

≡ CYPRUS ≡ INDUSTRIAL STRATEGY

Report of the Fourth Stage

GOOD FOOD GUIDE

FINANCIAL INCENTIVES

**CONSORTIA
AND THE THIRD ITALY**

Prepared for the United Nations Industrial Development Organisation and the United Nations Development Programme on behalf of the Government of Cyprus

Institute of Development Studies

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CYPRUS INDUSTRIAL STRATEGY

REPORT ON THE FOURTH STAGE

INSTITUTE OF DEVELOPMENT STUDIES

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INTRODUCTION

PROGRESS OF THE CYPRUS INDUSTRIAL STRATEGY

1. The text of the Cyprus Industrial Strategy was formally presented to the Government of Cyprus in late 1987. A second mission of the CIS team visited Cyprus in January 1988 for discussion of the conclusions of the Strategy document with the Government, industrialists and trade unions. One of the principle recommendations of the Report was the establishment of an Industrial Restructuring Council, and supporting secretariat. The Cyprus Technology Strategy produced, during the Spring of 1989, made a parallel proposal. In June 1988 the CIS team leader prepared a draft document for the establishment of the Industrial Restructuring Council (IRC) and its secretariat, which amalgamated the proposals of the Industrial and Technology Strategies. The document took account of extensive discussions with all the main Ministries involved, and with the private sector.

2. One of the main purposes of the visit by the CIS team leader in January 1989 was to further the process of the establishment of the IRC. Since the June 1988 mission there were two points of note:
 - (a) Final agreement could not be reached between the Ministries on where the IRC and its secretariat should be located within the organisational structure of the Government.

- (b) An inter-departmental Technical Committee had completed its report on the recommendations of the Cyprus Industrial Strategy without resolving the outstanding issues on the IRC.

The January 1989 mission sought to facilitate an agreement, both through bilateral discussions and at two meetings chaired by the Minister of Commerce and Industry, and attended by senior officials of the relevant Ministries. The conclusion of these meetings was an agreement by all the Ministries of the structure set out in Figure 1, and the details of its constitution and establishment, based on the draft of June 1988. The way is now, hopefully, clearly for the early establishment of the IRC.

3. There are four points of comment arising with respect to the IRC:

- (a) The IRC and its secretariat should be established with urgency. More than eighteen months has passed since the CIS came out, and Cyprus became an associate member of the EEC. This is recognized by the Government and the prospects are promising. However, it is important that the resolving of any difficulties which do arise in the process of implementation be given priority at the most senior level.
- (b) The Ministry of Commerce and Industry registered their fears about the secretariat being outside the Ministry and the chance lost, therefore, of strengthening the Ministry's strategic capacity. My view is that the two things should be separated. I do not think that the IRC and its secretariat could function to full effect within the Ministry as currently constituted. Innovative bodies of this kind have been found to work better - particularly in their formation stage - when separate from existing structure. In public administration, as in modern corporations, increasing attention has been focussed on task forces and quasi-independent units as agents of change. This applies notably to tasks which involve cross-departmental co-

operation. The emphasis is on small flexible units, which are quick to set up and quick to disperse, according to the needs and their performance. This was the principle behind the IRC and I am confident in recommending it to you.

At the same time, it is also urgent to strengthen the strategic capacity and operating effectiveness of the Ministry of Commerce and Industry on the lines set out in the Cyprus Industrial Strategy. Attention needs to be given to this in parallel with the establishment of the IRC, not least because the success of the IRC will, in part, depend on effective inputs from the MCI.

- (c) It is important that the IRC be seen as a means of blending together the different parts of the public sector around common policies, and that the Ministries act as if they were part of a unified Government. I am delighted to say that the Ministries with whom I have been working are acting in this way - as shown by the agreement reached on the IRC - and have eschewed the inter-ministerial rivalries which so often beset both local and central Governments. I register the point, however, because of the need to maintain this shared sense of purpose, and the willingness to experiment, if the project of industrial restructuring and technological innovation is to succeed.
- (d) The IRC itself should aim to establish a consensus around its policies among the many social partners affected by industrial strategy, since such a consensus is a precondition for effective action in this field. Again the signs are good in terms of Cyprus' recent history of social consensus and the strong support from all parties to have a full and balanced representation on the IRC.

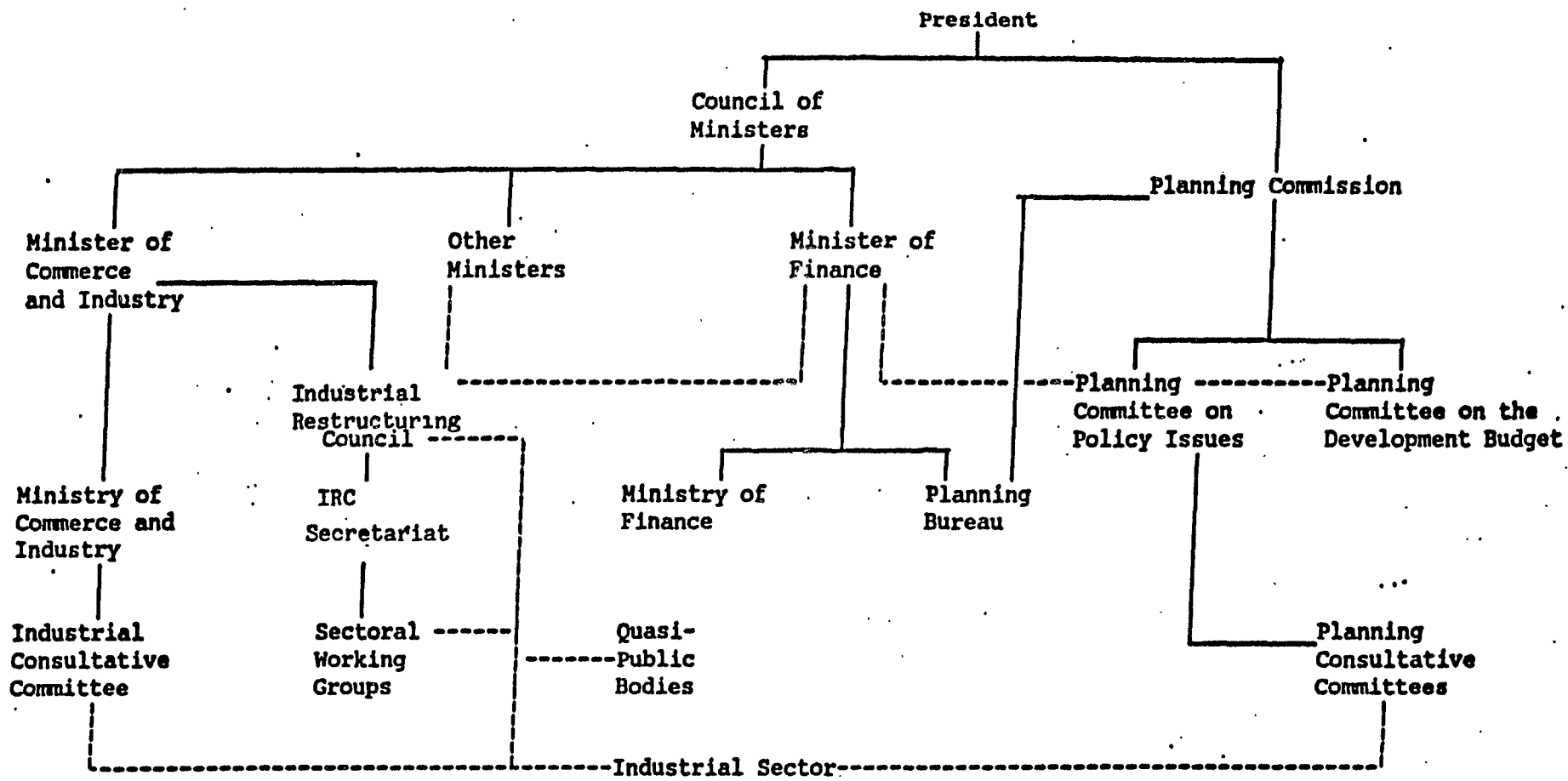


FIGURE 1

_____ lines of responsibility
 - - - - - membership

Figure 1. Industrial administration in the Government of Cyprus: structure and representation.

4. There the matter currently stands. I hope that before the end of 1989 the following steps will have been taken:

- the establishment of the IRC and its secretariat
- the agreement of a plan for the expansion of the strategic capacity and effectiveness of the Ministry of Industry and Commerce along the lines set out in the CIS.
- the establishment of a training programme in industrial and technological strategy planning for officers from all the relevant Ministries and public sector institutions.

Other progress

5. At the level of the general recommendations for the **government** in the CIS, there is the following to report:

- i. **Design.** An Austrian consultant visited Cyprus in December 1988 to develop a policy to encourage design capacity in the country. His report is due shortly.
- ii. **Financial incentives.** The Ministry of Finance initiated a review of the system of financial incentives for industry. One of the members of the January 1989 mission, Professor John Bessant, had been asked to contribute to this review, and his assessment and recommendations appear as part 2 of the current report. The Government is taking prompt action to implement the results of this review.
- iii. **Training.** The ITA have shown a particular concern to link their training programme with the approach set out in the CIS, initially through training and orientation of their own staff, and through fruitful discussions with visiting consultants. They have also funded training for white collar and managerial staff, which has been a most valuable initiative.

6. In the **industrial** field:

Industrialists from the metal working, furniture, footwear and clothing sectors have continued to meet to discuss **strategy** within the framework of their Industry Associations. Both the Federation and the Chamber of Commerce have played an important role in servicing these meetings, and in holding an extensive series of seminars to promote the ideas of the CIS. During the January 1989 mission, Professor Bessant addressed a Federation meeting of more than 100 industrialists on Implementing Flexible Manufacturing. More recently, in May, the Federation sponsored, jointly with the ITA and the UNDP, 5 one day seminars on Flexible Manufacturing for different sectors. These were given by Professor Bessant and Mr. Paul Levy of Brighton Polytechnic and were attended by over 150 people. Both the Federation and the Chamber have also published and circulated summaries of CIS material amongst their members.

7. The two visits to Italy for the furniture and clothing industry respectively should be seen as part of this process of strategic discussion. The visits formed part of the fourth stage of the CIS project, and are fully reported upon in the third section which follows. Both visits proved valuable, for the industrialists, and for the public officials who accompanied them. During the two visits we visited 9 firms and 11 consortia in industrial districts which had flourished in domestic and export markets.

8. The work of one of the consortia established in Cyprus in the furniture sector - A-Z furnishings - was covered in the report of the second stage of the CIS Project (May 1988). Since that report, A-Z has won a major contract for furnishing hotels in the USSR, and has continued to flourish on the domestic market. In January they received a visit from Italian consultants, who have written up their assessment of the Cyprus industry, and A-Z, in a

journal article included as Appendix 4 of the Italian section of the present report.

9. Progress around the industrial strategy has made less headway in the food processing sector. However, one part of the January mission approached the issue of upgrading in food processing from the user end, through the investigation - in conjunction with the Cyprus Consumers Association - of the feasibility for a **Cyprus Good Food Guide**. Drew Smith, the editor of the British Good Food Guide, was a member of the January mission, and his feasibility study is included as the first section of the current report. Action to strengthen consumers organisations has been seen as an increasingly important part of industrial policy in Western Europe and North America, and Cyprus has been something of a pioneer in promoting this in the developing world.

10. I would finally like to thank on behalf of the CIS Team, members of the Cyprus Government, of the Employers Federation and Chamber of Commerce, of the Cyprus Consumers Association and the many industrialists with whom we have worked. The project also has a particular debt to Mr. Sean Finn and Mr. Adel Kalifa and their staff at the UNDP offices in Nicosia, for the support they have given it. To them, and to our counterparts in the Ministry of Commerce and Industry, the Ministry of Finance, and the Cyprus Consumers Association, we express our special thanks.

Robin Murray
June, 1989

Appendix to introduction.

Work undertaken by the team leader, January - June 1989.

The terms of reference set out the following tasks, to which comments are attached:

- i) Discussing with the principal Ministries and quasi public bodies concerned with the Industrial Strategy.

The team leader spent a substantial part of his January visit in discussion with senior members of the Cyprus government. These included the Ministers of Commerce and Industry, and of Agriculture, the Director Generals of the Ministry of Commerce and Industry, Finance, the Planning Bureau, Labour, and Education, the Directors of Industry, of Planning, of Finance, and other officials from those Ministries. The conclusion of these discussions was the agreement of the structure of the IRC and its secretariat referred to in the text. He also met with staff members of the Cyprus Development Bank and of the Industrial Training Authority.

- ii) Drafting of reports, job descriptions, working procedures, budgets and work programmes.

Because no agreement had been reached prior to the January visit, no amendments were required to the job descriptions, procedures, budgets and work programmes drafted by the Team leader during his previous visit in June 1988.

- iii) Maintaining contact with industrialists in the five priority sectors.

The team leader held discussions with the Cyprus Employers and Industrialists Federation, with the Cyprus Chamber of Commerce and with industrialists. He was also a member of the furniture and clothing delegations to Italy.

- iv) Supplying international material relevant for the implementation of the strategy.

Two dossiers were produced of international material on the experience of the Third Italy, both for participants to the visits, and for other officials and industrialists in Cyprus. The third section of the present report was prepared for this purpose, including the English translation of the constitution of one of the successful financial consortia operating in the Emilia Romagna region of Italy.

- v) Identifying sources of technical support for the Government and industrialists.

During the period technical support has been identified for the Good Food Guide, the Financial Incentives project, the clothing and furniture visits to Italy, and for training programmes for industrialists from the priority sectors.

- vi) Promoting the ideas of the industrial strategy through the local media, and abroad.

The work of the strategy has continued to receive wide publicity in Cyprus, through interviews with the team leader, reports on the Good Food Guide lecture, and on the industrialists training programme. In the overseas media the most substantial item is the report on the Cyprus furniture industry and the Italian visit, reprinted on pp 144-148 of the present report.

- vii) Advising on potential sources of finance for particular projects.

The team leader's main work on finance during the current period was in connection with the financial incentives project summarised later in this report.

In addition to the above, the team leader has provided briefing notes, and other assistance on matters arising from the progress of the Industrial Strategy to the UNDP resident representative, and his deputy, with both of whom he has worked closely on all the above. The team leader's total time budget for this period was 34 days.

■ GOOD FOOD GUIDE

The Cyprus Industrial Strategy

CYPRUS GOOD FOOD GUIDE

DREW SMITH

1989

The Cyprus Good Food Guide

Summary

The proposal for a Cyprus Good Food Guide arose from the food processing sector report of the Cyprus Industrial Strategy, and discussions between the Cyprus Consumers Association and the Cyprus Development Bank. This report is a Feasibility Study of the proposal, and concludes that:

- such a Guide would be valuable both for the food processing and the tourist industries
- that there is the basis for a successful Good Food Guide both in terms of good quality food within the 2,000 strong Cyprus restaurant trade, and in terms of a demand among Cypriots and tourists.
- that the potential market is between 3,000 and 6,000 readers.
- that the success of the Guide will depend on:
 - its independence of judgement
 - its editorial quality
 - a high level of design and presentation
 - that there is a need for further financial assessment

The report advises a three phase approach:

The first concentrating on market research, editorial preparation and detailed financial estimation.

The second involving the hiring of an editor and administrator, the commissioning of authors and inspectors, the canvassing of ideas and suggested restaurants, and preliminary marketing.

The third covering the compiling and selling of the guide.

It recommends that the first stage be undertaken, with a decision on the second stage being left until the detailed financial estimates and marketing information are in hand.

Background

The Cyprus government is moving towards an application for membership to the EEC. There is a policy of internal harmonisation with the EEC regulations on health and hygiene regulations and consumer protection.

Tourism is a major feature of the economy with 1 million visitors a year. Nearly 90 per cent stay at Paphos, Limassol and Larnaca. The strategy is to extend the peak summer season into the spring and autumn and to go for middle to high income groups. The majority are English speaking. The trend is towards half board and bed and breakfast.

The increase in restaurant going is expected to be significant with an expected £54 million generated in 1986 to £98 million by 1991. This is attributed to tourism and more women in work.

There is concern to improve the quality of the restaurants and food, staff, hygiene and also to preserve and develop the traditional food economy of the island. Restaurants are seen as a means of reviving interest in marginal foods and establishing ideas of quality.

A Good Food Guide is perceived as a way of adding to existing initiatives and supporting projects in other areas. It would have a dual target readership both in the Cypriot community and also the tourists.

The independence of such a guide is seen as of paramount importance and, as a result, the Cyprus Consumers Association has been involved from an early stage.

The island has a dynamic restaurant economy. There are now more than 2000 catering outlets which suggest it is one of the most densely populated areas per head of population in the world. Much of this growth has been in the last 40 years.

The Tourist Board plans to publish a listing of all restaurants classified into 3 sections - A, B, and C - according to facilities. An independent attempt to publish a more detailed guide from the company that published the Diplomat is, currently, not going ahead.

The qualities of a Cyprus Good Food Guide were generally considered to be independent, gourmand not gourmet, strongly motivated, a book with practical applications and the force of argument to raise standards.

It is seen as a parallel to the UK GFG, now in its 38th year and selling 65,000 a year, although in practice it is likely there will be some differences. It would, however, be a selective guide and incorporate both factual information on opening times and addresses, credit cards, facilities etc with a critical text.

In discussions it was estimated that the likely content would be 100-200 restaurants representing perhaps 10% of the total restaurant population. In order to make the book more accessible to non-English speakers, it was felt that symbols could be used to indicate classifications and facilities.

It was hoped the Guide would be updated and published annually, however, as this depends on the success of the first issue, this report confines itself to the launch issue.

The key areas on which this study focuses are:

How to establish independence.

The establishment of the size of the market.

Financial viability.

Whether the Cyprus market needs a book to do this role.

The establishing of an infrastructure.

1. Establishing independence and credibility

The concern to establish an independent guide free of commercial interests has led to the involvement of the Cyprus Consumers' Association. This small body founded in 1973 has earned respect for its campaigning through its newsletter which has towards 5,000 subscribers on the island. It is a voluntary organisation and currently employs two people full time with other members giving their time for no financial reward.

The organisation is also able to draw, in a fraternal way, on the expertise and research of other consumers' associations across the world. However, it is a small scale, non-profit making body that has remained low on funding to maintain its independence.

The involvement of the consumers association would preclude any advertising or sponsorship funding. However, as there was general concern over the possibility of commercial links affecting the guide's ability to influence standards in a real sense, this was not seen as a handicap. To an extent this might be offset by the enhanced reputation for such a publication, especially in a small, tightly knit community like Cyprus.

As safeguards to the independence of the guide, it was agreed that the inspectors who visited the restaurants should have their identity kept secret and that they would always visit anonymously. Any contact with the restaurant themselves would be via the office.

The inspectors would necessarily therefore have to be paid for out of the editorial budget which would be a substantial contribution.

The risk of infiltration of a small team should further be spread by involving a large number of volunteers who would check and cross check each other.

One of the qualities regarded as crucial in consideration for the role of editor, should be his or her integrity and freedom from commercial links to the catering trade.

A further idea advanced to ensure the credibility of the guide was to set up an international panel of experts to validate the quality of the work.

Experience with the British guide has shown that provided a sufficient number of different people are canvassed for their opinions on a restaurant, that the quality of the judgement is enough to win creditability. The exact numbers vary but not less than six independent opinions might be a working target, provided all agree.

The role of inspectors is to ensure the honesty of these opinions and to provide words for the publication.

Views can and should be canvassed from a wide cross-section - including chefs and food producers who often provide extremely valuable information about their own craft - but inspectors should not have any commercial links with the catering industry.

MARKET SIZE

1. Cyprus

The population of Cyprus is approximately 500,000 and it is not to be expected that more than a small section would be prepared to pay for a book on restaurants.

There are good methods of personal referral and generally a familiarity with the comings and goings on the restaurant scene.

However, there is - as far as can be judged from this short trip - a visible enthusiasm for the subject as backed up by the numbers of restaurants on the island. Restaurants are not just a tourist inspired phenomenon, Nicosia has more restaurants and fewer tourists than other towns. Much of the energy for this project has come from the Cyprus community and not the tourist business.

But there must remain a serious doubt over the ability of a book's ability to penetrate this market deeply.

There are certain areas of specialist interest which might be expected to buck this trend. Figures in brackets are estimates of target levels of copies that might be sold.

a) The catering trade itself	[300]
b) Subscribers to Consumers Association	[500]
c) Food Producers	[100]
d) Business community	[100]
e) Tourist interests	[100]
f) Army	[50]

The largest of these will surely be the catering trade itself. In total it would probably be unrealistic to estimate that all of these sales would exceed 1000. Items a) and c) might reflect the numbers of places included (and might be sources of further sales). Item b) might benefit from market research.

There is a further potential market internally for corporate sales. Given the extremely benign influence this project is likely to have on the Cyprus economy as a whole, and also the positive attitudes encountered on this trip, it might be possible to persuade companies to buy bulk numbers to give as facility gifts to business clients. There is a strategic interest within Cyprus for a wide distribution of such a publication.

In casual conversation, Keo wine company suggested it might take 50 copies, Sodap 25, Cyprus Airways might offer it to first class passengers etc. One large order would probably underwrite the project and a series of smaller orders would improve the sales picture drastically. Hopefully the UN and government agencies would feel able to place orders.

A target figure of a further 1000 sales in advance of publication might be workable with the real hope of one company coming in with an equivalent order of its own for a further 1000+. These sales should be arranged in advance of editorial expenditure and sold at a discount.

If companies can be persuaded to take the guide in this form, then it would be a positive indicator of a viable financial base.

There is a further market which deserves researching but might reasonably expect to generate sales which is the overseas expatriate population. Some of these sales might be expected to be second-hand, either as gifts to relatives or on visiting the island. But a direct marketing approach either via Cyprus language papers, or community leaders, could reasonably be expected to lead to some further sales. This would merit market research.

Price will be a crucial factor in determining the level of domestic sales. It would seem sensible to consider a dual pricing system in which the guide is made available in advance of publication at a substantial discount to the domestic market, but would carry a higher cover price for tourists. The price level for the domestic market most often quoted has been £3.

2. Tourism

The penetration of the tourist market of one million might reasonably be expected to be highest among the following groups:

- a) 3 star and above hotel users
- b) Return visitors
- c) Hire car users
- d) Souvenir gatherers

The trend away from full board and towards B & B suggests that tourists do want to eat out and a percentage will want advice. Beyond car hire users (who must be a prime target), the taxi firms give easy access to a wide area.

The guide will not appeal to the young on a budget and non-English speakers. It might well target the developing winter sun and elderly visitor.

Sales can be expected to come from book stalls (especially in hotels) and comparative figures with other guides to the island would assist in gauging sales.

It is important in this respect that the guide's complexion be as user-friendly as possible. The casual visitor is less likely to buy a guide for its recommendations of which only a few may be used in a week, and be more attracted by practical shopping advice on wines or food. Equally the sense of food as part of the culture is important.

It would seem unduly pessimistic to estimate anything less than 2,000 copies sold through a season in this market. The potential may be far greater, but it may be wise, at this stage, to regard such extra sales as the potential profit rather than the financial base.

However, the market price to the tourists can and should be substantially higher - towards the top end of the bookstall spectrum. This should be in excess of £5 and, depending on publication, might be more.

It must be recognized that this guide is aiming at the international traveller and a very high level of design and packaging will be expected to achieve an impact on this market. The book will have to be attractive viewing to take home as a souvenir.

PRINTING

The largest element of the costs is the printing and setting. The element of business risk involves the equation of this cost in relation to the quality and number of copies. It is not practical for this report to deal with these figures in detail but it is worth examining the spectrum of options. New technology of desk top publishing affords the least expensive method of distributing small numbers of a guide.

In practice this would involve the setting directly on to a computer/word processor by the editor and his staff, the printing out on a high quality printer and photocopying. Quite attractive results can be achieved, especially if a front cover of higher quality paper is used to wrap around it.

One attraction of this method, apart from the low cost, is the flexibility it affords, for instance if a Greek language edition is desired. In this respect, numbers of Greek visitors is relevant. This might be a sufficient mode to supply the domestic market, though less likely to impress the tourists. Computer set discs may be sent direct to printer for a more sophisticated product and reducing typesetting costs.

The economies of scale of conventional printing require very accurate assessments of sales. For this reason a substantial bulk order for a corporate sale could significantly reduce costs by extending the print run.

FORMAT AND DESIGN

Whatever the scale of the printing, the presentation and design of the guide will be a major factor in lending creditability and

influencing sales. The tourist market would be particularly attracted to a colour cover, but even if the indications do not justify an outlay at this level, the cost of professional design should be seen as imperative.

In order to appeal to the non-English speaking market, an effective code of symbols denoting price-level; amenities; styles of cooking should be incorporated as part of the design. The design team may well be able to advise on printing methods.

EDITORIAL

The core of the book should be the selection and appraisal of restaurants. Each of these will need visiting, the bill paying and a report writing. It is anticipated that over 150 restaurants would be included and that each visit might average £9 to pay for two meals. The writing of the inspection reports would not be paid for. Further collation of the details and the checking would be handled by the office.

Beyond this - with the wider aims of the guide in mind - a number of special assessments of an informative nature could be undertaken to lend the book greater scope. These assessments might cover:

Blind comparisons of wine

Blind comparisons of brandy

Reports on specialist foods with suggestions of where to find them

A list of food/wine festivals

Glossary on Cyprus cooking techniques

A list of foods in season

Focuses on traditional Cyprus cooking

Focuses on food processors

The editor might be expected to write an introduction summarising all the major points of the research at the front. The aim of these sections is to make the foods and wines of Cyprus more accessible.

It is hoped that most of these articles would be contributed free of charge for the wider benefit of consumer and trade alike.

TRAINING/CONSULTANCY

The Cyprus Good Food Guide should be self-determining.

There may be a further case for bringing in external help to assist in the training of inspectors; to advise on an up-and-running operation; to ensure the quality of the research and quality of the judgements.

This option is open. The British Consumers' Association might take a supportive view and this can be discussed.

