

## **Small or large, but enterprising.**

Pier Francesco Guarguaglini

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When we talk about small- and medium-sized enterprises, we often tend to focus on the first two words, to understand whether and to what extent size matters in global competition. This is a very important issue, particularly for Italy, where medium- or small-scale companies employ 80% of the working population. It is common knowledge that the highly fragmented nature of Italy's industrial fabric acts as both an advantage and a constraint in the country's economic success. Moreover, the liveliness and innovative capacity of small companies has made a vital contribution to the success of Italian-made products worldwide. (from page 1)

Small businesses should be helped to grow, but more of a "culture of risk" is needed

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However, Italy's recent loss of competitiveness overall is largely down to the fact that very few industrial companies (under 10%) operate in high-tech sectors.

This relates to the combination of two different factors: firstly, nearly 80% of value added in the manufacturing sector derives from SMEs, and secondly, SMEs contribute less than 20% of total expenditure on research and development. Logically then, the remainder comes from large enterprises. These two factors in combination explain why Italy's industrial structure is highly skewed towards low-tech sectors. This, among other things, frustrates a great deal of the effort put into innovation, since it is easy to make an attempt at innovating, whereas real competitive advantage lies in its technological content. The need for SMEs to grow, not only in terms of skills but also in size, is therefore a concrete fact, which should also be borne in mind by those drawing up legislation: they should provide incentives for growth, rather than creating obstacles.

Meanwhile, looking ahead to an event as important as the national convention of small- and medium-sized enterprises, organised by Confindustria, I think it would also be

interesting to look at the third word in the phrase. The dictionary definition of 'enterprise' is, first of all, 'a work that one begins and intends to bring to a conclusion, even if it presents difficulties and its outcome is doubtful'. I believe this definition highlights two crucial factors in assessing the competitiveness of our entrepreneurial system.

The first point is that, to make a real enterprise, one has to establish short- and long-term goals and then operate coherently and determinedly to realise them, without succumbing to the temptation of quick returns. Most of the time, these are a distraction from the original plan and obstruct its path to fruition. Truth be told, this applies as much to big business as to SMEs. However, the risk of getting lost along the way is clearly greater for SMEs, since greater size is more naturally associated with longer timescales. Unfortunately, entrepreneurs in Italy often bravely enter promising areas of business with ambitious projects, only to hand over control to others – often seeking insertion within the activity of a large company – as soon as sufficient returns have been generated to cover the initial investment with an acceptable margin of profit. This somewhat short-sighted behaviour, which prevents those adopting it from making any qualitative leap, does not help SMEs progress in terms of growth and maturity.

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The second point to consider is Italy's need to develop a real 'culture of risk'. Any entrepreneurial adventure entails the need to make choices, and herefore the ability to accept the risks intrinsic to those choices. Being able to manage risks means being able to anticipate them, assess their potential impact and devise the necessary countermeasures. An SME that has both these qualities – the courage to take risks and the ability to manage them – can operate more effectively in the market and play a more important role in the production chain in which it belongs.

Redrawing the relationships between the various players operating in the same production chain is certainly one path to follow in the development of Italian industry, particularly in the high-tech sectors. While, as I mentioned earlier, it is clearly difficult for SMEs to make adequate investments in research and development without excessive erosion of their operating results, taking part in large projects with large-scale industry gives them a chance to offer valid contributions in specific niches of excellence, and, at the same time, to participate in processes of technological innovation that enhance their competitiveness.

The potential gains from propagating the benefits of research from major businesses to SMEs are enormous. Finmeccanica, for example, has about 60,000 employees and indirectly provides employment for nearly four times this number, involving several

thousand SMEs. However, for a more efficient transfer of technology from large to small players, a change of approach is required from both sides.

The model should be similar to that adopted by Finmeccanica when it takes part in a major programme with a US prime contractor. The two parties study the business plan together, analysing the risks to be shared, and assessing future investments and what the basis of a partnership agreement would be. This approach can clearly be replicated at national level.

Big businesses should take on the responsibility for guiding the development of the country's industry with more determination, and be willing SMEs partnership opportunities. SMEs, in turn, should accept that they have to take on risk in exchange for the chance of working at the cutting edge of technology and growing within a framework of expertise and skill. Finally, institutions – let us not forget that they also have (by no means minor) responsibilities – should work effectively to create a favourable climate, guaranteeing the necessary funding for research, improving training quality, adapting state structures to the new competitive environment and providing excellent infrastructure and services. If all these elements converge in the near future, then Italy and its manufacturing sector will be able to regain the right level of competitiveness, and our network of small- and medium-sized enterprises will once again become a major resource for the country, rather than the weak link in a chain that is at serious risk of breaking.

**PIER FRANCESCO GUARGUAGLINI**