SMEs, entrepreneurialism and local/regional development

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Introduction

In the 1970s and early 1980s, during the Fordist crisis, researchers identified that some regions in developed capitalist economies grew faster, compared to established industrial cores. Regions such as Third Italy, the M4 axis in the UK, Southern Paris and Rhône-Alpes in France, Silicon Valley and Boston in USA, Murcia and Valencia in Spain and Baden-Württemburg in Germany were among those identified as successfully overcoming the crisis, with Third Italy attracting most attention (Sabel, 1989; Benko and Lipietz, 1992). A common characteristic of these new dynamic spaces was the predominance of industrial micro, small and medium enterprises (SMEs) in industrial districts (IDs) and a locally diffused entrepreneurial spirit, contradicting both dominant development theories and policies of the time based on large infrastructure projects and large industrial investment with strong guidance/assistance from the state. Soon these regions, their small firms and local social structure became symbols of success of small-scale flexible capitalism, “from below”, with its highly individualistic, entrepreneurial and competitive character. The new paradigm became l’enfant gâté for neo-liberals and for some institutionalists and it turned to widespread local development policies in the 1990s. It became also the cornerstone of the “New Regionalism” literature which has dominated Anglophone economic geography and planning studies in the last 25 years. New Regionalism includes a whole series of analytical and policy-oriented concepts inspired from SMEs such as the highly influential “second industrial divide”, “networked, learning and innovative firms and regions”, “the embedded firm” and “endogenous local/regional development”, to mention but a few (Piore and Sabel, 1984; Scott, 1988; Morgan, 1977; Cooke, 1988).

Individual states and supranational entities such as the EU, IMF and the World Bank introduced programmes assisting flexible, innovative and networked SMEs and through these promoting local/regional development. There is an open discussion, however, whether regional policies based on SMEs followed relevant concepts and theories, or vice versa (Hudson, 1999). In the EU, several policies and programs along those lines have been introduced, among which LEADER for rural areas and LEDA for urban centers. After the Lisbon Pact, in which development in the EU has being associated with competitiveness, innovation and entrepreneurship,
in 2008 a “Small Business Act” for Europe was launched by the European Commission (EC), in which we read:

> Our capacity to build on the growth and innovation potential of small and medium-sized enterprises will therefore be decisive for the future prosperity of the EU. In a globally changing landscape characterized by continuous structural changes and enhanced competitive pressures, the role of SMEs in our society has become even more important as providers of employment opportunities and key players for the wellbeing of local and regional communities.

(Small Business Act for Europe, 2008: 2)

The above quote was written before the current, major economic crisis of neo-liberalism. In the middle of disarray for corporate giants this communication by the EC was a prelude to the urgent assistance given today to SMEs by all governments and financial institutions acknowledging their basic function: to save employment and to safeguard local and regional well-being. Although still within the frame of the Lisbon Pact, this is a pragmatic and low-profile approach which keeps a distance from the grandiose claims made two decades earlier about SMEs by proponents of New Regionalism.

In this chapter I discuss these and other questions by focusing first on how SMEs have been associated with local/regional development to become part of a major paradigm. Second, I will shift the emphasis from paradigmatic to what we may call “ordinary” SMEs, arguing for the need to take them on board for a more nuanced and inclusive approach to local/regional development. And third, I will try an alternative categorization of SMEs as a continuum ranging from “ordinary” in all sectors to the celebrated, advanced ones in IDs.

The “discovery” of small industrial firms as engines for regional growth: the rise and crisis of a paradigm

