

CEPAL

Review

Executive Secretary
Norberto González

*Deputy Executive Secretary for
Economic and Social Development*
Gert Rosenthal

*Deputy Executive Secretary for
Co-operation and Support Services*
Robert T. Brown

Director of the Review
Raúl Prebisch

Technical Secretary
Adolfo Gurrieri

Deputy Secretary
Rosa Nielsen



UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
SANTIAGO, CHILE, DECEMBER 1985

CEPAL

Review

Santiago, Chile

Number 27

CONTENTS

Foreign policy and international financial negotiations: the external debt and the Cartagena Consensus. <i>Jorge Eduardo Navarrete</i>	7
External debt: Why don't our governments do the obvious? <i>Guillermo O'Donnell</i>	27
External debt and crisis: the decline of the orthodox procedures. <i>Robert Devlin</i>	35
The external debt of the Latin American countries. <i>Raúl Prebisch</i>	53
Latin America and integration: options in the crisis. <i>Guillermo Maldonado Lince</i>	55
Trade and equilibrium among the ALADI countries. <i>Jorge Torres Zorrilla and Eduardo Gana</i>	69
A two-front attack to overcome the payments crisis of developing countries. <i>Fábio R. Fiallo</i>	79
The imperfections of the capital market. <i>Eduardo Sarmiento</i>	97
The agriculture of Latin America: changes, trends and outlines of strategy. <i>Joint ECIACIFAO Agriculture Division</i>	117
On the role of small and medium-sized enterprises in the improvement of the production structure of developing countries. <i>Carlo Secchi</i>	131
Twenty-five years of the Inter-American Development Bank. <i>Felipe Herrera</i>	143
A sélection of addresses delivered at the Expert Meeting on Crisis and Development in Latin America and the Caribbean (Santiago, Chile, 29 April to 3 May 1985)	153

On the role of small and medium-sized enterprises in the improvement of the production structure of developing countries

*Carlo Secchi**

This article focuses on the structure of the production system and on policies for improving it, with particular reference to medium-sized and small enterprises. Information and specific examples are provided based on Italy's experience in this respect and on the role which such enterprises have played in that country. It is suggested that, from this standpoint, Italy's experience may be of much greater interest to many developing nations than that of other industrialized countries, both as a model to be followed and in terms of the errors that should be avoided.

The article opens with an analysis of the interplay between entrepreneurship and a firm's external environment (section 1) as a basis for laying down guidelines concerning the reciprocal relationship between development and economic efficiency (section 2). A discussion of the advantages of small and medium-sized industries (section 3) is followed by a description of the conditions which permit and promote their creation and growth (section 4). After discussing the role performed by these industries in the introduction of innovations and in the processes of internationalization (section 5), a number of concluding remarks are offered (section 6), concerning public policy challenges in particular.

*Director of the Institute for Latin American Studies (ISLA) of Fioconi University, Milan. This article is based on the research work being conducted at ISLA with funding from the Ministry of Education and the Italian National Research Council, which also made it possible for the author to take part in the Expert Meeting on Crisis and Development in Latin America and the Caribbean.

It has often been said that instead of thinking in terms of a "world crisis", it may be more correct to consider the past few years as a time of deep transformations and of transition from a long period of continuous growth (according to some, of a Kondratieff sort), which has gradually ground to a halt, to a period of renewed prosperity. If we are fortunate, this new long cycle of growth may start before the end of the century, and all economies —both industrialized and developing— must prepare for it in order not to miss the opportunities it will bring.

In all likelihood, the new mechanism of growth will be based on factors of both supply and demand. On the supply side, new technologies will play a key role by allowing a better use of raw materials and energy sources, increasing productivity levels, and helping to satisfy both traditional and new human needs. On the demand side, the situation may be viewed in terms of a combination of "new" needs in the industrialized countries (which are also linked to demographic factors), and of "old", so far unsatisfied, needs in the developing countries. The latter will also provide a "new frontier" for growth in the world economy (Gasparini, 1981), if economic policies are pointed in the right direction.