CONCLUSIONS

1. The firm market as outlined in this report would appear to be between 3,000 and 6,000 readers with the possibility of further sales from tourists beyond that.

2. The success of the project will, to a large extent, depend on the quality of the editorial and the packaging.

3. The corporate sales may be seen as the keenest indicator of the likelihood of success. If these can be put in place in advance of a launch, and are of sufficient volume, then the risk would be substantially reduced.

4. Given the substantial benefits of the publication of such a book to the tourist and agricultural communities, it would seem reasonable to look here for resources.

5. This study is inconclusive because the precise mathematics are unavailable but it would seem reasonable to carry the momentum through the plan as outlined (further on) and draw up exact budgets before a final decision is made.

6. I would express some concern at a small voluntary organisation such as CCA being asked to bear the financial risk of such a project. All publishing is necessarily speculative. The CCA should be able to provide the research and editorial that meets all the requirements laid down, but may not, at the same time, be able to shoulder the burden of becoming a publishing house.

The UK association sells the guide to subscribers. Beyond this (the bulk of sales), it has an arrangement with a private publishers (Hodder and Stoughton) to distribute and sell through book shops. It is therefore possible to separate the commercial publishing side from the research operation.

If an acceptable third party could be found to act as the business party - perhaps a newspaper, or a magazine publisher, or a business operation attracted by the possible prestige and

influence of an effective incursion into the commercial tourist market - the equation would be more balanced.

7. If such a partner wanted the assurance of a London consultancy, then that might be arranged.

8. If the guide is successful, then in future years it could be updated at less expense and become a continued force for improved standards. But this must depend on the level of sales to the tourist market and the development of any ancillary product such as TV and newspaper columns which, in the British guide, make a small, but important, contribution.

9. If successful, there would be scope for other books such as a general consumer guide.

THE WAY FORWARD

This paper can only recommend broad strategies dependent on the final costs of printing and commitment from corporate buyers.

There seems to be sufficient evidence to go ahead with a preparatory phase in both the marketing and editorial areas to try and put in place the financial bricks before any major expenditure is undertaken.

Phase 1

Market Research: There is a need for a comparative study to be made of sales of existing guide books and their prices. This should give a firm indication of the level of possible sales to tourists and an

idea of competitive pricing. The real market place is the shelf of the kiosk from which the Good Food Guide might be sold. Comparative figures of recent years would give some indication of the buoyancy of the market.

Printing: These costs will prove crucial and as many tenders as is possible should be discovered. This should be done in conjunction with the designer. The cost of a map and map plotting may be separate.

Corporate Sales: Approaches should be made to leading companies to gain firm numbers of copies they might be prepared to buy at a discount.

International: Investigation should be undertaken as to the optimum way of reaching the expatriate Cypriot community and how they might be offered copies of the guide.

Editorial: Lists of restaurants should be compiled for inclusion. Notes of meals eaten should be taken and recorded. Menus should be kept on file. People who may be interested to help should be asked to submit lists of restaurants they know with comments. Their inspectoral value should be evaluated.

Authors of the non-restaurant sections should be approached.

Possible editors should be interviewed.

Publishers: Approaches should be made to companies who might consider taking on the financial risk of publishing. If such a company can be found, then it is likely it will be able to input on the printing and distribution.

Distribution: Checks should be made with wholesale distributors to see that the guide can be widely sold. Any restrictions operated by wholesalers as regards CCA selling direct should be checked. The

wholesalers may well indicate the kind of numbers they might anticipate moving. CCA subscribers should be asked if they will be prepared to help and to buy advance copies.

Costs: An exact ledger of estimated costs should be drawn up and a meeting held to decide whether or not to go ahead.

The end of phase one should be a final decision on how many copies to print and how much to sell them for.

Phase 2

If the decision is to proceed then a schedule should be drawn up for final preparatory work, editorial deadlines and printing and a publishing target date set.

This should be a rolling schedule in which the editorial delivery dates are phased.

A preparatory period of perhaps two months should follow in which authors and inspectors are commissioned. Any training that is going to take place should be arranged. The final short-lists of inspectors and restaurants should be drawn up.

Meetings should be organised with interested parties to discuss the merits of different restaurants and argue the criteria for inspection.

The strength of the guide is that as many people as possible be involved and invited to submit their lists. A press announcement

should be made and suggestions for inclusion invited. This should be an important media event and involve TV and radio.

The editor and the administrative secretary should be hired on contract. They would work part-time for the first two months, talking to as many people as possible.

The marketing operation should begin notifying wholesalers of dates, confirming promises of sales and orders should be taken. If a publisher has been found, this would probably be part of his or her role.

Inspection forms and report forms should be printed and final decisions taken on the exact contents.

Phase 3

For the next two months the guide will be compiled. The editor and administrative secretary will work full-time. Inspections will take place. Entries will be compiled at a steady rate of six a day. The role of the editor is to write all the entries. The commissioned articles will be chased up, checked, edited and prepared for the printers. The entries should detail how to find the restaurants; any places of interest nearby; give an idea of the scope of the menu; pin-point any areas of special interest; assess the cooking; the ingredients and service; and aim to give a true reflection of the flavour of the place.

Telephone numbers will need to be checked.

The assumption is an office of two paid people (editor and administrative secretary), backed up by volunteer workers from the

CCA committee and staff. It is also assumed that the CCA will provide office accommodation.

The following table is worked out to be filled in according to estimates received.

EDITORIAL COSTS

150 Inspectors x £9	£ 1,350
Phone calls x 600	£
Printing inspections	£
Forms x 500 (photocopy)	£
Design	£
Map and map printing	£
Symbols	£
Cover illustration	£
Stationery for GFG	£
Editor's fee (Total 3 months work)	£
Admin sec fee (Total 4 months work)	£
Extra sec help (Total 2 weeks)	£
Miscellaneous	
Contingency	
Typesetting	
Paper	
Printing	
Warehousing	

TARGET INCOME

2,000 copies at £3 each	£ 6,000
2,000 copies at £6 each	(£12,000)
Minus wholesalers discount at	£XX,XXX
	<hr/>
Total	£XX,X00

N.B: These figures set out what would seem to be a reasonable financial base to be assessed. They are only estimates but seem to set a financial target.

MARKETING

Thought needs to be given as to how the guide will be sold. If the marketing cannot be handled by CCA and existing wholesalers, then it may be necessary to appoint a sales manager. It would be extremely advantageous if this could be handled by the CCA committee.

■ FINANCIAL INCENTIVES

The Cyprus Industrial Strategy

Report on incentives for promotion of innovative activities

John Bessant

1989

Incentives for the promotion of innovative activities

Summary

This report examines the present system of incentives for the promotion of innovative activities in Cyprus, and explores alternative options for providing incentives to Cypriot industry to move towards the goals of the Industrial Strategy. It begins by critically reviewing the framework of tax allowances (including the proposed tax reforms) and loan guarantees and makes a number of proposals regarding further changes in these areas. From there it considers alternative ways which have been used in other countries to promote innovation as a strategic national goal within manufacturing industry and develops some proposals for the setting up and operation of such a scheme in Cyprus.

The principal recommendation is the establishment for a three year trial period of an Innovation Promotion Scheme located within the Industrial Restructuring Council. This would be responsible, through an Innovation Support Unit, for the operation of four schemes aimed at offering consultancy advice and assistance to firms wishing to develop capabilities in the areas of design, marketing and export, manufacturing systems and business and organisational development.

1.0 Introduction

This project is primarily concerned with identifying and reviewing existing incentive schemes for promoting innovation along the lines of the Cyprus Industrial Strategy and with proposing alterations to those schemes or alternative models which could be implemented in support of those strategic goals.

1.1 Terms of reference

The terms of reference for the project were as follows:

"One of the principal recommendations of the Cyprus Industrial Strategy was that a review be undertaken of the current fiscal incentives. The issues were twofold:

- (a) the need to shift the balance of incentives from hardware (fixed investment) to software (design, management, skill training, marketing, quality control);
- (b) the need to establish funds for direct assistance in place of tax concessions which have proved to be a blunt instrument in an economy where many companies pay little if any tax.

The Ministry of Finance have now set up an interdepartmental committee on tax incentives and have requested assistance from abroad from somebody who has experience of revising incentive schemes along the above lines. They have requested a two week mission whose object would be to study the existing system of financial incentives and make recommendations for its revision in order to promote the objectives of economic restructuring and technological upgrading in a more effective and cost efficient way".

1.2 Sources of information

During the field work for this report interviews were held with a wide variety of people in government and other agencies. These included the Ministries of Finance and of Commerce and Industry, the Planning Bureau, the Industrial Training Authority, the Employers' Federation, the Chamber of Commerce and Industry, the Cyprus Development Bank and the UNDP. Details of these interviews are given in appendix 1.

2.0 Existing financial incentives and their limitations

2.1: The existing system

Although there is a wide range of tax allowances and incentives within the Cypriot economy, these have not proved particularly successful. In particular several weaknesses exist within the present system which makes it inefficient in terms of promoting industrial renewal and change.

- first is the problem of tax evasion and avoidance. According to figures from the Ministry of Finance the number of firms actually filing tax returns may represent only 30% -40% of the total industrial population. Thus any scheme which tries to operate through the tax system can only address a small part of the industrial base. Even for those firms which do file tax returns, many - again, around 30% - regularly declare losses and thus are exempt from paying taxes. The provision for carrying forward losses from year to year on a rolling basis has undoubtedly contributed to this. The pattern is one where few firms are paying tax and thus incentives for change linked to relief from paying taxes is unlikely to have any great effect.

- a further consequence of this problem of tax avoidance/evasion is that firms may be encouraged to spend on plant and equipment simply to ensure that they make a loss and thus avoid having to pay tax. This means that there is little selectivity in the types of investment made - and indeed, that there may be a bias towards big , expensive and possibly inappropriate investments since the prime purpose of the investment is not to improve capability but to register a loss for tax purposes. The scheme thus encourages the over-buying of machinery, not innovation.

- emphasis is given in the present allowances to investments in hardware rather than software or organisational upgrading and development. Since the industrial strategy identifies such disembodied technological changes - such as upgrading of design or

quality management skills as important for the future - it is questionable how far tax incentives based on allowances for fixed capital investment will help in this process.

- there is a relative lack of differentiation in the existing schemes. Although some attempts (for example for the tourism or mining sectors) have been made to target particular industry groups there is relatively little selectivity either in terms of industrial sectors or in promoting particular types of technological change.

- even those schemes which are targeted towards innovative activities - such as the New Products scheme - do not have a high rate of take-up. (According to the Ministry of Finance only 4 applications were made under this scheme in 1987).

2.2 Proposed reforms

Recognition that the present arrangements are in need of an overhaul has led to the setting up, under the auspices of the Ministry of Finance, of an interdepartmental committee with the remit to propose improvements to the existing fiscal measures. This group includes representatives from the Ministry of Commerce and Industry, the Central Bank and the Planning Bureau.

Table 1 sets out the main changes proposed by the committee.

Table 1: Existing fiscal incentives and proposed changes

Existing schemes

Proposed changes

(1) New products scheme

Simple, easy access scheme available for all investment directly related to new products (as defined in the tax guide). The incentive involves a 10 year tax holiday on profits arising from sales of the new product. It is available to new and existing businesses introducing new products.

Retain the scheme but increase the minimum investment to £1m (from £100,000) and abolish the requirement for 35% value added.

Comment: Although conceived as a simple scheme which would encourage product innovation, the scheme has been little used (only 4 cases in 1987, according to the Ministry of Finance). Its re-assessment is recommended. Of particular concern is the plan to drop the 35% value added requirement since this effectively opens up the possibility of encouraging foreign investment in 'screwdriver' plants - that is, facilities which exploit local advantages but which contribute little to the industrial base and do not encourage innovation. Whilst such an approach might make sense in terms of job creation for countries with high unemployment, it is questionable whether such an approach is appropriate for Cypriot conditions which involve a serious labour shortage. Since the minimum investment has

now been raised to £1m the attempt appears to be to attract such overseas investors rather than smaller local firms. Giving firms a 10 year tax holiday, during which period most inputs would be imported and outputs exported, effectively makes this proposal little more than the creation of a tax haven for foreign manufacturers - a strategy being pursued widely by other countries and at odds with the basic strategy outlined for Cyprus of development through 'flexible specialisation'.

(2) Incentives to encourage investment in fixed assets.

Allowances on capital investment with preferential rates for 'public' companies

Distinction between 'public' and 'private' abolished but a new distinction drawn between individual firms and consortia.

Scale of allowances was:

New allowances proposed:

Plant/machinery 45% public
30% private

Plant/machinery
30% consortia
20% individual

Industrial buildings 30% public
20% private

Buildings
20% consortia
10% individual

Other buildings 15% public
10% private

Allowances abolished

In addition to the above allowances, firms also have the option of immediate depreciation - thus firms can deduct capital expenditure from income in the year in which it is incurred. Potentially this extends the tax allowance to 120% on fixed assets.

Scheme retained

Losses could be carried forward for an indefinite number of years and thus reduce tax payable. Very widely used - around 30% of all firms submitting returns in 1987 declared losses

Five year horizon imposed on such carrying forward

Allowances only for fixed assets

Extend allowances to certain items of current expenditure such as market or product research, training, etc. Allowances equivalent to 30% of this additional expenditure

Allowances for 'other buildings' abolished and loopholes (such as cars) closed.

Sector specific schemes operate for the tourism and mining industries.

In mining these include allowances for all investment including administration and licence/land purchase and 130% allowance on abortive exploration

Retained unchanged

In tourism the allowances varied by region and star rating

These allowances will be abolished except for 2 categories - 'mountain resorts' (25%) and 'tourist villages' (a new development) (40%)

Comment: this was one of the most widely used group of incentives; in 1987 allowances of around £20m were granted to over 5000 firms (approximately 60% of all firms filing returns). Its main weaknesses were that it supported investments in fixed assets and did not differentiate adequately between types of investment - for example, between a tractor or a computer. Thus there was probably some misuse of the scheme (for example, to help pay for cars and houses) and some 'over-buying' of machinery in order to secure tax relief rather than to innovate.

There are a number of elements in the proposed reforms which are attractive, including the extension to cover items of current as well as capital expenditure. This opens up incentives in areas which the industrial strategy wishes to encourage - such as upgrading of skills through training, and of expertise in areas like market and product research.

In addition to this the tightening up on tax avoidance loopholes - such as the abolition of certain categories of relief and the imposition of a 5 year horizon on carrying forward losses - may help to make the system more watertight and reduce the losses of revenue to the state.

The shift towards differential support for consortia is particularly welcome although the extent of this differential could be widened - from 10% to 20% - to give a clear signal regarding the desirability of establishing such co-operative networks.

(3) Duties and tariffs

The provisional agreement on a Customs Union between the EEC and Cyprus covers 80% of imports and provides for reductions in protective barriers over a 10 year period. There are significant

exceptions to this - the Cyprus Industrial Strategy estimated that some 50% of industrial output lies outside the potential impact of the Customs Union - but the overall pattern will be one of major change. Two areas should be highlighted in the context of incentives.

Duty free importation of capital goods	The likely effect here will be to reduce the need for such an incentive since most items of capital equipment will no longer be subject to import duties under the terms of the Customs Union agreement.
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Protective tariffs on imported products	The effect of reducing and eliminating these will be to expose many sectors of Cypriot industry to much higher levels of competition. (Detailed assessments of the potential impacts are contained in the Cyprus Industrial Strategy, chapter 2). Insofar as this may force firms to adopt a more progressive approach to achieve and maintain a competitive edge, this can be seen as a spur - if not an incentive - to innovation.
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Comment: the Customs Union agreement requires the gradual dismantling of the existing framework of tariff barriers. Apart from the net loss of revenue which this implies (which will, it is anticipated, be offset by the

introduction of VAT) this also puts some pressure on Cypriot manufacturers to become more efficient in the use of raw materials and capital equipment which they import and to offer more competitive products which they export. Thus a consequence - or at least a by-product - will be to endorse the main directions of the industrial strategy - to promote better use of inventory and assets and to improve the design, quality and other competitive characteristics of products sold.

(4) Tax incentives to encourage mergers

Abolished

(5) Special tax incentives for public companies

Definition of public company was:

New definitions:

- | | |
|---|--|
| <ul style="list-style-type: none"> - 200 employees - no holding over 40% of shares (except the State) - major shareholders (those holding 10% or more of shares) can not hold more than 70% of all the shares - issued, paid-up capital of £300,000 | <ul style="list-style-type: none"> - 800 employees - reduced to 15% - reduced to 8% holding - increased to £1m |
|---|--|

Shareholders in such public companies paid no tax on first £600 of dividends/year

- increased to £1200

Additional income tax concessions	- Affected by new income tax rates
Reduced income tax included those public companies formed by merger	- Retained but no longer applicable to those companies formed by merger

Comment: these measures are designed to promote a wider degree of share ownership and to encourage participation. In particular the elimination of the concession to companies formed by merger represents closing of a tax loophole whereby companies merged in order to qualify for 'public company' status and thus secure tax breaks.

(6) Special incentives for exports

Income tax concession - 6% of foreign exchange earned is tax free	Abolished, replaced with a scheme whereby 50% of all income is charged at half rate.
Import duty relief on raw materials	Will gradually be eliminated as part of the Customs Union requirement
Tax incentives to promote exports of services. 60% of profits and all foreign exchange earnings are tax free.	60% charged at half new tax rate
90% of profits/dividends from overseas businesses controlled by Cypriots is tax free	90% at half rate,

Comment: the shift in import duty relief is likely to bring more pressure to bear on Cypriot manufacturers to adopt inventory management improvement innovations and this is one more useful push in the right direction. However, the incentives to exporters is not a widely used scheme - only 290 firms used the income tax concession in 1987.

(7) Other incentives

- | | |
|--|--|
| (i) Tax allowances for patenting and other R and D expenditure | Extended to cover other forms of current expenditure |
| (ii) Tax allowances for revenue from royalties, fees, etc | |
| (iii) Wear and tear allowance on fixed assets - normal depreciation using 'straight line' method | Retained |
| (iv) Head office expenses allowance | Limited to 3% of turnover |

Comment: these represent a variety of incentives not explicitly covered in the preceding discussion. In general they extend the reform principles - for example, by closing the loophole on 'head office' expenses or by retaining the allowances on R and D related current expenditure. Significantly the wear and tear allowance is the most popular form of incentive - most firms take advantage of this - which supports the view that the main thrust of tax incentives is to promote investments in hardware and fixed assets.

2.3: General comments on the proposed reforms

The broad strategy proposed attempts to shift the basis of taxation from income tax to corporation tax and VAT. In addition a number of the key loopholes in the present system which permitted tax evasion are addressed. However, in terms of innovation support the emphasis is still on general schemes which operate on the basis of some form of tax allowance.

A number of general comments on these proposals can be made. The first is to question whether the proposals are radical enough - they still emphasise tax allowances as the main vehicle for giving incentives and whilst closing some loopholes they do not give a clear signal about new directions. Incentives based on accounts and tax returns will primarily encourage innovation in those areas within industrial firms - rather than in developing their capability as manufacturers.

A second point concerns the extent to which schemes with low levels of utilisation are retained. From figures provided by the Ministry of Finance it appears that most firms used a small number of incentives - 78% of all usage being accounted for by three schemes. There is clearly a case for further simplification and elimination of schemes which have low take-up.

One interesting new proposal aimed at the problem of tax avoidance/ evasion, is the introduction of what amounts to a 'tax on incentives' of 10%. This is to ensure that firms which receive incentives pay at least some element of tax - as opposed to the old system in which it was possible to qualify for incentives but also to declare a loss and thus end up paying no tax during a fiscal year. This tightening up is to be welcomed.

In the general thrust of the reform proposals there will be an effective cut in the overall allowances for fixed capital investment and in income tax. This might have the effect of shifting the incentive to firms for investments in fixed capital to labour, particularly since the cut in income tax could be expected to work its way through to the wage level, thus making it cheaper to employ labour. It is difficult to assess the extent to which this may happen in Cyprus - not least because of the (as yet unknown) effect of introducing VAT which may offset the cut in income tax. But in general this shift in emphasis is to be welcomed since it stresses the idea that investments in people rather than fixed capital are an important component of the key innovations outlined in the industrial strategy.

The reductions proposed in the exemptions from import duties are valuable since they imply promotion of inventory saving innovations such as 'just-in-time' manufacturing. Traditional tariff arrangements have been designed to make inputs (of machinery, raw materials, etc.) cheap and protect final product sales but there is a case for reversing this balance and encouraging more efficient management of materials. (To some extent there is already pressure on Cypriot manufacturers since imported materials are a high cost item - but the example of Japan in inventory management is an object lesson in the value of such approaches).

Another encouraging development is the extension of allowances to some items of current expenditure rather than solely to capital. This means that incentives can be given to various items of 'software' - training, market research, Research and Development, etc. - again, recognizing the importance of these innovations in the industrial strategy.

Finally the encouragement of consortia through the incentive schemes is to be welcomed. Since the strategy emphasises strongly the importance of networking and co-operation between firms, it follows that incentives to facilitate such co-operation are needed. Clearly

the formation of such consortia needs to be monitored (in order not to create another tax loophole for 'false' consortia set up for the purposes of obtaining greater tax relief). The question remains of the extent to which consortia are favoured over individual firms - and whether the proposed 10% differential should not be widened.

2.4: Guarantee schemes

In addition to the tax incentive schemes described above there are also four government-backed loan guarantee schemes in operation. These are:

- (i) export credit guarantee, in which companies with firm orders for exports can obtain guarantees against late or non-payment by the customer;
- (ii) working capital loan guarantees, related again to firm export orders. This covers the case of a manufacturer who needs to borrow working capital in order to set up in production to fulfil the order and is essentially a form of bridging finance;
- (iii) guarantees to 'reactivate' displaced people, a specialist scheme which was originally set up to facilitate the restarting of businesses by displaced Cypriots. The scheme is not sector or investment type specific and still has a small level of use, 14 years after it was set up;
- (iv) a General guarantee scheme, in which government guarantees loans for projects primarily in the area of manufacturing.

In considering incentives to promote innovation, it is this last scheme which is of interest. It is a complex scheme which requires the entrepreneur to approach his bank who will in turn approach the Ministry of Commerce and Industry. An advisory committee (with representatives of that ministry together with Finance, the Central Bank and the Planning Bureau) will look at a feasibility study, make a judgement and, if approved, the Ministry of Finance will offer the

bank a guarantee. The scheme was originally set up just after the events of 1974 and it is acknowledged that in its early years of operation it had rather loose criteria regarding projects which were guaranteed. This has now been tightened up extensively and approval rates are now much lower, both in terms of number of applications and of costs.

The scheme in its present form has little impact since it guarantees small sums to a tiny number of applicants; during the four months prior to January 1989 there have been only two applications and one approval. It is also questionable at a time of high liquidity in the commercial banking sector whether there is a need for further guarantees of this form. The biggest criticism is the enormous amount of administrative time and energy which has to be expended in managing a scheme which one civil servant described as 'moribund and dying'. The problem is exacerbated by a large backlog of outstanding claims from the mid 1970s, few of which have been settled. Since there is considerable ambiguity about responsibilities, obtaining payment against these guarantees is a matter for court proceedings and consequently the commercial banks are reluctant to lend further under this scheme - a factor contributing to the reducing level of applications.

From this it is clear that the scheme either needs a major overhaul or else complete closure.

In considering the case for closure it is useful to reflect on the conditions under which guarantee schemes might be needed. There are three main reasons for their introduction:

- (i) when there is a shortage of direct public finance for particular projects or strategic goals (such funding becoming, in effect, geared up through bank loans);
- (ii) where the banking sector is reluctant to lend;

(iii) where the government wishes to provide specific incentives to particular groups of individuals or firms.

With respect to (i), where major national investments are contemplated - such as setting up a 'strategic industry fund' - then some form of loan guarantee might be appropriate as a way of mobilising the high liquidity in the commercial banking sector towards these targets. There are alternative mechanisms for providing such strategic investment support, however - for example, by channelling EEC funds through the Cyprus Development Bank. In the second case, the high liquidity in the commercial banking sector makes it difficult to justify offering government guarantees. Any reluctance to lend under these conditions reflects too high a degree of risk aversion on the part of the banks; government guarantees would simply increase their insulation from such risks.

Where government is concerned to promote the goals of the industrial strategy at the level of the individual firm a case can be made for loan guarantees. However, much of the investment required for this involves organisational development and training rather than new equipment and is unlikely to require major inputs of capital - or justify offering a loan guarantee.

An alternative to government guarantees is the idea of consortium guarantees - an approach which has met with success in Italy. In this arrangement it is the consortium which assesses the applications for funding and agrees to guarantee the loan from the bank. The record of such schemes is of high percentage of repayments and of low calls on the guarantees - in other words, a more effective system. For example, in Modena a consortium of 500 members operates such a scheme offering 25% working capital guarantees for short-term (up to 18 months) periods and the loans are offered at 2% below the commercial rate. The requests for guarantees are vetted by a panel of 17 members of the consortium. Failure rates for normal bank loans are

approximately 7% but the comparable record of consortia-guaranteed loans is 0.08%.

There are several features of such schemes which give them advantages over traditional government guarantees:

- first, judgements about the viability of the project are made by senior members of the consortium in the light of considerable experience and knowledge of the sector and the type of business. Such assessment in-depth would not be available to bank managers or to civil servants administering a guarantee scheme;
- there is much greater peer group pressure to repay the loan since the guarantee is being given by friends and colleagues rather than by the state.