Since the 1950s and until the crisis of Fordism, dominant models of regional development were based on industrialization via capital incentives or large state projects in growth poles, provision of public infrastructures and employment creation via inward investments from other regions. It was the period of what we can call “welfare regionalism” largely based on social democratic political principles, predominant in Europe and beyond at that time (Pike et al., 2006). The state in the capitalist West with its top-down policies took an active role for development in “lagging” regions, as part of welfare policies in Europe, and at a different scale, in North America fostered also by the Cold War competition between West and East. The economic crisis of the 1970s was followed by a neo-liberal turn. Regional, top-down, welfare planning was being hit from all sides. From the left it was seen as maintaining uneven regional development and from the neo-liberal right as a wasteful luxury, pouring public money down the plughole without efficient results. It was in the early 1980s when the policy option “fostering dynamic regional growth” came to replace the old “reducing regional inequality”. From integrated, comprehensive and nationally organized regional welfare planning, a transformation took place towards intensely competitive and geographically fragmented processes, what we may call “entrepreneurial regionalism”. The search for alternatives in successful regions on both sides of the Atlantic led to the “great discovery” of small dynamic, competitive and highly entrepreneurial industrial firms.

As with other geographical discoveries, small firms and their embeddedness were always there, unknown maybe to those who “discover” them, but well known to local
century earlier, the anarchist geographer Peter Kropotkin in his *Fields, Factories and Workshops* with the interesting subtitle: *Industry Combined with Agriculture and Brain Work with Manual Work* (1898/1968), opened the debate on small firms, indirectly criticizing Marx and the German social-democrats for the “iron law” of capital centralization. In this book, Kropotkin focuses on craft industries, their social division of labour and their relation with agriculture in different parts of Europe, including Central Italy, Lyon, Bavaria, the Jura and Sheffield, as well as India and Brazil. He noticed the division of work among small firms in small towns and villages and he pointed out that sectors like cotton mills “does not suffer at all from the division of production of one given sort of goods at its different stages between several separate factories” (1898/1968: 179) and for the German small firms a crucial factor for their success has been “the degree of association amongst the producers” (1898/1968: 249).

The work of Kropotkin and that of Alfred Marshal on small industry’s agglomeration characteristics as well as the work of David Birch (1979, 1980) on how important small firms were in the job generation process – not to speak for research published in languages other than English – was of secondary interest, compared to Piore and Sabel’s book *The Second Industrial Divide* (1984) which marked the recent “discovery” of small firms with a powerful critique of the “best is big” paradigm. Their book draws strongly on Italian small firms in IDs to oppose the model of flexible specialization to the Fordist model, by stressing the role of historical alternative to mass production. Despite the many inadequacies of this book, it became a major vehicle for the promotion and acceptance by the wider economic and planning community of the role of SMEs in local/regional development.

Along similar lines but using also variants of the French regulation theory, Scott and Storper paid particular attention to the “geography of flexible accumulation” via small high-tech firms in Silicon Valley, Orange County and Los Angeles, as well as in Third Italy and other “new industrial spaces” (Scott, 1988; Scott and Storper, 1988; Storper, 1997). Their approach to the relations between economy and territory was based on a novel emphasis on transaction costs, vertical disintegration and agglomeration.

In Italy itself and during the late 1970s, there was a vibrant debate on the role of SMEs from three different standpoints. First, there was the famous book by Bagnasco, *Tie Italie* (1977, never translated into English), making Third Italy famous, although Muscara, a geographer, and Paci, a sociologist, were first in identifying the patterns described by Bagnasco. Other, similar research on the social, cultural, economic and political foundations of small firms (not only industrial) followed (Paci, 1972; Mingione, 1988; Ardigò and Donati, 1976), but remaining unknown outside Italy. Second, there was the reintroduction of Marshall’s concept of local external economies of scale by the Emilian school (Becattini, 1990; dei Ottati, 1994) and from a more critical perspective by Garofoli (1983). These scholars used such concepts to explain the efficiency of small firms in some “neo-Marshallian” IDs focusing on the advantages of territorial concentration and sectoral specialization. And third there was the “*fabrica difussa*” approach (Frey, 1974; Magnaghi and Perelli, 1978), which was highly critical of the use of small firms as subcontractors (“putting-out” and “splitting-in”) and as a means to undermine working conditions, unionization and radical local political networks.

