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The role of flagship firms in the development of the district: a case study from the clothing district of Val Vibrata

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Abstract

The district issue has been at the center of the academic debate over the last decades: during the 80's it proved to be a very innovative model, a successful alternative to the paradigm of the vertically integrated large firm, characterized by high specialization of many small firms geographically localized, significant levels of wealth for the local population and great flexibility of production processes and workforce mobility. After the intensive globalization processes districts have undergone profound changes that, in particular, shed new light into the role of single, larger firms within it for the development of the whole system. Adopting the perspective of the single firm, this paper aims to contribute to the debate by bringing the example of the Val Vibrata (a small territory located in the central Italy) clothing district through a series of interviews with its flagship firms in order to understand how strong is the impact of these firms on the local economy and the degree of internationalization that they have reached trough their strategies.

Introduction

Does size matter? This is an undoubtedly hard question, especially when it comes to industrial economics, since common theory and practical evidence show, and not that seldom, strong conflicts. When it comes to Italy the question becomes even more critical. The pillars of Italian economy, in almost all industries and encompassing the four in which Italy has a long-term competitive advantage, best known as "The Four Majors"(Fortis and Carminati, 2009), which in Italy stands for furniture, fashion, food and automation and mechanical engineering, have always been small and medium enterprises run in contexts characterized by spatial proximity and shared values, culture and norms among the population living and working in that same area. In the economic literature those structures are usually referred to as "industrial districts".

Actually, the role of districts has been always played down up to the seventies: the main stream of thought across industrial economists used to point at districts as weak entities, whose destiny would have been their relentless decline under the strong power of big, often multinational firms. According to this view, only firms who could efficiently exploit the advantages of the "big size" could become strong players and in turn survive the global competition. Small firms, like the vast majority of Italian ones, could do nothing but close down if the economic theory was really applied.

Nevertheless, whatever is written on an economic essay, reality seems to play on a different stage. This is maybe the main issue that affected (and still affects) economists: trying to apply mathematical models to reality instead

of looking at reality and as a consequence draw conclusions and models (an issue well explained also by Thomas Piketty in his introduction to Capital in the XXI Century, where he affirms that economists have been focusing too often to theoretical models whereas Economics sometimes should be looked at as a sociological subject, starting from the recognition of certain data and facts with the deriving outcomes). In the case of the districts, there is more than simple Math to explain their growth and success. It is a mix of daily actions carried out by the single persons within, influenced by the relationships generated by the network of those same people, with cultural and social values framing the overall picture. Starting from the 80's, great attention has been paid over the Italian industrial districts issue and this was due particularly to the ability that they showed in exporting their products and in successfully competing against major competitors. Economists started then wondering, by directly observing districts and their dynamics, how such small firms could be able to face so strong and big competitors in the global field and, in addition, whether the district pattern could have been a sustainable way of development to be repeated also in other countries.
Since then, districts gained great recognition both at the scientific level (many studies have been accomplished in many Universities and institutions across the world) and at the political level (Italian institutions for instance financed the development of districts throughout the whole country with huge expenses, the efficacy of which is still disputed), representing the boast of Italy's economic development, a "happy" model capable of combining the wealth of the industrialized society typical of the big cities and the quality of life guaranteed by the dispersion of small firms and living areas. Moreover, economic figures recorded until the end XX century proving the sturdy situation of Italy in terms of GDP and export seemed to confirm the strength of the model.
The system started staggering at the end of the 90's: after the elimination of trade barriers at the end of the century, this economy characterized by a myriad of small firms showed great weakness especially in terms of fi-

nancial strength, but many other issues before unnoticed showed up, such as the little degree of internationalization and the over-reliance on internal markets both for procurement and sales, the absence of brand marketing strategies (many firms in the district, in particular those producing the finished product, manufactured their product for other companies which sold them through their brand), the small scale of production which do not allow for achieving economies of scale and scope and last but not least the limited number of suppliers and buyers, often only one and contractually more powerful.

Caught in the middle of the storm all districts have undergone a process of restructuring, starting from the downsizing of their dimensions (many firms have been forced to close) to a reorganization of the strategies at the firm level. Needless to say that along with the crisis also the effectiveness of the district model has been reconsidered. In this perspective the role of the largest firms in the districts is of such importance that the attention of many studies have shifted from the overall district to the single firms operating inside.

This study aims to provide insight into this debate through the analysis of one district, namely the clothing district of Val Vibrata, an area located in the northern part of the Abruzzo region, in order to show how the district has evolved during the past years up to today and what is the role of the flagship firms for the growth of the overall system.

In the first chapter a brief overview of the theory behind the concept of district will be reviewed, focusing on economical and sociological aspects and following a chronological order from the core contributions of Alfred Marshall to the latest ones. The second chapter wants to be a bridge between the theoretical issues and the main analysis: its focus will be on the particular features of Italian districts, what are they specialized in, where they are located and why, what criteria are used for their identification and what are the strategies they are following. The third and last chapter will be dedicated to the core analysis of this work: after a brief description of the

district of Val Vibrata the interviews to three major firms of the district will be presented in order to analyze their commercial strategies and how they affect production processes and in turn the district performance. The last chapter, "Conclusions", sums up the results and provides some very personal suggestions.