2.5: Other possible incentives

So far we have considered tax allowances and loan guarantees. There are of course, other mechanisms whereby government can seek to influence the rate and direction of industrial activity. One of particular potential in the Cypriot context is the structure of regulatory and protective barriers which could be used selectively to promote particular kinds of activity. One example is the use of tariffs and quotas such as in the furniture industry. All Cypriot firms are required to purchase their wood from intermediary wholesalers rather than direct from Cyprus Forest Industries. However, the consortium A to Z have successfully applied to the Ministry of Commerce and Industry to buy directly from CFI and in doing so have secured a 15% raw material price advantage on the grounds that this is support for a consortium rather than individual firms. Such selective application of restraints (or even their complete suspension) in favour of consortia - or in support of other policy objectives - can be a powerful incentive to change. Examples of other kinds of regulation which could be used in this way might include: TV advertising, export duties, ITA support and so on. The

important point is that this approach offers a more selective way of targeting incentives at particular sectors, groups or policy objectives. It also has the advantage that the costs need not be borne by the government but by an agent benefiting from a monopoly position - such as the wood distributors in the CFI case above.

3.0 Alternative innovation promotion schemes

Most of the measures described above represent traditional types of incentive and can be found in most industrialised countries in some form. They emphasise financial criteria and are often general rather than specific in their focus- something of a blunt policy instrument. However it is increasingly recognized that some kinds of industrial innovation - such as that required in the Cyprus industrial strategy - may be less sensitive to this type of generalised scheme which essentially operates by altering relative prices, whether by the tax, tariff or other system. Rather the need is for a blend of information, advice and support to the organisation in its learning to make better use of new technological and market opportunities. Only when in possession of this information can the industrialist really make effective judgements about particular investments and their costs.

In particular, bridging the gap - between incremental, substitution innovation aimed at 'doing what we've always done a little better' and more radical innovations aimed at improving flexibility and agility within the firm - may need alternative incentives.

This alternative approach characterises a number of policy initiatives which grew up in Europe during the late 1970s and early 1980s in support of major technological changes such as microelectronics. Here it was recognized that a strategic challenge lay in adopting these technologies as rapidly and as effectively as possible - but at the same time it was also recognized that such technologies lay outside the range of experience of all but the largest and most technologically sophisticated firms. There was a significant gap - in skills, in awareness of particular opportunities for applying the technology, in project management and so on. This prompted a shift away from direct support (by loans, grants, etc.) for investment in fixed assets to programmes which encouraged awareness raising and exploration, and provided a variety of advice

and consultancy input as a pre-requisite for investment decision-making.

Schemes of this kind have been operating for around 10 years and have been the subject of a variety of monitoring and evaluation exercises. It will be useful to review their effectiveness in promoting innovation of the kinds required in the Cyprus industrial strategy.

Most schemes have four basic components:

- (i) a general scheme for promoting awareness of new technological opportunities and for publicising the strategic challenges and the need to change;
- (ii) a process of what can be termed 'innovation consultancy', whereby the individual firm becomes aware of the specific opportunities for applying this technology in its particular context. This involves a process of auditing and analysis within the firm and is often facilitated by an external agent who plays a role analogous to a general family practitioner in the medical world;
- (iii) a process of specialist consultancy, in which opportunities identified in stage (ii) above can be explored systematically in the context of a feasibility study. This results in the generation of useful and specific information on which to base decision-making about future investments in new technological areas. It is carried out by specialist consultants - extending the medical analogy above, these would correspond to the hospital specialists able to provide detailed diagnosis and treatment;
- (iv) some form of investment assistance for hardware and 'software' including training, skills acquisition and organisational development. Justification for such support is derived from the general and specific information collected in stages (ii) and (iii) of the above process.

Such schemes have been demonstrably effective in :

- promoting the adoption of new technologies across the economy as a whole and particularly in those sectors or firm size brackets where innovation might otherwise have proceeded only in limited form;
- promoting the adoption of particular types of technology or application (including 'soft' technologies such as design or quality management);
- mobilising national resources on the supply side, able to provide the variety of consultancy skills needed for specialist and generalist advice.

Although such schemes often include some form of grant, loan or other incentive of a financial nature, the main policy intervention has been to focus much more attention on the awareness and exploration stage of the innovation process. That is, they are concerned with helping develop both general and firm-specific awareness about threats and opportunities in the technical and market environment, with identifying opportunities for exploiting new technology in the context of the existing business, and in establishing a strategic framework (highlighting priorities, long term development of technical capacity, skills acquisition, etc.) in which such innovation can take place.

It will be useful to look briefly at each of these stages in terms of their aims and the mechanisms whereby they have been implemented in practice.

(i) Awareness raising

Aim - the creation of a climate in which - in a general (not firm-specific) sense - there is an awareness of new technical and market opportunities.

Implementation - the key to this stage is publicity, using as many channels for communication as possible. This typically includes TV and radio, the popular and trade press and a range of seminars and conferences. Key actors in such programmes are employer's federations, trade and technical associations and other groups with sector-specific orientation, since they can begin to focus the information. Of particular value here is the demonstration effect and videos, case studies and other ways of showing the experience in particular firms of actually using such technology, together with an analysis of the costs and benefits and some of the implementation issues can be a powerful motivator for change. By the same token, some government programmes fund a proportion of pilot projects in which firms receive financial support for early investments in innovation in key sectors on condition that they open their doors to others who can see what can be done with the new technological opportunities. Demonstrations of this kind are powerful because they help get over the 'not invented here' problem and play on competitive behaviour between firms.

(ii) Innovation consultancy

Aim - to move the individual firm beyond a general awareness level to a point where it can see specific opportunities for development relevant to its particular situation.

Implementation - this is essentially an exercise in articulating problems, identifying opportunities and prioritising needs into a strategic framework for innovation. In this process two inputs are needed - the internal knowledge of the firm itself and the wider awareness of what potential solutions are available for dealing with these particular problems. This combination of skills in articulating and diagnosing problems and matching these to potential solutions and a network for their delivery can be termed 'innovation consultancy'. Such a generalist role - a combination of missionary, taking the gospel of new technology out to firms, and of general family doctor, diagnosing ailments and recommending particular specialist sources of treatment - is critical to the success of such schemes for innovation support.

(iii) Expert consultancy

Aim - to bring to bear expert resources and experience on the priority problems identified in the innovation consultancy phase.

Implementation - the expert operates in the traditional consultancy mode and will be drawn from the available networks in the public and private sector. The innovation consultancy process will have developed the terms of reference for such an investigation which will take the form of a detailed feasibility study looking at costs, benefits, implementation issues and so on.

(iv) Investment support

Aim - to facilitate major investment when this is beyond the scope of the firm but where it can be strategically justified (on the evidence of the reports from the innovation and expert consulting phases)

Implementation - once the needs are identified in the consultant's feasibility study the firm is in a better position to make judgements about investments. These may require purchase of hardware but may also involve acquisition of new skills, development of new organisational capabilities or fundamental re-organisation. Sources of support for such investment will vary widely and may not necessarily require government involvement. The main advantage of this approach is that qualifying criteria for support can be made more rigorous - support depends on the strategic justification arising out of the consulting process.

Figure 2, shows how such a scheme might operate.

Figure 2: Operation of an innovation promotion scheme

Funds earmarked for the scheme by relevant government ministry

Management of the scheme given to a managing agency

Agency identifies innovation consultant network

Innovation consultants visit industrial firms and 'sell' the scheme, carrying out studies within interested firms and developing an innovation strategy for them. This is outlined in a report.

On receipt of the innovation consultants report the managing agency approves the next stage of expert consultancy to carry out a feasibility study in one of the priority areas - for example, design improvement.

The firm, with assistance from the innovation consultant, the managing agency and (possibly) other specialist sources chooses an appropriate expert consultant

Expert consultant carries out feasibility study - typically 10-15 days duration -and submits a report.

On receipt of the report and confirmation that the work was completed to the satisfaction (and benefit) of the firm, the consultant is paid by the managing agency.

If the report contains proposals for further investment, these will be considered by the managing agency or referred to relevant sources of funds for further support.

Following the chronology in figure 2 it will be useful to comment on the experiences of other countries in operating innovation promotion schemes of this kind. In particular those factors which have contributed to successful operation will be highlighted.

The first point to make is that the most successful schemes have operated outside the normal civil service bureaucracy. In many cases this has involved delegation to a managing agent in the public or (occasionally) private sector. For example, the Design Advisory Service in the UK is run by the Design Council, an independent body with the overall aims of promoting design standards. Similarly, the marketing support scheme is run by the independent Institute of Marketing and the Manufacturing Systems Scheme by the Production Engineering Research Association. In the Federal Republic of Germany the administration of schemes is often given to research organisations - for example, the scheme to promote computer-aided design and manufacturing is managed by a small branch of the Nuclear Research Centre in Karlsruhe.

Within these centres the administration is usually handled by a small team - typically 2 or 3 people - and a minimum of bureaucracy in terms of controls, form-filling, etc. Clearly there are safeguards which need to apply to ensure proper use of public money, but the emphasis in successful schemes is on responsiveness. One aspect of this is the ability of the team members to deal with queries quickly, often over the telephone - a contrast to the lengthy procedures which often characterise more formal government schemes.

The identification of a network of 'innovation consultants' is another important issue. In some cases the regional networks of the relevant ministry can be mobilised but alternative sources include private sector consultancies and experienced individuals. The UK 'Enterprise Initiative' for example, includes a first stage of innovation consultancy in which 'enterprise counsellors' visit firms to identify their innovation and support needs. These consultants are drawn from a wide variety of sources but emphasis is placed on

recent industrial and management experience; age is not a barrier and many retired managers have joined the scheme.

Since the skills required for this type of consulting are essentially of a generalist nature, it also becomes possible to train innovation consultants in a fairly short time - opening up the possibility of civil servants and others undertaking this kind of role.

An important factor in the success of this stage is for the innovation consultants to visit the prospective users of the scheme; unlike other types of government aid, this approach is pro-active and does not assume that firms will make the first approach. This enables the scheme to address particular types/sizes of firm as a priority.

The typical innovation consulting process will take between 2 and 5 days, at the end of which there will be a report setting out the innovation strategy likely to be needed and some indication of priorities for further investigation. Identifying suitable expert consultants for carrying out the next stage - of detailed feasibility study - is a potential problem area since the available supply might not meet the demand for their services. In fact the experience of several schemes has been that the setting up of such consultancy-based promotion schemes has the side benefit of stimulating new service industries in the area of consultancy, encouraging a number of new businesses to be set up. For example, the UK Design Advisory Service has given a major boost to the field of design consultancy which now employs some 29,000 people.

With such an explosion of firms and individuals offering consultancy services, care needs to be taken to operate some form of quality control in order to preserve industrial confidence in the scheme. This can be achieved by setting out clear and standard terms of reference for all assignments and reports and by collecting feedback from users as to the performance of their consultants. Over time

this enables a managing agency to develop an list of 'approved' consultants from which user firms can make a selection.

4.0: A scheme for Cyprus

4.1: Outline of proposed scheme

Taking the above elements we can now outline a scheme for Cyprus with the following aims:

- to promote the goals of the industrial strategy;
- to provide selective assistance to firms in 4 key areas:
 - design
 - marketing and exporting
 - manufacturing systems (including quality)
 - business and organisation development;
- to establish a network of advice and support for firms seeking to acquire and improve capability in these areas.

Operation of this scheme involves five stages:

- (i) Awareness-raising;
- (ii) Allocation of funds to specific schemes;
- (iii) Allocation of scheme funds to specific projects;
- (iv) Execution of those projects;
- (v) Monitoring and evaluation.

- (i) **Awareness raising:** - this requires activity at two levels, one concerned with generally raising awareness about the industrial strategy and the need for change and the second concerned with the specific task of raising awareness of the scheme.

(ii) **Allocation of funds to schemes:** - the core of this proposal is the establishment of a network of innovation and specialist consultancy services, the operating costs of which would be met in part by government.

Specifically the proposals are:

(a) to establish an innovation consultancy service in which firms would be visited by trained generalist consultants who would work with them for up to five days identifying problems and opportunities and preparing an innovation strategy. The costs of this stage would be shared between the government (75%) and the firm (25%).

(b) the setting up and operation of a series of special consultancy schemes in the following areas:

- design improvement
- marketing and export
- manufacturing systems (including quality systems)
- business and organisation improvement

These would be funded on a 50% basis by the government up to a total per firm of 30 days of consultancy. Firms would be free to choose between the schemes they used up to this limit, but a minimum of five days consultancy per area would be a requirement of the scheme, in order to arrive at a sufficiently detailed feasibility study. In the case of consortia there would be no constraint on their pooling their allocation of 30 days/firm so as to enable a major consultancy programme within the consortium.

The Cyprus Industrial Strategy suggested the establishment of 8 special funds; this proposal incorporates six of those under the umbrella of a general innovation promotion scheme with the above four strands of support. The main differences are, first, that all these

schemes are managed within the innovation support programme rather than as the separate agencies indicated in the original CIS document. And second, that the funds are primarily available for advice and consultancy, to promote the exploration and learning elements of the innovation process.

In parallel with these schemes the process of training needs identification and general consultancy in the area of skills and labour which the Industrial Training Authority has begun to operate would also be taking place so that a fifth area of support would be available.

On this basis the correspondence between the original proposals in the CIS document and the present proposals are as follows:

CIS proposals (as set out on p265)	Current proposals
Design improvement fund	Design improvement scheme
Management consultancy fund	Business and organisation improvement scheme
Management equipment fund	Business and organisation improvement scheme
Productivity improvement fund	Manufacturing systems scheme
Technology equipment fund	Manufacturing systems scheme
Export promotion fund	Marketing and export improvement scheme

Although it could be argued that R and D support ought also to be included within this scheme it is suggested that:

- (a) much of the activity under the broad heading 'R and D' corresponds to design and development work and would be covered within the proposed design improvement scheme
- (b) the present system of tax allowances provides some incentives for R and D activity in the form of relief for current expenditures and offsets for patenting and related activity.

(iii) Allocation of scheme funds to particular projects: - the major task in operating such a programme lies in the administration of the schemes, allocating funds to specific projects and maintaining an overall management role in the subsequent execution process. Experience in other countries indicates that it is this stage which is crucial to the success or failure of innovation support schemes of this kind. In particular, there are several key requirements:

- management should be in the hands of a small team with full-time responsibility for administering the schemes;
- this team should not be located within an established part of the administrative bureaucracy, but should be seen as a separate unit, working normal business hours and providing a service;
- the team should be pro-active in mode of operation, actively 'selling' the schemes rather than waiting for firms to approach them. This is particularly important if the schemes are to reach smaller firms;
- the team should be highly responsive. Enquiries should be dealt with rapidly and, if possible, by direct telephone communication or personal visit, rather than by post;
- paperwork should be cut to the minimum necessary to ensure effective administration of the scheme. Simple forms for

application and project reporting are important in attracting firms to use the schemes.

(iv) **Execution of projects:** the responsibility for carrying out innovation consultancy and specialist consultancy work will be with professional consultants and organisations. They will be expected to work to standard terms of reference set out by the management team which define clearly the extent of the work which they will be required to do in each firm. Reports - in the case of innovation consultancy, on innovation strategy and in the case of specialist consultancy, a feasibility study - should be made to both the firm and the management team and must contain a minimum specified level of detail. Payment of fees will be dependent on the submission of satisfactory reports.

(v) **Monitoring and evaluation :** - it is clearly important in a scheme of this kind that care is taken to ensure probity and integrity in all aspects of its administration and operation. It is therefore proposed to establish a number of specific monitoring and evaluation procedures, and to use the services of an outside expert consultant to assist in setting them up and in developing them during the early months of the scheme's operation.

Monitoring of the scheme will initially take place in several ways:

(i) the innovation consultants involved in the initial stages of the innovation process will remain involved with the firms during the later expert consultancy phase and payments will only be approved when the innovation consultant agrees that the feasibility study report successfully addresses the strategic innovation needs of the firm.

- (ii) records will be kept on the performance of all consultants working with the scheme and those which repeatedly fail to meet the required standards of quality will be excluded from future work under the scheme
- (iii) the scheme itself will be monitored every six months by an external agency for a one week period, and this agency will report back to the Industrial Restructuring Council.
- (iv) a complaints file will be compiled for firms which are dissatisfied with the workings of the system or the decisions made. Rather than allow the firms to take these complaints up with higher authorities within the government system, the arbiter - in effect their Ombudsman - will be the external consultant involved in monitoring the scheme (under (ii) above).

4.2: Operation of the scheme

Figure 3 sets out the proposed location and operation of the scheme for Cyprus. The scheme would operate for an initial trial period of three years, at the end of which it would be evaluated in terms of its efficient operation and its contribution to meeting the objectives of the Industrial Strategy.

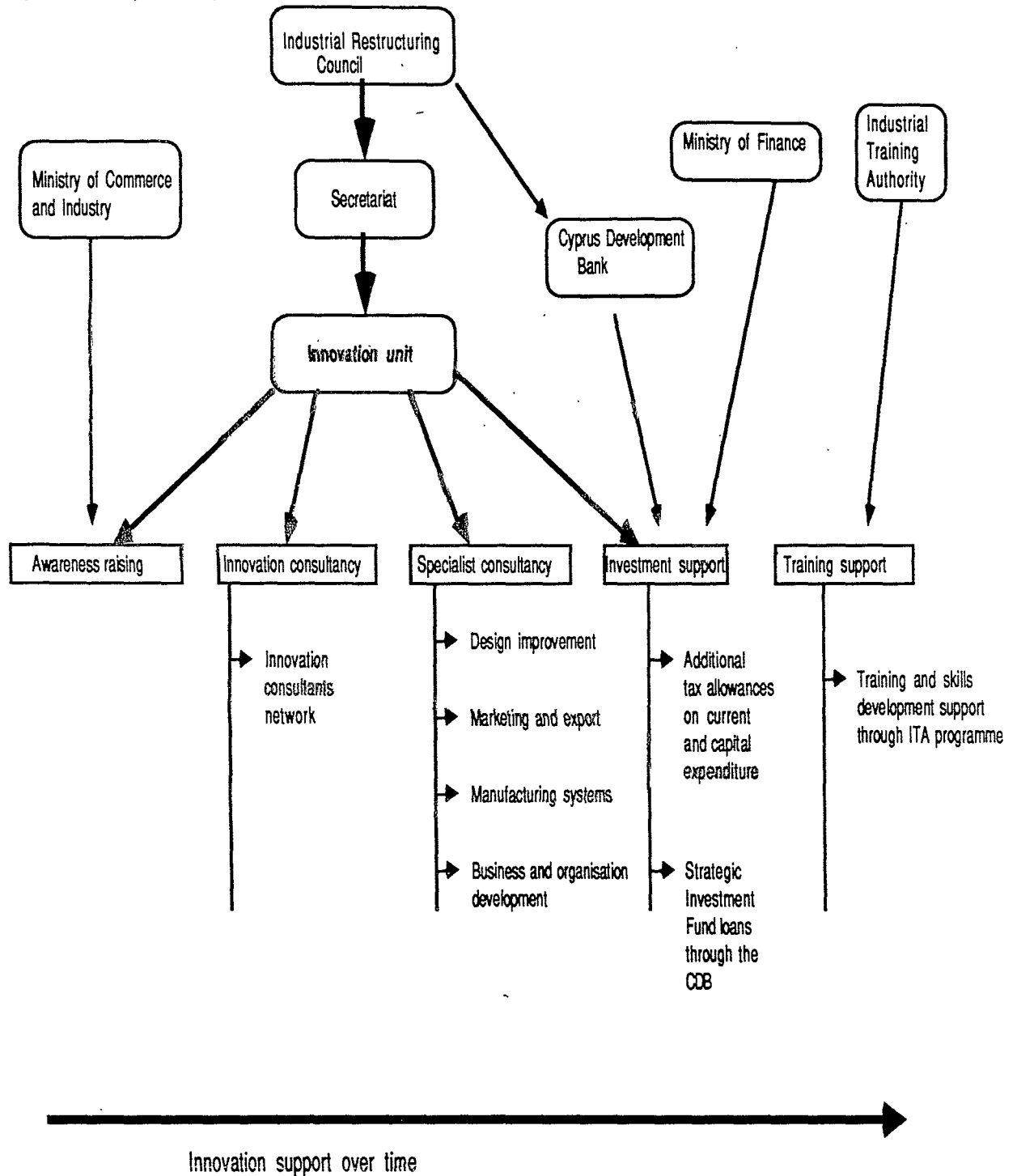
The key points are summarised below:

- (i) the scheme will be located within the Industrial Restructuring Council, using money allocated from the Ministry of Finance to the IRC;
- (ii) within the IRC an Innovation Support Unit (ISU) will be set up with a full-time staff of three. This unit will report directly to the Secretariat of the IRC;

- (iii) funds will be allocated to this ISU from the IRC to establish four innovation promotion schemes. These will cover design, marketing and export, manufacturing systems and business and organisational development;
- (iv) funds will also be made available in the same way to establish an Innovation Consultancy service and to promote awareness of the schemes in the industrial community;
- (v) one member of the staff of ISU will be charged with awareness raising and will work closely with the Ministry of Commerce and Industry, co-ordinating activities aimed at publicising the schemes with those promoting the Cyprus Industrial Strategy in more general terms;
- (vi) the remaining two staff members in the ISU will be responsible for the day-to-day administration of the innovation consultancy and specialist consultancy schemes;
- (vii) it is recognized that specialist knowledge will be required to help in identifying and selecting consultants and in vetting the results of any work. Consequently it is proposed that relevant agencies - both existing and those likely to emerge - be used in this advisory capacity. (Examples would include the proposed Design College for the design scheme, the Export Promotion Organisation for the export and marketing scheme and the Cyprus Productivity Centre for the Manufacturing systems scheme).
- (viii) the outputs of the innovation consultancy scheme will lead to requests for further specialist consultancy work to explore key innovation issues. The ISU will be responsible for approving this work within the conditions of the scheme;
- (ix) the outputs of the specialist consultancy phase may lead to proposals which require some form of investment support. The ISU will provide the reports from both the innovation consultancy study and the specialist feasibility study to

those bodies which may be able to offer some form of investment support - for example, the Cyprus Development Bank.

Figure 3: Proposed operation



4.3: Further investment support

The proposals described above provide support for exploring and learning about opportunities for improvement through technical and organisational innovation. It is recognized that these will often lead to specific requirements for investment of various kinds, some of which may be an appropriate target for further support from government or other sources. However, the decisions about whether or not to support a firm can be made in the light of a much more detailed level of information (obtained through the feasibility study consultancy) than would normally be the case.

Specifically:

- where the investment involves acquiring or developing new skills, the ITA will already have been involved in a training needs analysis and their conclusions will be backed up by the reports from this programme. Funding of expert consultants for long-term skills transfer or for specific training courses etc will normally be available through the ITA.
- where the requirement is for reorganisation - for example, in setting up a just-in-time system or creating a design department - then the firm may qualify for an additional tax allowance on current expenditure. At present such investments attract a total of 130% tax relief and it is proposed that this be extended to 150% to provide an incentive to firms to innovate in this direction.
- where the requirement is for an investment in hardware, this should qualify for an additional 10% tax allowance on the capital investment - i.e. extending this from 20% to 30%

Clearly such a system needs protection from abuse (such as firms using it to try and avoid paying tax rather than to innovate). Consequently such allowances will only be available against a

certificate issued by the Secretariat of the IRC through the managing agents for the scheme.

- where the proposed investment exceeds that which might normally be made by an individual firm or consortium a case could be made for some form of special loan through a Strategic Industry Fund managed by the CDB with a budget of £1m/year for such major projects. The same procedure - of initial feasibility study, expert consultancy and finally application for a strategic loan could also be applied for consortia projects such as the setting up of resource centres to support key sectors.

4.4: Setting up the scheme - training

One of the main advantages of a scheme of this kind is that it is a pluralistic model, encouraging the emergence of actors and networks and stimulating/catalysing entrepreneurial behaviour and creative problem-solving. This orientation needs to be reflected in the administration and management which should be seen as agile, responsive and adaptive.

There are several key skills which will be essential for the effective operation of this scheme. Accordingly it is proposed that a training programme be established for the three full-time staff of the ISU with the following elements:

- familiarisation with key new technologies and techniques;
- understanding the process of innovation consultancy;
- familiarisation with the operation of similar consultancy support schemes in other countries;
- training in monitoring and evaluation procedures.

This would involve several elements including visits abroad to study other programmes, intensive training and assistance from an expert

consultant in the setting up and development of monitoring procedures and a 1-2 week training course aimed at familiarisation with technologies and consultancy skills.

4.5: Setting up the scheme - consultants

It is recognized that one of the primary requirements for the effective operation of the schemes will be the availability of suitably skilled and experienced consultants. Although there is a small pool of such expertise in Cyprus and this can be further expanded and developed via suitable training, it will be necessary to bring in expertise from abroad in the short term. In addition the ISU personnel will have an important role to play in establishing contacts with sources of available consulting expertise both in Cyprus and abroad, and will need to be supported in travelling and related activities aimed at establishing such a network.

Experience in other countries has shown the importance of developing some form of register of approved consultants backed up by an active quality control process. Unless firms can be reassured that they are making their selection from a pool of established and professional consultants capable of assisting them, the schemes are unlikely to succeed. Therefore it is proposed that one task of the ISU is to develop such a register and to monitor closely the performance of consultants in carrying out work under the scheme.

4.6: Setting up the scheme - timing

The scheme is to operate for an initial three year trial period, after which it will be evaluated and its performances assessed. A proposed time-scale for its setting up and operation is given below:

(Assume decision taken in June, 1989 to proceed with setting up the scheme)

July to December, 1989	Establishing team Staff training Development of monitoring procedures Consulting network building Awareness raising and identification of pilot sites
January to June 1990	50 firms supported External monitoring exercise
July 1990 to December 1990	50 firms supported
January 1991 to December 1991	200 firms supported External monitoring exercise
January 1992 to December 1992	250 firms supported Final monitoring and evaluation Performance assessment

4.7: Setting up the scheme - costs

On the assumption of an average cost/day of an innovation consultant of £150/day and of an expert consultant (assuming many will need to come from abroad) of £300/day, the approximate costs of setting up such a scheme for a three year period would be £3m, including the salaries and operating costs of the ISU staff. This would provide support for a total of 550 firms.