By the mid-1980s, the new paradigm of flex-spec small industrial firms as major engines of local/regional development was successfully established and has opened important windows for new research and policies. We can identify several positive aspects of it. First, it has shifted the focus to firms and production processes, not
previously accepted as viable and profitable options for development. By the same token new regions and development paths became known, away from the old repertoire of industrial heartlands of North-Western capitalism. Second, it has shown cases of “spontaneous” growth, without direct welfare assistance from the central state, where small firms with strong entrepreneurial spirit initiated a “bottom-up” growth. Third, it has successfully combined analyses on market opportunities, on mobilization of existing resources (particularly knowledge and learning) and on new forms of production organization, i.e. flexibility and networking. And fourth, it has highlighted the role of competition and cooperation at the local level with the assistance of strong local cultural traditions, institutions and associations.

Soon, however, the new paradigm became a new orthodoxy, collapsing “very diverse processes and areas into one category and then to treat this as a symbol of the new era of accumulation”, as Amin and Robins (1990) argue. In the euphoria that followed the “discovery” of dynamic SMEs, several misreadings, omissions and problems occurred. First, there was a simplistic binary opposition between mass production and flex-spec (Sayer, 1989), while Fordism was never hegemonic in the regions in which growth was directed by flexible small industrial production ensembles. Second, in the relevant literature, a very selective appropriation of the complexity and richness of SMEs has taken place, in which only certain general economic, organizational and institutional issues have been taken on board, while others such as power and inequalities among small firms and within industrial districts, the limitations of networking and learning, what cooperation, reciprocity and “social capital” really means for firms and labour, conditions of work, the informal economy, gender and ethnicity – to mention but a few – remain in the dark (Hadjimichalis, 2006b; Mingione, 1998; Smith, 1999). Third, there is a lack of attention to the role of the state and to various protectionist and assistance measures it has introduced. From devaluation of national currency and labour legislation to particular incentives for SMEs and international agreements (such as the Multi-Fibre agreement), there was never such a thing as “without assistance from the central state” (Dunford, 2006; Hadjimichalis, 2006a). Fourth, by looking only at success in the context of neo-liberalism, there was interest in a few paradigmatic industrial sectors and on few advanced service providers only in a limited number of European and North American regions. Fifth, and as result of the above, there has been a remarkable neglect of other sectors such as tourism, trade and agriculture, to areas beyond North America and Europe and to those millions of “ordinary” small firms that form the majority of SMEs everywhere, being the real supporters of local employment and well-being (Navdi and Schmitz, 1994).

While such omissions would be expected from a neo-liberal perspective, it is rather puzzling for me that some radical theorists and researchers succumb to the charms of grand narratives, even when they strongly argue for the need to pay attention to differences, to the ordinary, to both global North and global South and to local processes. In the 1980s and 1990s, critical voices concerning the above issues from Anglophone scholars and from Southern Europe and Latin America remained largely peripheral. After 2000, however, on both sides of the Atlantic a major crisis-driven restructuring has taken place. Many SMEs in several IDs in California, Third Italy, Valencia and Murcia, Baden-Württemburg, Northern Portugal and Northern Greece, due to major changes at the global and national scales, are engaged in three interrelated restructuring processes:

i) Mergers and acquisitions and formation of large, vertically integrated firms and groups of firms, like Benetton,
Gucci, Prada, Zara and corporate “district business groups”, which challenge from within the celebrated superiority of small-scale production (Bianchi and Bellini, 1991; Dunford, 2006; Harrison, 1994).

ii) De-localization of part of production or of all firms to low labour cost regions and countries. From Southern Europe they moved to Slovenia, the Balkans, Tunisia, Morocco, India and Vietnam. From Central Europe they went to Eastern Europe, Latin America and Asia and from California to Mexico, China and India (Hadjimichalis, 2006b; Labrianidis and Kalogeressis, 2007; Rabelloti et al., 2009).

iii) Extensive replacement of local labour by medium and highly skilled immigrants, to compensate increasing labour cost and/or the lack of skilled native labour. There are thousands of Chinese, Romanian, Filipinos and Moroccans in Italian IDs. Latinos and Asians work in California’s SMEs and Moroccans, Pakistanis, Kurds, Albanians and those from Africa are present in all Southern European countries (Bialasiewicz, 2006; Ybarra et al., 2004; Mingione and Pugliese, 2002; Verducci, 2003).