Italy's experience can teach us a great deal about the role that small and medium-sized enterprises (SMSE) may play in this process. According to the 1981 census, 59% of total manufacturing employment in Italy was in firms with less than 100 employees (quite similar to the figure for Japan, which was about 58%), while in the United States, the Federal Republic of Germany and the United Kingdom, only 16%-18% of workers in the manufacturing sector were in firms with less than 100 employees. France (whose statistical sources on employment are based on different categories of firms) was at an intermediate point between the two.¹

Very recently, a detailed analysis of the evolution of small Italian firms was published by

¹For detailed information, statistics and analyses, see Baroin and Fracheboud (1983); Greffe (1984); IREP (1984); Small Business Administration (1984). See also the following footnote.

Table 1
 ITALIAN MANUFACTURING INDUSTRY: CONTRIBUTION TO NUMBER
 OF PLANTS AND TO EMPLOYMENT BY CATEGORY OF FIRM
 (ACCORDING TO NUMBER OF EMPLOYED), 1971-1981

Category	1 to 9	10 to 99	100 to 499	Over 500	Total
<i>Number of plants</i>					
Percentage variation 1971-1981	+18.3	+37.4	+5.1		+20.5
Absolute variation 1971-1981	+82 291	+24 605	+326		+ 107 222
<i>Employment</i>					
Percentage variation 1971-1981	+25.6	+23.1	+3.0	-6.0	+ 12.0
Absolute variation 1971-1981	+271036	+402 202	+37 821	-74 763	+636 296

Source: Confindustria (1985), table 3, p. 9, and table 7, p. 12, based on census data.

the General Confederation of Italian Industry (Confindustria, 1985) and discussed during a Conference organized by its Comitato Nazionale Piccola Industria in Venice on 29-30 March 1985.² This study, which was also based on the results of the 1971 and 1981 general censuses, shows that from various standpoints SMSE have played an important part in the development of the Italian manufacturing sector. Table 1 indicates their contribution during the 1971-1981 period to the total number of production units (plants) and to employment broken down according to the four categories into which all firms were subdivided, based on the number of employed. It may be seen that almost all new plants were established by firms with less than 100 employees and that such companies also produced the great majority of new jobs. As a result, the average size of each plant decreased from 75.5 employees in 1971 to 56.4 employees in 1981.

Although more detailed sectoral and regional data like the figures provided by Confindustria in 1985 are needed, Italian industry can be said to have reacted to the crisis during the 1970s and

to have tried to adjust to the changing international context through a process of de-verticalization and decentralization in order to gain more flexibility, SMSE accounted for almost all new undertakings, while large firms were still struggling to restructure in order to overcome their marketing technological and financial problems.

For various reasons, in recent years SMSE have aroused a great deal of interest among both researchers and policy makers in view of the important part they can play in solving some of the problems of the production structures in both industrialized and developing countries. Various schemes have been introduced for promoting the creation of new, mainly small-scale, enterprises such as those proposed by Bénoun and Senicourt (1980), Binks (1979), Hutchinson (1978), and Jarrett and Wright (1982).

Pursuant to a proposal made by the European Parliament, 1983 was declared the "European year of small and medium-sized enterprises". The purpose of this measure was to underline their importance, foster debate on their problems and potentialities, encourage the study of new and more efficient policies to promote such enterprises and improve their access to the financial instruments of the European Community. A great deal of very useful information, material and research work was produced, thus shedding new light on the phenomenon.

²Two very interesting studies for purposes of comparison of performance and experiences were published under the auspices of Confindustria, one on France and Germany (Malerba, 1985) and one on the United States (Marelli, 1985).

Entrepreneurship and the economic environment

First of all, it must be made clear that entrepreneurship can produce its best results only if it operates in a favourable economic environment, a concept which includes all collective actors (the State, local authorities, trade unions, financial institutions, business associations, chambers of commerce, etc.) external to the enterprises themselves (Vaccà *et al.*, 1984).

These collective actors must in turn function on an entrepreneurial basis in order to interact efficiently with production units. Only in this way can the system (enterprises plus the environment) grow effectively. Thus, for example, the services that are provided to industry must be economically efficient, as measured by a market yardstick (i.e., the price to be paid by their users), in order to stimulate entrepreneurial behaviour. Assistance, in contrast, will inevitably produce an inefficient production system.

In Italy, for example, efficient SMSE have developed not in the heavily-assisted *Mezzogiorno* area (with the partial exception of Puglia), but in other parts of the country where, although little public assistance has been given, there has been a favourable environment for their efficient development. This applies not only to the more economically advanced regions such as Lombardy and Piedmont but, surprisingly enough, even more to some regions in the north-east (the Veneto area)³ and in the central zone along the Adriatic coast.

