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3 Thus, especially higher fixed costs (Chaney, 2016; Feenstra et al., 2014; Manova, 2013); additional factors that in the case of exports lead to an increase in the use of bank intermediaries are linked to the need for SMEs to protect themselves against the foreign insurer’s risk of insolvency and the greater distance between seller and buyer, which determines a longer interval between production and delivery of the goods (Amiti and Weinstein, 2011; Chor and Manova, 2012).
constraints are more relevant to non-internationalised SMEs than those already present on foreign markets, which are more productive and efficient and tend to have higher levels of liquidity and self-financing (Minetti and Zhu, 2011)\(^4\).

Trends suggest that financial constraints, although not the major obstacle to SME internationalisation acquire greater significance in particular periods or related to certain forms of businesses. In this respect, analyses promoted by ISTAT indicate that the lack of funding constitutes a penalising factor for exports, particularly in the field of instrumental goods, where multiannual orders are more frequent. However, it is worth pointing out that the SMEs that renounce internationalisation attribute their choice to organisational or information factors rather than to financial constraints (See Cristadoro and D’Aurizio, 2014).

Given the above, the internationalisation process of the Italian productive system is one of the most important goals of current economic policy. However in order to accomplish such objective, a far-sighted in-depth knowledge of trends in the world economy and the implications in critical or opportunity terms generated by the potential internationalisation process of SMEs, is fundamental. In this context, the question is whether a policy aimed at incrementing the number of firms exporting abroad would result more beneficial or whether it would be far more convenient to focus on reinforcing businesses already operating on foreign markets. From the point of view of economic policy, trends indicate the importance of highly efficient firms in acquiring growing competitive advantage and as a result, of intervention aimed at streamlining mechanisms of allocation of capital and labour resources.

Recent analyses carried out with reference to GVCs highlight how technological-productive factors and the technical and qualitative characteristics of a product concur only to a certain extent in competitive capacity and consequently, in growth potential on international markets. Just as strategic are business support functions such as commercialisation, marketing and logistics that enable facilitated returns on investment and revenue at home.

\(^4\) Also on the part of the credit institutions, the tendency to select the least risky subjects in times of crisis could help to protect internationalised SMEs to a greater extent (flight to quality).
Furthermore, in recent years, the role of services compared to the total amount of production and manufacturing has reported a constant upward curve in the most advanced economies also by virtue of the contribution of ICT. This has enabled the use of organisational models of production and businesses targeted at the growing interdependency of manufacturing and services via outsourcing and fragmentation of production at international scale in GVCs. In short, the growing contribution of services in SME activity results in ever higher market quotas in the sectors of manufacturing and medium-high technology, while the participation in GVCs with respect to services to business is linked to the capacity for growth and development of competitive manufacturing. In an ever more globalised world, the quality of Strategic Public Management plays an extremely relevant role in determining commercial flows between various countries and the map of comparative advantages not to mention the extent of economic appeal.

Internationalisation policies for competitiveness therefore, not only concern SMEs but also Public Administrations, in their role as regulatory and competing subjects (Dicken, 2003). In particular, such factors highlight the relevance for SMEs of how an efficient system of Strategic Public Management lays the foundation for internationalisation and competitiveness and enables SMEs to maintain or improve positioning compared to others in the global framework.

In substance, Strategic Public Management has to adapt to the dynamic and radical changes in the economy and society. In an uncertain, increasingly connected world, policies successful in the past are no longer adequate to meet the needs of citizens and businesses of the future. The capacity to respond to change in terms of current needs and to anticipate future needs, the quality of Institutions, both political and juridical, thus becomes a decisive factor for the wellbeing of a country. Likewise, to fulfil obligations and to achieve the objectives of the European Treaty,

5 Therefore, greater interdependency between the two should be fostered given that manufacturing SME competitiveness continues to be linked to the increasingly service nature of productive processes and policies relative to ICT services to firms that most influence productive processes and organisational models.

6 The European Union has the remit of supporting Administrations in Member States in meeting the challenge of adapting to future change. During the European Semester, the Commission examines their performance and assesses potential areas for improvement. Based on
(i.e. sustainable growth and employment), Strategic Public Management has to become an integral part of Public Administration founded above all, on the principles of ethics, efficiency, effectiveness and ‘accountability’.

The Public Administration, in recent years has generated complex reform concerning finance, the federal structure, public employment, communication techniques, administrative procedures, deregulation and control. Within such modernisation process, a common denominator is the attempt to adapt the corporate system and services to that of advanced countries. Thus, a new concept of administration has emerged, no longer based solely on formal-procedural compliance with the rules. Together with the pursuit of strategic priorities, processes of negotiation and participation define the objectives of Performance Management and Accountability with Strategic Public Management of activities and resources as the main principle for achieving the objectives set (outcomes), assuming responsibilities, modifying the logic of the bureaucratic apparatus. Strategic Public Management planning, therefore, has to link control to assessment by setting up a system of adequate indicators in terms of congruent outcomes for relevant objectives. Legislation alone, however refined and avant-garde, is not sufficient to lead Public Administrators to change to attitudes which are mainly determined by cultural transformations for which knowledge (organisational, technological and accountability) of the Public Administration and its context is a prerequisite. In this respect, a crucial role is played by the academic and business world, from the professional sector and from competent public personnel and implies the ‘corporatisation’ i.e. the application of the concept of ‘company’ to the Public Administrations.

analysis, the European Council adopts specific Recommendations for each country (Country-Specific Recommendations - CSRs) and provides specific thematic objectives for improving the quality and administrative capacity of Public Administrations. In particular, for the 2014-2020 Programming cycle, 18 Member States are scheduled to invest about 4.7 billion Euro in the context of the European Social Fund and the European Regional Development Fund.

7 Public Administrations have to respond to the community in an adequate way to the issues of efficiency, speed, certainty, dynamism, adaptation to change. In this sense, it is necessary to lay the foundations for a continuous evolution of administrative systems, bearing in mind that the economic system has made the timeliness of decision-making a strategic factor for increasing competitiveness.
At the same time, Public Administrations have not only to meet criteria of profitability, but also share elements of sociality that are typical of the public function. Various factors have favoured the modernisation process. The European Union which has obliged Public Administrations to confront the economics and administrative management of the global market and the historical and legal limits of the public sector, enabling the path of innovation to be put in place. In this context, Italy has devised the ‘National Operative Programme Governance and Institutional Capacity’ in line with EU Country Specific Recommendations to support Public Administration reform processes: Enhancing Administrative and Institutional Capacity (Thematic Objective 11) and Digitisation of the Public Administration (Thematic Objective 2)\(^8\).

In the 2014-2020 Action Programme priorities include multi-tier governance in public investment programmes for growth in terms of enhancing administrative capacity and digitisation to modernise the Public Administration.

In addition, the Agenda Digitale 2020 includes an entire Sector on Smart Cities, virtual models of intelligent and efficient cities. In sum, the digital revolution and the dynamics of open government (bottom-up governance and administrative transparency and cooperation) between Institutions and citizens is paving the way for inter-administrative competences at all tiers.

Best practices in act contribute to designing and planning a revolutionary innovative open government digital model of administration for Italy to meet the needs of its citizens and Public Administrations have to move in the direction of creating an “organisational environment that responds to criteria of efficacy, efficiency, economicity and impartiality” (See Mancarella, 2001, p. 11)\(^9\).

\(^8\)In line with reforms underway, the National Operative Programme focuses on transparency in the framework of open government policies, the Digital Agenda, the reduction of regulatory burdens, new systems for managing personnel and management, the reorganising of the Public Administration, the reform of local Authorities, digital justice, prevention of corruption and good governance.

\(^9\)The Brunetta Reform, part of the Legislative Decree 150/2009 was in particular, an opportunity (albeit unsuccessful) for digitising the Public Sector including Local and Regional Administrations. In 2011, Renato Brunetta, Minister for the Public Function during that period, presented an innovative project called ‘Italian Strategy for Open Government’. The strategy was based on three pillars: 1. a national platform for Open data of the Public Administration (website http://dati.gov.it); 2. a vademecum on Open data as a manual for freeing up the information patrimony of the Italian
However, such plans did not meet the necessary consensus. Undoubtedly, they herald prospects for a future digital Public Administration. In sum, Open Government in Italy has suffered a formidable delay in becoming operative and the Italian strategy which should have been put in place remains anchored to isolated or merely sectoral projects (See Preite, 2012). A further crucial element i.e. the so-called ‘market logic’ creates conflict between Administrations more sensitive to satisfying the needs of demanding citizen-clients.

The fulcrum of reform, the basis of New Public Management sees the introduction also in the Public Administration of strategic planning which represents a hinge between key and future decisions. To identify schematically the effects of New Public Management, the so-called model of the ‘5Rs’ is normally used\textsuperscript{10}. The concept underlying the innovative model of New Public Management to modernise the Public Administration, replaces the traditional bureaucratic culture with a more results-oriented model. A relevant issue is how Strategic Public Management intercepts needs and meets expectations relative to competitiveness. Relations are multiple and can be analysed on the basis of diverse approaches (See Zuffada, 2000; Borgonovi, Marsilio, and Musì, 2006)\textsuperscript{11}.

\textsuperscript{10} The five ‘Rs’ include: restructuring, identifying the main skills of the organisation and eliminating what does not add value to services and inhibits performance. This implies outsourcing what does not represent a fundamental competence of the organisation; redesigning or rethinking processes rather than ‘adjusting’ existing ones with solutions of a temporary nature, computerising all activities and building bottom-up processes, basing the Institution’s structure on processes rather than on functions or positions, focus on quality of services; reducing time and costs and providing advanced technology tools, such as project management and benchmarking, i.e. developing planning processes, identifying a service and/or market strategy; devising strategic planning tools; realigning the administrative structures and the centres of responsibility of the Institution to its new strategy; giving more importance to the operational centres; rethinking, or accelerating the cycle of observation, orientation, decision making and performance assessment of the service with feedback on the strategy followed; decentralisation combined with flexible instruments of control.

\textsuperscript{11} They can be classified according to trade, i.e. relations deriving from economic processes, based on financial and/or real cash flows, influence, e.g. informal and lobbying, decisional processes; institutional, direct (such as constraints produced by legislation impacting on the functioning of enterprises) or indirect (relating to the determining by the Public Administration of the politico-institutional, socio-cultural and economic conditions of the environment in which
Furthermore, the limiting of trade barriers together with the pervasion of ICT has led to the disaggregation of productive processes between countries and has widened remarkably the amount of trade in terms of differentiated intermediate output. The correlation between FDIs and the quality of the Institutions is strategic, given their capacity as key players. The appeal of a particular territory depends to a great extent on the timescales and the complexity of bureaucratic procedures rather than on their cost in financial terms.

This scenario implies policies that vert on the quality of regulations and the Institutions, this is especially the case for Italy given its low positioning on the global scale, impacting necessarily on the country’s capacity to attract FDIs. In short, globalisation has highlighted the importance of assessing the evolving trends of particularly critical factors for the competitiveness of national production systems. Such factors include the various forms of internationalisation, innovation, the use of information and communication technologies not to mention changes in corporate and organisational structures.

This process goes hand in hand with the radical economic transformations taking place within the EU that have spurred the evolution of processes of statistical harmonising. Therefore, the expertise in assessing and measuring the structural characteristics of SMEs (dimensional, sectoral and territorial) and the changes in production, market, technology and organisation are such by virtue of innovations that have increased the effectiveness and quality of business statistics.

In this context, the use of new indicators has enabled the analysis of the evolving productive system, a notable effort if we consider the fact that the evolutionary process is still incomplete. In this respect, it is worthwhile noting that the issues of

companies operate). In the economic-business perspective, with particular reference to the public sector, see Borgonovi (2000); Milward and Provan (2001); Goldsmith and Eggers (2004).

12 The relation between the quality of Institutions and incoming regional investments is significant, above all if the timescale of bureaucratic-legal practices and performance that policy makers are obliged to respect in the diverse territorial contexts is taken into account. Such conditions concur in differentiating local contexts as concerns business investments from abroad.

13 Efforts are underway to implement a European programme for development to enable an integrated measurement approach relative to the structure and performance of enterprise.

14 A relevant increase in available economic statistics, harmonised at European level has been recorded which is subject to compliance with Community legislation.
dimension and efficiency of statistical information design processes are particularly relevant in Italy, especially if on the one hand, the number of companies is considered and on the other, the significant role in economic terms played by SMEs. Consequently, the outcome of such a scenario implies more problematic statistic issues\textsuperscript{15} and more intensive analysis and efforts for design\textsuperscript{16}.

Given the above considerations, an additional element to consider is that of competitiveness, which appears problematic if approached from the standpoint of statistical information, markedly dependent on theoretical models of reference and at the same time, vulnerable to evolution in socio-economic scenarios. In addition, it also has to be considered that the role of official statistics is also that of defining information needs and conceptual frameworks of reference, as well as that of providing adequate operative solutions in qualitative terms.

Recently, analytical capacity relative to the competitiveness of EU economies has increased exponentially by virtue of the development and harmonising of the European statistics system. Furthermore, the extension of thematic areas documented by official statistics has enabled ISTAT to put in place both a systemic in-depth analysis of the competitiveness of the Italian socio-economic system within the European context and at the same time, to meet the demand for more adequate indicators, deriving not only from the research sphere, but above all from policy makers\textsuperscript{17}. In sum, while acknowledging the substantial robustness and consistency of the business statistics system, a critique relative to the adequacy of official statistical information is essential if the structural framework and comparative trends in the Italian productive system are to be delineated.

\textsuperscript{15} The main issues are linked to the monitoring of production units which are distinguished by a considerable birth-mortality rate and the number of samples required to guarantee the quality of trends in the various sectors.

\textsuperscript{16} Given that the quality of business statistics enables the effective management of challenges posed by growing international competition, efforts are required to put in place an integrated statistical system of multidimensional data. This would imply statistical analyses structured on the integration of available sources, the rationalising of data collection at company scale and not least, the measuring of emerging strategic scenarios.

\textsuperscript{17} With the awareness of the multidimensional character of competitiveness, the outcome on the part of technical-scientific research on the measurement of the same has resulted in official statistic indicators aimed at monitoring the achievement of objectives.
In this context, factors of structural weakness interweave with competitiveness and productive restructuring issues. In addition, recovery from the recession poses the question of growth and competitiveness, factors which albeit seemed less predominant in the pre-recession phase, have now assigned to official statistics the remit of detecting not only sectoral/dimensional trends, but also the processes of selection and internal restructuring of the business system.

2. SMEs for competitiveness. – The problems of growth in the Italian economy are mainly structural by virtue of the dynamics linked to the difficulty with which its productive system can adjust to the radical changes that have been taking place in the world economy since the 1990s.

Lower transport costs, access to the international markets of low-cost emerging economies and the spread of information and communication technologies have greatly increased competitive pressure on Italian manufacturers both on the domestic and global front. It is a commonplace that international integration of production processes has been set in motion in advanced economies. The trend appears to be structural and irreversible and businesses have reacted in a uniform manner. The majority of SMEs however, are mainly interested only in the domestic market and not inclined towards innovation.

On the other hand, more productive and innovative SMEs already operating on international markets have increased sales and revenue much more than average, even in the light of the enduring economic recession. The ability of businesses to be competitive on international markets has significant macroeconomic effects, especially for the industrial expectations of the Italian economy. In this respect, there is great awareness of the need to intensify efforts to diversify product outlet markets, in particular by intercepting the demand of faster growth countries.

The Italian economy consists prevalently of traditional forms of internationalisation (i.e. exports or subcontracting relations based on commercial and productive agreements with foreign companies). The most complex forms entailing FDIs, are more uncommon, despite a stable presence on the most dynamic markets. The difficulties in expanding the degree of internationalisation of the
Italian productive system are linked to numerous variables: i.e. the small size of enterprises\textsuperscript{18}, the lack of managerial skills, the problem, especially in a recessive economic phase of finding the necessary resources to fund expansion projects on foreign markets and not least, the complications arising relative to seeking advice on legal, fiscal and customs issues. As is well known, in most industrialised countries, exports are concentrated in the hands of a few large companies. This is not the case as concerns Italy, whose overseas sales are spread over a larger number of businesses, including SMEs.

If internationalisation, and in particular productive relocation as a whole, creates uncertainty in terms of potentially adverse effects on production levels and the relative repercussions on jobs, in Italy, firms investing abroad have not to date witnessed a drop in demand for employment.

On the contrary, their performance (i.e. productivity, turnover and employment) has been far more positive compared to that of traditional non internationalised firms\textsuperscript{19}. In addition, the positive implications in terms of the local labour market are evident in that they create an augmented demand for more qualified or skilled workers\textsuperscript{20}.

Internationalisation during recent decades has been crucial in spiralling economic systems and a significant opportunity for increasing productivity and competitiveness. However, in Italy traditional forms of internationalisation prevail. Although progress has been recorded, especially on the part of larger companies, the extent of Italian direct investment abroad is still low.

The internationalisation challenge depends therefore, not only on enterprise but also on the banking system and the government with specific policies and strategies. Businesses will consider relocation only if entry to the more dynamic foreign

\textsuperscript{18} If in the past, SMEs have led economic growth, even for high production flexibility, today they face significant difficulties because they are unable to support the high fixed costs associated with the launch of an export or production activity and finding information about how to access more distant markets. In addition, they are less engaged in R\&D and innovation activities, which often accompany the internationalisation process.

\textsuperscript{19} See Barba Navaretti, Castellani and Disdier, 2010; Bronzini, 2010.

\textsuperscript{20} See Castellani, Mariotti and Piscitello, 2008.
markets is facilitated so that their market potential both at domestic and European scale in terms of competitive advantage and lower costs of production is enhanced. Participation in GVCs is a fundamental factor for competitiveness and the banking system should contribute to business process of growth by means of customer support in terms of direct access to the capital market and facilitating SMEs in the internationalisation process. In short, coherent Government action is required in terms of removing bureaucratic obstacles deriving from complicated regulations that hinder the growth of SMEs. In this respect, the area that has had the most impact for the adoption of new managerial logics and for the acquiring, especially on the part of Strategic Public Management of new and more adequate skills, is that of Human Resource Management.

A widespread trend in the reform of Human Resource Management in national public services is the shift from a status-based approach, characterised by recruitment and promotion on the basis of educational qualifications and length of service, towards a competence-based approach, which provides for the maximum exploitation of human potential.

Two main levers can be used in this context: training and assessment. In an SME they are both important and represent fundamental drivers for organisational change. Strategic Public Management has been provided with techniques and tools typical of the corporate world. However, the most significant impact has only been achieved with new training methodologies: working groups, self-analysis and organisational self-diagnosis, strategic simulation and technical assistance.

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21 The low levels of capitalisation and the strict dependency on credit are in the short term, elements of weakness in the production system, especially as SMEs are in that case exposed to higher refinancing risks in the short term and restricted investment potential.

22 One of the basic elements of Human Resource policy in the public sector is the devising and implementation of a law or Public Employment Code that defines the basic rights and values of an independent Public Administration. Nearly all EU countries have adopted public employment laws but praxes and the safeguarding of rights tends to vary. Public Administrations in the EU address strategic and operational issues, including methods of recruitment and selection.

23 An integrated approach to Human Resources Management links training to the assessment and promotion system, development and career advancement. Moreover, in devising and implementing Human Resource policy, particular attention should be addressed to issues such as diversity, gender equality, non-discrimination, positive discrimination and active ageing policies.

24 Training has been a lever used in recent years in all Public Administrations, above all, addressed to managers facilitating a management principle approach.
transfer of best practices, has also constituted fundamental elements of cultural change and the effective acquiring of new operational-strategic skills. Meanwhile, the institutional context as a whole should be ameliorated rather than relying merely on the provision of direct incentives to promote the internationalisation process\textsuperscript{25}. Undoubtedly, internationalisation is certainly a complex process involving as it does numerous domestic and international factors. However only by means of synergistic action on the part of SMEs, credit institutions and the Government can strategic goals be put in place to resolve the infinite problems of structural growth of the Italian economy.

The ultimate objective is implementing a logic of monitoring and measuring of outcomes. Gaps in timescales and methods of compliance with set standards provoke corrective action, but above all, introduce a culture of monitoring of the progress of projects and works, often lacking in Public Administrations. To ensure achievement of objectives, Strategic Public Management has to monitor and assess performance. Traditionally, attention has been addressed to efficiency, using a minimum quantity of resources to achieve expected results. In an era of austerity, the priority for many Institutions is cost saving, reducing input in line with budgetary constraints.

To fulfil their mandate, Public Administrations have also to take into account the strategic aspects of their performance: effectiveness, impact and sustainability of results. This requires a management approach based on organisational culture, techniques and tools. Attention to outcomes, planning capacity, problem solving, standard-setting and monitoring techniques, respecting medium/long-term timescales, accountability and finally, the ability to spillover and allocate responsibilities for individual goals represent the managerial skills with which Strategic Public Management must be equipped.

\textsuperscript{25} Opportune measures have been put in place by the Government, such as \textit{Semplicita Italia} (Legislative Decree 9th February 2012, No. 5 \textit{Urgent provisions on simplification and development}) and \textit{Cresci Italia} (Legislative Decree 24th January 2012, No. 1 \textit{Urgent provisions for competition, infrastructure development and competitiveness}) regarding the length of administrative, regulatory and competitive procedures in the service sectors and juridical efficiency. However, action to combat crime and tax evasion as well as the upgrading of infrastructure would be desirable.
3. **Strategies in foreign markets.** – SMEs desiring to acquire competitive advantage, by penetrating new markets should focus on relevant strategies. Emerging markets for example are characterised by greater potential and prospects in terms of market space, a trend which over time, does not appear to be in decline. In this context, entrepreneurs should take into account a number of factors.

First of all, Western markets continue to represent a potential opportunity and should be exploited. However, the high growth rates of emerging countries albeit attracting greater competition, result far less convenient in terms of supply and demand even as concerns premium segments of appeal and within reach only of SMEs that promote innovative ideas (Micelli and Rullani, 2011, p. 137). Others, which rest their laurels mainly on the general image of Made in Italy and on well-known brands within national borders, risk being crushed by such strategies.

A relevant factor is distance in terms of culture and space. This kind of gap continues to be an obstacle for SMEs and therefore, business models are required that are adequate to specific market needs. SMEs should create their own differentiated international market; adapting their brand to meet new demand deriving from needs albeit still not clearly understood. Moreover, Made in Italy enterprises have to organise their value chains at international scale, choosing where to do business not only to secure competitive advantage in terms of cost but also to enhance their reputation through the high quality of their production. Decentralising of production marketing and sales also including R&D, are strategic to securing emerging market demand. Significant efforts to adapt production are also necessary in addition to the developing of targeted niche products. In other words, pursuing less and less the logics of low cost, given the lack of past factors of

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26 In addition, it is considered that performance associated with the ability to achieve first mover benefits can easily be eroded by highly volatile contexts due to various kinds of risks that have to be assessed separately for each country including the so-called liabilities of foreignness i.e. the cultural, political and competitive barriers that generate higher adaptation costs.

27 In particular, the decentralisation of marketing and sales enables the development of market sensing and customer linking capabilities, absorbing knowledge flows and knowhow that fuel organisational learning and stimulate the development of new skills to be used in product innovation.
convenience, in favour of market seeking, as emerging countries are driven by consumption rather than characterised as mere places of production from which to put in place exporting activities. In addition, they are also significant innovation areas for business creativity through the localising of R&D\textsuperscript{28}.

Foreign market penetration strategies pivot on a number of factors that characterise SMEs and depend mainly on the specific nature of the business itself and the market segment involved. Contingent factors, such as the level of technology and knowhow, dimensional advantages and the nature of the production process are also relevant. In defining their strategies of internationalisation, SMEs have to take into account the peculiarities of their current and potential customers, the characteristics of the distribution channels of the countries in which they intend to internationalise as well as the ability to co-ordinate the various productive activities\textsuperscript{29}. Therefore, a vital factor for consideration on the part of SMEs is the degree of involvement contemplated. However, such a strategy prevents businesses from linking up directly with the market and its customers. On the other hand, direct investment requires greater involvement on the part of companies as well as rates of investment surpassing other strategies.

