

Internationalisation of industrial districts: the role of leading firms and policies for local development

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1. Evolutionary trends of industrial districts: key issues

The relevance of territories in the analysis of local economic development and performances has played a central role in the international debate due to the internationalisation processes of local systems of small and medium enterprises (SMEs). Since the '70s, industrial districts, especially the Italian districts, have been considered as a new emerging model in the organisation of business activities of manufacturing processes, contrary to the *one best way* of the mass production (e.g. Piore, Sabel, 1984). The social and institutional context is as much important as the economic structure of firms and markets, where the role of local communities and the networks of social ties support firm's competitive advantages. Scholars and policy makers started to consider the district as a positive model able to favor the economic growth of regions on a sustainable basis.

Recently, however, the alternative dynamics that occurred even in the districts stressed the variety of business organisations that characterised districts and the differences in their evolutionary trends (Corò, Grandinetti, 1999). Two opposite approaches describe different scenarios for industrial districts.

On the one hand, the negative approach highlights the *decline* of districts due to the globalisation of economies. More specifically, the Italian experience of the last years shows that local manufacturing systems of SMEs have to renovate their sources of competitive advantages in the context of global economy, where the traditional core of knowledge and skills rooted in the local context may be no more able to face international competition of emerging countries as well as of innovative regions. District

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firms do not invest in R&D and show weak strategies in the domain of innovation and internationalisation (Amin, 1993).

On the other hand, the positive approach emphasises the opportunity for districts and SMEs to improve their competitive positions through the *renovation* of core distinctive practices based on the traditional craft activities of local systems. Districts competitiveness will depend in the future on the control of manufacturing competencies and skills of a tacit nature and so they will be less able to be replicated outside the local context (Corbellini, Saviolo, 2004).

Despite the differences in such points of view, both the perspectives focus on important issues for districts - knowledge management dynamics, innovation processes, competencies and firm's organisations - consistently with the idea of a local economic development rooted in networks of SMEs connected to a fertile socio-institutional framework.

From the analysis of the present trends of the most important Italian industrial districts, relevant elements arise that enhance such debate and support a coherent development of policies for local economic development (Micelli, Chiarvesio, Di Maria, 2003):

1. The growing role of *leading firms* within Italian industrial districts. Leading firms are not only bigger firms compared to small ones that traditionally populated the district landscape. They are firms able to promote competitive strategies based on a mix of commercial innovative proposals (interactive marketing, innovative brand strategies, investments in proprietary sales networks, etc.), investments in R&D or design-based innovation processes, and management of networks formed by specialised suppliers. Those firms – as open networks – are dynamic players within the local systems, able to potentially couple local and global networks of innovation (knowledge management). Leading firms can either be the core of renovation strategies at the local level (in the way they manage knowledge between local and global) or the driver for a negative transformation of the district through their growing investments abroad.
2. A deep transformation in the *geographical extension* of manufacturing relations. Not only leading firms, but on a general basis, district firms are now investing to extend their networks of suppliers as well as their manufacturing processes outside district and national borders. As it is discussed also in this book, district suppliers compete with other firms

located in East Europe, Latin America and Far East, areas able to offer lower labor costs but also interesting market opportunities for district firms. The internationalisation of supply chains is a positive process when it offers inputs of new knowledge and competence to be exploited also at the local level. At the same time, however, it could also decrease the local dynamics of innovation based on learning-by-doing processes and interactive supplier-customer relations – a strength of district model.