The rapid growth of these previously backward regions after the Second World War was indeed of a quite different nature from that of the regions of the north-west where industrialization came earlier. This fact has given rise to a number of studies on the features and policy implications of this type of development, sometimes called the "Veneto" or "Adriatic" model (Antonelli and Momigliano, 1980), although it may be preferable to refer to it as the NEC (North-East and Central) model, as sug-

gested by Fuá (1983), among others. The impressive growth of manufacturing activity, mainly on a small scale, was in no way supported by special public programmes (as was the case in the *Mezzogiorno* area), but on the contrary, was primarily based on the local labour supply, saving capacity, and entrepreneurial skills inherited from the preindustrial period of economic development. Another major factor was the existence of a united community with its institutions, its culture, and its physical infrastructure (the "environment", as defined above). According to Fuá (1983) and others who have studied the NEC'S experience and prospects, the success of the NEC model lies in its capacity to combine all its pre-existing strengths and resources and to use them, without causing any drastic shock, to modernize economic life and production.

SMSE have also played a major role in the recent restructuring of the Italian regions where industrialization came earlier. This applies in particular to some very dynamic areas, such as the Brianza, to the North of Milan, which was recently studied by Senn *et al.* (1985), in a comparative context with reference to the areas of Worcester in the West Midlands of the United Kingdom, Augsburg, Federal Republic of Germany and Besançon, France. The purpose of this research project was to confirm the existence of quite a few comparable successful local economic systems in Europe. Some of their more interesting characteristics include a high level of economic development and a diversified industrial structure. The latter is mainly composed of a great number of SMSE which are highly dynamic, capable of self-restructuring, able to combine local resources and different factors of production creatively, and highly competitive on the international market. These basic characteristics, shared by the Brianza and the other areas studied, are both the cause and effect of a variety of circumstances, the most important of which are widespread entrepreneurship, a marked propensity to adopt new technologies and a strong orientation towards adaptation and restructur-

³For a brief discussion of this subject, see *The Economist*, 30 March 1985, p. 69: "Out of the shadows. Can the Veneto's boom last?".

ing in response to exogenous changes. In particular, a minor but noteworthy role has been played by the public authorities in the promotion of growth, together with the remarkable autonomy shown by local entrepreneurs in creating and implementing co-operative instruments of industrial policy. There emerges a very interesting regional development model that, while still based on the fundamental role played by entrepreneurship within SMSE, may perhaps be better suited to areas of earlier industrialization,

in contrast to the NEC model, which is based on the experience of areas of late industrial development.

Of course, similar considerations to the above, which counsel against providing assistance to the production sector, also apply in large measure to the use of protection as a means of stimulating the growth of industry. Such protection can produce overall positive results only if it takes place within a context of economic efficiency.

II

Economic development and economic efficiency

Numerous mistakes and unsuccessful policy options are to be found in the strategies adopted by many Third World countries to foster their development.

First of all, over the past 20 years attempts by individual countries to promote economic growth and development in an autarkic context have in most instances failed. After the initial ("easy") stages, import-substitution strategies, particularly in the case of countries with limited domestic markets, have caused a great deal of economic inefficiency and waste of resources, together with other negative welfare effects deriving from the distortions thus produced.

Better results are achieved with import-substitution strategies at a regional or sub-regional level. However, economic co-operation and integration among developing countries have also made slow progress and met with many failures. The success stories that do exist are more the result of outside actors which have stimulated economic integration either in a positive way or as a reaction to what was seen as a potential danger from without.

Economic growth and development must first of all be a self-sustaining process; in other words, they must satisfy all those conditions that will guarantee their continuation over time on an autonomous basis. It is a mistake to think that such a development model might work in a context of autarky.

Economic efficiency is the only way in which

developing countries can achieve an optimum use of their resources for the well-being of their people. Virtually without exception, this can only be done through specialization at both the domestic and international levels. Thus, it is in the interest of each developing country to participate in the world economy inasmuch as its trade and other relations will provide it with a means both of fostering the best domestic allocation of resources and of exploiting its comparative advantages in international trade. This, contrary to what is often said, does not mean that internal economic problems must come second to the type of place in the international setting an individual country tries to achieve. Devoting attention to domestic economic problems not only helps to better satisfy some crucial needs, but also makes it possible to strengthen many aspects of the internal production structure. Thus, the "ideal" model of development should be both "inward looking" (in the sense that it pays due attention to internal needs) and "outward looking" (in the sense that it is oriented towards active participation in the world economy).⁴

Due to the various advantages they offer,

⁴It goes without saying that industrial countries have a great responsibility to help the developing nations in their efforts to pursue an efficient development model, and hence their co-operation policy should include measures to this end. With respect to the case of Italy, see Secchi (1985).

