Small Firms, Global Markets

Competitive Challenges in the New Economy

Edited by

Jerry Haar

and

Jörg Meyer-Stamer

palgrave
macmillan

First published in 2007 by
PALGRAVE MACMILLAN
Houndmills, Basingstoke, Hampshire RG21 6XS and
175 Fifth Avenue, New York, N.Y. 10010
Companies and representatives throughout the world

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ISBN-13: 978–0–230–00192–3 hardback
ISBN-10: 0–230–00192–0 hardback

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

A catalog record for this book is available from the Library of Congress.

10 9 8 7 6 5 4 3 2 1
16 15 14 13 12 11 10 09 08 07

Printed and bound in Great Britain by
Antony Rowe Ltd, Chippenham and Eastbourne

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Preface

The currents of globalization will widen, deepen and intensify, impacting private enterprises both large and small, in both developed and developing nations. In fact, the distinction between developed and developing countries is becoming insignificant as far as economic policy challenges are concerned. Policy-makers in Mexico, Nigeria and Europe are similarly concerned about the impact of competition from East Asia. Businesses in North and South alike are concerned about concentration processes in the retail sector and the increasing power of retailers and other global buyers.

Smaller firms are the most vulnerable and are under enormous pressure to adapt in order to survive and compete. This holds true for both developed and developing countries. The plight of SMEs in developing countries has often been analysed. However, the process of globalization means that SMEs in developed countries are increasingly struggling to remain viable. With new regulations like Basel II, access to financing becomes more difficult. With the consolidation of global value chains, long-time suppliers are relegated to the third or fourth tier. WTO regulations make it more difficult for governments in industrialized countries to protect and pamper their SMEs; things are even more difficult for European SMEs due to EU subsidy controls. For developing countries, thanks to the WTO, the sharply focused infant-industry protection and industrial policy that was behind the rapid emergence of South Korea and Taiwan is not an option for today's latecomer countries. To quite a considerable extent, firms are left to their own devices.

However, adapting (a firm-based process) is insufficient. Changes in the external environment (state, local, institutional) must occur as well. Both developing and developed countries are trying to devise innovative approaches to business promotion and the creation of an enabling environment. Old-style interventions like industrial policy, top-down regional policy, trade protection and massive subsidy schemes have been phased out or are facing their demise. Both at national and local levels, governments are experimenting with new approaches. Being creative and innovative in the creation of SME promotion that is WTO-compliant is one of the key challenges governments in industrialized and developing countries are facing. The effectiveness in addressing this challenge is one of the main factors that shapes the long-term growth prospects of any country.

Concurrent with economic liberalization, a worldwide phenomenon, is the continuous expansion of political federalism. Central governments are divesting more and more governance and economic development responsibilities to state and local entities. As sub-regional economic promotion gains in importance, increasing attention will be focused on local industrial districts, or clusters, the value chains to which they are linked, and the small firms that compose the vast majority of enterprises within these locations. Cluster promotion, addressing market failure at the local level, and local economic development in general are widely used approaches both in developed and in developing countries.

In examining the forces and factors that shape the global competitive environment for small firms, and identifying representative case examples from around the world on successful and unsuccessful responses to competition, this volume addresses academic, policy and business practice issues vis-à-vis small-enterprise survival. The guiding questions are:

- What exactly are the challenges that small firms (for example, SMEs) are facing today? Has the 'second industrial divide' actually taken place, or is Chandler's view of the world more relevant than ever? Did the 'new competition' evolve in the way it was expected 15 years ago? And what about the 'new economy', for example, the impact of much more efficient means of communication and the collection and distribution of information – to what extent does it change the rules of the game both for territories and for different types of firms?
- What exactly are the challenges that policy-makers are facing today? Between local production systems and global value chains, what is the respective role of local, regional and national governments, as well as regional integration structures and international organizations? To what extent do public sectors manage to distribute different policy roles to different layers of government? How are territorial economies coping with the different governance challenges?

The volume is organized in two parts. The first part addresses generic questions, the second part presents country case studies. All contributions have specifically been written for publication in this volume.

We would like to thank our authors who toiled arduously, generously contributing their time and effort to bring this volume to fruition. We also thank the College of Business Administration at Florida International

University and the Columbia Program on International Investment and its director, Dr Karl Sauvant, for their assistance in this project. Deanna Salpietra of the Knight Ridder Center for Excellence in Management in FIU's College of Business Administration provided invaluable research and editing assistance, and Virginia Thorp of Palgrave Macmillan was very responsive and helpful throughout the process of manuscript submission through final acceptance.