3. The increasing capacity of firms' *investments in ICT*. Web site and emails are the most diffused technologies within district firms. Those technologies are cheap, easy-to-use and, most important, consistent with the way of doing business of district SMEs. The unstructured interaction and the communication process able through those technological tools is very appreciated by small and medium firms, which can interact with their customers and suppliers even at distance. However, district firms show an increasing capacity to also invest in more complex technologies such as ERP (Enterprise Resource Planning) (Chiarvesio, Di Maria, Micelli, 2004). Through those applications district firms increase their control on the efficiency of internal processes, but they also access to best practices incorporated in the the tool and internationally recognised, thus creating new business opportunities (entering into global supply chains managed through electronic connections).
4. The focus on *strategic functions* to be controlled with the aim of sustaining firm's competitive advantages. Opposite to the manufacturing processes, lots of district firms highlight the need to manage activities and processes such as design, logistics or marketing considered as strategic areas where to compete in the global economy. Going further the traditional focus of manufacturing (the "culture of product" as ability of district SMEs to translate customer's need into products), nowadays many firms pay attentions to relevant - more intangible - activities, by developing new knowledge management systems between local and international networks of partners, suppliers, and customers. This transformation impacts directly on the vocation and future specialisation of the districts, where production is not necessarily the core of local economic activities (service economy, role of ICT).

From this scenario a new model of industrial district seems to emerge, characterised by less differences with the competitive business models of firms not district-based and consistent with economic phenomena relevant in the present global economy (firms as networks, networks of firms internationally connected, meta-national firms) (i.e. Doz *et al.*, 2001).

2. Which policies for which kinds of districts?

The trends of Italian industrial districts described above show a social and economic reality facing deep changes. From the theoretical point of view, important questions already open refer to, firstly, the degree of diversity of new emerging districts from other forms of local productive agglomerations (i.e. clusters) and, secondly, the need (or not) for a defense of Italian districts' specificity and uniqueness towards other models.

As to Porter studies (e.g. 1998) industrial districts as clusters are a model of organisation of economic activities specialised in specific sectors and rooted into local specific contexts. Policy makers can refer to the characteristics of this model to settle appropriate policies for economic growth at the local and national level. The Italian experience shows the great potentialities of local systems of SMEs in terms of promoting local employment as well as entrepreneurship, innovation within a favorable social fabric. On the one hand, the present dynamics we observe at the district level confirm a trend of convergence between the district firms' strategies and approaches to competition and the transformations occurred to large companies. On the other hand, the difficulties to replicate a district as a whole system abroad can be related to the culture and the specificities (at the economic, institutional, technological and social level) of local systems in Italy. The variety of district models rose in the past years emphasises the need for a variety of policies, not searching for a *one best way*, but designing alternative solutions on the basis of contexts involved.

Hence, the present competitive scenario proposes *new priorities*, specifically for the medium firm:

- a) Promoting a more *integrated managerial approach*, able to sustain firm's competitive advantage through the control on strategic processes, by also exploiting new competencies;
- b) Reorganising manufacturing processes on an *transnational level*, extending the scale of innovation (access and exploitation of knowledge worldwide);

- c) Increasing the control on the *commercial channels* as well as on the process of *communication* toward the market, as successful strategies to increase the value produced and acquired;
- d) Emphasising the *product innovation*, by focusing on new areas traditionally not always controlled by SMEs such as design or patent use.

As a consequence, the *agenda of industrial policy* has to face those deep transformations, by changing priorities from the past trends. In the new scenario policy makers should take into account new relevant issues to be managed.

The first issue refers to a *new approach in the management of internationalisation, consistent with the trends of innovation*. The reorganisation of business activities on a global scale means to think of a new knowledge management system, where sources of innovation are distributed (across countries and among different players), each place can contribute to innovation in terms of knowledge creation, but also exploitation.

A second relevant issue concerns the development of *new innovative systems to offer services* consistent with the needs of firms and professionals at the local level. Specifically, the promotion of new tools for innovation support (access to R&D and patents), innovative training programmes (i.e. professional communities) or ICT diffusion can be interesting initiatives in this sense.

A third area of intervention refers to the *organisation of a strong network of partnership among European regions and world-wide*. By supporting international cooperation, policy makers offer firms and regions important chances to increase business relationships as well as professional opportunities. At the same time, an open approach to innovation allow a more sustainable process of economic growth at the international level, where regions do not compete against each other, but cooperate to increase the value for all.

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