Consequently this kind of approach appears much more rigid compared to that of exporting, as preponderant amounts of investment presuppose firm stability over time in the market. FDIs, as well as joint ventures and forms of agreement that imply a company’s direct involvement in carrying out activities demand notable financial, human and organisational resources. Exporting activities on the other hand, are characterised by the low level of engagement required of SMEs to carry out commercial operations, given that they do not require capital participation in

\textsuperscript{28} Notwithstanding, activities more directly linked to innovation can risk the transfer abroad of the innovative capacity of Italian firms by virtue of the proliferation of aggressive firms orientated towards Italian knowhow, insufficient protection of intellectual property and local Government regulations imposing the stipulation of Partnership Agreements with local firms.

\textsuperscript{29} Besides the above mentioned elements, other factors can be included in the analysis of the internationalisation process to locate potential foreign market penetrating strategies. For example decisions on whether SMEs should focus on putting in place strategies independently or in cooperation with third parties, the degree of engagement involved and sustainable costs. Such factors are closely linked to all those characterising the company, such as the economic-financial set-up and the organisational-technical structure not to mention size of the company.
joint ventures with foreign partners. Last but not least, internationalisation strategies can be distinguished on the basis of their degree of flexibility. The greater the quantity of investments, the more the penetration strategy is characterised by rigidity, as non-investment could lead to losses for the company that would be difficult to recover in the short term.

In this context, a brief overview of the main strategies for internationalisation, specifically with regard to SMEs is set out below. Exporting goods does not in effect constitute effective internationalisation of an enterprise given that it can claim no production unit in the markets in which it operates. Exporting products abroad occurs either indirectly or directly. The first approach:

**INDIRECT EXPORT** is characterised by the presence of distribution companies, namely trading companies and agents, which mediate between the exporting SME and the final customer\(^{30}\). The main weakness of this approach is the absence of a direct relationship with the outlet market and the final consumer. This impacts on the exporting company in terms of vulnerability towards distribution channels and submission to the terms and conditions of trading companies given that the latter have a wide range of competitive companies from which to choose. In addition, the lack of contact with the market in which a company operates hinders a full understanding of the determinants of the market thus preventing exporting companies from anticipating future trends in their own particular market segments.

**DIRECT EXPORTS**, on the other hand, are characterised by the greater degree of commitment required, especially in terms of finance. SMEs have to coordinate the foreign sales force directly and this also requires greater entrepreneurial engagement, given that in this kind of internationalisation no intermediary is envisaged to deal with the risks associated with the sale of products. Notwithstanding, however, despite the potentially greater risks that SMEs have to contend with, direct exports boast considerable advantages over indirect exports. First, through the direct export approach, SMEs achieve a degree of flexibility that enables them to deal successfully on a market and with its fluctuations. Moreover, in the case of direct exports, firms

\(^{30}\) Precisely due to this peculiarity, indirect exporting represents the least challenging but at the same time, fleeting form of internationalisation strategy.
create direct relationships with their customers, and therefore, enterprises are facilitated in understanding and eventually anticipating consumer trends by identifying segments of the market in which to expand their activity and, based on trends, adapt their strategies and marketing policies accordingly.

LICENSING albeit an indirect internationalisation strategy (as it does not necessarily require contact with the market for implementation) enables licensing SMEs to acquire basic market information, in order to work directly\(^\text{31}\).

As concerns COMMERCIAL AGREEMENTS OR OTHER CLAIMS WITH COMPLEMENTARY OR COMPETITIVE COMPANIES, the issue is complex consisting as it does of various forms of strategy, of which consortia are the most representative established for the purpose of joint activities abroad. This is the case especially in Northern Italy. In addition, consortia SMEs are frequently either direct competitors or companies that produce complementary products. However, the consortium strategy, which potentially offers great benefits to the companies that come together, is often a source of disappointment. This is frequently due to the fact that the consortium is formed on the basis of objectives that are not sufficiently defined or in any event, random. The activity of a consortium abroad is often not accompanied by the predisposition and the subsequent implementation of the necessary entry strategies\(^\text{32}\). In addition, given the large number of participating companies, consortia also involve considerable management complexity, resulting in numerous coordination. Nevertheless, difficulties of participation in an export consortium is particularly interesting for SMEs that are approaching foreign markets for the first time or which, in any case, have no intention of operating for lengthy periods of time. Foreign branches is the strategy by means of which internationally established SMEs set up their production base in the markets where they intend to expand. Establishing their own subsidiary branches abroad can occur through the creation of production units, or through the acquisition of companies already

\(^{31}\) By means of this strategy, a SME authorises another company to produce its goods/services on payment of a fee, which can be either a fixed or variable tariff.

\(^{32}\) In effect, once foreign markets have been penetrated with the assistance of a consortium, SMEs frequently lack the leverage necessary to complete the internationalisation process including adapting the structure and devising mechanisms necessary for its proper functioning.
operating on the market. The difference between the two lies in the resources that SMEs are able to invest. In the case of acquisition, the financial investment needed to complete the operation will inevitably, be greater than that of creating production units *ex novo*. However, the greater financial investment can be offset largely by the simplification of the problems that setting up a company abroad implies, such as those related to the organisation of human resources, knowledge of the market and customers\(^3\). From the point of view of the goals that this strategy seeks to achieve, usually the setting up of subsidiary branches abroad is the most stable and involving form of internationalisation. SMEs that decide to look directly at foreign markets are mainly those with medium-long-term objectives. In addition, such a strategy guarantees over time the acquiring of a strong knowledge of foreign markets and the development of adequate knowhow that distinguishes the entire process of internationalisation.

**JOINT VENTURES** represent the internationalisation strategy closest to the most extreme form of direct investment. It is the typical strategy that companies choose to implement when their goal is a stable presence on foreign markets, or when setting up a joint venture is the only way to overcome barriers to penetration of a given market\(^4\). Setting up a joint venture is also the means to penetrate foreign markets, when entrepreneurs do not have appropriate knowledge of the market in which they intend their companies to internationalise. Frequently, the choice of setting up a joint venture has specific strategic value as the benefit of a local partner can fill in gaps on market positioning and institutional relationships. Compared to other strategies of internationalisation, joint ventures are distinguished by greater financial and operational involvement, which also results in a more stable and lasting investment. Although the types of joint venture vary according to the regulations of individual countries, in general, the main forms include: Equity joint venture (Ejv), Contractual joint venture (Cjv) and Wholly Foreign-Owned Enterprise (Wfoe). In

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\(^3\) Nevertheless, if the SME acquires the foreign company, greater efforts are necessary to foster integration. This inevitably, implies extra financial resources destined for integration processes of the relevant enterprises.

\(^4\) In some markets, constraints and restrictions on industrial policy to limit the new production sites of foreign origin remain in force.
most cases, Ejv is considered a limited liability company, where as is well-known, the liability of shareholders is limited to the share capital paid. Usually, the commercial regulations of individual States allow the foreign partner to participate in the capital of the company through the contribution of capital for use in company business. Moreover, in many countries, foreign shareholder participation in capital is subject to certain restrictions, stipulating that capital shares in excess of the limits set by the local Authorities cannot be held.

Widespread in emerging markets is Cjv, which represents the simplest form of organisation of joint ventures. Partners establish contractual relations that often do not lead to the creation of a legal entity unless the contract provides otherwise, the parties are responsible for the obligations assumed by the SME, limited to the share they subscribe to individually35.

Finally, Wfoe, a quite common form of joint venture, is a company with its own legal personality, constituted by one or more foreign members and managed directly by them. Frequently, local foreign authorities recognise the business from a legal perspective, subject to compliance with specific conditions. Foreign entrepreneurs are often given the opportunity to set up a Wfoe provided that advanced technology is used, or that most of its production is exported abroad. When analysing the variables that influence the choice of internationalisation strategy, SMEs should assess carefully individual market penetration strategies in the light of intrinsic and extrinsic structural factors.

First of all, the analysis of the strategy has to take into account the variables that influence the company from within, including the objectives of internationalisation, the amount of investment, the level of engagement that the SME intends to put in place, the degree of acceptable risk and the skills possessed. Subsequently, an analysis of variables extrinsic to the business structure should be carried out. In

35 Just as the members remain independent of each other, Cjv has significant advantages over the Ejv, especially in terms of the burden upon the foreign partner. In the first place, Cjv negotiations can derail potential ventures as parties discover that they cannot reach agreement on every detail. Secondly, Cjvs are frequently not the most appropriate form of business structure.
particular, the external variables most affecting internationalisation are those impacting on investment performance and final goals\textsuperscript{36}. In the event SMEs do not desire a stable presence on foreign markets or prefer to test the market initially, it follows that a flexible strategy requiring a lower level of operational involvement and less onerous financial commitment would be the most appealing. In this case, exporting or participating in a consortium for export appears to be the most suitable approach. Thus, SMEs can implement such strategies with the ultimate goal of acquiring in-depth knowledge of the market in order to consolidate their future presence. On the other hand, however, when SMEs intend to examine foreign markets closely or the geographical distance does not enable them to have direct control over markets and their competitors, a subsidiary branch or joint venture with a local partner, would seem to be the most appropriate strategy to ensure set goals are achieved\textsuperscript{37}. Findings from scientific research addressed to SMEs and the internationalisation process also show that more advanced export modes, such as joint ventures and FDIs are essential if enterprises wish to penetrate emerging countries with success and become more integrated within the local socio-economic fabric. Less aggressive forms of internationalisation do not equip enterpreneurs with the market knowhow required to deal with the predominant competitive advantage of local producers nor to comprehend the people of emerging economies who albeit only recently have risen above the threshold of poverty in terms of the market, are connected to networks, are well informed and sensitive to branding and social engagement. Long-term organisational and strategic approaches are essential in this case, such as joint ventures and FDIs (in manufacturing, retail, R&D, sometimes jointly). Notwithstanding, despite areas of vulnerability, the Italian productive system evidences significant signs of vitality which should be encouraged and enhanced for acquiring competitive positioning on the international scenario.

\textsuperscript{36} The features of the environment and the market, the level of maturity of the market segment and the presence of potential barriers to entry are variables that directly affect the choice of strategy.

\textsuperscript{37} In the same way, the setting up of a joint venture would appear at times the only strategy that enables the foreign enterprise to bypass the entry barriers that characterise the market in which it wants to become internationalised. Such strategies, however, imply greater risks in terms of involvement and financial investment required of the company to carry out the operation.
In the new competitive context, which is rocking the foundations of the most solid elements of Italian productive structures, there is room only for a type of industry based on new performances and business forms, with the weight of intangible assets becoming more and more decisive. In an industry that increasingly relies on outsourcing and is geared towards new information and telecommunication technologies, i.e. general purpose technologies (Gambardella and McGahan, 2010) – the effects of which are spreading rapidly in multiple directions and conferring a strong innovative impact – are starting to assume a key role in productivity growth.

Therefore, those involved at all levels in policy making should not neglect the fact that the competitiveness of Italian businesses can no longer be conditioned by either the business environment of reference or by the peculiarity of ownership, or the sectoral and dimensional structure of the industry, to date expression and symptom of structural weaknesses and reflected in the limited capacity for innovation and the growth of human and organisational capital.

However, if the above stated bottlenecks in terms of business environment and industry structure are considered limits to overcome in the short term, the appeal of direct investment from abroad and Italy’s participation in the reorganisation process taking place in the global industry is to be fostered, SMEs require promoting by means of a more complex and articulated policy system with long-term growth objectives. In other words, although an appropriate and targeted industrial policy would contribute to SME growth, it would not be sufficient unless supported by attractive economic-fiscal strategies and the relational capabilities of policy makers. Thus the core role of SMEs in the development of the Italian economy would be enhanced as the central and strategic knot of a value chain that fully exploits the wealth of skills comprising the SME supply chain of reference (Coltorti and

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38 This entails the rebuilding of a unitary and coordinated leadership to reposition responsibilities in the industrial policy rather than in the foreign policy field. Industrial policy inextricably includes support for internationalisation, as there is no conceivable public intervention on the productive structure that does not take into account international integration. It is also opportune to recreate greater unity between support policies in Italy and abroad, exploiting the evident synergies between industrial policy and support for internationalisation.
Varaldo, 2012). In terms of increasing structural conditions of competitiveness, without a qualified internationalisation capacity on the part of SMEs in line with a logic of delocalisation, the manufacturing skills of small firms that constitute the foundation of quality supply chains cannot be exploited\(^39\). In effect, by means of targeted resources and policies, the most efficient business networks should be supported seeing as they have interest in and the means to diversify the geographical destination of their product flows, and the desire to settle commercially in high growth emerging countries. Therefore, special focus should be addressed to smart growth driven by a limited but appreciable core of SMEs as potential drivers of the Italian industrial system. Such enterprises largely represent the leading producers of Made in Italy while the stability of their performance fosters a natural selection process which, by dispersing the weakest operators, leads to an upward trend in repositioning Italian manufacturing. As a result, effective policies required for SME growth (Coltorti and Varaldo, 2012) should include four fundamental stages: the promotion of action to strengthen and preserve knowhow for achieving excellence by allocating more resources for research, fostering the efficiency of the capital and credit market to promote the strengthening of innovation processes\(^40\), promoting targeted, selective internationalisation to encourage expansion in countries with stronger growth and not least, augmenting the efficiency of the capital and credit market to promote the strengthening of capital and equity business assets\(^41\). Lastly, to combine growth and competitiveness, synergistic effort is a pre-requisite that should be undertaken by all stakeholders with coordinated action between the public and private sector underpinned by adequate resources\(^42\).

\(^{39}\) At the same time, a priority should be the creating of an appropriate institutional, regulatory and social context whereby traditional assistance type logics provoking either the creation or consolidation of privilege, are finally replaced by the best examples of free enterprise.

\(^{40}\) Italian SMEs should aim at upgrading product quality, lower costs and greater quantities.

\(^{41}\) In this context, the support of credit institutions of greater international interest may prove to be strategic both in relation to assessment of the market and in the acquisition of financial resources to promote new investments. The contribution of credit institutions therefore becomes essential not only during the credit squeeze, but also as an opportunity to improve credit assessment criteria and extend credit lines to the SME ecosystem.

\(^{42}\) Such action should be delineated upon three strategic lines: redesigning of skills of diplomatic-trade representatives, a more flexible country-system trade policy, the support of companies in the diversification of export and/or settlement markets.
This approach is a definite shift from the Stakeholder Theory\(^{43}\) which pivots on individual actors of the socio-economic enterprise system and their capacity to impact on decision making and not least on enterprise survival as a whole. Instead the synergistic approach sees corporate relations and pro-social relations a routine part of business life, conceived within the Neo-Institutional Theory which advocates enterprise as an institution. In other words, in line with the Viable Systems Approach the concept of Stakeholder has been replaced with that of Suprasystem (Golinelli, 2000).

From such a perspective, the relevant Public Institution identifies stakeholders, their expectations and any related opportunities and risks in order to define managerial direction (i.e. corporate vision) (Pellicano, 2002). However, for a territory to be considered a viable system, it is not sufficient for public sector enterprise to become institutionalised and vice versa for public sector institutions to assume market-like connotations.

Partial processes that steer in the direction of socio-economic value creation have to be harmonised and recomposed by an entity (metagovernance) in order to elevate the territory to a viable system given that territory as a socio-economic system is made up of a close weave of relations that lack continuity. Taking into account its systemic composition, territory requires on the one hand, the creation and consolidation of links and consonance between the components of the system and on the other, the inducing of resonant interactions that are more or less intense.

The role of metagovernance as facilitator of stable cooperative relations and creator of a strategic circuit with the meta-environment, can be the remit either of a local Authority or a public/private sector body to enhance the multiplicity of skills and to spread knowledge\(^{44}\).

\(^{43}\) The concept of Stakeholder relative to persons that influence and/or may be influenced by business were considered originally those directly involved in the business (employees/workers, suppliers, financiers etc.). Subsequently the range was extended to include anyone with influence in terms of decision making (Institutions, Environmentalists, Consumer Associations etc. (Di Bernardo and Rullani, 1985; Sciarelli, 1997).

\(^{44}\) A further remit of metagovernance is to fix acceptable standards in a perspective of general interest, governing ‘entry to and exit from’ the system and establishing a regime of use of knowledge as well as representing the system towards the outside.
The function in any event, imposes institutional intervention inspired by economic-entrepreneurial philosophy, criteria and tools. In other words, the Institutions carry out the function of meta-governance to the extent that they accept the logics of self-organisation in place of imposed power (Rullani, 2000).

From a theoretical perspective, the meta-organisational public function, reinforced by the Public Governance approach, in which neo-institutional principles\textsuperscript{45}, seminal in particular of the Stakeholder Theory and enhanced in the Viable Systems Approach, evolve within the context of a convergent socio-economic vision. Consequently, balanced territory development, planned and sustainable (systemic composition) impacts with positive spillover effects on the Institutions/enterprises that are an integral part of the system itself. The main aim of Public Governance concerns the system as a whole (systemic rationale). It cannot refer to any individual as such or be limited exclusively to social equity despite conditioned and tempered by the search for economic feasibility. As a model of governance of interactions, it lends itself to the systemic interpretation of socio-economic value in the context of which the role of the Public Administration is highlighted in terms of “an organisational body by means of which numerous participants achieve their not always congruent multiple goals” (Donaldson and Preston, 1995).

4. **Support policies.** – Globalisation is currently determining more intense corporate competition and between national and regional territorial systems in terms of production locations and services. An ever more varied range of policies and tools has been devised for the promotion of the internationalisation of businesses and territorial systems with the shift from more traditional trade policies, to those for promoting the international presence of SMEs and territories at the same time. In this respect, public support for internationalisation appears based, in addition to financial measures, on quality standard services, the efficient management of

\textsuperscript{45} Governance intended as socio-political organisation on the part of the socio-economic system resulting from competition between many conflicting interests reflecting the efforts and intervention of the various actors involved (Meneguzzo, 1996).
information and the adaptation of intervention to the requirements of the market and to international competition. Strategic Public Management has to govern complex and diverse policies, ranging from productive development to innovation, to territory promotion, to security, to services, to training policies etc.; moreover, it is subject to external pressures. A territory’s competitive context is linked to the general situation of the country, to the policies of the central Administration, to Community decisions, to obtaining national and European financial resources, to changes in national and supranational legislation, and in general, to the market. The goals of Strategic Public Management have to be clearly defined. The numerous – and often conflicting – Programmes that interest stakeholders distinguish the public from the private sector. Furthermore, Strategic Public Management has to decide on procedures, policy content, resources and the needs and expectations of its stakeholders. On the basis of such mission, vision and values, the Public Administration devises organisational strategies, articulated in phases of analysis, defines strategic objectives and planning. Performance is monitored, adapted where necessary and feedback stored for future action (Fig. 1).

Fig. 1 - Phases of analysis, definition of strategic objectives and planning.

Source: See Kaplan and Norton, 2008.
Since the Nineteen Eighties, policies in support of SMEs have become widespread in all industrialised economies\textsuperscript{46}.

In particular, their aim has been to correct market failure deriving from information asymmetries – especially as regards access to credit, the limited capacity in using skilled labour and the penetration of international markets – but also in terms of regulations, and the competitive disadvantages resulting from enterprise size and from the costs of complying with legislation in act.

On the other hand, the incapacity for coordination in Italy and the failed attempt to coordinate abroad the various interested public and private entities has had its effects. Policies for internationalisation are merely complementary to Italian foreign policy and this has led to prevalently institutional solutions to the detriment of functional problem solving solutions to support SME needs and priorities. A decade of programming and operational confusion, marked by initiatives in conflict one with the other and by a substantial incapacity for reform, besides problems, has left an administrative tangle and operational paralysis in the current crisis.

In this context, scientific analyses relative to programmes and policies in support of SMEs have paved the way for studies in various disciplinary areas with a focus on best international practices (See Solimene, 2010). However, technical-scientific assessments on the efficacy of the programmes have not been practicable given that the production units of the sector lack uniformity; this prevents the implementation of a representative control sample and the estimate of growth outcomes resulting from initiatives and intervention.

Notwithstanding, research considerations, case studies and \textit{ex post} assessments of public policies and spending programmes (i.e. utility, relevance, effectiveness and efficacy of the measures) albeit not delineating general scenarios, do however enable

\textsuperscript{46}The United States was the first to provide capital to SMEs from 1956, setting up the Small Business Investment Company, followed in 1984 by Small Business Innovation Research. In Europe, the first country to fund SMEs was Great Britain at the beginning of the 1980s, followed by the other States. By the end of the decade, the OECD estimated that 25\% of all the resources envisaged by the programmes to support the economy in the member countries were allocated to SMEs. As concerns Italy, the first legislative provision in favour of SMEs was the Italian Law No. 44, 28th February 1986 which was later amended and converted into the Legislative Decree No. 786, 30th December 1985, concerning \textit{Particular measures for the promotion and development of youth entrepreneurship in the South}.
the defining of strategic criteria underpinned by interdisciplinary research (Renda, Schrefler and Von Dewall, 2006). In the case of *ex ante* assessments on the efficacy of public policies (See Martini and Sisti, 2009), seven factors have been selected from the literature and examined in depth: *additivity*, i.e. activities that would not have been undertaken, *consistency* with objectives and needs via bottom-up approaches, *simplification* in terms of administrative bureaucracy and access to public funding, *dissemination* and advertising to communicate effectively support programmes, *constancy*, a significant criterion of long-term policies, *specificity*, i.e. enhancement of regional specificities and targeted solutions and *limited distortion* to reduce administrative or fiscal bureaucracy and to promote the conditions for creating a market for the provision of services. In this context, Management scholars of Institutions, Organisations and Public Corporations are convinced that innovation is the most relevant strategic factor for inclusion in support programmes for SMEs, above all given the competitive impetus it offers to any economy (See De Luca, 2010; Pfoestl, 2012; Cioppi, 2012).

To achieve innovation however, research is fundamental especially basic research which requires adequate funding in order to invest in the creation and dissemination of knowhow. Financial investments in innovation for SMEs and the possibility of using innovation produced outside rely on targeted policies and funding such as direct transfers in the form of credit loans or tax relief. In addition, R&D intervention is fundamental for the establishing of centres of competence and infrastructure such as technology parks to develop knowledge-intensive activities.

In this direction, the EU has reconsidered the objectives of the Lisbon Strategy with the Europe 2020 Strategy. The initiative entails launching articulated programmes, including seven wide-ranging Research Innovation and Education flagship initiatives in the knowledge intensive field.

In terms of finance, Italy currently absorbs 6.6% of the loans disbursed through the Risk Sharing Finance Facility (RSFF), a percentage low in ratio compared to the country’s relevance, both in terms of GDP and number of SMEs. Ideally, the

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47 It is estimated that 16.5% of the EU budget is spent on initiatives related to the promotion of innovation and the dissemination of knowledge.
European Investment Bank and Italian SMEs should establish a system together with the European Commission, also to disseminate the opportunities for Community funding for innovation and to set up support centres to assist entrepreneurs in drafting funding projects and procedures.

Starting from the analysis of Italian industrial districts, much of the literature (See Federico, 2006; Grandinetti, 2001; Lipparini, 2002) has studied the specifics of local business systems which include the links between interdependence and specialisation in core economic activities, complementary production, the Institutions and tangible and intangible infrastructure in common in a particular social fabric, the shared cultural and value system and not least, the mechanisms of transmission of knowledge

The necessity to overcome so-called enterprise nanism and to support the national productive fabric has obliged the Institutions, Public Bodies and Corporations to define new economic actors, networks and aggregations of the supply chain, which involve SMEs, large enterprises and credit institutes.

