Opportunities and Pitfalls in Public Policies for SME Districts:
A Dynamic Strategic Resource-Based-View

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Abstract

Industrial districts are considered as a powerful source of wealth for different categories of 'actors' operating in the territorial areas hosting business clusters. In the Italian experience, such phenomenon has proved to be an important source of excellence for many networked SMEs.

Although in Italy business clustering has since always been a spontaneous – rather than planned – phenomenon, in order to promote local economies, in the last 15 years public institutions have been inclined to establish formal policies to foster the start-up or development of industrial districts.

What is it possible to learn from Italian successful cases of business clustering?

What are the main factors positively affecting and tackling small business networking? What are those affecting the crisis of a cluster?

What are the opportunities and pitfalls that clustering implies for small business management?

What are different categories of actors who may play an active role in promoting and managing a business cluster? In particular, what is the role that public agencies and governance bodies (e.g. District Committees) are likely to play in the governance of a cluster?

A Dynamic Resource-Based-View of strategic assets is suggested in this paper, in order to foster learning and build consensus among different actors in a district. In particular, such an approach is claimed in order to: (a) identify synergies between alternative policies; (b) affect sustainable growth in the district over time; (c) detect weak signals of crisis; (d) assess district performance and affect it.

1. Introduction

In union there is strength… This is what an old Italian proverb suggests.

Empirical evidence remarks how many Italian Small-Medium Enterprises (SMEs) have taken this popular advice to heart by successfully linking their strategies to those undertaken by other companies located in their geographic area. So, small business clustering has proved to be an important lever for growth, especially for those SMEs having structural difficulties in pursuing strategies aimed to increase the size and scope of their activities.

The experience of different Italian districts, whose origin dates back to several decades ago, teaches that the success achieved by SMEs networked in those areas could have not been probably gained without creating common strategic resources and sharing them.

Therefore, promoting the constitution of *industrial districts* or enhancing those already existing ones is considered as an important role for public rulers and administrators to generate wealth in local areas.

In Italy, since the beginning of the '90s, the domain of industrial districts has been focussed by the national law. In order to define the context for industrial policies, e.g. in terms of financial or logistical support to networked firms or even infrastructure investments, the Italian law outlined the prerequisites for the recognition of industrial districts. It also delegated Regions to sketch specific policies aiming at promoting the constitution and growth of local business networks.

After about 15 years from such an initial effort, results achieved by public policies in Italy on such domain are not satisfactory yet (Balestri, 2001; Caioffi, 2000).

A mechanistic approach to SME networking, implicitly adopted by the public ruler, seems to recognise the provision of a *sum* of aids (e.g. funds, tax reductions, free industrial development areas) as the most important condition to foster the start-up and growth of industrial districts. Such a perspective omits to consider three important aspects, i.e.:

1. *the constitution and growth of districts is a gradual and often long process*, implying strong cultural and behavioural issues. Being part of a network does not only imply localising in a given area and signing contracts of collaboration with other neighbour firms. Networking is the result of a spontaneous process, encompassing several decades – if not generations – and *melting* business with societal phenomena. An SME district is based on a given art or skill which is deeply rooted in the everyday life of most families living in a same area. This creates a common culture, which is the basis for building confidence between different networked firms, that is a necessary pre-condition for a district to survive and grow.
2. the growth and lifelong existence of an industrial district can be fostered by a *meta-management*, focussed on its governance and on establishing sound relationships between the district itself and its internal and external stakeholders. This role can be covered by governance bodies such as the so called *district committees*, and by other different institutions aimed to build strategic resources that could be shared by networked firms [1].
3. a *district policy based on a dynamic strategic resource-based-view* could substantially help the constitution and growth of industrial networks. This would imply for public institutions the need to identify accumulation and depletion processes of such resources and the role played by each of them as part of a wider system (i.e. the network) in affecting its performance drivers and outcomes.

2. Negotiated planning: an inter-institutional strategy design and implementation approach to foster industrial districts development

On this last concern, the role played by Regions has becoming crucial in Italy. In the last decade, Italian Regions have been taking the function of both legislator and policy maker. A challenge Regions must face today in outlining their industrial districts policies is to link two different stages: *(a)* making better laws; and *(b)* outlining and implementing sound policies.

The above first conceptual stage implies the need to define the desired space and scope of intervention by public institutions in the system. Possible questions to face are:

What is the proper degree of intervention in the system?

Is it desirable to outline rigid schemas in order to prescribe the behaviour of different involved actors? Or is it better to provide only a loosely focussed framework, with the intent to leave actors enough freedom to outline their space of action?

What is the kind of intervention a Region is expected to do? Is it more focussed on the provision of infrastructures or other shareable assets, or on the indirect support to firms, e.g. through territorial marketing? What would be the degree of intervention in the direct provision of aids to firms, e.g. through funding or education?

What is the desirable level of control of the system that Regions must take, e.g. through prohibitions or allowances aimed to guarantee equal opportunities to all?

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[1] For instance, image can be strengthened by those institutions involved in *territorial marketing*; human capital can be built through proper education policies; financial resources could be provided by facilitated loans, etc.

While making better laws provides a context where to operate, the second conceptual stage mentioned above (i.e.: outlining and implementing sound policies), allows Regions to actually affect the context.

This implies that a Region must be able to outline a strategy aimed to affect over time a set of performance indicators to the attainment of which different 'actors' will operate (Bianchi, 2004). Consequently, a systemic and inter-organisational view has to characterise the policy making process and affect the "production" of laws and rules. Effective design and implementation of policies will firstly require that "sectorial" policies (e.g. concerning Industry) are shared and agreed on a regional level [2].

Regional industrial district policies must also be:

- *shared with departmental managers* [3];
- *shared and agreed with different external, both private and public, 'actors'* [4].

The last issue is the core of the so called *negotiated planning*, which was ruled in Italy in the year 1996 by the Law n. 662. Negotiated planning can be defined as an inter-institutional strategy aimed to encourage and harmonise the economic and social policies undertaken by different public and private actors on the territory. Such planning is needed on the assumption that market forces alone cannot achieve an economically and socially-balanced territorial development. To foster such development, a public program must: *(a)* identify the strategic priorities of each territory, *(b)* select interventions to implement them, and *(c)* provide the necessary financial resources and timetables to realise them.

Negotiated planning consists of the following instruments: *(a)* institutional [5] and programme [6] agreements; *(b)* territorial pacts [7]; *(c)* area contracts [8], and *(d)* programme contracts [9]. Each tool has specific rules and goals, but they are all considered as part of an organic system aimed at co-ordinating the public territorial intervention of an institutionally decentralised system.

In all cases, negotiation is considered a key to co-ordinate the problems of various 'actors' that have a role to play in a given territorial area. As an institutional system moves towards decentralising competencies, the

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[2] For instance, they must be coherent with the labor market, with public works and other policies undertaken in different councillorships of a same Regional administration.

[3] This will allow a Region to: (1) concretely identify decisions to make in order to pursue desired outcomes, and (2) settle more focused and shorter term-oriented performance indicators, which will better support a proper planning and control.