Before starting, one point should be clear: this paper, even though oriented to contribute to the debate over districts, does not mean at all to impose one theoretical framework over the other: it has to be only intended as a description of something existing after having followed a given approach, not a prescription of something as it has to be. Trying to assert the validity of one theory over the other is misleading: the world is made up of infinite realities in constant evolution, one size does not fit all.

Chapter 1

History and Theory about Districts

1.1 Defining the district: a brief history

1.1.1 Marshall: paving the ground for the recognition of districts

The district phenomenon in Italy is quite recent, at least in regards to the academic interest: studies about the Italian districts actually sparked at the end of the 60's (see Becattini, 2002), with the pioneering studies of Giacomo Becattini and researchers from other Universities, the great part of whom located in the central Italy. Nonetheless, the concept of district dates back to the second half of the XIX century, with the fundamental contribution of the economist Alfred Marshall, the first to describe the situation of some villages in the English counties (Marshall, 1890), far from the heavy industrialized cities where big firms used to integrate production stages and manufacture great volumes of products. Marshall talks about districts referring to them as "localization of industry in particular localities" and makes explicit reference to the *benefits* (which he will later call *external economies*) that such localization is able to offer to firms within. He stated that "some of the

advantages of division of labour can be obtained only in very large factories, but that many of them, more than at first sight appears, can be secured by small factories and workshops, provided there are a very great number of them in the same trade". In this sense, large and small firms, but to a greater extent small firms, can benefit from the localization of an industry. Moreover, small firms can overcome the disadvantages of competing against large firms, provided that a sufficiently great number of firms are located nearby and that they operate in the same trade, each of them controlling single stages of the production process for a given product.

According to Marshall, the localization of a particular industry in a given place is substantially determined by many factors, among them he spots two "chief causes". The first set of causes are represented by the physical conditions: "the character of the climate and the soil, the existence of mines and quarries in the neighbourhood, or within easy access by land or water". For instance, in Staffordshire, a county where the pottery industry was flourishing, you could find a huge amount of coal at a cheap price and excellent clay for making boxes in which placing the pottery while being fired, whereas in Sheffield the cutlery trade was due to the high quality grit for the grindstones. Also in Italy many districts were born for this reason, e.g. the Carrara marble district, since a great amount of marble can be carved from the local mountains. The second chief cause was the patronage of a court: rich people who settled in a given place demanded high quality goods. This demand for high quality goods raised the need for high skilled workers and so many foreign workers with the necessary skills came from abroad to establish in those places. Even though many courts then disappeared because the rich moved away, a quite mature industry, even if small, was already grown up, creating the breeding ground for the development of a district. This second reason might be anachronistic compared to our times but the first provided by Marshall is still relevant for this analysis.

Marshall's contribution to the economic debate left an important mark since his theory collided deeply with the mainstream one prevailing during the

second half of the XIX century: most economists (especially those who belonged to the classical doctrine) thought that all the production activities should be vertically integrated inside the firm in order to cut down costs. By placing against this view Marshall paved the way for a new approach to the studies about industrial organization maintaining that, for the production of certain goods, a vertically integrated production was not necessarily better than a production system in which many firms managed different stages of the process, as long as those firms are great in number and geographically localized. Even though the Marshallian standpoint was somehow revolutionary, it gained little consideration among the economic panorama, since at the beginning of the XX century the powerful rise of the Fordism wiped out more or less every theory clashing with the standardization of production, stiffness and in turn integration of the production processes. And also Marshall thought that this configuration of industry could not be sustainable in the long term, owing to the rising costs for machinery and equipment and the falling costs for transportation and communication means, all things that would have made these concentrations of small firms collapse, since small entrepreneurs had not a strategic vision of the market trends. In the long term concentration would have been the dominant pattern. Eventually it is necessary to specify that the term "industrial district" used by Marshall had only a descriptive purpose and it was still not an institutionalized term (Sforzi, 2008).

1.1.2 Flexible specialization vs mass production

A profound shift in the recognition of districts as a valuable model of development came by Piore and Sabel (1984). They identified two main moments across the economic history, as far as the organization of production and the technological development were concerned, which they named *first industrial divide* and *second industrial divide*. To properly understand the phenomenon and its importance a brief recall of some core economic issues is needed. The first industrial divide took place across the XIX and XX century with the rise

of the mass production over the craft production: according to the patterns of mass production a production process should be decomposed into its single steps, each performed by a purposely dedicated machine in order to increase speed and volumes of production. This shift was propelled also by the mass migration of peasants from the feudal-organized lands to the industrialized cities, considering also that such production did not require skilled workers at the machines. Nevertheless, in the mass production model efficiency had to be accompanied by what Smith called *extent of the market*, that is to say a market large enough to place the increasing output of the mass-producing firms: the solution according to economists laid in the model itself, since increasing efficiency drove product prices down to levels affordable for a larger market. This model became a benchmark for the academic world as well, to such great extent that the presence of small firms, which was something unpredicted within this framework, had to be artificially explained according to the mass production model. In this context, small firms existed for two reasons: first, as producers of specialized machinery for large firms (this kind of production was a mirror image of the mass production) and second, as complements of the same large firms during peak times in the market (if large firms had equipped with machinery whose production volumes were too high, they would not have been able to place those volumes in the market in case of low sales, so it was convenient for them to equip with lower production volume machinery and outsource the remaining production to small firms). Craft production is then *subordinate to the mass production* in this *dualistic model*. This artificial explanation fell short in explaining the real situation of districts, though.