SMSE have a fundamental role to play in strengthening the production structure of the developing countries, provided that their de-

velopment takes place within a general economic policy framework which is consistent with the above.

III

Advantages of SMSE

Taking into account what has been said so far, and particularly the need to promote growth along with economic efficiency, SMSE can be said to have a number of well-known advantages.

First of all, SMSE are flexible, i.e., they can rapidly adapt to changing market conditions, both domestic and international, provided they have all the information they need in order to modify their behaviour and strategies accordingly.

Secondly, in some cases SMSE can better exploit new ideas and can take greater advantage of "niches" left free by large firms both in the domestic and in the international markets.

Thirdly, SMSE involve lower investment costs per unit of employment and value added, and consequently may allow (*ceteris paribus*) a more rapid growth of employment and income.⁵

Fourthly, SMSE function more satisfactorily than large enterprises from the standpoint of urban-rural relations, ecological and environmental constraints, etc.; they can fully exploit existing craft traditions and skills; and, by using this craftsmanship in a creative way, they can subsequently promote new entrepreneurial activities.

Finally, SMSE also have many advantages over larger production units from the standpoint of economic democracy and industrial relations since, by allowing entrepreneurship potential to be realized they make an invaluable contribution to the overall economic development of the country concerned.

This article is primarily concerned with the SMSE within the industrial sector. However, in a developing economy as well, they can also play an important role with respect to tertiary activities. A few examples will suffice to illustrate the potential benefits offered by SMSE in this sector (in addition to the great contribution they have made during recent years as regards keeping up employment levels in most of the industrial countries).

Efficient SMSE can rationalize and improve distributive trade activities. This is particularly important in connection with agricultural reforms and efforts to increase agricultural productivity. Indeed, SMSE can provide better marketing services for agricultural products, as well as other services and intermediate products, and can productively absorb manpower as it leaves the agricultural sector.

Tourism is another sector in which SMSE can play an important role. Furthermore, they can promote service activities which contribute to foreign trade and to internationalization of small-scale production units (Alessandrini, 1985).

⁵Two recent surveys cited in *The Economist* (8 January 1983, p. 12) indicate that two-thirds of new private-sector jobs (industry plus services) in the United States since 1969 have been created in firms with less than 25 employees. In addition, see table 1.

IV

The birth and growth of SMSE

SMSE can be created and can flourish only if a number of conditions are satisfied, such as those mentioned here. First of all, the process must take place within a favourable economic environment. In addition, a wide range of entrepreneurial skills are required which may have been developed either in industry (former employees leaving their jobs to set up their own firm, in what is known as the "spin-off" phenomenon) or in agriculture. Economic history shows that in the areas of early industrialization, entrepreneurship originated mainly in agriculture. This was particularly true in cases where conditions were more difficult and thus stimulated individual ingenuity and creativeness.

An appropriate institutional context is also required, in terms of both the regulatory and legal apparatus and the application of an active policy to encourage SMSE.

Transparency in the market and an efficient flow of information on domestic and international market conditions are important aids for SMSE in selecting a successful strategy. Public policy (together with private specialized service activities) can be of great help in providing easy access to all the necessary information and in keeping its cost as low as possible, SMSE must also maintain appropriate relations with the rest of the production system (large enterprises, specialized services, etc.). Finally, SMSE must have a sufficiently large market, as well as access to foreign markets. Hence the need for regional economic integration, which can provide a partial alternative to a completely "open door" policy, allowing SMSE to take advantage of markets that are geographically closer and, for obvious reasons easier to penetrate.

