

Chapter 6

A Reform Strategy for Italy



Mark Sanders, Mikael Stenkula, Luca Grilli, Andrea M. Herrmann, Gresa Latifi, Balázs Páger, László Szerb and Elisa Terragno Bogliaccini

Abstract In this chapter, we outline a reform strategy to promote an entrepreneurial society in Italy. From a Varieties-of-Capitalism perspective, Italy has been classified as a Mixed or Mediterranean Market Economy. It boasts a vibrant entrepreneurial economy of locally embedded, often family-owned small- and medium-sized firms

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M. Sanders (✉) · E. Terragno Bogliaccini
Utrecht School of Economics, Utrecht University, Utrecht, The Netherlands
e-mail: m.w.j.l.sanders@uu.nl

E. Terragno Bogliaccini
e-mail: e.m.terragnobogliaccini@uu.nl

M. Stenkula
Research Institute of Industrial Economics, Stockholm, Sweden
e-mail: mikael.stenkula@ifn.se

L. Grilli
Department of Management Economics and Industrial Engineering,
Politecnico di Milano, Milan, Italy
e-mail: luca.grilli@polimi.it

A. M. Herrmann
Copernicus Institute of Sustainable Development, Utrecht University, Utrecht, The Netherlands
e-mail: A.M.Herrmann@uu.nl

G. Latifi
TUM School of Management, Technical University of Munich, Munich, Germany
e-mail: gresa.latifi@tum.de

B. Páger · L. Szerb
Department of Management Science, University of Pécs, Pécs, Hungary
e-mail: pagerb@rkk.hu

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5 that make up a major share of its economy. The main bottlenecks in the Italian
 6 entrepreneurial ecosystem are low ambition levels, the lack of skills and educa-
 7 tion flowing into entrepreneurial ventures, and a bureaucratically encumbered, non-
 8 meritocratic, business environment that feeds back into a low familiarity with ambi-
 9 tious entrepreneurship. Italy could strengthen its entrepreneurial ecosystem in several
 10 areas, ranging from boosting human capital investments to reducing the clientelism in
 11 the business environment and recruitment culture. This would open up more oppor-
 12 tunities for the young and talented, eager to engage in productive and innovative
 13 venturing in Italy.

14 **Keywords** Italy · Entrepreneurship · Varieties-of-capitalism · Entrepreneurial
 15 ecosystem · Entrepreneurship policy

16 **6.1 Step 1: Historical Roots of Institutions and Recent** 17 **Policies**

18 *6.1.1 North and South—A Short History of Italy*

19 Italy has only been a unified state since 1861 and has been a bicameral parliamentary
 20 democracy under the current constitution since 1948. But Italy has a long and rich
 21 history that influenced and permeated areas well beyond its geographical boundaries.
 22 The Italian city-states of the Renaissance saw the rise of banking and the principles
 23 of Roman Civil Law persist in continental European legal traditions. In many ways,
 24 the deep-rooted institutions in Italy are the deep-rooted institutions in large parts of
 25 Europe. Foremost among these, the Catholic Church in Rome left a deep imprint.

26 During the Middle Ages, the Catholic Church (The Church) was promoting cor-
 27 poratism to pacify the conflicts of interests between aristocracy, farmers, and trade
 28 through the various sponsored function-based groups and institutions including uni-
 29 versities, guilds of artisans and craftspeople, and other professional associations. The
 30 establishment of a system that relies on guilds involved the allocation of power to
 31 regulate trade and prices to guilds (Wiarda 1997).

32 This role of the Church was also evident during industrialization. While workers
 33 asserted their rights, the Church supported them on the one hand, but also fiercely
 34 opposed communism on the other. Nowadays, the Catholic Church in Italy is char-
 35 acterized by widespread worship throughout Italy and is still very much alive in Italy
 36 through institutions such as schools, hospitals, nursery schools, rest homes, shelters
 37 for the chronically ill and the handicapped, special institutions for education and
 38 retraining, and publishing, to give just some examples (Garelli 2007). Italy is the
 39 nation with the highest level of baptized Catholics, at 97% (55 million) of the popu-
 40 lation (Garelli 2007). The Church has provided Italy with a long-standing tradition

L. Szerb
 e-mail: szerb.laszlo@ktk.pte.hu

41 of charity, still actively promotes an inclusive, family-based corporatist model of
 42 economic governance, and is an important factor in cementing social cohesion in
 43 Italy.

44 But although Italians throughout the country share this Catholic heritage, there is
 45 also the sharp divide between North and South, known as the “Italian *Mezzogiorno*”
 46 (Ichino and Maggi 2000). This division of Italy dates to the sixth century, with the
 47 fall of Rome in 568, and persists to this day. In the middle of the eighteenth century,
 48 the country was organized into seven separate states: The Kingdom of Sardinia (with
 49 Piedmont and Liguria), the Kingdom of the Two Sicilies, the Papal State (Lazio,
 50 Umbria, the Marches, and parts of Emilia and Romagna), Lombardy-Veneto which
 51 was under Austrian rule, controlled directly from Vienna, and the Grand Duchy of
 52 Tuscany and the duchies of Parma and Modena that were dependent on the Habsburg
 53 scions (Barbagallo 2001). The *Mezzogiorno* extends from Abruzzo and the southern
 54 parts of Lazio down, includes Sicily, and often Sardinia is also considered part of
 55 Italy’s South. Only in 1860, with the Italian *Risorgimento*, was the territory brought
 56 together into a single politically organized community (Barbagallo 2001). But even
 57 today, some would claim that Italy was never truly one country and geography, and the
 58 lack of infrastructure continues to widen the economic and social divide (Barbagallo
 59 2001). Policies to address this have met limited success.

60 The *Cassa del Mezzogiorno*, or the “Fund for the South,” created in the early
 61 1950 to encourage economic growth and industrialization in the Southern part of
 62 the country (Baum et al. 1990), largely failed because of administrative ineffective-
 63 ness (D’Attorre 1987). The public work projects and the jobs it funded were either
 64 short-term or highly inadequate, and the fund was criticized for promoting “large-
 65 scale capital-intensive projects” that required administrative capacities largely absent
 66 in the South (Bohlen 1996). Instead of convergence, institutional failure ended up
 67 promoting the Mafia in the South, while the North was growing (Spooner 1984).

68 According to Graubard and Cavazza (1974), the ineffectiveness of public admin-
 69 istration in Italy was mainly related to the so-called *clientelismo*—a sort of political
 70 patronage allowing certain groups of citizens to connect to politicians through spe-
 71 cial laws and a system of kickbacks offered to public officers for influencing public
 72 decisions. The signs of a diminished tolerance toward corruption in Italian society
 73 appeared especially in the 1980s (Cazzola 1988). The fight against public bribery
 74 and corruption took shape in the *Mani Pulite* (“Clean hands”) judicial investiga-
 75 tion into political corruption held in the early 1990s and led to the disappearance
 76 of many political parties and to the end of the so-called “First Republic.” But while
 77 these improvements at the national level have been hopeful, corruption and organ-
 78 ized crime organizations have not been wiped out and at times heavily encumber
 79 economic activity (e.g., D’onza et al. 2017; Spanò et al. 2016, 2017; Allini et al.
 80 2017).

81 Today, the regional divide is still obvious in the quality of institutions such as
 82 schools, public administrations, hospitals, and large private corporations (Ichino and
 83 Maggi 2000; Viesti 2016). Even the judicial system, which is the backbone of a
 84 modern state, works differently in the Northern and Southern part of Italy. In the
 85 South, to get a ruling in civil cases still takes much more time than in the North,

86 even though the legal system and the career paths for judges have essentially been
87 the same in both parts of the country for 150 years now (Tabellini 2010).

88 This gap between the two regions, in fact, requires policy makers to bear in mind
89 that any reform strategy proposed for the North should not blindly be suggested
90 for Italy's South and vice versa. Historically, economically, and institutionally, Italy
91 often constitutes two distinct regions rather than one country with some regional
92 heterogeneity. Thus, Italy probably needs different policy interventions in its two
93 regions, building on the deep-rooted institutional frameworks inherited from the
94 past. In what follows, we, therefore, discuss how institutions for the creation and
95 diffusion of knowledge, the allocation of finance and labor have evolved in Italy.

96 **6.1.2 Institutions for Knowledge Creation and Diffusion**

97 In modern economies, the institutions for knowledge creation and diffusion are
98 largely concentrated in the academic system of education and research and the sys-
99 tem of intellectual property rights. These institutions, notably universities and patent
100 systems, both have their historical roots in Europe and in fact in renaissance Italy.

101 **6.1.2.1 Universities**

102 Italian universities rank among the oldest in the world. The University of Bologna
103 is the oldest recognized university, established in 1088 (Università di Bologna n.d.).
104 Other Italian universities that have obtained the official status of university institutions
105 early in the Middle Ages include Padua, Naples, Rome, Perugia, Pisa, and Florence
106 (Simonini 1954). Universities initially emerged as institutes where theology, law, and
107 philosophy were taught, and their histories comprise a long struggle to keep external
108 influences from clerical and secular authorities out and conquering and protecting
109 scholarly and academic freedom. Today, Italian universities are typically very broad
110 institutions of academic research, which are publicly funded, while both universities
111 and professors enjoy high levels of autonomy and focus on academic knowledge
112 creation and diffusion.

113 There are two important technical universities in Italy which first appeared at the
114 end of the nineteenth century. The oldest technical university in Italy is based in
115 Torino and was established in 1859 under the name *Scuola di Applicazione per gli*
116 *Ingegneri* (Technical School for Engineers). In 1906, it transformed into what today
117 is known as *Politecnico di Torino*. Its creation coincided with the new era of indus-
118 trialization that put the focus on Electrotechnics and Building Science (Politecnico
119 di Torino n.d.). Today, this university strives to enhance technological and scientific
120 research capabilities and integrate them into a higher education framework (Statute
121 of Politecnico di Torino 2011).