The other model facing mass production is flexible specialization, the typical pattern of districts. In the flexible specialization model firms produce a wide range of products both for the local and external markets: as such, the products need to fit needs and tastes of the multiple markets and the firm is forced to continuously change its product platform, sometimes creating, sometimes meeting new market trends. This feature is tightly linked to

the other main characteristic of the flexible specialization model, namely the flexible use of more and more productive technology: small firms must be able to create always new combinations of the state-of-the-art technology to redefine the production processes in order to meet the ever-changing needs and be always competitive. Innovation is guaranteed by the mix of competition and cooperation existing among the firms.

The second industrial divide takes place during the second half of the XX century, during a period of strong economic downturn. Odd as it was, the largest corporations were striving to obtain positive performances, whereas the same crisis did not seem to affect smaller firms, which, paradoxically, gained better results. As a matter of fact, reality was not living up to the expectations of scholars who began to cast doubts over the hegemony of the mass production.

Piore and Sabel were two among the firsts to catch this point and the revolutionary assumption they provided was actually this: the mass production model was to be considered neither the only effective paradigm for successful performance nor a poor model compared to craft production and what they call flexible specialization. They rather argue that both models are just two different ways of organizing production. Many countries and regions responded to the crisis with both the models: some enlarging the scope of the market (multinationalization and conglomeration), others by redefining the production processes in the framework of the flexible specialization model. Why a particular region or state chooses one of the two alternatives, it depends in particular from political, cultural and especially historical roots and organizational contingencies. The real importance of this contribution is that this work marks for the first time an institutionalization of the district model, acknowledging its economic importance also in the academic world along with the mass production model, stating that no single path for success exists in the market (a total anti-deterministic view).

1.1.3 The rise of Italian districts

Within this scenario the theory proposed by Marshall at the end of the XIX century had been overlooked for years under the pressure of the Fordist model, which reconciled almost all the economists, and also Italy was no exception. It was only at the beginning of the sixties that a group of researchers , most of whom coming from the Universities of the central Italy, started looking at the economy of some Italian territories, particularly at those regions whose economy was not propelled by the settlement of large firms located mostly in the North-West: that is to say in the North-East, in the Center and to a less extent also in the South (whose involvement was only minimal for many reasons I will later explain). This geographic area was referred to as the "Third Italy" (Bagnasco) or the North-East-Center region (NEC, by Fuá). What those scholars found in those particular regions was that:

- While some large firms operating in high-tech, capital-intensive sectors were showing weaknesses, a massive group of micro and small firms were creating new jobs, improving local income and increasing their export;

- Most of these firms were operating in traditional, labour intensive and low-tech industries (like textile, clothing, food and furniture);

- Those small firms were able to keep up with the advanced technology of larger firms and compete with them;

- From a geographical point of view, compared to the dominant standpoint of the big company located in a narrow, highly industrialized and densely inhabited area, those small firms were scattered across relatively vast territories;

- The same territories were, in many circumstances, not economically attractive, especially in terms of facilities and infrastructures (Becattini, 2002).

Since most scholars were stuck to the idea of large vertically integrated firms, those theories were not given much attention. Instead the same scholars thought that the same features should have been considered the real weaknesses of the districts, leading to their certain extinction in the future. Up to the eighties very little recognition was given to them, but evidence showed in the years to follow that they not only were surviving, but were also growing in size, number and performance. Starting from the eighties districts became the object of a new wave of studies, especially in Italy and the issue acquired so much importance that it run beyond the academic interest: Italian institutions for instance started setting financing programs for the small and medium firms and many institutions and programs to check the evolution of districts were established during this period, such as the *Club dei Distretti Industriali* and statistical series from the italian statistic institution (ISTAT). We must concede that the districts phenomenon is not limited to Italy, though: we can find the presence of many districts also across the Europe, in some regions like Baden-Württemberg in Germany, southern France and southern Austria. What is very interesting for Italy , by the way, remains the strong weight of those small firms over the overall number, accounting for about a 95%, which is a figure we do not detect in other economies. In the next section we are going to review a bunch of all the theory and the debate concerning the districts issue, with a particular focus on the Italian case (european districts will be ruled out of this analysis).

1.2 Theoretical Background

As it was pointed out earlier in this discussion, the most important contribution to the recognition of districts stems from the writings of Giacomo Becattini. Becattini's merit is not exactly the fact of having explained the economic structure of the districts and the advantages stemming from it, this would have added nothing to the notion of localized industry and ex-

ternal economies provided by Marshall. Instead, what made his work really outstanding was a new perspective through which he interpreted Marshall's work. In fact, most economists looked at Marshall's localized industry as a different approach to the organization of production, starting from economic models to explain the localization phenomenon. This approach however did not consider the social perspective at all. Becattini reads Marshall taking into consideration both the economic and social perspectives of the localization and puts more emphasis on the second aspect. He overturns the field, and tries to explain the localization phenomenon on the basis of the social forces strictly belonging to the local community where the localized industry springs up.