Again, the Italian experience in this respect is quite interesting, since the European Community is now regarded as a "domestic" market by Italian SMSE. A very informative analysis of Italian exports by firm size and market of destination was recently published by the Italian National Institute for Foreign Trade (*Istituto Nazionale per il Commercio Estero*). This study not only underscores the great importance of the

Western European market for Italian SMSE (ICE 1985, pp. 23-24), but also provides very useful insights (from the standpoint of the subject under discussion in this article) on the percentage distribution of the different categories of export firms and on foreign sales by category of firm, based on each firm's export sales in 1983 (see table 2). This analysis was made possible by the fact that the Italian Foreign Exchange Office (*Ufficio Italiano Cambi*) records each individual foreign trade transaction;⁶ these transactions were then ascribed to each export and import firm's external operations.

The records indicate that there were 85 910 export firms in Italy in 1983. As shown in table 2, 85 996 of them were small export firms, with annual sales abroad of less than 1 billion lire, which accounted for 11.1% of total Italian exports. More than half of the total Italian exports (55.8%) in 1983 were sold by medium-sized exporters, which made up 13.9% of all export firms.

Finally, large exporters (with annual sales abroad of over 50 billion lire) represented 0.2% of all export firms and contributed one-third (33.1%) of total Italian export receipts.

These figures leave no doubt about the crucial importance of Italian SMSE as regards the country's exports, contrary to the common belief that foreign trade is mainly the preserve of large enterprises.⁷

Before moving on to the next topic, two issues are worth discussing in more detail.

The first refers to *SMSE vis-à-vis large enterprises*. The system of production requires a suitable combination of SMSE and large enterprises.

⁶Except very small transactions (under 3 million lire, in 1983) those classified as "occasional", and of course, transactions in which no payment is involved.

⁷As noted by Secchi *et al.* (1983), an analysis of the role of Italian SMSE in the internationalization of production yields equally surprising results, inasmuch as SMSE constitute a growing presence in Italian foreign investments, mainly of the so-called "new type" (typically, non-equity investment such as joint ventures, international sub-contracting, etc.; cfr. OECD, 1984).

Table 2
 PERCENTAGE DISTRIBUTION OF EXPORTING
 FIRMS IN ITALY AND OF EXPORT
 SALES BY CATEGORY OF FIRM
 (ACCORDING TO EXPORT SALES IN BILLION LIRE)

Category	Under 1 billion lire		11 to 50 billion lire		Over 50 billion lire	
	% of total	% total sales	% of total	% total sales	% of total	% total sales
1978	86.0	10.2	13.8	54.6	0.2	35.2
1979	87.0	10.9	12.8	55.5	0.2	33.6
1980	87.2	11.4	12.6	56.7	0.2	31.9
1981	88.0	12.5	11.8	54.1	0.2	33.4
1982	87.1	11.5	12.7	54.0	0.2	34.5
1983	85.9	11.1	13.9	55.8	0.2	33.1

Source: ICE (1985), pp. 16-17. Each category is defined on the basis of each firm's export sales in 1983. All data on export sales have been converted into 1983 Italian lire at the 1983 exchange rate as of 30 December 1983, US\$ 1.00 = 1 659.5 Italian lire.

The latter perform a functional role in relation to the former (e.g. decentralization of production, sub-contracting, etc.) and vice-versa (SMSE provide large companies with more flexibility).⁸ Moreover, in many cases SMSE are just small firms which will grow, and they must therefore be seen in a dynamic context. Finally, an appropriate mix of enterprises is necessary not only in terms of their size, but also in terms of the different sectors.

The second issue relates to *SMSE vis-à-vis the*

⁸For a theoretical treatment of this subject, see also Mariti (1980).

informal sector (see also Alessandrini and Dallago, 1985). As a matter of fact, this sector is mainly made up of SMSE (at least as far as legal activities are concerned), and SMSE sometimes are confused with the so-called "underground economy". In this connection, there are a number of questions which certainly require more research work and analysis as a basis for policy-making.

One such question is to what extent the informal sector is a functional part of the socio-economic system and thus whether it should be tolerated or even encouraged. Another important question refers to the correct timing of an attempt to bring the informal sector to the "surface" through fiscal and other measures.

V

SMSE, innovation and internationalization

Introducing innovations and engaging in international activities are both similar (Schumpeter-type) processes because they involve breaking away from past, deeply-rooted patterns of behaviour and moving into new (and often unknown) spheres. Both processes, however, require the presence of entrepreneurship not only within the firm in question, but also in the external economic environment. Public institutions and private enterprise must provide an array of services functional to these entrepreneurial activities and particularly those of SMSE.⁹

Clearly, not only the introduction of innovations, but internationalization, as well, is a vital process for SMSE because it provides larger markets, stimulates specialization and fosters economic efficiency. Again, at a regional level, one finds another justification for economic integration, which favours the development of an efficient system of SMSE, while autarky and protection, on the other hand, clearly produce assisted and inefficient production units.