122 The other important technical university of the country, the *Politecnico di Milano*,
 123 was founded only 4 years later in 1863, and it is the *Politecnico di Milano*. Its origi-
 124 nal name was *Regio Istituto Tecnico Superiore* (“Royal Higher Technical Institute”) and the only majors that were taught were Civil and Industrial Engineering. In 1987,
 125 the school expanded to regional campuses of Como (1987) and Lecco (1989), and
 126 regional facilities in Cremona (1991), Mantova (1994), and Piacenza (1997) (*Politec-
 127 nico di Milano n.d.*). Importantly, both technical universities were founded in the
 128 North at the time when industrialization took off in Italy.¹

130 Complementing the formal academic teaching and research institutes, Italy
 131 recently also invested in the creation of science parks. In these parks, firms and
 132 academic research are physically located close to one another to facilitate knowl-
 133 edge spillovers and cement the links between research and commerce. According
 134 to The Bank of Italy survey of 2012 on Science and Technology Parks, there was a
 135 boom in the number of science parks in the 1990s. Some 25 were founded at a rate
 136 of up to three per year over a period of about 25 years (Liberati et al. 2016).

137 There were important first-mover advantages in this area. For example, the
 138 regional government of Turin, focused on policies promoting initiatives such as
 139 incubators and science parks early on and today we see two highly regarded Science
 140 and Technology Parks, the Environment Park, and the Bio-Industry Park (Salvador
 141 2010) in Turin. The *Politecnico di Milano* was also an early mover in this domain,
 142 and today, its incubator “Polihub” is considered excellent, and ranked as the third
 143 best university incubator in the World Top University Business Incubator Ranking
 144 2017/2018 by the Association UBI Global.

145 In recent years, Italian universities and Polytechnics have also increasingly started
 146 to teach entrepreneurship and engage in technology transfer in order to generate
 147 spin-offs. Yet, the literature considers entrepreneurship education in Italy still as
 148 “immature” (Iacobucci and Micozzi 2012).

149 In conclusion, Italian universities and Polytechnics have a proud history and tra-
 150 dition to build on, but they face challenges preparing for their emerging role in the
 151 modern knowledge-based economy. The curriculum and didactic approaches would
 152 probably benefit from modernization, but deeply entrenched interests and hard-won
 153 academic freedom imply that this is hard to engineer top-down. Instead, the Ital-
 154 ian academic system would have to accept a more engaged role in society and be
 155 convinced that it is also in their interest to make the transition to a system of more
 156 modern, entrepreneurial universities that adopt evidence-based methods and focus
 157 more on engaging academic research with societal challenges.

¹Two more universities have been awarded the label: *Politecnico*. *Politecnico di Bari* is in the capital city of the Apulia region, established in 1990 (*Politecnico di Bari n.d.*), and the University of Ancona changed its name to *Università Politecnica delle Marche* and was recognized as a technical university in 2003 (*Politecnica delle Marche 2017*). These institutions are based in the South and Middle of the country, respectively, and were founded to become important actors in the respective local industrial ecosystems. To date, however, they do still not play the role the older schools play in the Northern economic system.

158 6.1.2.2 The Patent System

159 The use of patents as an institution to encourage knowledge production and its diffu-
 160 sion is relatively old and, in fact, it was in Italy where the first real patents appeared.
 161 There is a lot of discussion among historians whether Florence or Venice was the
 162 first to grant patent rights on innovations, but Italy led the way. There was strong
 163 and systematic interest of the Venetian Republic in promoting inventions long before
 164 1400, but it was the city of Florence which recorded Filippo Brunelleschi as the first
 165 patentee in 1421. He was granted an exclusive right of 3 years to use his invention—a
 166 barge with hoisting gear for marble—protected from potential imitators. The patent
 167 stated clearly that all those that would replicate the invented device should be burned
 168 at the stake (Frumkin 1945).

169 This first patent, however, was still very ad hoc. The first more general system of
 170 intellectual property rights protection was adopted by the Venetian Senate on March
 171 19, 1474. The decree called upon every person who invented ingenious devices to first
 172 disclose their invention to *Provveditori di Comun*. Doing so would benefit inventors
 173 by protecting them for 10 years (Long 1991). The Statute is clear on several things
 174 that still characterize patents today. The decree mentions the originality of the work
 175 as a substantial ingredient in the way of getting a patent, industrial applicability, and
 176 the exclusive right to exploit the invention for 10 years. One of the early Venetian
 177 patent receivers was Galileo Galilei for his invention of a “Mechanism for Raising
 178 Irrigation Water to Fields” in 1594 (Maynard 1980). With the foundation of the
 179 Kingdom of Italy in 1861, the country implemented a national patent law, similar
 180 to that in most industrialized economies (Moradei 2009) and Italian legislation on
 181 intellectual property has since evolved considerably. Today’s Italian patent law has
 182 been revised following the patent provisions of the 1995 Agreement on Trade-Related
 183 Aspects of Intellectual Property Rights (TRIPS). The patent does not substantially
 184 differ from its initial form, but the width, breadth, and extent of patent protection
 185 have changed substantially over time.

186 The debate on patent protection is not new to Italy. According to Sirilli (1986),
 187 the rise of technical and scientific development and the role of economists in the
 188 acknowledgement of patents as an incentive for innovation (e.g., Schmookler 1966;
 189 Scherer 1965), have both driven the debate. Textbook economics claims that without
 190 patent rights, inventors would have no incentives to produce valuable knowledge.
 191 But Sirilli (1986) shows that for Italian inventors who applied for a patent, three-
 192 quarters of the respondents admitted that the absence of patent protection would
 193 not have prevented them from pursuing the invention. Also in Italy, patents serve a
 194 useful purpose in keeping track of and building a public registry of useful inventions,
 195 but it is especially the commercially applicable ones that should be registered and
 196 protected from imitation. Thus, like in many industrialized countries, there is much
 197 debate about the usefulness of patents and the application of strict rules of protection
 198 of intellectual property as they are applied today (e.g., Panunzi 2012; Boldrin and
 199 Levine 2008).

200 **6.1.3 Development of Financial Institutions**

201 Italy is a well-known example of a bank-based economy, and it is of great rele-
 202 vance for understanding entrepreneurship in Italy to summarize its historical devel-
 203 opment and the culture that prevails in these financial institutions. Modern banking
 204 has its roots in Italy. In fact, the rise of banking system dates back to Medieval
 205 and Renaissance Italy and originated in the prosperous and rich cities of Florence,
 206 Venice, and Genoa (Hoggson 2007). The Bardi and Peruzzi families led banking in
 207 fourteenth century Florence, expanding with new branches in many other parts of
 208 Europe (Hoggson 2007).

209 In the fifteenth century, the de Medici bank, which was established in 1397 by
 210 Giovanni de Medici in Florence (Goldthwaite 1995), made a distinguished imprint
 211 in the development of banking and became the most important financial institution
 212 in Europe in the fifteenth century (The Economist 1999). The de Medici bank grew
 213 into the most international bank of Italy and for decades was a highly respected bank
 214 in Europe (De Roover 1999). It used its massive network to a degree that it attracted
 215 and maintained the Vatican as its largest client and until 1434, more than half of the
 216 bank's revenues flowed through the Rome "branch," which accompanied the pope
 217 on his travels. The strong ties with Rome and the Vatican brought the bank enormous
 218 influence on customers and the Church itself (The Economist 1999).

219 In the period between 1527 and 1572, important banking family groups such as
 220 the Grimaldi, Spinola, Pallavicino, Doria, Pinelli, and Lomellini rose as big players
 221 in banking during the sixteenth century (Duggan 2013; MacDonald and Gastmann
 222 2000). Banking in the Renaissance, and thereafter, was very much a family business
 223 and it mainly catered to the needs of rich merchants who wanted to settle large
 224 transactions over increasing distances and needed sophisticated products, such as
 225 insurance for cargoes at sea, trade credit, and currency exchange services.

226 Throughout the centuries, Italy became home to many other banks. The *Banca*
 227 *Monte dei Paschi di Siena*, for example, has been operating continuously since 1472
 228 (Boland 2009). The Economist (2017) noted that this bank is the oldest surviving bank
 229 in the world and saving it from bankruptcy in 2013 could thus almost be considered
 230 a matter of conservation of cultural heritage.

231 The first publicly held Italian bank that looked somewhat like a modern bank,
 232 taking deposits and giving loans, was established in Milan in 1894. Gradually then,
 233 small industrialists and a rising middle class created demand for and supply of what
 234 we now consider to be traditional banking services. Many of these banks are also
 235 still operating today and typically served society for centuries (Hertner 2016). The
 236 role of these banks in Italy was particularly relevant in the industrialization and
 237 modernization of agriculture in Europe after World War I. As shown by the seminal
 238 work of Gerschenkron (1962), banks were important in Europe, where financial
 239 markets were less developed than in the UK and USA but industrialization was more
 240 advanced than in others, such as Eastern Europe and Russia. This gave banks a vital
 241 role in the industrialization process as the financier of modern industry (Sylla 2002).

242 The banking system in Italy went through several reforms in the twentieth
243 century. The Bank Law of 1936 is an example that reformed the whole banking sector
244 by putting financial intermediaries into different categories depending on their credit
245 activities. The law also limited the linkages between industry and financial institu-
246 tions to alleviate possible conflicts of interest. Another reform, put in place in 1993,
247 aimed at increasing privatization of the banking system and expanding the range of
248 activities of banks. Until about 2004, there was some consolidation in the Italian
249 banking sector but despite this M&A activity, concentration ran counter to the global
250 trend. Even if there were fewer banks in 2004 (800) than in 1985 (1,100), the market
251 share of the five largest banks dropped over this period (Goddard et al. 2007; Coc-
252 corese 2013), implying that consolidation took place among smaller banks whereas
253 competition increased at the top.