[4] Particularly, the capability of a Region to interact with other local public institutions – e.g. Municipalities, Provinces, etc. – will give a substantial contribution to effective industrial district policy design and implementation.

[5] In the framework of the decentralisation of government functions, an *institutional agreement* allows the Italian State and Regions to collaborate and commit themselves on a multi-year programme of initiatives. With this instrument regions can direct national resources for public investment towards their priority projects. Thus the institutional agreement is a document that serves as a framework for the programme of public investments, through which Regions and the central government identify the economic priorities of each territory. Such instrument designates the actions to be co-ordinated by the State, Regions or autonomous Provinces in order to avoid wasting resources and fragmenting interventions.

[6] A *programme agreement* is a consensual document through which the State, Regions, local corporate bodies and other public subjects commit themselves to implement an institutional agreement. It defines the mechanisms for co-operation among public administrations, in the process of policy planning and implementation.

[7] A *territorial pact* is an agreement between public and private actors working locally to implement a programme of economically integrated interventions. It aims to promote local development at sub-regional level and to encourage local institutions and private subjects to work together. Territorial pacts foster territorial development through a bottom-up approach, by means of infrastructure investments combined with incentives for companies that undertake integrated projects in the fields of industry, agro-industry, services and tourism.

[8] *Area contracts* aim to promote partnerships for local development. They differ from *territorial pacts* by taking a top-down approach (i.e. the central public administration plays a major role). They are implemented in limited areas with serious economic emergencies selected by the central government within depressed areas.

[9] *Programme contracts* allow the central administration to secure the implementation of large-scale industrial development projects in lagging areas promoting private investments. They provide an agreement between the central administration (i.e. the Ministry of the Economy) and private actors, implying financial incentives and infrastructure intervention. Large firms and consortia of SMEs (and representatives of industrial districts) can use this instrument. The initiatives were designed specifically for high technology sectors or sectors of growing demand, but recently also the agricultural and tourism sectors have been addressed by programme contracts.

success or feasibility of many initiatives depends upon the commitment taken by each 'actor', the collaboration among public institutions and the involvement of private institutions. Therefore, in many interventions, public administrations act like one party of the contract rather than the decision maker. In other words, negotiated planning implies that a public institution takes the role of the *facilitator* of a learning and decision making process involving different institutions. Such a process is often complex, also because of the diversity of goals and objectives of different actors. Managing such a diversity and achieving a common shared view of the system, based on which each actor will undertake a set of policies that are coherent with others, is an important role that public institutions (e.g. Regions, Provinces and Municipalities) are called to play.

A similar approach to regional development policies has been undertaken by the European Commission. As a matter of fact, the 2000-2006 Community Support Framework focuses *integrated projects* [10] as pool of actions covering different sectors and sharing the same objective of territorial development. Therefore, this requires an implementation perspective based on complementarity and coherence [11].

Both *integrated projects* and the various *negotiated planning* tools ruled by the Italian law provide public institutions an important framework for the design and implementation of industrial district policies. The complexity of such framework (e.g. in terms of scope of involved actors, delays between decisions and related outcomes, relevance of intangibles affecting the district performance) is not compatible with policies based on only a mechanistic provision of a *sum* of aids to private actors and the production of rules aimed to prevent abuses.

In contrast with such an approach, based on the above background analysis, this paper will outline a conceptual model that could better support public policy makers in affecting the constitution, growth and lifelong existence of SME industrial districts. To support such analysis, an overview of the main laws that in Italy have been ruling in the last 15 years this domain will be done. Also main results achieved by district policies in different Italian Regions will be discussed. Such a discussion will allow us to show main contradictions and inconsistencies in the current approach to district policies adopted by public rulers in Italy, and to suggest the use of a different conceptual framework, based on a dynamic strategic resource-based-view. To this end, a number of real cases will be analysed.

3. The 'industrial district' phenomenon: main characters and relevance

A discussion of the role of public policies in affecting the survival and growth of industrial districts cannot ignore an analysis of the "industrial districts" phenomenon.

An industrial district can be defined as a socio-territorial entity characterised by three main factors (Becattini, 1998), i.e.:

- a community of people;
- a population of firms;
- a naturally and historically bounded reference territorial area.

This phenomenon is very peculiar of the Italian socio-economic system. In many Italian geographical areas districts are the result of a spontaneous and gradual process of aggregation of firms and people in a same area, around a same kind of production. Knowledge, quality of contacts, and reliability of supplying relationships established in the networks, have since always been the primary cause of defendable competitive advantage for district firms, also towards large competitors.

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[10] Integrated projects typologies are variegated. Each regional Monitoring Authority follows its own strategy for the definition of integrated projects. Most widespread examples are: territorial, sectorial, industry, regional, and urban development integrated projects.

[11] The 'integrated projects' concept is based on the following issues: *project integration* as a peculiarity of the whole activity co-financed by the structural funds; *the territory* as the beneficiary of actions and context for the development of latent potentials. Integrated projects must be included within the regional strategy, action guidelines of sector and industry system.

The "industrial district" concept cannot be confused with that of "technological district". Although both kinds of districts may significantly involve SMEs, in a technological district main actors are generally very different entities (i.e. larger and smaller firms, research institutions, Universities, Science Parks, Incubators, etc.). In addition, differently from industrial districts, 'actors' belonging to technological districts are not necessarily located in a bounded territorial area. Furthermore, while an industrial district is generally spontaneously started – or, however, starts from a stream of efforts that can be prolonged over several years by different institutions – a technological district arises from significant project-oriented and time-bounded R&D investments. For this reason, public funding is an essential pre-requisite for the start-up and growth of new technological districts.

Conversely, "industrial districts" are networks of firms which are located in a bounded territory, though implying frequent relations with other internal and external actors. Such an area is characterised by a mix between competition and co-operation between firms and by a wider community of institutional actors (e.g. agencies/committees, schools, funders). An horizontal division of labour, i.e. a focus on a phase of a given production process by SMEs and *micro*-firms located in such areas is another characteristic of industrial districts. Also the presence in the district of strategic resources (e.g. skilled labour force, raw materials) that can be easily accessed by several firms is a distinctive feature of such areas. This allows industrial district SMEs to benefit by important competitive advantages and strong entry barriers into the district. Being local communities of people, industrial districts are also characterised by a strong culture and high similarity of values. In such areas, a *district entrepreneurship* having distinctive characteristics from the traditional business entrepreneurship emerges. Not only the values of hard-working, and sacrifice are practiced, but also those of solidarity, confidence and trust [12].

What are main factors affecting or tackling the start-up, growth and lifelong existence of industrial districts? Is it possible to envisage a typical evolution pattern in industrial districts, so that a district's lifecycle emerges? What role can be played by public institutions in affecting an industrial district's lifecycle?

3.1. Main factors positively affecting the creation and growth of industrial districts

Among main factors positively affecting the creation and/or growth of industrial districts are:

- a fragmented and linear structure of the industry, which encourages a high division of work and specialisation of firms, also implying the search of strong and stable relationships with close suppliers;
- life-long existence of businesses in a given territory, and a strong sense of belonging to it [13];
- the availability of raw materials, or skilled labour force in the district area;
- the search by SMEs of a higher competitive power [14] that they would not be able to pursue alone;
- the opportunity to create synergies between district actors in a same supply chain [15];
- synergies between the reference industry and the production of related machinery [16];
- spin-off processes;
- proximity to Universities and Research institutions;
- increasing trust between firms, though they might be competitors.

