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**HOW CAN SMALL ENTREPRENEURS
CONTRIBUTE TO EFFICIENT ECONOMIES?**

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ABSTRACT

In recent years, small and medium-sized enterprises have shown remarkable development in the economies of developing countries and in today's world economy. Today, there is no consensus on the definition of SME in the world literature. Within the main definition of small and medium-sized enterprises, in different countries, even different units within the same country, give different characteristics to SMEs. Therefore, there is often confusion in definition. For SMEs, which constitute the dynamo of the Italian world trade network, this study will primarily focus on the place and functioning of the SME definition in the world. In addition, the concept of SME in Italy will be emphasized and details of the restructuring of SMEs will be discussed. In this context, financial support and financing needs provided to SMEs in the Italian economy are addressed, and the impact and importance of SMEs on the Italian economy will be emphasized.

ABSTRACT

Negli ultimi anni, le piccole e medie imprese hanno mostrato uno sviluppo notevole nelle economie dei paesi in via di sviluppo e nell'economia mondiale. Oggigiorno, non c'è consenso sulla definizione di PMI nella letteratura mondiale. Nell'ambito della definizione principale di piccole e medie imprese, in diversi paesi - anche in unità diverse all'interno dello stesso paese - le caratteristiche delle PMI sono diverse. Pertanto, c'è spesso confusione nella definizione. Per le PMI, che costituiscono il volano della rete commerciale mondiale italiana, questo lavoro si concentrerà principalmente sulla distribuzione geografica e sul funzionamento della definizione di PMI nel mondo. Inoltre, verrà sottolineato il concetto di PMI in Italia e verranno discussi i dettagli della ristrutturazione delle PMI. In questo contesto, sarà affrontato il sostegno finanziario fornito alle PMI nell'economia italiana per far fronte alle loro esigenze di finanziamento, e verranno descritti l'impatto e l'importanza delle PMI sull'economia italiana.

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INTRODUCTION

Enthusiastic entrepreneurship and small businesses are a vital part of the individual, society and economic system, both socially and economically. It increases the competitiveness of small firms by offering high technology service and production models, flexible organizational structures, ease of access to information and communication networks, and alternative production and marketing models for entrepreneurs who aim to produce or develop new ideas. In addition to this, large companies that compete to survive in changing world conditions are shrinking, preferring to do business with small-scale companies in order to reduce their costs, which creates new opportunities for SMEs.

Small and medium-sized enterprises (SMEs) are the economic units that have always existed in the economy, but are particularly recognized when moving from the Industrial Society to the Information Society. Along with globalization, economies have switched their preferences in the type of enterprises. They now tend to prefer “Small and Medium Sized Enterprises” (SMEs) instead of large corporations representing mass production and Fordist-Taylorist manufacturing methods belonging to the earlier period. After the post-industrial age, the importance of SMEs has considerably increased. With the rise of globalization in the aftermath of the 1980s, SMEs have become major actors in the world economy due to their compatibility with the changes in the world economy and their flexible, dynamic, creative, innovative, simple and crisis-resistant structure. In current world, setting a suitable atmosphere to improve and secure SMEs has become the central aim of the economic policies. Following the realization of the socio-economic importance of SMEs, a number of many supportive and incentive policies have been put in effect in not only all developed countries.

In this study, it has been aimed to analyze How Can Small Entrepreneurs Can Contribute to Efficient Economies. In this article, the increasing importance of small and medium sized enterprises in the world and the SMEs positions in Italy's economy will be mentioned.

1. SMES IN THE WORLD

1.1 THE SPIRIT OF ENTREPRENEURSHIP AND INCREASING IMPORTANCE IN THE GLOBALIZED WORLD

The entrepreneurial spirit plays one of the most effective roles in reviving the economic system, especially since flexible production and organizational structures have gained importance. However, in a globalized world, performance indicators in local economies gain importance with their roles that trigger innovation and increase dynamism.

An entrepreneur is a person who seeks the opportunity to benefit economically or otherwise by establishing a business. Morrison (2000) states that the foundations of entrepreneurship should be sought in the individual and the society and culture in which they live; the source is in the human spirit and emerges in environments of uncertainty and competition. Littunen (2000) states that opening a new workplace is a purely individual decision, and that the individual's curiosity for innovation and the desire for initiative are at the forefront of this decision-making process. He defines the characteristics of a successful entrepreneur as risk-taking, openness to innovation and change, ownership and regulatory knowledge of market operation and know-how, management and marketing capabilities. He states that an entrepreneur must have the ability to see and exploit business opportunities, correct mistakes, and smell profitable businesses.