254 European legislation, such as the 2004 New EU take-over Directive, implemented
255 to integrate European financial markets have stimulated further consolidation in
256 banking (ECB 2017). But Italy's banking system still has many small, diverse,
257 relationship-based cooperative banks that support its SMEs also in times of crisis
258 (Castellani 2018). If the banking sector continues to consolidate, however, as in the
259 Netherlands or the UK, Italy risks losing its system of small, diverse and arms-length
260 relationship banking, and credit will be allocated more to real estate (mortgages)
261 and traded financial assets (Goddard et al. 2007; ECB 2017). This would harm the
262 entrepreneurial ecosystem and reduce the access to finance for Italian entrepreneurs.

263 Despite the recent improvements, many Italian banks still struggle with signifi-
264 cant bad debt overhang and a limited ability to finance new projects (Beccalli and
265 Girardone 2016). Current mandatory reserve and equity ratios are insufficient. When
266 banking made its biggest contributions to Italy's development, leverage was much
267 lower, and banks could shoulder losses better. To justify financing experimental
268 venturing with bank credit, banks, therefore, should be recapitalized.

269 **6.1.4 Labor Institutions**

270 Concerning its labor market institutions, Italy is commonly grouped with other
271 Mediterranean countries such as Spain, Portugal, and Greece. Despite important
272 differences, these countries are all characterized by labor markets with high employ-
273 ment protection and low social security. Union bargaining coverage is often extended
274 and trade unions control large parts of the labor market without being representative
275 of large parts of the workforce (Dilli et al. 2016; Hassel 2014). These institutions
276 formed largely when Italy became a unified state and industrialization fueled the
277 organization of labor in the early twentieth century. Italy's welfare state dates back
278 to the aftermath of World War II, and both labor and social security regulations were
279 frequently reformed even since the 2008 global financial crisis.

6.1.4.1 Employment Protection

Dismissals were first regulated in Italy in 1966. Any unfair dismissal obliges employers to either hire back workers or pay compensation based on individuals' experience and firm size (Boeri and Jimeno 2005). For workers with less than two and a half years of tenure, the compensation ranged between 5 and 8 months, and for those with between two and a half and 20 years of tenure, the compensation varied from 5 to 12 months. The above regulation applied to firms with more than 60 employees while those with less had to pay half the severance pay (Boeri and Jimeno 2005). In 1970, the *Statuto dei Lavoratori* obliged firms with more than 15 employees to hire back workers and pay their foregone earnings in case of unfair dismissals while firms with less than 15 employees were totally exempted (Leonardi and Pica 2006).

Historically, Italy was considered one of the strictest countries in terms of employment protection legislation (Lazear 1990; Bertola 1990; Nicoletti et al. 1999). As these arrangements proved to represent a barrier to entrepreneurship in general (Golpe et al. 2008) and to ambitious entrepreneurship in particular (Henrekson et al. 2010), important reforms were introduced in 2003 with the Biagi reform (Cirillo et al. 2017) and more recently with the Monti-Fornero reforms of 2012 and the "Jobs Act" of 2014 (Tiraboschi 2012; Carinci 2015). These reforms moved Italy's labor market firmly in the direction of the *flexicurity* camp.

The most significant modifications include the easing of dismissal regulation, more emphasis on active labor market policies and a new supervising national authority to enhance coordination among public and private actors (Raulli 2017). More generally, Italy has followed the Danish flexicurity recipe and decided to move from security of employees and jobs to security of income and work. In general, such reforms could support a more entrepreneurial society in Italy, but a careful evaluation of these reforms will have to show how they perform in the Italian context.

6.1.4.2 Wage Bargaining

Regarding the wage setting institutions, this is based on the tripartite agreement of July 23, 1993. Italy has an industry-wide bargaining model, applied at the national level (Eurofound 2009). As Calmfors and Driffill (1988) have shown, such a system of wage bargaining tends to increase wage pressure, which in turn may result in high long-run unemployment. Specifically, for entrepreneurs, such national coverage implies that vested interest parties can directly influence a major cost component for any (new) employer in their sector.

More importantly, these vested interest parties will also negotiate additional job-related rights and entitlements that have limited portability across industries, are easy for incumbents to administer, but put a large burden on new ventures. Trade unions, for example, negotiate the terms of pensions, sickness and maternity leave, working hours per week, month and year, leave, and education on the job. In the Italian corporatist tradition employers, state and workers will negotiate in relative harmony (Regini 1997), but Italy also has a strong history of class struggle and communism

321 (Kertzer 1980), making unions more militant and willing to strike for their rights
 322 than in other Continental European countries. They share this labor militancy with
 323 the Mediterranean countries, although in recent decades, strikes are declining and
 324 labor relations seem to become more harmonious (Gall 1999).

325 Alternatively, one can interpret this as trade unions becoming less powerful and
 326 representative as organization rates decline in new industries. As unions typically
 327 protect the position of their (long-term employed) members, their decline would level
 328 the playing field for more entrepreneurial employers, but reforms in this area should
 329 respect the tradition of paying “decent wages for decent jobs” not to clash with other
 330 important aspects of the Italian institutional framework.

331 **6.1.4.3 Social Security**

332 Social security is typically less developed in Italy compared to other European coun-
 333 tries, but compared to the rest of the Mediterranean countries, it is probably one of the
 334 most developed. Social insurance was first introduced between 1898 (work injuries)
 335 and 1919 (old age, invalidity and unemployment). In the period 1945–1975, the Ital-
 336 ian welfare state was expanded significantly (Ferrera 2005). A generous state-funded
 337 pension, universal health care, constitutionally guaranteed unemployment benefits,
 338 and social security benefits were put in place and typically funded on a pay-as-you-go
 339 basis.

340 These systems have all been built up after World War II and thus have a relatively
 341 short history. Still, some rights are considered inalienable and the pay-as-you-go
 342 financing implies that current generations have paid for social security and entitle-
 343 ments they were (implicitly) promised would also be available for them in the future.
 344 Reforming such systems can, therefore, be politically complicated. In the 1980s and
 345 1990s and more recently after the financial crisis, we have seen significant reforms
 346 in this domain. This suggests that social security is probably not a deeply rooted
 347 institution and reforms can be proposed to promote more entrepreneurship. But such
 348 reforms should not simply lower protection and security and rather make entitlements
 349 and rights more portable across jobs and industries.

350 **6.1.5 Recent Entrepreneurship Policies in Italy**

351 **6.1.5.1 Innovative SMEs**

352 In the 1990s, Italy was still highly dominated by small businesses. More than 99%
 353 of active firms employed less than 50 employees and less than 3,000 firms employed
 354 more than 250 employees (Unioncamere 2005). Increasingly, more attention was
 355 paid to SMEs by industrial policy, especially that concerning innovation, which was
 356 usually thought to be of sole concern to larger firms. In addition, improvements

357 in the bureaucratic structure of state-aid-provision entities created a more “SME-
358 friendly” environment. It is relevant to note that, at the national level, systems of
359 support have favored process innovation rather than product innovation (Rolfo and
360 Calabrese 2003).

361 At the end of the 1990s, the Ministry for University and Scientific Research
362 introduced the research program “Road Map for Italy.” The program covered 300
363 SMEs and found that typically Italian entrepreneurs play a very proactive role in the
364 management of their firms. Consequently, it is the background and competence of
365 the entrepreneur that largely determines the ultimate success of the firm. The lack
366 of specialization, networking, and teambuilding also has big consequences for the
367 technological culture of SMEs in Italy (Rolfo and Calabrese 2003).

368 The Environmental Concessions law around 2000 established a tax relief system
369 for SMEs that make environmental investments. As a lot of energy and resource-
370 saving equipment and investments would fall under this legislation, the program gives
371 Italian SMEs an incentive to develop sustainable business practices and develop new
372 competitive advantages in doing so.

373 **6.1.5.2 Entrepreneurship and Entrepreneurship Policy** 374 **after the Recent Financial Crisis**

375 The Italian response to the financial crisis of 2009 was focused on strengthening
376 its innovative SME sector and initially even on increasing spending to maintain
377 investment in innovation and R&D. In 2009, Italy was one of the first EU countries
378 to approve the European Commission’s 2008 Small Business Act (SBA) proposal
379 and adopted it domestically. The approval of this program allowed for the immediate
380 mandatory and continuous monitoring of SME policies and for the arrangement of
381 “one law a year” regarding small firms (Ministero dello Sviluppo Economico n.d.).
382 Some of the interventions under the SBA included:

- 383 ● *Law 185/2008*, proposed to guarantee the integrity of credit and avoid any charges
384 to businesses;
- 385 ● *Law 29/2009-2*, adopted to facilitate access to credit by introducing, the “Tremonti
386 Bond,” through which the banks can grant loans to businesses;
- 387 ● *Law 78/2009* (*‘Manovra anti-crisi’*), passed to promote the reinvestment of profits
388 in capital goods;
- 389 ● *Law 99/2009* (*‘Legge Sviluppo’*), providing a broad mandate to the government to
390 reorganize regulatory obligations for companies;
- 391 ● “Unique Communication” launched in 2009 giving the possibility for starting a
392 business by sending a single communication to the Chamber of Commerce;
- 393 ● *Law 82/2009* establishing an 80 million euro facility for product and/or process
394 innovations replacing or eliminating chemical substances.