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[12] It is worth remarking that though the concept of 'industrial district' cannot be assimilated to that of 'technological district', it must be considered not only related to manufacturing industries, but also refers to other various sectors, ranging from commerce to service (e.g. tourism).

[13] The territorial vocation of district firms is a coherent factor with the character of family SMEs of most firms in a district.

[14] e.g. in supplying, commercial, R&D, production processes.

[15] An example of this is provided by the textile/silk district of **Como** (in the Lombardy Region), which is characterised by a high specialisation of SMEs operating along the same supply chain.

[16] This factor is particularly significant in the **Biella** district (in the Piedmont region), where the consolidated collaboration between textile manufacturers and machinery producers has allowed firms to exploit important synergies

Also a leading role played by Public Bodies can positively encourage the start-up and growth of an industrial district. Such a role can be played in different ways, e.g. through:

- the provision of financial subsidies (e.g. to support R&D or product commercialisation), or other free resources (e.g. education, industrial areas) to individual SMEs, which can be either located in the district or decide to start new activities in the district itself;
- the constitution of common strategic assets that could be shared and exploited by different companies located in the district (e.g. territorial marketing policies);
- the promotion of new business initiatives in the same area, by larger firms, aimed to create synergies with the SMEs located in the territory;
- an effort aimed to regulate the system, e.g. to rule the activity of different district actors, in order to safeguard different rights or to promote a desired behaviour.

Some more detailed examples from real cases will better illustrate the role of the above factors.

Concerning the first factor, mentioned above (*fragmented and linear structure of the industry*), it has played an important role in the case of the textile/silk **district of Como**, characterised by a very fragmented supply chain and a high focus of each firm on a given stage of the production-distribution system.

The second factor (*life-long existence of businesses*) has been playing a crucial role in the case of the **Fermo district** (in the Marche Region). Such a district is characterised by a significant weight of firms operating in the shoes production industry. A strong sense of belonging to the territory shapes the behaviour of them, not only of the smaller ones but also of larger businesses, because of the deep net of relationships they have been able to create with other firms in the area. The leading firm is named Ema. It is very famous for its Todd's and Hogan brands. Such company, and other ones (e.g. those selling brands such as: Magli, Ferragamo, Prada, Timberland) operate through a multitude of local highly skilled artisans. This allows them a high flexibility and product quality at the same time. In such district, critical issues are therefore the availability of skilled workforce, as well as of flexible machinery organised around satellite plants.

The *availability of raw materials*, or skilled labour force is a third factor that it is possible to envisage in the **case of Biella**, which has been characterised – since the beginning of the 19th century – by a strong presence of firms in the wool production industry. Being the territory not suitable for agriculture, and more convenient for cattle breeding, and rich of water courses, at the beginning artisans started to specialise themselves in the production of wool. In fact, this industry largely requires an on-site availability of sheep farms providing wool, and large enough watercourses to support raw material washing and dyeing operations. While until the '80s firms operating in such district were characterised by a decentralisation strategy, after a crisis period, most of them were restructured and re-designed to completely integrate production-distribution stages. This strategy was implemented through the acquisition of local SMEs, to get a wider product system and to better face international markets. An example of such large firms strategy in the district is provided by the Zegna Group, which – in the last 2-3 decades – has migrated from a *mono-product* to a *multi-product* culture. Among main strengths of such district are: *(a)* a high product design and creativity; *(b)* a non-price competition, based on the search of high quality market niches; *(c)* local tradition and image. Among the main district weaknesses are: *(a)* the lack of enough research to support business activities; *(b)* the small scale of some firms, if compared to main foreign competitors; *(c)* the lack of some facilities in the area (e.g. roads, railways, and airports). Some of the above weaknesses have been counteracted by public policies aimed to improve the quality of human capital in the area. In particular, a Science Park (named as *Città Studi*) was started to provide district firms with: *(a)* training and education (through the Polytechnic of Turin), *(b)* research (through the National Council for Research – CNR), *(c) technology transfer* (through the State Technical Industrial Institute), *(d)* marketing; *(e)* standards setting; *(f)* environmental policies (Alberti, 2002, p. 165);

The *search by SMEs of a higher competitive power* is another important factor positively affecting the constitution and growth of almost all the Italian districts. However, it is particularly pronounced in those districts characterised by small and *micro* firms, which are focused on the production stage. For instance, this happens in the glass production district at **Murano**, or in the goldsmith's art district in **Vicenza** (both in the Veneto Region). The first district is well famous all over the world for its unique art, going back to the 17th century. In such district, mainly artisans and small firms employ about 2000 people and export 35% of their production. To this end, they have promoted the constitution of consortia, especially focussed on the promotion of the product, the support to its commercialisation, and the pursuit of economies of scale in raw materials purchasing. Also a label guaranteeing the quality and origin of product has been registered. Also the goldsmith's art district in Vicenza is characterised by a significant weight of artisans and small firms, which can rely on network institutions supporting their commercial processes, especially towards foreign markets, such as USA, Middle East countries and Japan, to which more than 60% of production is sold.

Spin-off processes have proved to be an important factor in the **Mirandola** case, in the Emilia Romagna Region. Mirandola is a bio-medical district, that was developed by the entrepreneurial activities of a pharmacist who started, in the beginning of the '60s, a small firm to supply a full range of medical devices. Based on a strong collaboration with practitioners (e.g. doctors), such entrepreneur was able to convert into new products the new ideas they suggested. The creation of useful and successful products boosted stronger collaboration with practitioners, which generated new growth for the firm. Such growth was tackled by financial difficulties in the'70s, because of long delay payments from the National Health Service. This suggested the entrepreneur to sell a division of the firm to Sandoz to produce machinery equipment. Such an event boosted further growth and the creation of a district in the area, since from the purchased division several spin-offs emerged. Also the entrepreneur started new ventures in the same industry, oriented to the production of very specific kinds of products, all of them have been very successful. The strategy to start small specialised firms and sell them to multinational firms, from which new start-ups have been originated was the key to the formation and growth of the Mirandola district, were a good mix between small, multinational firms and *micro*-businesses can be found.

Proximity to Universities and Research institutions has proved to be particularly important for the electronic district in **Sestri Ponente** (in the Liguria Region). Such district is characterised by a large diversity in its profile: from large firms owned by multinational firms (e.g. Piaggio Aero Industries) to companies that had spun-off from former State-owned firms, to many SMEs. In recent times, in order to promote district activities, a committee has been constituted, including not only firms but also entrepreneurs' associations, public institutions, and Universities. Another example of the relevance of the above factor for the success of a district is provided by the leather industry district at **Santa Croce sull'Arno** (in the Tuscany Region). Also this district is made up by SMEs, which employ about 10 thousand people altogether. Those district firms focused on leather tanning provide the 98% of the national production of leather sole for shoes, and the 35% of national production of leather goods, for footwear, and clothing industry. Today the district actors are implementing a project, to which both the University of Pisa and the Fiat Research Centre participate. Such project aims to find innovations in materials used and in production processes. This initiative was needed in order to respond to the crisis emerging from a drastic demand reduction associated to the lower consumption in South-East Asia, and specifically Hong Kong, where 20% of the district's export is oriented.