In addition to the individual characteristics of entrepreneurs, the social structure and culture in which they are located are also important in encouraging entrepreneurship. Morrison (2000) argues that the culture in which it lives is also effective when it comes to

entrepreneurship spirit as it directs people's behavior and attitudes. With the introduction of different models in each period, it is seen that the types of behaviors that are frequently mentioned together with the entrepreneurial culture are innovative, holistic, risk-loving, regular; In general, the entrepreneurs encouraged societies, business and trade in the international arena in the international arena, and especially in the period from the end of the 20th century to the present day can be defined as entrepreneurship culture. In addition to this, some cultural features prevent entrepreneurship and cause problems in small business sector. Business and shortage of social networks, shortage of demand in the local economy, lack of access to finance, lack of role models in society, lack of experienced persons, structural differences between sectors and state interventions are some of them.

When we look at the relationship between entrepreneurship and the performance of small businesses, it can be argued that there are some relationships between the personal characteristics of entrepreneurs and the success of small businesses. These; responsibility, taking initiative, patience, creativity and analytical thinking, human relations ability, technological knowledge, written and verbal communication ability.

1.2 GENERAL CHARACTERISTICS OF SMES

1.2.1 Definitions

Small and Medium Sized Enterprises (SMEs) do not have a common definition and criteria. In addition to the change from country to country, it is seen that different criteria are used in different lines of business in the same country and even in the same line of business over time. The most commonly used quantitative measure is the number of workers. In various countries, those who employ less than 50 or less than 10 workers are small, and those

who exceed these levels and employ less than 100, 300 or even less than 500 workers are also considered medium-sized. In order to overcome this degree of confusion, small and medium-sized enterprises are often classified together.

In the definition of a common SME, the criteria used in almost all countries differ in terms of quantity and quality:

- **Quantitative Definition Criteria:** Number of workers, capital size, total assets, profit, energy use, turnover (sales revenue), machinery, capacity (production volume)
- **Quantitative Definition Criteria:** The actual work of the entrepreneur, division of labor and specialization, financial insufficiency as a result of limited capital, insufficiency in the application of management techniques.

Generally, the criterion adopted is based on the number of workers and capital. For example, in the USA, the number of workers is taken as a criterion. Secondly, the most valid quantitative measure is the annual sales amount of the enterprise. In addition to the number of workers in Germany, the invested capital and annual sales amount, the number of staff and the invested capital amount in Japan are taken into consideration. However, the criteria for the number of workers vary in all countries.

Table 1: Definitions of SMEs in European Union

TYPE OF ENTERPRISE	DEFINITION
Small and Medium-sized Enterprises (SMEs)	Employs less than 250 workers, Balance Sheet: 43 million Euro Complies with the criteria of 'independence' businesses
Small-sized Enterprises	Employing fewer than 50 workers, Balance value: 10 million Euro 'Independence' criteria businesses
Micro-sized Enterprises	Less than 10 workers are employed. Balance value: 2 million Euro

Source: European Commission Recommendation 2003/361

1.2.2 General Characteristics of SMEs

- SMEs have managers or founders with entrepreneurial skills.
- Thanks to their entrepreneurial and business-oriented managers, SMEs can act independently.
- The SME owner not only manages the business, but also contributes to the fulfillment of other business functions such as financing, marketing and supply. In other words, the founder and / or manager of the enterprise has the characteristics of a general manager. However, they do not perform adequately in financial planning.
- They may be inadequate in terms of management and organization.
- They can create high production and product diversity with low budget investments.
- They can create high employment opportunities with low investment costs.
- They contribute to balanced interregional development and reduce inequalities in income distribution. They assume the role of balance and stability in economic and social terms.
- Financing problems are one of the biggest challenges facing SMEs

- However, these problems not only remain in the establishment stage, but also continue in the business process.
- Their efficiency is low due to their small scale structures.
- Their own capital is insufficient. Since they are not institutionalized enough, they cannot obtain funds from capital markets. They also have problems in finding credits.
- Market and sector information is not sufficient and there is no tendency to conduct market research. There are also infrastructure deficiencies in marketing and promotion issues. Furthermore, their knowledge on this subject is insufficient.
- Having a flexible structure, SMEs are less affected by economic fluctuations than large enterprises. However, they may be affected by some adverse conditions more than other enterprises because of their small size.
- Easier adaptation to changes and variations in demand
- Can provide. They are also supportive and complementary to large industrial enterprises in terms of their products and services.
- Due to its flexible structure, it has the ability to adapt rapidly to technological innovations. However, their technical knowledge is insufficient and technology levels are generally low.
- Since the quality of the products and services they produce do not always meet the standards fully, their share from the export may be low. However, they can quickly diversify their product range according to demand and easily adapt to the demands of the sector.
- Their competitiveness is low.
- Due to the complexity of the incentive and support regulation and the fact that the bureaucracy is destructive, their knowledge of the regulation is not sufficient and

therefore they do not benefit from government incentives and other financial instruments sufficiently.