SMSE should not be considered as "traditional" enterprises (only large companies being able

to qualify as "modern", according to some). On the contrary, many innovative activities (process or product innovation) can and do take place in SMSE. Indeed, technical progress now largely favours the creation of small-scale units, both in industry and in services.¹⁰ In addition, they seem to be much more efficient than large companies in producing innovations. A 1981 study conducted by the National Science Foundation of the United States¹¹ showed that small firms produce about 24 times as many innovations as large firms do for each dollar invested in research and development. In spite of this fact, nearly 90% of research and development funding is absorbed by large enterprises and nationalized industries. In view of this situation, changes in the current policy in this field are urgently needed, although it is true that many SMSE may be too small to have research facilities. Hence their efforts should be supported in various indirect ways.

Moreover, some international activities, such as joint ventures undertaken with foreign firms, are a very powerful vehicle for the acquisition of innovations, and in some cases SMSE are particularly active in this connection.

VI

Concluding remarks: challenges for public policy

There is a broad consensus in many industrial countries about the fact that public policy aimed

⁹In this regard see, for example, the preface by C. Secchi to Alessandrini (1985). This research (which shows how small-scale units also predominate in Italy in international activities elsewhere carried out by very large trading companies) was sponsored, in order to offer a service in terms of better and highly detailed information, by the *Centro Estero Camere di Commercio Lombarde*, in an effort to provide improved and highly detailed information services. This centre is a public institution of the Chambers of Commerce of Lombardy which was set up to promote internationalization by offering technical support and services to SMSE of the region.

at encouraging SMSE should concentrate on creating a favourable environment and a set of external economies, rather than interfering with entrepreneurial options. Those who study these and related matters in Italy have introduced a distinction between "sector" policies (which involve some form of planning, programmes of direct assistance to industry, etc.) and "factor" policies (which improve the performance of fac-

¹⁰On innovation and SMSE see, *inter alia*, Bollard (1983), Malerba (1985), Moore and Eads (1983), OECD (1982).

¹¹Cited in *The Economist*, 8 January 1983, p. 11.

tors of production, such as training programmes, specialized services, advisory activities, and external economies in general). The latter interfere to a much lesser extent with the role of the market in the allocation of resources, and yet they foster efficiency, higher productivity levels and competitiveness.

One of the major problems of SMSE concerns their access to financing (see also Mussati *et al.*, 1981), which is obviously more limited than that of large enterprises. A key role is therefore played by financial institutions (and public policy in this field), and these institutions should make innovative financial instruments available which are particularly suited to the needs of SMSE.¹² In Italy, for example, experience has shown that *ad hoc* institutions such as co-operative banks for short-term financing, banks specializing in medium-term credit (similar to development banks, but meant in particular for small-scale financing), credit consortia, etc., serve the purpose better.¹³

Indeed, many problems connected with "smallness" can be solved by SMSE in a co-operative manner, e.g., through specialized consortia. This applies not only to credit consortia, as just mentioned, but also to a variety of other co-operative associations; such as export consortia which are set up to facilitate the penetration of foreign markets.¹⁴ By carrying out some basic activities on a joint basis, SMSE are better able to deal successfully with a variety of problems. This is also the case with associations of small-scale producers which are formed to improve marketing activities or to obtain inputs at a lower cost. These collective efforts also allow SMSE in a given

region or sector to become a true "system" of production units having various synergistic interrelations. Obviously, it follows that public policy should strongly encourage such co-operative efforts.

Among the many other fields in which public policy must (and can successfully) operate, such as training programmes (which are of fundamental importance during periods of rapid technological change) and information services, it may be interesting to conclude this paper by focusing on three crucial areas of action in which further research work and empirical analysis are clearly required.