A good example of the leading role played by Public Bodies in encouraging the start-up and growth of industrial districts is provided by a project undertaken in 1999 by the Municipality of Pesaro (in the Marche Region). The district of **Pesaro** is characterised by a flourishing furniture industry, where a small number of large firms (e.g. Scavolini and Berloni) outsource a huge percentage of their production to a myriad of small and *micro*-firms. In the last 20 years the economy of Pesaro has experienced very intensive growth rates. In this area about 500 manufacturing firms are networked with more than 700 artisans. The role of artisans is very important for the district. In fact, since they both make end-products (furniture) and produce accessories and component parts, so that the full production process is fragmented along different specialised businesses in the area. The district firms export about 30% for their production, and their total sales revenues are about 1.3 millions Euros.

In such context, the Municipal administration of Pesaro has started a reorganisation project implying the launch of a *Territorial Marketing* division, with the following objectives: *(a)* defining actions for the promotion of the area (even beyond the municipal boundaries) and for the exploitation of its tangible and intangible assets (e.g. know-how, culture); *(b)* create favourable conditions for the development of existing resources, with the aim to improve territorial strategic assets; *(c)* improve the attractiveness of the territory through an inter-institutional co-operation strategy aimed to increase the quality of local Public Administration services. To implement such view, a number of projects have been started, i.e.: *(a)* Unified Desk for production activities; *(b)* Europe Desk; *(c)* improvement of relationships with the *Pesaro Studi* (Pesaro Studies) association; *(d)* support to new business start-ups. The *unified desk for production activities* has been started together with 7 other small Municipalities of the district, with the goal to simplify bureaucratic processes and rationalise resources through telematic services. The outcome of this reorganisation is not only limited to a more predictable and shorter time for entrepreneurs to receive various permissions from Municipalities, but also supports territorial marketing. In fact, the network provided by the territorial information system through which the unified desk operates allows entrepreneurs, potential investors and other possible district stakeholders to get on-line a comprehensive view of the potential of the district. The second stream of activities started by the Municipality of Pesaro, as above said, has been focussed on the opening of a *Europe Desk*. The goal of such desk is to foster the submission of new European projects by local district actors and improve the success in getting funds from the European Commission. Such desk supports district actors in evaluating the robustness of their projects and finding possible partners from other European countries. The third above said stream of actions refers to the improvement of collaboration projects with the *Pesaro Studi* Association, related to the University of Urbino. This is pursued through the promotion and funding of new higher education programs aimed to increase the quality of the district human capital. The fourth area of intervention is related to the support of new business start-ups. This activity is specifically oriented to the new generations, and is focussed on the promotion of new entrepreneurship, both from inside and outside the district.

The above streams of action have been embodied later in the *city strategic plan* for the years 2003-2015. This document is considered as an example of excellence, especially concerning the level of involvement of different public and private actors and the quality of the process aimed to achieve a common shared view on the policies to adopt, according to a negotiated planning approach. In particular, among the policy areas included in strategic plan, the one focused on *business attraction* includes and frames in higher detail most of the issues discussed above.

3.2. Main factors affecting the crisis of industrial districts

Main factors influencing the crisis of a district can be related to:

- lack of human capital;
- an excess of focus on internal growth, to increase control of the firm;
- the rise in transaction costs, which may encourage vertical integration or more generally internal growth;
- higher difficulty to sustain external growth, due to the complexity associated to the need to co-ordinate the policies of different independent units;
- lack of confidence;
- loss of know-how in the district area, impacting on critical success factors;
- lack of perception of structural market changes, which may make the district strategic positioning obsolete;
- cultural rigidity, leading to an excess of focus on past practice, rather than on the evolutions of competitive system;
- a cultural hybridisation, due to the entry in the district of external entrepreneurs, and specifically of large multinational firms. This phenomenon may either imply a 'loss of district identity', or cross-cultural fertilisation, which may also make the district stronger;
- lack of raw materials availability;
- excess of focus on formal/bureaucratic issues (e.g. resort to clustering efforts only to get funding).

Many of the above factors can be envisaged in Italian districts. For instance, in the silk district of **Como,** both a delayed perception by district actors of structural market changes (i.e. price and quality competition from China) and lack of human capital have been playing an important role in determining a crisis that the district is struggling to tackle.

3.3. Main 'actors' operating in industrial districts

Different typologies of actors operating in an industrial district have been distinguished as follows (Alberti, 2002, p. 35):

- *leading/hub firms*, also named as *locomotives*. These are firms from which the district often comes. They are influential and often larger businesses, which outsource towards local suppliers parts of their activities. The *leading firm* has usually a significant bargaining power towards its suppliers in the district [17].
- *wagon firms*, having a high level of strategic autonomy on a niche market [18];
- *specialised firms*, having specific manufacturing competencies. They are often the engine of growth for the district, since they generate crucial knowledge, which is spread to others through spin-offs, such as in the above referred **Mirandola** case;*stuck firms*, i.e. those small and *micro* enterprises which are specialised on a very narrow niche. These firms act as subcontractors towards the hub firm only [19];
- *large hub firms*, like for instance in the Mirandola case, as previously explained, concerning the role of large multinational companies;
- *system integrators*, which are firms having technical/commercial and consulting skills, like in the case of the so called *converters*, in the district of **Como**. Such firms have a relation ability leading them to link together different players in a fragmented district value chain. They usually operate on order and offer a wide range of products. They normally do not hold any stocks, since they rely on a consolidated network of sub-contractors;
- *district committees*, i.e. governance bodies having a meta-management role in the district [20];
- other public or private co-ordinating agencies, which may have a leading role particularly in a planned start-up of the cluster, often financed by public funds.

4. The complexity of industrial district governance and the need for a meta-management role

The reasons for a governance of industrial districts have been remarked by the literature. In particular, the need of a *meta-management* function, run by governing bodies located in district areas (e.g. district committees), has been associated to the typical weaknesses characterising the profile of small firms. Because of such weaknesses, without a support by a governing body operating in the frame of a public policy on territorial development, SMEs are claimed to suffer serious difficulties in fostering a sustainable growth.

Among the structural threats affecting SMEs and justifying the need for a governance of industrial districts are (Alberti, 2002, p. 63):

- significant competence gaps at the managerial levels;
- lack of capitals;
- difficulty to outline strategies coherent with the external environment, and to implement them;
- difficulty in complying with various public administrative fulfilments and legal requirements;
- problems in competing on foreign markets;
- a strong relationship between small and *micro*-enterprises and their founders' life, and strong ties between such businesses and their owning families: all factors oftern determining a short life-cycle of firms. Most of them do not reach the third generation.