Notwithstanding the complementarity between the different dimensional components of the production structure and the experience of supply chains, industrial districts and business groups require dynamic, targeted policies to foster SME competitiveness to eliminate competitive gaps (in terms of innovation, R&D, internationalisation) and to overcome pending critical issues, such as generational turnover, inert entrepreneurial drive, the need both for a change in entrepreneurial culture and for the inclusion of managerial skills within the network. In this respect, Strategic Public Management requires new logics and models, linked to

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48 Knowledge, particularly tacit knowledge, is a resource that tends to spread more easily between entities that are part of the same location and network of tangible and intangible infrastructure. This explains why Government, especially local Authorities in order to revive depressed areas, tend to promote local entrepreneurship by means of policies to support the economy and SMEs.

49 By virtue of the lack of diversification and the risk of lock-in, local business systems can shift from their status as drivers to a state of economic crisis.

50 For high knowledge intensity innovative sectors, Community support programmes were approved e.g. Regions for Economic Change and Regions for Knowledge, launched within the Cohesion Policy and the Seventh Framework Programme. In addition, the INNOVA initiative, adopted within the Competitiveness and Innovation Framework Programme (CIP), envisages developing tools that industrial district organisations can use to support innovative SMEs.
efficiency and managerial skills. In addition to the focus on efficiency and managerial expertise, a new ‘managerial culture’ provided with relevant tools and levers is essential and at the centre of debate.

This cultural shift should occur not only at Strategic Public Management level, but also at political level. Roles and remits have changed as well as the powers of Public Administrations. Defining and assigning objectives, traditionally a top-down process, is enhanced through negotiation and participation, setting objectives, deadlines and standards together with lower management tiers. Thus, a series of internal pressures induces individuals to conform to organisational goals (Wiener, 1982) and Strategic Public Management, raises awareness and facilitates the diffusion of a ‘culture of planning and programming’\(^{51}\).

Appropriate planning is an indicator of Strategic Public Management capacity for good territory governance, particularly in the case where short-medium term national and regional financial resources (besides European) are destined for allocation. In this context, local Authorities and Regions, in particular, ‘programme’ resources for the management and implementation of public policies\(^{52}\). Therefore, despite the principle of subsidiarity, the remit of local institutions is to establish preferential procedures for network projects as an integral part of industrial policies given that the attribution and management of skills has become a core element for opportune assessment procedures, also taking into account the European guidelines for SMEs\(^{53}\) (See Ricciardi, 2013)\(^{54}\).

\(^{51}\) Planning, one of the fundamental elements of Strategic Public Management, is the capacity to use resources in an organic, goal oriented manner and to intervene based potentially on territory needs analyses. Therefore, appropriate planning is an indicator of Strategic Public Management capacity for good territory governance.

\(^{52}\) Efficiency and managerialism underpin logics of formulating the ‘mission’ for Public Administrations and strategies for local development in terms of territory promotion, services, productive development, scientific innovation etc.


\(^{54}\) The Emilia Romagna Region has approved a series of measures, part of a preferential pathway that envisages estimates of network budgets, tax advantages, programmes and measures for research and internationalisation, University and para-university training for specialists and managers in the competent management of network dynamics and cooperation between businesses.
As entrepreneurship, with its intrinsic link to economic growth, is an extremely crucial element for enabling innovation and improved competitive positioning within the globalisation process, the European Community Institutions have approved initiatives and programmes for the acquiring of a series of basic objectives. These include: developing of personal and social skills, specific knowledge related to the processes of creation and management of SMEs, the promoting of an entrepreneurial mentality, the extension of the ERASMUS programme to young entrepreneurs, promoting female entrepreneurship and that for immigrants, the resolving of issues related to the transfer of ownership of SMEs and bankruptcy procedures. In the event the goal is to ensure that SME entrepreneurs-managers are trained with managerial skills, Institutions, Organisations and Public Corporations should promote and organise specific training courses and provide external consultancy services for knowledge acquisition related to the contexts in which SMEs operate and the opportunities available. With the revival of the Common Market and the implementation of the Services Directive (D’Acunto, 2009), the European Commission intends to relaunch the common market project so as to augment the economic integration of the EU as the main resource for economic growth. At the same time, to achieve its goal, the EU has to define the actions to be taken and the mode of intervention.

According to the Monti Report (2014), the successful completion of the single market requires attention addressed to the following elements: ensuring optimal functioning of the above mentioned mechanisms, the creation of a common strategy on digital use, exploiting the potential of regional blocs in support of green growth and to the full the benefits and potential of the Community area of goods and services. Furthermore, the geographical mobility of workers should be guaranteed, the functioning of capital flows and financial services improved and related infrastructure created.

As concerns the 2007-2013 Programme, the European Community's Cohesion Policy allocated substantial funding to SMEs, such as that made available by the Leonardo da Vinci Programme, now VET, in the new scheme promoted by Erasmus+, for the promotion of participation in the European market by young people and the creation of an online portal advertising supply and demand relative to skilled workers, necessary to overcome structural difficulties characterising SMEs.
The Services Directive\textsuperscript{56} – whose deadline for full functioning expired in 2009 – is of particular relevance, given that services generate most of Community GDP and involve the highest number of SMEs. December 2009 saw the start of the process of \textit{reciprocal assessment} by the Member States and the European Commission albeit the full implementation of the complex legislative instrument is still far from being fully in force\textsuperscript{57}. The Services Directive was approved in Italy albeit with a slight delay, via the Italian Legislative Decree No. 59 of March 26th, 2010\textsuperscript{58} which delineates the content, provisions and amendments governing access to particular services.

This instrument for the combination of horizontal and sectoral legislative provisions depends for its efficacy as concerns the former, on administrative application, the adaptation of the organisational structures of the Public Administration and the cooperation of local Authorities and Regions.

In contrast, it indicates as concerns vertical or sector-specific regulations, legislative amendments relative to access to services in a large number of sectors, simplifying their procedures and eliminating a series of bureaucratic requirements and steps. The discreional criteria with which local Authorities can regulate access to certain activities are thus rendered compatible with the requirements, necessity, non-discrimination, proportionality, objectivity and transparency imposed by the Services Directive.

\textbf{5. Tools for SME growth and development in the Mezzogiorno of Italy. –}

The regulatory and institutional effects of implementation of functions delegated to the Regions in support of internationalisation are not uniform throughout Italy in terms of efficacy and effectiveness, depending on regional institutions in their decision making. Regional normative and legislative regulatory intervention has where applied, regulated the promotion of economic activities and put in place the

\begin{itemize}
\item \textsuperscript{57} Consultations were terminated in 2010 (http://ec.europa.eu/internal_market/consultations/docs/2010/services Directive/consultation_paper_en.pdf).
\item \textsuperscript{58} Italian Legislative Decree 26th March 2010, No. 59 Enactment of the Directive 2006/123/CE relative to services on the domestic market (http://www.camera.it/parlam/leggi/deleghe/10059dl.htm).
\end{itemize}
framework of new responsibilities, adapting them to the regulatory and regional economic planning context. Lacking application in all Regions, however, has left the general decentralisation plan inapplicable or superficial. In other cases, the responsibilities and promotional activities for internationalisation delegated to the regional institutions by the reform have never been put in place and have remained the remit of national bodies. The non-negligible signs of change emerging from reviews carried out, have not marked any real change of direction as regards the organisational model on which the structure of Italian foreign economic policy stands albeit the Regions now manage interventions and implement policies to support internationalisation with a wider margin of decision-making autonomy.

On the other hand, such innovative processes have not been followed up by the creation of any institutional centre to coordinate business plans with no institutional site to coordinate actions on the part of the State and Regions for promoting exports and internationalisation.

The global economic crisis, which originated in the USA in 2007 with the collapse of the real estate market, has triggered a long period of recession, exacerbating the differences in public finance conditions and in the rate of growth of individual Eurozone countries. In this scenario, Italy, since the mid-Nineteen nineties also distinguished by economic stagnation, has suffered the collapse of public investment and private consumption, the increase in fiscal pressure\(^{59}\) and the proliferating of speculation. Reforms, including finance reform, are of the essence to avoid negative trends, and to review government economic intervention for growth, especially as concerns SMEs\(^{60}\). In particular, given the slowing in growth in

\(^{59}\) The gradual re-balancing of public spending has failed to produce the outcomes expected. By reducing propensity for risk and investment, banking institutes have been obliged to negotiate loans allocated to the productive system. The Quantitative Easing on the part of ECB has not been sufficient to contrast the credit crunch and to set the Italian economy in motion once again.

\(^{60}\) Undoubtedly, the tax imposed on financial transactions (Tobin Tax) in the European Union would concur in contributing to limiting speculative action on the part of credit institutes, i.e. to put in place ownership trading (Volcker rule) given the veto on using Bank capital for Share transactions, investments in subprimes and participation in hedge funds in excess of 3%, the aim being to avert recession in the banking sector thus protecting customer savings. On the other hand, monetary and fiscal measures together with other issues relative to finance currently in act in the USA have already enabled the lowering of the unemployment rate to 6.7% compared to more than 12% in the EU.
emerging countries and European exports, strategies for competitiveness require launching to boost short-term productivity and medium to long-term intervention for innovation and social and environmental sustainability.

In this scenario, the industrial renaissance can take place only if, in addition to excellence, the resources of regional and local economies are integrated within international production chains, in social networks, crosscutting technological sectors and replacing the typical SME incremental innovation model of industrial districts with dynamic manufacturing activities and modern services (*Knowledge Intensive Business Services*)\(^61\).

Therefore, productive specialisations enhancing features of local systems – such as strong identity, willingness to put in place inter-stakeholder informal collaboration, rapid and detailed exchanges of knowledge, including tacit knowledge not only codified among SMEs →, startups of articulated high-level productions capable of satisfying emerging needs and that require the integration of intermediate artifacts from diverse sectors combined with specialist knowledge\(^62\) (See Franzoni and Salvioni, 2014).

In this context, the tools for implementing Strategic Public Management are numerous, but generally include forms of cooperation in planning and solutions coordinated on a network (*governance networks*) involving enterprise and public and private administrations and other relevant local organisations or actors. Initiatives and tools of local governance can be divided into three macro-types.

1. Stipulated to take advantage of specific funding, European, national or regional (Territorial Pacts, Area Code Agreements etc.). Such tools and projects, often of top-down inspiration, involve public and private sector

\(^{61}\) Consequently promoting generative, tacit and combinative knowledge capable of integrating competence to innovate, adapt and manage and customise in interactive mode solutions and replicable products, implementing connective platforms of production and trading in order to strengthen the links and positioning of regional territory in GVCs, spreading knowledge, the development of logistics and innovative services and not least, an efficacious quality certification system.

\(^{62}\) Selective industrial policy, supported by laboratories of cutting edge industrial research to promote numerous positive externalities in territorial systems of innovation and entrepreneurial initiatives in high-tech or knowledge intensive sectors.
organisations, frequently through representative associations acting as mediators of interests.

2. Inspired by legal dispositions or new strategic guidelines on local governance. For example, norms for the application of administrative decentralisation, the accountability of local Authorities, economic management, or regulation of local public services. Instruments are prevalently top-down and linked to the characteristics of the areas or service and company functions involved.

3. Non-institutionalised and relatively ‘spontaneous’ on the basis of the stimulus of local, often public, actors going beyond specific legal indications of national and international best practices or general indications on the importance of ‘creating a system’, establishing territory networks for good governance. Initiatives are both top-down and bottom-up.

In this perspective, new styles of consumption of goods and services are required to activate circuits of knowledge accumulation especially in the Southern regions as well as to promote global chains, given their multiplying effects, taking into account that stimuli for economic development do not stem merely from international markets. On the contrary, SME innovation is a selective process as leader businesses – that contribute to growth much more so than others generating external economies on the territory – explore diverse frontiers in their implementation of global supply chains, while their counterparts (followers) imitate successful models, sub-supplying orders at local or international scale63.

Given the above considerations, only by means of a territorial approach, smart industrial specialisation policies can reinforce the capacity of a geographical area to increase accumulated knowledge and to favour technological diversification, on the basis of local specifics and the characteristics of the innovation model already in act at regional level. In addition, technological creativity is also essential to reposition competitively new productions and to strengthen capacities for governance. In this context, SMEs are obliged to consider the relevant socio-institutional environment,

63 Given that in the large urban areas of Mezzogiorno the impact of processes of de-industrialisation are more than evident, cities have to be considered as a territorial context capable of generating innovation and of promoting the development of modern production.
at the same time, making corporate social responsibility a synergistic mainstay of their economic-financial goals. Such a vision contributes not only to corporate interests but also to the conservation of interactions to support and nourish corporate viable systems, in line with neo-institutional precepts.

In this respect, the corporate mission of SMEs is seen as embedded within a socio-economic environment which conditions their capacity for survival and where in addition to profit seeking, goals of a social nature are fundamental, impact positively on and are instrumental to long-term economic opportunities.

In short, corporate mission is no longer merely related to SMEs but to the territorial system as a whole in order to guarantee sustainable growth and development in terms of social welfare. In this perspective however, on the part of Strategic Public Management there is the tendency to strive for scale economic policies in an effort to pursue goals of a social nature in the ambit of scarce financial resources and the need for efficient public management. Such policy finds its place within the framework of New Public Management given the incapacity of Public Administrations to deal efficiently with economic resources, corruption, management, excessive red tape etc.

Corporate tools, methods and strategies for SMEs are consequently deemed necessary to lift Public Administrations from their sluggish state (in a process of private sector enterprise efficiency). It stands to reason evidently that the efficient management of resources can only contribute positively to achieving institutional social goals which remain the province of Strategic Public Management.

In an attempt to highlight the convergence between institutional goals of territorial sustainable development and those linked to corporate profit, two elements (social and economic) should be taken into consideration in the prospect of a synergistic relational system pursuing the creation of socio-economic value. As is well known in the conception of private sector enterprise, core to decision making

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64 Corporate mission has far reaching effects, not concentrating merely on short term profit making strategies but seeking rather, to guarantee strong and lasting collective consensus of suprasystems, obliging their acknowledgement of the positive social function of SMEs, pushing them to cooperate with greater awareness (Pellicano, 1995) and goodwill.
processes is the governing body, whose main goal is to pursue profitability. On the other hand, in the conception of Public Institutions, the core remit is governance put in place by decision makers, whose main goal is social. However, in the relational and wider perspective of a socio-economic value creating vision, the relation between economic and social aims converges and activates a mutually virtuous process whereby the *raison d’être* (public and private sector mission) blends synergistically within a framework of integrated relations. Such relational meta-system leads to the creation of socio-economic value expressed in the formula set out below.

The above highlights that although SMEs may extend their confines to the limits of their economic rapports (meso-environment), they are unable to elect the territorial context (meta-environment) to the status of viable system, given that in order to do so, governance by Strategic Public Management is of the essence.

In this respect, the shift from a specific corporate relational to a territorial context and to the mode of systemic structure obliges the translation of the systemic centre\(^65\) – which in turn leads to the issue of assessment and evaluation of the perpetrator of the elective process of a territory to viable system status – favouring the identifying in specific cases and conditions, of a public Body or Organisation.

The analysis within the context of territorial marketing justifies governance by a Public Institution given its potential for developing sustainable socio-economic territorial growth\(^66\), leveraging on the convergence, guided or otherwise, of social and economic goals within a single blended public and private sector meta-goal whereby criteria of efficiency and economic feasibility are no longer diametrically opposed to criteria of social justice and equality (Pellicano, 2002).

\(^65\) Precisely because enterprise is unable to carry out direct governance functions, it shifts from core element of its viable system (due to the mere action of translation of angle of vision) to that of a mere component of the viable system of the ‘territorial context’.

\(^66\) Such development is underpinned by SMEs, the driving force of Italian enterprise. Their strength as is well known, lies in viability, flexibility albeit lacking marked capacity for R&D. Governance as such justifies the intervention of institutional meta-organisations to compensate for such weakness by means of strong support both in terms of innovation, ICT and infrastructure (defined as the Institutional Tree) whereby SMEs utilise the same while retaining their independence and freedom to continue looking for business opportunities.
With the increase of competitive dynamics due to processes of globalised markets, difficulties impeding SMEs from acquiring success both on ‘home and international scenarios’ also increase. Without the support of valid innovation in terms of product and process, both the defining of valid productive alternatives to compete with global enterprise and scale economies of productive costs remain problematic. This explains the importance attributed to intervention policies, in act at every level of territorial administration – all provided with arbitrary powers concerning the introduction of new tools and service systems for enterprise – in order to promote and enhance the local economic-productive fabric.\(^{67}\)

In relation to the policies for the South, the national planning strategy focuses on the South Pact an instrument intended as the precondition for effective monitoring of the implementation of actions contained in already approved legislative acts together with the ‘virtuous’ use of resources, provided sight is not lost of the main objective of rapidly eliminating regional imbalances. The strong point of the Southern areas should be highlighted, starting with the enhancement of the widespread SME model, characterising predominantly the Southern Italian economy. SMEs continue to face considerable difficulties in terms of administrative conditions, with particular attention addressed to the problem of credit access difficulties, widespread illegality and the infrastructure gap, increasingly linked to the inadequate allocation of intangible infrastructure, ranging from ‘bandwidth’ to communication capacity and to digitalisation. In particular, as regards the innovation of production in the South, the Regions are affected more intensively by a series of socio-economic problems. Territorial imbalances are created by virtue of fewer investments, less consumption, employment and public spending, but also due to the credit crunch and the crisis in domestic demand, which has penalised the production of non-export-oriented SMEs.\(^{68}\)

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\(^{67}\) Observation of the impact that particular laws or regulatory dispositions produce on the relevant socio-economic contexts has by now become praxis, considered a useful and acknowledged stimulus in terms of the development of AIR (Analysis of Impact of Regulation) recommended by the European Union and by the OECD.

\(^{68}\) The crisis affecting large national enterprises in Mezzogiorno has provoked a cumulative process of deindustrialisation in diverse urban areas where productive plants were once situated.
Notwithstanding commitments undertaken by Governments, intervention to support the industrialisation of Mezzogiorno has resulted as totally inadequate, albeit in the Southern areas relevant sites are present in metallurgy (automotive and aeronautical sectors), energy production and chemical sectors, and traditional manufacturing activities (food and final consumer goods), as well as technological districts with their positive impact on agriculture and tourism.

In terms of potential however, the development of renewable and geothermal energy, modern urbanistic services, Research Centres and Universities can all offer significant contributions. Given the above considerations, SMEs require strategic integrated intervention both on contexts (horizontal policies) and innovation-based structural processes of transformation of economies (industrial policies).

This would encourage new knowledge, formal procedures of R&D and advanced management in terms of organisational and production management models, proposed by studies in the field of Economics and Management of Public Companies, to support with special funding innovative SMEs implementing networks to diversify their products and markets.

In short, flexible public action is required in terms of targeted intervention based on territory specifics and the actors involved in local development, supported by ex ante techniques for the selection of projects and for the identification of efficacious models of governance. As highlighted so far, in order to boost domestic demand, objectives include research and innovation in competitive projects for SMEs.

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69 In this respect, it should be noted that nearly 25% of the population of Mezzogiorno live in the large metropolitan areas, a useful scenario for industrial settlements in order to stimulate integration of local economies in urban, national and international networks as highlighted by the Banca d’Italia study.

70 Given that the impact in percentage terms of product innovation and/or of process and relative to the ratio of funding for R&D on GDP is far inferior in Mezzogiorno compared to the Centre-North of Italy, it is considered that the use of innovation in SMEs and the relative increase in production can sustain investment and therefore, set in motion the process of accumulation of capital and increases in levels of remuneration.

71 In the case of technological clusters (i.e. networks between SMEs and Institutions, Organisations and Public Companies), intervention should concentrate on creating organisms that facilitate the design, coordination and management of such networks. As concerns emerging or potential clusters, policies should aim at sustaining strategic action for development with the contribution of expertise acquired in the areas of scientific excellence.
targeting foreign markets not to mention urban development or regeneration to promote investments in infrastructure and services the outcome being positive overall effects on growth. In this context, financial institutions, in particular credit institutions, have the remit of contributing to local development by participating in the organisation of the phases of design, planning and putting in place of innovative projects. On the other hand, the range of envisaged commitments is such as to require the relaunching of private sector investment given the scarce Community resources available\textsuperscript{72}, within the framework of a multi-annual strategic Plan (not limited by EU requirements) and combined with current resources apportioned by the Ministries for urban policies. Moreover, contributions could also derive from the various forms of Public Private Partnership, involving institutional investors\textsuperscript{73} and from the reindustrialisation of various Italian multi-utilities (A2A, IREN, ACEA, Terna), appropriately recapitalised and in consortia, which together with foreign partners, could support the financing, coordination and construction of infrastructure in Italian cities.

Given the Keynesian theory of marginal efficiency of capital, firms grow only if profitability is at least equal to opportunity/cost of credit, it should be pinpointed that the rating of sovereign countries impacts on and has repercussions (as concerns the present study) on SME rating. Thus, distortion results as concerns credit allocation, not to mention competitive disadvantage for the economic system, especially in Italy in terms of discrimination of competitive production plants in antithesis to the European principle of free movement of goods, services etc.\textsuperscript{74}.

\textsuperscript{72} Included in the main critical elements of urban policy in place during the 2007-2013 period, is the fragmented intervention resulting from projects of modest economic impact, not to mention the constraints to investment linked to the Stability Pact.

\textsuperscript{73} Among the hypotheses to consider, the recourse to the international capital market, through the ECB and Cassa Depositi e Prestiti (project bonds) and the establishment of the National Development Bank, organised by macro-regions, with the statutory purpose of ensuring Institutions, Organisations and public Companies the support of rigorous analysis for the selection of projects with the highest returns, as well as the issue of finalised bonds.

\textsuperscript{74} Therefore, the EU should sanction the prohibition of discrimination of credit policies towards European SMEs, or the principle of integrating the traditional financial rating also with brief assessments (such as an innovation quality certification or a European SME rating), linked to the knowhow and contribution to the growth of the investment project considered.
Consequently, credit rating and assessment should be the remit of independent specialists to ascertain the factors that determine the development of a particular country in the medium and long-term, and the strategic prospects of its SMEs, utilising both the independent structures of credit institutes not to mention scientific research and analyses put in place by academic Institutions. As concerns industrial and regional policy, the Italian Economic Reconstruction Programme for targeted intervention on urban territory (medium size cities and metropolitan areas), will undoubtedly favour productive specialisations and tertiary activities. Furthermore, models of growth that remove structural obstacles to innovation and investment, especially for the forming of generative and codified knowledge in GVC is also a crucial factor (Rullani, 2014).

In addition, joint strategic objectives involving Institutions and local Authorities will enable the flow of financial resources, but even more importantly, will reduce uncertainty and risk, reassure international markets and stimulate even more the economic recovery already in act. This will set in motion strategic repositioning of the Service production system, and the Public Administration, in a perspective of sustainable development, with the support of the 2014-2020 Cycle Programme of Community Funds and the Europe 2020 Agenda.

In the context of finance, the credit crunch has led governments to adopt measures to develop financing channels for SMEs alternative to bank credit, such as mini-bonds, the Guarantee Fund for SMEs, tax relief for recapitalising, private equity funds, tax credits for business networks and the agreement between the Italian Cassa Depositi e Prestiti, SACE, SIMEST and ABI to support exports.

Innovation however is of the essence relative to lines of credit and finance, as well as the promotion of SME corporate bond issues and their private placement. Asset Backed Securities or loans for the most efficient production units for example, would enable credit institutes to make resources available with the establishment of intermediaries of the Business Development Company type, an instrument already operating in the USA together with increased private equity funds for allocation to SMEs to provide services of collective utility. In addition, discriminating policies based on nationality relative to credit in favour of SMEs should also be severely
vetoed. An optimum *iter* would be the transformation of the *Cassa Depositi Prestiti* into a Bank for Development to promote investment for growth.