- National and international commercial developments or technological innovations
- Have not kept pace.
- They cannot produce the necessary policies in the selection of location and in which sector they will invest.
- It looks like a family business and is generally evaluated according to whether it is a family member or not. They are far from the idea of employing appropriate personnel for the job.
- They can contribute to lowering unemployment because they often work with labor-intensive technologies and employ unqualified or low-qualified personnel. Due to these characteristics, they suffer from shortage of qualified personnel.
- Although not all, they work informally because they refrain from meeting the social security premiums of the staff they employ, and this may lead to unfair competition.

1.2.3 The Importance and Place of SMEs in the Economy

It is known that small business has a historically important place in all countries of the world and is based on a very old past. They served as the basic building block of economies until the industrial revolution took place and the mass production style came to the fore with the help of machines. After the industrial revolution, with the emergence of large enterprises making mass production by taking advantage of the scale advantage and obtaining significant cost advantages with this method, small and medium-sized enterprises became unable to compete and many of these enterprises had to close. However, small and medium-sized enterprises have been able to adapt to changing conditions with their flexible and dynamic

structures. In addition, SMEs began to gain importance as the large enterprises and mass producing enterprises were seriously affected by the oil crisis that erupted in 1973. These enterprises are an indispensable element for the economies of the country; economic revival, structural change and adaptation to technological innovations.

It is seen that SMEs occupy an important place both socially and economically. SMEs are spread over all geographical settlement areas covered by a country's economy. Therefore, SMEs are more rural than large-scale enterprises concentrated around large cities. SMEs are an important force in eliminating regional development disparities, providing employment opportunities and keeping democratic life alive, as they are widespread. It creates the basis for the development of the region within its potential by preventing the migration from small cities to big cities by creating employment opportunities. In addition, the entrepreneurs' desire for property, their willingness to invest, their passion for success and their courageous steps are among the fundamental mechanisms of political stability.

SMEs are considered as an important factor in achieving economic growth especially for the USA, Japan and EU countries. SMEs contribute to the economy by providing goods and services as independent economic units, and complement the development of these enterprises by acting as a “sub-industry için for large enterprises.

2.SMES IN ITALY

2.1 ITALIAN SMALL AND MIDDLE-SIZED ENTERPRISES

In the Italian literature, the definition of SMEs does not always reflect the European Commission's definition (enterprises employing fewer than 250 employees). A number of studies, for example, refer to medium sized enterprises as those employing between 49 and 499 people (for example, Mediobanca Unioncamere, 2011). At the same time, much of the Italian Labor Law provisions use 15 employees as a threshold, with medium-sized and large enterprises being defined as those employing more than 15 employees. This implies that observing the effects of support measures by firm size can be difficult for those enterprises employing fewer than 15 employees. For these reasons, while SMEs are the backbone of the Italian economy, and restructuring is a topic of public debate, there is not often explicit reference to SMEs. In particular, and even more so in times of recession, there is quite an animated debate on what measures can be used to help firms restructure that have the least effect on employees. Indeed, while there has always been a public debate on SMEs' restructuring and support in terms of business expansion and internationalization, the public debate on the kind of restructuring that might negatively affect employment has been more prominent since the economic recession. This has resulted in the extension of support measures to SMEs that enable restructuring without impacting on employment levels.

The role played by SMEs in Italy is larger than the average for the EU. SMEs generated 67.1 % value added against an EU average of 56.8 %, while they generated 78.5 % employment against the EU average of 66.4 %. Micro firms are particularly important, providing 28.6 % of overall value added and 45.9 % of overall employment in the 'non-

financial business economy'. Manufacturing is the most prominent sector with a substantially higher proportion of SME value added and employment than the EU average: 31.1 % of all SME value added and 24.8 % of all SME employment. The average number of people employed in Italian SMEs is 3.0, around 1 below the EU average.