These developments directly challenge grandiose claims about flex-spec small firms, in IDs as models for the future and about the social and cultural continuity of the paradigm based on trust, reciprocity and social capital. The power of Fordism has not disappeared, it has shifted to other regions; local networks and local embeddedness was not enough to control de-localization, and immigrants replacing native employees challenged the locally specific continuation of craft tradition. However, this is not a crisis of SMEs per se as possible motors for local/regional development, but a crisis of this particular paradigm of SMEs promoted by entrepreneurial regionalism.

From paradigmatic to ordinary SMEs and everyday entrepreneurialism

Although in the literature of small firms and local/regional development there are references only to the paradigmatic SMEs discussed above, the world of regions includes millions of other SMEs, less glossy and famous but nevertheless important for the local well-being. Small firms are in fact the predominant form of entrepreneurship worldwide. On average, 93 per cent of all enterprises in the EU have fewer than ten employees, in USA 50 per cent and in OECD countries 95 per cent. As large firms downsize and outsource several functions previously done inside, small firms’ role in the economy is increasing. SMEs are defined as independent firms with fewer than 250 employees, as in EU and other countries, while in USA and Mexico they include firms with fewer than 500 employees (see Table 32.1). Small firms are generally those below 50 employees and in the EU must have an annual turnover of 40 million euro or less and/or a balance-sheet valuation not exceeding 27 million euro (OECD, 2006). Table 32.1 presents some data for selected countries, used later in the chapter as examples, in which micro and small enterprises form the majority of firms in all sectors. Employment in SMEs plays a crucial role as percentage of total, with Romania, Mexico and USA being less dependent on small firms. Italy and Greece have the largest figure of SMEs per 1000 people, while USA has the relative lowest figure.

From the literature of New Regionalism we learn mainly about innovative industrial firms and advanced service providers. The majority of small firms, however, belong to all kinds of services, trade and tourism, which account for two-thirds of economic activity and employment in OECD countries. SMEs also account in communications, constructions and business services. Despite this, the neglect of agricultural, tourist, services and
Southern European debates, has to do with culturally embedded “ways of doing or performing” the economic, with processes and practices which permeate the ensemble of social relations and could contribute not only to the simple survival of local areas but to their dynamic entrance into global competition (Ardigò and Donati, 1976; Mingione, 1983).

Many of the micro and small firms in the informal sector are indeed backward, with a short-term planning horizon and a limited knowledge of the business environment. At the same time, however, there are thousands more that are performing the economic in innovative and novel ways as in the case of tourism in the Mediterranean, particularly in disadvantaged regions which usually have a strong representation of micro tourism firms (Melissourgos, 2008). Shaw and Williams (1994) argue that small tourist firms hold the key to strengthening and spreading the benefits from tourism locally and regionally because of the very nature of their family structure, of their dependence on local markets and hence the development of stronger backward and forward linkages, unlike larger ones who often operate like enclaves. SMEs

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**Table 32.1 Micro, small and medium-sized enterprises: a collection of published data for selected countries**

<table>
<thead>
<tr>
<th>Income group</th>
<th>Year data</th>
<th>Definition of SME: number of employees</th>
<th>% SMEs in all sectors of the economy</th>
<th>SMEs per 1000 People</th>
<th>Employment in SMEs as % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Small</td>
<td>Medium</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>2001</td>
<td>Lower middle 0-9 10-49 50-249</td>
<td>92.9 6.2 0.9</td>
<td>27.1</td>
<td>56.5</td>
</tr>
<tr>
<td>Germany</td>
<td>2003</td>
<td>High 0-9 10-49 50-249</td>
<td>88.3 10.2 1.5</td>
<td>36.4</td>
<td>70.4</td>
</tr>
<tr>
<td>Greece</td>
<td>2003</td>
<td>High 0-9 10-49 50-249</td>
<td>97.5 2.1 0.3</td>
<td>72.2</td>
<td>74.0</td>
</tr>
<tr>
<td>Italy</td>
<td>2003</td>
<td>High 0-9 10-49 50-249</td>
<td>95.6 4.0 0.4</td>
<td>77.8</td>
<td>73</td>
</tr>
<tr>
<td>Romania</td>
<td>2001</td>
<td>Lower middle 0-9 10-49 50-249</td>
<td>91.5 1.5 18.0</td>
<td>18.0</td>
<td>40.2</td>
</tr>
<tr>
<td>UK</td>
<td>2003</td>
<td>High 0-9 10-49 50-249</td>
<td>89.7 9.0 1.4</td>
<td>37.6</td>
<td>56.4</td>
</tr>
<tr>
<td>USA</td>
<td>2002</td>
<td>High 0-9 10-99 100-499</td>
<td>79.3 19.9 0.8</td>
<td>19.6</td>
<td>50.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>2002</td>
<td>Middle 0-30 31-100 101-500</td>
<td>96.0 3.1 0.9</td>
<td>29.3</td>
<td>48.5</td>
</tr>
</tbody>
</table>

