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(Comments and suggestions are appreciated)

Small enterprise clusters for local development in a transition context: the case of Romania

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Abstract

The aim of this paper is to explain how the small enterprises clusters can be effective for the local development of the Romanian economy. Romania is a former socialist country with a dramatic recent history and a difficult transition. After having had a look to the Third Italy experience, it will be explained why small enterprises are necessary in Romania and why small firm clusters are suitable for some of the Romanian realities. Some study cases will be analysed as an empirical support to the theoretical analysis. In particular, a proto industrial cluster has been surveyed at single enterprises level, in order to understand the elements characterising the evolution. The theoretical and empirical analysis are supported by some figures concerning the whole SME sector and also by a legislation framework examination and an SME policies' review.

It will be showed that in traditional and labour intensive sectors, industrial districts are a good tool for local development in Romania. More specific sets of measures should be undertaken by the Government, mainly at local level, to favour this process. These measures would give the opportunity to small firms, operating in sectorally and geographically homogeneous area, to co-operate and associate. In other words, industrial districts would help small enterprises to resolve their congenital lacks autonomously, constituting an *industry*.

Keywords: industrial districts; transitional economies; small and medium-sized enterprises; industrial organisation and policy.

JEL Classification: L1 (Market Structure, Firm Strategy, and Market Performance); L50 (Regulation and Industrial Policy - General); P26 (Socialist Systems and Transitional Economies - Political Economy)

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1. Introduction: The Industrial District Model in Italy¹

In the late 70s, debates started to rise in Italy on the peculiar industrialisation of a wide area of the country, later known as Third Italy. This name was given to distinguish this part of Italy – the North-east and the Centre, from the North-west region – long-established as traditionally industrialised, and the sub-industrialised South of the country (Bagnasco, 1977).

Many scholars have underlined that the new industrialisation of the Third Italy was mostly based on small firms, and in particular on the clusters in which they were structured. The debate developed a wide literature which intended to analyse such a phenomenon as a first goal. The debate and the literature soon crossed the Italian borders – Piore and Sabel (1984), for example.

Even if it is hard to present the Third Italy model as an analytical model – mainly due to the high variety of the social and economical elements involved, some variables can be identified among the different contributions to the debate.

Becattini (1979) rediscovered the concept of marshallian *industrial district* as to explain the rapid growth of some Italian regions, Tuscany in particular. The industrial district, as Becattini defines it, is characterised by the co-presence of a number of industrial enterprises within a historically and naturalistically determined area. The enterprises part of the district tend to get together in the production process. This phenomenon originates external scale economies, and blends competition and co-operation among the firms constituting the district.

After Becattini (1975), who was the first to give the definition of *urbanised countryside*, Fuà (1984) defined a model characterised by a series of elements for the *North-East-Centre* (NEC) area of Italian industrialisation. In this model, a set of initial conditions was given at the beginning of the process: many small cities, very close to one another; a countryside equipped with infrastructures, such as roads and railways; an economic structure based on family, agriculture and individual entrepreneurs (artisans). Starting from these conditions it was then possible to trace down an industrialisation pattern. The industrialisation was based on small firms, mainly because of the low cost of the labour force coming from the agricultural workforce. Another cause was the rising of the consumer preferences diversification among the more general process called post-Fordism.

¹ This paper derives from the graduation thesis of the author. I would like to thank many persons who helped me to achieve this duty, among all: Prof. Alessandrini, without him this work would not exist; Mrs Valeri, who introduced me to the Romanian reality; Mr Ciocănea (Secretary of State) and Mr Mamulea (Director of the Agency for SME) for their support. I am grateful to Mr Tachiciu for his precious suggestions. I would like also to acknowledge Mrs Bora and all the Alba Iulia PAEM team. Finally, *grazie* Bryan for helping me in writing this paper in English language.

Various were the reasons for the industrialisation scheme to be based on small enterprises: the small enterprises are suitable in scarce capital scenarios, in rural regions with many small and medium cities, in societies based on family-ran enterprises. Generally, the productions belonged to traditional sector (textile/clothing, light mechanical engineering and so on). The last characteristic of the model is the mass of small firms often forming a cluster of specialised small enterprises.

Another view – but similar in many aspects – is related to the concept of *system area* formulated by Garofoli (1983, 1989). This further specification is much strongly related to the interactions between economy, society and environment. In this scheme a set of endogenous variables are identified: exploitation of the local resources; control of the accumulation process at a local level; innovation control; inter-sector and intra-sector productive interdependencies. The pattern is divided into a number of ‘structural characteristics’: high labour division; high specialisation in enterprise and environment sectors; variety of the local economy actors; a widespread informative system; the ‘persistence’ of the knowledge; the ‘face to face’ relationship diffusion.

A more general analysis – not only from the industrial point of view, also derived from, but not correlated to, the Third Italian industrialisation model, is the *milieu innovateur* (Camagni, 1991). In fact, the milieu innovateur can also be seen as a dynamic viewpoint of the industrial district model. The economic elements of the milieu are: district economies (e.g. vertical integration), geographically close economies (e.g. knowledge diffusion), synergy characterisation (e.g. partnership, public-private connections). The central matter is the spatial factor - the territory and factors, not strictly within the firm premises, but internal to the system.