Finally, processes of credit rating (quality certification) should be integrated within investment projects included in industrial, urban and territorial policies.  

Particular attention should also be addressed to governance policies to promote organisational innovation, to simplify procedures, increase autonomy, decentralisation and *accountability* (spreading innovation of products and organisation in the Public Administration) with responsibilities assigned to the Regions and local Authorities for industrial policy and sustainable development albeit within the framework of national and European coordination. Furthermore, strategic action for economic governance should be devised by redesigning the central institutional architecture to go beyond initiatives for the management of corporate crises.  

In the context of policies for extending technological districts, these have been founded on the selection of areas equipped with high-tech companies, industrial dynamics, qualified human resources, Universities or Research Centres and on the degree of inter-stakeholder interaction. The purpose is the classifying of such areas together with existing, potential and emerging districts, supported with initiatives consolidating areas of scientific excellence characterised by great potential for growth, and governance bodies of excellence involved in the creativity, management and monitoring of the network. Notwithstanding such optimal intentions, the analyses carried out have evidenced the low number of patents produced. This is

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75 A process of reform rendering support for internationalisation synergistic with industrial policy is a requirement that has been expressed on many fronts. An industrial policy *lato sensu*, i.e. intervention by public management to facilitate the development of all production sectors is also necessary, in line with the needs of the parties involved in terms of priorities, directives and decision making relative to the allocation of resources.

76 Two factors concur relative to the classification: productive specialisation in a high-tech sector, and the extent of innovation at territory scale and its capacity to produce new knowledge. As a result, existing districts are characterised by an impressive number of SMEs specialised in the high-tech sector and by the considerable amount of knowhow, also by virtue of cooperation with Centres of Research and Academic Institutions. Emerging districts on the contrary, have the peculiarity of expressing some factors in a significant way while expressing others more moderately. As concerns potential districts, these are termed as such in the case of certain factors being decisive while others are lacking or merely marginal. In the two latter settlement typologies, networks are particularly relevant as they are obliged to create dense inter-stakeholder interaction especially in terms of selecting projects to finance and policy assessment.
mainly due to the problematic challenges and lack of links existing between Universities and businesses and partly to insufficient incentive systems favouring SMEs. In an attempt to resolve such challenges, since 2002 MIUR has published numerous calls for the identification of technological districts (29 all told, mostly of an emerging or potential type: 5 in the North-West, 5 in the North-East, 5 in the Centre, 14 in Mezzogiorno). However, our findings reveal the inadequacy of intervention for technological districts, given that additionality and efficiency have not been applied as regards the choice of projects and sites, all characterised by the prevalence of political constraints and as concerns assessment of the projects, criteria of a technological rather than economic nature.

With respect to Mezzogiorno, undoubtedly policies for innovative networks would be an appropriate pathway, taking into account the presence of both large, national and multinational public and private sector companies and of SMEs that, albeit provided with qualified human capital, operate mainly on the local market. *Ex ante* techniques for the selection of collaborative research projects would be a solution in addition to the identification of technological districts and governance models.

In the above context, it should be noted that when Universities, Research Centres and governing bodies cooperate from a market perspective, cooperation between such institutes, SMEs and large companies evidence appreciable outcomes including the stability of innovative SME networks systematically using new technologies. Vice versa, where there is a high concentration of SMEs, with little experience of cooperation, committed to local markets, there are considerable difficulties in creating networks.

In short, the advantage of innovative policies is evident if they promote *network additionality*, intended as the creation of stable inter-stakeholder interaction involving

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77 To benefit from MIUR funding, a series of criteria has been delineated. These include: the project proposed by the Region, articulated and sustained by opportune studies and basic analyses, Government guidelines relative to scientific and technological policy, the presence of leading firms in the sector, the main public sector stakeholders of a governance structure (independent bodies responsible for private, private-public or entirely public participation). The contribution of competence and funding, the definition of a legal personality responsible for coordinating initiatives and medium and long-term self-sustainability estimates technological districts. Recently ulterior strategic sectors of intervention have been specified such as the environment, energy, transport, agrifoods and health/wellbeing, productive systems, biotechnology, new materials, nanotechnology, ICT and cultural goods.
SMEs thus ensuring significant indirect effects. Italy can only free herself from the crisis if she achieves the objectives of intercepting global demand and generating external economies, implementing an investment policy compatible with the austerity scenario imposed by European regulations\textsuperscript{78} albeit with the constraints imposed by the Institutes of Credit, which impact strongly on the development of SMEs.

Briefly, on the one hand, the EU has to free up investments from budget balance obligations\textsuperscript{79} imposed by the EU fiscal compact and on the other, Government has to put in place measures to guarantee the limiting of risks for credit institutions in order to promote financial innovation. This could be put in place also using savings accumulated by customers in the territory in order to attract international investors to strategic sectors of the economy. In sum, a structured programme of interventions involving diverse local and regional governance policies is of the essence if the credit supply is to be supported.

6. Competitiveness and innovation for SMEs. – As is well known, the beginning of the 21st Century heralded the development of Information and Communication Technology (ICT). Since then ICT has spread throughout numerous economic and social activities and transformed the nature of the goods produced, knowledge, work, production systems and markets.

In the era of globalisation and access to the Internet, businesses are called upon to think in terms of international rather than national and exhorted to exploit the new and stimulating opportunities deriving from foreign markets.

\textsuperscript{78} The austerity measures in fiscal matters, too extreme and prolonged, have impacted on various countries. The International Monetary Fund in mid recession had auspicated maintaining less restrictive monetary policies including non-conventional measures and a more gradual tax rate scheme.

\textsuperscript{79} Budget policies should delineate fiscal regulations and norms devised for financial stability as well as underpinning the increment of structural funds, support of investments and European networks (Transport and Communication), human resource capital and research. Such intentions will be feasible only if EU policies are redirected towards harmonic, sustainable growth and with regard to monetary policy, flexible and non-conventional intervention such as Quantitative Easing should be continued albeit taking into account the difficulty of operating on segmented national markets.
At international scale, this approach involves all the economic (particularly industrialised) areas of the world, therefore, appropriate marketing policies and strategies are necessary to enter the relevant foreign markets. How should the corporate ICT system control the competitive and economic-financial performance in the diverse sectors of activity and on different markets?

Particularly in the SME sector, it is rare to have complete, reliable and up-to-date information available on the characteristics of the markets of interest, to use the quantitative models proposed by the management literature. Therefore the absence of such data should be compensated for at least with clear ideas on the factors that influence company success together with rational assumptions and estimates on current and future performance.

With the onset of the technological revolution, the confines between meta and macro environment tend to blur given that relational contexts shrug off their territorial anchors, becoming ever more virtual, international and global. From the perspective of SMEs, the shift of focus from organisational, structural, architectural corporate relations lends itself to an in-depth analysis of the strictly strategic elements of corporate governance methods and business goals and the assessment of the systemic structure (i.e. viable system) of the territorial context as a whole.

The focus on innovation enables the creation of systemic output of superior value compared to that of competitors (consensus of differential) guaranteeing competitive advantage above all in situations of discontinuity or market turbulence at local and international scale. With the propensity to create a series of relations with third parties (SMEs, Centres of Research, Service firms, Universities etc.) this model supports updating and the development of toolkits of basic skills (Golinelli, 2000), transmits and selects new knowledge, experiments new projects and decides on new investments. Smart enterprise, capable of generating innovation and anticipating change, can be classified as a cognitive system capable of structuring

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80 The shift from network (meso-environment) to context (meta-environment) is analysed from a systemic perspective posited against a macro-environmental backdrop. From an interpersonal viewpoint, the difficulty involved in defining significant relational contexts derives above all from the lack of precise territorial confines given their intangible nature (i.e. virtual as opposed to physical) resulting from the use of advanced technology.
the knowledge and behaviour of economic actors by using their codified routine skills (Nelson and Winter, 1992) in order to redefine and combine them in new knowledge thus generating value that stems from ongoing learning (learning organisation). This process takes place within a relational system based on communication and trust, encouraging innovative capacity in the context of the so-called technological ambience where relations are prevalently biunivocal, there being no suppliers who sell input and users who buy output but only co-makers81 (Pellicano, 2002).

The process implies change even in the places where skills are practised – business boundaries with the outsourcing of production phases and business functions – and the territorial dimension of innovation and production82.

The capacity to acquire and develop knowledge across and beyond national borders strengthens not only the fabric of SMEs and Institutions capable of economic change but also the relational networks underpinning innovative systems.

This fosters the demand for innovative goods and complex international production resulting from technological change83. Only the strengths and integration of the diverse elements of the system with their impact on producers and users of technologies can foster innovation at national level.

Given that nations have their own innovative system with skills practised within a limited spectrum of activity, institutional frameworks and existing sectoral specialisations condition the chances of economic development and are the starting

81 In such a context, the enterprise system is based on values rather than on regulations, favouring the integration of linear thinking characterised by a relational conception of learning that goes beyond the individual logic towards a shared vision of thinking and acting collectively (Gravili, 1999). Such enterprise does not acquire resources but as mentioned previously, creates them together with the supplier (human resources for example are not required to provide mere physical force but rather the willingness to participate in the process of value creation).

82 Technological change is the outcome of national innovative systems, defined, on the one hand, by relations between business, finance, University and Research Centres and, on the other, by public policy-makers, not only goods, but also services (such as research, software development, administrative functions, call centres) can be carried out both outside large enterprises and national borders, and located on the basis of excellence and potential cost reduction.

83 In this context among the objectives of industrial policy for SMEs, considerations of statistic efficiency relative to market balance are no longer relevant while the dynamic dimension has become predominant, i.e. the learning and knowledge required to limit uncertainty and the new skills needed to compete on the basis of technological advantages and product quality.
point for technological and industrial policies that aim at developing activities characterised by advanced learning, productivity and demand.\textsuperscript{84}

Notwithstanding, current technological change has led to increased uncertainty – and a variety of potential options – on the origins and type of knowledge useful for applications, for products that can meet new demand, efficient processes and organisations, in relation to the costs and benefits associated with innovation. Within this scenario, the industrial policies of advanced nations should take into account the evolving nature of technological change, favouring learning processes that crosscut the economy. In particular, as the way of communicating as well as the quantity and quality of liberal and accessible information transmitted through networks has evolved to the nth degree, this has also impacted greatly from an institutional perspective on Public and Institutional Communication. Cloud computing is a case in point.\textsuperscript{85} This enables the creation of scale economies and efficient performance for the Institutions.

The focus of Strategic Public Management is mainly targeted at private sector Cloud that envisages the creation of datacenters run by the Public Administrations which deliver Cloud services based on the experience of the Italian Public System of Connectedness or the model of Centre for Territorial Services (CTS) for peripheral Administrations. Inspired by the United States with their norms and regulations relative to Open Government in 2009, the use of cloud tools has spread globally offering competitive advantage and market growth at consumer level, private industry and the Public Administrations not least from the liberalising of data (Open data).\textsuperscript{86}

\textsuperscript{84} Up to a short while ago, in advanced countries, the policies focused on two aspects; on the one hand, scientific policy offered support for the production of knowledge and advanced training in Universities and Research Centres, with the state responsible for supplying public goods. On the other hand, technological policy favoured the acquisition of knowledge and production capacity in selected emerging sectors, supporting imitation, licensing, technology transfers and machinery imports from the most advanced manufacturers.

\textsuperscript{85} Cloud computing using resources provided by external providers (cloud provider) in effect, combines software applications and infrastructure with a flexible ICT model of service delivery and use.

\textsuperscript{86} Open data is usually defined as ‘data that can be used freely, reused and redistributed limited only by no changes made to the document and acknowledgement of the source’. For further information see the website Open Knowledge Foundation, http://opendatamanual.org/
Despite affirmation at global scale in terms of privacy, security and protection and capable of creating 3.0 web standard models of Public Administration, in Italy due to the lack of normative dispositions, cloud computing has to date failed to gain a firm stronghold in Public Institutions which still tend to rely on more or less outdated models (Intranet, electronic mail etc.).

Also inspired by the USA another cardinal element of Public ICT, digital communication (Social PA) has revolutionised the traditional model of communication between Institutions and citizens.

Open government (still far from implementation however) is targeted at rendering transparent the action of Strategic Public Management offering the opportunity to interact with numerous partners, to adopt a private enterprise business model aimed at efficiency and cost cutting, transparent, democratic decision making.

At the same time, in the 21st Century, economic change deriving from evident uncertainty with regard to technologies, products, markets, demand and the complex networks of international production requires adequate industrial policies to favour the development of new initiatives.

Such processes characterised by advanced learning, positive externalities and productivity have to be underpinned moreover, by strategic cooperation between Institutions and public Corporations, SMEs and social subjects, in order to improve information available relative to productive opportunities, and to ensure coordination between public and private decision making relative to new investments and the rapid spreading of knowledge. In this context, basic statistics have benefited significantly from process and product innovation in terms of effectiveness and timeliness of data processing not to mention the improvement in quality of statistical predictions\(^{87}\). Notwithstanding, structural weaknesses still persist in the productive system that only in part are mitigated by the negligible economic recovery of recent years. At the same time, however, the signs of change,

\(^{87}\) At the same time, new indicators include the use and impact of ICT, new measures for productivity, structural characteristics and the dynamics of exporting, territorial factors of competitiveness and statistics relative to the productive internationalisation of businesses.
mainly related to exposure to foreign markets and internationalisation are being grasped thanks to the extended corpora of statistical information now available. In this respect, in recent years, the capacity of statistics to measure specific economic phenomena and the structural features of the enterprise system (size, sector and territory) within a comparative international framework has improved considerably.

The above mentioned progress in terms of development of new processes of statistics and new economic indicators for the analysis of productivity systems, promoted by the European Statistical System and by National Institutes of Statistics, has undoubtedly narrowed the information gap with respect to official statistics in terms of measuring emerging economic phenomena, related mainly to globalisation, new technologies and organisational models of enterprise.

Notwithstanding the introduction of innovation dating back to 2009, the launch of the European programme _Modernisation of European Enterprise and Trade Statistics_ has rendered exploiting the information patrimony an imperative. This is necessary to integrate an accessible and multidimensional system of statistics and databases in order to rationalise data collected within enterprises and to carry out surveys to measure emerging strategic phenomena.

Required at Institution scale, granted the independence of the State with respect to the interests of SMEs, is the presence of Institutions and public Agencies characterised by solid competences flanked by the definition of realistic policy goals. The financial support granted should be of a temporary nature, linked to good economic and export performance measured by specific criteria to assess the results of intervention and in terms of flexibility, the concentration of efforts on activities and SMEs with the potential for success.

In recent years the ‘ability to implement’ programmes, projects and development interventions has attracted the attention of numerous scholars and professionals who have shown that it is a strategic determining factor for success (Hrebinia, 2005; Neilson et al., 2008; Martin, 2010).
In the same way, Strategic Public Management should shift the perspective of observation from planning to the implementation of programmes and projects\textsuperscript{88}.

As in enterprise, Strategic Public Management defines the strategy and organisational units, their activities and contributes to its implementation, according to a ‘cascading’ process (Martin, 2010). At local level, it represents the transmission belt of public policies to the territories, by defining programmes capable of generating outputs and results\textsuperscript{89}.

Factors such as complexity of issues, stakeholders involved, financial resources allocated for competitiveness and development programmes (many of which are co-financed by Structural Funds) have often been conceived with a short-term approach, aimed at demonstrating spending capacity, as a mere use of resources, rather than ways to improve SME productivity and territory appeal (Brusoni and Vecchi, 2008).

Innovation is a crucial tool in support of SMEs and increasing the rate of innovation is significant for the economy as it enhances Italy’s competitive advantage and contributes strategic value to productive sectors.

In general, it is agreed that the State should fund research, particularly basic research, as individuals in the private sector do not have the incentives or the opportunities to exploit positive externalities. Public intervention, if designed and put in place efficiently, can impact positively on the creation and spread of innovation.

Furthermore, the Managerial classes of Institutions, public sector Corporations and Agencies will have to acquire technical and managerial skills to facilitate investments in innovation on the part of SMEs and to increase their capacity to

\textsuperscript{88} The objectives and strategies of the macroeconomic system seem to be clearly defined at European level (for example, Europe 2020 Agenda or the previous Lisbon Strategy) and consequently to cascade at national and regional level (with programming defined on the basis of Community Recommendation). At local level, on the other hand, Municipalities, Provinces, Development Agencies, Chambers of Commerce and Trade Associations seem to be mainly oriented towards projects and interventions with short-term objectives.

\textsuperscript{89} These include, by way of example, streamlined regulations for the opening of new SMEs; support programmes for startups that are more selective and more geared towards support in the medium term, rather than providing \textit{una tantum} contributions, programmes and projects aimed at specific needs of SMEs and the territory.
absorb innovation produced externally through targeted intervention, direct transfers of financing, loans, or tax relief in the case of innovative SMEs as well as actions including the promotion of accumulating resources for carrying out research and development in the SMEs themselves. In other words, they have to devise policies that encourage external institutions, i.e. Universities and Research Centres, to collaborate on R&D activities and to develop projects for SMEs, to cooperate in the creation of infrastructure such as Science and Technology Parks, to support SMEs in the areas of intense knowledge as well as ‘material’ type interventions at local/regional level, e.g. real services (such as incubators, one-stop shops), training, tax incentives or financial contributions for internationalisation.

From the literature analysed, it emerges that Strategic Public Management plays a relevant role in the implementation of development policies, on the basis of specific territory characteristics. Points for reflection, defined according to a management approach, include the eight rules proposed by Waits, Kahalley and Heffernon (1992).

1. **Thinking in terms of development processes, not development agencies** - development support should be founded on the construction and supply of networks of actors able to activate and manage convergent processes.

2. **Thinking of the system, not of specific actions** - incubators, technology parks, venture capital funds can be the point of arrival of development programmes or instruments defined on the basis of territory and business needs.

3. **Thinking about building blocks, not details** - the success of development programmes depends on their ability to respond to the real development needs of the territory.

4. **Thinking of clusters, not individual companies** - the identification of targeted solutions to meet the needs of individual companies or a few of them (such as the

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90 The degree of effectiveness and therefore usefulness of ‘material’ activities is defined by Cheshire and Magrini (2002), who distinguish between: *pure waste* interventions, incapable of influencing the performance of local businesses and investors; *zero sum* interventions, capable of generating effects on production costs or on corporate performance, but which on the whole generate only a shift in wealth (attraction of investments based on incentives); *value added* interventions involving the use of public resources for the provision of real services or for the improvement of the tangible and intangible assets of the territory, capable of significantly affecting growth potential.
case of financial aid) does not create the conditions for the start or strengthening of a competitive local system.

5. **Thinking in terms of the needs of companies, not spending** - the effectiveness of development programmes depends on the ability to collect, analyse and summarise the needs of companies and not the financing of proven solutions, perhaps even with satisfactory results, in other territorial realities.

6. **Thinking as catalysts, not as executors** - Administrations should act as directors and coordinators of a system of actors, to whom, depending on their institutional roles and responsibilities, to delegate the management of complementary initiatives and programmes.

7. **Thinking in terms of economic areas, not on the basis of administrative boundaries** - development programmes, when defined according to the needs of businesses, should be conceived in relation to economic areas, independently from administrative boundaries.

8. **Thinking about impacts and accountability, not quantity** - the planning of new development initiatives should also be based on the analysis of the results and impacts generated by the completed programmes, the performance of which does not depend on the amount of resources invested or businesses supported or funded\(^\text{91}\).

The European Union has put innovation and the knowledge-based economy at the core of the Lisbon Strategy and the new ‘Europe 2020’ strategy. To achieve their ambitious goals, the Community Institutions have approved several programmes – including seven broad-based flagship initiatives – to foster innovation. Almost all these programmes are designed for SMEs, to provide them with facilitated access and funding\(^\text{92}\).

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\(^\text{91}\) The literature on the subject proposes (both due to the policy and management dimensions) specific in-depth analyses, e.g. in relation to Venture Capital (Murray, 1998; Lerner, 1999; Aernoudt, 1999; Mason 2009) or incubators as an instrument of implementation of policies for entrepreneurship (Peña, 2002; Sternberg and Wennekers, 2005; Aernoudt, 2004; Acs and Szerb, 2007), which, however, are always analysed from the perspective of the company or private operator.

\(^\text{92}\) It is estimated that 16.5% of the entire Community budget is spent to promote of innovation and dissemination of knowledge. The main programmes directly managed by the European
Within the context of the 7th Framework Programme for Research and Development (FP7) particular emphasis has been placed on regulations that favour SMEs, especially knowledge-intensive SMEs. Specifically, the norms of the FP7 stipulate that SMEs can avail of Community funding to the extent of up to 75% of the total amount of the project. Large enterprises on the contrary, can only be allocated a maximum threshold of 50%.

Amendments to the Programme have been proposed to further stimulate the access of SMEs to FP7 funds. In the event that a SME involved in the project no longer falls within the category the Community defines as SME, given its unexpected growth, provisions have been envisaged to the effect that the same regulations continue to apply, to avoid deterring the growth of a company in dimensional terms. Within the Seventh Framework Programme category ‘Cooperation’, which totals 60% of the funds, the current goal of the European Commission is to allocate to SMEs at least 15% of the whole amount stipulated. During the two year period 2007-2009, the percentage was 13.4%.

The Competitiveness and Innovation Framework Programme (CIP) is a financing programme to support the competitiveness of European businesses, in particular SMEs, through the funding of innovative activities, the provision of financial capital and business services.

The CIP includes three specific programmes: the European Innovation Partnerships (EIPs), the ICT Policy Support Programme (ICT PSP) and Intelligent Energy - Europe (IEE). These programmes provide SMEs with instruments and capital to promote innovation. In effect, EIPs provide capital and business services

[93] Taking into account that SMEs have been particularly active in the sectors of nanotechnologies, transport technologies and security, nearly 7,000 SMEs had access to FP7 funds, during the same period.
in support of emerging or developing innovative SMEs and promote commercial innovation and the marketing of innovative products. The most important initiatives included in the programme are: - Europe INNOVA, for the creation of new tools to support innovation and the companies that invest; - the European Innovation Platform (EIPs), a public-private partnership dedicated to innovative companies operating in transnational districts, in the area of intensive information and the green economy. The EIPs programme also provides support to Public Administrations managing innovation programmes. The other two CIP programmes address innovation in ICT and energy sectors.

Besides the Community programmes, the European Investment Bank funding for innovation is significant. By means of the i2i - Italians to Italians initiative, the EIB allocated Euro 50 billion for the period 2010-2020. Furthermore, the EIB manages 3 dedicated initiatives for SMEs: Risk Capital funding within the CIP and the RSFF. The Risk Capital initiative addresses innovative and high growth SMEs at the beginning of their lifecycle. The EIB provides both risk guarantees and venture capital through the European Investment Fund and through private venture capital funds.

RSFFs, on the contrary, are addressed to SMEs in the development phase, i.e. established on the market to a certain extent. The SMEs are granted loans (with commercial banks sharing credit risks) and private sector operators are encouraged to provide additional capital. The loans are envisaged for funding research and development projects, from basic research to applied research to a prototype ready for launching on the market\textsuperscript{94}.

Support for innovative businesses is regulated by the Italian Legislative Decree No. 3, dated 24th January 2015, converted by Law dated March 24th, 2015, No. 33, entitled \textit{Urgent measures for the banking system and investment}, better known as the \textit{Investment Compact}. Some of the incentives for innovative startups have been

\textsuperscript{94} RSFFs are characterised by the convenience of funding initiatives (with AAA rating and with no profit margins for the EIB). The loans are of at least 10-years duration and the direct participation of the EIB is limited per transaction to a ceiling of 10 million Euro.
extended to a new range of business ventures: innovative SMEs, i.e. those concerned with technological innovation.

