

Giorgia Citarella

**Strategic
public management
for SME
competitiveness
in processes
of internationalisation
of the Italian economy**

R Collana del Dipartimento di
Scienze Aziendali, Management
& Innovation Systems
dell'Università degli Studi di Salerno
Sezione Ricerca - N 2



FrancoAngeli

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PRESENTATION

Giorgia Citarella's study on STRATEGIC PUBLIC MANAGEMENT FOR SME COMPETITIVENESS IN PROCESSES OF INTERNATIONALISATION OF THE ITALIAN ECONOMY, collocated in the applied scientific research & development strand which examines problems from their structural elements inserted within a rigorous theoretical and methodological framework, deals with and discusses an issue of extreme interest for the Italian economy.

The multi-perspective knowledge-intensive study contributes to no small extent to considerable added value to the issue of Small and Medium-sized Enterprises (SMEs) that constitute the backbone of the Italian economic system not only in terms of size and contribution to GDP (in excess of 90%), but also for the ability to innovate within the global competitive context in terms of product quality and services. Secondly, internationalisation is a crucial dimension for a country such as Italy, desiring more sustained and sustainable growth compared to the last two decades. Thirdly, public-private partnership, frequently evoked in debates and conferences is still little applied in practice, partly due to the fact that the process has not yet overcome the limits of mutual distrust.

The objective of the present study is to analyse the factors contributing to country competitiveness which depend on internal and external conditions. The former, of a positive nature, are mainly linked to the entrepreneurial profile of SMEs, dynamic and flexible, capable of resisting and reacting to external shocks deriving from scientific and technological progress as well as from the expectations of consumers or new markets more difficult to penetrate given their geopolitical dynamics. Further elements of impact include country-related negative aspects and internal issues linked to the relations between enterprise and the financial system, businesses and the Public Administration, but also to the lack of organic economic and industrial policies.

In geopolitical terms, the external issues impacting on competitiveness are mainly represented by Italy's limited relevance in global relations, in particular in the European context.

Appreciable is the applied scientific research & development strategic approach, because Citarella does not dwell on the tools and techniques, but on one hand, analyses the underlying reasons for the difficult relationship between SMEs and the Public Administrative System, on the other, she identifies the key factors of success in the global competitive arena. In particular, in PART ONE – THE ITALIAN ECONOMY AND INTERNATIONALISATION the analytical framework is presented, while in PART TWO – STRATEGIC PUBLIC MANAGEMENT FOR THE COMPETITIVENESS OF ITALIAN SMEs articulated proposals on potential strategies are highlighted.

PART ONE, in an organically structured literature review, presents numerous references concerning the Italian economy and the factors of competitiveness in international markets. The interesting and systemic interpretation of the evolutionary dynamics of the global economy and Citarella's ability to grasp the implications of the processes of deconstruction and renewal of the productive system should be underlined. Such reference is of significant importance for assessing the problematic issues of a country such as Italy, which, despite being burdened by an extremely onerous national debt, is in any case the second most important industrial economy in Europe. In this context, the difficulties of various business sectors, accentuated by the austerity policies that prevailed in Europe following the 2007-2008 crisis, have been balanced by the flexibility with which many enterprises have been able to innovate and rediscover a new strategic positioning, highlighted with particular effect in Paragraph 3 of Chapter 1 – Competing on International Markets.

Chapter 2 – SMEs and the European Horizon declines the positioning of SMEs with reference to European policies. The Chapter is introduced by an affirmation that represents the *leitmotif* of the entire discussion: «A more efficient public sector also has repercussions in a specific territorial context» (p. 59). Evoking the relation between European policies, national policies, business choices and territorial areas of reference, the link is also reiterated in Paragraph 2, dealing specifically with the Italian context.

Chapter 2 closes by stating that, in our modern economy, policies are no longer feasible in “managerial” terms, but must be characterised as support, direction and definition of rules that respect and even enhance entrepreneurial autonomy, which finds its maximum expression in SME viability. In this respect, it has been observed opportunely, that large companies thrive above all for their power to influence the markets and the behaviour of hundreds of

millions of consumers, while SMEs thrive for their ability to innovate, to grasp opportunities, to “slough off their skins”, keeping unchanged what Keynes defined as “animal spirit”.