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[17] Examples are: *(a)* **Belluno** (in the Veneto Region), where the district of glasses is led by four main large firms (e.g. Luxottica and Safilo); *(b)* **Pesaro** (in the Marche Region), where a small number of large firms in the furniture industry (e.g. Scavolini and Berloni) outsource a huge percentage of their production; **Florence** (in Tuscany), where there are about 1500 small and *micro*-firms operating in leather goods production, as subcontractors of large *griffes*, such as: Gucci, Prada, ferragamo, Vuitton, The Brigde. For instance, Gucci has outsourced 99% of its production. It only designs models and samples.

[18] For instance, in **Montebelluna** (in the Veneto Region), there are SMEs highly specialised in sporting shoes production, from climbing boots to in-line skates (Rollerblade) to casual fashion (Geox). In such a district, more than 65% of the ski-boots world production, 80% of the motorcycling boots production, and 25% of in-line skates production are done.

[19] This happens, for instance, in the **Pesaro** district, as referred above.

[20] A more detailed analysis of district committees will be done in the next sections.

Therefore, in order to cope with the above difficulties, governance bodies operating in district areas are expected to help SMEs by, for instance:

- providing the necessary infrastructures to operate;
- promoting the image of the district;
- fostering new entrepreneurial activities;
- promoting synergies between various district ‘actors’ to outline projects to submit to outside Institutions for funding;
- representing the local interests towards central government authorities (e.g. Region, State, European Union).

Consequently, such a meta-management role would have to be capable to outline (Alberti, 2002, p. 71; Marelli, 1999):

- an *institutional strategy*, aimed to obtain a strong consensus both inside and outside the district. Such strategy should be oriented to attract different contributions from different ‘actors’ agreeing with ‘district’ strategic view proposed to them. Contributions may have different characteristics: from financial aids, to political support, or even specific legislative measures, etc. The above contributions will not be directed to the individual district firms, but will enable the institution (i.e. the district) itself to build common resources to be shared by different businesses operating in the area around a specific industry or market segment.
- a *communication strategy*, aimed to promote the image of the district outside of it, in order to overcome the structural difficulties each district SME may face to foster commercial and/or internationalisation strategies, and to position its products on the market Also the results to which this kind of strategy aims are not directly earned by single district firms. More specifically, in this case the ‘actors’ to which refer are other firms, or even single persons (e.g. potential customers, or workers) outside the district;
- a *competitive strategy*, aimed to help district SMEs in better identifying their strategic business areas, main strengths and weaknesses, opportunities and threats, and to promote new network initiatives to search for funding from external institutions.
- Accomplishing such a multifaceted role may face significant problems, which are related to the often blurred and multifaceted roles played by other district ‘actors’.

5. The discipline of industrial district policy by the Italian law

The Italian law has started ruling industrial districts in relatively recent times.

The need of a legislative framework supporting public policies on industrial districts in Italy was rising in the beginning of the ‘80s, due to an emerging crisis over SMEs and networks. Until that time, the *small is beautiful* slogan had been remarking the success of Italian districts. However, different factors were threatening Italian SMEs’ competitive advantage. Among them: the need to improve R&D, product commercialisation and post-sale services. The traditional and spontaneous SME networking “formula”, essentially focused on production excellence, was lacking of any focus on the above new challenges [21].

While Italian larger firms were able to promptly answer to the above changes in the rules of the game, SMEs found greater difficulties in acquiring the needed distinctive competences to succeed in the new competitive scenario. An industrial policy aimed to help SMEs to network each other, in order to respond to the above threats was claimed.

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[21] In even more recent times, similar problems have been emerging, concerning the ability of Italian SMEs to face the rising competition from Chinese companies, especially concerning their ability to combine low prices with a reasonable level of quality.

Consequently, in 1991 the Law n. 317 was issued [22]. The *industrial district* concept was defined by the law as "a territorial area characterised by a high concentration of small firms which are highly focused on a given production, and where a significant ratio between firms and population exists". In order to define the operational criteria for the identification of districts, the above law also referred to a decree that the Ministry of Industry would have later issued. Such a decree would have provided Regions with the guidelines for the identification of industrial districts in their areas, with the advice of other local public authorities, e.g. Chambers of Commerce. Consequently, this seminal law outlined a general framework for industrial policies, according to which Regions – once having defined districts in their areas – could have granted loans to *industrial development consortia* submitting innovative projects. In order to benefit by Regional loans, such consortia were asked to submit plans and to sign *program contracts*. Only the partners of the so called *district committees* – i.e. Municipalities, Chambers of Commerce, Entrepreneurs' Associations, SMEs consortia – were allowed to submit such plans.

Almost three years later, a decree issued (on April '93) by the Italian Ministry of Industry settled the parameters for defining industrial districts. On this regard, a statistical method was adopted, based on the so called *local labour system* concept, that was used by the National Institute of Statistics (ISTAT) [23].

Though the above criteria were rather rigid, the system of rules provided by both the Law 317/91 and the aforementioned decree did not give Italian Regions a straightforward orientation about the policy to adopt in providing financial aids to industrial districts.

The original rules on contract programs were later modified by a CIPE [24] deliberation, on March '97, which explicitly allowed also to industrial district delegations the right to submit investment plans and to sign program contracts, in order to benefit of public loans.

Another step in the Italian regulatory discipline on industrial districts was done by the Law n. 266/97. Such law allowed financial benefits (up to the 50% of total investments) to those industrial development consortia undertaking innovation policies on informatics and telecommunications in industrial districts. The above law strongly boosted the action of the regional legislator [25].

Two years later, the national Law n. 140/99 significantly changed the framework according to which Regions could recognise industrial districts in their territorial areas. In fact, the above law repealed the decree issued in 1993 by the Ministry of Industry and the parameters for industrial district definition. The experience of Regions in trying to apply what it was disciplined by the law suggested that such parameters were too rigid to take into account the local differences and specific characteristics of different Regions. This required a higher level of flexibility. Consequently the new law did not refer anymore to the statistical concept of *local labour systems*. In order to redefine the "industrial district" concept, it introduced the term *local production systems*. This term was used to define those homogeneous production areas characterised by a high concentration of particularly small and medium-sized enterprises, and by a peculiar internal organisation. In particular, based on the above concept, such law re-defined as "industrial districts" those local production systems characterised by a high concentration of industrial firms highly specialised on a given product.

According to the new law, Regions were asked to identify *local production systems* in their territorial areas and – among them – industrial districts upon which to focus their policies aimed to finance innovative and growth-oriented projects.

Following to this law, on October 1999 Italian Regions agreed to:

- keep considering *specificity* as the main character of industrial districts;

[22] This law was focussed on "Actions for the development of small and medium enterprises".
[23] Such a concept only considered those geographic areas which were mainly characterised by small manufacturing firms operating in a specific industry, and providing an employment ratio (*i.e., total employees in the industry/total employees in all manufacturing industries*) that was higher than 30% the national average..
[24] CIPE stands for: *Interministerial Committee for Economic Planning*.
[25] Until that time, after six years from the first legislative effort on the field, only 9 (over 20) Italian Regions had identified the industrial districts in their respective areas. Only three of them (i.e., Lombardy, Piedmont and Tuscany) had concretely started Regional industrial district policies

- still refer to the criteria stated in the decree issued on April '93, though updated according to the 1996 census returns. However, the original criteria were actually slightly changed by taking into account the differences between the Italian Centre-Northern and Southern Regions;
- take into account also qualitative indicators, at least for Southern Regions.