The timespan covering the introduction of the 2.0 Legislative Decree for Growth is not sufficiently lengthy to enable an assessment of the impact of the above mentioned measures. At the same time, however, the setting up and establishing of a promising national innovation ecosystem able to deal with international competition would appear to confirm the modernisation of the category of SMEs. Moreover, if data are analysed regarding trends in new business registrations, the growth rate of such startups is on an upward trend compared to the overall start rate of Italian companies, which in recent times have suffered slow but steady erosion in terms of profit.

A second objective of the measure is to promote the creation of certified incubators, i.e. companies that host, support and accompany the development of startups, from the conception of the business idea to its first stages of development, providing training, operational and managerial support, tools and workplaces, and fostering mediation between investors and entrepreneurial ideas with high potential for economic return but lacking in appeal to market capital.

In addition to the initiatives introduced at the end of 2012 with the above mentioned Legislative Decree for Growth 2.0, which include the reduction of startup costs, simplified, direct and cost-free access to the SME Guarantee Fund.

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95 The analysis of the regional distribution of innovative startups shows for Southern Italy 22.3% of the country's innovative startups; the Regions of the Centre 21.4%; those of the North 56.3% (30.7% North-West, 25.6% North-East). The Region with the highest number of innovative startups is Lombardy (21.8%), followed by Emilia-Romagna (11.9%), Lazio (9.8%), Veneto (7.5%) and Piedmont (7.1%). In Mezzogiorno, Campania and Sicily stand out and are ranked seventh and eighth nationally (5.8% and 4.3% respectively of the total number of startups).

96 Since the policy has been in force, from an average of 79 new monthly registrations in 2013 the number of startups spiralled to 122.7 nearly in 2014 and 127 in the first six months of 2015.

97 In their more traditional form, incubators are units/structures that at low or no cost, offer startups space and services (from the Internet to Managing Accounts) or equipment for their activities. The advantage of incubators is the presence of multiple subjects thus favouring the cross-fertilisation of ideas and perspectives. The shift from a traditional model centred on space to incubators in a virtual environment has led to a focus on the development and realising of an idea rendering it effective through training courses and the coaching of startup entrepreneurs for example, to create a prototype (Borgonovi, Fattore and Longo, 2015).

98 In June 2015, 30 certified incubators were registered, about three-quarters located in Northern Italy, a quarter in the Centre and one in Mezzogiorno (Sardinia). Employing a total of 322 employees, they average 11 per production unit, with a peak that touches 71 units.
and the Equity Crowdfunding Tool for online fundraising and investment incentives in startup capital, a second generation of funding has been added to complete the context of facilitations for the growth of the national innovative enterprise ecosystem. Italy Startup Visa and Italy Startup Hub programmes for example, favour the attraction and permanence of non-European talents interested in the start up of innovative enterprise in Italy, the subsidised loans granted by Invitalia under the Smart & Start programme, the new online cost-free procedure for innovative startups constituted by standard charters, digital signatures and with protracted 4 to 5-year status for innovative startups.

Meanwhile, if benefits envisage above all reduced costs for innovative startups and compliance with the Business Register, this implies a tangible impact on constitution costs. Significant benefits are also provided by the SME Guarantee Fund which facilitates access to credit and the development of micro and small and medium-sized enterprises with the granting of a public guarantee for funding from Banks. As concerns the above mentioned innovative startups and certified incubators, the Fund at no cost whatsoever covers 80% of the credit allocated by Banks without requiring any further prior credit assessment\textsuperscript{99}.

Equity crowdfunding is another extremely viable innovative system for collecting capital distributed through online platforms. A total of 17 portals were registered in the Consob Register in August 2015 alone 16 of which were authorised by the Authority and 1 lawfully authorised as an investment firm for providing investment services. Of the portals registered, 8 are currently operative.

In addition to the Legislative Decree on Growth 2.0, the Ministry of Economic Development is committed to other programmes of support for the innovation ecosystem; in particular – in collaboration with the Ministry of Foreign Affairs, the

\textsuperscript{99} The average amount of funding granted amounts to Euro 306,000 per transaction, a figure far greater than that for 2014 for the SME complex (134,000 Euro). In order to strengthen the venture capital investment market, art. 29 of the Growth Decree 2.0 stipulates that individuals who invest financially in innovative SMEs can benefit from a tax credits on gross income tax to the extent of 19% of the amount invested up to a maximum of 500,000 Euro. Taxes are deducted from taxable income of 20% of the amount invested in share capital, up to a maximum amount of 1.8 million Euro. For investment in innovative startups with a social vocation, or in those which exclusively develop and market innovative high-technology products or services in the energy sector, personal tax credit rates have increased to 25% and for companies 27%.
Ministry of the Interior and the Ministry of Labour and Social Policies – a rapid visa issuing policy for innovative non-EU entrepreneurs has been devised as a strategic lever to attract highly qualified human capital to Italy.

Launched by the Minister for Economic Development in June 2014, the Italy Startup Visa programme introduced a streamlined mechanism for granting entry-level visas to applicants seeking to start innovative startups in Italy. Subsequently, in December 2014, a facsimile of the Italia Startup Visa model, the Italy Startup Hub programme was approved, extending the applicability of the fast track procedure to non-EU citizens with regular residence permits intending to remain in Italy even after the date of expiry of their permit for the purpose of creating an innovative startup. The procedure envisaged converting permits of residence into self-employed startup permits whereby individuals are no longer obliged to respect the deadline for leaving Italian territory.

In other words, they benefit from the same simplified modes scheduled for startup visas. An additional facilitating tool attracting evident consensus is the Smart & Start measure, which envisages granting zero interest rate loans by Invitalia. Predictions estimate that startups will set in motion investments for more than 63.2 million Euro, nearly 75% of which will come from companies located in Northern-central Italy.

Recently other substantial initiatives supporting the development of the national ecosystem of innovation have been put in place. In particular, for investments in venture capital for companies with evident development potential, the Ministry for Economic Development Decree, January 2015 allocated a quota of Growth 2.0 Fund resources (equal to 50 million Euro) to the Fund managed by Invitalia Ventures SGR SPA, known as Italia Venture I. At the same time, initiatives on the part of the Chambers of Commerce in support of innovative startups across national territory have been impressive. Particularly worthwhile of mention was the Roadshow of 7 meetings, coordinated by the Ministry of Economic Development, held in late 2016, to disseminate at national level the complex regulations. The organisation of the meetings, an informative tool, were also the outcome of the conviction that many businesses are unaware of the industrial policy measures
recently launched by the Government. Such information gap is also reflected in the May 2015 survey submitted by the Ministry of Economic Development to a sample of 1,000 SMEs of excellence, defined on a set of parameters including costs for R&D and innovative investments. The data analysis reveals that just over 56% of SMEs carried out business abroad during the three-year period 2012-2014. This confirms that innovation and internationalisation strategies are closely linked. The immediate challenge, amongst others, is to foster and spread models of excellence and success in order to trigger virtuous emulative processes.

Recent debate on European development policies has been structured around two significant documents that are separate but at the same time linked: the Europe 2020 Strategy of the European Commission (EC, 2010a), with its strategic vision of Europe and the Barca Report, An Agenda for Reform in Cohesion Policy by the former Regional Policy Commissioner (Barca, 2009), that indicates the way to regional policy reform. In particular, the former envisages a strategy based on three pillars (smart, inclusive and sustainable growth), while the latter reflects on the regional policy reform process launched in the prospect of programming the Structural Funds Programme 2014-2020. Specific attention was addressed to rationale, economic justification, conditionality, the formulation process and the style of regional policies, supported by technical-scientific processing to support institutional decisions.

The official document of the European Union (EC, 2010b) had the initial remit of integrating the two above mentioned documents given that it underlined the need to identify specialisation in the technological sector, the so-called technological domains on which regional policies should be structured to foster innovation processes at local scale.

100 Findings from the Ministry of Economic Development Survey confirm the results of many other studies and research that show that innovative firms are characterised by much better performance compared to non-innovative ones, especially with regard to key business variables (turnover, employment, investments).

101 The document was based on the Smart Specialisations (SMART SPECIALISATION STRATEGY, S3), proposed by the Knowledge for Growth (KNOWLEDGE FOR GROWTH EXPERT GROUP), established by the former European Commissioner for Research (Foray, 2009; Foray et al., 2009), with a view to ensuring a structured vision on the coherence between investment in knowledge and
Meanwhile, the dichotomy centre-periphery originally reflected by the Smart Specialisation Strategy, distinguishing an advanced research field (centre) and application area of research findings (periphery) resulted far too simplified for defining the differentiated models of innovation characterising the European Regions. The OECD compiled a taxonomy of innovative contexts classified as regions of knowledge, industrial production areas and non-technological regions (OECD, 2010, 2011). However, this was not sufficient to delineate the diversity of territorial innovation models. Seemingly, each of the three pillars was addressed to a specific aspect of society: knowledge (smart growth), the environment (sustainable growth) and equality (inclusive growth) but in reality, they are all integrated and their effects interrelated.

The systemic, complex and incremental nature of innovation for SMEs therefore imposes innovation management models in the Public Administration that enable the identification of territorial preconditions for achieving goals and dynamic local actors capable of managing new functions crucial for innovative models together with accredited research and innovation projects that diversify the technological fields of SMEs in which to invest and innovate. In short, in the strategic vision of the European Commission Europe 2020 Strategy, individual local technology peculiarities, essential components in the design and putting in place of specific project strategies (not to mention the overall context) for SMEs demand approaches in common designed on the basis of regional typology.

Evidently, the devising of specific projects for the sustainable use of local resources in a realistic strategic vision are required, defined by regional innovation management models promoted by the Public Administration, structured on the

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102 The reality of innovation is much more complex and cannot be summed up in a centre-periphery model: the ability to convert knowledge into innovation and then growth differs across regions, therefore innovative ways of targeting specificities to develop ad-hoc strategies should be devised (Capello, 2014).

103 Sustainable growth is conceived as a model for efficient resource utilisation and as an element of competitiveness. Inclusive growth responds to the principle of fairness, but also to the acquisition of cohesion and social capital, useful elements for the competitiveness of the economic system.
nature of basic knowledge used and specificities of local production as well as on acquiring knowledge from the outside. Therefore, Management of Public Sector Agencies, Institutions and Corporations should make every effort to narrow the gap between Europe and the advanced countries by means of an approach centred on the territory in terms of smart specialisations above all as concerns resources for R&D\textsuperscript{104}. Nonetheless, the solution cannot be based on a simple centre-periphery model. Regional models of innovation depend to a large extent on territorial elements deeply rooted within local society, its history, culture and learning processes. If the combination of tangible and intangible elements of formal and informal sources underpin the creation of knowledge, creativity and culture, the needs of a territorial context contribute to developing markets for specialist labour, high quality human capital, cumulative processes of learning and networks of interpersonal creative learning.

Doubtless, the spreading of invention and innovation constitutes the logical phases of the circular and cumulative process above all in terms of knowledge acquisition as the model of co-application of smart specialisation would suggest. The same applies to the capacity for emulating innovation adapting the same to the specific needs of territorial contexts.

From studies carried out, the importance emerges of proximity – stemming from the \textit{cognitive and social space} (Boschma, 2005; Capello, 2009), spatial conditions, in the link between knowledge creation not to mention a diverse use of the same – which enables territorial contexts to activate links, diversified uses and potential spillover in terms of knowledge\textsuperscript{105}.

\textsuperscript{104} Findings from analysis carried out highlight a lower quota of high tech sectors of high intensity R&D comprising the European economy compared to other countries such as the United States and Japan. The dispersion of limited funding for R&D is also highlighted. The outcome is inefficiency in allocating resources and as a consequence, much weaker learning processes (Pontikakis et al., 2009).

\textsuperscript{105} Knowledge spillover studied at length (Jaffe et al., 1993; Acs et al., 1994) supports the process of generation of new knowledge which in the context of R&D is strategic for activating processes of innovation. Frequently the entrepreneurs of a specific territory have used in a creative manner knowledge spillover introduced by multinationals in the productive context of SMEs.
Undoubtedly, local territorial factors of production are fundamental (such as financial capital, information, traditional technology), however, just as strategic is tacit knowledge, constantly created, exchanged and applied to the local productive system to foster creative business ideas in the real market (Camagni and Capello, 2009; 2013). In this sense, the contribution of scientific research in Management & Information Technology, from an interdisciplinary perspective is essential if addressed to devising innovation models for SMEs structured upon regional specificity (See Gambino and Di Pinto, 2016).

Endogenous regional models of innovation – within a scientific/technological network supported by Public sector Institutions, Organisations and Companies – have a cross-fertilising objective in terms of ideas and knowledge while models of creative application, devised using an approach of co-application of smart specialisation is fostered by subjects looking for new knowledge for territory-related innovative technical problem solving (Foray, 2009; EC, 2010b).

Notwithstanding, even the model of emulation of innovative processes is important with respect to the intention of local stakeholders to characterise the phases with specific degrees of creativity. Such regional models of innovation and creation require incentives for cooperation and creativity that spur public sector Organisations, Institutions and Companies to devise creative dynamics to react to stimuli from non in situ knowledge in territorial contexts of relevance, by means of economic and Public Management methodology in order to put in place creative and efficient processes of adaptation to local needs.

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106 Given the limited capacity to use scale economies and comparative advantages which guarantee a modest return on investments in R&D, strategic regional goals can be achieved only in the event of processes enabling inter-regional cooperation in the application of new knowledge for SMEs by means of research on new products and markets in the sector of productive specialisation.

107 Suitable intervention is needed for the transfer and spread of technology through incentives for the cooperation of multinationals above all with respect to SMEs in projects of use of innovation adapted to the requirements of the local productivity fabric.

108 Included among the actions capable of strengthening non in situ knowledge, strategic for local models of innovation is the participation in specialist international exhibitions, incremented tacit and formal knowledge through cooperation with partners noteworthy in the sectors of specialisation, support to the bottom-up individuation of industrial vocation increasing the awareness of local capacity and potential (strategic industrial planning), augmented technological receptivity, creativity and the capacity for product differentiation in specialised sectors.
A further relevant factor is the capacity of Strategic Public Management to meet the needs of productive systems interested in the internationalisation process and dependent on strategic investment in skills and innovative professional profiles, integrated planning in synergy with national and international institutions in terms of resources and funding offered to local SMEs and not least, the coordination of planning networks.

In short, intervention addressed to delineating innovative local profiles should be favoured, devised in a prospect of smart specialisation for the full and efficacious enhancement of regional specificity. In other words what is required is to strengthen the capacity of a given territory to increment the efficacy of knowledge accumulated and to favour technological diversification, above all on the basis of the characteristics of the model of innovation within an evolutionary vision.
CHAPTER 2
THE VISION OF ITALIAN ORGANISATIONS, INSTITUTIONS AND PUBLIC CORPORATIONS

1. *Strategies for growth.* – The economic-institutional context over the last 20 years in Italy has changed fundamentally as has Society and Strategic Public Management. Economic theories of the kind ‘one best way’ are no longer applicable given that varying contexts of reference and local territory also have to be taken into account. As concerns the latter, two basic conditions for growth concern: 1. an adequate mix of sustainable critical resources; 2. the capacity of such resources to create a system in order to interact and cooperate within a synergistic strategic design to deal with competitive challenges.

The issue of competitiveness and growth has been analysed to date mainly in macroeconomic terms (regional economics, the science of finance, economic policy) as well as from the perspective of Business Economics and Corporate Strategy. Public Administrations, SMEs and the local system as a whole undergo enormous pressure to achieve higher and higher levels of productivity and a better ratio between resources and results a typical element of the New Public Management paradigm in which value for money and the creation of public value are prime concepts. The role of the Public Administration as concerns local development pivots on four main areas: *delivery of services to enterprise, funding, training, networking.*

The literature highlights that organisations seem to ‘work better’ even in their mutual relations when they are ‘embedded’, i.e. localised in a social context that incorporates a series of shared values and vision of the past and the future, facilitating the circulation of ideas and knowledge to reproduce the confidence necessary for the assumption of risk and responsibility towards local development (Putnam, 2002; Hooghe and Stolle, 2003).

When applied to Public, especially local Administrations, operating in close contact with the territory, the numerous and frequent relations and initiatives that
connect the actors of the local system foster expectations for added value on the part of enterprise and Public Administrations. Inter-actor relational dynamics vary depending not only on the characteristics of the actors/companies, cooperation/partnership networks launched, roles assumed (Kickert et al., 1997; Klijn and Skelcher, 2007), but tend to be influenced also by context, by the sphere of intervention, by the type and characteristics of the instrument/initiative adopted and by the interdependence between projects and other contingent factors.

In the same way that the literature on local production systems (See Crouch et al., 2001) has emphasised the centrality of cultural factors and sense of belonging, innovation, competitiveness, and the overall economic success of a context, effective local governance also requires a series of social and cultural preconditions that can be summed up in the term ‘social capital’. Sustained by strong, sensitive relations between enterprise and civil society and a civic culture (Putnam, 2002) a shared vision and common goal for the territorial area (Pattaro, 2007) can be built.

As concerns services to SMEs these include support for planning, creating or developing startups, processes of innovation or internationalisation strategies and attracting investment from abroad. Public intervention hinges on the one hand on training new entrepreneurs and on the other, designing and developing services of mentoring and coaching by specialists in the sector and placing at their disposal at a convenient cost, space and equipment (incubators, scientific-technological parks). Innovation in the skills characterising Strategic Public Management stems from two perspectives. Firstly, differentiation in business demand poses a challenge for institutions in terms of skills. Reconciling the natural vocation of universal service (acculturation) in Public Administrations with innovation linked opportunities for learning to a more ‘personalised’ relationship with enterprises (accompaniment) is no simple task and results are not immediately evident.

Within this framework, skills represent the fundamental terrain on which public actors must be measured. On the one hand, they are called upon to preserve the service destined to traditional enterprises through professional profiles and skills capable of resolving strategic corporate problems and critical issues less equipped from a competitive point of view. Providing information and training on
internationalisation as well as support in adopting technologies in enterprise and favouring corporate managerial qualification processes will support repositioning in their respective sectors. Secondly, given the demand for pragmatics and proactivity on the part of the business world and the shift from operational front office logics to a model of public support for SMEs in their processes of internationalisation, Public Administrations are called upon to provide sophisticated and innovative professionalism and skills, quite distant from traditional bureaucratic models.

To reformulate their skills in the face of the fragmentary demand for services, the remit of Strategic Public Management is twofold. As concerns human resources, innovative professional profiles able to deal with the complexity of internationalisation processes and the transformation dynamics of Italian industry are required, while the contribution of Strategic Public Management in training external competences is also fundamental (Micelli, Finotto and Bedin, 2008; Entwistle and Martin, 2005; Noble and Jones, 2006).

Economic development can be sustained through attracting foreign enterprise investments to stimulate virtuous cycles of growth at local scale and the penetration of new markets, to create jobs and foster new economic activity.\(^1\)

Services of support for SMEs concern fostering the discovery of new markets and developing knowledge and personal skills, in order to approach, analyse, select and decide strategies of internationalisation\(^2\) and is envisaged essentially in four fundamental forms: grants to support the capital patrimony of beneficiaries; interest-free loans (especially for startups); warranty funding; social capital grants.\(^3\)

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\(^1\) To attract investments, cognitive and operative marketing strategies are required. The former implies priorities in terms of analysis and research, such as needs analyses relative to potential investors as part of strategic territory planning. The latter on the contrary, deals with the promotion of the territory, persuading would-be investors to open businesses locally.

\(^2\) Support includes preliminary information relevant to markets, critical analysis, guide to investments, statistics on international trade, ex ante assessment of complex projects, market research, legal and technical information, assistance and operative support, search and selection of foreign partners, organisation of business meetings, information relative to foreign firms, assistance relative to resolving litigation and the search for professional figures in situ are included.

\(^3\) As is well known in Italy, SMEs frequently find difficulty in gaining access to funding to support corporate development.

\(^4\) Non-repayable loans are allocated as: grants for additional capital (e.g. mixed private-public sector venture funding – their main objective being to invest in high tech start-up capital) for
Networking and Training Services include the organising of business fairs and forums, agreements with Universities and Research Centres for delivering added value services (Borgonovi, Fattore and Longo, 2015). Many businesses use networking as a key factor in their marketing plan. It helps to develop a strong feeling of trust between those involved and plays a relevant part in raising the profile of a company.

It is common knowledge that growth in the economy depends exclusively on the relaunching of investments. However, the fundamental factor of new policies for growth is innovation, long-term expectations and the eliminating of structural obstacles to innovation. Through innovation, productive capacity is increased and businesses are spurred on to undertake new investments thus guaranteeing competitive advantage. In contrast, the investment crisis is due mainly to the uncertainty provoked by austerity policies, less risk appeal, short-term prospects and the postponing of medium and long-term investment decisions. Albeit a commonplace, the economic recession is destined to continue if politicians do not recognise the need to abandon traditional liberalist economic policy models in favour of new innovative policies based on the method of concertation (governance), which enable a change in medium and long-term policies for growth.

Besides in such policies being the core factor for growth, innovation also drives companies to undertake new investments and acquire competitive advantage. Consequently, they should be an integral part of a long-term shared vision for SMEs capable of creating a viable system. In this context, the remit of strategy is to render coherently interactive the SME operative structure i.e. resonant with the suprasystems of the environment.

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5 The Italian Ministerial University Reform addresses greater inter-business/university integration. Training is considered one of the most important drivers for stimulating the shift towards the knowledge economy, investments in Research and Technological Innovation to stimulate entrepreneurship (especially as concerns SMEs) and to create a shared system of norms, values, expectations, attitudes and praxes (Borgonovi, Fattore and Longo, 2015).

6 The operative structure of a company differs from that of the enterprise in that the latter considers the governing body a core element of its permanent nucleus and the former quite distinct
In other words, strategy, a driver in terms of governance, fosters a coherent relational system for enterprise survival and growth as a viable system (Golinelli, 2000). Therefore, if the critical element of the operative structure is made up of its implicit resources and skills, strategies in line with the Resource Based View (RBV) – which in theoretical terms can be collocated within the Studies on Strategic Management – have to focus on enhancing performance by virtue of such skills and resources. Consequently, enterprise can be considered a portfolio of resources with an emphasis on competence rather than on meeting needs.

As Prahalad and Hamel (1990) point out, enterprise has to define its core competence, i.e. the effective source of its competitiveness and success. The shift in analysis from strategy in an environmental-competitive perspective (industry analysis) to that of resource-skills (resource analysis) thus overturns any previous analytical perspective (Sicca, 1998).

For Grant (1994), furthermore, core competence is not intrinsic to the resources themselves, their value being determined by their contribution to production, but is the result of harmonious and coordinated governance of intangible resources in order to reach specific objectives. The process enables the perception of SMEs by the suprasystems of reciprocal reference more satisfactory compared to competitors and consequently able over time, to consolidate such competitive advantage. In addition, a crucial element of innovative growth strategies is the development of new modern sectors, especially in large urban areas, targeted at citizens and consumers. In this respect, to date, industrial policy has been neglected under the pressures of a very traditional ideological liberalist mindset. In contrast, however, in a modern knowledge/innovation-based economy given the limits of liberalism,
monetary policy and public finance in promoting the growth of GDP, an efficacious industrial policy is imperative. While such instruments have been imposed at Community level, on the basis of a principle of vertical subsidiarity, nations and Regions now have to devise industrial, regional and employment policies capable of driving innovation and productivity, especially given the chronic nature of widespread unemployment. Through the expansion of European monetary policy banking institutes are safeguarded while at the same time, European and national fiscal austerity policies have enabled the guaranteeing of states incapable of promoting growth. However, the remit in a national and regional perspective of labour and industrial policies on the contrary is to foster innovation and the organisation of investment projects that are both of a public nature and economically viable in new modern sectors. This implies facilitating the access of businesses to the plethora of existing capital on international capital markets, which in turn would increase investments, GDP, employment and productivity. Furthermore, governments should reduce taxes and improve the quality of public services. The outcome would be increased efficiency and reduced costs of services of collective interest delivered by private enterprise in a monopolistic or oligopolistic regime.

