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# **Italian Industrial Districts Today: Between Decline and Openness to Global Value Chains**

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# Motivation

- The emergence of aggressive international competitors in low cost countries, the stagnation of "traditional" target markets (i.e. the domestic and EU markets), the growing demand from emerging countries, the rising technological complexity, and the organization of production along global value chains (GVC) are influencing Italian industrial districts' (IDs) strategies and outcomes;
- The empirical evidence available clearly shows that Italian IDs are nowadays very different organizational systems from how scholars described them until recent years.

# Aim of the paper

- Literature survey of empirical studies on Italian IDs initially done for Chapter 7 in OECD (2014), *Italy: Key Issues and Policies, OECD Studies on SMEs and Entrepreneurship*, OECD, Paris;
- Aimed at documenting changes undergoing in Italian IDs and discussing the challenges they are facing to survive and prosper in a highly competitive global market.

# The fading of the *district effect*

- Most research on IDs conducted before and/or during the 1990s suggests that district firms outperformed non-district companies in terms of returns on investment and equity, value added per worker, and propensity for product and process innovation (Fabiani et al., 2000; Cainelli and De Liso, 2005);
- Recent studies find that the difference in the performance of district and non-district firms holds only in the case of urban clusters, whose firms still appear to benefit from an *agglomeration effect* (Di Giacinto, 2014; Iuzzolino, 2008; Foresti et al., 2009);
- A consequence of the decreasing importance of the *district effect* is an increased diversity of performance (i.e. employment and firm profitability) both within and among IDs.

## Diversity within districts

- **Small, less efficient firms** are suffering from the vanishing of the *district effect* and they are often unable to survive in the new highly competitive global context;
- **Medium-sized and large firms** with a good capacity to cope with the evolving external business context maintain intensive interactions with commercial, supply and knowledge networks well beyond the cluster borders;
- **Business groups** are an organizational strategy adopted by many ID enterprises to grow, expand, and diversify their economic activities (Cainelli & Iacobucci, 2006).

# Diversity among districts

- Some Italian IDs have diversified into sectors that are closely related to their traditional activities (Hidalgo et al., 2007);
- A number of Italian districts have experienced a spontaneous shift in specialization from final goods such as clothing and shoes, which often are characterized by cost-based competition, to capital goods. Examples are:
  - Schio and San Bonifacio in Veneto previously specialised in the textile sector and now in the production of textile machinery;
  - Canelli located in the wine core region of Piedmont, which is now a centre for production of machinery for the wine sector;
  - Mirandola in Emilia Romagna, which shifted from textiles to mechanical and biomedical industries.

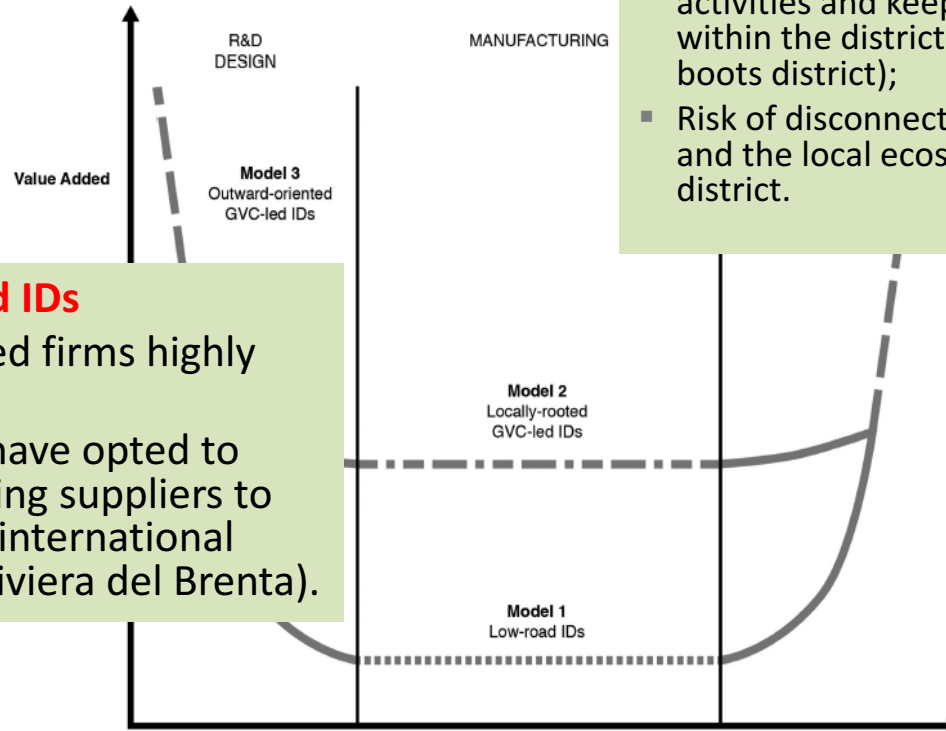
# The internationalization of IDs and their connections to global value chains

- IDs traditionally have been important contributors to Italy's international trade performance;
- Since the 1990s, IDs exporting firms have progressively upgraded the quality of their products in an effort to avoid direct competition with emerging market production, nonetheless, some low tech IDs are suffering from the competition from low cost countries;
- The economic success of Italian IDs was originally based on deep specialization along a value chain confined predominantly within a geographically bounded area;
- In the current global competition landscape, many firms have extended their supply chains beyond district borders;
- The involvement in GVCs of Italian IDs differs depending on the characteristics of their firms, and their competitiveness strategies.

# Stylized models of ID-GVC involvement in Italy

## Outward-oriented GVC led IDs

- Medium to large sized firms, strongly outward-oriented;
- Globally outsource most of their manufacturing activities and keep high value added activities within the district boundary (e.g. Montebelluna ski boots district);
- Risk of disconnection between the largest ID firms and the local ecosystem (e.g. Belluno eyewear district).



## Locally-rooted GVC-led IDs

- Medium to large-sized firms highly embedded in IDs;
- Some local ID firms have opted to become manufacturing suppliers to larger Italian and/or international luxury brands (e.g. Riviera del Brenta).

## Low-road IDs

- Small, inefficient firms competing on costs;
- Outsourcing production activities abroad;
- Negative impact of GVCs (e.g. Southern shoe districts)

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# Conclusions

- GVC involvement is not always accompanied by higher value added at district level as shown by *low-road IDs*, which have outsourced manufacturing without being able to move up the value chain towards design or marketing;
- The strategy of escaping the low cost-low value added trap seems a more promising development strategy, and firms in outward oriented GVC-led IDs are exploiting their GVC connections to sustain their long-term development;
- Policies should strengthen IDs' external connections (including across different clusters worldwide) sustaining local firms' insertion in GVCs through measures supporting them to meet quality standards and certification requirements and helping to identify new market opportunities and segments.

**Thank you**

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