Table 2: Basic Figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Italy		EU-28	Italy		EU-28	Italy		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	3 565 046	95.1 %	93.1 %	6 661 193	45.9 %	29.4 %	201.2	28.6 %	20.7 %
Small	162 598	4.3 %	5.8 %	2 921 184	20.1 %	20.0 %	144.9	20.6 %	17.8 %
Medium-sized	18 465	0.5 %	0.9 %	1 808 802	12.5 %	17.0 %	125.3	17.8 %	18.3 %
SMEs	3 746 109	99.9 %	99.8 %	11 391 179	78.5 %	66.4 %	471.5	67.1 %	56.8 %
Large	3 221	0.1 %	0.2 %	3 125 454	21.5 %	33.6 %	231.7	32.9 %	43.2 %
Total	3 749 330	100.0 %	100.0 %	14 516 633	100.0 %	100.0 %	703.1	100.0 %	100.0 %

These are estimates for 2017 produced by DIW Econ, based on 2008-2015 figures from the Structural Business Statistics Database (Eurostat).

SMEs in Italy have recently been showing signs of recovery. After years of decline, SME employment rose by 2.1 % over 2015-2017, rising by 1.3 % between 2016 and 2017. However, in 2017, it was still 11.6 % lower than in 2008. This subdued SME employment performance lags significantly behind the strong performance of large firms, whose employment increased by 6.6 % in 2013-2017. On value added, SMEs started to recover in 2013-2014. It increased by 9.6 % between 2013 and 2017, including a rise of 2.2 % in 2016-2017. Thanks to this growth, SME value added has almost reached its pre-crisis level, and in 2017 it was only 0.8 % lower than in 2008.

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2008. Manufacturing is one of the sectors in which SMEs have not yet fully recovered from the crisis. Although in 2017 SME value added was 2.7 % higher than its 2008 level, SME employment remained 17.1 % below the 2008 level. Large firms, which experienced a less pronounced downturn compared to SMEs, performed better, with value added in 2017 being 14.9 % higher than its 2008 level and employment only 11.8 % lower than its 2008 level. However, mirroring the positive SME developments overall, there was an end to the decline in SME employment. In 2015-2017 SME employment rose again by 1.9 %. SME value added also increased by 4.1 % over the same period. The factors contributing to this development were an upturn in demand, especially from abroad, leading to rising exports, accompanied by an ongoing reduction in SME debt. Another contributing factor was growth in investments, which the government encouraged through incentives in the Impresa 4.0 Plan, previously known as the Industria 4.0 Plan, which aims to stimulate innovation and increase the competitiveness of Italian manufacturing firms.

Fewer Italian firms than average in the EU have scaled-up their operations in recent years. In 2015, 11 912 firms — 7.6 % of all firms in the ‘business economy’¹² with at least 10 employees — were classified as high-growth firms¹³, substantially more than in 2014, when the proportion of high-growth firms was only 6.8 %. Nevertheless, this is still 2.3 percentage points lower than the EU average. The outlook for Italian SMEs is mixed. While SME value added is expected to increase by 2.0 % in 2017-2019, SME employment is expected to fall by 1.4 % in the same period.

2.2 SMES PROFILES

Italy's SME profile performs below the EU average in 8 out of the 10 SME principles. These principles are entrepreneurship, 'second chance', single market, environment, internationalization, 'responsive administration', state aid & public procurement and access to finance. In the last three areas Italy is among the three weakest performers in the EU. On a positive note, skills & innovation is the one area where Italy performs in line with the EU average. Against the previous reference period, the country's performance has improved in this area.