This was a major shift in the methodology of studying economics which proved necessary in order to give academic recognition to those entities like the Italian districts: at the time this new approach was proposed by Becattini (1962) however, it did not gain great attention by the academic world, since this model seemed to be created for and fit the Italian model only, so that it could not fit other countries' experiences and in turn become a valid framework to be extended to all the other cases (Sforzi, 2008).

According to this pattern, Becattini starts his analysis by studying straight on the field the districts of Tuscany, in particular the food district in Altopascio, the textile district of Prato and the leather products district of Croce sull'Arno to build his model. This approach is evident in one of his recent writings, where he recalls one of his first experiences in the districts:

> *"You can see Altopascio either as a location where the food industry is localized or as a community of the Lucca plain trying to provide themselves with things they do not produce, specializing in the things they do best. In the former situation the unit of analysis is the food industry, whose spatial distribution is now the study object and in that case you come across Altopascio; in the latter one the unit of analysis is the community of Altopascio, of which you are studying the productive structure, and in that case*

> *you stumble upon the food industry. In the first case the socioeconomic reality looks as a network of interconnected sectors, in the second case as a mosaic of locations."*(Becattini, 2007).

It seems clear that through this analysis Becattini shapes the district as a new socioeconomic entity, with the community (and all the forces and relationships governing it) becoming a factor of production and a driver of development.

Of course the contribution of Becattini to the economic debate triggered a wave of studies toward the topic of the districts, the Italian ones standing at the forefront, especially for this new social perspective he offers, never considered as an economic issue before. Among those forthcoming studies, one in particular emerged as a masterpiece of the economic literature, namely Michael Porter's *The Competitive Advantage of Nations*. In his essay Porter argues that among the factors providing a country with national advantage in one or more industries is the presence in the country of "related and supporting industries" that are internationally competitive. Firms can take advantage of the continuous interaction occurring among manufacturers and suppliers, which however does not take place randomly, instead it is helped by the geographical proximity. In the same paper he introduces the concept of *clusters* of competitive industries that spring up in a country (Porter, 1990).

The concept of cluster has really gained great recognition among the academic world, of course because of the worldwide fame of the Harvard University where Porter came from. This undoubtedly helped to make the whole academic world get aware of the existence of a different path of development in Italy as well as in other countries where clusters existed. In the literature those two terms are usually used as synonyms, even though the term cluster appears more frequently for the aforementioned reason. Actually, a distinction must be made between Porter's cluster and Becattini's district, whereas the first is very similar in its concept to the classic Marshallian district with the absence of the sociological aspect, and enriched of the notion

of *competitive advantage* that localization could give to firms vis-à-vis its foreign competitors. Now that the districts' history has been briefly outlined we now seek to understand what a proper definition of district could be and, in turn, what are the particular features, advantages and disadvantages that a district, respectively, benefits and suffers from.

1.2.1 Features of the district

The vast literature on districts seems to agree on the definition, at least in regards to the Italian districts. Differences occur when it comes to defining the industrial districts concerning all the districts in the world, since some elements that are in place in the Italian districts are missing in many other realms, whereas the Italian districts are actually considered the benchmark owing to their particular features. Marshall, the first to describe the district without already naming it like this, talked about, as we have already mentioned at the beginning, "the concentration of specialized industries in particular localities".

The Marshallian district comprises a huge number of small and medium firms which are geographically localized and specialized. Those are the two main elements in the Marshallian district which enable the firms to benefit from many advantages which the classic theory of economics assigned to large firms only. What are such advantages? The first is that the division of labour, each firm mastering one of the different stages of a particular production process, makes up for the expensive machinery that an entire production process requires. To Marshall, those firm can better afford similar expenses and in turn compete against large firms. A second advantage is that specialization creates a pool of specialized workers, who are able to put in place innovations and localization makes the exchange of information more nimble: knowledge creation and its exchange are mutually reinforcing processes (Marshall, 1890). Marshall names this advantages as *external economies*, against the economies of scale that the single firm can reach. According to Becattini, the district is

> *"[. . .] a socio - territorial entity which is characterized by the active presence of both a community of people and a population of firms in one naturally and historically bounded area. In the district, unlike in other environments, such as manufacturing towns, community and firms tend to merge"* (Becattini, 2002)

This definition shows clearly how the focus is not primarily on the economic activity, rather on the social context in which the economic activities are carried out. Pyke and Sengenberger provide also a suitable and broader definition for the phenomenon we are studying:

> *"The districts are geographically defined productive systems, characterized by a large number of firms that are involved at various stages, and in various ways, in the production of a homogeneous product. A significant feature is that a very high proportion of these firms are small or very small.[...]A characteristic of the industrial district is that it should be conceived as social and economic as a whole. That is to say, there are close interrelationships between the different social, political and economic spheres, and that the functioning of one, say the economic, is shaped by the functioning and organization of the others. The success of the district, then, lies not just in the realm of the "economic". Broader social and institutional aspects are just as important"* (Pyke and Sengenberger, 1990).