The legislative process of competencies transfer from the State to Regions on industrial policy making in district areas was even more accelerated through two different decrees: one was issued in the year 1998, while the other in 1999.

The first of the above decrees was issued in order to apply what was stated one year earlier, in the national law n. 59/97, on the transfer of competencies to Regions and local authorities to pursue the reform of public administration and administrative simplification. Concerning this, the above decree transferred to Regions the authority to grant subsidies, incentives, and benefits to firms. In particular, a Regional Fund was set up on this purpose.

The other national decree (n. 79) on industrial districts was issued on March 1999. It is considered as the first real example of industrial policy for small business systems in Italy. It allows groups of firms localised in a same territorial area to sign supply contracts of energy with any producer, distributor or wholesaler operating in Italy or abroad. For this reason, this measure is known as the "decree on the energy market liberalisation" [26].

The last ISTAT census in Italy has detected 199 industrial districts, 176 of which are located in the centre-north of the country. According to the collected data, such districts employ 2.2 millions people, amounting to more than 40% of employees in the overall Italian manufacturing industry.

6. Industrial district policies in the perspective of Italian Regions

Until the end of the year 2003, 11 of the 20 Italian Regions [27] had recognised their industrial districts and undertook formal district governance policies. 112 districts have been recognised.

It has been remarked (Bossi – Scellato, 2005, p. 13) that, especially in the first stage of the transfer of competencies from the State to the Regions on industrial district policy making, there has not been a sufficiently clear orientation by the State about a possible governance model to follow. Consequently, different approaches have been adopted by Regional policy makers, and not always they have been characterised by a long-term and systemic view. For instance, the search of collaborations between district firms and Universities or financial institutions has been playing a minor role. Also the search of stronger relationships between district SMEs and larger firms has been latent (Bossi – Scellato, 2005, p. 13-14). In many cases, funding has been distributed by Regions to service centres, business support desks, and consortia. Mainly the focus of regional district policies has been oriented towards the provision of funds aimed to build strategic resources (e.g. infrastructures, education, product promotion, territorial marketing, market research) that could be shared by different district firms.

The first Region that gave execution to the law n. 317/91, has been **Lombardy**. The regional act n. 7, issued in the year 1993, promoted specific development programs for each industrial district to define. Such programs would have concerned innovative projects regarding different firms and the constitution/development of consortia and service centres. The Council later recognised 21 industrial districts, and the procedures for sketching development plans to submit were outlined. Financial resources were allocated in order to finance:

- the development of service centres that different firms could have shared;
- the development of structures (i.e. agencies or desks) for the promotion or support of SMEs to benefit of regional, national and European incentive programs;

[26] From an estimation made by *Confindustria* (the national entrepreneurs' association) at the end of the year 1999 over 60 consortia had been started, grouping more than 1800 firms, for energy purchase. It was also remarked that from 5 to 15% of energy costs were saved and that other 20 consortia, grouping 600 more firms were going to be started.

[27] Such Regions are the following: Abruzzo, Basilicata, Campania, Friuli, Lazio, Liguria, Lombardy, Marche, Piedmont, Tuscany e Sardinia.

- the support to the activities of promotion and commercialisation of district products, as well as the promotion and support in developing consortia and other collaborative forms between firms;
- the development of structures for research, technological transfer and new technology acquisition;
- the improvement of neglected industrial sites.

The financed development plans have a three-years time horizon. The regional Council is responsible of nominating a *district committee*, in each of the defined districts. Such committee has the task to promote the execution of development plans, and to supervise its level of accomplishment, as well as to propose possible updates of them. Members of such committees are representatives from local administrations (e.g. Municipalities, Provinces), Chambers of Commerce, trade unions, and entrepreneurs' associations.

The Lombardy Region may allow grants supporting up to the 40% of investments, up to € 250 thousand per year and 500 thousand for a 3-years period.

Such measures have been operationalised through the institution of 3-years regional industrial district plans [28].

After a new reform in 2001, Lombardy counted 16 industrial districts. Apart from the attempt to define a narrower number of districts, probably the most important innovation of this reform can be related to the possibility to define also the so called "meta-districts" or *thematic districts*, i.e. a model of district organisation which is not necessarily focused on a given territorial area.

Normally once a year, the Region issues a *call for proposals* in order to select innovative projects to finance [29].

Concerning the governance of regional actions aimed to sustain both industrial districts and thematic districts, the institution of a *Regional Committee for Districts* is planned. Such district is responsible for the planning and monitoring of different financed investments.

The model adopted by Lombardy has been followed by many other Italian Regions.

Concerning the contents of development plans, some Regions have used a more flexible approach than Lombardy. For instance, the **Friuli** Region has outlined a number of macro-categories (e.g. education, innovation) under which it is possible to submit a different range of proposals. Also concerning the means through which such proposals can be implemented, different alternatives are considered, encompassing consortia, service centres, and other institutions.

The **Emilia Romagna** Region has been even more flexible, on this concern. In fact, it has adopted a very original concept of district, which does not imply any *a priori* defined territorial boundary.

Also concerning District Committees there are many similarities among Italian Regions. In fact, such institutions are considered as primary actors in a district by almost all the Regions (with the exception of Veneto and Sardinia). Also their internal structure is very similar from Region to Region. However, a leaner structure has been adopted by Lombardy (implying a stronger role of enterprise representatives), if compared to **Tuscany** and **Piedmont**, where the role of local political institutions (e.g. Provinces, Municipalities, but also Chambers of Commerce) implies a coordinating function.

In almost all the Regions, main functions of District Committees are:

- outlining and sketching development plans;
- supporting financed institutions in the implementation of development plans;
- monitoring of the implementation progress of the projects approved by Regional Council;
- submitting proposals and advising the Regional Council, on local industrial policies.

[28] At the end of the year 2004, altogether the Region gave execution to about 110 projects, implying a total investment of about € 50 millions and about € 20 millions of funding. Only 15 districts have benefited of such loans.

[29] Selection criteria take into account: the financial investment value, the proposed investment's technical sustainability, the investment's impact, and the possibility to measure *ex-ante* expected results.

7. Governing industrial districts: a strategic resource-based-view

As remarked in this paper, an important role in promoting the start-up and growth of an industrial district or in preventing its crisis can be covered by *meta-management* institutions (such as district committees) and by public bodies (from Regions to various local autonomies). Such role requires a *negotiated planning* and *learning-oriented* approach, which is not compatible with a static and mechanistic view, according to which the strength, timing and direction of various interventions by public bodies is centrally decided. On the contrary, industrial district policies must be based on a deep understanding of the *system* where public bodies wish to intervene. As remarked, this system consists of different 'actors' whose mindsets, goals and objectives are often different one another. Therefore *collegiality* will necessarily be the key to effective industrial district policy design.

In order to implement such approach, a conceptual model that could provide a guidance to district policy designers will be now outlined.

