Italian Clusters Today

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Padua, April 7th 2016

Motivation

- The emergence of aggressive international competitors in low cost countries, the stagnation of the traditional target markets (i.e. domestic and EU markets), the growing demand originating from emerging countries, the rising complexity of technology and the increasing organization of production along Global Value Chains (GVC) are all elements that are impacting on Italian clusters;
- The empirical evidence available clearly shows that Italian clusters 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 clusters 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 clusters, discussing the challenges they are facing to survive and prosper in a highly competitive global market.

Main structural changes in Italian clusters

①Fading of the “district effect”;

②Increasing heterogeneity within and between cluster,

③New strategies of internationalization;

④Innovation and access to external knowledge.

The fading of the "district effect"

- Several empirical confirmations of a district effect in the 1990s (Fabiani et al., 2000; Cainelli and De Liso, 2005);
- Local external economies matter most during the early stages of an industry development cycle and less so as clusters mature (Audretsch and Feldmann, 1996);
- In Italian clusters, several studies find that the district effect on location, specialisation and agglomeration is vanishing (Iuzzolino, 2008; Foresti et al., 2009);
- A location effect remains stable in urban areas, suggesting that firms gain more from locating in cities than in clusters (Di Giacinto et al., 2012).

Heterogeneity within clusters

- In Italian clusters there are three main groups of firms:
  1. Small, less efficient firms most suffering from the vanishing of the district effect, often unable to survive in the new highly competitive global context.

  Policy challenge: coping with the social impact of declining employment;

  2. Medium-sized and large firms with good capacity to cope with the evolving external business context, intensive interactions with commercial, supply and knowledge networks well beyond the cluster borders, some belonging to business groups or acquired by foreign multinational corporations;

  Policy challenge: keeping and sustaining their local engagement;

  1. Firms considering their local supply chain as core to their business success. Such leading high-end local companies prefer local suppliers, because of the combination of quality, lead times, and easy monitoring and control, which would not be guaranteed by distant suppliers (Capasso et al, 2013).

  Policy challenge: supporting the knowledge flows within the districts, and assisting subcontracting firms to extend their networks outside the cluster.

Diversity between clusters

- There has been a tendency among Italian clusters to change their specialisation over time;
- A common trend is the diversification in related fields: e.g. a) Schio and San Bonifacio in Veneto previously specialised in the textile sector and now in the production of textile machinery; b) Canelli located in the wine core region of Piedmont, which is now a centre for production of machinery for the wine sector and c) Mirandola in Emilia Romagna, which shifted from textiles to mechanical and biomedical industries;
- The creation of new industries is often a path-dependent process, arising from the re-use and upgrading of existing technological, knowledge, organizational and commercial capabilities and assets (Hidalgo et al, 2007).

Internationalization through GVCs

- Focusing on Castelgoffredo in Lombardy, Capasso et al (2013) find that most of the externalization takes place outside the cluster but within Italy, and it is motivated by the need to smooth production and cope with peaks of demand;
- They also stress that firms in the high-end segment of the market still prefer to make use of local suppliers because monitoring of quality and lead times are considered more important than an eventual reduction of costs;
- Outsourcing strategies differ between clusters operating in high-end and low-end market segments. Districts serving low-end market segments are currently facing a strong international competition on costs, and therefore they are more likely to outsource a large parts of production abroad;
- The involvement in GVC affects the relationships among cluster firms. For example, the internationalisation of some leading companies may encourage the most dynamic local suppliers to internationalise as well, building an independent position in GVCs (Baciocchi *et al.*, 2012; Unicredit-Prometeia, 2013).

An alternative to international outsourcing: immigrant workers and ethnic firms

- Textile and clothing districts, such as Prato in Tuscany and Carpi in Emilia Romagna, register an increasing employment of low-skilled immigrants in local firms to cut labour costs, as an alternative strategy to the outsourcing of production abroad;
- The emergence of new ethnic firms: i.e. the textile district of Prato where manufacturing firms owned by Chinese entrepreneurs have increased from 1,481 in 2003 to some 3,600 in 2010 (Barbu et al, 2013);
- The long term sustainability of this model is being threatened, not only by the rapidly increasing competitiveness of emerging countries, but also by the product upgrading of some local Chinese firms designing original clothing collections and selling them, in the domestic and international markets, under their own new brand name (Santini et al., 2011);
- There is also evidence that Chinese firms in Italy are outsourcing production to China and this enables them to sell cheap products in the Italian market, simultaneously exploiting their links with the homeland and their knowledge of Italy.

Inward and outward foreign direct investments

- Currently only 9% of cluster firms are involved in foreign direct investments, however, with notable differences amongst the sectors reaching 24% in the white goods industry and 14% in the mechanical sector (Intesa Sanpaolo, 2013);
- The presence of multinationals is significant in some clusters. Examples are the sports goods cluster in Montebelluna and the footwear cluster in Brenta;
- Increasing presence of multinationals from emerging economies: examples are several Chinese multinationals in the automotive Turin district, where they have established design centres; Haier, the giant white goods producer, which is located in Varese together with Whirlpool and Philips; the Chinese acquisition of Benelli, a motorcycle producer in Pesaro (Pietrobelli et al, 2011).

Innovation and access to external knowledge

- Role of technological gatekeepers acting as a bridge between non-local knowledge and the majority of small firms (Boschma and Ter Wal, 2007; Morrison, 2008);
- Nevertheless, externally connected firms are not always willing to share their knowledge with local firms, since this depends on reciprocity with other members of the cluster (Morrison et al, 2013);
- Firms with a stronger knowledge base and tight external connections do not have any incentive to interact with the majority of local less knowledgeable firms since there is very little they can gain from such interactions (e.g. the wine cluster in Piedmont Morrison and Rabellotti, 2009);
- Innovation in clusters is also facilitated by the involvement of companies in Global Value Chains (GVCs). In Castelgoffredo, Capasso and Morrison (2013) find that outsourcing ancillary activities, firms can shift resources towards innovation in core activities;
- Besides, the insertion in GVCs also drives requirements in terms of quality and product variety that firms have to comply when entering a high-value market chain.

Some policy recommendations

- Tailor policy to different types of cluster firms, focusing on rapidly increasing the productivity of small inefficient enterprises, maintaining the engagement of medium sized firms with their clusters, and supporting the knowledge gatekeeper role of leading cluster firms within their supply chains;
- Offer selective support targeted at those cluster firms that demonstrate the strongest potential to grow in domestic and international markets.;
- Permit strong flexibility in partner selection in network support programs, enabling firms to collaborate with capable partners outside cluster boundaries;
- Promote diversification into new industries, which often requires that subsidies and incentives are given only to "new" activities and are cut for projects in industries that fail;
- Strengthen clusters' external connections sustaining local firms' insertion in GVCs (i.e. quality standards and certification requirements are key);
- Promote the competitive award of incentives for the adoption of socially and environmentally sustainable standards and certifications, and other formal corporate social responsibility policies in clusters.

Thank you

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