Source: Data from International Finance Corporation (2005)
in tourism have the ability to respond to
dynamic changes in global markets (e.g. the
current economic decline), where the mar-
kets are seasonal and notoriously fickle, and
even to create jobs at a time when major
operators are downsizing. They succeed
through multiple employment: part-time
agriculture, part-time industry, and part-time
tourism.

For SMEs in the agricultural sector new
opportunities have opened since the 1990s.
In Europe, North America and Japan, the
ecological/sustainable touristic trend across
lagging regions, often mountainous, has the
effect of revitalizing rural areas as cultural
landscapes. This shift in meta-preferences has
given a second chance to marginal areas, now
as places for consumption and not for pro-
duction (Calafati, 2006). A second and more
important opportunity is organic farming.
According to a report for Latin America by
IFAD (2003), thousands of small family farm-
ers in Mexico producing organic products
like coffee in Chiapas and honey in Yucatan,
cacao and bananas in Talamanca, Costa Rica,
coffee in Guatemala, sugar cane in Argentina
and fresh vegetables in El Salvador, were able
to create new jobs and opened new com-
petitive advantages beyond their local region.
Since 1992, when the EU-Regulation
2092/91 about organic farming was imple-
mented, many SMEs in rural regions started
to produce organic products, with Italy being
at the forefront in Europe, followed by
France, Austria and Germany. Because con-
sumers pay premium prices for organic prod-
ucts, small firms in this sector may obtain
higher prices and thus create new growth
potentials for lagging regions.

On the other hand, it is true that a high
percentage of SMEs in many OECD coun-
tries are in the industrial sector and provide
half of OECD industrial employment. Small
firms are increasingly present in technology-
intensive industries and in creative industries,
particularly in large urban areas. They
predominate in strategic sectors, such as busi-
ess services, where human resources and
knowledge-based competitiveness play a
major role. Not all of them, however, are
innovative and networked as the ideal type
depicted by New Regionalism, the so-called
“high road”. Side by side with the modern,
flex-spec firm, where labour cost is com-
bined with better wages, there are thousands
of small traditional firms and sweatshops
at the edge of survival along the so-called “low
road”, small dependent sub-suppliers and
subcontractors and thousands of women
homeworkers, operating in the informal
sector. These firms attract no attention to
OECD official policy recommendations
which continue to focus on typical growth-
oriented strategies, via competitiveness (see

The majority of dispersed and/or clusters
of SMEs in developing countries operate
under informal conditions such as in the
shoe industry in the Sinos Valley, South Brazil
and Guadalajara, Mexico and in India’s tex-
tile industry in Tiruppur, Delhi and Mumbai
(Navdi and Schmitz, 1998) and in the
Bangalore technology district. Furthermore,
many paradigmatic industrial SMEs in Third
Italy’s IDs operate also under informal con-
ditions, either avoiding taxes and local pay-
ments under the local “tacit agreement”,
“give nothing, but ask for nothing” (in
Veneto), or polluting the environment (the
leather districts of Arzignano and Chiampo),
or violating labour legislation and using eco-
nomic migrants illegally (in Prato, Tuscany;
Carpi, Emilia Romagna and Macerata; the
Marche) (Bialasiewicz, 2006; Rabelloti
et al., 2009).