From these two excerpts we can then derive the essential features of the Becattinian or "Italian" districts, which are the geographical concentration within relatively narrow boundaries of both the firms and the community, the mix of an economic structure with a social framework which are tightly interrelated and the homogeneous nature of the production process, that is to say, the firms are involved in the supply chain of similar products and only seldom they manage more than one stage of the production process .
Moreover the firms are involved in various ways, which means that one firm

could be both a supplier and sell its products on the final market at the same time. In this sense a vast number of relationships configurations can be detected in the districts, depending also on the nature of the manufactured products. In the end, the district is composed of several number of firms, usually small and medium, but this is a feature of the classic definition which can be easily disputable and source of divisions among the academic world as we will see during this analysis, since many large firms are standing out in the districts and strengthening their position to become strategically influential players for the whole district structure.

1.2.2 Organizational aspects

A good framework for the development of the district has been developed by Brusco. He arrives to a definition of districts starting from a different perspective from Becattini's one, following a historical path. Brusco's contribution differs from Becattini's in the fact that he does not focus too much on the social relationships, as he studies the firms from the point of view of their position in the supply chain. He finds four different evolution stages:

The traditional artisan model: based primarily on the dichotomy Northern – Southern Italy and on the background of the 50s and early 60s, the North was characterized by the presence of large firms which were capital-intensive, efficient and able to pay high wages, whereas the South was populated by plenty of small firms with craft production (that is to say also labor-intensive) and paying low wages. In addition, their output destination was also different since northern firms used to sell to the whole national market whereas southerner sold to their local markets with tailor–made products.

The dependent subcontractor: at the end of the 60's a wave of decentralization took place and the activities were more and more vertically disintegrated. The role of small firms changed dramatically: they did not sell their products to final markets (even though small and local

markets), rather they became subcontractor and produced intermediate parts and semi-finished goods for larger firms which in turn sold theirs to the final national (and international) markets. Many firms' production were still labor intensive but in this stage many others reached a technology level at least as advanced as their larger competitors, as well as the workers' skills which were just the same as their large firms colleagues. Wages were still low though, and this could be a source of advantage for smaller firms who could then be able to accumulate capital. One more point to be highlighted is the shift from the dualism North-South to the dualism large-small firm.. Scholars still do not consider this configuration apt to be called "industrial district".

Industrial district Mark I: This is the classic district model as we know it. The study object, owing to Becattini's contribution which is of course critical, shifts to the districts from the single firm. Within the district three kinds of firms are operating, according to the market tapped by the products manufactured: firms whose products get sold to the final markets, "stage-firms" who are involved in a single production process and firms whose products are not part of the district product's value chain, still they are perfectly vertically integrated. Technology used by the firms is advanced and at the level of the larger firms, however there is coexistence of high-tech, capital intensive firms and low-tech, labour intensive, craft firms. The upside compared to these firms is that in the districts the distribution of earnings is much more spread compared to large firms where wealth is more concentrated.

Industrial district Mark II: This is a concept of district envisioned by Brusco. New technologies and ever-changing markets places new challenges to large and small firms. While large firms, especially MNEs, have undergone deep restructuring processes (Bartlett and Ghoshal, 1987a Bartlett and Ghoshal, 1987b), small firms in the district find it harder to cope with such changes. The provision of real services instead

> of financial services can be a solution for this issue but a proper government's intervention is required to address the needs of the district. (Brusco, 1990)

An essential contribution to the academic debate was developed by Markusen (1996), who argued that four different kinds of districts can be identified and the district just portrayed is only one of the four different configurations, which he calls the "Italianate" variant to the Marshallian district. The overall features are listed in the table 1.1, but some points need some discussion.

The main advantages of the districts are the economies of scale at the district level, which are called external economies. These external economies are the consequence of some factors. Among these is the quality of the local labour market, which is composed of many skilled people who have grown great experience in the particular district's industry, skills that are strongly tied to the particular knowledge stored across the years and extremely useful for the particular needs of the firms. Knowledge exchange is granted also by the high degree of flexibility of the workforce: it is not unusual for people to move away from a firm to another within the district. Moreover, people growing up in the district get in touch with this environment since their childhood, being able to catch not only technical knowledge but also the intangible knowledge rooted in the relationships occurring on a day-to-day basis among the actors, in particular between customers and suppliers. Workers and owners live in the same community and the secrets of industry are "in the air" and shared. Out-migration is minimal and in-migration outnumbers it, owing to many skilled people abroad considering this places like flagships.

The Italianate variant differs from the pure Marshallian district: whereas Porter (1990) and many others see horizontal competition and vertical cooperation among the districts, Markusen finds a certain degree of horizontal cooperation, with an intensive exchange of knowledge and personnel to share risks and innovations. Along with it, workers in the district are always involved in design and innovation activities, often in contact with firm's depart-

Table 1.1: *The Marshallian District and its Italianate variant*

The Marshallian Industrial District

- Business structure dominated by small, locally owned firms
- Scale economies relatively low
- Substantial intra-district trade among buyers and suppliers
- Key investment decisions made locally
- Long-term contracts and commitments between local buyers and suppliers
- Low degrees of cooperation or linkage with firms external to the districts
- Labour market internal to the district, highly flexible
- Workers committed to the district, rather than to firms
- High rates of labour in-migration, lower levels of out-migration
- Evolution of unique local cultural identity, bonds
- Specialized sources of finance, technical expertise, business services available in the district outside of firms
- Turmoil, but good long-term prospects for growth and employment
- Existence of "patient capital" within district