Introduction: The Environment of Small-enterprise Competitiveness

Jörg Meyer-Stamer and Jery Haar

For quite some time, small and medium-sized enterprises (SMEs) were everybody's darling. Their importance for economic development was unchallenged. Their potential in establishing an international presence was, *inter alia*, documented by Germany's 'hidden champions' and by the small companies from Italy's industrial districts. A widespread perception saw SMEs as the main source of jobs, while big corporations were consolidating, outsourcing and downsizing all the time. Entrepreneurship – the launch of owner-managed small businesses – appeared as the main source of structural change, but also as an important vehicle for upward social mobility.

At the same time, there was wide agreement that SMEs suffered from a number of systemic disadvantages, such as a limited ability to invest in R&D and more difficult access to finance, and that they therefore merited specific benefits and targeted support. Some countries introduced special tax regimes for micro and small companies. In other countries, they enjoyed special status in terms of social security contributions or were exempt from laws that established intra-company trade union rights. There is hardly any country that does not have a variety of SME promotion programmes and institutions; for instance, the OECD's periodic reports on SMEs and SME promotion in its member countries give a good overview of the variety of programmes and activities (OECD, 2005). For the 2000–6 programming period of its structural funds, the Commission of the EU introduced SME support as one of the priorities. Likewise, SME promotion consistently is an element of national development policies in developing countries and in the foreign aid those countries receive.

But the benign view of SMEs has not remained undisputed. In recent years, research at the World Bank has questioned the impact of SMEs on growth and poverty alleviation. Beck, Demirgüc-Kunt and Levine(2003), using a sample of 76 countries, found a strong association between the importance of SMEs and GDP per capita growth. However, while a large SME sector is a characteristic of successful economies, the data in their study fail to support the hypothesis that SMEs exert a causal impact on growth. The researchers also found no evidence that SMEs reduce poverty.

Recent research on the link between entrepreneurship and growth came to a similarly disturbing conclusion. Stel, Carree and Thurik (2004) analysed whether the acclaimed impact of the total entrepreneurial activity (TEA) rate on economic growth stands the test of adding competing variables. They found that there is an impact but not a simple linear one of the TEA rate on GDP growth. Stel and his team found significant non-linear effect: the TEA rate has a negative effect for the relatively poor countries, while it has a positive effect for the relatively rich countries. The results show that entrepreneurship matters. However, the effect of entrepreneurial activity on growth is not straightforward.[1]

At country level, Italy has the highest share of SMEs in employment among the major industrialized countries. Many of them form part of 'industrial districts' – highly specialized local agglomerations of firms. Since the 1980s, a body of literature emerged that pointed to the potential of agglomerated SMEs to become internationally competitive (Piore and Sabel, 1984; Becattini, 1990). More recently, though, the strong role of SMEs has been linked to the weak performance of the Italian economy since the late 1990s (*The Economist*, 2005). Critics of the Italian model point at the low productivity growth and the relatively low R&D/GNP ratio, both of which can be causally linked to the strong presence of SMEs in the Italian economy.

How can one make sense of these findings? Is the main conclusion that Chandler was right, and that the 'flexible specialization' model suggested as an alternative to a Chandlerian way of organizing an economy by authors like Piore and Sabel (1984) and Best (1990) has not passed the test of time? Before hastening to derive conclusions, one should consider a number of points.

Voluntary vs involuntary entrepreneurship

Individuals do not necessarily start a business because they have a brilliant business idea. Frequently, individuals become self-employed or start a micro or small business because there is no alternative. The view put forward by Soto (1989) that the world of micro-enterprises is a hotbed of entrepreneurship is not necessarily wrong, but it is definitely AQ1

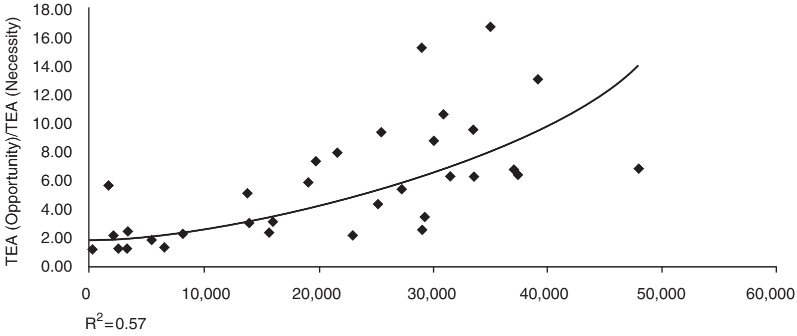

Figure I.1 Ratio of opportunity to necessity TEA by country (GDP per capita, US$)

AQ2 only part of the story. The *Global Entrepreneurship Monitor* (Acs *et al*., 2004) has taken this issue up by distinguishing between 'opportunity' and 'necessity' entrepreneurs.