To these small industrial firm variants we
have to add labour variants such as paid and
unpaid family labour, limited and unlimited
time contracts, stable and precarious work,
formal and informal labour, women’s and
children’s labour, immigrant labour, etc.
These forms of labour are present in the
majority of IDs, and they constituted a
coherent and indispensable ensemble of eco-
nomic and social relations which made pos-
sible, until the post-2000 crisis, high profits
for the few modern, paradigmatic small firms. And apart from micro and small firms in the same sector, there are also medium and large vertically integrated firms with brand names which compete with small ones. Many of those, particularly in fashion and design sectors, are using similar flex-spec and just-in-time production methods and outsource part of their production to dependent firms regionally and globally.

To illustrate the above, I will use two examples from my own work. The first concerns SMEs in the fur industrial district of Kastoria, Northern Greece, one of the few Greek IDs which demonstrate analogous social, cultural and economic characteristics with Italian IDs. Kastoria is a Byzantine town (2001: 36,000 people), known as the capital of fur production and trade in Greece, able to establish “Made in Kastoria” as an international brand name. In the entire prefecture there are more than 2500 micro, small and medium firms and only five with more than 80 employees, providing employment for about 18,000 people. From this remote place, 12 per cent of global fur trade and 90 per cent of global fur-coat production out of small pieces (a historical local specialization) is controlled. The key role is played by dynamic SMEs producing for exports (today mainly to the nouveaux riches of Russia) which are organized along the flex-spec, networked and learning paradigm, with strong social, cultural and institutional support from the local community and local government. There are, however, many other types of firms within the IDs, from “ordinary” homeworkers and sweatshops in the informal sector to advanced small independent design studios and medium vertically integrated firms. We cannot understand how Kastoria’s local productive system operates, how it is so successful even in periods of crisis and how it promotes local/regional development, until we take on board all firm types and all forms of work. In Figure 32.1, three types of firms are shown (vertically integrated, dependent subcontractors with homeworkers, horizontal advanced network which also use homeworkers) together with the nine basic stages of production for a mink fur-coat. Each type has positive and negative characteristics, with firm A controlling in-house the entire production apart from design; firm B controlling quality-packing and commercialization-distribution; and firm C controlling in-house as in A plus matching small pieces.

The second example is from an ordinary urban municipality, Ilion, part of the Athenian metropolitan area. Ilion is a working- to low- middle- class area, in Western Athens (2001: 82,000 people). The structure of local employment is divided between trade and services, industry and construction, with 56 per cent of employment provided within the boundaries of the municipality (see Figure 32.2). In a 2003 survey – after the 1999 major earthquake which hit Western Athens badly – 624 SMEs have been located within the urban tissue (in the ground floors of apartment buildings and in few separate premises), in sectors such as industry, producer services, local trade and construction (see Figure 32.2). Other SMEs belonging to non-local trade, personal services, food, restaurants and drinks, education and health (total 2100) are also depicted but not shown in this map (for further information see Hadjimichalis et al., 2003). With three exceptions (one export fashion leather shoe firm and two high-tech producer service firms), all others could be classified as “ordinary firms”: one to fifteen employees with a substantial presence of self-employment and immigrant labour, mainly family owned, using low–medium technology, not particularly innovative and the majority using some sort of informality. They are nevertheless embedded in local social and cultural relations, adequately networked among themselves and enjoying institutional support from a municipal agency, financed by the EU. No brand names, no export figures, nothing special,
an ordinary socio-spatial structure similar to many others in urban areas like Ilion. The local economy and society, however, cannot do without them: they are diffused within the urban tissue keeping it alive, they have local backward and forward linkages, they provide local employment, they serve the needs of local people and local market within walking distance (particularly food and personal services), and, finally, they are rooted in the local tradition of petty trade and self-employment.

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Figure 32.1 Production of a mink fur-coat in the industrial district of Kastoria, Northern Greece.

