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INTERNATIONALISATION OF ITALIAN ECONOMY AND STRATEGIC PUBLIC MANAGEMENT FOR SME COMPETITIVENESS

INTRODUCTION. – 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’. 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.

The territory 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.

1. INTERDISCIPLINARY REFLECTION ON STRATEGIC INTERACTIONS AND REFORM OF PUBLIC INSTITUTIONS FOR SME COMPETITIVENESS. – The issue of local governance directly or indirectly has been the object of the study and analysis of various research areas through specific ‘disciplinary lens’ ranging from Public Management and Public Administration to political science, territorial studies, management and business strategies, geography and economic sociology¹. 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.

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.

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).

¹ 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).



When applied to Public 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 (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 can be built.

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 innovated. In particular, significant stimuli for reform was triggered by New Public Management (See Osborne and Gaebler, 1992; Ferlie et al., 1996) fostering efficient and efficacious Public Administration underpinned by principles and instruments of managerial inspiration. The trend has spread, albeit differentiated, to various countries (See Pollitt et al., 2007²).

Attention has been focused on both concepts with a privileged interpretation: on efficiency in the management of the *res publica* 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.

The effectiveness of public action 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.

2. INTERNATIONALISATION AS A STRATEGIC CHOICE FOR SMES. – The internationalisation process involves penetrating new foreign markets and securing market shares in foreign countries in which the company chooses to invest. 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 stands.

Internationalisation processes are levered by the search for new outlet market environments either because the domestic market is too limited, or is showing signs of

² 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.

saturation. 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 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 markets³.

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 attention⁴. 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 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. 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.

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.

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, another major cause of business internationalisation is the low cost of raw material and labour that 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

³ New market 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.

⁴ 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.

European markets.

Research and analysis, given the specificity of the Italian case, i.e. a very small presence 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 models. The distinctive feature of the 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. In other words, small businesses can have links with international environment, independently of the direct placing of their goods or services on foreign markets.

Italian SMEs have always opted for the export mode, with little propensity for foreign investment. In most cases, internationalisation on the part of Italian SMEs 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.

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 business implies a limited use of managerial figures and structured forms in order to address the challenges of internationalisation adequately.

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. 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.

3. STRATEGIC PUBLIC MANAGEMENT TOOLS AND METHODOLOGY FOR ITALIAN SME INTERNATIONALISATION. – 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.

Significant changes have 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, 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 governance⁵.

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.

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 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⁽²⁾.

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.

An important element for the success of a territory in the global economy is the ability to extend its 'rules of the game'.

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 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

⁵ 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).

⁽²⁾ 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.

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.

CONCLUDING REMARKS. - 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.

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 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.

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.

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.

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. 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.

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 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 benefiting 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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RIASSUNTO: Ai fini di questo studio, particolare attenzione è stata rivolta alla capacità del Management Strategico Pubblico di attivare relazioni reticolari tra Piccole e Medie Imprese (PMI), organizzazioni e altri soggetti rilevanti del territorio e le Amministrazioni Pubbliche. Ciò implica discutere su come le strategie imprenditoriali per l'internazionalizzazione siano supportate dalle Pubbliche Amministrazioni e come sono elaborate le strategie di sostegno pubblico per la competitività.

SUMMARY: For the purpose of this study, particular attention was addressed to the capacity of Strategic Public Management to activate reticular relations between Small and Medium-sized Enterprises (SMEs), organisations and other relevant subjects of the territory, and Public Administrations. This implies discussing how entrepreneurial strategies for internationalisation are supported by Public Administrations to meet the needs of territory and how strategies of public support for competitiveness are devised.

Parole chiave: Internazionalizzazione dell'economia italiana, *Management Strategico Pubblico*,

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Keywords: Internationalisation of Italian Economy, Strategic Public Management, Sme Competitiveness.