From the macroeconomic point of view, growth is possible only with increased domestic demand and in particular, private and public sector investment. Strong regional and industrial policies would help boost investment, new production and increased employment, starting with the need for a better quality of life and improved services for citizens⁹.

An efficacious industrial policy is also imperative as investment and innovation projects are often far too complex, difficult to manage and lengthy for a single business alone. Design, implementation and management of the projects require both integration and coordination of diverse business activities that the free market is unable to provide. Public Institutions to favour industrial and regional policies in terms of lengthening the timescale of economic calculation on the part of the

⁹ The priority areas impacted by such industrial policy are also urban areas where most of the population, the most innovative SMEs, aggregate demand.
various private sector stakeholders have to improve expectations and encourage them to increase risk appeal and investments by fostering, through concertation (i.e. governance) major strategic projects of innovation and medium and long-term investments.

Regional-level industrial policies should contribute to the independence of SMEs in terms of the demand for supplies from large companies in Italy, encouraging them to export to new markets. Therefore, industrial policies and those at regional scale should initiate strategic investment projects in large public-private urban cooperation areas and develop a network of citizens and users in order to increase demand for the internal market of new products and services. They should also help SMEs to share their tacit knowledge of technology and to innovate by diversification of products and markets. Finally and not least, innovative SMEs should have the support of special funding.

In the context of a new approach to economic development policies, an innovative role for the state and national and local Institutions is mandatory. Well-structured production and innovation networks require the existence of a well-developed and stable institutional system that reduces transaction and adjustment costs, accelerates policy decision making, reduces implementation times, and speeds up the process of change. Public Institutions, together with financial institutions, determine the governance of the local Production and Innovation System i.e. an industrial policy other than the free market approach and management planning, more suitable to ‘govern’ a modern capitalist system and complex knowledge and innovation networks that characterise it (Cappellin, 2009a, 2009b).

The model of governance (or concertation) as is well known, is based on the principle of negotiation, exchange and consensus that is different from the principles of authority typical of the planning model and the principle of competition and survival of the fittest, typical of the free market model. Therefore, a new growth policy would require the adoption of a logic of interaction and cooperation to enable many SMEs to become radicated in the territory helping them to develop a shared vision or strategy and the ability to create a viable system.
Italy undoubtedly will be able to exploit the opportunities and capabilities for rapid growth over the next few years, not only given the potential of penetrating export markets in the emerging economies, but above all, because of the potential demand for innovative production to address the problems of urban areas or the lack of modern services existing in other metropolitan or international areas. In this respect, investments have declined due to an uncertainty and financial instability that has led to a shrinking temporal perspective and risk aversion. It is essential that medium-and long-term expectations on the part of SMEs have to change. In the current scenario, the value creation approach of financial capitalism has led companies and credit institutions to reduce debt and long-term investments (deleveraging) in their financial statements. Indeed, many business operators focus on value creation both in the context of creating better value for customers purchasing its products and services, as well as for shareholders in the business who want to see their shares appreciate in value. At the same time, the State has been obliged to reduce the current deficit and to contain the growth of public debt. In this panorama, the European Union has not been able to initiate a reform relative to speculative finance but has been limited to an expansive monetary policy guaranteeing the financial stability of the banking system.

In conclusion, to enhance investments it would not be sufficient to increase public spending (in line with Keynes) or reduce taxes (in line with neoliberalism), but indispensable, on the one hand, to foster innovation to increase revenue and investments and on the other, to create long-term demand for new goods and services. Taking into account the freeing of the Italian economy from a scenario of lasting stagnation, long-term economic policy aimed at recovering investments, driven by innovation is fundamental.

10 The outcome of innovation, industrial, regional, labour and management research has been the development of successful growth theories and models, based on a neoclassical and liberal approach light years from traditional macroeconomic theories, in a knowledge-based modern industrial economy.

11 Concerning individual SMEs, these innovations are both technological and organisational. They include development in new markets, as well as innovations in business networks and production that require complex processes based on interdependent innovations within regional and sectoral innovation systems.
2. **ICE, SIMEST and SACE, management and tools.** – The change in the cultural mindset on the part of local actors in terms of cooperation between politics, the economy and the territory also involves promoting networks of relationships and trust (Messina, 2003). To avoid confusion in roles, rules and priorities, a ‘guide’ i.e. a subject with the power and authority to regulate, control and govern decision making together with the relevant tools is also essential. At a higher level of overall coordination of policies or initiatives, normally public actors carry out this remit giving stakeholders the power to facilitate cooperation, as a link, facilitator or strategy maker. Strategic Public Management defines priorities, expectations and objectives not merely of the context, but also of the relevant actors, attributing authority to decisions and concerted initiatives.\(^\text{12}\)

Intervention in support of internationalisation is by its nature transversal to the roles/directional offices/departments in which Public Administrations are organised. Specialist skills and flexibility are essential and require Specialist Subjects/Agencies for their management.

The various functions of Italian Public Institutions at different tiers are set out below: Government Ministries, Regions with their Front Offices promoting internationalisation. In addition to the requalification of their internal supply capacity, Public Administrations have extended and consolidated cooperation with Trade Organisations and other Institutions and Entities. A composite and structured package of services in support of internationalisation processes is currently the most effective business card for Public Administrations to offer local productive systems and internationalised enterprise. The process is problematic however and as mentioned above, hinges precisely on the issue of skills in the Public Administration. Agencies for Development, independent organisational bodies created under the aegis of Public Administrations or in partnership with private sector subjects implement policies for growth.

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\(^{12}\) These goals pursue social cohesion, concertation and cooperation in long-term projects, supporting and safeguarding stakeholder interests and supporting and defining common strategies, objectives and action.
Such Agencies are classified as entities for attracting investments and Agencies for Development in the strictest sense by allocating grants and other funding; facilitating access to funding; promoting innovation, knowledge and technological development; management consultancy, project management for complex activity (e.g. creation of front office or info points for productive activity, management of territorial pacts, EU Community Project Design) and promotion of internationalisation (Borgonovi, Fattore and Longo, 2015).

At national level\textsuperscript{13}, the main organisations include the INSTITUTE FOR FOREIGN TRADE (ICE), SIMEST SPA (the ITALIAN ORGANISATION FOR ENTERPRISES ABROAD) and SACE SPA (INSURANCE SERVICES FOR FOREIGN TRADE). Given the current organisational structure, two kinds of risk have to be avoided: duplication of interventions by different Agencies and Institutions and the inclusion in the goals of the same, the promoting of economic activity exclusively on national territory\textsuperscript{14}.

In order to guide and support Italian enterprise on the competitive dynamic path towards internationalisation a primary point of reference for disseminating information and advice, through a specialist, widespread organisation that includes a network of observers abroad is the ICE AGENCY\textsuperscript{15}. The AGENCY facilitates the development and promotion of Italian economic and trade relations with foreign countries – addressing particular attention to the needs of SMEs, their consortia and associations – and works to develop SME internationalisation and the marketing of Italian goods and services on international markets.

The AGENCY builds bridges to facilitate confrontation in international contexts through dialogue and to ensure effective and targeted actions by collaborating

\textsuperscript{13} Foreign trade is a competing area of legislation between the State and Italian Regions.

\textsuperscript{14} In order to analyse these instruments/institutions and their benefits accurately, comprehensive data and information are essential. Actors, stakeholders and objectives of each individual AGENCY should be outlined together with the resources involved, the beneficiaries of the intervention and relevant outcomes.

\textsuperscript{15} The ICE AGENCY for the Promotion of Foreign Trade and the Internationalisation of Italian Companies was constituted by the Italian Legislative Decree (DL No. 98 of 6th July 2011, Art. 14, cc. 17-27) converted into Law No. 111 of 15th July 2011, and amended by the Italian Legislative Decree (DL No. 201 of 6th December 2011 Art. 22, converted into Law No. 214 of 22nd December 2011 and subsequent amendments). The AGENCY has full legal status under public law and is subject (within the respective remits of vigilance, policy etc.) to the Ministry of Economic Development in conjunction with the Ministry of Foreign Affairs in respect of prior positive opinions on the part of the Ministry of Economy and Finance.
closely with all the stakeholders involved. It also provides integrated services to attract foreign investments to Italy in compliance with the rules and policies of transparency in the Italian public system.

Via its headquarters in Rome, its Milan office and worldwide network, the AGENCY provides information, assistance, promotional activities to businesses and Institutions, training for companies and young graduates, and promotes cooperation in the industrial, agricultural and agri-business food sectors, distribution and tertiary services. The ICE AGENCY operates abroad under the aegis of the Italian Diplomatic Service, in synergy with business organisations and other public and private stakeholders, providing coordinated support to national enterprises and networks engaged in the internationalisation process. The main aim of the ICE AGENCY is to promote the image of Made in Italy products in the world and Italy as a destination for foreign investments\(^{16}\).

The ICE AGENCY manages the funds from the Budget of the Ministry of Economic Development (Annual Activity Plan, Extraordinary Program for Made in Italy, Export Plan for Regions of the Convergence Objective) or funds assigned by other Ministries, Regions, international Organisations, consortia and enterprise.

It also stipulates agreements with the Regions and the autonomous provinces for planned coordinated activities and with public and private sector bodies for institutional goals. As part of its internationalisation programmes, the ICE AGENCY finances various training activities for young people, provides assistance for innovative startups and identifies the main international events where they can be hosted together with initiatives to arrange meetings with potential investors.

As strategies put in place by the ICE AGENCY are designed to create and consolidate reliable and transparent relations between the Italian enterprise system and that of other countries, its distinctive feature is the ability to base the quality of services on its in-depth knowledge of the international scenario, in order to satisfy

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\(^{16}\) To this aim, the AGENCY promotes, informs, assists and offers specialist consulting services to support: - SMEs and the retail of goods and services on foreign markets; - direct investment abroad or trade or productive agreements; - trade and cooperation agreements, particularly in innovation-intensive sectors; - the managerial skills required for operating on international markets.
the requirements that are the real driver of corporate competitiveness. For the ICE AGENCY, in order to offer innovative solutions, not only relational methods but also organisational and operational processes should be simplified. Performance measurement relative to the ICE AGENCY includes the delineating of strategic and operational objectives for its staff\textsuperscript{17} headed by a Manager and General Manager. Assessments are carried out using the PES (Personal Evaluation System) application, which assigns objectives, assessed on individual performance and attributes a percentage weight in relation to the professional figures involved, performance monitoring, compiles assessment forms and keeps assessment interviews for feedback. The Ministry of Foreign Affairs in line with the Ministry of Economic Development has extended responsibilities and control to other Public Administrations, including the Regions, and the private sector to delineate the programmatic lines of the support action. Notwithstanding, the AGENCY however risks incompatibility with effective and efficient public support requirements, expressed repeatedly at organisational and operational scale and reflected in insufficient autonomy with respect to the Ministries, of control and management of the foreign network. In short, little progress has been made by the Agency to date in terms of operational management and organisation. Clearly, simplification to meet the relevant challenges is a fundamental issue.

SIMEST is a mixed, public and private joint venture established in 1990 with the legally defined objective of fostering the internationalisation of Italian businesses through the acquisition of minority stakeholder participation in venture capital of foreign affiliates of Italian companies in non-EU countries. However, since 2008 this is no longer entirely the case\textsuperscript{18}. At national and Community level, SIMEST takes

\textsuperscript{17} The System for measuring the performance of the ICE AGENCY was adopted by the Board of Directors with their Resolution No. 140 of 28/11/2013 and subsequent amendments.

\textsuperscript{18} SIMEST, controlled by the Ministry of Economic Development is owned by private banks and business associations and operates by means of various instruments: - Participation in investments in non-EU companies such as the acquisition of minority interests in a foreign company controlled by an Italian company, or subsidised loans granted by a bank operating in Italy for the acquisition of risk capital of a foreign company. Particular attention is addressed to SME investment and in cases where the foreign company operates in a similar sector to that of the parent company (funding cannot exceed 40 million Euro per company per solar year); - Management of a venture capital fund to complement the investment in venture capital investments in non-EU companies; the venture capital fund in addition to the participation of SIMEST (within the limits of a minority stake) and access to the
part in the share capital of Italian companies or their subsidiaries in the EU in order to develop productive investment or to support innovation and technological development programmes, at market conditions and with no special facilities.

Like SACE and ICE, SIMEST also carries out consultancy, offering advisory and business scouting and assistance relative to foreign markets. At local level, Regions can create their own financial companies, with activities overlapping and linking up with SIMEST. For instance, for companies in the North East of Italy, FINEST is a subsidiary of Friuli Venezia Giulia’s ‘Friulia S.p.A’. FINEST has similar, partially complementary functions to SIMEST and addresses particular attention to the geographical area of the former Yugoslavia and the Balkans. Access to FINEST is possible for companies that have reputable and stable organisations in Friuli Venezia Giulia, Trentino-Alto Adige and Veneto.

In December 2016 SIMEST approved the 2016-2020 Business Plan, compiled in accordance with guidelines approved by SACE and with the Group Business Plan approved by the Parent Group Cassa Depositi e Prestiti. The Plan, based on an analysis of SIMEST results achieved during its initial 25 years of operating, confirms that it has effectively supported the international expansion of Italian businesses in the private sector and the export of investment goods. At the same time, SIMEST has contributed both to the growth of its partners and to job creation in Italy. However, the analysis also reveals that Italian enterprises still lag behind their main European counterparts for internationalisation processes which evidences the need to improve SIMEST effectiveness and efficiency and the use of public resources. A review of
the soft loans financial instrument, to simplify credit access to businesses, was completed at the end of 2016\textsuperscript{19}.

The benefits for SMEs consist in greater funding opportunities, lower costs, simpler application processes and a significant reduction in response times. During the period covered by the Plan, new types of financing guarantees were defined and simplification put in place. The export credit support initiatives in the Plan focus on developing a new supplier credit product for SMEs with easier access to public resources. SIMEST radically changed its structure prior to its 2016-2020 Business Plan, in line with that of \textit{Cassa Depositi e Prestiti} and SACE, with first-level organisational units called ‘Areas’ and second-level called ‘Units’ (with the exception of Units responsible for staff functions, reporting directly to the Managing Director).

In order to rationalise investment and financing, equity investments and subsidised funding under the Law 394/81 Fund are now a single Investments Area. The management and monitoring processes of equity investments also come under the Investments Area. In addition, the Marketing and Business Development Area to expand the range of products offered to customers and to carry out promotion throughout Italy has been created and Export Credit Area set up. In 2016, SIMEST provided a total of 4,550 hours of training (an increase of 38\% over the approximate 3,300 hours provided in 2015) to assist employees in career development\textsuperscript{20}. Emphasis was placed on the integration with SACE, in particular on SACE tools. To coordinate organisation and internal operational services, the Organisation, Systems and Services Area was formed, with the Organisation Unit

\textsuperscript{19}Projects to restyle the Company’s image, enhance online communications and celebrate the Company’s 25th anniversary were completed in 2016. These included the Corporate Social Responsibility (CSR) pilot project. Specifically, SIMEST’s institutional image was reviewed with new graphics for all supporting material. With regard to online communication, social media were used more extensively in issuing press releases. In November, a new version of the SIMEST website was launched, which is now accessible from all devices with innovative design. Between November and December 2016 the Company launched a communication campaign, with the frequent use of online and digital channels, to promote the new internationalisation funding options introduced by the Ministry of Economic Development.

\textsuperscript{20}These courses were on technical and specialist topics for the management of business projects and coursework to improve relational skills.
and the IT and Internal Operations Unit responsible for overseeing procurement, in part prompted by the Parent Group’s centralisation policy.

The Legal Affairs Area has also been maintained, centralising all secretariat activities for the corporate bodies and the Subsidies Committee. Finally, in conformity with developments within the Cassa Depositi e Prestiti and SACE and monitor control functions, the Risk Management Unit (which had been outsourced to Cassa Depositi e Prestiti) now reports directly to the General Manager. Finally, with regard to equity investments, projects concentrate on expanding the product range, with emphasis on ability to handle risk.

In the European context, SIMEST is characterised by the risk-based and SME-orientated support tool and carries out a number of functions. These include provision of subsidised loans to exporters and internationalised companies, not necessarily taking into account their original mission.

SIMEST authorised by the EU has a leading role in partnership programmes, such as the Neighbourhood Investment Facility (NIF), the Latin America Investment Facility (LAIF), Trust Fund Africa, the Investment Facility for Central Asia (IFCA) etc.

Together with Italian companies, SIMEST can acquire up to 49% of the equity of foreign firms, both directly and through a Venture Capital Fund, to support foreign investments.

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21 The Company successfully completed the three-year renewal of certifications for all enterprise systems in accordance with the ISO 9001:2008 quality standard, as well as the certification of the Occupational Health & Safety Management System in conformity with the OHSAS 18001:2007 standard. As at December 31, 2016, the Company’s workforce totalled 162 employees (including 8 Cassa Depositi e Prestiti employees seconded to SIMEST: 4 senior managers, 2 middle managers, and 2 area professionals) minus 1 employee in 2016. This reduction was the net effect of 8 employees leaving the Company during the year and 7 new additions (3 of which CDP employees seconded to SIMEST). The average age of the workforce is 49, while the percentage of employees with university degrees (first degrees and post-graduate qualifications) includes over 60% of the workforce.

22 During the period covered by the Plan furthermore, around 3 billion Euro is envisaged for internationalisation processes and more than 22 billion Euro for supporting exports, a significant increase compared to the prior five-year period. To guarantee the offering of products and the improvement in operational efficiency, measures have been defined and put in place in the marketing, image and communication systems together with those of human resources and ICT. This will enable greater impact on the Companies involved in order to double the number of customers by 2020.

23 SIMEST is authorised also acquire stakes (up to 49%), on market terms and without subsidies, in Italian companies or their EU subsidiaries that pursue investments in production and in innovation and research (excluding bailouts).
investments in specific countries outside the European Union. SIMEST investments include access on the part of Italian Companies to subsidised interest-rate support in order to finance their equity interest in non-EU companies24.

By intervening to resolve a potential ‘market failure’ with legally defined tools and objectives, SIMEST not only pursues profits, but administers funds with economic, transparent criteria quite consistent with set targets. Balance sheet figures show that, overall, low profitability is mainly determined by orders disbursed by the State Budget for SIMEST for the management of venture capital funds and those for subsidised loans25.

Consequently, from our findings we can conclude that intervention, most likely convenient for other reasons, does not necessarily lead to the internationalisation of companies that could not otherwise invest abroad. As concerns SIMEST’s capital, SACE, a joint stock company owned by Cassa Depositi e Prestiti, since September 2016 holds 76%26. SACE’s activities are regulated by European Union legislation (including Directive 29/1998) and by the Agreement relative to Officially Supported Export Credits (‘Consensus’), endorsed by the OECD. SACE complies with the principles established by the Berne Union, an international body that unites Export

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24 Over its 25 year history SIMEST has made nearly 1000 investments for a commitment of more than 1 billion Euro, plus another 0.3 billion Euro and over 300 equity investments through the Venture Capital Fund active since 2004. Italy’s main productive sectors were involved and companies making direct foreign investments with SIMEST achieved better results in terms of revenue, employment and investment in property, plants and equipment compared to the performance of Italian GDP and the market. Italian companies making direct foreign investment with SIMEST reported an 8% average annual increase in revenue compared to the average increase in Italian GDP of 0.9%. The number of people employed in Italy by SIMEST partners has risen by 8% per annum on average, compared with an average drop of 0.5% registered for firms in Italian industry. In addition, with regard to property, plants and equipment for productive activities, an average increase of 8% for SIMEST partner companies was reported, compared with an average annual drop of 0.6% for Italian industrial enterprise. The impact of the Venture Capital Fund at macroeconomic level represents revenue generated in 2014 alone to the amount of 1.7 billion Euro (panel of 88 equity investments), for an average annual return on public support (as the sum of average estimated tax revenue generated and the return on capital) of 11%.

25 The lack of public information about the distribution of costs in the diverse business lines makes it difficult to evaluate the contribution to profitability and managerial efficiency.

26 SACE also holds all the shares of SACE FCT, a joint stock company operating in factoring and SACE BT, a joint-stock company active in the Credit, Bond and Other Property Damage classes. SACE BT also holds the entire capital of SACE SRV, a Limited Liability Company specialised in credit recovery and information asset management. Furthermore, SACE exercises management and coordination of its subsidiaries to ensure that their operations comply, inter alia, with the guidelines formulated by the Parent Company.
Credit Companies and Agencies for investment support. Since 1991 SIMEST promotes the investments of Italian companies abroad through equity instruments, with its own resources (pursuant to Law 100/1990) and since 2003 through management of the public Venture Capital Fund. The participation of SIMEST also enables Italian companies to have access to funding (interest subsidies) for the financing of shares in companies outside the European Union. Furthermore, at market conditions it acquires minority holdings in Italian companies or their subsidiaries in the European Union to promote their internationalisation. SACE’s functions are fully in line with those of the Export Credit Agency (ECA) present in many EU countries. ECA a private or quasi-governmental institution acts as an intermediary between national governments and exporters to issue export financing. SACE controlled exclusively by the Ministry of Economy and Finance was devised as an insurance company for export credit. However, its activities too, have lapped over onto other funding facilities for internationalisation and the management of financial instruments in support of investment projects that take place exclusively on national territory.

SACE ranked sixth in Italy, operates in the field of insurance credit and sureties. By 2009, it had commitments for about 49 billion Euro and a net equity of 6.3 billion Euro. Most of SACE’s activities are concentrated in the countries of the Middle East and North Africa, the EU and other European countries and the Commonwealth of Independent States (CIS). Moody’s credit rating for SACE is Aa2. This also reflects the application of Moody's new rating methodology for Government-Related Issuers (GRIs). The activities SACE carried out in support of

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27 SACE SPA was established in 2004, but has been active since 1977 as a special section of INA for export credit. In November 2012 it was acquired by the Cassa Depositi e Prestiti.

28 Several tools are managed by SACE SPA that overlap in part with those of other operating Bodies, and without any formal change or regulatory compliance of objectives. The remit is to focus its mandate on 'core business', in other words, taking stakes in foreign affiliates, and rationalising interventions recognised by the Ministry of Economic Development. Difficulty in assessing the consistency of action with respect to institutional ends is also an issue both as concerns the combination of various objectives and instruments, and the extent of the general mandate related to shares in foreign-owned companies, which allow for considerable operational autonomy and strategic discretion.

29 SACE operates in 180 countries, often excluded from the insurance cover of private operators.
the internationalisation of SMEs include Export Credit and Foreign investment insurance. It also insures the value of foreign investment against the loss or failure of capital repatriation due to political events, enabling investment even in high-risk foreign countries\textsuperscript{30}.

In this context, SACE issues guarantees and insurance cover in relation to political, catastrophic, economic, commercial and foreign exchange risks to which national operators are exposed in their activities abroad, in conformity with Legislative Decree No. 143/1998 and the CIPE Resolutions of reference. In addition, SACE is authorised to issue guarantees and insurance cover for operations of strategic importance for the Italian economy in terms of internationalisation, economic security and activation of production processes, as well as for the risks of non payment of monies owed to the Companies on the part of the Public Administrations\textsuperscript{31}.