To this end, the example of the **Pesaro** district policies, earlier illustrated in par. 3.1, will be analysed according to a dynamic strategic resource-based-view.

A first step to follow requires the definition of clear, time bounded and measurable *expected outcomes* (Kaplan – Norton, 1996). In the case of Pesaro, such outcomes could be related to the possibility to affect in give time horizon (e.g. three years):

- district firms *sales revenues* and *income* rates;
- *employment* rates in the district;
- *business net birth rate* (i.e. the difference between new district firms and those which exit from the district in a given time horizon);
- the quality and scope of *learning* processes in the district;
- the *image* of the district, also outside of it.

In order to realistically pursue the above objectives, policy makers must then figure out those *performance drivers*, i.e. the intermediate results (measurable through *lag* indicators), according to which it will be possible to assess the actual impact of undertaken policies [30].

In the case of Pesaro, possible interrelated performance drivers, are:

- quality and scope of education, that will affect (other conditions being equal) learning;
- quality and scope of initiatives undertaken by governance bodies to promote new business start-ups in the district. This indicator is a measure of the degree to which an expected business net birth rate is affordable in a given time horizon;
- the share of projects submitted by district actors and financed by the European commission, as a consequence of the promotion and consulting activities undertaken by governance bodies. This indicator is a measure of the ability of the system to pursue a given learning rate, to foster an improvement in the district image, to affect district firms sales revenues and income, as well as an increase in employment rates;
- the degree of reliability and promptness of various permits issued by Municipalities on request of district firms. This indicator helps policy makers to estimate a possible impact over time on the district image and attractiveness, and on district firms net birth rate as well;
- the quality and scope of information provided on the Internet to potential investors and other 'actors' on the district. This is another indicator impacting on the business net birth rate.

In order to affect the above performance drivers, another *layer* will have to be added in the policy framing process. In fact, though performance drivers can be affected in a shorter time than outcome indicators, in order to improve them it is necessary to detect those district *strategic resources* to build up and coordinate through district policies. Such different – tangible and intangible – assets are defined as *strategic* since their

[30] Also performance drivers will have to be clear, time bounded and measurable.

endowment and consistency provides the basis for a defendable competitive advantage and, therefore, significantly affects the sustainability of growth and lifelong existence of an industrial district.

In the Pesaro district case, relevant strategic resources could be referred to:

- number of higher education projects. This asset will affect quality and scope of education, and – though it – the learning rate, which will in turn impact on district knowledge;
- number of E.U. submitted and financed projects. Such resource will affect the financed projects %;
- number of business start-up promotion initiatives. This resource will determine a given quality and scope of business start-up initiatives, that will in turn affect the business net birth-rate. This outcome variable, will affect the number of district firms, i.e. another important strategic resource of the district;
- level of municipal administrative processes simplification and standardisation;
- district attractiveness and image;
- level of district knowledge;
- information accessible on-line by various district actors.

An overview of this three-layers district policy framing model is depicted in fig. 1.

If we use a dynamic resource-based-view (Amit – Schoemaker, 1993, p. 36; Bianchi – Raimondi – Fasone, 2004; Morecroft, 1997; Warren, 2002) the above strategic assets can also be modelled in a higher detail as *stocks* (or levels) of available tangible or intangible factors in a given time. Their dynamics depends on the value of corresponding *in-and-outflows*.

Such flows are modelled as 'valves' on which decision makers can act through their policies, in order to influence the dynamics of each strategic asset, and therefore – through them – business performance drivers and outcome indicators.

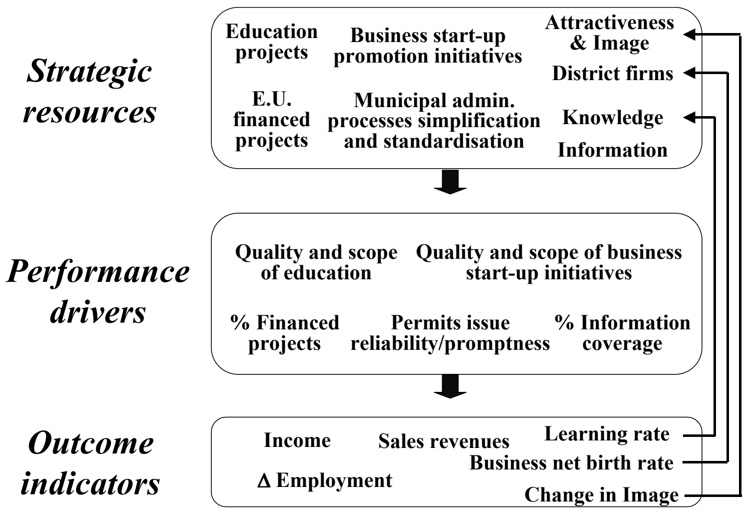
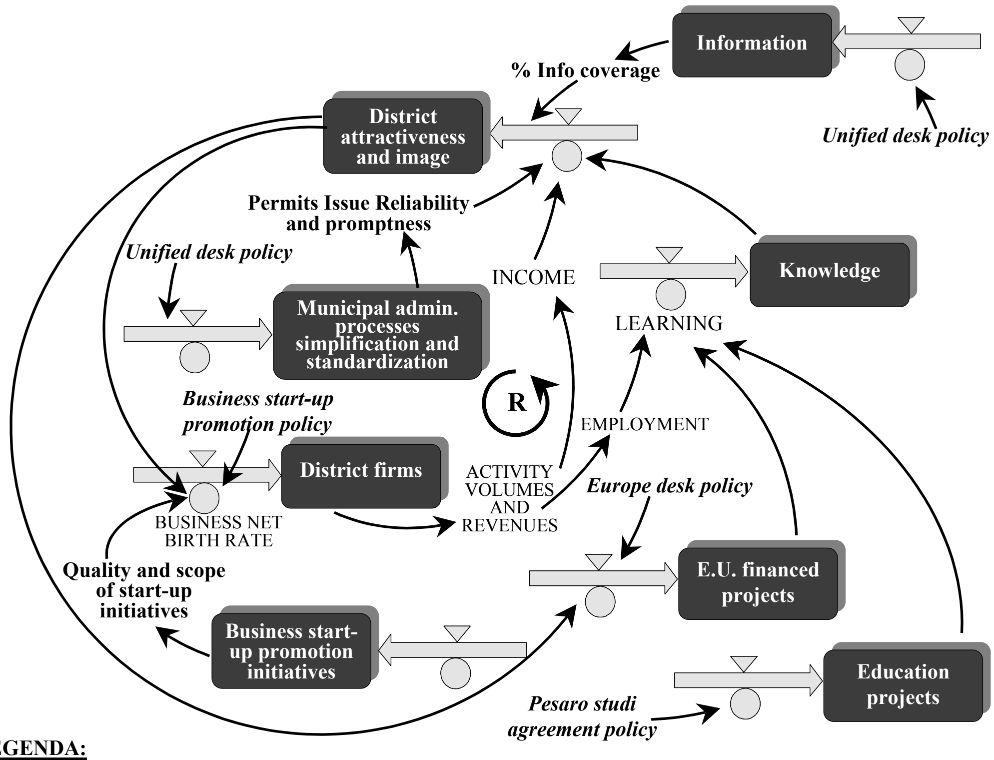