395 Other initiatives regarding the sustained growth of SMEs included: a fund for
396 competition and innovation; a fund for rescue and restructuring of businesses in
397 difficulty; a fund for districts and business networks; measures for the automobile

398 sector, domestic appliances, furniture, and apparel; the National Innovation Fund
399 (for patents); the Made in Italy Fund (for internationalization); and various fiscal
400 initiatives (Ministero dello Sviluppo Economico 2009).

401 More specific attention to entrepreneurship followed shortly after. The Program
402 *Restart Italia!* was launched in 2012 to reshape the Italian entrepreneurial environ-
403 ment in order to promote economic growth and employment. Overall the project
404 envisioned outcomes such as the development of innovation and entrepreneurship
405 culture, social mobility, transparency, and meritocracy as well as the attraction of
406 foreign factors of production.

407 Arguably, the most significant result of the implementation of the *Restart Italia!*
408 program was the newly recognized status of start-ups—as innovative enterprises
409 of high technological value—when it was introduced into the Italian legal system.
410 The resulting “Law 221/2012” (the so-called Italian Start-up Act) is an organic and
411 coherent policy for which public support for innovative entrepreneurship represents
412 a new way of thinking about industrial policymaking (Ministero dello Sviluppo
413 Economico 2012).

414 In 2014, Italy introduced the Start-up Visa (ISV) program facilitating self-
415 employment visas to non-EU citizens who were interested in launching an innovative
416 start-up in Italy. The initiative was composed of a novel procedure which was char-
417 acterized by being “fast-track”—never taking more than 30 days to be issued—and
418 being centralized, digitized, bilingual, and free of charge. The committee evaluating
419 the applications has been formed by the presidents of five key associations of the
420 Italian innovation ecosystem, including business angel firms, university incubators,
421 and others.

422 Several policy initiatives followed. Among the most important was the national
423 Plan *Industria 4.0* which became effective in 2017. The plan was designed for firms
424 operating in the manufacturing sector and intended as “a great deed of trust from
425 the government to enterprise.” The program is to be applied without—or as few as
426 possible—constraints by bureaucratic processes or subjected to territorial or sectorial
427 selection and invests in all stages of the life cycle of firms, particularly focusing on
428 investment support in the digitalization of production, the development of employee
429 productivity, the training of applicable skills and the development of new products
430 and procedures (Ministero dello Sviluppo Economico 2017).

431 These programs have of course been evaluated, but it is difficult to ascertain
432 their true impact. It would also take us beyond the scope of this chapter to attempt
433 an assessment here. In short, in recent years, policy attention for SMEs and later
434 entrepreneurial venturing has risen considerably in Italy and the financial and Euro
435 crisis have strengthened the call to reform. However, in Italy there is also a political
436 backlash, and reformists should take care to emphasize and ensure the inclusive
437 character of reforms toward an entrepreneurial society, creating more and better
438 opportunities for challengers, not lining the pockets of incumbents in business and
439 politics.

440 **6.1.6 Conclusions**

441 In conclusion, we can take away a few important lessons from the above. First,
 442 Italy has a long history of supporting a vibrant entrepreneurial economy of locally
 443 embedded, often family-owned small- and medium-sized firms that make up the
 444 overwhelming majority of its economy. The Italian ecosystem was supported by
 445 banks, patents, and universities early on and industrialization, especially in the North,
 446 brought deep rooted but modern financial, labor, and knowledge institutions to Italy.

447 From more recent policy initiatives, we may tentatively conclude that national
 448 policy makers in Italy have recognized the importance of supporting Italy's
 449 Entrepreneurial Society. Moreover, we note that recent policy initiatives seem well-
 450 informed and well-targeted. Policy makers try to reduce the regulatory burden and
 451 remove undue barriers to new initiatives. Policies are more general and targeted at
 452 entrepreneurial venturing in general, and are not specifically directed toward sec-
 453 toral, geographic or size-related barriers. Building on its unique history, Italy is
 454 well-positioned to promote more entrepreneurship in its economy in both North
 455 and South. In our next steps, we will use quantitative and qualitative information to
 456 identify what factors are holding Italian entrepreneurs back.

457 **6.2 Step 2: Data Analysis with REDI for Italy**

458 **6.2.1 Italy's International Position**

459 To get a first impression of Italy's relative performance as an entrepreneurial ecosys-
 460 tem, we turn to the Regional Entrepreneurship and Development Index (REDI). For
 461 calculating the country scores of the REDI index, we used the population-weighted
 462 REDI scores. Out of the 24 countries, Italy ranks 18th with 30.0 points (Table 3.3, in
 463 Varga et al. 2020, in this volume). This score is significantly lower than other devel-
 464 oped countries, and also the EU average, lagging well behind the United Kingdom,
 465 Germany, and even some newly assesses countries like Estonia, Slovenia, and the
 466 Czech Republic.

467 The REDI similar to its original country version, the Global Entrepreneurship
 468 Index (GEI), is composed of 14 underlying pillars that together make up 3 sub-
 469 indices: Entrepreneurial Attitudes, Abilities, and Aspirations (Acs et al. 2014; Szerb
 470 et al. 2017, 2019). Figure 6.1 gives us a first glance at how Italy is performing relative
 471 to the UK, Germany, and the EU average on these 14 pillars. From Fig. 6.1, we can
 472 see that Italy is performing below the European Union average on almost all aspects
 473 of the entrepreneurial ecosystem that the REDI methodology covers.

474 The scores on the 14 pillars are markedly low for "Human Capital," "Opportunity
 475 Start-up," and "High Growth," but overall, the Italian entrepreneurial ecosystem
 476 needs strengthening on almost all fronts. Italy scores above the European average (and
 477 even above Germany and the United Kingdom) on "Product Innovation" and "Process
 478 Innovation". These high scores indicate that Italy's long tradition of industrial policies

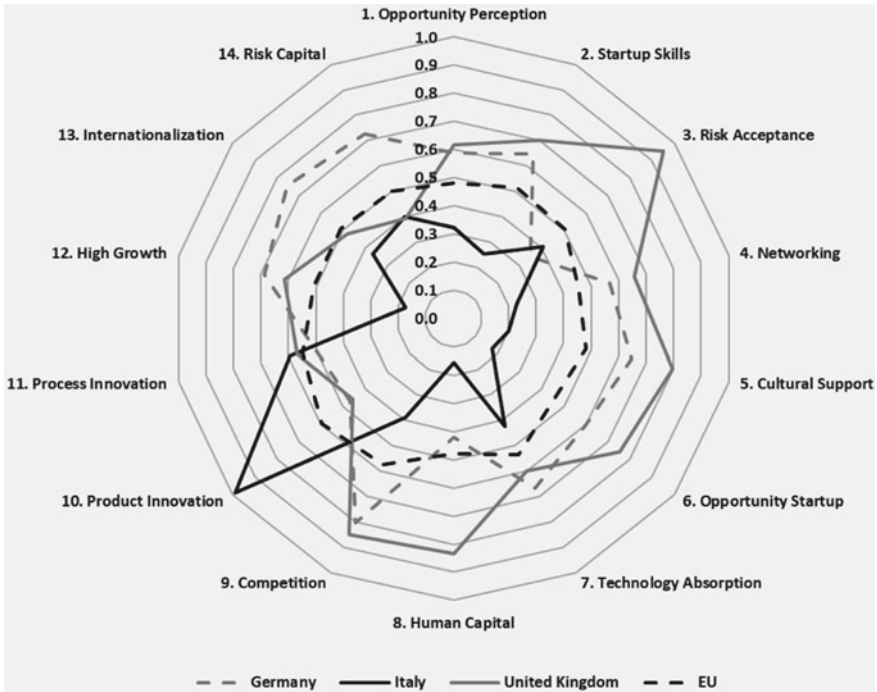


Fig. 6.1 Radar-plot GEI comparison Germany–Italy–UK and EU-average. *Source* Authors' own compilation

479 to support innovative SMEs (see above) have paid off. But the Italian ecosystem
 480 remains weak in the sub-index Entrepreneurial Attitudes (upper right pillars 1–5) and
 481 in Entrepreneurial Abilities (lower pillars 6–9). Even on Entrepreneurial Aspirations,
 482 it scores low because of the large imbalances between the pillars in the upper left
 483 side of the radar-plot (pillars 10–14).

484 The underlying algorithm in the REDI puts a penalty on bottlenecks in the ecosys-
 485 tem (Acs et al. 2014; Szerb et al. 2017), such that a rounder radar-plot scores higher
 486 than a more erratic one, and policy interventions should be aimed at alleviating bottlenecks
 487 with priority. As we have indicated, however, the national average potentially
 488 hides a lot of regional heterogeneity. We, therefore, focus in on Italy's main regions
 489 next.

490 6.2.2 A More Detailed Regional Quick Scan

491 If we zoom in on the regional level, in Fig. 6.2 and Table 6.1, we see that all Italian
 492 regions score between 25.7 and 33.5, with the Southern regions significantly lagging
 493 the Center and North, as expected.²

²The numbers are index numbers ranging from 0 (worst) to 100 (best) across all 125 European NUTS2/3 regions for 2012–2014.