PART TWO clearly, is a programme of applied scientific research & development, for qualifying, in a modern sense, public policies in support of internationalisation. The analyses start with the realistic observation that «in a scenario of productive internationalisation, Italy lags behind other major European countries in terms of foreign investment depending on whether incoming FDIs are the terms of comparison» (p. 89).

Subsequently, the reflections continue with a detailed analysis of the role of SMEs for competitiveness, as exports and internationalisation have always been determinants of development in countries such as Italy with no raw materials and which rely on transformation processes for the creation of added value (extremely significant in the 1960s and 1970s, while more limited in the 1980s, less so in the 1990s and negative with the crisis of 2007-2008) (Chapter 1 – Strategies for Internationalisation, Paragraph 2).

The relation between public policies, business decisions and territorial areas is the object of the specific focus on the economy of the Southern Italian Regions (Chapter 1, Paragraph 5). In this regard, Citarella highlights, with appropriate technical-scientific arguments, that the strategies of public intervention will remain only on paper or in laws, if they are not accompanied by suitable tools that enable the shift from objectives to programmes to implementation. Therefore, the study can be collocated in the ambit of those that claim the results of “good laws or policies with limited implementation” are inferior to “mediocre laws or policies with high implementary capacity”.

In Chapter 2 – The Vision of Italian Organisations, Institutions and Public Corporations, PART TWO, Citarella develops the issue of the various tools, in line with a classical theoretical-methodological framework: first of all a vision is needed, strategies coherent with the same and interventions considered not separately but unitarily or, so to speak, able to activate positive synergies. The vision entails a Public Administration that overcomes the bureaucratic model and New Public Management (focused on internal efficiencies) adopting the model of “system governance”. The coherence of the strategy derives from the definition of functions, roles and responsibilities of various public Institutions and Organisations, not superimposed (as this would create inter-institutional conflicts), without leaving operational gaps (as this would not allow companies, especially SMEs, to develop) and without contradictory principles (as this would cause uncertainty and blocked decision-making for entrepreneurs and managers).

Subsequently, the role of ICE, SIMEST and SACE are analysed in detail, the potential of which is highlighted, as well as elements of weakness in the processes. The critical analysis put in place by the young researcher, emphasises above all such potential, even if highlighted against the backdrop that they have not been fully expressed to date, due especially to the difficulties of public Institutions and Organisations to avail themselves of the necessary knowledge and skills required by the challenges of global competition, totally different from those of mere export processes of recent decades.

Paragraphs 3 and 4 of Chapter 2 focus attention on a further critical issue, that of limited investment for competing not in terms of individual companies, but in systemic terms of the country as a whole. Also in this case, the study proposes a “proactive” model in relation to the investment needs of SMEs, which in practice are limited in the Italian financial system. Finally, Paragraph 5 is symptomatic, with the focus on the “problem of problems” i.e. coordination. Italy has always been characterised by excellence relative to individuals, businesses and various Public Administrations, but finds itself in difficulty when acting in a “team” context. In other words, joining forces for strong competitive positioning.

This closes the circle of technical-scientific analyses and reflections with the recovery of a strategic vision, without which the obstacles deriving from the limited dimensions of the country cannot be overcome, in terms of territory, population and GDP.

Certainly, this broad ranging and scrupulous commitment to applied scientific research & development, conducted according to the canons of modern academia, gives the attentive reader much stimulus for reflection.

MILAN, OCTOBER 2018

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PREFACE

In recent decades the nature and objectives of government action have been influenced by a series of interconnected phenomena such as the globalisation of socio-economic and cultural processes, the transition to a 'post-Fordist' production and regulatory model, the renewed interest in socio-economic dynamics at territorial scale but above all, by the significant process of reform of the public sector in response to the transformations of contemporary society and economies. Such changes have led to new challenges for Public Administrations not only in terms of internal management, but also in response to new territorial needs for guiding processes of development, territory enhancement and competitiveness. In this context, both the literature and praxis confirm that the penetration of foreign markets constitutes an efficacious response to environmental change by strengthening corporate competitiveness, given that any enterprise, large or small has, at least in theory, an extremely relevant number of potential options for development abroad. It is well known that to obtain results, especially on highly competitive markets, time and investment are essential.