SACE's internal control and risk management system consists of rules, processes, procedures, functions, organisational structures and resources that ensure the correct functioning and performance of the company. Its purposes are: - verification of company strategies and policies; - adequate control of current and future risks and the containment of risk within the limits indicated in the reference framework; - compliance with business effectiveness and efficiency; - timeliness of the corporate information reporting system; - reliability and integrity of accounting and management information as well as information security and Information & Technology procedures (i.e. development or acquisition, testing and implementing applications and databases to support the department's business needs to capture, 

\textsuperscript{30} Included among its activities, Financial Guarantees provide guarantees to SMEs for financing activities for internationalisation; Credit insurance, insures credit, in whole or in part, against foreign buyers; Deposits and building risks, provide the guarantees required contractually or \textit{ex lege} to Italian companies operating abroad and insure construction companies against risks of building abroad. In addition, SACE provides insurance, facilities and services also for activities carried out on national territory. In particular, it provides financial guarantees for funding destined for the building of infrastructure or for projects linked to renewable energies; it also insures turnover for Italian buyers; providing the contractual or \textit{ex lege} guarantees related to building operations carried out in Italy.

\textsuperscript{31} The commitments undertaken by SACE are guaranteed by the State in conformity with the Legislative Decree 269/2003, Article 6, Paragraph 9, also as stipulated by Art. 32, Legislative Decree 91/2014.
store, retrieve, transfer, communicate, and disseminate information through automated systems); - protection and value of assets and against losses in the medium-long-term; - compliance of the Company’s activities with current regulations, political directives and internal procedures and regulations\textsuperscript{32}.

The Board of Directors, responsible for good corporate performance ensures its running and effectiveness, promoting ethical integrity and a culture of internal control raising staff awareness relative to monitoring. Top Management carry out controls as an integral part of their business and define in detail the organisational structure, procedures, delegations and responsibilities. The internal control and risk management system involves three levels\textsuperscript{33}.

First level control is managed by the relevant operative structures and management responsible and involves the identification, assessment, monitoring and mitigation of risks deriving from routine company activities. The structures ensure the correct execution of operations and compliance with the operating limits assigned to them, consistently with the risk objectives and with risk management procedures. Second level control is ensured through risk management and compliance. Risk management processes and compliance with the operating limits assigned and corporate compliance with the rules are all monitored carefully. Third level control is carried out by the Internal Auditors, monitoring and assessing periodically governance effectiveness and efficiency, risk management and control in line with nature and intensity of risk.

Internal Auditing performs, for SACE and its subsidiaries, independent and objective internal consultancy and insurance to improve organisational effectiveness and efficiency. It assists enterprise in pursuing objectives with a systematic approach, which generates added value by assessing and improving the processes of

\textsuperscript{32}The Compliance process monitors systematically regulatory developments, assesses the impact on internal processes and rules and indicates relevant actions to be put in place. It detects the risk of non-compliance, i.e. the risk of incurring judicial or administrative sanctions, loss of assets or damage to reputation as a result of breaching laws, regulations or self-regulation. The process also assesses reputational risk in relation to specific business operations.

\textsuperscript{33}Top Management deal with the adequacy of the internal control and risk management system, in addition, ensuring that staff are aware of their responsibilities.
governance, risk management and control and by identifying sources of inefficiency to improve corporate performance. The Internal Auditing mandate, approved by the Board of Directors, formalises the scope, objectives, powers, responsibilities and lines of communication to Top Management of both the annual plan and results. As concerns Italy, Amendolagine et al. (2010) in their findings from business data note that SACE's guarantee instruments have a positive effect on the ratio between total exports and sales. At the same time however, they highlight that such effect is slow partly due to a decline in sales albeit the contribution to facilitating the transaction from occasional to stable is guaranteed for businesses.

Accetturo et al. (2014) show, on the basis of EFIGE (European Firms in a Global Economy) data on France, Germany, Italy, the United Kingdom and Spain, that the most frequently used support instrument for exporting manufacturing companies is insurance coverage of foreign trade flows (28% of companies), while the use of other forms of financial incentives for exports is less frequent (Fig. 2).

Fig. 2 - Funding for exporting companies in the form of export credit (by country and size).

Source: Processing of EFIGE data.

34 Internal Auditing monitors all levels of the internal control system and promotes the dissemination of a control culture, promoted by the Board of Directors. The activity is carried out in compliance with the external regulations of reference, with the international standards for the professional practice of Internal Auditing and with the Code of Ethics of the Italian Institute of Internal Auditors (IIA).
If we compare SACE from an international perspective, the organisation is characterised by a smaller number of transactions, but as regards the sum total wholly comparable. In all countries and with regard to all instruments there is a positive relationship between the likelihood of access to a given tool and particular business features, primarily size.

Accetturo et al. (2014) conclude that, in spite of the clearly positive contribution provided by SACE, there is definitely room for improvement. Evidence of a less widespread use among companies of ECA’s guarantee in Italy for a comparable amount of resources implies that SACE's operations are not in line with those of large-scale businesses and transactions. Moreover, there are few claims rejected by SACE suggesting that many exporting SMEs may not be fully aware of the opportunities offered by these tools.

The European Union has clearly understood the relevance of SMEs for the competitiveness of the Member States, especially for Italy, given that they are core to the Italian business sector and that they suffer particularly from low capitalisation. They also have limited access to training and skill upgrades funding. At the same time, they have few opportunities to penetrate international markets (in some areas), crisis in some districts and inadequate information relative to access to external finance in terms of equity and debt capital. As a result, opportunities offered to SMEs by Community policies become fundamental drivers for creating new and more sustainable levels of competitiveness. Lastly, findings show that some of the EIB financing instruments have encountered difficulties in allocating funds to SMEs, which clearly implies a missed opportunity, especially for Italian businesses. Therefore, greater cooperation between national government and the EIB would be desirable to enable the allocation to more innovative Italian SMEs of

35 In view of the specifics of Italian SMEs, particularly indicated are the tools to support training and updating skills (such as Lifelong Learning, Leonardo); EIB financing instruments for venture capital and the Risk Sharing Financing Facility; tax relief (permanent) made available by the EUROPEAN ECONOMIC RECOVERY PLAN for certain sectors; the relaunching policies of industrial districts and competitiveness, especially with regard to policies for technological development.

36 The reason for the failure to allocate is that given the overall level of funding provided by the Bank and the personnel involved in the management of such instruments (about 5,000 employees), the EIB is not materially capable of managing small or medium-sized projects.
adequate funding at national level, contributions in terms of equity and debt capital. Finally, an appropriate interpretation of the recent dynamics of FDIs and the international division of labour requires the use of various sources of data, both official and compiled according to international standards, either through academic research or from investigation by Institutions or private individuals (for Italy, for example, INVIND and REPRINT).37

The growth of globalised production is emerging as quite rapid notwithstanding the recent recession has slowed albeit not halted its evolution, especially in emerging Asian countries. Productivity/revenue grow more quickly for internationalised enterprises compared to their counterparts operating only at domestic scale. Public opinion is often averse to internationalisation, considering foreign investments on the part of businesses the first step in delocation and subsequent job losses.

In contrast, however, Italian companies thanks to their presence in foreign markets have recorded fewer negative results in terms of turnover, jobs and profits compared to their non-internationalised counterparts. As a matter of fact, foreign investment and penetration of new foreign markets have been strategies pursued by many companies in response to the recession. Rationing of credit and its stiffer cost do not appear to have hindered the internationalisation processes to any significant degree. On the other hand, Italy's slow growth and uneven productive structure pivoted on SMEs and family businesses may well have contributed to limiting Italy's appeal in general terms to foreign investors.

Another factor to take into account is also the capacity of Italian businesses to bear the high costs and the risks of internationalisation. However, notwithstanding, such low capacity to attract and retain investment cannot be explained solely on the basis of economic data.38

Data remain a scarce resource, despite the growing attention of international institutions towards globalisation. The compilation of statistics at international level

37 The in-depth study of these phenomena, more and more focused on microdata, then requires the construction of ad hoc databases, often the result of a laborious cross-section of business information obtained from different sources.

38 The analysis measuring the inter-Country quality of Institutions and the territorial social context in Italy confirms that such meta-economic factors contribute to clarifying the geographical scale of investments between nations and the Italian territory.
is time consuming and the priority is representing facts accurately.\textsuperscript{39} Predictions on the positive link between business and FDI indicators strengthen arguments for reform to render both Italian Institutions and the rules governing enterprise more effective with the view of fostering their impact to attract and retain productive investments in a given country.

Another area requiring attention is the rationalisation of public intervention in support of internationalisation. The path recently undertaken in terms of reviewing the Italian System is moving in the right direction. However, remits still overlap in operative Institutions, government tiers and coordinating bodies. This leads to inefficiencies and limited transparency both for SMEs wanting to use the facilities and those desiring to assess their costs and benefits (the Community).\textsuperscript{40}

\textbf{3. Banking Institutes and SME investments.} – At the microeconomic level, banks grant loans at more favourable interest rates, i.e. with lower risk premium, to companies with better prospects of profitability. The risk premium for a given company should offset its default risk, i.e. the risk of default in repayment in the same way as equitable insurance.

This means that each enterprise develops and grows putting in place new investment projects – according to the well-known Keynesian theory of marginal efficiency of capital – with returns at least equal to the cost/opportunity of credit.

Specialist services, in other words, international rating Agencies, help different types of investors – banks, institutional investors and governments – to assess the risks involved in their investment business. Each enterprise is analysed and rated on two basic trends: 1) the economic-financial situation and its evolution over time; 2) the degree of confidence the economic system shows towards the enterprise.

\textsuperscript{39} In the short term, the most significant contribution to the study of globalisation by statistical institutes is to make available to scholars databases that collect – for individual enterprise – characteristics of the firm, production, sales in diverse markets and investments, enabling the crosscutting of information often divided between different surveys.

\textsuperscript{40} The culture of political assessment is still in an ongoing phase despite progress already achieved. In this respect, stringent rules are necessary relative to the collection and dissemination of data and information for measuring their effectiveness.
Even more subjective is the rating of the sovereign debt rating Agencies. In effect, sovereign debt rating has been developed by rating Agencies on the basis of complex economic and socio-political assessments to describe and define the capacity of a sovereign state to discharge its debt on time and in full.

The crucial problem is that the rating of sovereign countries cascades onto the rating of businesses (See Gai, 2009) that are lucky enough to share the nationality of the country under review, given that a private enterprise cannot be gauged with a better rating than that of the country of membership. This creates two problems: 1) constraints on business development, 2) funding inefficiency in the functions of the European Union's economic system.

In Europe in fact, regional and local policies have been adapted over the years to the pressures deriving from the productive and financial integration of the markets and the changed framework of economic policy in force at national and community scale.

The rating of businesses e.g. linked to that of the country of nationality, creates distortion in the allocating of credit to businesses. In this respect, the current rating system creates competitive disadvantage for the Italian economic system, in particular, and discriminates against profitable businesses only because officially, their premises are in Italy.

Many of the current processes of change and reform relative to the Italian Public Administration in recent years, in particular with respect to European integration and still ongoing, have both inspired and summed up the desire for change on the part of the citizens and public and private sector economic Entities operating in the Community area.

Given that the European economic system was conceived originally as a system of free movement of trade, ideas, projects, people, human capital, financial capital, without distinction of nationality or origin, a Schengen rating might be a worthwhile proposal to evaluate.

This would mean banning the discrimination of policies of credit in favour of European businesses, taking into account that the entrepreneurial spirit at the basis of Italian economic development should likewise, also be free of the nationality
discriminant. Another proposal could be to integrate traditional financial rating with other kinds of assessment (i.e. innovation label or European business rating) linked to innovation and the contribution to sectoral and national growth of the investment project itself

In addition, it is necessary to reward effective investments rather than speculative financial investments on the part of both banks and businesses. As concerns banks, a tax system that penalises speculative transactions (Tobin tax), would be desirable in order to separate the credit sector from speculative financial activity (the Volcker regulation) and to divide from the institutional point of view, commercial banks from investment banks.

Lastly, the process of diversification of bank credit should also be encouraged given that the Italian SME production system depends far too heavily on such credit. From this point of view, it would be useful to securitise loans to SMEs and to create Asset Backed Securities issued by large national banks, private placement or the creation in Italy of business development companies or private equity funds specialised in funding infrastructure.

4. The role of Investment Promotion Communities. – In the context of our analysis, we address a particular focus to the role of banks, together with service companies and state Agencies such as ICE and the other companies that provide Italian SMEs with the services required to operate over long distances. With respect to the relevant literature, the study pinpoints two gaps: first, the scarcity of knowledge transfer over long distances, and second, the absence of an explanation of how internationalising firms, especially SMEs integrate within the host regional economies.

Our considerations offer a dual contribution to the literature. First, cross-scalar and cross-sectoral service infrastructure that facilitate both long distance knowledge

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41 The assessment of credit should be made not only by rating Agency analysts who are unaware of the factors that determine the country's medium and long-term development and a company's strategic prospects, but also independently by banks through their facilities and in collaboration with Universities. The same applies to capitalist ventures or businesses that when deciding a merger or acquisition rely on diverse analyses and not only on the credit rating of the relevant Agencies.
transfer and embeddedness are highlighted. Such infrastructure began to develop in the mid-1990s, the demand generated by manufacturers in the sending cluster led to internationalisation in banking, aimed at supporting clients. Subsequently, mergers, acquisitions and business opportunities exposed Italian banks to new clients and geographical areas, covering entire macro-regions. Thereafter, banks linking up with service firms, corporate leaders and also branches of ICE and other state Agencies created their own networks in key urban economies. By the mid-2000s, depending on the geographical area, communities of professionals supporting Italian manufacturers were set up, later denominated Investment Promotion Communities (IPCs). The second contribution to the literature consists in analysing the relation between internationalising SMEs and IPCs, showing the extent to which IPCs have a common structure in different host regional economies vs. the extent to which they adapt to local conditions.

Bathelt and Li (2014) describe four major approaches to studying transnational businesses, each focusing on a specific scale or set of actors. None of these approaches however conceptualises what makes FDIs and, more generally, relations in long-term value chains possible, as opposed to short-term trade. Drawing on the four approaches, they propose the concept of a global cluster network, which integrates the relation between FDIs and clusters into a single framework.

Several Institutions aimed at supporting local embeddedness by working across national borders were also analysed. Building on the work of Phelps and others (Phelps, Power and Wanjiru 2007; Drahokoupil, 2008) they were called IPCs. The following conceptual boundaries for IPCs were proposed. The nucleus comprises public Agencies of national and subnational governments. The second layer consists of public-private partnerships, which include not only for-profit entities with partial or total state ownership, but also Chambers of Commerce and business associations officially recognised by the state. A third layer consists of private consultancies or banks that provide complementary or overlapping services with those of public Agencies. Institutions are contemplated not only as established organisations but also as various types of customs, rules and routines of the non-corporatised organisations when working on transnational investment projects. It is suggested
that these communities have similar network structures in key locations of Italian investments; however, relations within networks vary according to each host area.

The study highlights the role of business services in the literature on cluster-networks. First, the role of Italian banks in internationalisation processes should be visualised within a much wider context of IPCs. Second, IPCs play two key roles in firm internationalisation: they support the transfer of knowledge between Italian firms and host economies and aid firm embeddedness. Notwithstanding the differences in firm size and motivation for investment, IPCs have very similar structures. At organisational level, IPCs show profound differences, resulting from the political realities of host countries and cities. In sum, banks are part of a wider, public-private IPC, driven by Institutions and highly adaptable to local conditions. As such, IPCs are unexplored, have yet to attract the attention of academics, and, moreover, to become an established tool of national policies.

5. **The contribution of public funding at territorial scale.** – In the current economic context characterised by the push towards internationalisation, the liberalising of markets and the decentralisation of government functions, changes concerning, in particular, the role and intervention logics of the Public Administration can be interpreted in the sense of the principle of ‘subsidiarity’, linked to the European Charter of Local Self-Government, the Treaties of Maastricht and Amsterdam, and the cascading effects on the legislation of Italy and of the other Member Countries.

In Italy in particular, starting from the late 1990’s, a review of the regulatory dispositions, institutions and organisational mechanisms was designed to favour and support the international presence of enterprise and more generally, the economic system of the country as a whole, involving both the subjects active in the field of foreign economic policy and the instruments and tools to support internationalisation. Such innovation set against the background of a broader reform process has radically changed the structure of economic policy in the direction of
greater responsibility attributed to territorial institutions during the phases of setting up and funding of scheduled intervention.

Such effects have impacted on numerous legislative interventions aimed at a greater administrative but also political decentralisation, highlighting a new role for regional and local Administrations, centred on greater ‘proximity’ to citizens underpinned by new organisational and managerial processes, with significant impact on the organisation and management of Public Administrations and the distinction between responsibility and political decision making tiers.

Significant changes have also occurred and are still ongoing in the organisational structure and in the ‘redesign’ of the administrative machines of the regional Authorities: the introduction of new managerial figures (for example the Director or Secretary General), the new organisational structures, the process of strong decentralisation is in progress and is visible particularly in specific areas (i.e. training, work, agriculture etc.), and in the streamlining of the structures to the policies. Such intervention has certainly influenced the efficiency of the regional organisational machine and in part has begun to change the ‘culture’ of Management and of public employees.

The attribution to the Regions of current legislative power envisaged relative to ‘foreign trade’ and ‘international relations and with the European Union of Regions’ provides, on the one hand, the legal basis for a further delocalisation of the relative actions of support for processes of productive and commercial internationalisation, on the other hand, it opens up an unprecedented institutional scenario, rendering even more pressing the need for Strategic Public Management to develop innovative solutions for the building of a new overall structure of economic and institutional governance.

The new system of regional community aid and the search for ‘multipolar’ systems and methods of economic activity initiated within European countries is linked to the need to favour a more effective and broader inclusion of local levels in processes of economic governance to support the territorial dimension fosters methods of intervention for creating wealth at territorial scale as opposed to the mere redistribution of resources at national level (Yuill and Wishlade, 2001).
The direct involvement of local decision makers in the pursuit of the goal has created conditions for exploiting autonomous responsibilities of direction and political impulse on the part of regional governments.

At the same time, significant implications are also evident for the institutional structures and economic policy guidelines of the target countries for aid.

Notwithstanding the attention addressed to public funding/finance in recent years – relative to recovery process objectives concerning the Italian economy and to guarantee growth prospects in terms of GDP – planned structural reform processes have clearly failed to be put in place despite favourable economic trends both in an Italian and international context. Nonetheless, marked emphasis has been placed on central government relative to the rationalising of intervention – above all during the height of recession, limiting to no small extent Institution local Authority and Public Corporation intervention at local scale – proposing a more structured functional organised institutional approach devolved to local Authorities and pivoting on the strategic economic prospects of Italy.

The Italian Law (Legge Delega 42/2009) regulating fiscal federation has delineated the devolution of Government funding to local Authorities attributing them a far more active role in pursuing objectives of efficiency and equity in public policies.

Following an uncertain and contradictory iter implemented by means of Legislative Decrees stipulating legislative provisions of a prevalently urgent character both with the Monti and subsequently the Letta Government, a decisive change in trend became evident. The phase witnessed decision making powers return to the central financial structures and declared intentions to reduce or at least, contain deficits and passivity in the Public Administration.

If the aspects and structural issues that continue to influence the full recovery of the Italian economy were summed up, slow trends in employment, the low rate of

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42 For an analysis of the implications on GDP per capita of the interventions for the improvement of performance of the Institutions see Afonso and Jalles (2013).


44 In the economic field, several scholars have expressed perplexity (See Rodden et al., 2001; Besley, 2007).
growth of technical progress and innovation, the specialisation of SMEs and their relative size, the low rate of competitiveness, the inefficient and overly bureaucratic Public Administration an immensely heavy burden for enterprise, would all be indicated. Such negative elements however, could easily have been attenuated with the aid of adequate structural economic and political reforms albeit on condition that favourable trends relative to domestic and international demand were exploited. On the contrary, the mere acceptance and consolidating of the status quo, i.e. a weak scenario in which the recession was firmly planted provoked even more negative outcomes during the 2008-2010 period of crisis (originating from the instability of private sector finance) and that of 2011-2012 (deriving from the pressure of sovereign debt on public finance of the EU countries). Such outcomes also impacted negatively on consumption, investments and employment.

Notwithstanding, the common belief is that the economy can recover if Italy opportunely, exploits the stimuli of current economic trends at international scale, given that it can count on the necessary flexibility of supply and the declared intention of the Government to implement both cyclical-type policies pro-demand and structural policies pro-supply with the aim of modernising the industrial and tertiary sectors\textsuperscript{45}.

Particular measures finding consensus would include decentralisation in terms of governance functions, if underpinned by the management of innovation processes in the Public Administration. These would involve the delineating of institutional structures that are consistent with the notion of an efficient industrial approach applied to the regional structure of local Authorities.

Furthermore, adequate decision making processes relative to intervention in terms of local fiscal policy and mechanisms of political selection would undoubtedly improve the decision making efficiency of Institutions, local Authorities and Public Corporations.

The structure of the Institutions, local Authorities and public Companies in regional territory is no longer consistent with the characteristics of the economic system, as well as with the evolving trends in decision making and administrative

\textsuperscript{45} See Buti and Padoan, 2012.
mechanisms, a logical outcome of information technology and the potential of the network. The problematic issues connected with reorganisation and institutional rationalisation processes also take on relevance in terms of economic analysis, particularly in the context of economic norms, the management of public Companies\textsuperscript{46} and functional federalism\textsuperscript{47}. In addition, designing modern cities functional to the economic fabric of a territory (See Duranton and Puga, 2000; 2004) is undoubtedly a critical issue.

In this scenario, public sector Bodies, Institutions, and Enterprise provide not only regulations in terms of behaviour or exercise prerogatives merely of enforcement, they also see to putting in place tangible or intangible public goods for the coordinating and resolving of issues relative to local markets where they impact on productive processes and social interaction at Community scale. Their greater or lesser capacity to stimulate local economic development will result in proportion to the quantity of public goods offered either of a material or immaterial nature, in support of economic activity both in direct and indirect terms, with reference to social cohesion and collective action on the part of individuals. Moreover, functional federalism structured on jurisdictional organisation in terms of the offer of various types of local public goods and the development of complex activities\textsuperscript{48} underpins an optimal organisational structure of production, supply and use of public services, economies of scope and complementarity in production and costs and not least, economies of specialisation and of the network. Finally, in a strategic vision, the role of Municipalities is also crucial, either when they are attributed the functions of a Metropolitan City or as elementary production units of the local public services industry. In short, the basic remit of the re-functionalisation process

\textsuperscript{46} See Pellicano, 2002, 2017; Ciasullo and Troisi, 2017; Fujita et al., 1999; Baldwin, 2012.

\textsuperscript{47} See Wellish, 2000.

\textsuperscript{48} Local Institutional organisation – structured on Institutions, Organisations and public Companies – should claim the functions of legislating and planning economic activities (e.g. Regional Authority), manage large sectors of services (such as transport, waste disposal, health), jointly with the Municipalities concerned and provide and produce public services, both on an individual and indivisible basis (i.e. general and multi-agency bodies set up by means of institutional aggregation procedures).
is to achieve economies of scale, create networks and productive differentiation (See Fusaro et al., 2013; Iommi, 2013)⁴⁹.

From our analysis of the literature and from empirical research, indications emerge regarding the fundamental elements or prerequisites for effective local governance, with a particular focus on the growth and enhancement of territorial competitiveness (Panozzo, 2005; 2007): - the complementarity of roles of local public and private actors; - a ‘cultural background’ of awareness of local identity and culture, of shared values, common objectives and qualified social capital (Putnam, 2002; Woolcock, 1998) represent a backdrop for the various processes and activities intrinsic to an efficient, dynamic and accountable public sector (See Pezzani, 2003). They are also a reference guide for the other actors involved in the process and for the various contributions, points of view and interests in consultation processes, planning interventions and implementing initiatives.

However, our analysis also highlights potential problematic elements related to models, processes, tools and networks of local governance (or neighbourhood governance) (Lowndes and Sullivan, 2008), concerted practices, as well as content for local development and quality of life. Frequently, concertation and negotiation between SMEs and Public Administrations and local stakeholders do not always lead to a common solution, but rather to a stalemate or ‘wall to wall’ scenario that is not easily resolved.