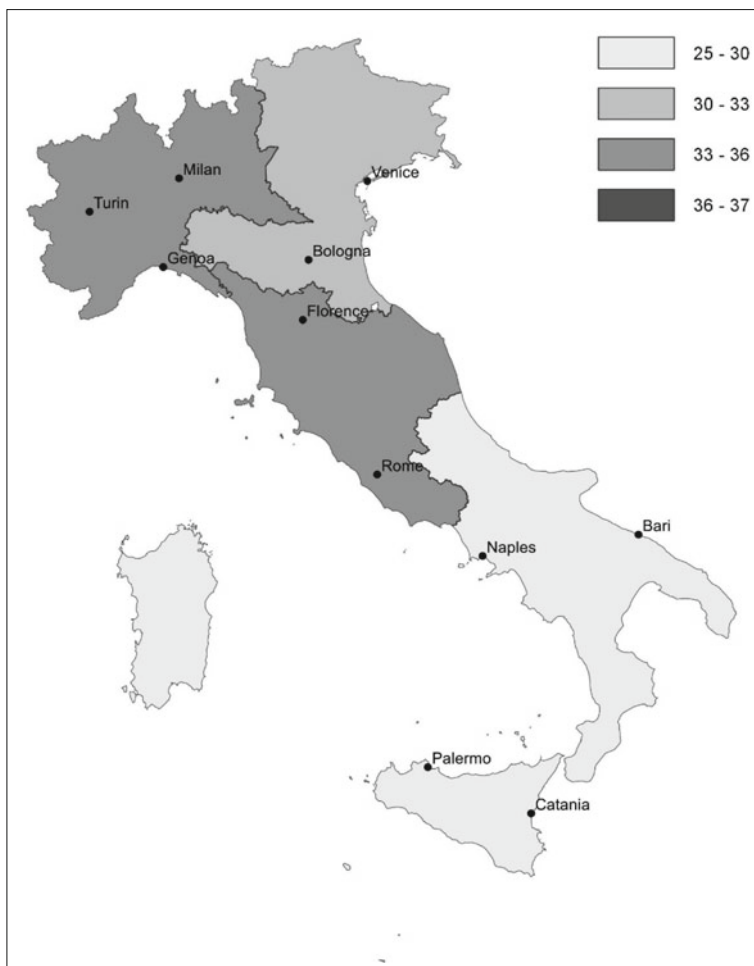


Fig. 6.2 REDI map of Italian regions. *Source* Authors' own compilation

Table 6.1 REDI-scores Italy

Region	REDI-scores 2012–2014
Nord-Ovest	33.5
Nord-Est	32.6
Centro	33.5
Sud	25.7
Isole	26.7

Source Authors' own compilation

Table 6.2 Weakest points per region

Region	Weakest pillars	Weakest variables
Nord-Ovest	5, 6, 8, 12	Open Society, Business Environment, Educational Level, Gazelle
Nord-Est	2, 4, 8, 14	Skill Perception, Know Entrepreneurs, Educational Level, Informal Investment
Centro	5, 6, 8, 12	Open Society, Business Environment, Educational Level, Gazelle
Sud	5, 6, 8, 12	Open Society, Business Environment, Educational Level, Clustering
Isole	5, 6, 8, 12	Open Society, Business Environment, Educational Level, Clustering

Source Authors' own compilation

Without going into too much detail in this chapter,³ the intuition behind each of the pillars is that data on individual entrepreneurial agency, obtained from the Global Entrepreneurship Monitor adult population survey data, is combined with relevant institutional quality indicators from a wide variety of reputed international institutions, such as World Bank, Freedom House and OECD. The index then builds on the assumption that institutions and individual agency are complements (Acs et al. 2014; Acs and Szerb 2009). That is, high levels of, for example, Opportunity Perception in a low-quality institutional environment, will contribute little. Likewise, low Opportunity Perception in a high-quality institutional environment is also a sign of weakness in the entrepreneurial ecosystem.

To improve the score on a given pillar, policies and reforms should seek to improve the weakest link and then aim to increase both institutional quality and individual agency together. Especially because of the latter, the menu of effective interventions is not limited to improving the scores on the institutional quality indices alone. The same logic is then also imposed on the individual pillars that make up the three sub-indices: Entrepreneurial Attitudes, Abilities, and Aspirations.

The good news for Italy and its regions, based on these analyses, is that with small improvements in its weakest pillars, large improvements in the ecosystem can be expected. Moreover, from Table 6.2, we can see that, although the overall scores are lower in the Southern regions, the weaknesses in the Southern and Northern ecosystems seem largely concentrated in the same pillars and variables. This implies that national policy and reform programs addressing these weaknesses, will strengthen entrepreneurial society throughout the country and Table 6.2 gives us a clear sense of the priorities. National level policies to promote pillars 5 “Cultural support,” 6 “Opportunity start-up,” 8 “Human Capital,” and 12 “High Growth” are likely to benefit Entrepreneurial Aspirations, Abilities, and Attitudes throughout the territory.

³We refer interested readers to Acs et al. (2014) and Szerb et al. (2017, 2019) for further details.

521 Improvements in these aspects would address some of the most prominent bottle-
522 necks in the system in all regions of Italy. The recent labor market reforms as proposed
523 under the recent Jobs Act, can, for example, prove to be beneficial in removing the
524 penalty on growth that is present in many firm size-related social security and labor
525 market protection provisions. It will probably take some time for such reforms and
526 interventions to show up in the index, as the numbers will only change when people
527 respond to the new situation by starting more ambitious and successful firms. But
528 such fundamental reforms are what we suggest should be preferred over more direct
529 but less fundamental policies that would boost the indicator directly, but superficially.

530 For Human Capital, both Educational Level and Training warrant attention,
531 whereas for Opportunity Start-up, it is especially the poor quality of the Business
532 Environment that keeps the pillar down. Italian entrepreneurs seem to see opportuni-
533 ties but are held back by deficient human capital supply and a daunting bureaucracy
534 in starting up new ventures. To address these weaknesses, targeted interventions to
535 improve the business environment will be needed, whereas reforms in the educational
536 system are also advised. Not because the Italian education system does not deliver
537 high-quality graduates, but because that quality currently does not seem to flow to
538 the entrepreneurial ventures that need them.

539 In the Entrepreneurial Attitudes, the pillar on Networking is weak due to low
540 scores on both Social Capital and Know Entrepreneur, whereas the Cultural Support
541 pillar is weakened by the low system wide score on Open Society that negates the
542 relatively high score for Career Status. The Start-up Skills are low in North-East
543 mainly due to low quality of education. It is not straightforward to come up with
544 reforms that improve these aspects, but we make some suggestions below.

545 **6.2.3 Overall Conclusions of the REDI Analysis**

546 Our reading of the data above reveals that, in all Italian regions and the country as
547 a whole, the main bottlenecks in the entrepreneurial ecosystem are low ambition
548 levels (High Growth), the lack of skills and education (Human Capital), and an
549 entangled business environment (Opportunity Start-up) that feeds back into a low
550 familiarity with ambitious entrepreneurship and a rather closed culture (Networking
551 and Cultural Support).

552 Generally, it is dangerous, to rely exclusively on data and aggregate indices, even
553 if they are composed of a broad set of sub-indicators and disaggregated as much
554 as the data might allow. It is always important to complement a data-based quick
555 scan with historical analysis, common sense, and more qualitative information to
556 contextualize and complete the diagnosis. Only after triangulating the results above
557 with the historical analysis, literature review, expert judgment, and more qualitative
558 survey results below, we can map the diagnosis onto our menu of interventions to
559 propose tailored reforms for Italy.

6.3 Step 3: Triangulating History, Data, and Survey Results

6.3.1 Venture Creation Processes in Italy

We assessed the ways in which the Italian institutional ecosystem influences entrepreneurial activities from two different perspectives, namely a static one, based on multiannual averages, and a process-oriented perspective (Herrmann 2020, this volume). The results obtained from both types of analyses are highly complementary. Our static analyses indicate that entrepreneurs in Italy are less likely than entrepreneurs in coordinated or liberal market economies to create radically or incrementally innovative ventures. Instead, Italy's entrepreneurs have a tendency to set up ventures based on the replication of existing technologies (Dilli et al. 2018; Herrmann 2019).

The dynamic analyses, in turn, provide insights into how the institutional environment influences different aspects of the venture creation process. With regard to human capital, we find that national labor market institutions affect the employment choices of entrepreneurs in Italy (Held 2019). In view of the benefits and security that employees enjoy in dependent employment, Italy's founders are more likely than their counterparts in the UK or the USA to start a venture in part-time rather than in full-time. Italian part-time founders, however, are more likely to transition to full-time entrepreneurship than their German equivalents (Held 2019).

Similarly, the institutional ecosystem also influences the process of finance acquisition (Held et al. under review-a). Given that stock market capitalization in Italy is low while debt finance to start-up firms is limited, venture founders in Italy very often need to finance the initial stages of venture creation with their personal funds as well as the funding provided by their family or friends. Finally, the propensity of nascent ventures to engage in R&D collaborations with external partners (universities and labs) also seems to be institutionally influenced. Given that it takes years to obtain a ruling, legal action is typically not perceived as a means of recourse in case of IP conflicts with collaboration partners. This may be the reason why nascent ventures in Italy are more reluctant to engage in R&D projects with external partners than their counterparts in Germany (Held et al. under review-b).

Taken together, these studies lend support to the argument that Italy's distinct finance-, labor-, and R&D-related institutions influence the decisions of entrepreneurs with regard to the business ideas they develop as well as the process they follow to set up their ventures. This leads to the question how entrepreneurs in Italy experience their institutional environment when setting-up a venture: Which aspects are constraining them? And what could policy makers do to facilitate venture creation in Italy?