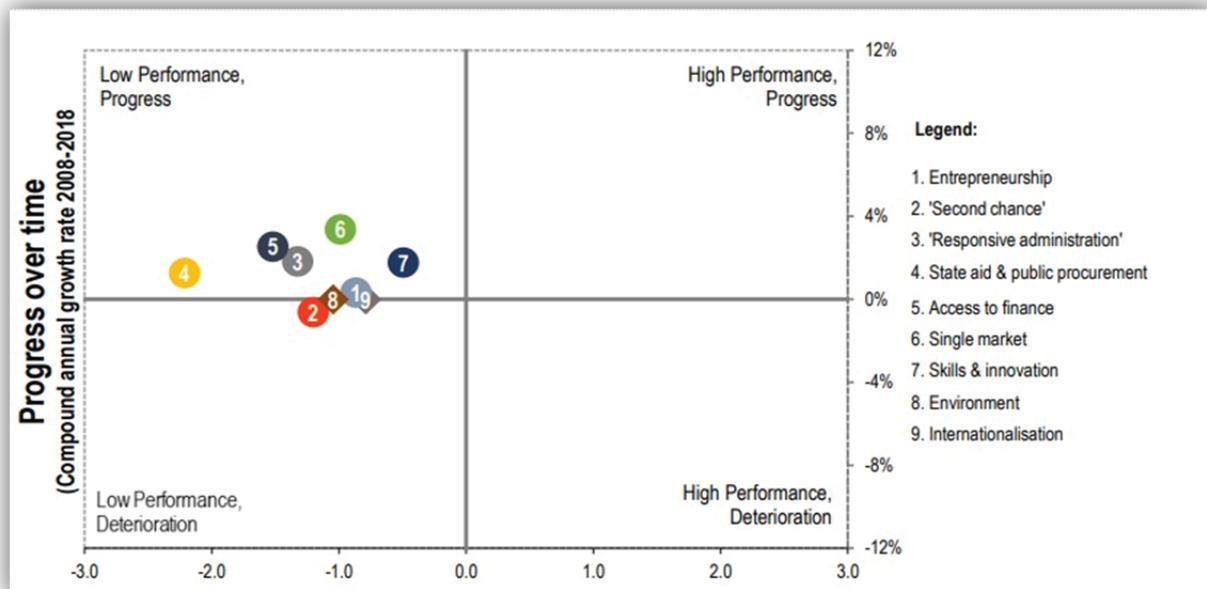


Since 2008, the Italian government has made policy progress in implementing the Small Business Act — addressing many of the SME recommendations. A body at the Ministry of Economic Development was appointed to monitor the implementation of the SME. Regarding the implementation of the SME recommendations, there are still some problematic areas that require more action. For instance, taxation and heavy bureaucracy, a lack of efficiency in public administration and limited access to finance still pose difficulties for SMEs. During 2017 and the first quarter of 2018, Italy adopted 24 policy measures and formally announced 2 new measures, addressing all 10 principles under the Small Business

Act. The most significant progress was made in the areas of entrepreneurship and skills & innovation.

Several measures were introduced to encourage entrepreneurship, especially among young people living in Southern Italy. Incentives were given to promote new businesses in the agricultural sector which is being revitalized, thanks in particular to young people establishing new companies. In skills & innovation, a major focus was put on developing employees' skills in innovation and Industry 4.0 technologies as well as providing incentives for the digitization of business processes.

Table4: SME performance of Italy: state of play and development from 2008 to 2018



Source: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

3.RESTRUCTURING SMES

3.1 RELEVANCE OF DIFFERENT TYPES OF RESTRUCTURING FOR SMES

Internal restructuring can be seen as the primary type of restructuring for SMEs as, by doing this, firms can:

- reduce costs;
- apply processes of rationalisation;
- temporarily safeguard employment levels with the support of the wage guarantee fund (CIG).

During the crisis, the relevance of internal restructuring increased dramatically and in many cases, when the procedure did not reach the set aims, there were mergers and acquisitions, as well as a rise in bankruptcy and closures. Not much literature is available on relocation, as this has always been seen as standard practice for a firm that wants to reduce costs, although during the crisis it was observed that a number of enterprises decided to relocate in order to flee from creditors. Most of the literature on SME restructuring focuses on internationalisation, especially in terms of export and commercial and trade agreements with foreign partners, as strategies aiming at business expansion. Also, international outsourcing is often used as a tool for internationalisation either with the aim of expansion in foreign markets or of reducing costs. In order to reduce production costs, Italian SMEs have also been quite active in delocalisation and offshoring.

Finally, a substantial part of the literature available on restructuring in SMEs focuses on enterprise growth, in terms of size and output via innovation, access to credit and growth on foreign markets.

3.2 DISTINCTIVE CHARACTERISTICS OF RESTRUCTURING IN SMES

Restructuring processes can happen at various phases of an enterprise's life. They signal the need for change and if this change is anticipated, planned and properly managed, they can also result in the strengthening of the enterprise.

A well-planned and managed restructuring event may result in an improvement of the skills of the members of the organization and in the introduction of innovative processes and outputs. However, there is limited research on anticipation of restructuring in SMEs, and literature suggests that restructuring is often implemented in an unplanned and unanticipated manner. In particular, literature suggests that in restructuring, which negatively affects employment levels, entrepreneurs often do not understand the symptoms of changing situations, often only acknowledging them when it is too late. This is also due to the lack of diagnostic tools; crises are often signaled by phases of decline and, if diagnosed in time, the degenerative process can be stopped and restructuring can indeed represent an opportunity for innovation, progress and growth. However, too often crises happen, not because they are inevitable, but because enterprises do not heed the warning signs. This is the reason why much crisis management literature suggests developing, within firms, a culture of change aimed at facing crisis, not as an extraordinary event but rather as a key element of strategic planning (Arcari, 2004).