The curve that indicates the correlation between per capita GNP and the prevalence of opportunity entrepreneurship does not slope quite as steeply as one might expect. In other words, it is not only in developing countries that individuals start their own business because there is no alternative source of income. 'Informal sectors' that are not defined formally, in terms of registration, but qualitatively, by precarious work conditions and limited competitiveness, have also evolved in advanced industrialized countries.

There is also another important starting point for 'necessity entrepreneurship'. Both in developed and in developing countries one of the drivers of involuntary 'necessity' entrepreneurship is outsourcing. Not only large corporations but also SMEs themselves opt for outsourcing to reduce their fixed costs and to reduce the cost of labour, especially by saving on the social security contributions and levies that they have to pay on top of the net wage. From this angle, the issue is not one of growth and SMEs vs large companies, but rather growing shareholder value plus decreasing employment in large companies linked with increasing involvement of SMEs as subcontractors.

Limits to growth

A point that has been increasingly emphasized by agencies like the World Bank is the persistence of unfavourable business environments in many developing countries, despite lengthy efforts to 'structural adjustment'. The structural adjustment approach of the 1980s and 1990s tended to look at macroeconomic factors while neglecting microeconomic issues, such as the functioning of markets. The simple truth is, though, that from the perspective of an SME owner, macroeconomic reform has not been particularly successful. From the perspective of a business person, many of the adjustment processes that have taken place over recent years simply appear as a sequence of shocks and random changes in the rules of the game.

In a country like Brazil, the last major macroeconomic shock happened in 1999 (abandoning a managed exchange rate approach, leading to a massive devaluation), or perhaps in 2003 (another massive devaluation due to political uncertainty). It is difficult to say when severe macroeconomic turbulence started – when annual inflation increased above 50 per cent in the early 1960s? Or when the first oil shock ended the short-lived 'economic miracle' in 1974? Or the beginning of the debt crisis in 1982? In any case, a business owner who has been in business for 30 years has spent most of her life in a hyper-turbulent, unpredictable environment, and a few years of relative stability do not change the attitude that one had better brace oneself for the next crisis. Staying small, limiting the growth of one's business and thus the exposure to external shocks, is a perfectly rational approach.

Thus, in many developing countries the high share of SMEs is not correlated with growth because a significant number of those SMEs prefer to stay small since pursuing a growth strategy would involve major, unmanageable risks. Stabilization policies only reinforce the perception of instability as they involve fundamental changes in the rules of the game, thus one must expect a long time lag before SME owners manifest trust in a new environment of macroeconomic stability and embark on expansion projects.

Where do large corporations come from?

There is no natural trajectory from small to medium to large enterprise. Large corporations, and also many medium-sized enterprises, start out that way and remain that way for a variety or reasons (for example, mergers and acquisitions, leveraged buy-outs, management buy-outs). Compared to the total number of entries, the growth of a micro enterprise into a corporate behemoth, Microsoft-style, is a rare occurrence. The vast majority of SMEs stay in the SME world through their entire life cycle. This can be due to a variety of reasons, from the fact that for specific activities small size is the optimal size, to limited access to funding for ambitious expansion, to a lifestyle decision of the business owner, to the fact that the business owner is not particularly competent. And it is not only lifestyle decisions of business owners that can have an impact on economic performance. When the McKinsey Global Institute (1997) finds that the food industry in European countries is significantly less productive than its US counterpart, this is to some extent explained by lifestyle decisions of consumers, for instance a preference for bakery products that are produced and sold in a neighbourhood business, which usually is an SME. AQ3

Why look at SMEs?