A simply but sound definition of industrial district is given by Pike *et al.* (1990): “[*Industrial districts are geographically defined productive systems, characterised by a large number of firms that are involved in various stages, and in various way, in the production of a homogenous product. A significant feature is that a very high proportion of these firms are small or very small*”.

After this bird’s-eye-view of the most relevant contributions to the explanation of the Third Italy’s industrialisation, a “stylised model” of local development and industrialisation, based on the small enterprises clusters, can be raised (Rabellotti, 1997). This model is based on four key elements: the spatial concentration of sectorally specialised enterprises (mainly by Becattini, 1979), the existence of a common cultural and social background (mainly by Fuà, 1984), the existence of a set of links based on competition, and co-operation making the area integrated (mainly by Garofoli, 1983), the

existence of a network of public and private institutions which support the local system (mainly by Camagni, 1991).

From these key elements it is also possible to extract a set of independent variables (exogenous and endogenous) which could explain the model:

- a) Big firms crises and diversification of the consumption (exogenous);
- b) Traditional sectors and low-cost labour (exogenous);
- c) Urbanised countryside, agriculture and artisan-based family (endogenous);
- d) Widespread of the knowledge, links between the economic actors, thus co-operation within competition (endogenous);
- e) Specialisation of production, external economies, spatial concentration (endogenous).

In conclusion, even if it is not possible to talk about an analytical model of development based on small enterprise clusters, a set of variables and characterisations can be identified which can give us a more systematic methodology of analysis.

2. Small Firms Clusters in a Transitional Context: The Case of Romania

After having given a look at the principal literature on the Italian model of industrial districts, I here will try to adapt this economical model to the transitional economy of Romania.

As it is true that every Eastern European country was strongly different from one another², it is also true that Romania had a much more different pattern of development – especially during the late '70s and all the '80s – than its “socialist brothers”. Romania is a middle size country, situated at the North border of the Balkan peninsula, with a surface of about 240,000 square kilometres and more than 22 million inhabitants, with a per capita GDP of 1730 US\$ in 1989. After the W.W. II until the December 1989 Revolution, Romania was a communist ruled country, member of the Council for Mutual Economic Assistance (CMEA) and the Warsaw Pact, even if sometime had a released position, such as during the Prague Spring in 1968 when Romania did not take place in the Czechoslovakia invasion.

The Romanian industrialisation can be divided into 4 steps (Lăzărescu, 1997). The first period – from 1947 to 1960 – was characterised by a typical Stalinist extensive industrialisation. The

² For instance, in 1989 in Romania, as in Czechoslovakia, there was not a private sector, but in Hungary and Poland the private sector accounted for 15% and 28% of the GDP respectively (source: *Small business in transition economies*, 1996).

attention was brought to the industry building more than to the industrial production itself. During the second period – between 1960 and 1970, industrialisation took place in heavy sectors like coal, iron, oil, chemical and so on. In the third period – from 1970 to 1980, and mainly in the fourth – from 1980 to date, attention was given to the intermediate goods rather than to the finished products. This phenomenon, called ‘shortage’ (Kornai, 1981), was a characteristic of most socialist countries, even if more evident in Romania. Whenever there was a shortage in the consumption goods, the industrial capability was always over-dimensioned. In the first stages of the transition, this condition brought an asset of huge, heavy and state-owned enterprises in Romania: Light industry and small and medium-sized enterprises were practically absent.

Differently from other former socialist countries, Romanian transition was slow and difficult³. Romanian transition can be divided into three parts (Alessandrini, 1998). The first coincided with power rise of the National Salvation Front and concluded with the creation of a minimum set of pillars for the establishment of democratic institutions, and especially with the establishment of the new democratic Constitution (1993). In this period the economic reform was limited to some basic laws and amendments (such as the private property institution and the companies law). During the second period, which coincided with the second NSF government, the pressure of international financial institutions brought to an intensification of the economic reform. In 1996 the power went to the centre-rightist coalition that fastened the economic reform, although the line was not crossed completely. Romania, which under the socialist era recorded a positive enhancement of fundamental assets – such as education and social security, now risks to fall from the status of a medium developed country to a status of underdeveloped country, because of the weakening of the social security system and the impoverishment of the live standard (Pennås, 1996).

Small and Medium-sized Enterprises in Romania: Why they are Necessary and what are the Obstacles to their Development

There are many reasons why a structure of small and medium-sized enterprises can be established in a transitional economy such as that of Romania. I will list here below the main ones:

- i) In western countries the SME employ the majority of the work force whereas in the socialist systems SME almost did not exist. For this reason, during transition in the former socialist countries there is a lack of SME, as evinced from the table 1.

³ In Romania there was not a ‘pacted transition’, this because there was a lack of ‘soft-liners’ among the rulers (this due to the sultanistic attitude of the leader Ceausescu), and also a lack of a moderate and recognisable opposition (this also due to the authoritative and oppressive rule) (Linz and Stepan, 1994).

Table 1 – Employment in the SME* in some countries in 1995 (%)

Croatia	30
Czech Republic	37
Hungary	24
Poland	23
Romania	27
<i>Europe "of 12"</i>	<i>69</i>
<i>United States</i>	<i>53</i>
<i>Japan</i>	<i>73</i>
<i>Italy</i>	<i>80</i>

* SME are here said those with less than 500 employees.