Ways of anticipating restructuring are also closely linked with monitoring and identifying structural shifts, particularly with the development of new competences and skills, but also innovation in terms of technology, as well as organizational innovation. However, given the relatively small size of SMEs and the extremely high incidence in Italy of micro enterprises (1–9 employees) it must be highlighted that SMEs not only struggle in finding available

resources to implement innovative processes and technologies, but are also less likely to have a proper Human Resources department, a written HR strategy or a clear strategy for staff development. However, these results should not be misinterpreted. Indeed from Confindustria's focus group study it emerges that SMEs recognize the importance of skills development. The survey shows that some competences and skills seem to have a favorable effect on restructuring. In particular, according to the respondents, these were:

- technological competences (24.7% of micro and small enterprises and 24.6% of medium-sized enterprises);
- human capital skills and competences (12.3% of micro and small enterprises, and 13.4% of medium-sized enterprises);
- Organization of production (8.6% of micro and small enterprises and 9.9% of medium-sized enterprises) (Arrighetti et al, 2011).

Furthermore, the report GreenItaly (Unioncamere-Symbola, 2011) says that as a response to the economic crisis, more and more Italian firms, and particularly SMEs, have been trying to improve their competitiveness by investing in innovation. In Italy, in 2010, 30% of SMEs invested in green products and green technologies, with 57.5% of SMEs doing this in 2011 (ISFOL, 2012). This trend is also confirmed in the Demos and Pi study by Corò and Gurisatti (2011) where 72.3% of surveyed SMEs declared that environmental issues were an opportunity for business expansion and innovation, rather than a constraint to growth.

3.3 MANAGING RESTRUCTURING

The majority of restructuring processes in Italy are managed through the use of social shock absorbers, the collective dismissals legislation and the mobility procedure. The main instrument available is a system based on a wage supplement, the wage guarantee fund (Cassa Integrazione Guadagni, CIG) managed by the National Social Security Institute (INPS) and mainly used by medium-sized and large businesses (in Italian terms, those with more than 15 employees) in the manufacturing and construction sectors. Within the system there are two different schemes: The ordinary wage supplement (CIGO) and the extraordinary wage supplement (CIGS), with the alternative of solidarity contract (Contratto di Solidarietà, CS). A second system aims at maintaining jobs in the small businesses and craft sectors, which do not have access to the CIG system. These bilateral bodies jointly managed by social partners, pay specific subsidies, as part of unemployment benefit, to workers if their hours are reduced or suspended, with the contribution of the Employment Fund managed by the Italian Ministry of Labour and Social Policies.

The CIG is the primary intervention designed to support workers affected by reduced working time and temporary suspension of work. Established in 1947, the CIG plays a key role in the Italian social shock absorber system. It was created after the Second World War to protect the income of industrial workers whose jobs had been destroyed during the war. Its origin, therefore, lies in the safeguarding of workers' income from events that are not the employer's fault. Later, the measure was used to help during temporary market shrinkages and was intended as a means of temporary income protection for employees, in the expectation that the company and its employees would soon resume normal activity; this is nowadays known as CIG ordinaria (ordinary wage guarantee fund, CIGO).

To face the crisis, INPS notice No. 58 of 20 April 2009 modified the criteria to calculate the periods during which benefits are paid by CIGO: previously, each week in which there had been even a partial reduction of working hours was counted as a whole week of CIGO, now this calculation is based on the days in which working hours have been reduced. In practice this results in a longer period of CIGO availability. In terms of funding, the CIGO is based on an insurance mechanism and it is entirely financed by contributions paid by the employers, who pay a contribution on all wages to the INPS in order to provide for CIGO. In periods when CIGO is used, the employer pays the wage support to the employees, and then recoups the amount from INPS. Since its introduction, the CIGO budget has always been in surplus and, even during the current crisis, its budget is in balance. The CIGS is the main measure aimed explicitly aimed at managing restructuring. It was introduced in 1968 to help firms avoid making dismissals. CIGS cannot be used for senior executives, temporary agency workers, home workers or apprentices. It applies to blue and white collar workers (full-time and part-time), employed for at least 90 days in the full enterprises in the industrial, construction and building supply sectors, with more than 15 workers;

- enterprises in the commerce sector with more than 50 employees;
- publishing companies with any number of employees;
- enterprises in the craft sector with more than 15 employees and complying with Law 223/91;
- enterprises in the restaurant and catering sector with more than 15 employees, only if the contracting enterprise is using CIGS;
- enterprises providing cleaning services only if the contracting enterprise is using CIGS;
- service enterprises with more than 15 employees;

- cooperatives with more than 15 employees;
- travel agencies and tour operators with more than 50 employees; owing enterprises:
- enterprises providing security activities with any number of employees;
- enterprises operating in air transport and other supporting air transport activities with any number of employees.