Table 6.3 Results survey on regulatory obstacles in Italy

Which regulatory requirements did you perceive as major obstacles during venture creation?	Times mentioned	In %
None	28	21.1
Does not answer question	15	11.3
Difficulties with bureaucratic procedures	19	14.3
Taxes	7	5.3
Difficulties with obtaining finance	7	5.3
Lacking clarity regarding regulations	5	3.8
Constantly changing regulatory environment	5	3.8
Safety regulations	5	3.8
Legal requirements to involve a notary	4	3.0
Legal initial capital requirements	3	2.3
Specific requirements related to energy sector	3	2.3

Note

1. Based on interviews with 133 founders mentioning 133 obstacles (more than one obstacle could be mentioned)

2. Only obstacles mentioned three times or more are reported in the table

Source Authors' own compilation

597 **6.3.2 Regulatory Barriers to Entrepreneurship in Italy**

598 To examine regulatory barriers to entrepreneurship, we conducted a survey with 133
599 Italian founders between 2017 and 2018 (Herrmann et al. 2018). Table 6.3 provides
600 an overview of the answers to the question: “Which regulatory requirements did you
601 perceive as major obstacles during venture creation?”.

602 Contrary to their German and British counterparts, venture founders in Italy fre-
603 quently mentioned that they had encountered regulatory obstacles. The, by far, most
604 frequent obstacle, encountered in almost 14.5% of cases, were bureaucratic pro-
605 cedures that made venture creation unnecessarily long and time consuming. Some
606 respondents (3%) specifically mentioned the obligation to go through a notary when
607 registering a new company and the complexity of the existing laws and specific pro-
608 cedures for setting-up a *Società a Responsabilità Limitata* (s.r.l.), a limited liability
609 company.⁴ All these administrative procedures mean quite substantial implicit and
610 explicit costs for a start-up.

611 Next to these bureaucratic constraints, the respondents also mentioned several
612 financial hurdles as obstacles to venture creation, namely the taxes to be paid (5.3%
613 of all responses), difficulties to obtain finance (5.3%), and legal initial capital require-
614 ments (mentioned in 2.3% of responses). Accordingly, our survey highlights that,
615 together with the costs arising from heavy bureaucratic requirements, nascent ven-
616 tures in Italy face financing constraints. This finding did not stand out that much

⁴*Società a responsabilità limitata* (s.r.l.) is a limited liability company in Italy.

617 in the above REDI analysis. But earlier research also indicated that the absence of
 618 a vibrant angel and VC investment community might be linked to unfavorable fis-
 619 cal circumstances (Henrekson and Sanandadji 2017), tight regulation on institutional
 620 investors, and difficulties in making smooth and profitable exits in secondary markets
 621 (e.g., Bottazzi and Da Rin 2002).

622 A third major block of obstacles refers to unclear regulation and frequent regula-
 623 tory changes. Taken together, a lack of clarity regarding regulation, as well as a con-
 624 stantly changing regulatory environment and specific safety regulations were men-
 625 tioned in almost 12% of responses, while specific requirements related to the energy
 626 sector were mentioned as regulatory obstacles in an additional 2.3% of responses.
 627 Together, these answers indicate the detrimental effect of unclear and frequently
 628 changing rules and regulation, echoing the REDI conclusion that bureaucracy is a
 629 complicating factor in Italy.

630 Overall, the answers show a relevant lack of institutional support, most importantly
 631 in the form of heavy bureaucratic procedures, financial constraints, and unsteady
 632 regulation. This indicates that the aforementioned policies have thus far not (fully)
 633 succeeded in facilitating entrepreneurship in Italy.

634 6.3.3 Founders' Suggestions for Reforms in Italy

635 In the same survey, we also asked founders the following: "In your view, what can
 636 policy makers do to facilitate venture creation?". An overview of the answers to these
 637 questions is given in Table 6.4. Almost every founder had at least one suggestion of
 638 how venture creation could be facilitated by the government. The suggestions often
 639 mirror the obstacles encountered during venture creation. Accordingly, measures
 640 to alleviate bureaucracy and facilitate access to finance are listed amongst the top
 641 priorities by the founders. The respondents suggested to facilitate venture creation by
 642 reducing bureaucracy in almost 18% of all cases, to simplify bureaucratic procedures
 643 through online tools in more than 4% of responses, and to eliminate the need for a
 644 notary or to provide a notary in, together, almost 4% of cases.

645 Next to that, some broader suggestions were made about how to facilitate the
 646 formalities related to venture creation, namely an easier availability or accessibility
 647 of information about how to start a business (almost 5%) and better guidance of how
 648 to proceed when setting-up a new venture (slightly more than 3%). Taken together,
 649 suggestions related to facilitating administrative formalities amount to one third of all
 650 suggestions made, which illustrates the potential of this area for policy improvements.

651 In order to alleviate the financial constraints on nascent ventures, the respondents
 652 suggested to reduce taxes for small businesses (in more than 8% of all answers), to
 653 facilitate access to financial capital (almost 14% of responses), and to establish proce-
 654 dures to better detect which ventures are seeking investment (1.6% of all responses).
 655 Finance-related policy improvements make up a quarter of all policy suggestions,
 656 thus constituting another area of substantial concern.

Table 6.4 Results survey on suggested policies in Italy

In your view, what could policy makers do to facilitate venture creation?	Times mentioned	In %
None	3	1.6
Does not answer question	13	6.8
Reduce bureaucracy	34	17.7
Facilitate financing for small businesses	26	13.5
Reduce tax rates for small businesses	16	8.3
Provide incentives for hiring people	13	6.8
Provide better training to people for starting businesses	9	4.7
Provide better information about how to start a business	9	4.7
Reduce time and difficulty of bureaucracy through online procedure	8	4.2
Provide guidance	6	3.1
Eliminate the need to have a notary for registration	4	2.1
Provide notary	3	1.6
Help market start-ups	3	1.6
Provide better networking opportunities	3	1.6
Avoid constant policy changes	3	1.6
Establish procedures to better detect whom to fund	3	1.6
Provide accountant	3	1.6

Note

1. Based on interviews with 133 founders mentioning 192 suggestions (more than one suggestion could be mentioned)

2. Only suggestions mentioned three times or more are reported in the table

Source Authors' own compilation

657 While founders also followed-up on the third group of obstacles encountered by
 658 suggesting that constant policy changes should be avoided, this suggestion was made
 659 in 1.6% of cases. The third major block of policy recommendations, therefore, does
 660 not relate to more stable policies. Instead, it refers to facilitating access to human
 661 capital. Accordingly, founders suggested in almost 7% of their answers that policy
 662 makers should provide incentives for hiring people, in almost 5% of cases that people
 663 should be better trained in entrepreneurial skills, and in almost 2% of cases that an
 664 accountant should be provided to nascent ventures.

665 Finally, and unrelated to the hurdles they reported above, some founders also see
 666 a role for the government in helping to market the products/services of start-ups
 667 (1.6%) and to provide networking opportunities (1.6%).

668 Overall, we, thus, find general support for the weaknesses identified in the above
 669 historical and quantitative analyses. Most importantly, Italy's founders point to
 670 the tedious bureaucratic processes as a major obstacle and, accordingly, for pol-
 671 icy improvements. At a more general level, these suggestions can be interpreted as
 672 an invitation to move away from an in-transparent and heavy toward a leaner way

673 of establishing new ventures. In addition, the call for easier access to human and
674 financial capital reflects the insights gained from our analyses of the previous sec-
675 tions. Founders are signaling a lack of information and training and call for a more
676 stable policy environment. We interpret this as general support for a more funda-
677 mental reform approach that creates the institutional support for those providing
678 such services and knowledge.

679 **6.3.4 Conclusions**

680 In sum, the survey has confirmed most of the weaknesses identified in the data-
681 based quick-scan section, but also provided some interesting additional insights.
682 For example, the need to create a stable institutional framework that is above all
683 transparent and clear is information that is hard to gather from quantitative data
684 alone. The survey was, therefore, useful in nuancing some of the previous results.

685 Yet, when asked for the most important barriers encountered and possible policy
686 remedies, founders—rather obviously—mention those points which they met in their
687 personal experiences. While there certainly is valuable information in this experience,
688 it is important to base policy recommendations on a broader basis by combining
689 personal experiences with information of encompassing datasets. Taken together,
690 the triangulation of our historical, quantitative and qualitative information for Italy
691 reveals sufficient information to draw up a tentative diagnosis and turn to treatments.

692 **6.4 Step 4: Mapping onto the FIRES-Reform Proposals**

693 In the previous sections, we have considered the history of Italy, used an advanced
694 diagnostic tool to scan for her most urgent problems, and asked founders how they
695 felt and what they believed would be good treatments. Based on all this information,
696 we can come to a diagnosis and map that diagnosis onto the menu of treatments
697 developed in Elert et al. (2019) to propose a course of action that best fits the patient.

698 Italy has a long and proud history. Many of the institutions that shape an
699 entrepreneurial society today have their roots in Italy. Italy has seen the birth of mod-
700 ern banking, invented intellectual property rights protection, and boasts the oldest
701 surviving universities in the world. Consequently, Italy features a highly innovative
702 small- and medium-sized entrepreneurial sector that competes at the global level.
703 Innovative entrepreneurship has deep historical roots in Italy.

704 But time has progressed while the quality of the Italian entrepreneurial ecosystem
705 seems to have eroded. The Italian data show quite serious weaknesses and importantly
706 significant imbalances across the pillars that make up the REDI. Italy still performs
707 quite well on innovation and technology absorption, but this is not complemented by a
708 supportive culture, networks, and human capital. To face the challenges of the future,
709 Italy will have to build on its historical strengths but should urgently address these

710 bottlenecks. Fortunately, our regional analysis has shown that the same weaknesses
 711 hold back entrepreneurship across the country, despite significant and lasting overall
 712 level effects between regions in the North and Center and the South. This implies that
 713 Italy can strengthen its entrepreneurial ecosystem in all regions by boosting human
 714 capital investments and, more importantly, opening up opportunities for the young
 715 and talented to engage in productive and innovative venturing across Italy. In the
 716 recent crisis, but also before, Italy has experienced an exodus of talent. It seems there
 717 are more opportunities abroad than at home and young Italians are entrepreneurial
 718 enough to go after them.