This is based on the following formula:

5 days innovation consultancy support @ 75% of cost

Year 1	100 firms	Total cost	£ 56,250
Year 2	200 firms		£112,500
Year 3	250 firms		£140,625

30 days specialist consultancy @ 50% of cost

Year 1	100 firms	Total cost	£ 450,000
Year 2	200 firms		£ 900,000
Year 3	250 firms		£1,125,000

Total annual costs:

Year 1	£ 506,250
Year 2	£1,012,500
Year 3	£1,265,625

Total programme costs (3 years) £2, 784, 375

Plus staff salaries and running costs
for ISU over three years

5.0: Recommendations

- (1) Under the present tax allowances incentives, the New Products Scheme should be re-examined in terms of its current low level of use and also its appropriateness under conditions of labour shortage in Cyprus;
- (2) Differential support in the form of tax allowances for the establishment of consortia should be widened from 10% to 20% to give a clear signal regarding the desirability of such networks;
- (3) The tax allowances schemes should be further simplified and those with a low rate of take up should be abolished;
- (4) The General Guarantee Scheme under which the government offers loan guarantees to firms should be abolished since it has a low level of use and is costly to administer;
- (5) As an alternative the concept of 'consortium' guarantees should be explored further;
- (6) Use of the existing regulatory system should be explored further as a possible alternative to direct financial incentives for innovation or for establishing consortia;

(7) An Innovation Promotion Scheme should be established for a trial period of three years, after which it will be evaluated and its performance and operating mechanisms assessed. This Scheme should be located in the Industrial Restructuring Council and will have the following aims:

- to promote the goals of the industrial strategy;
- to provide selective assistance to firms in 4 key areas:
 - design
 - marketing and exporting
 - manufacturing systems (including quality)
 - business and organisation development;
- to establish a network of advice and support for firms seeking to acquire and improve capability in these areas.

(8) Selective assistance will be offered by support schemes in the key areas listed above. Within the schemes, two kinds of support should be offered:

- innovation consultancy, up to 5 days at 75% of cost
- specialist consultancy, up to 30 days at 50% of cost

(9) In order to promote and administer such schemes, the IRC should establish an Innovation Support Unit with a full-time staff of 3.

(10) Operation of the schemes should be regularly monitored using procedures set up by an expert adviser working with the ISU. In addition the schemes should be subject to an annual monitoring review, conducted by an external agency.

(11) Training to equip the staff of the ISU and others involved in the innovation support programme should be provided.

Appendix 1: Sources of information

During the course of this brief study, interviews were held with the following people (and their colleagues), many of whom also kindly supplied documents and other supporting information:

- G. Hadjianastasiou, Ministry of Finance
- S. Kiliaris, Ministry of Finance
- E. Sofronis, Ministry of Finance
- F. Sorokos, Ministry of Finance
- J. Ioannides, Cyprus Development Bank
- Ms L. Mylona, Industrial Training Authority
- C. Constantinides, Industrial Training Authority
- P. Koutourousis, Ministry of Commerce and Industry
- A. Malaos, Planning Bureau
- P. Karis, Cyprus Chamber of Commerce and Industry
- P. Kareklas, Cyprus Employers and Industrialists Federation

■ CONSORTIA AND THE THIRD ITALY

The Cyprus Industrial Strategy

Consortia and the Third Italy

Robin Murray, Michael Best and Mario Pezzini

1989

Report on study visits to furniture and clothing sectors in Italy.

1. Aim

As part of the programme of implementation of the Cyprus Industrial Strategy, two study tours to Italy were arranged whose purpose was for Cypriot industrialists and relevant public sector officers to:

- get acquainted with the roles, functions and operations of industrial consortia and their contributions to the promotion of the 'flexible specialisation' industrial strategy and process in Italy.

- gain knowledge and practical experience in order to determine ways and means of establishing and operating industrial consortia best suited to the requirements and situation of Cyprus.

- observe the application of computer aided design techniques, notably in the clothing industry.

To this end participants should have a chance to visit appropriate consortia, industrial enterprises and plants, centres for common services, firms/agencies specialised/dealing in CAD, and attend meetings with relevant organisations.

2. Nature of the report

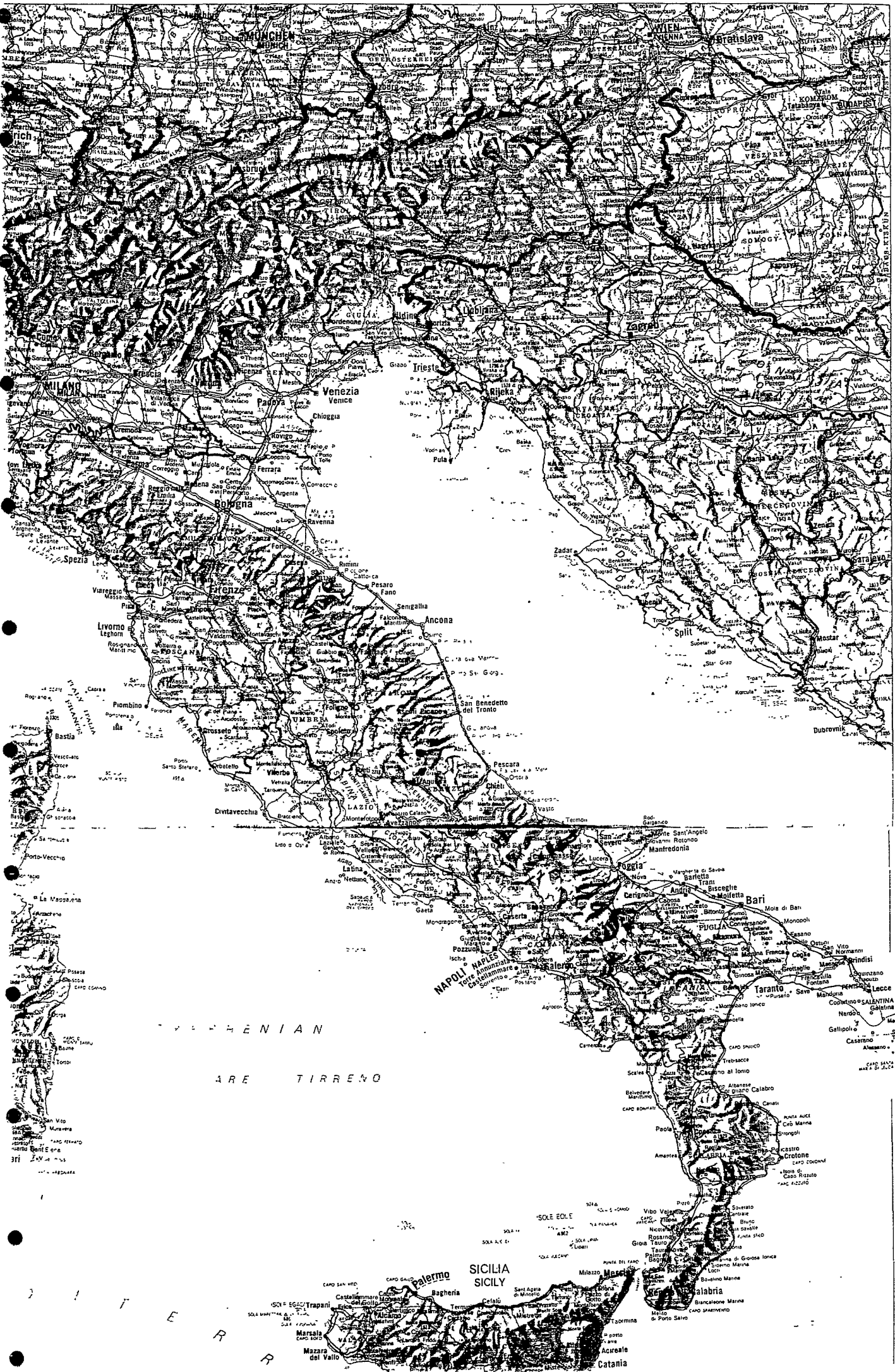
This report is intended both as a record of the visits, and as a means of conveying the experience and lessons of the visits for those in Cyprus who were not able to participate in the visits.

3. Brief summary of the visits

The furniture visit took place at the end of January, and was centred in Milan in the furniture industrial district in the Brianza region in the province of Como, and in the second half of the week in the Modena province of Emilia Romagna. The clothing visit took place in March and centred on Carpi, one of the leading international centres for middle and high fashion knitwear.

A full list of those organisations and people visited during the two trips is given overleaf. There were 11 consortia and common service organisations (see figure 1), 9 industrial firms, 2 showrooms, and a number of industry specialists.

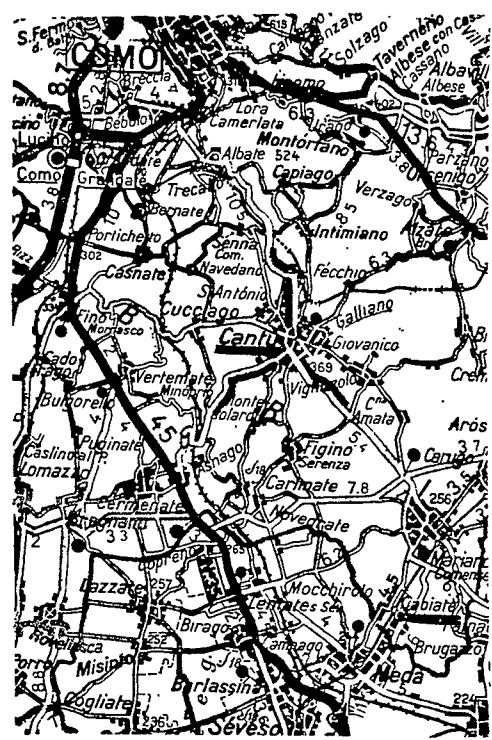
Of the 14 Cypriots who made up the two delegations, 9 were industrialists, and 5 were from the public and quasi public sector. The specialist adviser on the furniture visit was Professor Michael Best of the University of Massachussets, Amherst, an expert on the furniture industry and author of the furniture section of the Cyprus Industrial Strategy. On the clothing visit, the adviser was Mario Pezzini, a clothing expert from the University of Modena. The success of the visit owed much to their organisation and guidance, as to the staff of the Centro Studi Industria Leggera in Milan, to Professor Brusco of the University of Modena - one of the principal architects of the flexible specialisation policies in Italy - to Andrea Tosi and Giovanni Gorni of the National Confederation of Artisans in Modena, and to Adriana Zini, the furniture industry specialist in Ervet, the regional development company in Emilia



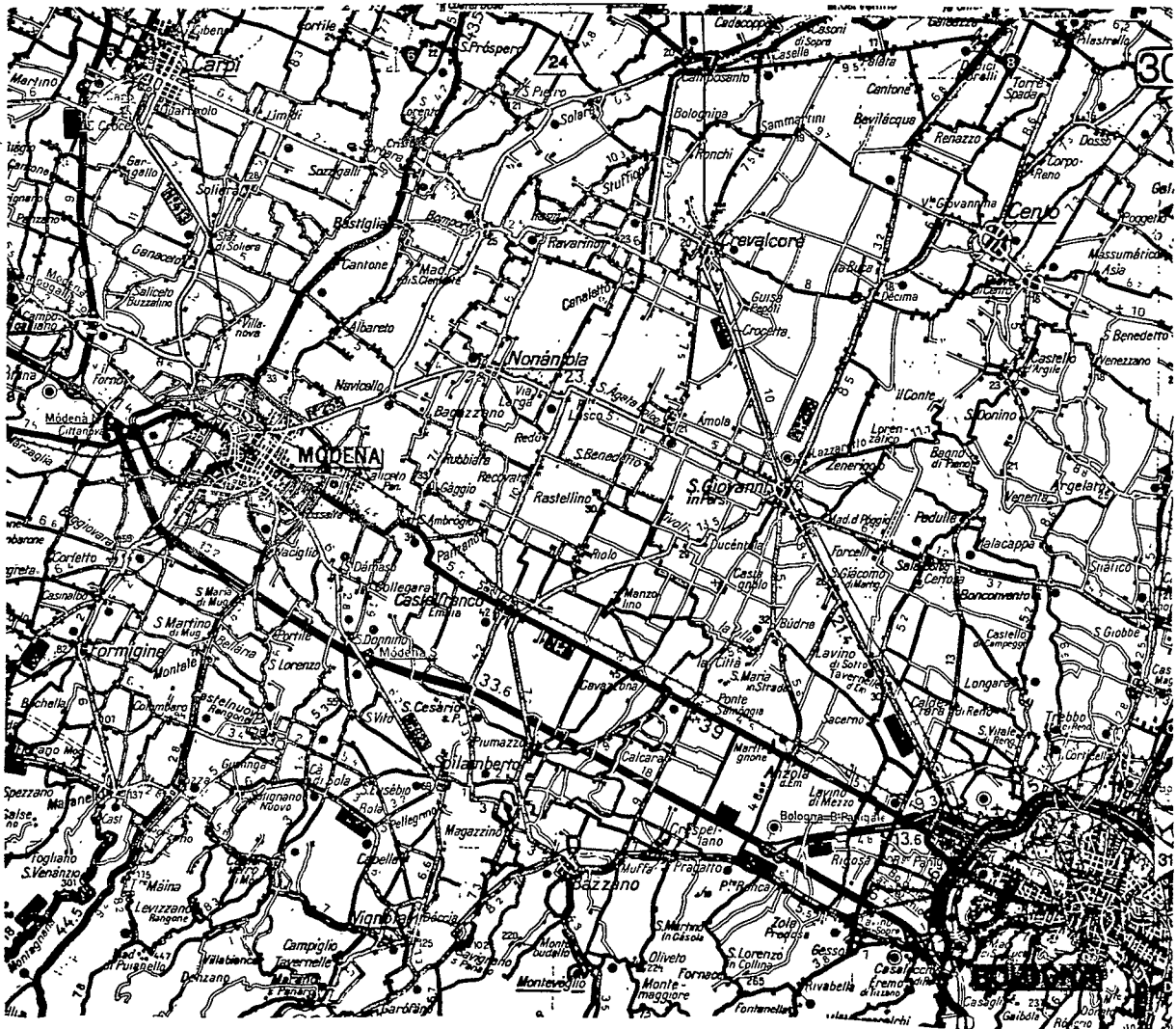
...HENIAN
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The artisan furniture district north of Milan is focussed on small towns like Cabiata (population 5,000 with 700 furniture firms) and Cantù, whereas volume production is found on the outskirts of Milan.



Carpi: the knitwear centre of Italy, a town of 60,000 people with 2,000 knitwear firms employing 15,000 people.

Romagna. We felt privileged to be given such open access to individual firms and the common service organisations - and we would like to record the thanks of the participants, of UNIDO and UNDP, and of the Cyprus Industrial Strategy team to these individuals for making the visits so worthwhile, and to the Italian industrialists and centre specialists who were so generous with their time and hospitality.

Italian Furniture Visit: organisations and people visited.

1. Centro Studi Industria Leggera, a private research company located in Milan, specialising in economic analysis, market research and technical consultancy in light industry, notably in furniture. The Director, Professor Massimo Florio, is one of the leading analysts on the Italian furniture industry and addressed our group on the first morning.
2. CIAT, a volume furniture producer in Truggio, Brianza.
3. Superfici, a factory producing furniture machinery.
4. Cabiante Produce, an export consortia of 13 small firms in the town of Cabiante, South of Como.
5. FB di Beretta Guisepe & Co, a chair factory producing primarily reproduction chairs and a member of the Cabiante consortia.
6. A municipal commercial support organisation, providing services for the export and domestic market for some 700 furniture firms in Cabiante.
7. A furniture showrooms consortia, serving primarily the home market, called Consorzio Esposizione Mobili located in Cantu, another furniture town in the Como area.
8. A second export consortium in Cabiante, this one for medium sized firms, called Consorzio Marka Italia.
9. The Milan showrooms of two of the best known design led furniture firms, Arflex and Cassina.
10. The Istituto Europeo di Design, a private college, which - along with the Domus Academy - is the leading centre of industrial design education in Milan.
11. Eurocom, an artisan firm of 20 people, producing post forming laminated panels, using just-in-time systems of production, in Modena.
12. Malavasi, a specialist producer of kitchen furniture, in the Carpi region of Emilia Romagna.
13. Cavani and Di Mattia, an artisan factory specialising in finishing, as a service to other producers, including Malavasi, whom we visited earlier.
14. CESMA, a collective services centre for the agricultural machinery sector. This was a possible model for a collective services centre for the furniture industry. It was located in Reggio Emilia.
15. COFIM, a financial consortia for firms in Modena, with 500 members, and specialising in short term finance.

16. Professor Brusco of the University of Modena, one of the architects of the flexible specialisation policies in Emilia Romagna, and his assistant, Mario Pezzini, who is a specialist on clothing.
17. Adriana Zini, the furniture sector specialist of ERVET, the regional economic development company for Emilia Romagna.
18. Dr. Giovanni Gorni, of the national federation of artisans (CNA).

Italian clothing organisations and people visited.

1. Confezioni Alex Suc, a final product firm producing programmed samples and using just-in-time methods of production (Carpi).
2. Tellon : Angelo Suc, a sub-contract weaving firm using advanced technology (Soliera)
3. Piccinin : Bruno, a sub-contract tailoring firm whose strategy centres round a skilled workforce. (Carpi).
4. CITER, the clothing industry resource centre for the region of Emilia Romagna. The centre has 500 member companies, 51% of them in knitwear, and 49% in clothing; 60% are artisans with less than 20 workers, and 81% produce under their own trade name.
5. CITERA, the computer aided design (CAD) service provided by CITER for its member firms. It has a data bank of more than 50,000 designs, as well as the more usual CAD facilities.
6. Centro Dati Abbigliamento, a consortia of 300 sub-contractors in Carpi.
7. Video Modo, a sales consortia for showing slides and videos of members' samples to visiting buyers (Carpi).
8. The local office of the National Confederation of Artisans (CNA) in Carpi North, the largest of the 60 local CNA offices in Modena province. It has 900 member firms (60% of them in clothing and knitwear), and a staff of 25. The main services provided are pay-rolling, book-keeping, advice on management accounting, support of start-ups, and advice on credit and loans.
9. COFIM, a financial consortia of 500 firms in Modena.
10. SIAER, the CNA's specialised information centre for the region of Emilia Romagna. This office develops software for use in the local CNA offices, as well as synthesizing the information on artisans' accounts from local offices in order to analyse tendencies.
11. Andrea Tosi, clothing specialist at the CNA provincial headquarters in Modena.

Figure 1.

Italian Consortia visited.

	<u>Function</u>	<u>Number of Firms</u>
<u>Furniture</u>		
Cabiato Produce (Cabiato)	Export	15 artisans
Consorzio Esposizione Mobile (Cantu)	Common showroom	120 artisans
Consorzio Marka Italia (Cabiato)	Export	9 medium sized
<u>Clothing</u>		
Centro Dati Abbigliamento (Carpi)	Data bank of sub-contractors	300 sub-contractors 90%artisans
Video Modo (Carpi)	Sales consortia for showing slides and videos of samples to visiting buyers	40 artisans
CITER (Carpi)	A real service centre for the regional clothing industry, directly providing information on markets, technology and fashion trends	500, (60% artisans)
CITERA (Carpi)	CAD and fashion data bank	As for CITER
<u>Agricultural Machinery</u>		
CESMA (Reggio Emilia)	Regional real services centre for information and advice on marketing, training, technological innovation, machinery 'homologation' and certification	170
<u>Multi-sectoral</u>		
COFIM (Modena)	Financial consortia for providing guarantees for bank loans to members	500 small and medium sized

CNA (local office in Carpi North)	Pay-rolling, bookkeeping, accounting advice, start-up support, financial advice	900 artisans
SIAER (Modena)	Software services for CNA network in region of Emilia Romagna	9 provin- cial organi- sations of CNA

4. Marketing Consortia

The retailing system in both furniture and clothing is less concentrated in Italy than it is in the UK and the United States. Firms like Bennetton and Stefanel in Veneto in the North East have developed co-ordinated systems of production and distribution based on franchised retail outlets and dependent sub-contractors, but such vertical integration is rare. Instead, the more traditional forms of trade fairs, wholesalers, and urban retailers comprise the main outlets within Italy itself.

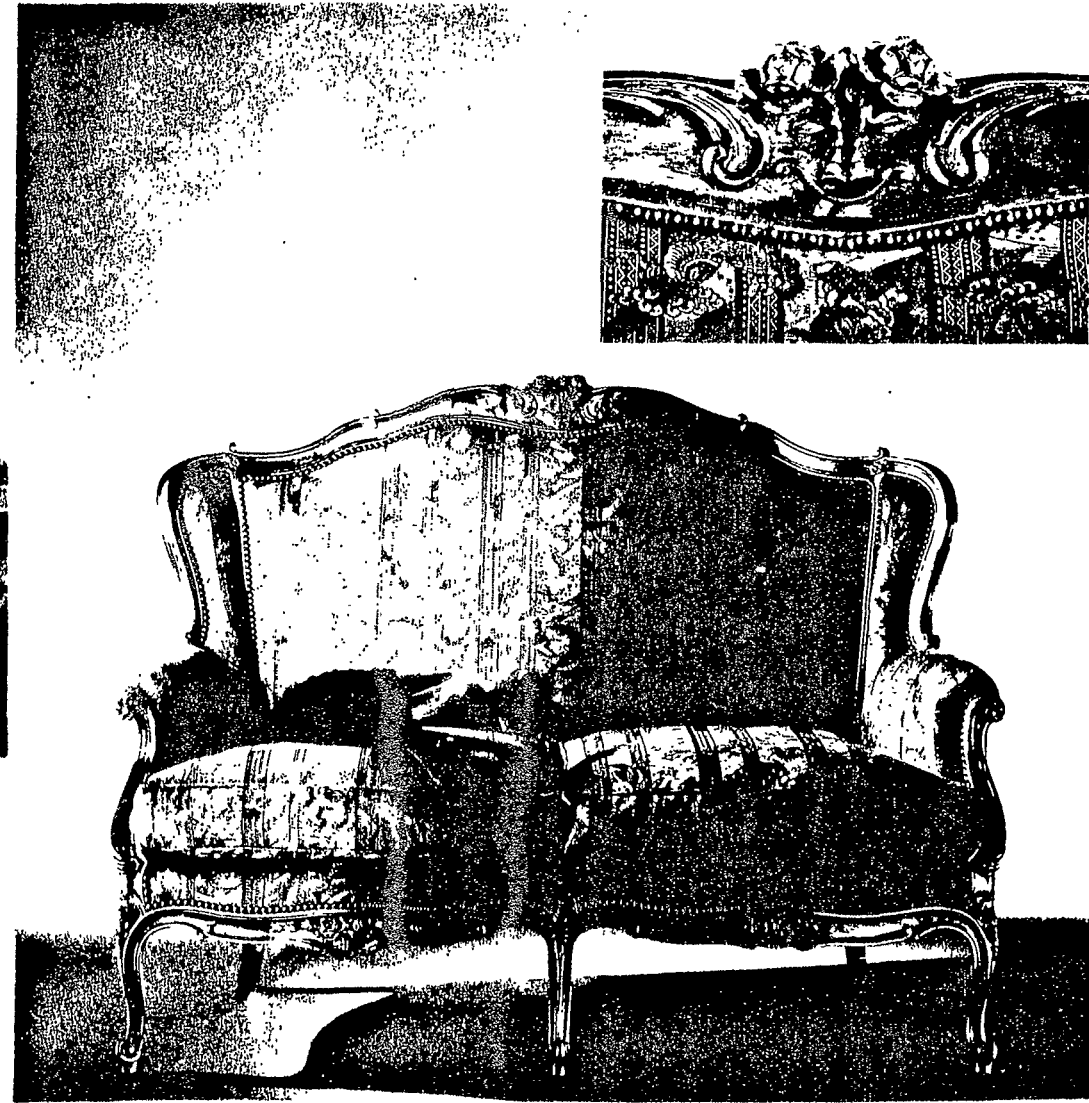
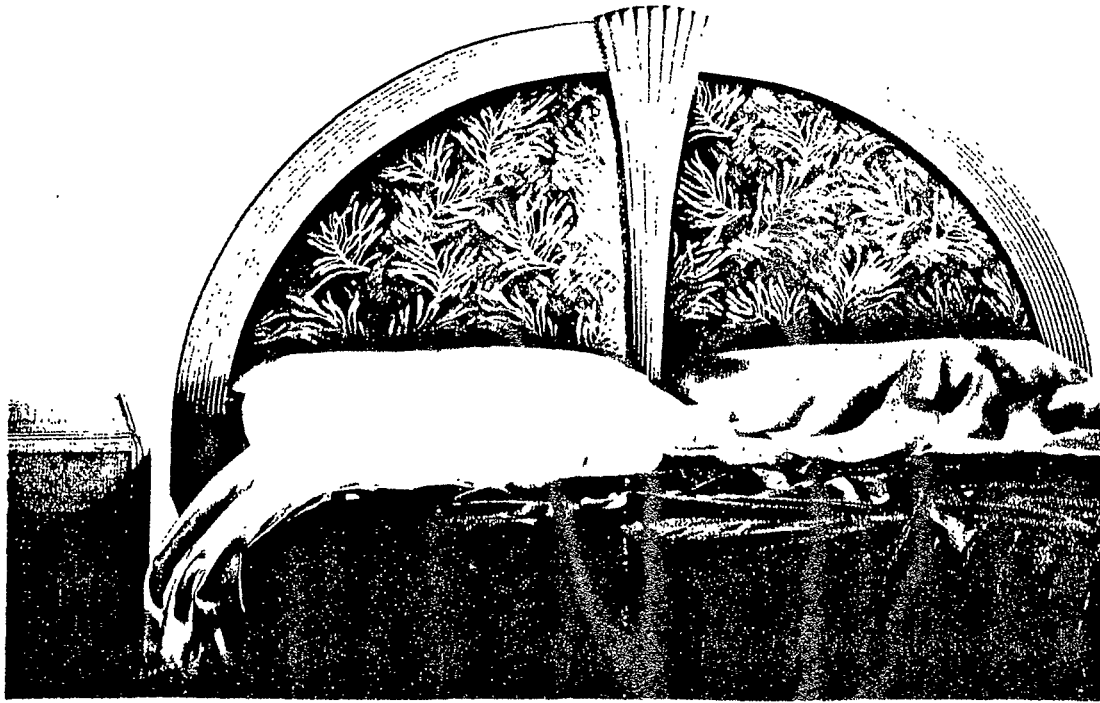
In many of the industrial regions like Carpi buyers come to the district and travel from firm to firm, but where there are 900 final product clothing firms (as there are in the province of Modena) and 700 furniture firms (as there are in the village of Cabiato) there are clearly limits to the number of firms any one buyer may visit. While an individual small producer may establish regular relations with certain wholesalers or retail outlets, it is clearly difficult for them to reach an export market.