It also applies in the following cases:

When the enterprise reduces or suspends its activity due to:

- restructuring, reorganisation or change of activity;
- crisis of the enterprise;
- bankruptcy.

Furthermore, a necessary condition for access to CIGS requires that the enterprise draws up a plan for relaunching production and safeguarding jobs.

3.4 MAIN CHALLENGES AND CONSTRAINTS FACING SMES IN RESTRUCTURING

SMEs have intrinsic characteristics that make their restructuring substantially different to restructuring in large enterprises. Their size and more limited access to instruments to anticipate and manage restructuring means they are more vulnerable to cyclical economic downturns and, again, their size seems to undermine their bargaining power with banks and other financial institutions so that they find it more difficult to access credit. In fact, due to their limited size and resources, not only financial but also in terms of human resources and their capabilities, many SMEs are viewed as lacking the formal business plans and/or cash

flow projections and the type of planning and information usually required by banks to secure credit. As a result SMEs score higher than average failed loan requests or have to pay higher interest rates to compensate for perceived risk. Either way, credit and funding support dries up when most needed and no investment or restructuring can be implemented without financing and credit. Indeed, from the study by CSC-Demos and Pi (Corò and Gurisatti, 2011) the main reasons for not investing in innovation were given as:

- uncertainty of the economic situation;
- lack of credit
- less favourable normative and administrative framework

The same sampled SMEs, asked about obstacles to business expansion, pointed to:

- weak demand
- lack of capital
- bureaucracy

The emphasis on costs is also highlighted in the results from Istituto Tagliacarne (2011) where SMEs said the main reasons preventing them from international outsourcing, were:

- unsustainable costs
- inadequate quality of the offered services
- lack of an adequate network of services

The economic downturn prompted financial institutions to review their lending policies and define credit worthiness using stricter guidelines. SMEs have been profoundly affected by these changes, largely in the form of reduced access to capital. This is extremely important as the lack of finance might cause SMEs to postpone investments, thus constraining their

business. Indeed, financial uncertainty haunts Italian SMEs as they still battle to get through the recent economic turmoil.

Also, cash flow issues are a major challenge for many Italian SMEs. Overall, 43% of Italian SMEs told the 2010 survey that it was harder to manage cash flow than it had been a year ago; just 12% said it was easier; and 44% indicated it was about the same. The study showed that slow receivables and low revenue, in particular, were straining cash flow for Italian SMEs. A significant number of respondents were anxious that they didn't have a strong enough capital position to survive another downturn.

Moreover, given the specific characteristics of SMEs, entrepreneurs often tend to establish a relationship of trust and friendship with the employees. This can mean that restructuring decisions, especially those involving changes in the status quo, a reduction in employment levels or even worked hours, are often unpopular and difficult to make and obviously challenge the SME's ability to restructure.

3.5 BUSINESS SUPPORT FROM PUBLIC AND PRIVATE SOURCES

3.5.1 Public Sources

The Italian Ministry of Economic Development has implemented a series of measures to support SMEs, which are aimed to complement support programmes administered by the European Commission, and the Small Business Act (European Commission, 2008).

In order to prevent bankruptcies and to incentivize negotiating measures aiming at the survival of the enterprise the law on bankruptcies was reviewed. Furthermore in southern regions areas of ‘zero bureaucracy’ have been established (Law 122/2010).

In order to facilitate SMEs in accessing credit, law 662/96 established a central guarantee fund for SMEs (Fondo centrale di garanzia per le PMI) aimed at facilitating SMEs’ access to finance via granting a public guarantee on financial operations. The fund is aimed at businesses in all sectors and covers all kinds of financial operation within the scope of their business activities. It guarantees between 60% and 90% (depending on the amount borrowed) of the amount borrowed, up to €1.5 million.

The national fund for innovation (fondo nazionale per l’innovazione) aimed at easing SMEs, difficulties in obtaining the guarantees necessary in order to get financing and credit to innovate and produce goods based on innovative patents. The fund is allocated €80 million in order to put in place a mechanism of credit and investment risk-sharing for banks and other financial intermediaries financing projects connected to patents.