Thus, there are numerous reasons why the tenuous link between entrepreneurship, presence of SMEs and growth of an economy should not come as a surprise. However, it would be unwise to conclude from this statistical observation that SMEs should be left to their own devices. SME promotion per se may cause neither growth nor poverty alleviation, yet at the same time there is not a single high-income economy without a competitive SME sector. The SME sector must not be glorified, and it is unwise to limit business promotion activities to SMEs. Nevertheless, it is essential that the variety of market failures that stand in the way of the SME sector are addressed. The question is not so much *whether* to promote SMEs but rather *how* to do it.

SME promotion in developing countries

In this respect, the practice in developing countries has been confronted with a fundamental critique and a new set of recipes. In the course of the 1990s, a body of literature on SMEs in developing countries has evolved that had little connection to academic research. The Committee of Donor Agencies for Small Enterprise Development, set up by a number of bilateral (for example, USAID, GTZ) and multilateral (World Bank, ILO) donor agencies, assessed the track record of decades of SME promotion activities, and the results were sobering (Donor Committee, 1998; see also http://www.bdsknowledge.org/). Not only had many projects not achieved their objectives, they had often done more harm than good. Usually a significant number of private service providers that catered to SMEs existed in developing countries. Donor interventions often failed to take this into account, frequently setting up or supporting government-run SME support organizations that were not particularly effective but still created unfair competition for private service providers, which consequently battled to survive. The conceptual conclusion from this was the 'BDS approach'. BDS stands for 'business development services', and the main tenet of the approach was this: instead of distorting the market for business services, developmental interventions ought to build and strengthen service markets.

The BDS approach has shaped donor interventions in developing countries since the late 1990s. It has been disseminated through the Springfield Centre's annual BDS summer course and the ILO's annual BDS conference. However, the 2005 ILO conference reader stated the following:

> BDS market development terminology is fading in favor of vocabulary that explains how market development can help the poor benefit from economic growth. What was understood as BDS markets are increasingly called business service markets, commercially viable solutions, or support markets.

What happened? Basically, there were two processes at work. First, the BDS approach as it had emerged from the Donor Committee's work, suffered from serious flaws so that practitioners in the field battled to implement the approach according to the rule book. Altenburg and Stamm (2004) argue that the BDS principles are too market optimistic, underestimating the degree of market failure, and neglect the political dimension of service provision. They point out that many services are effectively public goods, and that even services that might be private goods barriers to entry for potential providers can be significant. Moreover, politicians prefer highly visible interventions to silently functioning markets, therefore they will tend not to be excited about the BDS approach. Caniels and Romijn (2005) argue that effective services are the outcome of a lengthy interactive learning process between provider and customer, whereas the BDS approach encouraged standardized 'off-the-shelf' services that were supposed to become commercially viable in a very short period of time. The BDS approach thus missed the key point related to the D in BDS, for example, the emergence of services that have a significant developmental impact rather than addressing everyday routines in customer firms.

Second, though, the core message of the BDS approach has spread into the wider field of private sector development. The core message is that developmental interventions must try to build markets and make markets work better, rather than crowding out markets through government interventions (Ferrand, Gibson and Scott, 2004). This approach is even more optimistic regarding the potentials of markets and, just like the BDS approach, it is informed by marketing thinking rather than a sound conceptualization of markets and market failure on the basis of microeconomic theory. Just like the BDS approach, it ignores the crucial distinction between necessity- and opportunity-driven entrepreneurship. The deeper insight, which donors hesitate to acknowledge, is that there are small and medium-sized businesses that must be the object of economic policy considerations, while there is a huge number of micro and small enterprises that exist because of the lack of alternative income opportunities and that ultimately are a response to the absence of effective social policy. Lumping all sorts of micro, small and medium-sized businesses together and addressing them under headers such as 'promoting competitiveness' does not do justice to the diverse realities that underlie the SME sector and the diversified policy responses that are needed.

SME evolution and promotion in industrialized countries

The research quoted above questions the widely held perception that SMEs are a source of growth and prosperity in developing countries. However, the same research indicates that in industrialized countries SMEs are causally linked to growth. In fact, the pattern of SME evolution in industrialized countries has changed profoundly since the 1970s and 1980s. Until that period the relative importance of SMEs decreased. It is noteworthy that most industrialized countries have seen the tide turn from 20 to 30 years ago. Figure I.2 illustrates this phenomenon with reference to some European countries.

What exactly has caused this change in the evolutionary pattern is the object of discussions among researchers. One of the determining factors is, in all likelihood, technology. In many industrial sectors, technological change has lowered the minimum efficient scale for production. New industrial and service sectors have evolved and, thanks to the 'innovator's dilemma' (Christensen, 2003), established corporations are often slow to pick up radical innovation that ultimately generates new sectors, leaving the door wide open for new entrants.