Source: *Transition report* (1996).

- ii) Small firms are crucial in transitional and developing economies. For instance, after W.W.II, Italy and Germany based a part of their reconstruction on small businesses. The small enterprises are more flexible, more dynamic and can better absorb shocks during a crisis (Piore and Sabel, 1984). Due to their characteristic of labour intensive, small business are efficacy in redistributing income. Nadvi and Schmitz (1994) show how the industrial districts based on small firms could generate internationalisation and income growth in developing countries.
- iii) Small enterprises are suitable for creating, regenerating and absorbing labour. Because of their flexibility, they are able to absorb labour market shocks, particularly during some de-industrialisation phases: when huge enterprises close down, small enterprises can soften the unemployment transition like as a containing reservoir. Small and medium enterprises are mainly effective in the first stages – the labour intensive ones. The creation of a labour unit in an SME is much easier than in a large enterprise, due to the lower investment of capital.
- iv) Due to their structure, small businesses are a useful instruments against the monopoly (both economical and political). In the former socialist countries, the economic system was based on the biggest monopoly, that of the state. During the transition to a market economy – also because of the unbalanced privatisation process of most of the former socialist countries – the state monopoly was transformed into the monopoly of the former nomenclature and a new entrepreneur leadership came in. In order to reduce the power of large enterprises, it is necessary to split the economic power into a number of small economic units, such as SME. Also, the economic power is strictly correlated to political power, particularly in the former socialist arena. The free market economy, with a large number of economic agents – such as a sound SME sector – can conduct toward the establishment of a free market culture and a democratic society.

But some elements oppose to the establishment of a strong foundation for small enterprises in Romania:

- i) The artisan tradition was broken by forty years of communist ruling. In fact, in the Italian small business-based society, the long time established artisan tradition was one of the main elements for the development of the industrial district. In Romania the regime forced the artisans to merge into the state productive structures. As a result, after two generations the artisan tradition was lost, and the typical entrepreneur position is now taken by the former state-owned enterprises' manager. As stated in Costariol (1993), this fact causes reluctance to co-operate in the new entrepreneur class.
- ii) In the former socialist countries and mainly in Romania, small and medium enterprises are not well accepted because they are seen as a rival to the still state-owned enterprises. Mainly during the first years of transition, there was a strong linkage in Romania between the new political class and the new entrepreneur class, all coming from former nomenclature. This new nomenclature saw the emerging SME sector as a menace to the consolidated political and economical power (Talks with some entrepreneur representative, hold in Bucharest, September 1998).

Toward an Industrial District Model for Romania

After having considered the Italian industrial district model and the main issues on SME sector in a transitional context, I will now define a model for the local development based on small firm clusters in Romania. Today's Romania is very similar to the Third Italy of the '60s. It has the same territory structure, a similar infrastructure asset, a similar productive structure based on the dualism of a widespread agriculture and a state industry.

Here below are stated the main elements constituting the particularity of the Romanian society in prospective of the establishment of a sound small firm economic structure.

- a) There are a number of medium cities (21 with more than 100,000 inhabits). During the communist regime, there was a sort of forced urbanisation which conducted Romania to have, beside Bucharest, homogeneously spread lot of industrialised cities (urban population raised from 35% in 1965 to 54% in 1990).
- b) There is still a consistent agricultural labour force during the transition. The labour force in the agriculture sector has risen to about 35% in 1996 from 28% in 1991 because of law no. 18/1991 concerning the return of the land properties to the farmers. In the last years the agricultural workforce has begun to decrease, providing stock workers for the industrialisation of the wide Romanian countryside.

- c) A large family institution is firmly present in Romania. This is the base for the development of a local economical structure based on family firms.
- d) There are sufficient infrastructure assets: railways, roads and telecommunications are developed to a medium degree and cover all the country.
- e) The average education of the population is good. One of the achievements of the socialist regime was the alphabetisation. There is a surplus of people with a strong technical background (mainly engineers), who constitute an available class of skilled workers, but in the social sciences there is a scarcity of human capital.
- f) There is a local specialisation knowledge due to the socialist industry planning and concentration, which enabled the geographical concentration of industries.

These elements, constituting the Romanian society, can allow – with a flexible adaptation and under some condition – the replicability of the industrial district as in the Third Italy form (Pyke *et al.*, 1990).

But it also has to be said that in Romania there is a the lack of Schumpeterian entrepreneurship, of high level of specialisation and of capability to exploit the externalities, which make SME' development harder. However, these factors can be considered normal in a transitional context. In Romania there is also a rural background and the society is based on large families. These elements combined with some mutations – such as the 'de-agriculturisation', the progress in communication and the demand diversification (Fuà, 1983 and Piore and Sabel, 1984) – can conduct to a local development based on small enterprises, like that of the Third Italy of the '60s and '70s.

The next paragraphs will try to verify these theoretical statements.