The Research Project STRATEGIC PUBLIC MANAGEMENT FOR SME COMPETITIVENESS IN PROCESSES OF INTERNATIONALISATION OF THE ITALIAN ECONOMY pursues the strategic goal of proposing interdisciplinary reflection on the interactions of Organisational, Institutional and Public Corporation systems in the dynamics of competitive development of Small and Medium-sized Enterprises (SMEs). In particular, our aim was to investigate and study the role of Strategic Public Management in the reorganisation of the SME value chain, with reference to internationalisation processes of the Italian economy.

Stakeholders albeit with often conflicting objectives, through their knowledge, skills and actions contribute to local government commensurate

with their characteristics and relative areas of interest. For the purpose of this study, particular attention was addressed to the capacity of Strategic Public Management to activate reticular relations between SMEs, organisations and other relevant subjects of the territory, individual and collective, public and private and Public Administrations (See Klijn and Koppenjan, 2000). Such relations furthermore, being multiple and multifaceted can be analysed on the basis of various approaches (See Zuffada, 2000; Borgonovi, Marsilio and Musi, 2006)¹. This implies discussing how public strategies of support for SME competitiveness are formulated; how entrepreneurial strategies for internationalisation are supported by Public Administrations and the type of relation established (vertical), characterised by top-down processes – able to ensure coherence of the system, including the optimal allocation of available resources – and/or horizontal, of the bottom-up type, to meet the needs of the territory²; how strategies of public support for competitiveness are devised and how corporate strategies are sustained by Public Administrations.

A further objective of the study, based on qualitative research methodology, was to devise an interpretative model in terms of analytical tools, functional roles and interactions from an interdisciplinary perspective, including the analysis of primary and secondary sources, documents and observed trends.

The study, underpinned by a deductive approach starting from the theoretical backdrop of a literature review examined, the main research strands on public policies supporting processes of SME internationalisation, at national and international scale.

Subsequently, specific case studies to ascertain coherence between theory and practice were analysed in depth together with the tools and methods Strategic Public Management puts in place to achieve such objectives, highlighting potential critiques or elements of theoretical-applicative interest.

Scientific contributions to a comprehensive theoretical framework of support for the studies initiated, took into account the interrelations between the

¹ Relations are direct, relative to enterprises (regulated or limited by legislation) or indirect (conditions established by Public Administrations in terms of institutional policy and socio-cultural and economic elements of the territory in which SMEs operate).

² Moreover, the relationships described above can be interpreted differently according to the variable degree of interdependence between Public Administrations and SMEs. Therefore, exchanges can take place with a view to: – separation, which provides for a hierarchical relation between Public Administration and SMEs; – occasional collaboration; – network or networks characterised by more or less stable forms of collaboration, where each subject maintains its identity and performs specific functions, the results of which influence more or less significantly those of others; – public-private partnerships, i.e. forms of collaboration governed by specific agreements and contractual forms.

themes of globalisation of the world economy, the internationalisation of the Italian economy and the reorganisation of SMEs, providing valuable research indications, in-depth analysis and reflection on issues concerning the Research Project. Furthermore, problematic issues related to competitiveness and the models of economic and territorial development in a scenario of rapid technological transformations and changing global conditions, were examined through specific technico-scientific investigation and applied research carried out by OPSAT (OBSERVATORY FOR SUSTAINABLE DEVELOPMENT AND TERRITORY PLANNING) of the University of Salerno.

An issue of extreme public interest, our study attempts to contribute to research on internationalisation by analysing the fundamental role Institutions and Public Sector Organisations play in supporting competitiveness³, a decisive factor which emerges from numerous studies (See Bianchi, 2001; Panozzo, 2005), dependent on a complex system of exogenous and endogenous variables.

In recent decades, 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. Such evolution can be articulated in 4 phases: 1. State and Citizen Rights; 2. Welfare State⁴; 3. Service State; 4. New Public Management and Governance.

³ Competitiveness is defined by OECD as «*the degree in which it can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the longer term*» (See OECD, 1992, p. 237).