719 Of those that stay and started up ventures in Italy, we heard complaints about cum-
 720 bersome bureaucracy resulting in lacking growth ambitions and stunted economic
 721 dynamics. Our survey among Italian founders also revealed that complexity of the tax
 722 system, an inefficient judicial system, and cumbersome bureaucratic requirements
 723 add to the uncertainties that entrepreneurs already face and put a break on venture
 724 creation.

725 Taking this diagnosis to our menu of policy interventions and reform proposals
 726 in the companion volume of this book (Elert et al. 2019), we have selected what
 727 we believe to be fifteen suitable interventions for Italy. They are listed in Table 6.5.
 728 In Column 1, we find the number under which they were presented in Elert et al.
 729 (2019). Column 2 lists the policy area and 3 the proposal, where Column 4 gives our
 730 motivation for the case of Italy tying it in with the analysis presented above.

731 The first proposal (1) resulted from the discussions we have had with Italian
 732 founders in our surveys and was confirmed in a literature search. The need for sim-
 733 plicity, transparency, and predictability is high in any business venture, but certainly
 734 important in entrepreneurial ones where technical and market uncertainty is already
 735 high. Adding legal, bureaucratic, and fiscal uncertainties and complexities to this
 736 mix is not productive.

737 The set of fiscal and financial reform proposals (6, 8, 13 and 19) aim to elim-
 738 inate that uncertainty in the tax sphere, and at the same time leave more financial
 739 resources in the hands of the people who can invest it in small amounts and in more
 740 experimental ventures at arm's length. When combined with investment in a reliable
 741 ICT infrastructure that can support the emergence of platform-based finance, this
 742 may prove a powerful push toward the decentralization of entrepreneurial finance.
 743 Still, we chose to focus first on setting the framework conditions for such a strategy
 744 to work. Proposal 19, instead, aims to strengthen Italy's traditionally diverse, decen-
 745 tralized, and deeply rooted system of local banking, that would also benefit from
 746 intermediating more privately held and managed wealth.

747 The proposals referring to Italian labor market institutions (23, 25, 27 and 31)
 748 all aim to mobilize labor across regions, sectors, and jobs, while at the same time
 749 maintaining a social security level that people are by now accustomed to in Italy.
 750 This balancing act involves making social security entitlements less conditional and
 751 more portable, while reducing job protection and barriers to job mobility.

752 Reducing barriers to new business formation (32) is a direct and obvious proposal
 753 in light of our aim to promote a more entrepreneurial society in Italy. New ventures
 754 typically come in the form of new businesses and organizations that need to be

Table 6.5 FIRES-reform proposals for Italy^a

No.	Policy area	Proposal	Italy
1	The rule of law	Strengthen monitoring and enforcement mechanisms to improve and safeguard the performance of all member states on rule of law, protection of property rights, and government effectiveness	It takes too long to settle commercial disputes in civil cases. This creates uncertainty and works in the advantage of large, established, and incumbent firms. An entrepreneurial society needs fast, predictable, and clear legal proceedings to thrive. A lot has been done, but more is needed still
6	Corporate income taxation	Eliminate discrepancies between statutory and effective corporate income tax rates	This is a general advice we would give to the European Commission that also applies to Italy. Founders in Italy complain about taxes but more than their level, their complexity and unpredictability make growing a firm unattractive. Simplification and transparency are more important than lowering the levels and granting tax complex exemptions and deductions
8	Dividend and capital taxation	Countries should aim for low dividend and capital gains tax rates with few exceptions and few (opaque) concessionary schemes	A tax system benefits from an occasional cleaning-up. Simplicity and transparency should be the goal, not necessarily reducing rates for targeted groups. But at an overall tax pressure of 64% against 40.8% in Europe, Italy should also reduce taxes, especially on the sources of income that matter most to new ventures and their financiers
13	Private wealth	Allow for more wealth to accumulate and remain in private hands and make it possible, easy and attractive to invest such wealth in entrepreneurial ventures	Italy has a strong family-based tradition. This creates opportunities also for financing ventures, especially in their early stages. Italy could consider banking on extended family ties to increase the flow of financial resources into entrepreneurship. The Anglo-Saxon Angel and VC model may be less appropriate in the Italian context, given the lack of skills and incompatibility with its deep-rooted informal institutions
19	Banks	Increase the mandatory equity ratio in banking gradually to 10–15% to allow them to take on more risk responsibly in their lending portfolios	Italy still has a rather diverse and locally embedded banking system. This can be an asset in the entrepreneurial society, but these small, local banks are increasingly brought under European rules and supervision made for large, system banks. By requiring higher equity in banks, they can justifiably engage in riskier but also in the long run more productive lending, while diversity ensures stability in the system

(continued)

Table 6.5 (continued)

No.	Policy area	Proposal	Italy
23	Employment protection	Relax the stringency of employment protection legislation for permanent contracts	Italy has already implemented some fundamental reforms in the labor market in recent years. In part, this was done under pressure of the financial and Euro crisis and external creditors. The general direction of these reforms was the right one, but more can be done. Specifically, the “reinstatement” provision in employment protection is often mentioned as a burden on small and young firms. In reforming its labor markets, Italy should not forget that of the Mixed Market Economies it is actually closest to the Coordinated Market Economies and should seek to combine individual flexibility with reliable social security
25	Employment protection	Lift the legal enforceability of confidentiality agreements between employers and their employees	Specifically, for Italy, this proposal should be understood in light of the overall argument for investment in mobility and reducing barriers for switching jobs, industries and occupations. This will create opportunities for the young and talented to remain actively engaged in Italy and reduce the brain drain to the rest of Europe and the world
27	Social security	Carefully consider the impact of flexicurity reforms on young firms and do not force them to take on excessive risks and burdens	It is tempting for governments with tight budgets to have employers pick up the bill for their employees’ training, mobility and social security. This, however, tends to reduce mobility and strengthens the insider–outsider effect. On the labor demand side, such schemes work in (relative) favor of large firms and block young firms’ expansion. This keeps youth unemployment up and pushes also educated Italian youngsters to leave the country
31	Active labor market policy	Establish or strengthen training programs to prepare workers for new occupations	In a more flexible labor market, more flexible and mobile employees are key. Italy will not be isolated from technological and economic trends and flexibility is needed to engage opportunities and exit declining jobs, industries and trades. We propose Italy invests in the flexibility of its workforce. To the extent that people underinvest in their own flexibility due to behavioral biases and information asymmetries, public interventions and finance can be justified

(continued)

Table 6.5 (continued)

No.	Policy area	Proposal	Italy
32	Entry barriers	Excessive barriers to new business formation and new entry should be lifted where possible	Key in this proposal is the word "excessive." Founders in Italy report quite a wide variety of bureaucratic and administrative barriers to starting up a venture in Italy. Some of these barriers may serve a valid purpose, but simplicity, transparency and predictability are essential. Data shows Italian SMEs spend 52% more time dealing with bureaucracy than their European competitors and WEF ranks Italy 44th on doing business index. There is a lot of room for improvement
40	Insolvency	Setup publicly funded "entrepreneurial knowledge observatories" where knowledge accumulated in the entrepreneurial process is collected, curated and freely diffused	Creating a real hub, rich in events, infrastructure, and networking between teams could be useful for the Italian entrepreneurial ecosystems. This involves concentration. Today Milan (14.7%), Rome (8.5%) and Turin (4.7%) have less than 30% of the total number of start-ups. Our research has shown how geographical proximity is important for success. It is a tough choice, but it would be useful to invest in a start-up capital (Milan) that can perform a national function
41	Education system	Reforms in primary and secondary education should provide pupils with a solid and coherent knowledge base and promote initiative, creativity and a willingness to experiment	Italy's educational system can be characterised as traditional. The state sets the curriculum, provides uniform tests, and most children attend public schools. The curriculum is demanding, geared toward cognitive skills and textbook based, leaving little room for creativity and diversity. Italy considers its educational system of high quality, but making pupils work hard is not the same as teaching them useful skills. Countries ranking high on, e.g., the WEF, OECD and EU rankings, such as Finland and Norway have less homework and formal testing and more autonomy for highly trained and well-paid professional teachers. Italy should consider reforms in that direction

(continued)

Table 6.5 (continued)

No.	Policy area	Proposal	Italy
42	Education system	Promote STEM education and English as a (mandatory) second language early on and then throughout educational career	Italy ranks 20 out of 27 EU countries plus Turkey when it comes to knowledge of English as a second language. This is a handicap when Italy seeks to compete at the EU or global level. Italy scores around rank 30 out of 80 in the OECD PISA-scores on Math and Science behind countries like the Czech Republic and Luxembourg, while on STEM topics Italy has EU average levels of enrollment, but high levels of dropout. The situation can be improved by reforming curricula in primary and secondary education and ensure that sufficient vocational tertiary educational options exist in Italy
44	Universities/Entrepreneurial clusters	The link between universities and external stakeholders should be strengthened by encouraging universities to stimulate entrepreneurial initiatives and university spin-offs	Many Italian universities started offering courses focused on entrepreneurship. Courses usually taught by a researcher with no work experience outside academia, and no experience in start-ups. The average curriculum therefore deals with writing business plans and how to get financing. Italy lacks a start-up culture and those trying to provide it have no hands-on experience. This is not easy to address, but a good start would be to promote the involvement of entrepreneurs in (academic) curricula and opening up universities to external stakeholders
45	Universities/Entrepreneurial clusters	Both the EU and its member states should create healthy, well-funded, academic institutions that allow Europe's most talented academics to pursue their research interests	For the Italian context, it is important to open up its academic institutions. Many reforms have already been undertaken, but most in a time of aging, financial constraints, and budget cuts. With vested interests and gilded contracts hard to reform, the rate at which Italian academic institutions open up for competition and meritocracy is slow. It makes little sense to spend a lot of money on institutions before such structural issues have been addressed. Unfortunately, the (poor) students, not the aging staff is driven out

Source Authors' own compilation
^aNumbered as in Elert et al. (2019)

755 established also formally before they can reach their full potential. At the same time,
 756 we propose (40) to also carefully monitor these new firms and collect and disseminate
 757 the knowledge that is gained, even, or perhaps especially, when new businesses fail.