3. The SME in Romania

In this paragraph the SME sector in Romania will be analysed⁴. First of all it must be said that the SME sector in Romania came with the establishment of democracy. Differently from some other socialist countries, in Romania during the communist ruling there was no space for private initiative nor for small firms. For instance, in the 1989, in the industrial sector, there were only 141 enterprises out of a total of 2,102 with less than 200 employees, employing 18,385 workers out of a total of 3,690,200 in the whole industrial sector.

⁴ If not otherwise stated, for SME are here intended those enterprises matching the 1996 European Commission definition (micro with up to 9 employees, small with up to 49 employees and medium with up to 249 employees). For small firms, small enterprises, small business and similar are intended enterprises of small dimension as generally referred to.

The turning point was when Decree no. 54/1990 legalised private property and entrepreneurship, although until 1991 the only private enterprises permitted were those with up to 20 employees. As a consequence, a number of private enterprises were created and all of them were micro firms. With the came in force of the law on private companies, in 1991, all kind of enterprises were permitted. The available figures show an increase of private enterprises from 81,671 in 1991 to 546,511 in 1996. Of those, only 309,545 registered a turnover in 1996, meaning that only a little more than half were active.

The number of SME, as well as their importance for the Romanian economy, grew rapidly. Table 2 below shows how the SME' sector becomes more and more relevant in the economy.

Table 2 – Weight of employment and turnover figures of the SME over the total of the enterprises in the industry, constructions, commerce and other services* sectors (data in %)

	1992	1993	1994	1995	1996
SME' employment	12,3	17,8	20,1	23,9	29,0
SME' employment in the industrial sector	5,0	7,5	10,4	12,7	15,2
SME' employment in the commerce sector	36,1	49,4	73,5	73,9	71,6
SME' turnover	30,9	33,8	41,3	46,7	48,3
SME' turnover in the industrial sector	11,2	12,0	15,4	19,1	21,7
SME' turnover in the commerce sector	62,3	72,2	84,4	83,4	84,0

* with *other services* is meant services other than financial and insurance.

Sources: *Anuarul statistic* (1998).

These figures show that the SME, with a smaller share of employees can produce a higher income than large enterprises. The same cannot be said of the private sector. In fact, the private sector is not more efficient than the public sector: In 1996 the private labour force was 51.5% of the total labour force and produced the 52% of the GDP. The reason for this meagre result of the private sector may be imputed to the agriculture sector: It is mostly private, it employs more than one third of the working force but its production stake scrapes a 25% of the GDP.

Table 3 below shows the structure of the SME sector in Romania. It may be observed that within the private SME, the commerce is the sector with the majority of enterprises and work force. This is normal in the western countries as well, but in all countries in transition the first private initiatives were in this sector mainly because of the low barriers to entry, and still this standing persists.

As far as the territorial distribution of SME in Romania, the density index (the number of SME over the population in each administrative district) shows that the highest densities are recorded in the big cities (Constanța, Cluj, Timișoara, etc.) or in traditional industrialised areas (Bihor, Arad etc.), meanwhile in the less developed zones SME are less diffused.

Table 3 – Repartition of some performance figures of the Romanian private SME (data in %)

	Number of SME		Employees		Assets		Turnover		Value added		Net profits	
	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995
Industry	9,9	9,8	26,2	25,1	21,3	20,8	15,2	12,9	25,7	24,2	28,5	26,3
<i>Micro</i>	8,5	8,8	13,1	13,4	12,8	14,1	7,7	7,4	15,4	16,1	19,2	18,3
<i>Small</i>	29,0	28,9	31,2	30,7	23,6	25,1	18,0	18,4	27,1	29,6	32,1	35,2
<i>Medium</i>	37,0	35,8	37,3	35,3	29,3	27,7	29,2	23,7	36,6	34,2	39,0	36,3
Constructions	2,3	2,1	12,5	12,5	5,2	5,7	4,9	4,4	11,5	11,2	11,2	10,0
<i>Micro</i>	1,6	1,6	2,8	2,8	2,1	2,7	1,4	1,6	3,7	4,8	3,7	4,9
<i>Small</i>	10,6	10,8	12,4	12,6	4,8	5,9	5,1	5,3	10,9	12,2	11,3	12,4
<i>Medium</i>	22,5	23,8	24,1	25,4	9,1	10,8	13,3	12,8	21,4	22,6	22,7	21,5
Commerce	70,9	71,4	44,9	46,3	56,7	57,7	70,2	73,0	46,1	46,3	45,1	46,5
<i>Micro</i>	73,0	73,1	67,9	67,5	70,5	69,4	82,7	82,8	64,6	60,9	59,1	58,2
<i>Small</i>	44,0	44,2	40,3	40,8	57,4	51,6	66,1	65,1	45,8	41,1	43,4	36,5
<i>Medium</i>	23,6	24,4	21,7	23,1	39,7	44,5	45,8	51,1	24,3	23,5	24,8	27,5
Services	16,9	16,5	16,4	16,1	16,8	15,7	9,7	9,7	16,2	18,3	15,3	17,2
<i>Micro</i>	16,9	16,5	16,2	16,2	14,6	13,9	8,1	8,2	16,3	18,2	18,0	18,6
<i>Small</i>	16,3	16,0	16,1	15,9	14,2	17,5	10,9	11,3	16,2	17,2	13,1	15,9
<i>Medium</i>	16,9	16,0	16,9	16,1	21,9	17,0	11,7	12,4	17,7	19,6	13,5	14,7
Total sectors	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Total SME	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: CRIMM (1998).