In Carpi, 40 of the 150 artisan final knitwear firms have recently established an office with a single worker called Video Modo. This was in response to the need of the smallest firms who could not afford their own agent. Buyers visit the office, are shown slides and videos of the samples of member firms, and are then directed on to the firms in whose products they are interested. There is no attempt at quality control. The office is purely an information centre. It conducts research on clients and on Italian agents, and earlier this year held its first exhibition of clothes for German buyers. In its first full year of operation, 1988, it was visited by 200 buyers, 30% of whom were from abroad.

The Centro Dato Abbigliamento performs a similar role for sub-contractors. From a desk in the Carpi Chamber of Commerce, a single officer runs a databank on the 300 sub-contractors who have joined the consortia. When a final firm rings up, the Centro matches the final firm's requirements (type of machine, level of quality) to the data bank and gives 5 names of sub-contractors who have the current capacity to carry out the order. There is no mechanism of quality control for the Centro sees its task as one of a clearing house rather than a broker.

In the Brianza furniture district between Milan and Como the forms of joint marketing are more extensive. In Cantu, for example, the Consorzio Esposizione Mobile (CEM) - established in 1949 - runs a large 4 storey, 6,000 square feet showroom for its 120 artisan member firms. It does not sell directly, but rather acts as a broker between buyers, designers and architects on the one hand and artisanal firms on the other. When we visited there were more than 800 different pieces of furniture on display. Had we been buyers, we would have visited selected producers, who would have made to order for delivery within 40-60 days. CEM operated an inspectorate to ensure that the furniture was produced locally, and there was also a system of quality control. Where orders were large, CEM would allocate the work amongst its members. It also formed a link between local architects and designers and artisan producers. CEM was one of three such common showrooms in this small town.

A few miles away in Cabiato, we visited two export consortia. The first Consorzio Cabiato Produce was an organisation of 15 artisanal firms, employing between them 150 workers, and with total foreign sales of \$4 million in 1987. It employs 4 people in a central office and 2 in showroom/warehouse, and has started to engage architects to produce designs. Most production takes place to order - though recently there has also been some output for stock. The orders are passed to producers, who set the price on the goods, to which the consortia add a mark-up. Where the price appears too high, the consortia will discuss the basis of pricing with the producer, and there is some sharing of technical advice in this way. If the output



Samples from the output of the consortia Cabiato produce. These are traditional Italian styles, hand-carved, and sold on the Italian and world markets. All are the work of artisan firms.

of a member is not selling, the consortia will look at the product to try and determine why, and if there is no immediate remedy, the committee may allocate orders for other products to that producer.

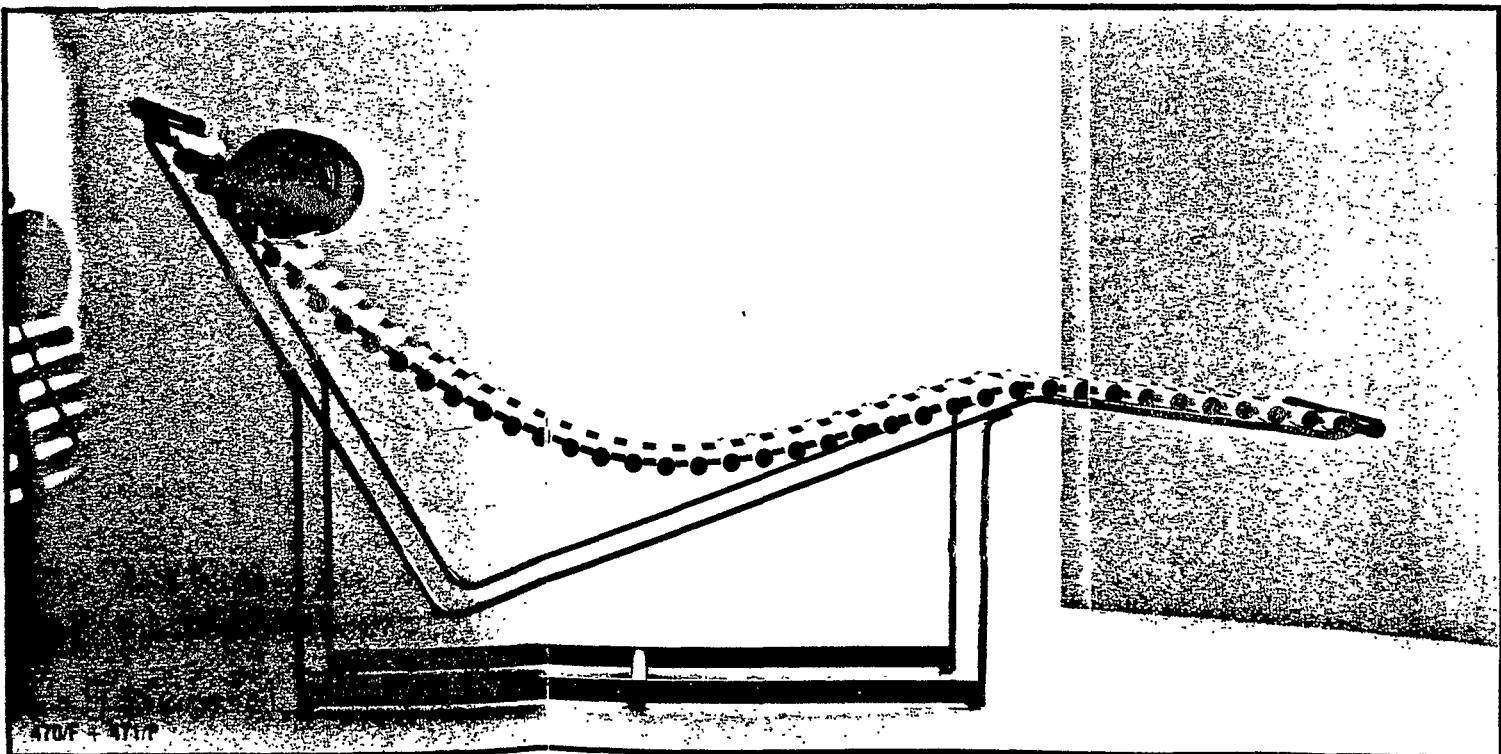
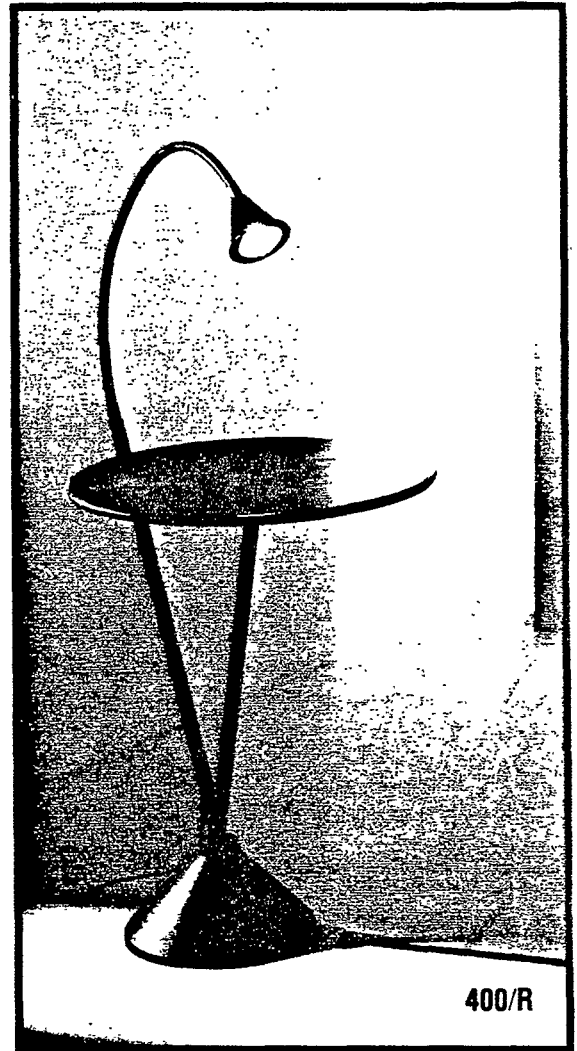
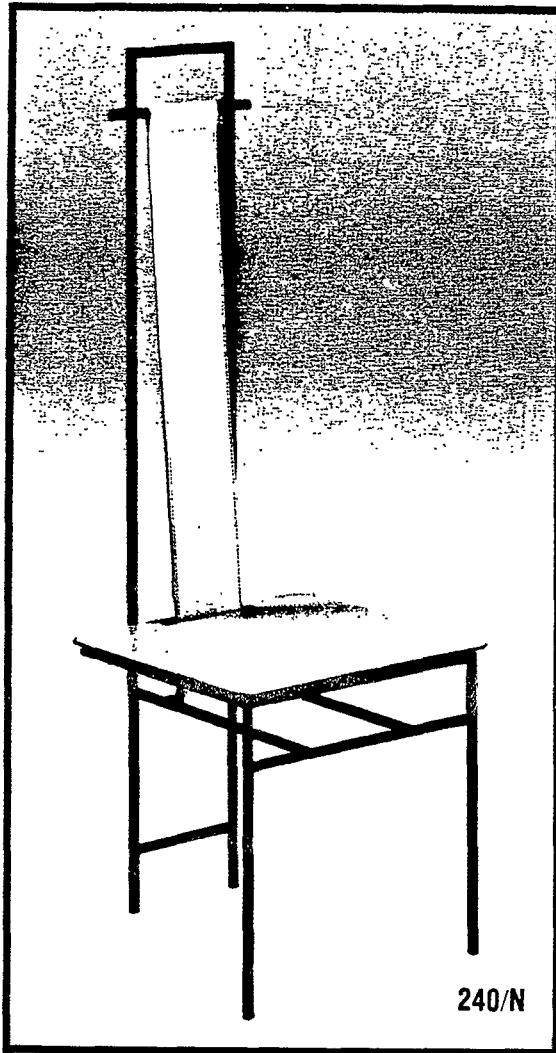
The Consortia was started in 1973 and required regular injections of cash from its members until two years ago, partly because it was building up its assets (the fine offices and warehouse stands beside the village green and is wholly owned by the consortia - firms joining have to pay an entry fee reflecting the value of these assets) - and partly because of a long learning period. Thinking back over this period, the consortia chairman - who specialised in producing beds - said that they had been under financed, that they should have realised earlier the importance of expert help, and that they had relied on highly crafted traditional designs and were only recently introducing modern ranges.

Yet, in spite of these early difficulties, the consortia is now strong, exporting to the US and Japan as well as Europe, in high value added market niches. Its experience also indicates how co-operation on sales leads also to specialisation in production - they try and ensure that not more than one member produces a particular line of goods - to sharing of technical information, and to new developments in design.

It was in design that there was the strongest contrast with the second consortia in Cabiato, Marka Italia, which comprised nine medium sized manufacturers, serving only the export market. The firms had their own designers, or employed architects on a contract

Cabiante's modern furniture.

These samples are architect designed, and produced by medium-sized firms for the Marka Italia Export consortia.



basis, and the consortia itself had employed an architect to design a distinct "Marka Italia" line. They have a more rapid delivery time than the artisans (from one to a maximum of thirty days) and more formal quality control.

In general, export and marketing consortia are one means of sharing overheads. They have been greatly encouraged by state support - national and regional funding covering up to 50% of a consortia's running costs - whose policy has been to promote collective action rather than subsidise individual firms. The clothing services we visited kept themselves strictly confined to an informational role: the furniture export consortia, on the other hand, played a more dynamic role, leading to collective initiatives in design, in quality control and some element of technical advice.

5. Centres for real services.

Centres for Real Services have been promoted by Italian local and regional government during the 1980's to extend co-operation beyond the relatively small number of firms involved in particular marketing or production consortia. Ervet - the regional development agency in Emilia Romagna - has started 10 such centres, 6 of them sectoral - in ceramic tiles, clothing and garments, footwear, agricultural machinery, construction and metal materials - and the others relate to export promotion, training, innovation, and sub-contracting. We also collected information on similar 'service consortia' in the shoe industry (Lucca), and in clothing (Biella, Prato, Empoli).

We visited two of the most successful ones, CESMA - which provides services for the agricultural machinery industry in Emilia Romagna, and CITER which serves the clothing industry in the same region.

CESMA

CESMA was established in 1983 and now has 170 member firms. It provides market intelligence, domestic market surveys, export market analysis, and overseas marketing support; it helps design and organise training programmes, and runs management courses for the membership; it diffuses technological information, identifies transnational industrial co-operation agreements, promotes innovative pilot projects, assists companies with procedures to get access to funds for new product development, designs, co-ordinates the manufacturing of, and tests, prototype equipment, and helps introduce advanced management techniques. Perhaps most valuable of all, it addresses one of the main problems for exporters of agricultural machinery - the different national norms and standards, the varying regulations and procedures, and the range of testing procedures which act as barriers to non domestic firms.

CESMA's strategy was to appoint - through head hunting - a senior multinational manager who had worked for Fiat, John Deere and Lamborghini, someone who knew the export field well, and who is now putting his expertise and networks of international contacts at the service of the local Emilian firms.

CITER, (Centro Informazione Tessile dell'Emilia Romagna), is a textile and clothing industry information centre for Emilia-Romagna that was founded in 1980 as a limited liability consortium. The founding members were ERVET, three artisanal associations including CNA, and two industrial associations. Today of 500 member companies, 51 per cent are in knitwear and 40 per cent in clothing, 60 per cent are artisan companies and 40 per cent industrial companies, and 80 per cent produce proprietorial products (as distinct from being sub-contractors) non-member companies include companies, design studios and technical colleges throughout Italy. CITER is governed by member companies which annually elect a 19 member board of directors made up of representatives of companies, government, and productive associations. It is managed by a presidents office of three and a staff of 14. Staff members can call upon over 40 consultants for specific projects.

CITER provides three types of support services to firms: fashion, market, and technology.

The most distinctive feature of the clothing industry is the sensitivity of orders to fashion. Even small firms that choose to counter the mainstream have to be aware of fashion trends in order to differentiate their products. In the "planned" market segment, fashion trends are set between 12 and 15 months before the season in which they are marketed. This means making choices in theme, material, colour, style, shape, cut and trim.

Consequently the first service of CITER is collecting and disseminating fashion information. CITER's staff acts as a fashion

information centre for the industrial district by maintaining close contact with the international fashion creating centres. This involves attendance at exhibitions and fashion shows; discussions with purchasers, designers, researchers and material producers; and awareness of media uses and construction of cultural symbols. Fashion information is made available to companies by meetings, publications, video presentations, and consultation.

The second service of CITER is marketing which includes the tracking of competitor developments around the world. The development of world-wide excess supply has led CITER to assist firms to drive down the 12 to 15 month lead time between the presentation of collections or samples and deliveries to outlets typical of the "planned" system of production. The result is the development of "semi-planned" production methods which have reduced the 12 to 15 month period to between 2 and 3 months. Not surprisingly, this means radically altering supplier relations.

Under the "semi-planned" system, companies rely upon fewer suppliers with whom they have more intimate relations. Reducing time can quickly escalate costs for it is costly to requisition and produce the right button, buckle or yarn on the spot. Thus the semi-planned approach reduces the risk of guessing wrong on fashion but increases the costs and reduces the ranges that can be offered.

A third strategy, "ready fashion", is emerging which can deliver orders in 15-23 working days by introducing 5 to 6 new pieces each week to a limited distributional network. But even more so than with the semi-planned system, the range of clothing is limited to inputs that can be produced in short order.

The microelectronics revolution is impacting on the viability of competitive strategies. CITER, in co-operation with ENEA (the Italian Atomic and Alternative Energy Agency which maintains considerable expertise in high technology) has developed a computer

aided design system that can substantially reduce the time and costs of preparing samples from which retailers and wholesalers order for upcoming seasons. Over 50,000 entries have been entered onto a computer memory including colours, drawings, sketches, stitches, images and materials. These entries become data from which a computer programme can generate a virtually infinite variety of colour and pattern blends. Collections can then be created on the screen and printed on high-resolution graphic paper, as opposed to made up in the actual materials. It becomes possible to experiment with styles and combinations that would have been prohibitively expensive before. CITER staff members estimates that the cost of the CAD system will be under £50,000.

Although members can use the system at CITER's offices, the centre's aim is to have the equipment inside the firms, since they see the use of the system as a means of daily learning, and of being stimulated in the development of new designs. It is the difference, for a designer, of having a book of designs on their shelf as against being able to use it in a library. The centre has thus begun a programme of training and explanation to members in the use of the CAD system - they have spent 3-4 hours with more than 200 firms to date - and over the period of the systems development they have seen an increase of 50% in the use of CAD within member firms.

CITER's philosophy centres round training as much as information. The organisation was formed out of training programmes in the 1970's, and this has continued to be a theme of its work. Learning may be a better word, for this is how they see the regular discussions which take place between industrialists at CITER, as well as the process of information provision, or of the CAD services. They are currently developing new training projects in design for post graduates (with 50% of the time spent at the University of Modena, and 50% in CITER gaining professional knowledge) and in the use of CITERA. The problem of combining information services and training, however, is - according to the Centre's director - that the former has to be flexible and geared to the time of the firm, while the latter observes the more stable time of the school.

The success of CITER is reflected in the continuing growth of membership, in the high professional standards of the services which we saw, the regular quarterly information material on markets, fashion trends and technology, and finally in CITER's expansion outside the region. It now has clients in Tuscany, Umbria, the Marche, and 50 companies elsewhere. The Italian government is promoting a CITER type organisation in the South of Italy, and CITER itself is advising on the establishment of clothing service centres in Morocco and Algeria.

The Director's advice for the establishment of such a centre was fourfold:

- to allow a long period for development;
- to ensure that there are substantial public funds so that the scale of charges is not so high as to discourage diffusion, and so as to allow the finance of new projects like CITERA (which took four years to develop);
- to try and provide information and skill together, aware of the organisational tension which could arise between them;
- to get new technology systems (like CAD) into the firms themselves.

Her view of the 1990's was that the very small firms would have to grow - both sub-contractors and final firms would need to have, say, 25-30 employees to cope not just with fashion and new technology, but the simultaneous linking of both of them with quality, advertising, price and internal innovation. However, with an effective common services centre (and we could add with other joint services such as the export consortia) she saw no reason why firms of this size should

not be internationally competitive. The distinction was between small/medium and very small firms. In Emilia Romagna it was the very small sub-contractors - the great majority of whom were not in CITER, and who had neither the time nor money to gather and use key technological and commercial information - who were the weaker part of the industry. As we saw from our visits and more general discussions, the danger for the very small sub-contractors was that they would rely on longer hours or lower pay rather than invest in their own upgrading.

6. The CNA and the provision of business services

The National Confederation of Artisans describes itself as a union, and many of its features are more reminiscent of a union than an employers association. It puts great emphasis on health facilities for its members, and on the standard of living and welfare of its members when they retire and become pensioners. Perhaps the closest parallel is with a farmers union. Indeed, the position of artisan firms in Italy shares many of the characteristics of family farms. Officially an artisan firm must employ at least two family members, and not more than 18 people (other than family members and trainees). Those we visited were either centred round family members or friends. Like farmers varying their work with the seasons, so the artisan firms vary their workload according to demand, calling on extra family members when work is particularly intense. The artisan firm provides a flexible workforce in the same way that a family farm does, and it likewise shares the mixture of independence and co-operation, and the sense of traditional skill that characterises traditional peasant farming.

The CNA was started after the second world war to strengthen the artisan sector in its competition with larger firms. On the one hand it provides basic business services - accounting, financial advice, pay-rolling and so on. On the other it acts as a continual champion of modernisation: of internal management as much as productive technology. It has established specialist organisations to encourage

the spread of informatics, new technology, & managerial and manual training. Its sectoral associations provide research and information on industrial trends, and circulate information and encourage discussion between producers. It has participated in the creation and operation of the centres for real services, and of financial co-operatives. It thus acts as a champion of the artisan sector - both politically, and through attempts to provide the services that would be available to larger firms.

The importance of the CNA is visually evident. Its main office in Carpi is a tall, wide office block, which reminds one of a financial institution. The branch in Carpi North was also modern, and employed 25 people (24 of them women) - mainly accountants and clerks - to service the 900 member firms. Firms pay \$300 a year for membership (receiving in return a range of information on tax changes, labour contracts, developments in their sector, as well as notification of CNA discussion and briefing meetings), and further fees for particular services (\$20 a year per pay-slip for pay-rolling, \$350 a year for simple bookkeeping, \$25 to be a member of one of three local financial co-operatives which provide loan guarantees at reduced interest rates). Thus the CNA does appear as a business services firm with a difference - for it not only provides these services to individual members, it also encourages its members to work together. It represents them in national wage negotiations, and politically. A measure of its success is membership: 12,770 members in Modena province, 65,486 in Emilia Romagna, 340,000 in Italy as a whole. Nationally the CNA employs 7,000 people, and we should remember it is only one of four artisan associations organised this way. The resulting political weight is reflected in the legislation which has been passed in support of artisans, from simplified regulations and tax administration, to favourable tax treatment, support for infrastructural projects for artisans, and so on.

Financial Consortia.

There are some 100 financial consortia in Italy (consorzi fidi). The majority of them are local, and are financial co-operatives of local firms whose function is not to make loans themselves, but guarantee loans made by banks to their members. They are primarily concerned with short term loans, (up to 18 months); longer term loans (18 months to 7 years), are dealt with by regional consortia, composed of constituent provincial consortia, and there is also a national organisation - the Federation Confidi - which acts as a continuous link between the consortia and the Government in Rome. The structure is therefore co-operative and federative, each higher layer emerging from the lower one, rather than being a top down unitary structure.

We visited the local consorzio fidi in Modena (COFIM). It was started in 1981, on the initiative of 12 people, principally in order to provide more accessible and cheaper working capital. It now has 500 members, 95% of them employing between 10 and 200 workers, 85% of them with less than 100. Its membership is of small and medium size enterprises, not artisans, and comprises all the most important Modenese firms, and 25% of all firms in this category in the area. It has a staff of 2½ people working from the local Chamber of Commerce building.

Its manner of operation is as follows:- a firm seeking a loan applies both to COFIM, and to any of the seven banks associated with the scheme. Both the bank and COFIM assess the project, and the application is then put before COFIM's executive committee composed of 18 people, 15 of the member industrialists drawn from different sectors, plus one each from the Chamber of Commerce, the municipal council, and the provincial authority. The committee decides whether or not to provide the guarantee (in 98% of the cases it decides in favour). If the bank also agrees, then COFIM provides a guarantee of between 10% and 50% of the bank loan. The majority (70%) are for 25% backing though originally 50% was the rule. Decisions are normally made within a month of the application.

If the member firm fails to repay the loan, the consortia repays the bank, either out of its accumulated funds, or from guarantees given by its individual members. Details are given in the constitution attached as an Appendix. The risks are small, however, for the following reasons:

a) COFIM has built up reserves from:

- a commission of 0.5% on each loan guaranteed by the consortium
- local government grants
- a small membership fee which firms pay on joining, (£85)
- the reserves comprise about 5% of the outstanding guarantees.

b) the firm receiving the loan gives the consortium a promissory note worth 1/15th of the value of the guarantee, which is given back one year after the loan is repaid

c) loans are restricted to 5% of the borrowers total sales, plus 2 million lire (£870) for each worker. A firm with turnover of £1 million, and 30 workers, would thus be able to borrow some £76,000 under the scheme. The average loan is, in fact, around £65,000.

d) the failure rate is very low. Whereas in normal commercial loans Italian banks expect a 7% failure rate, COFIM guaranteed loans have a failure rate of 0.08%.

Principally, because of the low failure rate, banks have been willing to cut their rates on COFIM backed loans, at first 1-2% below the normal loan rate, now up to 4% below the normal rate. In addition, where reserves are more than adequate, COFIM itself can give a further subsidy to the rate. The low failure rate has also allowed the progressive reduction of the proportion of the loan that COFIM guarantees.

COFIM has grown rapidly. In 1988 it guaranteed 250 loans valued at 40 milliard lire (£17.4m), and in 1989 volume is due to rise 25% to 50 milliard lire. Originally only two banks were involved in the scheme. Now there are seven and new banks coming to Modena approach COFIM as a channel to what, from a formal point of view, is a fragmented local industry.

What lessons can we draw from the success of COFIM?

Firstly, instead of offering the security of an asset, COFIM is offering the security of trust. This is the word used again and again by the staff and officers of COFIM. Put more generally, the financial transaction is not undertaken between anonymous parties, but between those who have close social relations. Thus the Vice President told us that the high proportion of approvals by the COFIM Board was principally because members only submitted schemes they really believed in. They knew they had a reputation within the area which they wanted to maintain. The counterpart of this was trust by the committee members of the consortia and, a further consequence, a feeling of obligation to repay by the borrower. As one borrower was reported as saying: "When I borrow through the consortia I lie awake at night thinking how to repay it; when I borrow from a bank, I lie awake at night wondering how not to repay it".

Secondly, part of this close social relationship is a question of information. The industrialists on the Board know the applicants in a way in which no branch bank manager normally would. They may have grown up together, done business together, even worked for one another. Lacking this information, commercial banks tend to fall back on guarantees, as security against risk. One part of risk is lack of information about the borrower.