⁴ In its traditional conception, the State was a *super partes* body in line with the model of the State and Citizen Rights entrusting to the Public Administrations the delivery of collective goods, i.e. non-exclusive and indivisible in use where private enterprise had no interest in producing nor the market, interest in trading for profit. Subsequently, the Model of Welfare State obliged Administrations to distribute resources and to balance periods of crisis with political or economic intervention of public interest. During this phase generally, State

The consolidating of the ‘entrepreneurial’ role of the State (See Borgonovi, 1996) and the growing diversification of Public Administration functions and activities (See Reborá and Meneguzzo, 1990) led to the so-called ‘Service State’ characterised by the direct production of goods and services on the part of the Public Administrations. During this phase, fiscal measures were increased to meet the costs with relative citizen malcontent and domestic demand increased together with the quali-quantitative levels of services expected. Tax relief measures and limited State intervention led to the fourth phase consisting in policies for privatisation, outsourcing and deregulation. New Public Management covered entire sectors of the economy while the tendency to include stakeholders in the definition and implementation of public policy was defined within the paradigm of Public Governance (See Mayntz, 2006).

New Public Management and Public Governance therefore, play a significant role in the evolution of the theories of Public Administration. New Public Management (See Aucoin, 1990; Hood, 1991; Barzelay, 2001; Gruening, 2001; Pollitt and Bouckaert, 2004) studies processes of change and rationalisation in Public Administrations relative to organisation, management, information and control. In particular, the focus pivots on the search for the best technical-productive solution using typical business principles, logics and tools, appropriately adapted to public realities. Despite the application of this paradigm, albeit in different forms and ways, in numerous countries (See Jones, Schedler and Mussari, 2004), criticism is a constant, focused on the excessive proximity to enterprises and rigidity to some extent impeding the devising of appropriate solutions to the organisational and management specificities of Public Administrations (See Hood, 1991; Meneguzzo, 1995)⁵.

From a historical viewpoint, some of the theories that have created consensus for rationalising the public sector include: the neo-classical economic theory (See Friedman and Friedman, 1980), the ‘public choice theory’ (See Stigler, 1975) and the ‘principal/agent theory’ (See Vickers and Yarrow, 1988). According to the ‘public choice’ theory, public employees like

intervention which had been limited merely to tax measures and management of the collective heritage, included the production of goods and services previously the prerogative of private enterprise.

⁵ This model of management of the public sector at the beginning of the 1990s had become widespread in most of the economically advanced and ongoing in developing countries. For Pollitt (1993) managerialism has impacted to a limited extent as it merely represents a simple re-proposing of Taylorism. Critiques of New Public Management pivot on the problems resulting from applying standard approaches to the public context. In other words, economic theory applied to the private sector loses significance when applied to the public sector given that the relation supplier/consumer differs markedly from that of the Public Administration/citizen (See Pollitt, 1993).

politicians are motivated by the pursuit of personal interests rather than the collective good and in effect, compared to the private sector, the State has insufficient means to impede such trends. A further element takes into account that the market boasts far more efficacious mechanisms of transparency and responsibility. Consequently, theory favours resort to the private sector as opposed to the public sector.

The goals of the theory of the principal/agent, were initially developed for the private sector basically to define mechanisms of control and governance. In the public sector, shareholders and stakeholders are represented by the community or groups of citizens with often contrasting interests. In this case, the re-dimensioning of the State in favour of the private sector enables systems of monitoring between principal and agent.

Recently, the issue of transition from the model of 'Service State' has been discussed given the critiques related to the initial phases of New Public Management where a series of economic and political crises during the 1980s and 1990s seriously questioned the viability of deregulation and privatisation processes.

A change in the economic and social context has pushed towards overcoming the ideological dichotomy between State-market and the real dichotomy between public-private. Mintzberg (1996) underlines how the application of the business model to govern the Public Administration would lead to the limited approach of treating stakeholders as consumers when in effect, citizens have rights and clients have complex needs.