Aspects of Romanian SME' life

Reports about the SME sector carried out by CRIMM (1994, 1995a and 1997) and by World Bank (1998), present interesting aspects of the 'life' of Romanian SME. For instance, in 1996 only one fourth of the SME had access to the bank financing. The entrepreneurs explained that the interest rates were too high, too many the guarantees were required, and the procedures were too complicated (CRIMM, 1995a and World Bank, 1998). These difficulties are related to the underdeveloped and immature financial market, dominated by five state-owned banks strictly connected to the loss-making state owned enterprises (European Commission, 1998 and OECD 1998).

On the other hand, one third of the entrepreneurs complain about the monopoly practise of some competitors and this is an obstacle perceived by the SME. Another complain is the preferential access of some 'nomenclaturists' to spaces, finance etc. (CRIMM, 1997). This situation derives from the unperfect market economy that still persists in Romania, due the slow transition process, the continued state-owned enterprises power, the unclear legal framework.

4. The policies for the SME in Romania

The first part of this paragraph will present the legal framework and the main policies in favour of the SME in Romania. In the second part some comments on these policies will be made under the guidelines of the international experience on these matters.

Legislative Framework and Institutions involved with the SME

The first law on the SME sector was the Decree no. 54/1990 that disciplined the “organisation and the implementation of the economical activities on the bases of the free initiative”. The Decree no. 54 listed four kinds of private enterprises: small enterprises with up to 20 employees; association for the sake of gain; family associations; individual entrepreneurs. Other types of enterprises were not regimented until December 1990, when the Law no. 31/1990 on companies came in force, defining five typologies of society without any limitation on the number of employees. The individual and family enterprises continue to exist as economic agents different from the companies.

Before the Law on companies came in force, small enterprises with up to 20 employees were the only kind of private firm permitted. Until 1993 – when a specific law (Ordinance no. 25/1993) was emanated – there was no legislation specifically on SME in Romania. The Ordinance defined small enterprises as firms with up to 25 employees and medium enterprises as those with up to 200 employees, plus it defined a turnover criterion. In my opinion, these did not reflect what SME really were in Romania, and enterprises matching the definition were too few and too small. For instance, at the same time, in the European Union the upper dimensional limit was of 500 employees, although EU had a bigger labour productivity and a thicker SME sector.

Another distinction of SME in legislation came only between 1994 and 1996, when the fiscal law allowed the enterprises with less than 299 employees (called “small contributors”) to calculate the taxable income using a simplified procedure.

At present (April 1999), the only law on SME is the Ordinance no. 25/1993. This law is old in many ways. Now the Parliament is discussing a bill for a more modern and comprehensive law on SME, which will receipt the Recommendation of the European Commission 3 April 1996⁵.

⁵ The Recommendation states that small and medium-sized enterprises are firms with less than 250 employees having a turnover up to 40 million euro or a total assets up to 27 million euro and are not owned with more than 25% share by an enterprise that is not an SME in terms of employees and turnover.

The institutions involved with the SME may be divided into two main categories: the strictly governmental institutions and the others.

The first governmental institution involved with SME was the National Agency for Privatisation, ANP. Since its creation, in December 1990, the ANP was committed with the SME sector providing consultancy and information services, also through the regional branches (Govern Decision no. 858/1991). In the February 1993 – just two years later – the competencies on the SME were passed on to the Romanian Agency for Development, ARD. With the Ordinance no. 38/1995, the responsibilities on the SME went back to the ANP, with the creation, within the Agency, of a Direction for SME. In early 1998, the new Ministry for Privatisation absorbed the ARD and ANP agencies, and consequently its Direction for SME. The last change came in December 1998, when an independent Agency for SME was created. The Agency is committed with the following main tasks: it elaborates proposals for the Government on SME development issues; it follows programmes concerning SME and evaluates the results; it provides studies and analysis on the legal, institutional and economical framework for the SME environment; it co-operates with the international institutions and represents the Government in SME matters.

Among the other institutions involved with SME are the international organisations, such as the European Union, deeply involved for the SME development through the Commission, the World Bank and the European Bank for Reconstruction and Development, that provides a number of credit schemes. Finally, western countries governmental agencies for the co-operation contribute to the development of the SME sector, such as the British Know-How Fund, the American USAID and so on.

Like other east-European experiences, with the strong support of the international institutions Romania built a network of consultancy centres for SME regionally spread. The main one is the ‘Romanian Centre for SME’, CRIMM, based in Bucharest, funded by the European Commission jointly with the Romanian Government.

The main policies in favour of the SME in Romania

The policies in favour the SME can be divided into two groups: those implemented directly and autonomously by the Romanian Government and those implemented by international institutions with or without the co-operation of Romanian Government.

The policies implemented directly by the Romanian Government are very few at present. In the first two stages of the Romanian transition, until 1996 (see Second Paragraph), only one specific programme was implemented by the Government. With the Decision no. 805/1994, a 2 million US\$ micro-credit scheme was carried out with single credits of up to 30.000 US\$. Another important

fact is that with Law no. 12/1990 on the taxable incomes, the new enterprises were exempt from tax payments for a grace period depending on their activity. This act permitted a rapid creation of more than half million new enterprises just a few years after getting into the free market.