Equally, the fact that all main sectors are represented on COFIM's board means that applications will be considered by those who know the industry. The Board is elected every three years by the

membership, and this means that those appointed are trusted by fellow industrialists in the same sector. They will be in a position to advise any applicant on his or her project through their practical knowledge of the industry - again a form of information which a branch bank manager rarely has. COFIM is, therefore, a means of moving beyond the loan transaction as an arms length deal with highly imperfect information: it allows the process of lending to become a two way process of project improvement, as well as a more substantive personal assessment.

Thirdly, this active role played by COFIM in the process of commercial lending is in the process of being extended. With its associated banks, COFIM has started special loan schemes for particular types of investment it considers important for the efficient operation of its members. Over the past five years there have been a number of these schemes covering: new technology; computerisation; marketing; investments to improve product quality; to process waste; and to upgrade the physical conditions of workers. The March 1989 edition of its quarterly newsletter carries an advertisement from the Banco S. Geminiano in collaboration with COFIM to lend up to 200M lire per firm (£87,000) for investment in advanced tertiary sector firms for studies, research, investment in machinery and so on. COFIM is thus becoming a sector strategic institution for the main industrial branches in its locality.

It also sees itself as a source of financial advice on suitable financial instruments, or alternative potential lenders.

Fourthly, critical to its successful operation is control by its members. Given that the risk is being taken by the members it is clearly appropriate for the members - through the elected Board - to determine who, from among themselves, receives the guarantee. In most countries, such risk funds and guarantees coming from other sources, notably the state, would not generate the same relations of obligation, and information as the Confidi system does. Indeed, the local communes have come to see COFIM as a much more adequate channel

for loan funds than any publicly controlled financial institution. Once the principal of control by members is accepted - as it has to be for the system to operate - it follows that higher level institutions must likewise be controlled from below. The regional consortia for Emilia Romagna for example is controlled by the 16 provincial consortia in the region.

There are, of course, limits to COFIM. Most evident is the term of the loans. There is a clear need for medium term finance through a similar institution - one that unites industrial and local knowledge. This is the purpose of the regional consortia but, as yet, the one for Emilia Romagna has had difficulty in getting going for what were said to be legal and political reasons. It may be indeed that it is difficult to operate such an 'institution of trust' on a regional level.

Similarly, COFIM recognizes the need for equity and other forms of risk capital, but says it is not ready to enter this field. Indeed we were struck by the emphasis on prudence, of keeping to what was the original intention of the institution, in other words to specialisation. We got the impression that COFIM was pulling back from becoming a conglomerate intermediary in the financial field. It was sticking to offering what it felt it could achieve, and not making too many demands on its members. In this it follows a pattern common to the industrial support institutions in the region: specialised, with a small secretariat, and a reluctance to diversify. This may be a limit to the institution, but not to the system, for where needs are clear, new institutions have been started to meet them.

The root of COFIM's success has implications well beyond the provision of short term finance. One way it could be viewed is as a union of borrowers who, by coming together, are in a stronger bargaining position over interest rates with the banks. But this is too limited. The principal lesson is that market relations - in this case money lending - can be a means of learning, and that this

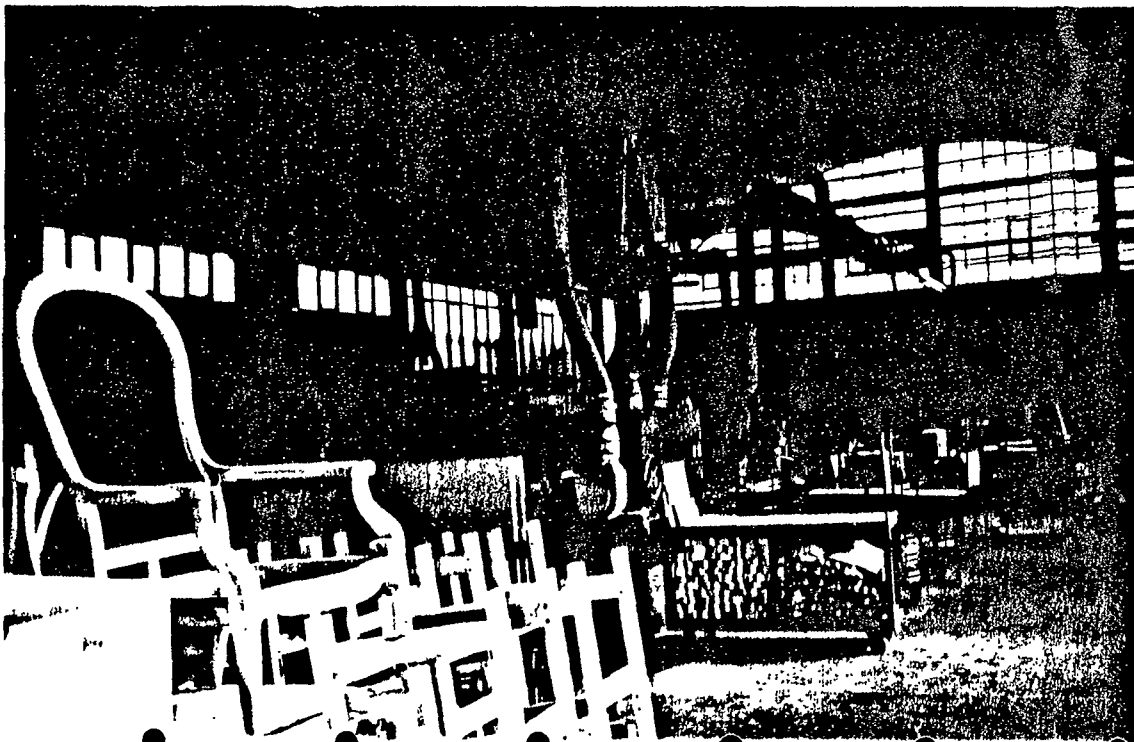
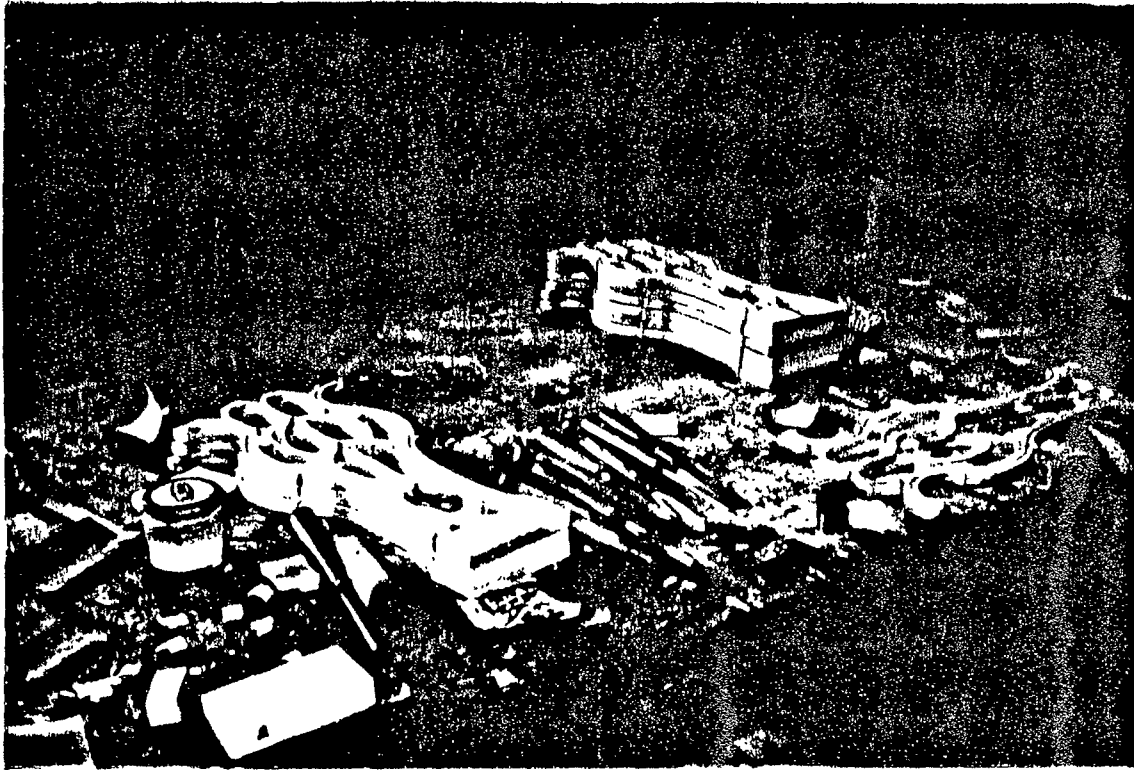
learning is often most successful when the exchanges are undertaken within the context of relations of detailed local knowledge and trust. It may, indeed, be one of the advantages of local industrial districts that such relations are stronger there than within, let alone between large firms. Certainly it is striking that it has been the local banks, with their head offices in Modena or the surrounding region who have been the first to make agreements with COFIM. They, too, have emphasized the relations of trust with COFIM and its members - relations which are necessarily more difficult with the branches of national or multinational banks. When market relations - whether of finance, or other goods and services - take place between firms which lack such mutual knowledge and trust, it imposes an objective further cost on the transaction. In this sense COFIM offers benefits not merely to its members but to the industrial district of which it forms a part.

7. Lessons from the Third Italy

First we witnessed directly how industrial districts of small firms could be consistently successful on home and export markets. Large scale was not the sole passport to success. Cabiato - a town of 6,000 people - had 700 furniture firms in it, employing 3,000 people, and exporting a significant part of its output. Carpi, with 60,000 inhabitants, has 2,000 firms in the knitwear and clothing industry, of whom 70-80% are artisans, and accounts for one quarter of all Italian knitwear production. Prato - which two of us later visited - is a town of 160,000, with 14,000 clothing firms, and accounts for more than 20% of Italian textile exports. Cyprus industry has often been criticised for its small firm structure. Almost all the firms we saw were smaller than the firms of the Cypriot industrialists visiting them. Firms can therefore remain small and still be strong in international competition though, as we have noted, one clothing specialist we met thought a size of 25 workers would be necessary in the 1990's.

Second, underlying this success was a distinct strategy which emphasised design, quality, and responsiveness. The furniture we saw in the Brianza area was highly crafted, made to traditional designs, or to modern designs supplied by independent designers and architects. In the small Carpi firms, the main design work was undertaken by family members, developing design trends established elsewhere. This is why the CAD system and the fashion data bank developed by CITER are so important, as well as its fashion forecasting facilities. In Prato, the industry produces 80,000 different design samples a year, many of the sample producing firms having their own designers, using CAD systems, and working closely with their regular customers.

The design and quality, geared to the middle and upper ends of the respective markets, were one factor which allowed these small firm districts to compete against the volume producers. Another was their responsiveness. Leaving aside the firms that produced the samples,



The FB artisan furniture factory in Cabiata during the lunch hour. It is a family firm with 19 workers. Note its specialisation on chairs, the craft nature of its product, and the extensive dust removing equipment which was a feature of all the factories we visited.

all but one of the firms we saw produced for order not for stock. In Carpi 55% of the firms produced for Carpi's own final firms; 25% produced on demand for wholesalers and retailers elsewhere in what was known as the Pronto Modo or Fashion Ready sector. In both cases they were effectively manufacturing service industries, whose key resource was quality and the capacity for prompt delivery. The Table shows the delivery times of the firms we saw:

Production periods

	Days
Cabiate Produce	60
CEM	40-60
Marka Italia	1-30
Calvani and di Mattis (furniture finishing)	10
Malavasi (kitchen furniture)	20
Eurocom (post forming)	1
Prantomondo (clothing)	15-23
Semi-planned clothing firms	60-90

A third lesson was that the small firm industrial districts had a number of advantages over large firms in following such strategies. One was that the sheer number of firms contributed to the wide variety of designs that we saw - for example in the common showroom in Cantu. Another concerned labour. Many of these lines of production require high skill. This was passed on between generations in a family. The fact that family members tend to stay with the family firm means that it is worthwhile for these firms to invest in training. The flexibility of family labour was a further factor, with older relatives and women being brought into production at peak times. Sharing out work with other firms was another way of spreading the peaks for any one firm. As far as longer term cyclical fluctuations were concerned, we got the impression that both entry and exit were relatively easy for the artisans, there being little stigma attached to closing down a firm and working for someone else. In this sense, Italian manufacturing was similar to the small scale building industry.

We enquired about wages, and the extent to which labour costs were a significant factor in the growth of these small firms. Some industrial districts have lower wages than large scale industry, and the artisan legislation does exempt artisan firms from some aspects of the labour laws. Italian research, however, suggests that the wages in industrial districts are close to the national average, and this was the information we were given from the plants visited in Emilia. In as much as there is a tight labour market, non family members can be expected to move to larger firms, and this would tend to equalise wages between the small and large firm sectors. One of the important points is that Emilia has moved from being a relatively low wage economy in the 50's, to one of the most prosperous in the 80's. This reflects their shift from a pattern of low wage sub-contracting to the present design intensive, high value added output.

The fourth lesson is the importance of locality, economically, socially and politically. At a time of increased internationalisation, and the geographical diffusion of economic linkages (France is a notable example), here were integrated local economies which were highly successful on world markets. The historical role of Italian towns and 'city states' is clearly one part of the explanation. So are the agricultural communities of the share-cropping regions; many of whose members and institutions have been carried over into the industrial districts, as Mario Pezzini explains in his account of Emilia Romagna in Appendix 2. But the role of politics is also important, since both the Communists and Christian Democrats within the towns of the Third Italy made it an explicit aim to develop their urban economies against the large scale production of the North (and its political support from Rome) during the post-war period.

One important policy was the retention of locally controlled retailing, and the use of land use planning powers to restrict the growth of multiple retailers. Dispersed distribution, and close local retailer-producer links have been one of the conditions for Italian small firm growth. Other policies have been centred on the active municipal encouragement of consortia and common services for

local industry, ranging from industrial parks, to training, finance, and marketing. What has also distinguished these areas is the relative consensus achieved politically - and actively sought for - the Communists in the 'red' districts such as Emilia and Tuscany, the Christian Democrats in the 'white' districts of the North East. Politics, in short, has been a crucial ingredient in the economic success of the districts, in terms both of the economic infrastructure provided, and of the municipal cohesion achieved.

The cohesion and trust between the producers has been a necessary condition for the specialisation of production that has developed, and for the way in which collective economic institutions provided common services have worked. Specialisation and common services have allowed the district as a whole to match, in many areas, the specialisation of function normally found only in large firms. The services provided to a branch plant by head office have been supplied in the industrial districts by the collective organisations. Competition between firms within the industrial districts is not eliminated, but is contained within a social and institutional culture of co-operation.

Interestingly, large firms are now realising the importance of a common culture within the firm - such as that found between firms in the Italian industrial districts. Only shared values, and a degree of trust allow for the decentralisation of operations which is necessary for innovation, flexibility, and effective quality control. But it is much harder for a firm like IBM to create such a culture than it is for the industrial districts of Italy, and this is one of the crucial assets that the latter has in international competition.

Another distinct feature of the districts is the form of control of their common service institutions. Whereas in a large firm branch plants and the head office services provided to them are controlled from the centre, in the Italian districts they are controlled by the users. This is a fifth major lesson. In each case we looked at - the export consortia, the common services centres, the financial

consortia, or the common showrooms - the lines of control ran from the bottom upwards rather than the top downwards. The officials providing the service were subject to the users rather than a corporate chief executive or the officers and politicians of the state. The municipalities indeed have placed great emphasis on not intervening directly: they may have a representative on the Board, they will provide finance either directly or indirectly, but the service itself must be run and partially financed by those for whom it is intended. This has been one of the secrets of the district's success, for it has avoided clientalism, and kept the services disciplined and relevant to the needs of the users.

All these lessons have relevance for Cyprus. In terms of size and technological level, the firms we saw were parallel and, in some cases, behind those of the medium sized Cypriot firms. There was a similarity, too, in the strength of the family firm tradition, and the extent of the close informal linkages between different producers. Where Cyprus has ground to make up is in the development of specialisation, design capacity, a high overall level of skill and, above all, the institutions for co-operation and the provision of common services between firms.

The last of these is, in the Cypriot case, almost certainly a condition for the others. Without collective action, the great majority of Cypriot furniture makers will find it extremely difficult to compete with the Italians once the tariff walls come down. The same is true for many parts of the clothing industry. During both visits there was considerable discussion on how common action could best be carried forward in Cyprus. In Appendix 3 Michael Best outlines two paths for the Nicosia furniture makers, and Appendix 4 contains a brief discussion of the Limmassol bases A-Z consortium, which is following one of these two paths. In the case of clothing, it is agreed that the first priority was the development of a common resource centre.

Since one final lesson of the Italian visits was that building these institutions takes time, we finish by underlining the urgency for action in Cyprus. As we said in the Cyprus Industrial Strategy, the first responsibility for the new direction lies with the industrialists and their organisations. For the government the tasks are to consider the necessary supporting role it can play - in terms of financial incentives, training provision, industrial estate policy, and financial support for the sector based initiatives. Training and financial incentives are well in hand. What is now needed is for some public finance to be made available to encourage the industrialists to develop the common institutions which have been so clearly at the heart of the Italian success.

CONSTITUTION
OF
THE CONSORTIA OF
SMALL AND MEDIUM
INDUSTRIES IN THE
PROVINCE OF MODENA
(COFIM).

Translated by Amelia Mills
March 1989

COFIM

Credit Consortium of small and
medium industries of the Province
of Modena

- cooperative society limited -
n. 11988 reg. firms tribunal of Modena

41110 Modena, Via Ganaceto, 134
telephone (059) 22 25 29

Constituted through the initiative of

- AIA (Carpi Clothing Industries Association)
- AIM (Modena Industrialists Association)
- API (Modena Small and Medium Industries Association)

and under the auspices of

the Chamber of Commerce, Industry, Crafts and Agriculture of the
Province of Modena.

Constitution

approved with deliberations of the Constitutive Assembly of 9.4.1979
and modified with deliberations of the Extraordinary Assembly of
11.12.1979, of the Extraordinary Assembly of 27.4.1981 and of the
Extraordinary Assembly of 7.5.1984.

CONSTITUTION

Art. 1 - LOCATION OF OFFICE

The Cooperative Society of limited responsibility named:

- COFIM - CONSORTIUM OF CREDIT BETWEEN THE SMALL AND MEDIUM INDUSTRIES OF THE PROVINCE OF MODENA - Cooperative Society of limited responsibility.

is located in Via Ganaceto 134 c/o the Chamber of Commerce, Industry, Crafts and Agriculture of Modena.

Any change of address of the office is at the discretion of the Board of Directors.

Art. 2 - DURATION

The Society will continue in existence until 31.12.2010 but could be extended beyond this.

Art. 3 - PURPOSE

The Society exists to assist and facilitate its own members with financial transactions with banks dealing with liquid assets and real estate leasing.

To achieve this aim it will give real and 'non real' guarantees, and also guarantees to third parties and may join cooperative Consortia

or federations, associations, and other consortia whose activities may be useful to the said Cooperative Society. The Society may perform all the legal procedures and contracts of a movable and real estate nature and any other activity, even if not strictly provided for in the Constitution, provided that they are useful to the realization of the aims of the Society.

In the case of movable and real estate operations the Society may provide the necessary guarantees to facilitate the lease of movable goods and real estate.

Guarantees from third parties will be accepted to be used together with the credits given by the members, as well as those sums of money or those financial guarantees that will be offered or loaned to the Cooperative Society with no profit purpose by public or private societies, which will however renounce any right of petition and any recovery action. The funds of the Society may be invested in shares and bonds.

In particular, the Society may proceed, according to the guide-lines indicated in the present constitution:

- a) to draw up one or more agreements with Credit and Financial Institutions;
- b) to establish one or more Risk Funds;
- c) to determine the guide-lines for the use of the credits pledged by the members and third parties.

The Cooperative Society has aims of mutuality, hence:

- a) it does not seek profits;
- b) the division of reserve funds between the members is forbidden within the period of existence of the society;
- c) the entire residual assets after the liquidation of the society will have to be distributed for purposes of public benefit.

Art. 4 - AGREEMENT WITH CREDIT INSTITUTIONS

The Board of Directors may conclude agreements with one or more Credit Institutions with the aim of aiding the granting of credits to its own members. The agreements will have to conform to the following principles:

- a) the member who intends to obtain the credit on the conditions proposed by the Bank to the Cooperative Society will have to apply to the latter, which will forward the request to the **Sub-Committee**, reference to which follows in Art. 14;
- b) the aforementioned Sub-Committee will proceed with the selection of the applications for the granting of credit;
- c) the Cooperative, in guaranteeing the credits to its members, will arrange to collect the Bank guarantees, to which the said members and third parties are committed and will establish as a security at one or more Banks, one of more risk funds. To these funds will also be assigned all or part of a percentage, which will be calculated in addition to the interest that the credit beneficiaries will pay to the Banks, and will be fixed in the agreements with the said Banks. All the sums that would have been collected by the Cooperative Society, for whose aims this arrangement has been made, will flow to the risk funds.
- d) the cooperative, as a guarantee of the short or medium term credit given to its members which has been requested for the realization of projects of restructuring and re-conversion according to the programmes provided for by the law of 12.8.77, n. 675, will request a contribution according to the availability of funds referred to in law 675/77, and will constitute an appropriate risk fund with its own autonomous management;

- e) the agreements will fix the guide-lines for the granting of the guarantees on the part of the members, their duration and the manner of their termination;

- f) if the Credit Institution having had recourse to the risk fund(s) to pay for eventual defaults, finds an insufficiency of the said funds, it will have to avail itself of the guarantees granted by the members of the Cooperative Society. In this event, it will first have to contact the said Cooperative Society, which will arrange to divide proportionally between the members the burden of the non-fulfilling member within the limits of the guaranteed responsibilities of each. The Credit Institution will have the right to pursue the guarantor members who have not spontaneously answered the request for the pro-rata payment as above, up to the limit for each of them of the credit guarantees given;

- g) the agreements concluded with the Banks will have a limited duration; otherwise they will have to include the right of Cooperative Society to withdraw. In exceptional cases it may be that the conclusion of bank agreements will require prior examination of the requests of finance by the Credit Institution. The approval of such agreements will be the duty of - according to the constitution - the Board of Directors, which will, however, adopt the relative deliberation with the majority in favour of at least half plus one of the appointed members.

Art. 5 - MEMBERS

The number of members is unlimited and not less than the limits fixed by the law.

The members may be:

- a) ordinary
- b) corporate.

The following may be members, ordinary or corporate: the small and medium firms with industrial or related activities, provided that such activities take place in the province of Modena, even if the company office is in another province. The firms registered according to the law 25/7/1956 n.860 and its subsequent modifications may not be members (Registrar of Craft Enterprises). Corporate members, unlike ordinary ones, do not have the right to benefit from credits, but may become ordinary members simply by following the formalities indicated in art. 6 of the present Constitution.

Also enterprises that do not qualify as small and medium industries, are members without the right to benefit from any credit on the basis of Cofim conventions, so are public and private societies and physical persons who:

- a) make monetary contributions to risk funds or to the interest rate relief on the Cofim credit, or in order to contribute to the administration costs of Cofim;
- b) give their own guarantees to Credit or Finance Institutions in the interest of Cofim or its member.

The admission to the Cooperative Society must be approved by the Board of Directors. Their decision is not subject to appeal. All the members are bound to respect the rules of the present Constitution.

The responsibility of the members to the obligations of the society is limited to the amount of the undersigned social quota, except that provided for the guarantees referred to in art. 6 which follows for the relations with Credit/Finance Institutions, with which the Cooperative Society has concluded agreements.

Art. 6 - OBLIGATIONS OF MEMBERS

Members are obliged:

- a) to pay the social quota subscribed;
- b) to pay the variable quota necessary to the ordinary administration referred to in article 9 below;
- c) to release directly via the rightful or legal representative a guarantee of an amount not less than Lire. 1.000.000 = (ONE MILLION) as a guarantee of all the operations authorised by the Cooperative Society towards the Credit Institutions, with which the Cooperative Society has concluded agreements on the conditions and according to the guide-lines that will be fixed in the said agreements;
- d) moreover, in the event of the member obtaining the concession of a credit authorised by the Cooperative Society, to release a further guarantee of an equal amount equal to 1/15 of the credit obtained;
- e) in the event they are granted a credit, to release a bail of the amount of Lire 1.000.000 = (ONE MILLION) that will be deposited care of Cofim until the deadline of 12 months following the extinction of the said credit. The obligation to pay such bail

will be established each time by the Board of Directors. Such sums will be set aside and put into the Risk Fund or to deal with administrative costs.

- f) to pay an increase in the annual rate of interest equal to at least 0.50% on each operation effected through the Cooperative Society and to eventual further amounts at the discretion of the Board of Directors. Such sums will be set aside and put into the Risk Fund or used to cover administrative costs.

The guarantees referred to in paragraphs c) and d) will have total priority in relation to any other guarantee given by the same member firm and will guarantee the global amount of the operations of credit obtained with the assistance of the Cooperative Society. As a replacement of the guarantees similar personal obligations may be pledged by a third party(ies) especially if administrators, representatives or participants of the member firm, or shares officially quoted may be paid; such a possibility, to be considered exceptional, may only be carried out with the prior approval of the Restricted Committee, and after consultation with the Board of Directors.

In the place of the guarantee, the administrators of the society might accept a credit in money. The corporate members, not being able, unlike the ordinary members, to benefit from credits on the basis of Cofim agreements, are obliged only to the remittance of the said (reduced) social quotas.

Art. 7 - WITHDRAWAL, EXPIRY, EXCLUSION

The members cease to be members of the Society by withdrawal, expiry and exclusion. Every member has the right to resign from the Cooperative Society only in the case in which he/she does not have a

current operation guaranteed in his/her favour; the resignation will be communicated to the said society through registered letter.

In the case of the death of the owner of an individual member firm, the social bond expires and in the case of a member of the Cooperative Society being a firm, the expiry of the social bond will be when the said society becomes insolvent or is liquidated.