A governance approach based on concertation and exploitation of the various contributions can result as ‘programmed’ only superficially and lead on the contrary, empirically, to decision-making processes that are not shared, but the result of a ‘command & control’ government approach by public sector actors who generally hold core positions in the networks and able to take, on completion of the process, ‘final’ decisions and act accordingly. The institutionalisation of specific governance practices and tools could in some cases lead to a progressive ‘emptying’ of the original meaning of the processes themselves, transforming them into ‘rituals’.

⁴⁹ It should be noted that Title V of the Italian Constitution (Regions, Provinces and Municipalities) states that the Region has legislative powers regarding the institutional organisation and the regional tax system and the Institutions of its territory. Therefore, the concept of regional territory acquires a specific relevance.
PART TWO
STRATEGIC PUBLIC MANAGEMENT FOR THE COMPETITIVENESS OF ITALIAN SMEs
CHAPTER 2 - THE VISION OF ITALIAN ORGANISATIONS, INSTITUTIONS AND PUBLIC CORPORATIONS

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The underlying risk concerns not only the effectiveness and efficiency of government processes and the ability to respond to the needs of the territorial system and successful ‘growth’, but also opportunistic behaviour, spoils system logics, complicity and lobbying mechanisms in a management approach representing a significant element of strength for the implementation of local development policies. From the literature, in particular in relation to the cues provided by Cheshire and Magrini (2002) and from the observation of case studies, a three-phase process: system actions, real services and financing can be defined. As concerns system actions, leadership of the administrations, based on the effective ability to respond to problems and not on the authoritative power and coevolution between public and private actors is declined in the ability to listen to the territory and in the definition of integrated paths of development. Achieving collective goals depends on the contribution of a plurality of actors, both public and private, each bearer of specific ‘resources’, economic, consensus or knowledge.

The effectiveness of public action therefore, depends on the capacity to involve, coordinate and integrate all relevant stakeholders. A fundamental approach is through surveys on the needs of both the territory and enterprises in order to plan an appropriate mix of services and financial resources, to narrow the gap between supply and demand. Real Services for example, refer to those provided by development agencies, agencies for attracting investments and innovation and by organisations that work to support internationalisation. These include scientific and technology parks, Universities and Research Centres. Training for private operators is essential to support their ability for business and innovation. Joint training interventions, for public and private operators, represents another field of [In particular, actions can be included in the following categories: 1. SME needs analysis, peculiarities of the reference territory and point of view of stakeholders, as a basis for the definition of business support activities; 2. building consensus and leadership based on the ability to respond to needs and achieve tangible results; 3. subordination of the provision of financial resources to the creation of adequate conditions of development within enterprise and in the territory as a whole; 4. replacement of subsidies or grants with more efficient financing instruments, to stimulate private co-financing; 5. prevalence of real or intangible services with respect to material investments.]

[Generally these are services that are not on the market or, when they exist, are difficult to access, due to high costs, or are standardised and therefore not able to effectively support the enterprises of a production system or territory.]
action of considerable importance, especially to support the design of new services for SMEs. The creation of a common ground of knowledge and the sharing of an appropriate lexicon is a valid facilitating agent for understanding and responding to effective needs.

As concerns public financial resources, administrations should act synergistically in a Strategic Public Management perspective, choosing the most appropriate tools for enterprise type and territory conditions and related development goals.

Furthermore, in the context of funding, the objective of the strategies was regional and national coherence. Beyond the specific regulatory solutions adopted, however, a certain resistance to change emerged on the part of significant sectors of central Public Institutions, unwilling to share functions and activities with local institutions given the lack of an organic framework for dividing competences. On the other hand, evident regional inadequacy also emerged, as confirmed by the allocation of resources destined for export frequently focused on sectors and markets of little importance and often redundant compared to similar initiatives carried out nationally.

In conclusion, the process of reallocation of resources should be flanked by the organisation of an institutional structure of decentralised bodies more coherent with the objectives of economic growth. This proposal stems from the analysis of regional scenarios in which microeconomic policy interventions should effectively operate. Therefore, Institutions, Organisations and Public Companies will be able to play strategic roles, especially in areas lagging behind in terms of growth and development, only in the event institutional structures are consistent with the notion of an efficient industrial organisational framework (rendering Title V of the Constitution outdated). In short, effective local tax policy mechanisms should be put in place as well as procedures to increase decision making efficiency, including the training of specialists with expertise in economic management and the management of public companies in order to experiment and put in place innovation process management models.
6. **Coordination of local policies.** – Given that the State is attributed the task of guaranteeing strategic functions and services at local level also with private sector subjects, it defines the context of intervention and the organisation of specialist services based on the socio-economic and productive specificities present in the various territories (Scott, 2000).

The literature has highlighted how numerous and broadbased areas of economic policy, including those supporting active and passive internationalisation, are now managed through non-formalised tools and procedures and privatistic formulae, with the progressive creation of Institutions suitable to apply as reference subjects for the local economic system (investment development and attraction agencies, regional financial institutions, local Authorities for research and development, non-profit foundations to support the industrial development of specific sectors, consortia of enterprise or of a mixed nature etc.).

In this context, a process of reengineering has shifted the balance from an excessive use of bureaucratic procedures in public decision making towards an approach favouring structural reform in terms of principles of private sector management (core business, analysis of costs and benefits, financial autonomy, use of advanced technology and outsourcing procedures to deal with activities not strictly linked to public service skills).

During this stage, innovative service delivery modes for the Public Administration were developed and deadlines established with new markets in mind (Jones and Thompson, 1997). Rapid and flexible Public Administration organisation and performance were considered basic aims to pursue.

Since the 1980s in the studies on Public Management a series of changes emerged inspired by a new managerial philosophy denominated New Public Management or in other words, the modernising of the Public Administration. Greater institutional demand and corresponding economic-financial management, not to mention limited

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52 The concept termed originally by Aucoin (1990) and Hood (1991) pivoted on the series of administrative regulations which have led to a common process of institutional reform and quality value added services in OECD countries for efficient governance and institutional performance (Ghisleri Marazzi, 1996).
resources led to the pursuit of institutional efficacy, efficiency and economicity particularly in countries characterised by an Anglo-Saxon managerial culture thus offering institutional governance the theoretical tools in support of a managerial-entrepreneurial approach towards client-based goals, cost analysis, budgeting and customer satisfaction (Storlazzi, 1998), within an effective framework of innovative public management. However, it should be considered that the logics of New Public Management do not lend themselves to all kinds of public activities. Managerial criteria predominantly favour services and utilities in the context of relations based on regulated exchanges of tariffs typical of private sector enterprise (Ghislieri Marazzi, 1996). Notwithstanding, New Public Management, in particular in terms of managerial autonomy (Law 142/90) has played a revolutionary role in favour of change in the Public Administration, impacting remarkably on decisional dynamics and relational modes both in interpersonal terms, activities carried out and results expected (Pellicano, 1994; Rebora, 1996).

Italy has long been involved in an articulated review process of her economic policy and of the institutional organisational order in support of SMEs on foreign markets within the framework of European Union strategic Directives. The remit has been that of augmenting the efficacy of Institutions, Organisations and Public

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53 Concepts of competition, performance measurement, benchmarking are fostered as well as a system of incentives based on mechanisms of responsibility, monitoring and control, independent decision making and organisational devolution together with greater empowerment of personnel in the Public Administration, an approach in line with Koch (1995), Budaus and Bucholz (1995) and Kyrer (1998).

54 As concerns rationalisation of interventions of the economic internationalisation process at institutional scale, various measures have been adopted including the functional reorganisation of the Chambers of Commerce, Industry, Crafts and Agriculture (Italian Law 29th December 1993, No. 580 Reorganisation of Chambers of Commerce, Industry, Arts and Crafts, Legislative Decree 31st March 1998, No. 80 New provisions on the organisation and employment relationships in public administrations, jurisdiction in labour disputes and administrative jurisdiction, issued in implementation of Article 11, paragraph 4, of Italian Law, March 15th, 1997, No. 59, and Legislative Decree 31st March 1998, No. 112 Conferment of functions and administrative tasks of the State to the Regions and local authorities, implementing Chapter I of the Law of 15th March 1997, No. 59) and the establishment, at the Italian Interministerial Committee for Economic Planning (Comitato Interministeriale per la Programmazione Economica – CIPE), of the Permanent Commission for the Coordination and Strategic Directives of Foreign Trade Policies. As concerns the relative instruments, Legislative Decree 31st March 1998, No. 143 Provisions for foreign trade, in accordance with Article 4, paragraph 4, letter c), and Article 11 of the Law of 15th March 1997, No. 59 and the subsequent implementing provisions, which modified the configuration, operation and tools for export credit, public support for the commercial penetration of SMEs abroad and the assurance of international economic activities.
Corporations above all in delivering intervention/allocation funds with the gradual transfer of powers and competences to the Regions and to local Authorities.

Many local Authorities have become centres of strategic coordination of networks made up of several mainly public sector organisations commissioning service delivery to other institutions and defining agreements and contracts (Meneguzzo, 1997). The application of innovative principles too frequently has been left to mere normative devices whereas the Public Administration, a core stakeholder in the process should make available and govern mechanisms of knowledge transfer taking into account the widespread complexity of the socio-economic context to which it is destined, by means of a viable systems approach capable of conjugating and governing the global vision of such change.

During the 1990s a series of institutional and administrative reforms of the Public Administration were enacted with a shift from the weight of excessive bureaucratic procedures towards a more agile approach based on the governance of inter-systemic relations underpinning criteria of customer satisfaction.

In other words, market type mechanisms (favouring contractual formulae such as ‘contracting in’ and ‘contracting out’, the former addressed to other Public Institutions, the latter to private enterprise) have led to the rationalising of the Public Administration (Ruffini, 1997) and the revision of its organisational structure (Meneguzzo, 1997). The focus of the public mission and expected outcomes has thus centred on performance and output (as opposed to input) and achieving goals with maximum efficacy and efficiency, and, above all in a costs and benefits context, value for money (Ghislieri Marazzi, 1996). Furthermore, despite the fact that elements of competition introduced into Public Institutions have seriously questioned the need for a captive market destined exclusively to services of a public nature (Rebora and Meneguzzo, 1990), it should be kept in mind that in Italy, the...
public sector has an extremely important role to play in terms of the quality, production and distribution of services of public utility guaranteeing parity of efficiency between the North and South (Sciarelli, 1997). In short, by means of New Public Management in the Public Administration, besides its intrinsic methodological value in terms of managerial efficacy and economicity, all citizens can be ensured social justice and equality.

The process began with the Bassanini Law (1997) and related dispositions for enactment, culminating with the Amendments to Title V of the Italian Constitution (Constitutional Law 18th October 2001, No. 3 Amendments to Title V of the Second part of the Constitution Charter), thus reinforcing regional powers.56

Consequently, legislative power, above all as regards foreign trade and international relations assigned to the Regional Council has pinpointed the need to innovate the governance structure by means of a polycentric order, capable of promoting synergies within a multi-tier vision (local-regional, national, supranational).57

Efficiency logics have undoubtedly prevailed (such as the competitiveness of territorial contexts in a free trade integrated market scenario), but also the socio-political issues relative to the autodetermining of decision making on the part of local Institutions. In short, mechanisms of coordination and vertical and horizontal cooperation between government tiers have been boosted in the pursuit of achieving economic policy objectives. The transfer to the Regions relative to dispositions for Foreign Trade sanctioned by the Bassanini Reform and expanded in 2001 with the Amendment to Art. 117 of the Italian Constitution, to Title V, expanded exponentially intervention and expenditure centres also thanks to the substantial funds made available by the EU policies of Cohesion. This generated

56 With regard to foreign economic policy, among the main actions, are reforms implemented by the Bassanini norms, which have: a) modified the institutional configuration and the functioning mechanisms of ICE (Law 25th March 1997, No. 68 Reform of the National Institute for Foreign Trade); b) identified SIMEST as a public Company providing financial support for internationalisation in all its forms (Legislative Decree 31st March 1998, No. 143 Provisions on foreign trade, pursuant to Article 4, paragraph 4, letter e), and of article 11 of the Law of 15th March 1997, No. 59) and subsequent implementing rules; c) redesigning of the structure and functioning of SACE.

57 The achievements of the knowledge economy and its local dynamics of accumulation have enhanced the local factors of development, of importance also in Europe, enabling the extension of the processes of integration and international competition to lower-tier national systems.
overlaps and diseconomies in the promotional activities carried out on foreign markets, especially in the absence of effective methodologies for coordination at State and interregional scale. Regional policies in Italy inspired by the European Union have been subject to constant adapting aimed at the diffusion of productive and financial market integration which have imposed flexible forms of planning centred on concerted and negotiational practices, conferring to the territory a particular role in economic policy strategies such as the definition of inter-stakeholder territorial interaction seeking and allocating resources; the organisation of effective services to support SMEs hinged on local and productive socio-economic specifics (Scott, 2000); the cooperation between consortia and R&D structures; the promotion and transfer of technological innovation, the strengthening of territorial marketing and the enhancement of contextual conditions with instruments of modular intervention to foster attraction for FDIs.

As concerns the process of rationalisation and administrative simplification, a significative acceleration process took place during the three year period 2000-2002 with selective actions relative to public intervention of reinforcing support in favour of internationalisation, an increase in the level of subsidiarity and integration between programmes of promotional activities, not only at vertical scale (between various tiers of government) but also horizontal, involving local actors in the phases of financing and enactment of strategies of trade promotion.

The need to strengthen the link between the territory and support of internationalisation is progressively emphasised both in institutional debate and in effective action on the part of Strategic Public Management, thus bringing the channels of the public offer closer to the extremely fragmented demand coming from territorial production networks. The government had already begun to review and reorganise its structures in order to strengthen the Institutions and to make new tools available to enterprise. Part of the same design was the setting up of a Directive Unit within the Italian Interministerial Committee for Economic Planning (Comitato Interministeriale per la Programmazione Economica – CIPE) and Regional Centres for Internationalisation (denominated SPRINT), which opened the way for
integration, at a structural level between the State (Ministry of Productive Activities, ICE, SACE, SIMEST) and the territory (Regions, Chambers of Commerce, Unioncamere, Foreign Centres).

SPRINT is a decentralised unit of operation, with a functional approach in decision making processes, directing and managing regional economic promotion for internationalisation and easier access to financial, insurance, informative and promotional services concerning the international community as well as national and regional opportunities and instruments.\(^{58}\)

The objective proposed was a harmonious framework in which actors intervene to form a single project, respecting individual skills, with evident advantages in terms of effectiveness and efficiency. The steps designed to bring closer to enterprise the offer of public services to support internationalisation, highlighted the integration between financial services (SIMEST), insurance (SACE) and promotional and advisory services on foreign markets (ICE).

Furthermore, pursuant to the Regulations relative to the Structural Funds 2000-2006, support to processes of internationalisation could be enacted only if delineated in the Single Documents of Regional Planning and/or in Regional Operative Programmes.

However, Italian Law No. 56, 31st March 2005, concerning *Measures for the internationalisation of companies, as well as delegation to the Government for the reorganisation of entities operating in the same sector*, in addition to recovering a central role in the definition of internationalisation policies, had also sanctioned the constitution of SPRINT.

The SPRINT Initiative represents an attempt to devise new instruments for an operative link between the various subjects and plans of intervention of foreign economic policy, introducing methods and functional approaches in the decisional

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\(^{58}\)Resolution No. 91 of 4th August 2000 *Constitution of the regional branches for the internationalisation of the business system*, finalised with the Decree of the President of the Republic 9th February 2001, No. 161 *Rules for the simplification of proceedings concerning the granting of subsidies, contributions, incentives and benefits for the development of exports and for the internationalisation of production activities (Nos. 56, 64, 65, 67, 69, 70, 72, 73, Annex 1, Law 15th March 1997, No. 59)*. The 2001 elections however, short-circuited the SPRINT project. Gaps were evident between principles, norms and operational results, mainly due to the limited power of CIPE, degrees of preparation at territorial level and the weakness of regional promotional intervention, often fragmented and overlapping with the national scenario.
processes. The overall reorganisation of Strategic Public Management is fundamental for solutions to reconcile priorities. The definition of more stable and certain connection channels between decision making levels for example guarantee a better division of tasks and programmes and prevents negative experiences in which the resources and programmes of regional relevance have involved projects of low critical mass, sectors and markets of secondary importance, often redundant compared to similar initiatives carried out at larger scale at national level. In other cases, initiatives launched were limited to the replication of programmatic lines already established at national level and respondent to objectives only partially functional and compatible with local ones.

However, assessments on the state of enactment and on the outcomes of SPRINT initiatives highlight a substantial lack of system strategies, requiring coordination between regional and national activities, appropriate criteria linked to an optimal dimension of intervention and the defining of a shared vision relative to the National Policy Plan.\(^{59}\)

Notwithstanding, Regions have put in place effective strategies carrying out a census of productive contexts, the monitoring of activities by international competitors, the predisposing of after care services, finalised to providing qualified assistance to SMEs already established abroad\(^{60}\).

Given the scope of experimenting organisational modalities relative to already active subjects, integrating their activities and services, the strengths of SPRINT are constituted by organisational flexibility in enacting strategic design with intervention modulated on the peculiarities of the diverse local productive contexts.

In this respect, the analyses carried out have enabled the selecting of specific best practices, represented by the Emilia Romagna Region (Census and dissemination of

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\(^{59}\) Amongst others, complex and lengthy startups were detected, obstacles resulting from the lack of efficiency, planning skills and specialist skills of the Regions, duplication and overlapping of functions between the ICE regional offices and those of SPRINT also by virtue of the fact that the former lack legal personality (SVIMEZ, 2002).

\(^{60}\) Inter-national institutional coordination is even more urgent in the light of the involvement of other Agencies and national Institutions which have launched independent promotional and support initiatives relative to foreign investments in Italy.
the instruments and services favouring integration with activities of a financial or warranty nature within the context of the process of operative and managerial coordination); the Marche Region (interactive actions for the predisposition of specific services and Databases, functional to business opportunities and to the monitoring of local entrepreneurial scenarios, as well as to foster regional products *ad hoc*); and the Tuscany Region (delivery of services including the customised kind, targeted policies for slow developing areas and having scarce links with foreign markets). In short, the advantages guaranteed by the model adopted by the Tuscany Region are manifold given that it has inserted local policies for internationalisation within an effective coherent plan of support to the economic and regional productive system; experimenting integrated forms of resource utilisation and the attempt to combine consolidated actions with decentralised cooperation and development. It has also encouraged the putting in place of Needs Analyses relative to SMEs and the regional productive fabric. However, activating the SPRINT Initiative has proved to be complex and long term.

The delays recorded in some Regions may partly be due to difficulties linked to the lack of planning capacity on the part of regional Administrations, as well as to the operational and political difficulty of organising the many Institutions and parties involved in support processes of internationalisation in addition to the evident duplications, functional overlaps, limited resources and scarcity of professional figures with adequate specialist skills. A further difficulty, finally, is linked to the fact that SPRINT originates as an ‘organisational model’ and as such lacks legal personality (Svimez, 2002).

This prevents a clear assignment of responsibility for financing operations thus complicating the ordinary management of funding services. Even in this field, the Regions record highly differentiated results with only a few putting in place effective strategies. Furthermore, in Italy, with few but significant exceptions, the design of action on the part of regions relative to attracting foreign investments and economic

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61 If similar initiatives are aimed at the same geographical areas: albeit the quality of the services provided is evident, the dispersion and absence of selectivity in the use of limited resources the outcome is usually negative.
activities culminates with the organisation of missions aimed at spreading knowledge and promoting the various local productive realities to potential international investors, while no attention is paid to the mapping of productive contexts, the monitoring of comparative activities carried out by international competitors, the preparation of so-called after-care services, providing qualified assistance to already established businesses.

The lack of coordination between the various Regions furthermore, of the respective foreign self-promotion initiatives has caused in the recent past, the multiplication of missions in the same country – overlapping or very close in temporal terms – organised autonomously by different Institutions and Regional agencies, has undermined efforts to pursue appropriate economies of scope and scale.

The formalisation of strategies and the implementation of effective operational mechanisms implies that Strategic Public Management is able to intercept both SME needs and expectations and to evidence latent or unexpressed segments of public demand in order to devise targeted strategies, as well as the relevant sectors and intervention\(^{62}\).

Given the multiplicity of actors and resources and services, the effectiveness of the policies requires capacity for involvement, coordination and integration on the part of Strategic Public Management.

In other words, interinstitutional cooperation logics, shared objectives of growth and enhancement of the socio-economic conditions are essential elements when reviewing planning and programming processes inherent to the strategies and services delivered supported by adequate reporting, assessment and control tools, for effective and efficient outcomes given that findings from our analysis show that the multiplication of services offered – in addition to feasibility in terms of economic sustainability – risk greater complexity and impede SMEs from profitably seizing the opportunities available. Therefore, to prevent dispersion of the limited

\(^{62}\) According to the logics of Public Governance, this collaboration should also extend to non-public subjects, in respect of which a sharing of strategies and tools to support SME competitiveness would encourage the success of initiatives.
resources available, a rigorous selection to support SME internationalisation based on assessments of utility for beneficiaries and economic sustainability for Public Administrations. In short, the need to redefine the institutional architecture of foreign economic policy and the relevant policies of support impose new methods of programming, structured on criteria of vertical subsidiarity and on approaches of a functional kind in decision making processes even more so relative to the irreversible character of the new polycentric orders.

The competitiveness challenge depends in the range of services offered by the territory to SMEs in terms of infrastructure, promotion and enhancement of the territory’s points of strength. The outcome would be envisaged a positive impact on external conditions thus favouring growth of the productive fabric not to mention the capacity to guarantee SMEs efficient and rapid bureaucratic procedural processes.

Reducing the distance between Public Administrations and SMEs is imperative for constructive dialogue to enhance interaction between the public and private sector, rejecting traditional bureaucracy and favouring Strategic Public Management, i.e. the shift from execution to governance. This involves an innovative organisational culture and values, new roles and professional remits, management systems and performance measurement.

Concepts such as managerialism, efficient management or corporate governance typical of the world of business have made their entrance into the Public Administration conflicting with management logics and timescales and determining the need to identify criteria for assessment of the efficiency and efficacy of administrative action.

In this process, the interests of SMEs are core to public action, as Strategic Public Management is responsible for developing new organisational models and

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63 For purposes of clarification, central coordination should be guaranteed during the phases of strategic planning, the rationalisation of the State-Regions partnership, joint management to augment responsibility of governance tiers, the enhancement of Institutional, Organisational and Public Company communication networks, the promotion of FDI support strategies, including on a regional basis; technical and professional competence; support for interregional cooperation; the exchange of experiences between Institutions/SMEs; the implementation of inter-territorial networks.
tools of interaction with enterprise. Responsibility however, remains with the central government tier for the definition of the premises for potential action and general guidelines for economic intervention. The shared management of the respective functions and responsibilities between central and independent systems also favours greater accountability at different tiers of governance.

Communication networks between Institutions and economic entities should be enhanced to mitigate duplication and dispersion of resources typical of poorly organised polycentric structures. Innovative communication methods should channel information and knowledge relative to the many activities and programmes for internationalisation, as concerns Strategic Public Management.

Coordination is also necessary to mitigate the risks that the devolution of responsibilities introduces, i.e. new forms of ‘Regional centralism’ with its relevant level of control, assuming a role for interregional support and, through appropriate legislative measures and financial incentives, to stimulate the exchange of experiences between local Institutions/SMEs, to promote tangible and intangible territory networks, to disseminate good practices of internationalisation, designing methods of assessment of the efficiency and effectiveness of regional actions for internationalisation benefitting from national and Community financial support.

Such priorities become even more stringent in a strategic phase of policy reviewing to support international integration in light of growing competitive challenges for Italian production on international markets.
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