A new support to SME came in 1998 when the government allocated 80 billion lei for the SME⁶. This sum was divided into three parts: one for the creation of new enterprises (Government Decision no. 788/1998), one for supporting marketing activities of the Romanian SME (Government Decision no. 789/1998), one for the support to the creation of a guarantee fund (Government Decision no. 23/1999). The latter is the most ambitious, because the objective is to incentive the SME – as defined with the Ordinance no. 25/1993 – to co-operate and even to associate through a consortium in order to participate to the guarantee scheme.

It must be said that at least until last year, the greater number of policies in favour the SME were carried out by international institutions. The first project put in practice was a grant scheme implemented by the Phare Programme through the CRIMM foundation and consisted in a fund of about 2.5 million ECU for schemes of a maximum of 50,000 ECU. In 1998 Phare allocated 6 millions ECU to a credit scheme for SME to be implemented by Romanian banks, in order to develop their confidence with SME.

Other credit schemes were performed – but not only in favour of SME – by other institutions like the World Bank (in 1994 it funded of 175 million US\$ for all private firms), EBRD (funding 58 million US\$, for the SME in restructuring or privatising), USAID (setting up an American-Romanian Fund for Investments promoting the equity of the Romanian private companies). In 1992, the Romanian Guarantee Fund for the Romanian private enterprises was established by the governments of Romania, Canada and Austria.

Business support policies add to the financial aid to promote the development of the SME. This activity area is of great importance in a transitional country and especially in Romania, where there was no record of free market and the new entrepreneurship class is not familiar with the basic and even then new rules of a modern economic environment.

A number of consultancy centres were created by the Romanian Government in co-operation with the Phare programme such as the USAID, the UNDP and so on. Now there are more than 60 centres – at least one centre per administrative district. These centres provide the entrepreneurs consultancy, assistance, information, support for the taxation procedure, for the business plans and so on. After the start-up support and financing by public and international institutions, these centres are usually self-financed by the charges on the services they provide.

⁶ It must be noted that this amount is a part of 3,500 billion lei privatisation earning fund, and it is quite a grain in the sand compared to the 2,720 billion lei of the same fund allocated for the restructuring state-owned industries.

Since 1993, five business incubators were also created by the CRIMM foundation.

Between 1994 and 1997, the Phare funded PAEM, Programme of Active Employment Measures operated with a budget of 10 millions ECU. This project created a number of agencies lead by a local consortium that provided assistance and training to the unemployed people and aimed to help them to set up an own business.

It is still too early for regional policies in Romania⁷, but a very local policy is under implementation today. The FIDEL programme (Local Development Initiatives Fund) is funded by the European Commission and by the Romanian Government with a sum of 6 millions ECU to support those initiatives oriented towards fostering local economies. The objective is to support local economical initiatives by strengthening the local structure in order to stimulate sustainable economical growth and employment in the SME sector. The support is given by providing financial aid to existing assistance structures at first, and then mainly by funding a number of projects, 65 at present (for this section 4.4 millions ECU were allocated).

Some final considerations about the policies

Here below an enterprise life classification in four phases is proposed. During these phases, various support programmes can be implemented.

Table 4 – SME life phases and support policy typologies

Enterprise Life Phases	<i>Birth</i>	<i>Growth</i>	<i>Specialisation</i>	<i>Internationalisation</i>
Support Programmes	<ul style="list-style-type: none"> • grants • incubators • business support centres 	<ul style="list-style-type: none"> • subvention credits • guarantee fund • business support centres 	<ul style="list-style-type: none"> • support to associate • provision of real services 	<ul style="list-style-type: none"> • export incentives • provision of real services

In Romania, until today, support programmes were provided only for the first two phases. The only exceptions are the last government programmes, carried out under the 1998 budget law, and the FIDEL programme, which provided some support (even if not explicitly), belonging to the last two phases.

⁷ The regional policies do not exist because the regions were set up only in the 1998 as entities. In fact, Romania is divided into 41 districts (*județ*) like the French *départements* or the Italian *provincia*. As a result of the Brussels' pressures Romania created eight regions without any political or administrative power, only charged with the management of the European conceived structural funds (see the Law. No. 151/1998 on the regional development and the Government Decision no. 978/1998 for the institution of the Regional Development Agency). Please refer to *Green Paper* (1997).

In fact, international evidence shows that the two main areas of intervention in the SME' sector, mainly in the ex socialist domain, are the financial aid and the business support (OECD, 1996), but these are only limited aspects of the enterprise life.

Bateman (1999) argues that the results obtained in the SME sector by the international and local policies are probably over-evaluated in their quantitative aspects and, on the qualitative side, they have conducted to a weak situation. This situation is caused by the neo-liberal policy adopted which has brought improbable results, under the optimum.

In fact, the SME sector in the former socialist area is dominated by the retail sellers, small import activities and so on, while in the production sector the SME are still thin and weak (this economic climate referred to the SME' could be called 'latin-americanisation', which is very impressive for whom travelled in Eastern Europe).