Italianate variant, in addition to those features

- High incidence of exchanges of personnel between customers and suppliers
- High degree of cooperation among competitor firms to share risk, stabilize market, share innovation
- Disproportionate shares of workers engaged in innovation and design
- Strong trade associations that provide shared infrastructures
- Strong local government role in promoting and regulating core industries

ments purposely dedicated to those tasks (see also Micelli, 2011). Eventually, the role of government and institutions must be taken into consideration, as they act as propeller in regulating and promoting the core industries. The basic element which ties all those actors together within the district is trust, reinforced by the sense of community. A second kind of district described by Markusen (Table 1.2) is the Hub-and-Spoke district, one dominated by a large, vertically integrated firm, usually multinational firms whose strategies and decisions have a strong impact not only inside the district but also outside, in many cases worldwide. Small firms are usually suppliers to the large firm only, and have relationship exclusively with them. There are strong links between the small firms and the large firm in terms of vertical cooperation, while there is no cooperation between small competitor firms. The labour market is all internal to the district and usually skilled workers move up their career ladder by joining the large firm: this is a limit to the development and innovation of small firms. Downside to this kind of district is the over-reliance to one single industry which expose the whole district to the downturns of the industry itself and the managerial decisions of the single company, affecting negatively the overall district in case of poor management. The following two district models envisioned by Markusen are the Satellite Platform and the State-anchored district, however they are not actually meaningful for this analysis, since they are generated in totally different ways compared to the classic districts object of this discussion. The first is a kind of district generated by the presence of subsidiary firms, whose parent company, usually multinational, is located elsewhere around the world. The second and last model is generated by the presence of public or non-profit entities, such as universities, research facilities, prison complexes or concentrations of government offices, whose power, more political rather than economic, is able to influence also the economic sphere.

Table 1.2: *The Hub-and-spoke industrial district*

The Hub-and-Spoke Industrial District

- Business structure dominated by one or several large, vertically integrated firms surrounded by suppliers
- Core firms embedded non locally, with substantial links to suppliers and competitors outside the district
- Scale economies relatively high
- Low rates of turnover of local business except in third tier
- Substantial intradistrict trade among dominant firms and suppliers
- Key investment decisions made locally but spread out globally
- Long-term contracts and commitments between dominant firms and suppliers
- High degree of cooperation, linkages with external firms both locally and externally
- Moderate incidence of exchanges of personnel between customers and suppliers
- Low degree of cooperation among large competitor firms to share risk and innovation
- Labour market internal to the district, less flexible
- Disproportionate share of blue-collar workers
- Workers committed to large firms first, then to districts, then to small firms
- High rates of labour in-migration, but less out-migration
- Evolution of unique local cultural identity, bonds
- Specialized sources of finance, technical expertise, business services dominated by large firms
- Absence of trade associations that provide shared infrastructure
- Long-term prospects for growth dependent upon prospects for the industry and strategies of dominant firms

1.2.3 Sociological aspects

The districts, and the Italian ones stand out more than others in regard to this issue, are extremely influenced by social dynamics which shape the relationships among the actors, the actions of the same and consequently the dynamics of the economic environment. As such, it is useful to recall some basic notions derived from the sociology for a complete understanding of the phenomenon. The classical notion of *homo economicus* cannot alone explain the complex variables affecting the districts. In order to figure out properly the functioning of the district, the notion of *trust* and the momentous role it gains in driving its dynamics must be thoroughly passed under scrutiny.
A good place to start is the notion provided by Samuel Smiles of self-help (Smiles, 1859). In quite trivial terms Smiles assumption was that every person, through commitment and hard working, could improve himself both in the society and spiritually. Moreover, the foundations of a good economy laid exactly in people striving for their improvements. From this notion we can derive an extremely individualistic society, where each person grows its own interests that are very often in conflict with each other. The question, then becomes how can these personal conflicts of interests be overcome to establish social and economic order? Granovetter, along with Polanyi and other sociologists who employed this notion, is one of the scholars who has tried to solve this issue by the help of the concept of *embeddedness*.
Before outlining the concept, it is better to recall two different ways of considering trust among management scholars and sociologists. One stream of literature, more recent, encompasses the notion of trust in the wider context of transaction-cost economics.[1] Transaction costs arise whenever a single

[1]"Transaction costs refer to the costs involved in market exchange. These include the costs of discovering market prices and the costs of writing and enforcing contracts. Transaction cost economics, as developed primarily by economists Coase and Williamson, suggests that economic organizations emerge from cost-minimizing behaviour (including transaction costs) in a world of limited information and opportunism" (Glossary of Industrial Organisation Economics and Competition Law, compiled by R. S. Khemani and D. M. Shapiro, commissioned by the Directorate for Financial, Fiscal and Enterprise Affairs, OECD, 1993). Actually the academic literature on transaction costs is divided into two main streams, namely the "property rights" approach and the "neoclassical" approach,

transaction is characterized by *information asymmetry*: the more information is disclosed and the parties are aware of such information, the less transaction costs will be worth. Needless to say that this occurrence comes about in perfectly competitive markets only, that is to say it is just a theoretical configuration. Another variable affecting the amount of transaction costs is the *asset specificity* involved in the transaction: the more specific the asset, the more exchange of information is needed among the parties and the more this situation can be source of opportunistic behaviors, so that transaction costs may surge in a given contractual relationship. Consequently, in line with the complexity of the relationship in which they are involved, firms can organize according to a spectrum of choices ranging from *market* (very low complexity and codified information to be exchanged) to *hierarchy* (high complexity and non-codified information).