The first relates to the question of *how to promote entrepreneurship*. This is plainly a crucial issue, because entrepreneurship is one factor in satisfying the prerequisites for an efficient system of SMSE. Various experiments have been carried out in some industrial countries, and efforts have been concentrated on the fundamental problem of how to make the transition from a good entrepreneurial idea to its practical realization. This requires a co-operative effort among management schools, specialized services, financial institutions, business associations and chambers of commerce.¹⁵

A second crucial area of public policy has to do with *how to promote innovation*, SMSE need some form of public support for their research and development efforts, and this can be given in various ways: financial resources, easy access to existing knowledge, technical assistance, information programmes, etc. Particularly in the case of small firms, institutions—promoted or supported by the public sector—whose purpose is to transfer appropriate technologies from research centres to small-scale users are one factor of major importance. Moreover, some recent and successful endeavours have demonstrated how public enterprise can also play a key role in

¹²Two examples are leasing and factoring; these instruments allow fixed costs to be converted into variable ones, which are better suited to the cyclical nature of small businesses.

¹³With reference once again to the case of Italy, cfr. Mediocredito Régionale Lombardo (1979 and 1980). *Mediocredito* is a medium-term credit institution operating in Lombardy (each Italian region has a similar institution) which primarily provides financing for SMSE investments, export activities, etc. Its capital was provided by most of the banks specializing in short-term credit in the region, which also co-operate in its activities.

¹⁴In many regions of Italy, for example, export consortia work in close co-operation with the regional foreign trade centres of the chambers of commerce.

¹⁵A programme named Gemini was started in 1984 at the Business School of Bocconi University, Milan; the aim of this programme is to select a number of potentially successful ideas, bring together all the concerned parties, assist the "new" entrepreneur and carefully monitor the various phases until the new enterprise is able to continue on its own. This programme is financed, *inter alia*, by the Commission of the European Communities, by the Lombardy Region, and by the Chamber of Commerce of Milan.

the association of various firms —particularly SMSE— with research programmes co-financed by public and private sources. In addition, important advances in other areas (new management methods, a better knowledge of the market) can also be achieved in this way, especially if these programmes involve firms from different countries, as in the case of the ESPRIT Programme of the European Community¹⁶ which was implemented in 1984.

Finally, a third basis issue has to do with *how to promote internationalization*. The reason why internationalization processes are of major importance to SMSE was discussed at the beginning of this paper. Obviously, these activities are more difficult for SMSE to carry out than they are for large enterprises. If they are to be successful, SMSE, in particular, require appropriate promotional, information, training, advisory and other services which can be supplied by both public and private institutions. Public bodies should be able to provide many of these services at a lower cost, as well as being able to implement many pioneering activities to help SMSE wishing to internationalize. After their initial stage, such activities can, of course, be picked up by the market and conducted by private enterprise as well. In addition, public institutions have a basic catalytic role to play in helping to match up SMSE

demand for specialized services with the services offered by private institutions, such a service activities, trading companies, etc., through information, promotion and advisory programmes.¹⁷

Further theoretical and empirical research is certainly needed, not only on the policy guidelines discussed above, but also on other experiences in addition to that of Italy,¹⁸ which has been the main focus of this article. The outcome would be a clearer picture of the advantages of an efficient system of SMSE in strengthening the production systems of developing countries which would round out the brief presentation given here. Although it would clearly be a mistake to create a mystique out of the positive role of SMSE (indeed, large enterprises also have a vital role to play, particularly where economies of scale still predominate), their advantages and potentialities have been almost universally neglected, at least until very recently. In the developing countries, as well, a greater awareness of their potential contribution is wanting. More effective general and specific policy measures should consequently be taken in order to achieve a more satisfactory and beneficial composition of the production system.

¹⁶European Strategic Programme for Research and Development in Information Technologies, which may soon be followed by a similar programme named RACE (Research and Development in Advanced Communications Technologies for Europe).

¹⁷Again, in connection with Lombardy, see footnote 9.

¹⁸Because of language problems, the bibliography includes only a limited number of references in Italian, chosen from among the vast body of literature which has grown up so rapidly in recent years and which the interested reader can easily trace, starting from the bibliographical information given by the various Italian authors cited here.