758 Finally, we propose Italy should consider urgent reforms to its educational sys-
 759 tem (41, 42, 44 and 45) to ensure its young and talented are better prepared for
 760 a future in a more entrepreneurial Italy. This starts in primary schools and even
 761 earlier, with a reorientation on creativity and experimentation, whereas English pro-
 762 ficiency and STEM topics will prepare Italian youths for a future in a globalized
 763 and technologically rapidly changing economy. Meanwhile, Italy's established aca-
 764 demic institutions should open up to the world outside of academia, preferably from
 765 a genuine position of scholarly curiosity and interest, rather than driven by financial
 766 and policy incentives.

767 The proposals, individually and in combination, aim to strengthen the knowledge
 768 base and talent pool from which Italian entrepreneurs can draw and aim to open
 769 opportunities for not only starting but also growing firms in all regions in Italy. All
 770 Italian regions stand to benefit from these interventions. However, the fact that density
 771 and clustering tend to promote the quality and impact of entrepreneurial venturing
 772 will imply that the same policy improvements benefit the already prosperous regions
 773 most. Still, that should not stop policymakers from pursuing these interventions as
 774 it is the Italian citizens, not its regions per se that governments should care about.
 775 Creating opportunities for Italian entrepreneurs in a few entrepreneurial hotspots is
 776 better than not creating such opportunities at all, also for people living in regions that
 777 do not have such hotspots.

778 Of course, these proposals will need a much more detailed discussion and form the
 779 starting point, not the final word on the policy agenda. Moreover, even if adopted, our
 780 proposals all require careful implementation and evaluation to complete the 7-step
 781 policy cycle presented in Chap. 1 of this volume. But based on our analysis of the
 782 situation, we proposed Italy consider this set of interventions to build up its strengths
 783 and restore health to its ailing entrepreneurial ecosystem. To conclude this chapter,
 784 we now turn to the discussion of these proposals in their proper policy context.

785 **6.5 Step 5: the FIRES-Reform Proposals in Light** 786 **of the Countries' Historical, Geographical** 787 **and Institutional Context**

788 To put our proposed reform program in its proper context, it is important to discuss
 789 the diagnosis and proposed treatments with experts in the field. In this case that is
 790 Italian policy makers that are active in the field every day. Moreover, given the wide
 791 diversity of policy areas involved, it is important to not only discuss this with policy
 792 makers that are active in "entrepreneurship policy" in the narrow sense. Our approach
 793 emphasizes the importance of reforming institutions that determine the allocation of
 794 financial, labor, and knowledge resources to entrepreneurial activity in the broadest

795 and most inclusive sense of the word. Broadening the scope was motivated by the
 796 fact that entrepreneurship policy in the narrow sense has been around for some three
 797 decades or more, also in Italy, and to date has achieved only limited success.

798 Because of its breadth, our reform agenda inevitably cuts across many policy areas,
 799 traditionally less associated with entrepreneurship policy, including, for example,
 800 wealth taxation, financial and labor market regulation, social security, and science
 801 policy. As the institutions in these areas have evolved historically and policy makers
 802 in these areas pursue different, equally relevant, public policy priorities, the challenge
 803 is to discuss the proposed agenda in sufficient depth, but with a sufficiently diverse
 804 group of policy makers and practitioners. Policies and institutions in these different
 805 areas overlap and interact in ways that affect the quality and performance of the
 806 entrepreneurial ecosystem (Stam 2015, 2018). The challenge is to not only propose
 807 policies and reforms that will strengthen the ecosystem, but to do it in such a way
 808 that other important policy priorities are also achieved.

809 In order to receive a first round of feedback on the proposals for Italy presented in
 810 Table 6.5, a policy round table was held at the CDP Group (*Cassa Depositi e Prestiti*)
 811 in Rome on March 5, 2018. This step can be seen as an attempt to allow our patient,
 812 or perhaps more accurately, her team of medical specialists, intimately familiar with
 813 our patient, to give feedback about our diagnosis and proposed treatments. What
 814 proposals would this team endorse, question or maybe want to drop?

815 In this policy round table, the diagnosis presented above was broadly shared
 816 among the participants. The group included representatives from the Bank of Italy,
 817 the OECD, UNCTAD and the Italian Ministry of Economic Development (Sanders
 818 and Grilli 2018). Participants recognized the encumbered bureaucracy and inflexible
 819 educational system as well as the long-standing North–South divide and issues of
 820 effective and high-quality governance. There was general consensus that universities
 821 could function as catalysts by playing a more important role in supporting financial
 822 education and putting entrepreneurship at the center of the stage. Another important
 823 deficiency in the Italian entrepreneurial ecosystem is the shortage of dedicated net-
 824 working events. Italy has many, small, high-quality centers of excellence, but they
 825 lack mass and local governments could act to improve this situation. Participants
 826 added that it is also important to improve attitudes toward risk taking and reduce the
 827 cultural stigma arising from failure.

828 Given the background and natural inclinations of the host institution, there was
 829 perhaps a slight bias in the selection of participants and emphasis on financial policies
 830 and institutions in Italy, even when these issues did not stand out as the main bot-
 831 tleneck in Italy in our diagnosis. This fact was recognized in the group, but as many
 832 were interested in and actively involved in financial policy making, the issue was still
 833 on the table. Concerning financing issues and venture capital, it was mentioned that
 834 the small VC industry may not only be a result of insufficient demand for this type of
 835 capital. It may also stem from the VC lack of competencies and a shortage of profes-
 836 sional skills in this area. Crowdfunding platforms providing an alternative route to
 837 financing scale ups and exits, may fit well with the Italian tradition of family-based
 838 share holdings and finance and preserve an orientation on long-run value creation.

839 There were also weaknesses that were not mentioned in our analysis so far but
840 were deemed important. Public procurement and the governance of the public admin-
841 istration were considered to be the most prominent problems by many participants.
842 Too many ministries and public bodies are responsible for too many parts of a too
843 complex puzzle. In addition, there is a problem with the quality of governance in
844 general and of innovation and entrepreneurship policy specifically due to an aged
845 workforce with outdated skills in the public sector—only 40% of Italian civil servants
846 hold a university degree and the share of central government employees below the
847 age of 35 is just 2.2%. High levels of job protection in civil service make it difficult
848 to change these numbers, but it is evidently a problem when young and dynamic
849 entrepreneurs have to deal with an ossified and outdated civil service.

850 Finally, all participants stressed the need to implement policies to promote the for-
851 mation and strengthening of industrial districts. The benefits of knowledge spillovers,
852 agglomeration, and scale can only be realized in specialized districts. The resulting
853 geographical heterogeneity should not be politically opposed but rather be managed
854 and accomodated. Consequently, there was a great attention from all stakeholders
855 for the geographical dimension that is considered crucial for triggering virtuous
856 dynamics in the Italian entrepreneurial ecosystems.

857 6.6 Conclusions

858 This chapter on Italy illustrates the FIRES-approach to formulating a tailored insti-
859 tutional reform strategy to promote a more entrepreneurial society in Europe. It
860 shows how the tools, discussed and introduced in the first part of this volume, have
861 been used to systematically analyze the situation in Italy. After carefully analyzing
862 Italy's historically rooted institutional foundations, this chapter triangulated histori-
863 cal, qualitative, and quantitative information to identify Italy's strengths and weak-
864 nesses. Based on this diagnosis the most relevant proposals were then selected from
865 the menu of policy interventions and reform proposals in the companion volume of
866 this book (Elert et al. 2019).

867 We conclude that many of the institutions that shape an entrepreneurial soci-
868 ety have their roots in Italy. Italy has seen the birth of modern banking, invented
869 intellectual property rights protection, and has the oldest universities in the world.
870 Even today, Italy boasts a highly innovative small- and medium-sized entrepreneurial
871 sector that competes on quality at the global level.

872 Italy could strengthen its entrepreneurial ecosystem in the area of boosting human
873 capital investments and more importantly, opening up opportunities for the young
874 and talented to engage in productive and innovative venturing in Italy. In the recent
875 crisis Italy has seen an exodus of talent. This diaspora perhaps had benefits in the
876 past. It created demand for Italian products abroad and served as an alternative for
877 high domestic unemployment. But with an aging and shrinking population, such an
878 exodus is a bad sign that suggests there are more opportunities abroad than at home.
879 When those that do stay and start-up ventures then complain about cumbersome

880 bureaucracy resulting in lacking growth ambitions and stunted economic dynamics,
881 there is a clear reason to act.

882 The chapter discussed proposals concerning the legal system, the mobility of
883 talent, and the regulatory burden for new firms. It also discussed reforms of the tax
884 and educational system and presented suggestions about how to improve the flow
885 of financial resources into experimenting firms. The proposals, individually and in
886 combination, aim to strengthen the knowledge base and talent pool from which Italian
887 entrepreneurs can draw and aim to open opportunities for not only starting but also
888 growing firms in all regions in Italy. Both North and South stand to benefit from these
889 interventions. Of course, these proposals will need a much more detailed discussion
890 and only form the starting point, not the final word in the policy debate. Moreover,
891 even if eventually adopted, our proposals all require careful implementation and
892 evaluation to complete the FIRES Seven Step cycle.

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