The high tech fund (Fondo High Tech) (Agenzia per la diffusione delle tecnologie per l’innovazione, 2010) aims at promoting access to risk capital for innovative SMEs using digital technology in areas of low employment, in order to promote the technological and process innovation in the south. The fund provides for the participation of the Government, through the plan E-Government 2012, Objective Enterprises, for a total of €86 million, against a total budget of €160 million (Agenzia per la diffusione delle tecnologie per l’innovazione, 2010).

3.5.2 Private Support

As already outlined in the restructuring section, SMEs' top priorities are easier access to financing and credit and less bureaucracy. Indeed, as already argued, financial resources are indispensable for restructuring and for investing in research and development and innovation. Furthermore there is widespread agreement on the necessity to reduce bureaucracy, as too much can undermine restructuring processes. In fact, as has already been argued, if impending crises are recognized and addressed in time and their negative consequences can be limited, they can actually represent an opportunity for development, improvement, innovation and growth. However, too much bureaucracy can work against even timely interventions.

Moreover, several SMEs face major cash flow challenges due to non-paying and slow paying customers, especially in public administration. Public administration owes Italian enterprises about €70 billion in unpaid debts. Many of these enterprises are SMEs, which are badly affected from these delays, especially when securing financing and credit is already difficult (Il Sole 24 Ore, 2011).

3.6 OUTCOMES OF RESTRUCTURING

As discussed, given the relevance of the system of Italian social shock absorbers most of the restructuring events that do not entail business expansion usually do not impact on employment levels in the short term. However, these restructuring processes require some organizational changes. Conversely, business expansion, by its intrinsic nature, has some important effects on employment levels and on the firm's organization.

- **Organizational effects:** In terms of successful events, the results presented in the business expansion section show that when companies grow they tend also to modernize their governance, developing a managerial structure, where ownership and management are separated, actors external to the family can invest capital in the enterprise and CEOs are younger than average. Successful companies also tend to innovate more, invest in research and development and introduce innovative processes via innovation in technology.
- **Employment effects:** There is not much literature on the employment effects of SMEs' restructuring. This is most probably due to the fact that, as most restructuring processes in Italy are carried out with the assistance of the Italian system of social shock absorbers, the negative numerical effects of restructuring on employment are at least temporarily avoided.

CONCLUSION

Throughout history, SMEs, which have great importance in terms of economic development and development of social structure, are the backbone of both developed and developing countries. In this study, the characteristics, advantages, problems and existing supportive structures of SMEs, whose importance in Italy have been proved by numerical indicators and social dimension, have been examined.

SMEs are considered crucial to a dynamic economy. SMEs create employment opportunities not only for themselves but for others as well. Entrepreneurial activities may influence a country's economic performance by bringing new products, methods, and production processes to the market and by boosting productivity and competition more broadly.

Realizing these advantages requires institutions that contribute to an environment that is friendly to SMEs. In particular, it is important to protect intellectual and other property rights, streamline and enforce commercial laws, improve the business climate, reduce regulatory burdens, and create a culture of second chances for SMEs who fail. More specifically, the following policy measures should be considered:

- Government policies and legislation on property rights are important in shaping a country's innovativeness. Protecting material property rights ensures that any wealth creation stays with the entrepreneur, while protecting intellectual property rights fosters entrepreneurship and innovation.

- Bureaucratic obstacles constrain innovation-driven activities in many economies. Entrepreneurial opportunities will be greater in deregulated economies with freely operating markets and efficient licensing, because SMEs can operate flexibly and their entrepreneurial activities can respond to changes in the market. It is also important that laws and regulations be enforced fairly and evenly.
- Administrative burdens for start-ups need to be low, including the time needed to register a business, the number of bureaucratic steps, and the number of regulations, fees, and reporting requirements. As a benchmark, leading business friendly countries enable companies to register for business within one day, without the need for regular renewal. This can be achieved by setting up a state-of-the-art online e-administration for all standard businesses.
- Conflicting legislation creates uncertainty, and uncertainty discourages business activity. It should include reducing and unifying administrative procedures relating to a particular activity.
- The negative effects of layoffs in firms that are unable to compete can be eased by improving search options for new jobs and by supporting vocational training for workers who lost their jobs. Start-up subsidies should be considered to foster entrepreneurial activities. These can reduce the risk of early business failure.

If regulatory burdens are reduced and corruption is eliminated, countries will encourage and retain their own SMEs and even attract innovators from other countries. Thus, policy can influence the volume of entrepreneurial activity most effectively by adjusting the regulatory environment in favor of SMEs.

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