Bibliography

- Alessandrini, S. (1985): *The trading companies in Lombardia*. Milán: Centro Estero Camere di Commercio Lombarde e Il Sole 24 Ore.
- Alessandrini, S. and B. Dallago (1985): *The unofficial economy East and West. Consequences and policies*. London: Gower (at press).
- Antonelli, C. and F. Momigliano (1980): Aree economiche, modelli di sviluppo alternativi e politiche pubbliche di intervento in Italia. *L'industria. Rivista di economia e politica industriale*. Bologna: Il Mulino Editore, Vol. 1, No. 3, pp. 395 to 409.
- Baroin, D. and P. Fracheboud (1983): *Les petites et moyennes entreprises en Europe*. Paris: La Documentation Française.
- Bénoun, M. and P. Sécourc (1980): *L'aide à la création et au*

- développement des entreprises nouvelles. Comparaison internationale*. Paris: Fondation Nationale pour l'Enseignement et la Gestion des Entreprises.
- Binks, M. (1979): Finance for the expansion of the small firm. *Lloyds Bank Review*, No. 134, October, pp. 33 to 45.
- Bollard, A. (1983): Technology, economic change, and small firms. *Lloyds Bank Review*, No. 147, January, pp. 42 to 56.
- Confindustria (Confederazione Generale dell'Industria Italiana) (1985): *La piccola industria nell'economia italiana. L'esperienza degli anni '70*. Prepared by G. de Caprariis and G. Rosa for a conference held by Comitato Nazionale Piccola Industria, Venice, 29 to 30 March.
- Fuá, G. (1983): Rural industrialization in later developed

- countries. The case of Northeast and Central Italy. *Banca Nazionale del Lavoro Quarterly Review*, Vol. 36, No. 147, December, pp. 351 to 377.
- Gasparini, I. (1981): Economic trends and problems in the 1980's. *Gionmle degli economisti e annali di economia*, Vol. 40, No. 5-6, pp. 267 to 286.
- Grefe, X. (comp.) (1984): *Les petites et moyennes entreprises créent-elles des emplois?* Paris: Economica.
- Hutchinson, P.J. (1978): Financial assistance to small firms: the American experience. *National Westminster Bank Quarterly Review*, November, pp. 50 to 62.
- ICE (Istituto Nazionale per il Commercio Estero) (1985): *La Struttura delle esportazioni italiane. Un'analisi per imprese*. Rome.
- IREP (Institut de Recherche en Economie de la Production) (1984): *L'analyse démographique des petites et moyennes entreprises industrielles dans les pays de la Communauté Economique Européenne*. Paris.
- Jarrett, M. and M. Wright (1982): New initiatives in the financing of smaller firms. *National Westminster Bank Quarterly Review*, August, pp. 40 to 52.
- Malerba, F. (1985): *La piccola industria in Francia e Germania*. Prepared for Confindustria (1985), Venice, 29 to 30 March.
- Marelli, E. (1985): *La piccola industria negli Stati Uniti*. Prepared for Confindustria (1985), Venice, 29 to 30 March.
- Mariti, P. (1980): *Sui rapporti tra imprese in un'economia industriale moderna*. Milan: F. Angeli Editore.
- Mediocredito Regionale Lombardo (1979): *Il finanziamento delle nuove iniziative imprenditoriali*. Milan.
- _____ (1980): *Il mercato finanziario e lo sviluppo delle piccole e medie imprese*. Milan.
- Moore, G.G. and M. Eads (1983): *Smallbusinessinnovation. An annotated bibliography*. Washington, D.C.: Cosmos Corporation.
- Mussati, G. et al. (1981): *Il capitale di rischio delle piccole e medie società di nuova costituzione*. Milan: CREA Università Bocconi and Guiffrè Editore.
- OECD (Organization for Economic Co-operation and Development) (1982): *Innovation in small and medium-sized firms*. Paris.
- _____ (1984): *New forms of international investment in developing countries*. Paris.
- Secchi, C. et al. (1983): *La rilocalizzazione produttiva italiana nei paesi in via di sviluppo. Il caso di Malta, Marocco, Tunisia ed Egitto*. Milan: Finafrica and Guiffrè Editore.
- Secchi, C. (1985): The prospects for trade and production co-operation between Italy and LDC'S. *Savings and development*, Vol. 9. No. 1. Milan: Finafrica, pp. 47 to 55.
- Senn, L. et al. (1985): *The "Brianza's" of Europe. Comparative models of successful industrial districts*. Monza: Associazione Industriale di Monza e Brianza (at press).
- Small Business Administration (1984): *The state of small business*. Washington, D.C.: US Government Printing Office.
- Vaccà, S. et al. (1984): *La politica industriale possibile. Economia e politica industriale*, Vol. II, No. 41. Milan: F. Angeli Editore, pp. 3 to 37.