The new approach called Governance replaced the model of direct government both in the definition of public policies and in the delivery of public services. While government can be intended as the exercising of decision making powers deriving from the formal institutional system, the concept of governance is associated to the exercising of formal and informal powers to create consensus for public choices and is characterised by the centrality of interaction with actors at various tiers of the social scale and the coordination of networks oriented towards the external socio-economic context (See Meneguzzo, 1996).

With particular reference to the Public Administration, governance represents the capacity to blend the interests of various stakeholders approving mutually advantageous policies both within the Administrations and with actors outside (See Mayntz, 1998). Rhodes (1996) meanwhile defines governance as a non hierarchical form of government in which enterprise and private sector institutions participate in defining and implementing public policy. The governance approach in terms of public decision making should lead to more effective solutions given that more detailed information can be

analysed and a wider range of opinions and diverse values taken into consideration to guarantee greater adaptation and flexibility (Scharpf, 1996).

Borgonovi (2005) for his part, highlights how governance logics depend exclusively on the formal exercising of power on the part of government bodies, in other words, on established rules that enable or otherwise, to overcome the traditional conception of direct government. Determining factors are the political and administrative culture widespread among the ruling classes; the division of power and the level of decentralising between central and local Administrations; the formalising of procedures and the strictness of regulations relative to public employment, the formal and informal relations between Public Administrations and private sector enterprise, the range of public-private partnership and the mutual knowledge triggered, not to mention the propensity for corporate social responsibility in the private sector⁶.

The governance model seems to meet the requirements of efficacy and efficiency of the complex challenges Public Administrations are obliged to face in this particular phase, and the potential risks involved in participation and cooperation.

From a theoretical point of view, the line of studies known as Public Governance expresses the need to modernise Public Administrations, implementing policies based on a virtuous relationship with the external environment (See Kooiman and Van Vliet, 1993; Kickert, 1997). The need for compatible development not only from an economic, but also environmental and social point of view, determines the inability to solve many problems autonomously. In order to tackle them, innovative methods of governance should be activated based on public-private cooperation and on interaction with civil society (See Meneguzzo, 1995). In short, the themes selected, in-depth analysis, in line with the field and domain of study of the Economics and Management of Public Companies contribute to creating a solid scientific basis for the development of the study.

⁶ Diverse models of governance characterise the forms of cooperation between government and external subjects in defining public policies: – *Direct Negotiation* between Public Administrations and private enterprise, typically aggregated into groups of interest; – *Public-private partnerships* for the devising of public policies; – *Corporate self regulation* where private organisations carry out regulatory activities for the satisfaction of collective interest. In recent years an ulterior model of governance has emerged i.e. citizen and association co-participation in defining public policy. An example is participation in local Authority balance sheets, planning, participation or joint local Health Plans, the use of new technologies for citizen inclusion and citizen preferences in defining public services.

ABSTRACT

A brief overview of Italy's macroeconomic scenario in the context of EU dynamics has triggered reflection on the effective possibility of promoting a potentially strategic vision for SME internationalisation. In particular, scientific interest was targeted at Strategic Public Management for SME competitiveness, centred on guidelines for internationalisation. At the same time, developments in processes of internationalisation in Italy, the focus on competitiveness in foreign markets as well as the relations underpinning SMEs within the European scenario were examined.

Macroeconomic outcomes of globalisation were found to be even more evident in the destructuring processes in terms of organising production, prompting Governments to put in place non interventist policies, extending delocalisation and mobility of investments. Findings from our research highlight that notwithstanding characteristic traits (such as a limited awareness of foreign trade scenarios, constraints deriving from the liability of foreignness and that of newness, the disinterest shown for activities at the lower end of the value chain and for governance models), SME competitive advantages are mainly those of a local nature i.e. the need to enhance their own identity in a system of territory based values (See Barney, 2015).

To date, in order to overcome criticalities, the tendency has been to put in place efficacious business strategies and adequate reform processes. Notwithstanding, in particular, performance indicators highlight that the competitiveness of Italian SMEs is lower than that of the other most important European economies. It was found that the main problematic issues concern the administrative burdens generated by legislation, the difficulty of access to finance, taxation, the incapacity to attract professional profiles and not least, the lack of adequate capacity for project design and access to calls for tenders. Finally, our research findings evidenced how Strategic Public

Management plays a significant role in determining trade flows and comparative advantages, not to mention economic appeal.

