Italian Clusters Today

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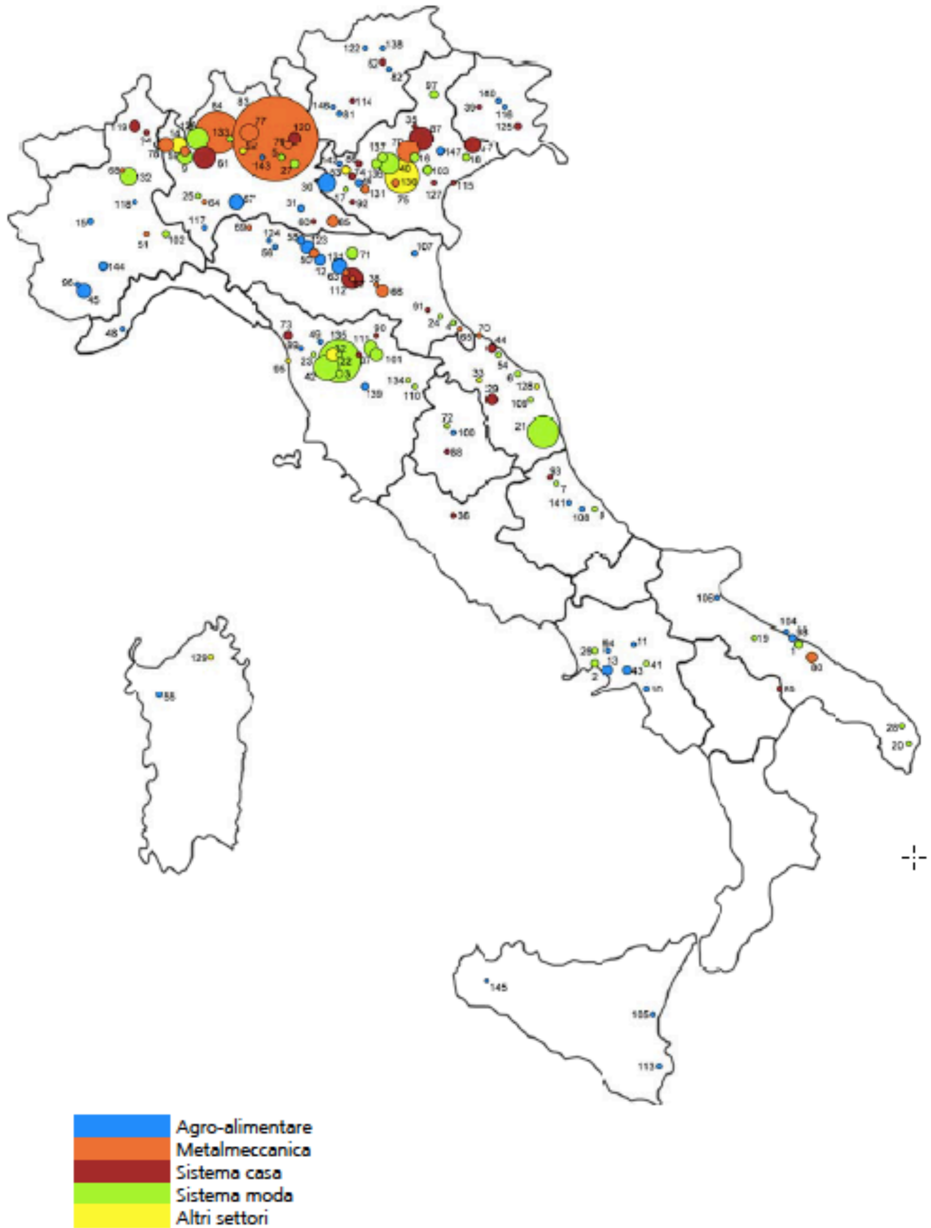
Motivation

- Italian clusters are nowadays very different organizational systems from how scholars described them until recent years;
- They are changing because they have to face the emergence of aggressive international competitors in low cost countries, the stagnation of their 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);
- Literature survey of empirical studies on Italian clusters done for an OECD report on Italian SMEs and Entrepreneurship.