Fig. 1: A *three-layers* approach in framing industrial district policies based on a dynamic resource-based-view: an application to the case of Pesaro district

In particular, Fig. 2 shows a number of feedback loops representing possible *engines of growth* for the district, associated to undertaken policies. For instance, the *unified desk policy* may allow district actors to improve the level of standardisation/reliability of Municipality processes and the number of available information on the Internet. Policy makers will have firstly to figure out the time delay needed to increase the above strategic assets, and the size of such increase. Both strategic assets will affect respective performance drivers, that will impact on district image and attractiveness. A higher district image will, in turn, increase the productivity of start-up initiative policies undertaken by governance bodies. This will increase business net birth-rate, which will determine a higher stock of district firms. Such a higher strategic asset will be likely – other conditions being equal – to increase activity volumes, sales revenues and income rates in the district. This improvement in end-results will determine a further increase in district attractiveness and image (reinforcing growth oriented loop). This reinforcing feedback loop will be likely to be fostered by a higher employment rate, which – other conditions being equal – make more productive higher education (Pesaro Studi) and Europe Desk policies. This will result in a higher learning rate, which will determine an increase in another important strategic asset in the district: knowledge. On its turn, a higher district knowledge will further strengthen the above reinforcing growth-oriented loop, based on a district image.



LEGENDA:

R = Reinforcing loop, whose dominance generates an exponential behaviour in affected variables

B = Balancing loop, whose dominance generates a stabilising behaviour towards an equilibrium in affected variables

= Strategic asset stock, available at a given time period

= Change (in-*or*-outflow) in strategic asset stock, occurring from a given time period to another

Italic Bold Variables = ***District policies***

Bold Variables = **Performance drivers**

CAPITAL VARIABLES = OUTCOME INDICATORS

Fig. 2: A stock-and-flow Dynamic Resource based view of district policies: an application to the case of Pesaro district (reinforcing loop dominance)

There are, of course, a number of balancing loops which could represent possible limits to growth. Such loops ought to be promptly perceived by policy makers in order to detect weak signals of crisis in a district, or even decreasing from undertaken public policies.

Fig. 3 shows how district policies could foster balancing loops, aimed at fixing a given problem tackling further district growth. For instance, as referred above, in the **Fermo** district (focussed on the shoes industry), critical issues are therefore the availability of skilled workforce, as well as of flexible machinery organised around satellite plants. As fig. 3 shows, a negative gap in available skilled workforce could be a primary cause of product quality reduction. The loss in such an intangible strategic resource could generate a decrease in undertaken ventures, to a level that is compatible with available workforce (balancing loop “B1”). In order to counteract this limit to the district growth, governance bodies could undertake higher education policies, aimed to provide higher education courses (strategic resource) that could increase the skilled workforce available in the district (other important strategic resource), and – other conditions being equal – total employed workforce. Such a policy would strengthen the "B2" balancing loop, which would counteract the previous one. Therefore, the stock of undertaken ventures in the district would not decrease.

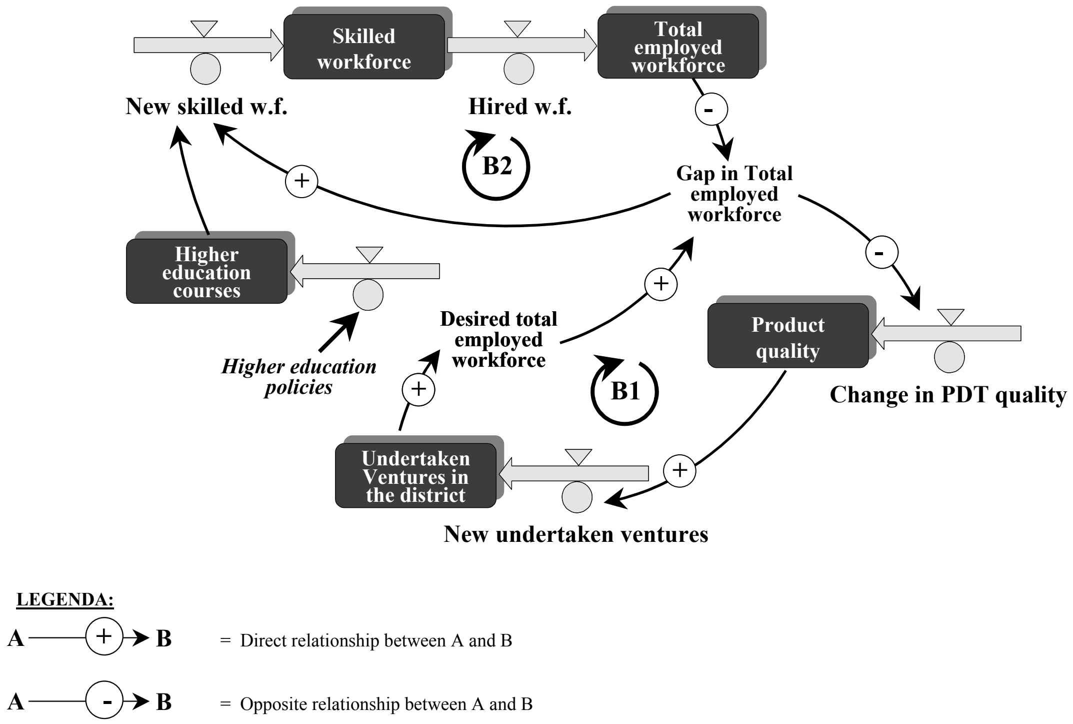


Fig.3: A stock-and-flow Dynamic Resource based view of district policies: an application to the case of Fermo district (*balancing loop dominance*)

The approach to district policy framing outlined in the final section of this paper suggests that a dynamic resource-based-view is likely to provide public rulers a robust framework to discuss and analyse together with other district 'actors' possible outcomes of proposed policies. Such analytical framework implies that the relevant system boundaries allow a focused and selective analysis of possible effects that policies undertaken by different actors are likely to generate in the system in short and longer time span.

8. Conclusions

This paper has focused the theme of industrial district policies in the perspective of public rulers and of those governance bodies covering a *meta-management* role in affecting an industrial district survival and growth.

After an analysis of main factors profiling the industrial district phenomenon and of the legislative framework in Italy on this issue, a number of real Italian district cases have been analysed.

The current approach to industrial district policy making adopted in Italy has been the discussed. Such analysis has shown the usefulness of a dynamic resource-based-view to allow a proper implementation of *negotiating planning*. A Dynamic Resource-Based-View of strategic assets is likely to foster learning and build consensus among different actors in a district. In particular, such an approach has been claimed as useful in order to: (a) identify synergies between alternative policies to pursue; (b) affect sustainable growth in the district over time; (c) detect weak signals of crisis in a district; (d) assess district performance and affect it.

This paper has tried to outline main reasons requiring the use of the analytical framework here proposed and related possible areas of application. However, further empirical research will be needed to show the practical usefulness of this innovative and systemic approach.

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