Field research carried out in the domain of Economics and Management of Public Companies, and in particular of the Management of Institutions, Organisations and Public Companies (De Luca, 2010; Pfoestl, 2012; Cioppi, 2012), indicates that innovation appears to be the most relevant strategic factor for inclusion in programmes in support of SMEs, especially as it fosters a competitive economy, provided that research, in particular basic research which promotes the creation and dissemination of knowhow is funded. In this respect, *Knowledge Intensive Business Services* and Smart industrial specialisation targeted policies are required to increase the effectiveness of accumulated knowledge and to encourage technological diversification, to promote competitive repositioning in new productions and the strengthening of governance capacity by means of advanced managerial, organisational and production management models, delineated in the field and study of Economics and Management of Public Companies (See Franzoni and Salvioni, 2014). In addition to the above proposals, it is considered that targeted interventions be included in articulated governance policies to promote organisational innovation, simplify procedures, increase autonomy, decentralisation and accountability. Such interventions should also promote the spreading of product and organisational innovation relative to Strategic Public Management, assigning responsibility for industrial policy and sustainable development to the Regions and local Authorities. In this respect, the contribution of scientific research related to Management & Information Technology is essential, if aimed at designing models of innovation for SMEs, structured on regional specificities (See Gambino and Di Pinto, 2016).

Our research findings furthermore, affirm that the regional model of endogenous innovation, within a scientific/technological network – supported by Strategic Public Management – has to strive for the cross fertilisation of ideas and knowledge, for the solution of innovative technical problems of a particular territorial area (See Foray, 2009; EC, 2010b). In this respect, various public support tools for internationalisation are available to Institutions, Organisations and Companies belonging to the public sector, such as the Institute for Foreign Trade (ICE), the Italian Company for Business Abroad (SIMEST) and the Foreign Trade Insurance Services (SACE). Such subjects boast a statutory and organisational structure which also leads to reflection on the duplication of intervention and on the scarce attention addressed to the promotion of economic activities on national territory.

In the context of the promotion of foreign investments, the role of Strategic Public Management in supporting SMEs moving from their countries of

origin to foreign markets was considered. In this respect, Investment Promotion Communities (IPCs) act as interfaces between States and SMEs, supporting SMEs overseas with tools of development policy. Such tools and levers are not merely examples of the introduction of greater managerial skills in the Public Administration, but important for implementing a new *forma mentis* in the managerial class. In particular, the formulation of strategies devised in concrete operational mechanisms leads to the provision of effective services when Strategic Public Management intercepts SME needs and expectations and disseminates the culture of internationalisation thus improving the socio-economic system. Such cultural change is essential not only at Strategic Public Management scale, but also at political level. Roles and tasks have changed, as well as the powers of Public Administrations. Local Authorities and Regions, in particular, programming resources for the management and implementation of public policies. In this sense, efficiency and managerialism is intended as the 'mission' that the local Authority must pursue when formulating strategies for local development. In other words, political choice underpinned by communion of intent with management level. In this respect, the contribution made by IPCs in terms of introducing management models for innovation processes on the part of Organisations, Institutions and Public Corporations was also gauged. It was found that the most significant process of innovation was the establishment of the Regional Spaces for Internationalisation (SPRINT) – a reference point, in terms of organisational flexibility with intervention modulated on the peculiarities of local production contexts – even if the assessments of merit on the outcomes of the activities evidenced a lack of systemic strategy.

Our analysis shows that an important area concerned the regulatory management of public funds for the support of internationalisation, both at central and peripheral levels. In this respect, available resources should be allocated according to criteria that are strategic, transparent and impartial, maximising the effectiveness of expenditure and compatibility with Community guidelines on State aid. In this context, it emerges that the process of public intervention for SME internationalisation at regional scale is still at an evolving stage while there persists to some extent fragmentation relative to enhancing the territorial dimension in support of the productive system. In short, objectives, programmes, assessment procedures and methods that meet the challenge of global competitiveness, are therefore essential if self-referential policies and the misuse of funds for primary purposes are to be prevented.