According to this standpoint trust plays the role of facilitating the exchange of information with the consequence of reducing transaction costs and allowing the firm to save on these costs. Through this view, when the transaction is complex, the firm should prefer vertical integration over outsourcing in order to carry out the saving strategy more efficiently (see Williamson, 1975). The sources of this choice are mainly two: the first is *bounded rationality*, the impossibility of economic actors to predict future events in the complex relationships like long-term contracts (Simon, 1992). When activities are internalized predictions become unnecessary since the firm's governance structures will solve this issue; the second is *opportunism*, the instinct of economic actors to drive situations to their own advantage in order to maximize their return from a given relationship: such behavior results in guilt and deceit, that can be constrained by the authority imposed by roles and the sense of affiliation which are surely stronger than it could be in a market situation. This particular view is characterized by an atomized conception of the society, where economic actors are not influenced by social pressures generated by other actors and institutions in the market.

each providing its own definitions, but for simplicity reasons they are not going to be reviewed here and the OECD definition fits best this analysis

The second approach to trust, related to the earlier districts literature, considers it as a lubricant of social relationships based on long-lasting cultural ties. In this way, shared norms and culture and community rules replace hierarchical control and allow transactions among the firms to develop smoothly. In this framework, actions carried out by actors are only propelled by the social context surrounding them (norms, cultures, childhood experiences, local traditions, etc.) and the rationality of the typical homo economicus is totally absent. These configurations are, according to Granovetter (1985), the father of the concept of embeddedness, two extremes which do not find any real equivalence: he defines respectively the first approach as "undersocialized" and the second one as "oversocialized". In addition, he says that those models share the fact of completely ignoring social relationships. Conversely, if social relationships are taken into account, one can end up but noticing that *people's economic activities are embedded in a network of social relationships*. Moreover, the role of trust as a byproduct of social relationships gets denied: whether or not people can trust each other, it depends on the kind of social relationships people have and what social networks they are part of. In this sense, social relationships can generate in a network both trust and mistrust, depending on how the network is set up. This approach predicts that pressures towards vertical integration are stronger where an extensive network of interpersonal relations is lacking. Conversely, when economic action is strongly embedded in social relations, coordination may be achieved without creating large-scale companies (Gaggio, 2007).
Zukin and DiMaggio (1990) read in Granovetter's work a dominance of the social structure whereas other dimensions end up to be neglected: for this reason they detect three more kinds of embeddedness in which economic action is enclosed, along with the "structural embeddedness" so far illustrated: *political embeddedness*, to show that an economic action is always set in a context of political struggle; *cognitive embeddedness*, or the psychological underpinnings of economic behaviors; *cultural embeddedness*, the role of culture in economic action in limiting economic rationality through the establish-

ment of beliefs, ideologies and formal (and informal) rule systems.
Complementary to embeddedness is the distinction that Granovetter (1973) sets between two different sorts of relationship through which the actors are linked to one another, a theoretical contribution which proves fundamental for the analysis of relationships and networks existing inside the district and between the district itself and the external environments: *strong ties* and *weak ties*. Strong ties are represented by relationships with people who share the same culture, norms, traditions, routines: in other words we could say that strong ties occur among people (or entities) whose "distance", in terms of social, cultural and political networks, is the nearest. A proper example could be exactly the typical Italian described by Becattini, where people grows in a defined environment and maintains the same contacts (e.g. the family, the same friends, local institutions). Information flowing through strong ties is redundant and actors in those networks usually do not obtain any advantages in economic and social terms. In spite of it, tacit knowledge or complex information are best exchanged throughout those networks. On the other hand, weak ties link people (or entities) who have usually very little in common in regard of culture, norms, tradition, etc.: access to those networks are not as easy as in the previous networks, people just not commit to weak ties as much as to strong ones. Nevertheless broader networks of weak ties can provide the actors with new information and knowledge, as well as access to new and different networks and this is undoubtedly source of opportunities. Evidence arises straight from the district context: whereas in the past districts' boundaries were almost closed since firm and people's relationships were mostly restricted to the district itself, today new opportunities of competitiveness stem right from the links that a district and its players are able to engage into, thus creating links between different networks, in order to acquire new knowledge to be internalized and processed.
Along with embeddedness, another notion proved fundamental not only to the studies concerning sociology, but also to those regarding communities in the industrial districts, namely *social capital*. The term social capital can

be traced back to the beginning of the XIX century through a work of Lyda Hanifan in 1916, where he talked about students performance in schools. He defined social capital as:

> *The tangible substances [that] count for most in the daily lives of people: namely good will, fellowship, sympathy, and social intercourse among the individuals and families who make up a social unit. [...] The individual is helpless socially, if left to himself. If he comes into contact with his neighbor, and they with other neighbors, there will be an accumulation of social capital, which may immediately satisfy his social needs and which may bear a social potentiality sufficient to the substantial improvement of living conditions in the whole community. The community as a whole will benefit by the cooperation of all its parts, while the individual will find in his associations the advantages of the help, the sympathy, and the fellowship of his neighbors.* (Hanifan, 1916)