Source: Hadjimichalis and Vaiou 1997

Note: Numbers in squares show workers at each stage and/or at each micro firm. Grey areas show leading firms.
Towards an alternative categorization: some concluding comments

The focus on SMEs as dynamic agents for local/regional development was (and remains) a welcome contribution and this applies also to the various concepts and formulations associated with them. But in practice, it often seems to be trapped in grandiose claims, ill-founded theorizations and an overemphasis on a few paradigmatic sectors and regions, ignoring the vast majority of ordinary SMEs which play a much more important role in the development of ordinary places, often “lagging” behind successful ones. Looking at ordinary SMEs in ordinary places we open a window to conceive development...
more broadly than just economic growth to incorporate sustainability, everyday life and well-being at the local level (see Pike et al., 2007).

From a local/regional development perspective, small producers and service providers fall into many categories and many sectors and several types of firms and forms of labour could be distinguished, as the previous analysis has shown. The boundaries are unclear and I prefer to see them as a continuum between three main categories:

i) Geographically and sectorally dispersed small producers and service providers. Most of rural and urban small industry, service provision, agricultural production and tourism fall into this category. From the village carpenter and small family hotel to urban small firms such as grocery shops, cafés, design studios, web designers and small manufacturing diffused in the urban tissue – to mention but a few examples – their growth depends on demand mainly from local and national markets. The scope for division of labour and hence for economies of scale is small. The impact, however, to local/regional economy could be notable, if (a) there is an important amount of small firms and (b) their forward and backward linkages are highly localized/regionalized.

ii) Geographical clusters of small firms belonging to different or to similar sectors. In contrast to the previous case, there is wide scope for division of labour between firms and hence for specialization and innovation, essential for competing beyond local markets. There is, however, an unknown threshold, after which that clustering opens up efficiency gains beyond simply agglomeration economies. Also this clustering is not necessarily incompatible with the presence of large firms. In fact, large producers and service providers by their very operation give birth to many small ones, e.g. large hotels and surrounding small restaurants, cafés and souvenir shops, or large manufacturers subcontracting part of their production to smaller producers, etc. In this type, we have both vertical and horizontal relations among firms and contribution to development is also a function of their forward/backward linkages. These clusters could be unplanned, derived from agglomeration economies, or planned as an intervention from local or central state for more efficient operation.

iii) Geographical clusters of small firms in the same sector of the type of Italian industrial district. The main characteristics in this case are: unplanned clustering within historical towns and/or planned relocation in designated district zones, historical sectoral specialization, predominance of small and medium-sized firms, close inter-firm collaboration and networking with mainly horizontal relations, a common socio-cultural identity which facilitates trust, a particular local social division of labour which reproduces skills and entrepreneurship, active local/regional institutions providing wide-ranging assistance and supportive local government and nation state. In this case there is a capture of agglomeration economies by all firms in the district, resulting in a collective efficiency and local/regional development. In many IDs large firms and corporate business networks could operate alongside small firms.

The above categorization is highly context and path dependent: in an economically and technologically advanced region, the ability to contribute to regional growth by a dispersed or networked small firm in an ID should be analysed with a different analytical framework from, say, a peripheral region in...
the same country, or in a small village in Asia or Latin America. We should also remember that SMEs belong to particular sectors and are regulated by local, national and international institutions and this is true for the few paradigmatic SMEs in IDs. And we should not forget that these are historical forms of capitalist organization competing under conditions not of their choice in the uneven global landscape. Like all other forms of capitalist production, they survive as long as two conditions are secured: (1) their social and spatial division of labour remains globally competitive vis-à-vis other similar SMEs, larger firms, sectors and regions, and (2) their internal system of economic and social reproduction remains unchallenged. The analysis based on the new orthodoxy of SMEs in IDs is unable to answer these questions and, after the realization of the limits and dead-ends of entrepreneurial regionalism, a radical change is needed to formulate more nuanced and inclusive policies for local/regional development taking into account all types of SMEs and forms of labour, in all sectors and regions.

References


Kropotkin, P. (1898/1986) *Fields, Factories and Workshops: Industry Combined with Agriculture*


Further reading