Bateman shows that the neo-liberal method was only one kind of the those possible, and past success experiences of economic recovery based on institutional local support to SME – such as that of Third Italy, should be take in consideration for the SME policies continuation.

5. The Evidence from some Romanian Industrial District Cases

This paragraph will show the empirical evidence of the SME present status in Romania as resulted from a survey carried out by the author during 1998 in Romania.

First of all, it must be said that in Romania a clear and conscious awareness of the meaning of concepts such as *industrial districts* and *small firms clusters* does not exist at institutional and academic level, neither in their abroad reality nor about a some Romanian evidence.

Even though industrial districts as defined internationally may no be said to exist in Romania, in some areas there are 'proto-districts' originating from particular settings of the territory and society (rural and agricultural zones, or timberland and forest areas) or traditions in production (for instance, due to the mono-production areas set up by the planned economy).

In order to identify signs of new industrial districts in Romania, I applied a simple but rigorous methodology. I assumed that industrial districts could be found in Romania within most traditional sectors, then I selected two traditional sectors (textile/clothing and wood manufactures), and the porcelain sector, since Romania had specialised in this sector during the CMEA years. Small firm concentrations had to be located, so I asked the Chamber of Commerce and Industry of Romania to provide me with the number of SME in these selected domains at *județ*⁸ level divided in micro,

⁸ Romania is divided into 41 *județ*, which are the local administrative units.

small and medium classes (the definition of SME' sizes adopted by the Chamber of Commerce for is that of the EU Commission: micro, 0-9 employees; small, 10-49 employees; medium, 50-249 employees). I then divided the figures by number of total enterprises in each *judet*. I was eventually able to produce an indicator of concentration for each *judet*. This indicator of concentration does not reflect completely the weight of the concentration, because it does not analyse employment nor turnover, but in any case it indicates effectively any presence of firm concentrations in a same sector of activity and location.

In the wood sector, the highest concentration values were found for the *judet* of Harghita, Neamț, Botoșani. Talking over the phone with some of the institutions providing business services to small enterprises in Harghita, I understood that concentrations of SME do exist, but they are not organised in any way. The same situation occurred in Neamț, where a number of SME of the wood sector was however starting to run common activities (they are setting up a foundation which would associate all, or most of, the local wood sector enterprises). This association has as an objective to compete effectively with the former state owned and still monopolistic enterprises in the wood sector.

In the textile/clothing sector, one high concentration values was found in Focșani. There, in 1990, the Italian company Incom S.p.A. bought a large enterprise staffed with 5500 workers from the Government (it was one of the firsts state-owned enterprises to be privatised). The factory has ever since reduced the personnel to some 3600 employees; meanwhile, more than fifty enterprises (mostly small and medium sized) were set up and now work for Incom and for themselves, but about half of them work as Incom's exclusive sub-contractors. Another important issue about this cluster are the professional schools, which was created during the socialist years by the economic plan to provide the former giant plant with specialised workers. Now these specialised schools supply labour to the fresh industrial district.

It was in the porcelain sector that I found the most interesting case. In Alba Iulia town a large company called 'Porțelan' was operating since 1970, employing about 2600 employees; after the privatisation of the company – it was the second largest privatisation in Romania and switched to the Apulum S.A label – a considerable number of small and medium enterprises were set up mainly by former employees of Porțelan.

The Case of Alba Iulia Porcelain Proto Industrial District

Preliminary investigations revealed that only the enterprises of the porcelain sector in Alba Iulia had awareness of the high concentration and specialisation of SME in the area. Therefore, I decided to study the Alba Iulia case thoroughly.

The *proto*-district of Alba Iulia is composed by a number of SME operating in the porcelain sector. First of all I proceeded with a census of all the enterprises in this sector starting from those registered at the local Chamber of Commerce. The Chamber of Commerce reflects only to a certain extent the local economical web of enterprises because of the presence of a ‘grey’ economy, which in the SME sector and in a transitional countries such as Romania is widely spread. In 1997, the registered enterprises in the porcelain sector (thus reporting CAEN code 26.21, “Making of ceramic articles for domestic applications”) were 27, but many the enterprises – the smallest ones, are registered with a different object of activity than ‘porcelain’ but actually manufacture porcelain. My census, completed with the collaboration of a local PAEM organisation, showed that there are at least sixty enterprises operating in the area.

During a first site visit, I learnt that 35 enterprises of the sector are exhibiting their products in a showroom which was established on a permanent basis thanks to a grant in connection with the Phare/FIDEL programme. It was this embryonic form of association and co-operation between firms, that convinced me to investigate further. I thus drafted a questionnaire as the basis for direct interviews with enterprises of the sector and area. I questioned 15 enterprises, all in the SME class although one had 2200 employees, the Apulum S.A company. I focused my questionnaire on the analysis of the enterprises composing the industrial district, their history and the degree and extent of co-operation between them.

The awareness of the specific environment is important for each company located within an industrial district. When asked how many enterprises with the same object of activity there were, many entrepreneurs gave the correct value (the average of responses was 80, probably they are truly around 65). I believe that the economic actors of this district are well informed on the size of the sector and are conscious of their presence as a ‘group’, with tradition and specialisation.