The expiry takes place by right also in the case:

- of prohibition, disqualification, criminal offence that may imply the prohibition even temporarily from public offices of the owner of an individual firm or of even only one member of the firm constituted in the form of a society of persons and of the President of the Board of Directors or Unique Administrator of the firm constituted in the form of a society of capitals;
- of cessation of the activity of the firm for whatever reason.

Exclusion takes place following a decision of the Board of Directors in any case in which the member:

- a) does not comply with the obligations deriving from the law, from the present constitution or indeed with the deliberations of the Assembly of the Board of Directors;
- b) is insolvent.

The decision concerning the exclusion must be notified to the person/firm concerned through registered letter with confirmation of receipt within 15 days from the said decision. Within 30 days from

the date of receipt it may be contested in front of the Group of Arbitration. The guarantee obligation of the expired, deceased or excluded member will remain valid, in relation to the Credit Institution for all the insolvencies that may happen within the 12 months following the date of the withdrawal, expiry or exclusion, provided that they are related to lines of credit granted before the recess, expiry or exclusion. In the case in which a member firm is refused the concession of a credit requested through the Cooperative Society and has no other existing loans, the Board of Directors, after consultation with the Restricted Committee, may immediately render the guarantee no longer valid. Withdrawal from the society for whatever cause, given the mutualistic aims of the society, will not give right to the liquidation of the withdrawn social quota, which remains annexed to the capital of the Society.

Art. 8 - SOCIAL CAPITAL

The social capital is made up of:

- a) the social capital (in variable measure) divided into shares of the nominal value of L.200.000 each for the ordinary members and of L.50.000 each for the corporate members;
- b) the reserves.

The transfer of shares is prohibited.

Art. 9 - FINANCIAL YEAR

The financial year goes from 1 January to 31 December of each year. At the end of each financial year the Board of Directors will prepare

the budget, including the statement of the account and the balance sheet.

The eventual surplus is incorporated into ordinary reserve or used to increase the risk funds; exceptionally, the administrators reserve the right to create new risk funds with the ordinary reserve. On the quotas there are no interest dividends distributed. For the ordinary management the Board of Directors may require the payment of a contribution, from every member once a year only, for a total amount equal to the 0,50% of the guarantees obtained through the cooperative society.

Art. 10 - MEMBERS OF THE SOCIETY

The following are members of the Cooperative Society;

- the President of the Cooperative Society;
- the Assembly of the members;
- the Board of Directors;
- the Sub-Committee;
- the Internal Audit;
- the Group of Arbitration.

Art. 11 - ASSEMBLY

The Assembly of the Cooperative Society, formed by the members or by representatives of the firms, societies or member corporations or their agents, is convened in Modena, but not necessarily at the office of the society, at least once a year; this is to be decided by the Board of Directors or the President, or by request of at least one third of the members. The conveying of the Assembly, whether ordinary or extraordinary must be notified to the members through:

- letter to be sent at least 10 days before the day fixed for the meeting;
- bill-posting of the notice of the meeting in the office of the cooperative; this is to be displayed at least 15 days before the date fixed for the assembly and/or publication of the notice of the meeting on the information bulletins of the Chamber of Commerce of Modena and of the Associations of Firms promoters.

The notice of the meeting must include the agenda, place, date and time of the assembly and may include also the date of the eventual second meeting which may take place the day immediately following the first.

The assembly may take decisions in the first and in the second meeting.

The assembly is presided over by the President of the Board of Directors, if the said assembly does not otherwise provide.

Art. 12 - VOTES AND MAJORITY

Each member has only one vote. Every member can be represented by another member through written delegation, but each delegate cannot represent more than five members.

According to art. 2372 of the Civil Code the administrators cannot act as delegate.

The vote cannot be given by correspondence.

The assembly proceeds to the annual approval of the accounts and gives the general directives for action by the Cooperative Society. The decisions of the assembly are valid with the presence, also by delegation, in the first meeting of 2/3 of the voters and with a number of votes in favour equal to at least half plus one of the present members, or in the second meeting, whatever the number of members present, also by delegation and with the number of votes in favour equal to at least half plus one of the members present. Minutes of the assembly will have to be compiled and written in the appropriate book.

Art. 13 - BOARD OF DIRECTORS

The Board of Directors is composed of up to 15 members, elected by the ordinary assembly and chosen from among the ordinary members. The said assembly can establish that the nomination of a maximum of 4 more members is left to one or more public institutions, chosen by the Directors elected by the Assembly among those indicated in Art. 5 of this Constitution.

The Board of Directors remains in office for three financial years. The Administrators are exempt from giving bail and have no right to remuneration.

The President and one or more Vice Presidents of the Board of Directors are nominated by the said Board. The President may delegate all or part of his powers and his functions to one or more Vice Presidents.

The Board of Directors, apart from deciding (without possibility of appeal) on the requests of admission to the Cooperative, is responsible for the ordinary and extraordinary administration, for the execution of the statutory rules and of the decisions of the assembly.

It will nominate the members of the Sub-Committee choosing them from among its members. It may also cancel membership of this committee and decide on the rules of the said Committee. The meeting of the Board of Directors is convened by the President at any time that he or she regards opportune or when at least one third of the Directors apply in writing. In the latter case the assembly must be convened by the President not later than 30 days from the request.

The meeting is called by letter to be sent at least 5 days before the assembly.

The guide-lines of the elections are established by the said Board. Its decisions are valid in the first meeting in the presence of the majority of the Directors and in second meeting in the presence of at least 1/3 of the Directors. In the first as in the second meeting the decisions are valid only if taken with a vote in favour by at least the majority of the members present and, in any case, with the vote in favour of at least 5 Directors.

Minutes of the decisions of the Board of Directors will be drawn up, and will be transcribed in the appropriate book and these minutes will be read at the beginning of the following meeting.

Art. 14 - SUB-COMMITTEE

The Sub-Committee consists of 6 members of the Board of Directors, of which one, nominated by the said Board, acts as President.

A representative chosen by the Chamber of Commerce, Industry, Crafts and Agriculture of Modena, the President of the Board of Directors of the Cooperative Society, the Vice presidents of the said society and one or more experts nominated by the Board of Directors can also participate in the deliberations of the Sub-Committee, without voting rights.

No delegation is permitted for these meetings.

The Sub-Committee will be valid with the presence of at least three members and decisions must always be unanimous.

It is the Committee's concern:

- a) to decide on the applications for bank credits requested by the members and on all the problems concerning the credit applications;
- b) to decide on the acceptability of the guarantees and of the shares, referred to in art. 6. For the decisions about guarantees by third parties and about payments of shares, the Credit Institutions will have to give their assent and the Sub-

Committee will have had to previously seek the opinion of the Board of Directors.

- c) at any moment and with the unanimous agreement of the President of the Sub-Committee and of the President of the Board of Directors or his or her delegate the guarantees relative to the overall quantity of guarantees and those relative to the risk fund can be revoked according the timing and guide-lines fixed in the agreement with the Credit Institutions. In such cases the President of the Sub-Committee must immediately communicate with the Credit Institution concerned and must convene as soon as possible a meeting of the Sub-Committee to re-examine the position.

The amount of credits, the procedures of investigation and the rules of conduct of the Sub-Committee will be established by the Board of Directors in an appropriate internal regulation.

Minutes of the deliberations of the Sub-Committee will be drawn up to be transcribed in the appropriate book.

Art. 15 - REPRESENTATION

The signatory and the representative of the Society is the President of the Board of Directors, who therefore can perform all actions that are included in the aims of the society.

In case of the absence or impediment of the President, all his or her powers belong to the Vice President(s). The Board of Directors can delegate as signatory another Director provided that the relevant legal norms are observed.

Art. 16 - INTERNAL AUDIT

The Internal Audit is composed of three active members and two deputies.

Non members can also be elected as auditors. The nomination of one or more auditors can be attributed to the financing public institutions.

Art. 17 - GROUP OF ARBITRATION

The Group of Arbitration is composed of three members elected by the assembly.

The Group of Arbitration decides on the resolution of all controversies that might arise between members and the Cooperative Society and its administrative bodies.

Art 18. - TERMINATION AND LIQUIDATION

The society ceases to exist for the reasons provided for by the law. In the event of the Cooperative Society being put into liquidation, the assembly will elect a liquidator, who will take care of the cancellation of all relationships in which the Cooperative is listed as creditor or debtor, whether towards third parties or its own members.

NOTES ON EMILIA ROMAGNA

Mario Pezzini

The industrial structure of the Emilian provinces of Bologna, Modena and Reggio - Emilia is characterized by an industrial development based on small firms. There are some common historical elements at the base of the industrial fabric of small locally owned firms that can be singled out:

1. The areas included in Emilia and in other parts of the Third Italy were characterized by family-run farms: mezzadria (i.e. a sort of share-cropping), small holding, and renting of land. Once transformed and facing the increase in industrial demand of labour, the family put its experience to use in the internal organization of the members and making use of its past skill in flexible labour organization to supply the industrial development with a flexible and cheap labour force. The family enabled its members to work either full time or part time or seasonally or at home getting high rates of participation. Moreover, the culture of work which was deeply ingrained in such families led them to accept working conditions which others might have refused, and for longer periods.

The presence of family-run farms has had important indirect effects on the emergence of entrepreneurs. As the decision to set up a firm is influenced by the social climate present in the local community, in these areas with a widespread tradition of self-employment there was less resistance to someone who became an entrepreneur. Even in the case of mezzadria, the presence of an absentee landlord engaged in one of the professions in an urban context and anxious to avoid involvement made the mezzadro

effectively an independent employee able to undertake decisions about investments, crops and labour organization.

2. The areas included in the Third Italy were characterized by a network of towns interspersed with rural settlements. The role of towns has been that of activating the process of growth at the moment of expansion of demand.

a) The towns which have been favoured by good communication links have been centres for commercial activities with foreign countries and have helped in the founding and development of small firms in the area. See, as an example, the existence in Florence of many British and American buyers due to the history of the town.

b) Towns have also been centres of local artisan activities whose products are typical of a town with a large market. In Carpi, for example, from the sixteenth century onwards, straw hats were made in small workshops or through the putting out system. Initially the market was national, but from the middle of the eighteenth century straw hats were exported abroad. At the beginning of the nineteenth century a commercial network existed with branches in Paris, New York, London, Manila, and Tien Tsin. When Carpi faced a crisis in straw hats and started to produce clothing and knitwear, it was quite easy to use the ancient international network to sell and the peculiar system of production based on small workshops and homework to produce.

c) Towns have provided technical knowledge (particularly mechanic skills). High level technical institutes have performed as advice and consultation services for ex-pupils who became artisans.

3. The central areas of Emilia and in general areas with the most interesting forms of small-firm development have had, in the past, medium-sized and, sometimes, large firms which have contributed to their present structure. The process which leads to the diffusion of firms took on many forms.

- a) Pre-existing large firms were dismantled after the second world war, and some of the skilled workers who were redundant set up on their own.

- b) Large or medium-sized firms decentralized their production during the late '60s and the '70s to escape the strength of the unions, traditionally bigger in the larger plants. The suppliers could either be of the traditional artisan type or firms set up with the encouragement of the large firm.

- c) Backward and forward linkages with large or medium-sized production stimulated the birth of small firms from the demand side.

In other words, a high number of entrepreneurs, particularly in the machine sector, had previously had a career as either blue or white-collar workers in medium or large firms or at the very least had grown up in their industrial atmosphere.

In conclusion, in the Third Italy areas, history often provided a suitable labour supply, a social atmosphere which encouraged entrepreneurial activities, a habit of producing together in a non vertically integrated way, a good knowledge of foreign markets, diffused technical skills at a high level, acquired from medium-sized and large firms or from high level technical institutes.

Note on policies

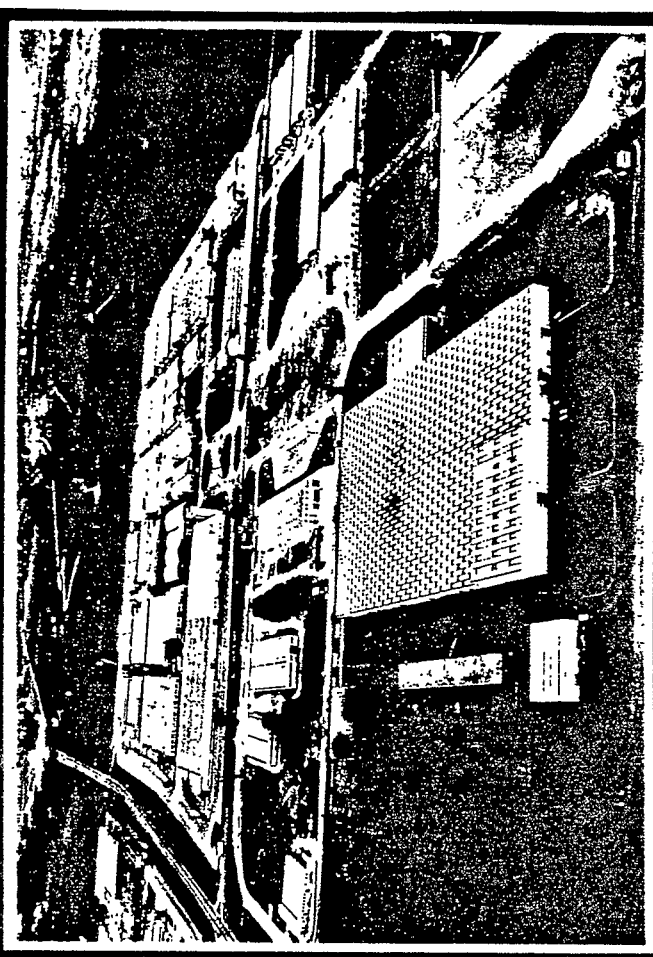
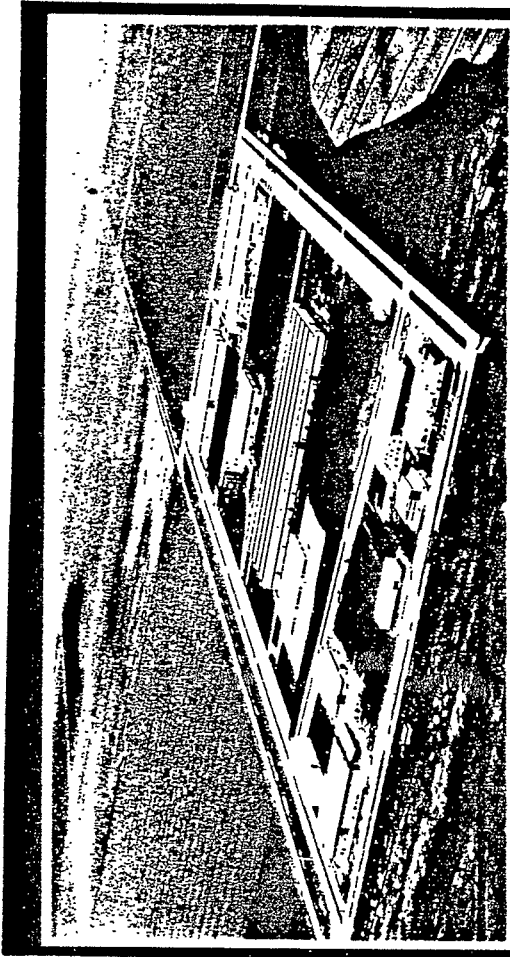
Industrial districts can be said to have advantages and disadvantages with respect to large firms. But while, for the latter, appropriate measures of industrial policy have already been designed and implemented, in Italy for the former a coherent framework is still lacking. It should be noted, moreover, that the need for an industrial policy for industrial districts is independent of the fact that these districts are preferable to other forms of industrialization. It emanates, above all, from the specificity of the districts and from the importance of guaranteeing a continuity with their present development.

In spite of the lack of a coherent framework in the areas of maximum concentration of industrial districts, different types of policies have already been adopted. One such example consists in making industrial parks and sheds available at the lowest possible cost to small firms. Another attempts to facilitate small firm access to financial loans. Of particular interest is the creation of centres which offer real services to small firms. These centres have been created to respond to needs for collective services that the firms, given their limited size, are not able to internalize, and that the market cannot offer spontaneously. The ability, for example, to obtain information about new components and new technologies, to evaluate the trends of the international markets, to be familiar with the norms regulating imports for other countries, are not within easy reach of small firms.

Up to the second half of the '70s, the need for such a policy was not clear. Local historical resources and relatively low average cost of labour compensated the lack of information, but now the price competition from other western countries, high rates of introduction of new technology and quick changes in fashion make visible the delay.

Development Areas

ERVET, in agreement with local government boards and working together with the companies and business associations involved, has taken part in the setting up and development of the twelve industrial/crafts areas for regional stabilisation, as well as the development of general area facilities).



Areas developed through ERVET operations

Areas	Overall Area		Employment Capacity (a)	Area Under Development		Employment Capacity
	Hectares	Hectares		Developed	Under Development	
1. Piacenza	110	29	2,750	29	-	725
2. Ostellato (Fe)	120	60	3,000	60	40	2,500
3. Poggio Renatico (Fe)	20	5	500	5	15	500
4. Forlì	306	226	7,650	226	35	6,525
5. Dovadola (Fo)	6	6	150	6	-	150
6. Civitella di Romagna (Fo)	5	5	125	5	-	125
7. Cesena (Fo)	210	140	5,250	140	-	3,500
8. Mercato Saraceno (Fo)	30	-	750	-	3	75
9. S. Clemente Valconca (Fo)	40	17	1,000	17	-	425
10. Borgo Val di Taro (Pc)	31	8	775	8	-	200
11. Toano Fora di Cavola (Re)	17	17	425	17	-	425
12. Riovaggio di Monzuno (Bo)	61	6	1,525	6	-	150
	956	519	23,900	519	93	15,300

(a) This model assumes 25 employees for each hectare of land.

Even if the centres for real services work for the same industrial district, they can have different shapes: a single person who works with a data bank to answer the request of a final firm looking for a subcontractor having certain characteristics, or the capacity of a 17 people group who provides, collects and supplies information on trends in fashion and in consumer tastes, and on new materials and light technology. Anyway, some important threats can be singled out:

1. The presence in the centre's board of directors of private actors to legitimate the centre as regards the entrepreneurs.
2. The vertically oriented nature of the centres. The centres are often designed to operate for specific sectors instead of working on general horizontal factors.
3. The public nature of the output of the centres. There is no one who, being willing to pay a relatively low entrance fee and a relatively low price, can be excluded from the services.
4. The relatively small size of the centres. The number of employees is small, and among them prevail people with technical skills. The structure is service oriented and, at the beginning, a centre starts offering no more than one or two specific services.
5. The centres are located inside the industrial districts to exploit agglomeration economies.
6. The development of processes to ensure the adequate consensus for the start up in a situation which in which the firms often do not necessarily perceive the crucial importance of the services to be supplied. An example is a long period of high level training courses about problems in specific sectors.

Towards a Strategy for the Larger Nicosian Furniture Firms

Michael Best

I. TWO ORGANIZATIONAL MODELS

Two organizational models for tackling the need for restructuring in the Nicosia furniture industry can be identified, the first from American history and the second from a study of the Third Italy.

1. Common Ownership

In the last decades of the nineteenth century business organization in America went through a dramatic and rapid transformation in response to the emergence of mass production technologies. Hundreds of family firms within each of many industrial sectors were organized first into holding companies, later into trusts, and finally into corporations. The new organizations were created to facilitate the restructuring of production including specialization by function. Family firms were challenged by the emergence of vertically integrated enterprises that were organized around the principles of mass production. Many family firms hung on for a period of time in local markets but with the development of transportation their niches often disappeared.

Holding companies were a first step to rationalization as they offered centralized marketing, purchasing, and finance. But before long the holding companies and the trusts gave way to the central office, functionally departmentalized business organization. The reason was mainly that only with common ownership and managerial

control could the various phases of production be effectively coordinated and reorganized around the new principles. Firms that did so and did so first won in the marketplace: they could offer lower prices because they were enjoying economies of specialization and flow.

The idea of financial consolidation has certain appeal as a model for the larger Nicosia furniture makers. It would allow each firm to specialize in one or two phases of the production chain. The benefits of a financial consolidation are that it would lock each firm into the new organization. Without financial consolidation, each firm would still have a conflict of interest between his own firm and cooperation. Financial consolidation would have to be accompanied with physical restructuring into specialized production departments. One department, for example, would specialize on chairs, another on panels, another on upholstery, another on finishing, and yet another on marketing and selling.

The idea of informal agreements to specialize, as opposed to financial consolidation and production reorganization, has certain appeal. Here firms would specialize as in the other case. One serious problem is evaluating the machinery that now exists in the various plants. The problem in this arrangement is coming to agreement on the value of the machinery. Each private company would attempt to drive a hard bargain in the sale of its machinery to the purchasing firm in charge of specialization. In the case of financial consolidation, the cross holding of similar machinery would not present as much difficulty. An independent assessor could evaluate the machinery of each firm and divide up the shares accordingly.

2. Industrial District

Our visit to Italy has demonstrated the power that an industrial district can give to small firms. Clearly firms with only 3 or 4

employees can be internationally competitive if they can rely upon access to the business services of an industrial district. Unfortunately, a furniture industrial district does not exist in Nicosia. One could be developed but it would not likely address the problems of the big firms. These firms are vertically integrated and desperately need to specialize by function if they are to compete successfully against firms located in industrial districts with export marketing consortia abroad. For these reasons, an industrial strategy for the Nicosia furniture firms must be two pronged: consolidation of a number of big firms and the development of collective services for the small firms. A number of the big firms will not join such a consolidation. And, in any case, a consolidation would fail unless it was anchored by a management team that could work extremely well together.

Therefore, it seems to me, that the future will see a shake-out of furniture firms. Hopefully, one of the bigger firms will develop a management team approach, consolidate, rationalize and attempt to position itself against the medium sized European furniture firms.

II. A MODENA MODEL OF SPECIALIZATION AND COLLABORATION

The three firms we visited in the Modena area provided a model of specialization and collaboration without consolidation.

Eurocom

Eurocom was established in 1966 as a kitchen manufacturer. In 1979-80 it changed from a kitchen manufacturer to a firm specializing in the production of post-forming rolled-sections for a number of clients including a specialist kitchen manufacturer that we visited named Malavasi: Programma Cucine.

Eurocom is the only firm in the Modena area specializing in post forming although there are about 30 in Italy. Eurocom has 20 employees and a turnover of between 2 and 3 million pounds sterling.

Eurocom's distinctive competence is in cutting and veneering or lacquering curved edges on particle board. As demonstrated in its catalogue, Eurocom can supply its buyers with virtually any radius or rounded angle of panel edging. Such facilities do not exist in Cyprus as firms do their own edge cutting of the more expensive medium density fibre board. Still, they can not offer the extensive range of curves and angles.

Eurocom is a flexible producer. All chipboard goes through a cutter which cuts and shapes both sides. The cutter machine processes 120 pieces per hour and has a set-up time of 90 minutes.

The second stage is edgebanding which is linked to the cutter. All pieces pass through the edgebander although the edgebander is not

applied to all pieces. The edgebander is a fast, cheap machine with set-up time of less than a minute.

The third production stage is veneering or lacquering for which Eurocom has three lines in order to keep the cutter working at full capacity and to be able to simultaneously work on three batches. Each line can veneer or laminate. All pieces pass through one of the three machines to receive veneer or laminate for the flat surface. Each processes between 25 and 30 pieces per hour and takes about 2 minutes to set up.

The fourth production stage is for veneering rounded edges and does about 150 pieces per hour. It handles all of the output of the cutter and the three surface covering machines. The set-up time is a matter of minutes. This stage is not separable as it is crucial to quality that the edges be covered shortly after cutting.

Finally, Eurocom has a computer numerically controlled drilling machine that can drill holes according to the customers' specifications and in small batches.

Eurocom's competitive edge comes from being able to produce a high quality and in short series.

Malavasi

The second furniture firm we visited in Modena specializes in kitchen furniture. Malavasi has 28 employees and an annual turnover of 4 million pounds sterling. Any rounded edge post-formed panels are supplied by Eurocom. Ninety degree edges are done within Malavasi. Malavasi has 10 reps and sells to 200 retailers

Malavasi has a computer numerically controlled router machine that allows it to produce customized kitchen doors in small batches. In one hour any programme can be modified and the machine can be set up for the new operation. When the router is not being used for making kitchen doors, it is used to make frames for the ceramic tile industry. This way the CNC router is kept working to capacity.

Malavasi competes on the basis of price, style (more customized than the mass producers), flexible (small batches can be run economically), and replacement service to the client (Malavasi can economically replace individual kitchen doors for 10 years after the original purchase).

Malavasi can also do marble tops because of a link with marble producers in Verona.

Malavasi has a finishing department, but most of the finishing is done outside, particularly at the following firm:

Cavani & Di Mattia

C and D for short - specializing in finishing. It has a polishing oven that maintains a high degree of pressure to keep all foreign materials out and the proper temperature for the application of lacquer. C and D employs 6 people and works for 3 firms. C and D is able to economize on the use of the oven and lacquer by running the oven to capacity. The reason that Malavasi does not have its own specialist finishing department is because it is uneconomical to shut down the oven and to continuously switch lacquers. C and D bunches orders and uses the same lacquer to match finishing from different customers.

By staying small C and D is able to maintain controls' required for high quality finishing. Its employees also specialize and, not unimportantly, C and D is able to dispose of its waste chemicals in an environmentally safe way. Finally, spraying is a dangerous job unless safety precautions are followed and C and D prides itself on protecting its workers with a series of measures including spray water screens and air extraction systems. These are not generally available in small shops that do their own finishing.

Cipro: l'industria del mobile e la sfida europea

di Marino Gottardi e Paola Govoni

L'industria del mobile cipriota è alla ricerca di una strategia produttiva e commerciale per rafforzarsi sul mercato interno e penetrare i mercati europei a livello competitivo

L'industria del mobile in cifre

Gli anni dal 1974 al 1984 sono stati molto positivi per l'industria del mobile cipriota; in particolare, dal 1980 al 1984 il settore è cresciuto del 42,7%, contro un aumento del 21% dell'intero settore manifatturiero. Questa rapida crescita va ricondotta a tre fattori determinanti per l'incremento della domanda:

- 1) un inaspettato "boom" dell'industria delle costruzioni, che ha dovuto fornire alloggi ai 200.000 profughi greci, a seguito della invasione turca dell'isola;
- 2) la crescita esponenziale dell'edilizia alberghiera;
- 3) il flusso sostenuto di esportazioni verso il Medio Oriente.