Despite the revitalization of SMEs, the life of an SME in an OECD country is not an easy one. Since SMEs are perceived as important creators of jobs, governments in all countries and at all levels are busy promoting them in one way or another (OECD, 2005).

SME promotion activities are to a large extent designed by government officials; however, they are not exclusively designed against the background

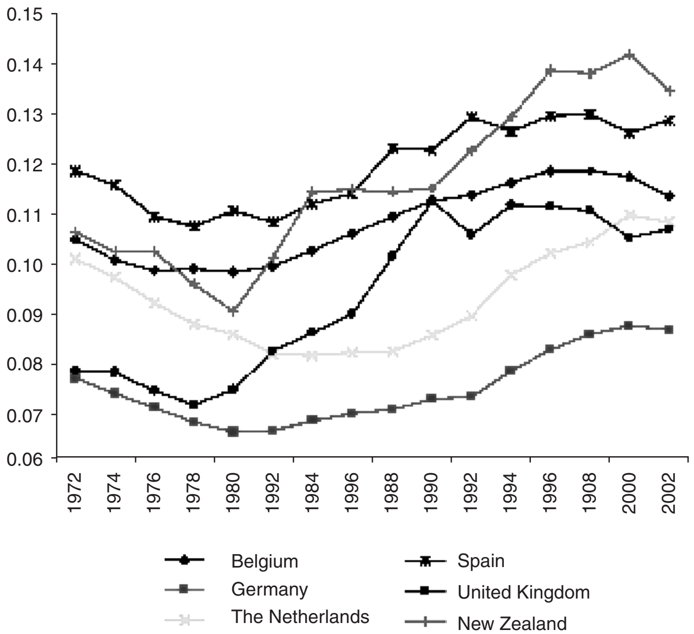

Figure I.2 Entrepreneurship rates (business owners per workforce) in six OECD countries

of the main bottlenecks indicated by SME owners. In an EU survey that was conducted in 2005, SMEs were asked: 'Which of the following would best assure the development of your company?' 31 per cent of respondents opted for 'social and fiscal regulations more suited to your sector of AQ4 activity' (Eurobarometer, 2005). And indeed many governments have introduced policies to reduce the burden of red tape on companies. German government at national, state and local level were among them. Nevertheless, a study found that between 1994 and 2003 the cost of interacting with the public sector had increased by 75 per cent for small companies and by 130 per cent for medium-sized enterprises (Kayser *et al.*, AQ5 2004).

A distant second response in the Eurobarometer survey was 'better qualified people available in the market' (16 per cent), a complaint that also refers to what in most countries is a function of government. In other words, almost 50 per cent of respondents found that the growth of their business was constrained by dysfunctionalities in core government functions.

Governmental SME promotion agencies, on the other hand, tend to promote those issues that scored much lower, such as 'easy access to means of financing' (14 per cent) or 'an advice and support service for the development of your company' (6 per cent). Many governments have created a wide variety of organizations to provide all sorts of financial support (from grants to cheap credit to collateral to venture capital) and real services to SMEs. It is not unusual to find that there are actually so many organizations and promotion programmes that another burden is created for SMEs. Already entangled in red tape, they are now expected to enter a dense jungle of promotion activities. One of the 'dirty little secrets' of SME promotion organizations is that their outreach is quite limited. England's SME-focused business support services reach 10 per cent of SMEs (Caniels and Romijn, 2005), and that is actually a much higher share than that of organizations in other countries (which for obvious reasons prefer not to publish such data).

Globalization and the changing competitive environment for SMEs

Even those SMEs that in principle are entrepreneurial and capable of competing in highly selective markets are facing growing challenges, in particular if they serve more than local markets. National and international markets are transformed through the effects of the economic globalization process. Corporate internationalization through foreign direct investment (FDI) has happened for centuries, mostly driven by an interest to gain access to raw materials or markets. Since the 1960s, another motive has become relevant, namely the search for cheap labour. Many multinational companies relocated labour-intensive but not skill-intensive parts of their production process to countries with low labour costs. This process not only involved huge corporate behemoths but also many medium-sized companies.