The survey put in evidence the fact that nine out of fourteen entrepreneurs interviewed were previously employed at Apulum S.A. with various tasks. Most entrepreneurs were former directors or engineers, but some were simple workers. The employees that have newly been recruited by SME in the porcelain sector also came from the former state-owned company. The majority of the freshmen come from the two specialisation schools of Alba Iulia – the high school (lyceum) of porcelain and the professional school of porcelain, that qualify 30 and 48 people per year respectively, but some are also trained by one enterprise surveyed which provide this kind of service to its ‘competitors’. Capecchi (1990) sustain that the specialisation and flexibility achieved by industrial districts in Emilia-Romagna is due also by the diffusion of a number of professional

schools in the domains of activity. So also in Alba, there is clearly a high specialisation on the domain in the area, and the strong sense of tradition acts as an effective source for its maintenance. As far as availability and will to associate, it seems that the porcelain SME would be keen to do so on various issues (mainly on entrepreneur association and on purchase of raw materials – 12 and 11 ‘yes’ answers out of 14 respectively) even if no common activity is carried out at present. Moreover, all of them are aware of the existence of the PAEM Foundation with its showroom, and 11 of them also participate in it (also because until now they are not charged, since the showrooms are based on the FIDEL grant). The explanation given by entrepreneurs for their participation to the common exposition is that in any case the competition between enterprises is not very direct because every enterprise differ from each other in the production.

About market perspectives, many of the porcelain SME of Alba Iulia say that there would be room for other enterprises in the porcelain sector (11 positive responses out of 14), this meaning that despite the high concentration the zone can easily absorb much production.

The smaller units do not expand because there are often difficulties passing from an artisan production to an industrial one. As far as I was able to understand, these difficulties concern the hard access to credit and to public services – such as electric power, and the high cost of heavy equipment and/or of state-of-the-art technology. However 9 out 14 entrepreneurs expressed their satisfaction for their business.

Concerning the export issue, 6 out the 14 enterprises queried are exporting. This result is impressive for the Romanian standard. The enterprises that exported their products were the largest and concentrated most of their sales on foreign destinations.

6. Conclusions

The results of this research allow to draw some conclusions. First of all, although advanced industrial districts still did not establish widely in Romania, evidence suggests their development in come cases. Secondly, these cases are very peculiar, and only a set of specific environment parameters allowed their establishment. Thirdly, the success of such cases can be imputed to the fertile background of the Romanian society and culture. The social and cultural structures are a friendly environment for the establishment of and that of clusters of small firms.

In fact, some values of identified variables in the Italian and Romanian cases coincide, although they do not have the same weight and quality. For instance, the diffusion and concentration of knowledge in Italy – the base for the specialisation, was the results of a long tradition in some areas,

where in Romania was provided by the concentration of production promoted by the socialist regime.

The SME sector in Romania is flourishing but still now relegated to the low-value-added sectors, such as the retailers and the small import activities. These situation do not allow a reliable penetration of SME in the industrial sector. The situation of this sector of the economy is a “too many – too small” condition, meaning that there are many micro firms (for instance, the kiosks selling all sorts of consumable goods) and a relatively scarcity of medium and ‘heavy’ firms.

The cases that have been studied demonstrate that where socialist planning concentrated production, of mainly traditional labour intensive sectors, proto-industrial districts may develop in the future under certain conditions.

The most important of these conditions is probably the privatisation and the reorganisation of the giant production units, which must be carried out rapidly, and in any case should detach part of the labour force. This detachment of labour force is the expected result of the over-dimensioned factories typical for every socialist countries (because of the not real evaluation of the labour cost). This process produces a critical mass of available, specialised and trained work force, which conducts constituting a web of small and medium enterprises in the mother-plant same domain. This effect is increased by those entrepreneurs who take advantage of knowledge diffusion in the field of activity of the mother-plant. The productive local system gains consequently a reorganised plant, a network of dynamic and flexible SME and an increase in the labour force.

In order to allow the development of such proto-districts to be self sustained and competitive, is necessary to provide them with some support directed to the cluster as a whole rather than to single enterprises, as traditional policies for the SME would promote. In fact, if small firms begin to co-operate, they can overcome their structural weaknesses (Piore e Sabel, 1984). For instance, some measures can push SME to associate in those activities where they suffer the lack of scale economies and synergies such as: export, promotion, research and development and so on.

These incentives, which are also considered effective in the Italian reality (Bramanti, 1998a), are necessary in a post socialist country. There, entrepreneurs have no confidence in any form of association or co-operation, having experienced years of rhetoric and compulsory ‘brotherhood’.

A set of measures in three stages should be designed to support the development of such conditions. The first should be a study to thoroughly understand the phenomenon; the second should be the setting of some framework rules, embedded in the SME framework law, which should give a definition of industrial districts in the Romanian context – this would permit to identify those areas in which measures should be taken; the third action is the building of a set of policies to the development of support proto industrial districts. These measures should aim to promote the

districts without biasing, almost at enterprise level: The providing of real services should comprehend all the small enterprises constituting the cluster. More is specialised the real service provided, more is its value-added (Brusco, 1990). If well perceived, these policies can conduct to the self-sustainability of the system, since small firms can learn how to achieve synergies and scale economies, and how to overcome the congenital lacks by which they are characterised.

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