Questi tre fattori trainanti si sono lentamente esauriti, tant'è che nessun incremento significativo è stato fatto registrare dal settore nel 1985 e 1986, mentre si è assistito ad uno spostamento del flusso delle esportazioni dai paesi arabi verso l'Europa e gli Usa. Le esportazioni di mobili in Arabia, in particolare, hanno avuto una flessione marcata, passando dalle 116.000 sterline cipriote nel 1986 alle 60.000 sterline nel 1987. (1 sterlina = 2.800 lire, tasso di cambio nov. '88).

Il volume totale delle esportazioni dal 1982 al 1986 non ha comunque mai superato il 4% della produzione totale, ed è costituito in prevalenza da sedie destinate al mercato inglese. Il totale in valore delle esportazioni nel 1986 è stato di 117.000.000 di sterline.

Nel 1986 Cipro ha importato mobili e componenti in legno per un milione di sterline; l'84,4% dell'import proviene dai paesi della CEE, con l'Italia al primo posto, seguita da Grecia, Germania, Gran Bretagna, Francia e Spagna.

Il ridotto volume delle importazioni è dovuto ad una politica fortemente protezionistica che da sempre difende il



mercato locale dagli "attacchi" commerciali della forte concorrenza europea. Forti di questa situazione, gli imprenditori ciprioti del settore del mobile hanno perseguito una politica improntata a un marcato individualismo, al contenimento degli investimenti destinati all'innovazione tecnologica e alla qualificazione professionale degli addetti, alla imitazione sfrenata del design europeo e italiano in particolare. Questo è lo scenario che si è presentato alla missione di studio inglese che nel 1987 ha visitato Cipro per conto dell'UNIDO, allo scopo di delineare una strategia industriale per l'intero settore manifatturiero dell'isola: industria alimentare, abbigliamento, calzature, mobili e lavorazione dei metalli. La missione ha lavorato d'intesa con il Ministero del Commercio e Industria, l'Industrial Training Authority, la Camera di Commercio centrale, le associazioni di categoria e la Cyprus Development Bank Ltd.

Al giro di boa.

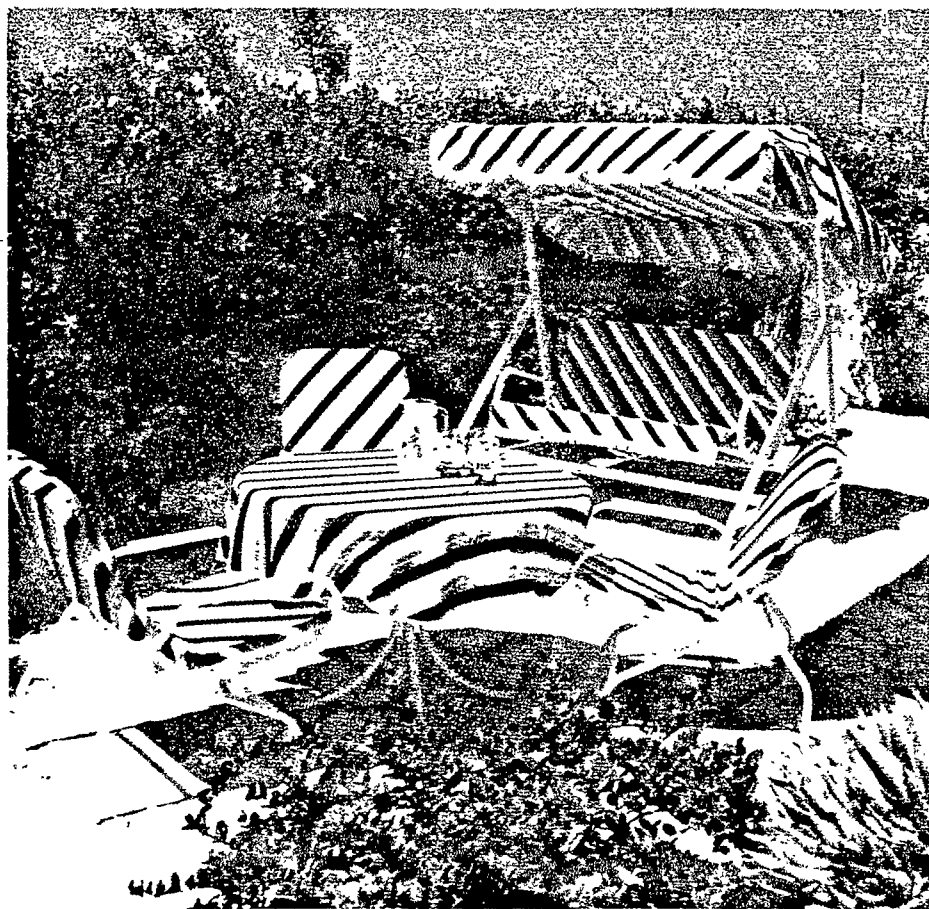
L'esigenza e la ricerca di una strategia industriale va vista in relazione agli accordi economici recentemente stipulati

tra Cipro e la Comunità Europea. In particolare, l'accordo denominato "Customs Unit" ed entrato in vigore nel gennaio 1988, prevede una progressiva riduzione delle forti tariffe doganali sui mobili di importazione durante i prossimi 10 anni, al termine dei quali i dazi doganali saranno totalmente aboliti. Le conseguenze di questo accordo, anche se non immediate, sono comunque di portata enorme per il settore del mobile, in quanto da un lato l'Europa diventerà inevitabilmente il principale mercato di sbocco delle esportazioni cipriote e, dall'altro, aumenterà la concorrenza europea sul mercato interno. A quel punto, l'industria cipriota del mobile dovrà essere sufficientemente competitiva per arginare le importazioni dai paesi europei e potersi a sua volta affermare su quei mercati.

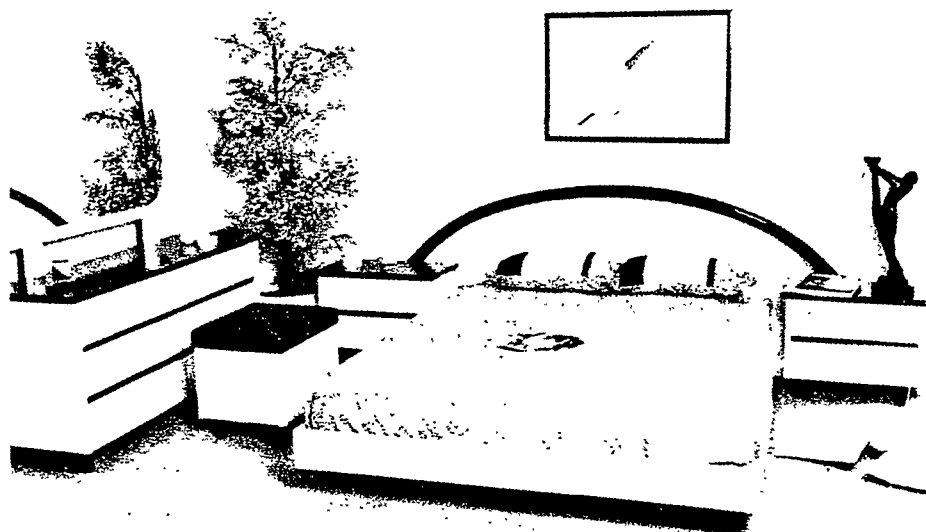
La situazione produttiva

Il prodotto

La notevole diffusione a livello internazionale delle riviste di arredamento italiane ha consentito anche all'industria mobiliare cipriota di raccogliere spunti e proposte per la propria gamma produttiva.



Un modello di camera da letto (A-Z).

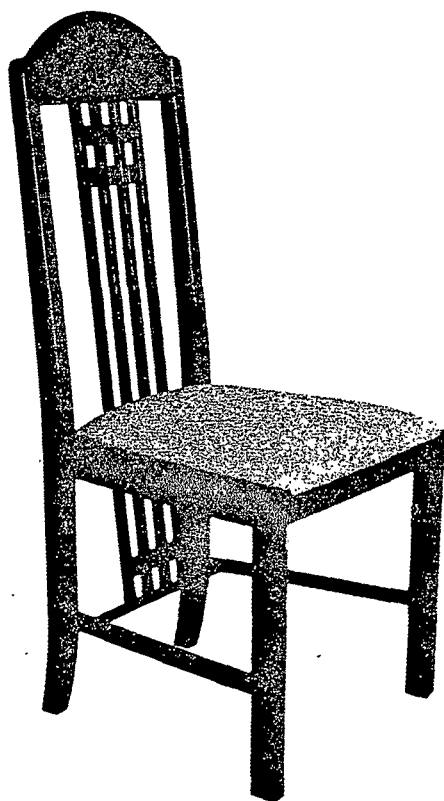


Mobili da giardino (A-Z).

Scheda informativa

Grande pressappoco come le Marche, Cipro è la terza isola del Mediterraneo. La posizione geografica strategica ne fa un punto di incontro tra Europa, Asia e Africa. È membro delle Nazioni Unite, dell'OCSE e del Commonwealth; dal 1987 membro associato della CEE, con la quale ha firmato un accordo doganale in vigore dal gennaio 1988.

L'economia è prevalentemente agricola; sta crescendo il settore manifatturiero, in particolare l'industria metallurgica. Il turismo costituisce una delle principali fonti di introito per il paese. La situazione politica è particolarmente complessa: Cipro ha ottenuto l'indipendenza dagli inglesi nel 1960 ma dall'estate del 1974, quando le truppe di Ankara hanno invaso il paese, l'isola è divisa in due: a nord vivono 120 mila turcociprioti, a sud 600 mila grecociprioti. Tra le due zone, la "green line", una linea di demarcazione con un contingente di pace dell'ONU che attraversa anche Nicosia, la capitale. Nel novembre 1983 nella zona occupata è stata proclamata la Repubblica turca di Cipro del Nord, guidata da Rauf Dentash. A capo della Repubblica cipriota, il presidente-manager Jorgou Vassiliou, un progressista particolarmente attento alle possibilità di cooperazione internazionale, nel cui ambito l'Italia è considerata un partner privilegiato, attualmente al secondo posto per interscambi commerciali con Cipro, dopo la Gran Bretagna.



Sedia (A-Z).

Se si eccettua il mantenimento, voluto e valorizzato da alcuni, di una tradizione del mobile intagliato (carving) che conserva uno spazio ben definito nella produzione e nel gusto dei ciprioti, per il resto le oltre 700 aziende presenti nell'isola si stanno rivolgendo decisamente al prodotto moderno.

La gamma offerta è sufficientemente varia e variabile secondo le esigenze personali del cliente (colori, misure, ecc.). Il ciclo di vita dei prodotti che riescono a trovare spazi su cataloghi è comunque relativamente basso; proprio questi cataloghi risentono di una impostazione generica, servono cioè più da motivo di partenza che da sicuro punto di arrivo. Il cliente ed il mobiliere discutono su un prodotto, lo elaborano con parole e schizzi, ed il risultato finale è un qualcosa, a volte anche molto valido come design, ma che non sempre ha stretti legami di parentela con l'idea originale. Si deve riconoscere comunque un'ottima predisposizione nello scegliere e nell'interpretare idee e prodotti con gusto



Letto singolo (A-Z).

e buona tecnica industriale. Gli sforzi degli imprenditori ciprioti stanno andando ora verso un miglioramento della qualità finale del prodotto; sedie e tavoli laccati devono avere, oltre un apprezzato design, un livello qualitativo di finitura coerente con la progettazione dell'articolo e con la sua filosofia abitativa, per poter essere competitivi su altri mercati. Il prezzo dei mobili risente da un lato del potere di acquisto locale e si mantiene quindi su livelli inferiori rispetto ad una possibile concorrenza; esso si fonda comunque su un confronto con prodotti analoghi "made in Cyprus" piuttosto che su un elementare calcolo dei costi industriali ed una valutazione del margine operativo.

Tecnologia italiana

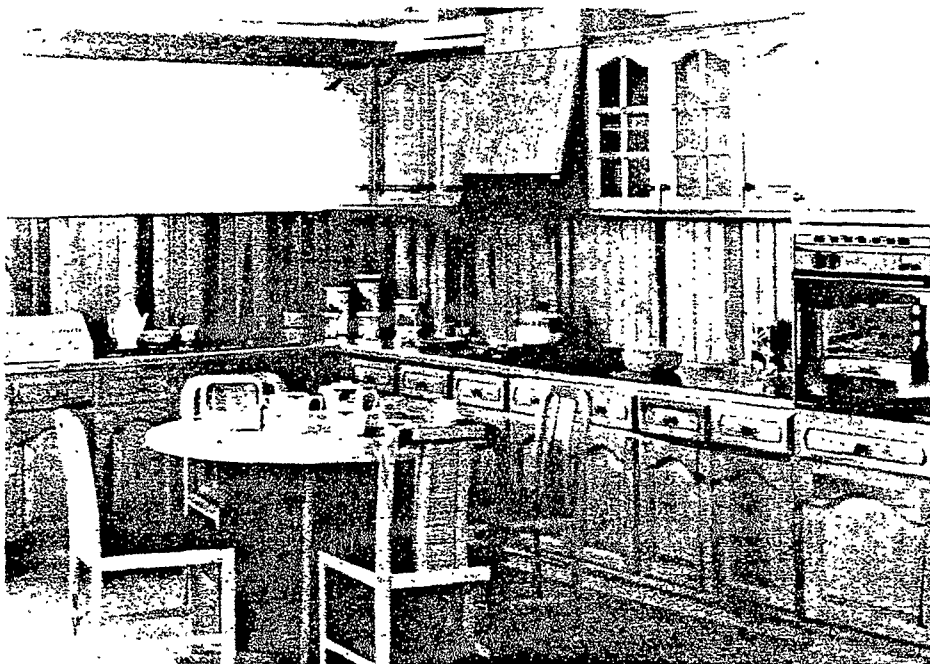
I macchinari presenti nell'isola sono per la maggior parte di provenienza italiana: si ritiene che l'industria per le macchine del legno in Italia abbia saputo e voluto, forse più che altrove, accogliere le richieste locali e fornire anche un servizio di assistenza, reso ovviamente difficile da problemi logistici.

Le soluzioni tecniche sono a volte ingegnose e interessanti, soprattutto dove devono far fronte a carenze strutturali ed impiantistiche o a mancanza di informazione tempestiva e aggiornamento sull'evoluzione del settore.

I macchinari esistenti servono per lavorare principalmente l'MDF, che è di gran lunga la materia prima più usata a Cipro. Alcuni tipi di massiccio, quali il pino locale, che costituivano caratteristica e ricchezza dell'isola, cominciano a presentare problemi di reperibilità e di qualità. Vengono usati comunque, con buoni risultati, anche pino di Svezia, faggio, frassino, rovere e mogano. Ad una sufficiente qualità della materia prima ed a buone tecniche di lavorazione, fanno però riscontro, come si diceva, difficoltà nella finitura, sia come accessori sia come verniciatura; questi problemi sono in testa alle priorità che l'industria del mobile cipriota si è posta per superare un "gap" non impossibile.

Criteri organizzativi

L'imprenditoria cipriota è costituita mediamente da quarantenni che sembrano



Un modello di cucina presentato da A-Z.

sufficientemente esperti per conoscere cosa avviene anche al di fuori dell'isola, e che non sono privi di stimoli per voler migliorare, ampliare e rendere più efficienti le proprie aziende. Ecco che nasce perciò l'interesse per capire e interpretare le vere innovazioni anche organizzative che si rivelano vincenti nel settore del mobile in Europa.

Un adeguato sfruttamento della capacità produttiva, un controllo corretto dei tempi di lavorazione, un utilizzo più razionale dei materiali, una moderna impostazione del sistema di gestire le scorte, un'attenzione particolare al problema della professionalità e dell'ambiente di lavoro: queste possono essere le principali direttrici sulle quali intende muoversi l'imprenditoria cipriota nei prossimi anni.

Ci sono delle realtà industriali che operano molto attivamente, soprattutto nella nuova zona industriale di Limassol e che possono avvalersi di criteri impiantistici decisamente moderni; l'idea di trasferire anche le unità produttive che operano attualmente in locali decisamente non adatti allo scopo in questi nuovi insediamenti è già qualcosa di più che una semplice ipotesi. Se i vincoli politici e burocratici cadranno, si potrà

pensare a breve ad un efficiente sistema industriale che beneficerà, per il solo fatto di aver risolto problemi logistici, di numerosi e concreti risultati immediati.

Disegni strategici a medio e lungo termine, riguardanti politiche consortili, centralizzazione di servizi tecnici e commerciali, supporti organizzativi comuni alle aree e/o alle aziende interessate, saranno naturali conseguenze di scelte corrette e lungimiranti.

Un esperimento pilota

L'accentuato carattere di individualismo che caratterizza l'imprenditoria mobiliare dell'isola è un ostacolo al diffondersi di forme di cooperazione che consentano di usufruire al meglio di servizi comuni, suddividendo i costi. Parlando di servizi comuni, ci riferiamo agli approvvigionamenti di materia prima, alla centralizzazione di alcune lavorazioni (sezionatura pannelli, bordatura, verniciatura) e servizi (contabilità, calcolo dei costi, trasporto merci) alla promozione delle vendite (catalogo, partecipazione a fiere), alla organizzazione di corsi di formazione e aggiornamento. Inoltre, la forte integrazione verticale

che contraddistingue le aziende mobiliere dell'isola e il sistema di vendita diretta costringono i produttori a tenere in catalogo una vastissima gamma di prodotti, introducendo annualmente nuovi modelli, spesso senza togliere dalla produzione i vecchi.

Tutto ciò aumenta i costi di produzione, a scapito della specializzazione e della qualità.

Alla luce di queste considerazioni, appare tanto più coraggiosa e interessante l'iniziativa di 12 produttori di mobili di Limassol riuniti in una joint-venture, la A to Z Furniture Ltd., che dal 1987 commercializza una parte della produzione dei soci nei quattro show-room delle principali città dell'isola.

L'impostazione che si è data A to Z prevede che ciascun produttore fornisca al "consorzio" una determinata tipologia di prodotto (camere da letto, camerette per ragazzi, mobili da giardino, componibili, sedie, mobili in rattan etc...) in modo da garantire al cliente degli show-room una scelta completa, continuando allo stesso tempo a commercializzare in proprio e direttamente il rimanente della propria produzione (generalmente dal 40 al 60%).

Le dimensioni aziendali variano da un minimo di 3 addetti a un massimo di 110; il fatturato per addetto da 20 a 50 milioni di lire.

Oltre alla varietà dei prodotti offerti e ad uno standard qualitativo medio-alto, un punto di forza di A to Z è costituito dai tempi di consegna, che non superano i 17 giorni. Per regolamento interno, i produttori devono consegnare la merce allo show-room entro 15 giorni dall'ordine; in caso di ritardo, scatta una penale pecuniaria progressiva.

A to Z garantisce ai clienti la riparazione e/o la sostituzione di mobili con difetti di costruzione o finitura.

Tutte le 12 aziende hanno quote paritarie e uguale potere decisionale; esiste un comitato esecutivo composto da 5 membri che si riunisce settimanalmente per esaminare le questioni sul tappeto e sottoporle al voto collegiale.

A to Z offre ai suoi associati (recentemente diventati 13) i seguenti servizi comuni:

- vendita e distribuzione;
- acquisto materie prime e accessori a prezzi scontati;
- trasporto mobili;
- pubblicità;
- marketing;
- design;
- servizi finanziari (prestiti, fidi etc.).

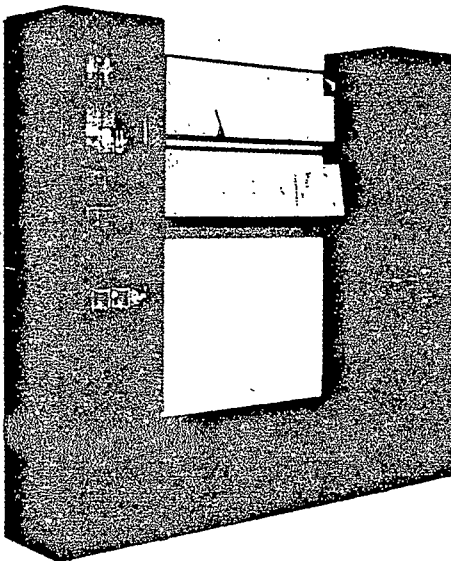
Nuovi spazi per la formazione

Una iniziativa di carattere innovativo per il settore mobiliario dell'isola è stata l'organizzazione di due seminari, nel mese di gennaio 1989 rispettivamente negli show-room A to Z di Nicosia e Limassol, con la partecipazione di tutti gli imprenditori associati. I seminari sono stati tenuti da Marino Gottardi del Centro Studi Industria Leggera, nell'ambito di una consulenza tecnico-organizzativa commissionata dalla Cyprus Development Bank Ltd. Si è trattato di un primo seminario a carattere informativo, che ha messo a confronto la realtà cipriota del settore con quella europea e italiana in particolare (considerata un caso di successo da studiare e imitare), soffermandosi in particolare su alcuni aspetti-chiave: il prodotto, la programmazione della produzione, l'innovazione tecnologica, il mercato e i sistemi di informazione. Il secondo seminario, tenutosi al termine delle visite alle aziende e quindi dopo aver acquisito un bagaglio di conoscenze e informazioni dirette "sul campo", ha affrontato i punti di forza e di debolezza del settore, presentando proposte concrete per interventi a livello sia di singola azienda che di consorzio, tenendo presente lo scenario in cui queste aziende si muovono, le prospettive possibili a breve e medio termine e le possibili minacce.

Viaggio di studio in Italia

All'insegna della informazione e della formazione, si è svolto dal 22 al 29 gennaio scorso un viaggio di studio di una delegazione cipriota accompagnata da due rappresentanti inglesi del team UNIDO, Missione di Strategia Industriale per Cipro.

Il gruppo, composto da produttori di mobili, rappresentanti delle associa-



Mobile a giorno di A-Z.

zioni di categoria, della Camera di Commercio, del Ministero Commercio Industria, della Industrial Training Authority e di A to Z Furniture Ltd., ha visitato aziende di mobili, impianti di essiccazione e consorzi a Cabiata e Cantù. A Milano, sono stati ricevuti dallo staff del Centro Studi Industria Leggera, dal professor Riccardo Dall'Acqua dell'Istituto Europeo di Design, visitando poi gli show-room più rappresentativi della produzione mobiliaria lombarda.

Il viaggio è proseguito a Modena, dove il gruppo ha avuto contatti con la Confederazione Nazionale dell'Artigianato, visitando aziende e consorzi finanziari. Dai contatti avuti con gli operatori ciprioti del settore emergono tre principali aree di interesse che li fa guardare in particolare all'Italia per stabilire dei contatti proficui. La prima area di interesse è quella dei consorzi, più esattamente, la possibilità di vedere realizzata ed operante una forma di cooperazione di cui essi sentono la necessità ma che risulta spesso di difficile attuazione. Seconda area di interesse è il design. Il design italiano è da sempre la musa ispiratrice della produzione mobiliaria cipriota, ma adesso si comincia a ravvisare la necessità di una "imitazione creativa", che sia anche interpretazio-

ne e studio del prodotto, dal punto di vista della scelta dei materiali, della costruzione e delle finiture. La collaborazione con validi "industrial designer" italiani può avviarli su questa strada. Terza area di interesse è quella di individuare fornitori italiani di accessori e ferramenta interessati a stabilire contatti commerciali con l'isola. Per un settore che aspira a migliorare la qualità del prodotto, gli accessori giusti costituiscono un importante "valore aggiunto" e, una volta di più, sono quelli di produzione italiana i preferiti in assoluto.

Guardando dietro l'angolo

Si dice che il prendere coscienza dei problemi sia già un buon passo verso la loro soluzione: in questo senso riteniamo che l'industria del mobile a Cipro abbia imboccato la strada giusta per lo sviluppo della propria realtà.

C'è la necessità sentita e reale di un continuo e progressivo "training" che deve partire, come è partito, dal vertice e che deve diffondersi in modo collettivo e mirato verso la base.

Nel settore del mobile gli anni '90 saranno caratterizzati da uno sviluppo armonico e parallelo delle innovazioni tecnologiche e della capacità dell'uomo di gestirle e ottimizzarle.

Per fare questo bisognerà da un lato approfondire la conoscenza di quanto offre il mercato dei produttori di tecnologia, dialogare più intensamente con essi per trovare una più coerente sintonia tra domanda ed offerta; dall'altro porre il problema della qualità del lavoro come obiettivo e, nel contempo, come mezzo per raggiungerlo.

E se è vero, come è vero che qualità del lavoro significa anche ambiente adeguato, organizzazione efficiente, progettazione industriale, vendita intelligente, il prodotto che ne conseguirà sarà quello che il mercato richiederà e sarà disposto ad acquistare.

Ed è altrettanto chiaro che chi riuscirà a raggiungere questi obiettivi sarà vincente sul mercato; molti operatori di diversi Paesi stanno andando in questa direzione; abbiamo scoperto che anche Cipro è fra questi. □

CYPRUS INDUSTRIAL STRATEGY

Fourth Stage

Members of January 1989 Mission:

Consultants : Robin Murray (IDS team leader)
Drew Smith (Consumer Association)
John Bessant (Brighton Polytechnic)

Advisers on Italian visits : Michael Best (University of
Massachusetts, Amherst)
Mario Pezzini (University of
Modena)

Design : Theresa Dearlove

Production team : Sinnert Weber (IDS -
Administrative organiser and
Production co-ordinator)
François Franklin (IDS -
WP services)

Photocopying & Binding : Betty Grimes
Marion Huxley

Administration : Bruce Claxton
Sue Pafford
Ruth Quarton

Communication : Sheila Burgess