The internationalization of companies is only one of the drivers of globalization, though. Another one, increasingly important, is the evolution of global value chains that are mostly organized by lead firms in industrialized countries. The evolution of national and global value chains has been one of the most important transformation processes in the world economy in the past three decades. Often retailers are the lead firms. Prominent examples are Tesco and Metro in groceries, Ikea in furniture and Hennes + Mauritz in fashion. In other industries, for instance in vehicle manufacturing, the manufacturers themselves rule the value chain. In other industries, companies that specialize in design and branding yet don't have their own factories have evolved, one of the most famous cases being Nike.

The evolution and increasing diversity of internationalization patterns has a variety of implications for SMEs. To begin with, a disproportionate share of FDI continues to go to China, contributing to the rise of that nation as the 'workshop of the world'. Companies everywhere, and in particular SMEs that so far have survived in niches and local markets, are under a constant threat that their customers confront them with the 'China price' – a threat to switch to Chinese suppliers unless the suppliers significantly reduce their price.

Related to the above, there has been a consolidation of supplier networks, such as those in the motor vehicle. Some suppliers, typically medium – to large companies, were encouraged to follow their customers to production locations all over the globe. Other erstwhile first-tier suppliers, typically SMEs, were relegated to second, third or fourth tiers, with severe consequences for their growth and upgrading options (Humphrey, 2000).

Another pattern is the increasing internationalization of services, most visibly, but not limited to, information technology (and here not restricted to software development in India). If the Indian experience is any indication, the main beneficiaries appear to have been large companies, both on the customer and the provider side.

Finally, there is the increasing relevance of product and process standards in international supply and subcontracting relationships, a trend that raises the barriers for SMEs' entry into international supplier networks and value chains.

For SMEs, especially for those in developing countries, the evolution of global value chains is not necessarily a blessing. The barriers to entry tend to rise, since lead firms are extremely demanding. Before even being considered as a supplier, a company must have a solid track record in business and quality, and it must comply with a variety of standards; obtaining them involves a lengthy and costly process. Being part of a value chain makes business more stable and predictable, but also more nerve-wracking since buyers constantly demand lower prices. To some extent, the emergence of relatively clearly structured global value chains may make the structure of the world market more transparent. The unvarnished truth, however, is that the world market is still an extremely complex and complicated animal, which can hurt SMEs badly if they don't thoroughly understand the rules of the game. For SMEs in developing countries, especially those who have little experience in international markets, the barriers to entry are high and increasing.

SMEs in industrialized countries may be familiar with the rules of the game, but they certainly do not like them. SMEs in a globalized market continue to find themselves between a rock and a hard place.

An overview of the chapters

In presenting the competitive challenges before small firms in the new economy – the theme of this book – the editors have organized the volume in two parts: one examines generic issues on the topic, and the other provides several case studies.

The first chapter addresses the critical context of small firms and their relationship to global market challenges – namely, local industrial development and its nexus to global value chains. Peter Knorringa and Jörg Meyer-Stamer point out that industrial policy disappeared in the 1980s and 1990s and was replaced by a new pressure on local governments, resulting in an increase in government-driven local economic development (LED) efforts. They argue that, although these efforts have been reinforced by recent value chain promotion, they must be complemented with strategic national initiatives if they are to be successful.

While efforts to develop and support clusters, strengthen value chains and promote sound governance are indispensable to small-firm competitiveness, these initiatives will not produce expected results without access to financing for SMEs. Deborah Riner examines issues in financing small enterprises – firms that share the common problem of access to capital regardless of where they are located. Her chapter summarizes SME literature on the subject and uses the case of Mexico to discuss the institutional constraints on SME financing – ones that apply to all developing countries, not just Mexico. She points out that the sources of financing that are most appropriate for SMEs depend on the institutional and economic context in which the firms do business. That context is different in developed countries and developing countries and between the developing countries themselves.

Although small firms are often constrained by their size in competing with larger enterprises, they do possess advantages in serving the large and growing low income sectors (LIS). Patricia Márquez and Ezequiel Reficco assert that SMEs are ideally positioned to work with LIS because of their mission centrality, proximity and flexibility and innovation. They discuss they ways in which SMEs can help to integrate LIS into the value chain as customers, suppliers and partners and allow LIS to become engines of value creation through access to the economy and transfer of skills.