7.1 La mappa dei distretti industriali

A cura di
Angelo Palumbo



Main structural changes in Italian clusters

1. Fading of the “district effect”;
2. Increasing heterogeneity within and between cluster,
3. New strategies of internationalization;
4. Innovation and access to external knowledge.

The fading of the "district effect"

- The existence of a "district effect", that is belonging to a cluster firms increase their access to external economies, such as knowledge, technology, skilled labour, specialized suppliers and other resources, and thus they outperform non-cluster firms has been empirically confirmed in several empirical exercises for the 1990s;
- 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 (more specialisation than agglomeration) effect is vanishing;
- A location effect remains stable in urban areas, suggesting that firms gain more from locating in cities than in clusters.

Heterogeneity within clusters

- Italian district firms are highly heterogeneous in terms of size and performance. Three main different groups of firms can be identified:

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;
2. *Outward oriented medium-sized and large firms* capable to cope with the evolving external business context, thanks to their high dynamism, external networks, and good technological capabilities;
3. *District embedded, mainly medium-sized and large firms* considering the local supply chain as the key for 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.

Diversity between clusters

- There has been a tendency among Italian clusters to change their specialisation over time;
- 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);
- A common trend is the diversification from final goods to the mechanical industry: 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.

Clusters involvement in Global Value Chains (GVCs)

- Italian IDs have traditionally been characterised by a deep specialisation along a value chain, mainly confined to the geographical boundaries of the local system;
- In the new landscape of global competition, many firms have extended in different ways their supply chains well beyond the borders of the district;
- GVC involvement in GVC differ a lot based on:
  - the main market segment - *high-end* vs. *low-end;*
  - the mix of the three types of firms: *small, less efficient firms, outward oriented medium-sized and large firms* and *district embedded, mainly medium-sized and large, firms*.

	(a) Small scale, low end district	(b) Locally rooted high end GVC-led district	(c) Outward oriented high end GVC-led district
MAIN TARGET MARKET	**Low-end:** Low cost traditional manufacturing	**High-end:** Niche markets, luxory goods, large international buyers	**High-end:** Niche markets, luxory goods, specialized products
UPSTREAM ACTIVITIES		R&D, design, marketing & branding by GVC lead buyers outside the boundaries of the district	
DISTRICT ACTIVITIES	Declining small firms focusing on low end markets **Low value added**	Medium sized firms focusing mostly on production **High value added in production**	Large firms focusing mostly on R&D, design, branding & marketing **High value added in upstream activities**
DOWNSTREAM ACTIVITIES	Sourcing from low cost suppliers beyond the boundaries of the district	Raw materials and other non strategic phases of input production	Sourcing from a network of international suppliers

Three patterns of GVC involvement

① Districts serving *low-end market segments, dominated by small firms*: currently suffering from strong international competition on costs, which they try to face outsourcing a large part of their production abroad (e.g. shoe clusters in the South of Italy);

② Districts characterized by a *high-end market specialisation and a concentration of district embedded, mainly medium-sized firms*: highly involved in GVC because the local system needs to continuously improve its production capabilities by dealing with challenging requests from global firms and its key competitive factor is relying on the local dynamic ecosystem (e.g. Brenta shoe district; Livenza furniture cluster);

③ Districts dominated by *strongly outward oriented medium-sized and large firms*: the GVC involvement of the district can result into its progressive hierarchization and detachment from the local ecosystem (sky boots in Montebelluna, eyewear in Belluno; jewellery in Arezzo).

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;
- 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;
- The long term sustainability of this model is threatened 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;
- 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, there are notable differences amongst the sectors reaching 24% in the white goods industry and 14% in the mechanical sector;
- The presence of multinationals is significant in some clusters: e.g. sports goods cluster in Montebelluna and footwear cluster in Brenta;
- Increasing presence of multinationals from emerging economies: Chinese multinationals in the automotive Turin district, where they have established design centres; Haier in Varese together with Whirlpool and Philips; Chinese acquisition of Benelli, a motorcycle producer in Pesaro.

Innovation and access to external knowledge

- Technological gatekeepers act 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;
- Permit strong flexibility in partner selection in network support programs, enabling firms to collaborate with capable partners outside cluster boundaries;
- Faciilitate 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);
- Create 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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