If small and medium-size enterprises are to succeed in the global economy, public sector policies, financial accessibility, and niche strategies (for example, targeting low income sectors) will weigh heavily in the competitiveness equation but will be insufficient without the key forces of innovation and entrepreneurship. Focusing on SMEs in Finland's software sector, Maija Renko and Jery Haar examine innovativeness and entrepreneurial orientation of young, small firms that internationalize at an early stage and their relationship to competitiveness. They identify four characteristics that are essential for the success of internationally oriented, innovative and entrepreneurial SMEs: people, markets, technology and networks.

Global case studies of Mexico, Italy, Spain, Nigeria and India illustrate how some of the generic issues and related subjects discussed in the first part of the book play out at the country level. Jaime Alonzo Gómez describes the current state and future prospects of Mexican SMEs – enterprises that comprise 99 per cent of total businesses in the country yet only 10 per cent of exports. He assesses that SMEs lack management know-how, technology, access to finance, human capital, customer service and innovation that are necessary for them to grow. SMEs lack an export orientation, logistics infrastructure, relationships with universities and research centres necessary for international expansion. The government has developed industrial policies and programmes to help create, develop and consolidate SMEs, but more macro and regulatory reforms are needed, according to Gómez.

Focusing on Europe, Anna Carabelli, Giovanna Hirsch and Roberta Rabellotti investigate Italian SMEs and industrial districts and convey intriguing findings. Italy has suffered from the structural changes experienced by the Europe Union. Since the late 1990s, the Italian economy has experienced a slow-down in economic growth, mainly due to the decline in labour productivity. The decline has been in particular in the 'Made in Italy' manufacturing sector, which is dominated by small firms and the traditional sector. The three authors address manufacturing systems and the predominance of SMEs and their organization in industrial districts, specialization in the so-called traditional sectors and the international pattern of specialization. The second section then presents a review of the recent and more interesting studies analysing the main changes that are occurring in industrial districts: the shift in production specialization, the international strategies of firms and districts, their innovation capacity and the emergence of new forms of enterprise organization.

The Spanish economy has been gaining importance in the world stage and its companies are continuously improving their competitiveness. In the last ten years, Spain has become a net exporter of capital and was in the first group of countries launching the Euro. Guillermo Cardoza and Gastón Fornés, in examining globalization and Spain's SMEs, argue that in spite of all this, Spanish productivity is 20 per cent lower than that in the EU due to the low level of development of the country's innovation system. This deficiency is caused by low corporate investments in R&D+I, weak links between universities, businesses and public entities, and the low level of human resources. Cardoza and Fornés give an overview of the Spanish economy along with a description of the SME sector (99 per cent of companies are SMEs) in Spain and the challenges that these companies face in global markets. The chapter also describes important policies and incentives available for promoting the development of SMEs in Spain, with particular attention on cluster formation, the industrialization of regions and the roles of business associations, universities and business schools in the consolidation of companies.

Informality in the SME sector in Nigeria is the focus of intensive examination by Kate Meagher. She notes that small enterprise clusters are viewed to promote competitive small-firm development and create economic governance in which inter-firm networks coordinate economic behaviour. Clustered firms rely on the strength of social ties, which allow them to out-compete large formal sectors, especially during times of economic upheaval, unstable markets and weak states. Clusters have led to economic growth all over the developing world except in Africa, due to the lack of networks, trust and social ties and the existing networks being the wrong kind – relying on risk minimization rather than productivity enhancement. The widely held view is that African clusters lack embeddedness; and this chapter reviews the history and development of African clusters – three Nigerian clusters, in particular – to understand why they are not as successful.

Finally, turning to India, Keshab Das argues that small Indian firms have the potential to contribute to the economic progress of the country. India has a history of small-firm development policy that has aimed to generate employment and reduce regional disparities in growth. However, Das asserts that the employment issue needs attention as post-reform small-firm policies have not given it much importance. Indian small enterprises must deal with roadblocks such as poor credit availability, low levels of technology and inadequate or absent basic infrastructure – physical and economic.

Small firms face daunting challenges in confronting the direct and indirect impacts of globalization. Clusters, value chains and governance are being reassessed and reshaped due to this trend. And each country and sub-region, down to the municipal level, is experiencing changes – some by choice, some by necessity – as they strive to not only preserve but expand growth, development, employment, competitiveness and overall economic well-being. The following chapters delve into the dynamics of small-firm competitiveness in global markets and, it is hoped, provide illumination of the policy options and strategic choices facing the SME sector worldwide.

Note

1. Note that 'relatively poor countries' in this case refers to countries like Argentina, China, Hungary, India, Mexico, Poland and Thailand.

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