To reach the widespread use of the term in the sociological sphere, it will be necessary to await the 70's, though, with the studies of Glenn Loury concerning the inequalities in wages and salaries between black and white people in the United States. He stated that not only could black people get access to less economic capital (inherited from the families), but they could not also benefit from the availability of large relevant networks in the labor market, meaning that less social capital were at their disposal. Some years later two opposite variants for the explanation of social capital grew up, one using an *individualistic* approach while the other adheres to a *collectivistic* vision. Both of them argue that the accumulation of social capital is of paramount importance for the development of a society. The theories however differ from one another in the ways to achieve this development.
The individualistic approach finds its main exponent in Coleman (1990), who provides his definition of social capital:

> *"Social capital is defined by its function. It is not a single entity, but a variety of different entities, having two characteristics in*

> *common: they all consist of some aspect of a social structure, and they facilitate certain actions of individuals who are within the structure"*

The core of the theory lies in the figure of the rational individual: with the aim of reaching his own objectives (usually the maximization of well-being) the individual takes into account the norms and the relationships existing within the social structure he belongs to. Therefore, social capital is the outcome of the rational choices of individuals who build relationships with other individuals addressed to reach their goals. In this sense Coleman succeeds in finding a common line between the rational individual of the classical economic theory and the purely socialized individual typical of the sociology. Nevertheless, social capital cannot be seen as the result of a voluntary and rational choice of the actor who invests in it along with financial capital and human capital, rather it is more of a byproduct of activities carried out by single individuals aimed to other purposes.
The other approach to social capital is the one I refer to as collectivistic and its major proponent is Robert Putnam, who looks at social capital as:

> *"[...]those features of social organization, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated action. [...]Whereas physical capital refers to physical objects and human capital refers to the properties of individuals, social capital refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them. In that sense social capital is closely related to what some have called "civic virtue." The difference is that "social capital" calls attention to the fact that civic virtue is most powerful when embedded in a sense network of reciprocal social relations. A society of many virtuous but isolated individuals is not necessarily rich in social capital"*(Putnam, 1993)

Social capital is, according to this view, the product of reciprocal actions between actors, which are not based, or at least not only, on individual

gains. Each individual will share its own cultural endowment with other actors, from whom he will get new knowledge and information at the same time. This exchanges allow people to reach higher objectives and possibilities than if they acted on their own. Therefore, social capital finds its source in the coordinated activities of the social actors, through the generation of trust which in turn enables the creation of networks. Putnam's theory, yet of great importance, falls short in explaining what the sources and consequences of social capital are, originating a loop where the causes of the creation of social capital are the same consequences and the other way round.

Pierre Bourdieu (2002), in completing the individualistic approach, indentifies three different kinds of capital, namely cultural, social and economic capital. Cultural capital can be divided into three main forms: the *embodied state*, which represents the actual bunch of knowledge an individual possesses; the *objectified state*, the knowledge embodied in physical objects (dictionaries, books etc.); the *institutionalized state*, which is not a real form of knowledge and cannot be treated as such, since it is represented by the expectations that people entitle to awards that should guarantee precise levels of skills or culture (for instance, the graduation). Social capital is defined as "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition". Economic capital needs no further definition. What is really important in Bourdieu's conception though, is that economic capital is at the root of the others kinds of capital and, of greater importance, they can be reduced to economic capital through different amounts of investment: whereas economic capital is usually easily convertible into other forms of economic capital, social capital requires bigger long-term investments across time and in social relationships to be converted into economic capital.

One of the most common mistakes in the definition of social capital is that it is very often associated with positive outcomes of the development of social structures, such as good governance, improved accessibility for economic

actors, justice fairness just to mention some of them. Portes and Landolt (2000) notice that social capital can be in many cases source of disparities: connections that are good to someone can undermine collective social capital or even, if we think of Mafia communities, there we can find very strong connections among members of this community but they provide their members with social advantages, undermining the social capital of the entire collectivity where they are rooted. In order to shed light on this negative consequences of social capital they distinguish between *altruistic* sources of social capital and *instrumental* sources, depending on whether we can find overarching structures defining the character of the transaction. The former entail granting resources to other out of moral obligation, driven by moral reasons linked to values that subjects have grown during socialization processes, or to members of the shared community, in which case we talk about *bounded solidarity*, in the absence of particular values other than the contribution to the community; the latter is characterized by the presence of relationships in which transactions are carried out with the expectation of particular returns by the benefited party (*simple reciprocity*) or by the whole community (*enforceable trust*). This second source usually underlies different interests and opportunistic behaviors, so that there will be winners and losers in terms of acquisition of social capital.

1.2.4 Districts in the global economy: the global value chains

The classic Marshallian district as it was described before has been the mirror image of the typical Italian industrial district, with trade boundaries matching almost totally the geographical boundaries. The few connections of the Marshallian district outside its boundaries entail buying raw materials from external suppliers and, seldom, sales networks through third parties, without any foreign direct investment: the main reason for it is the lack of financial resources. Nevertheless, over the last 20-30 years districts have undergone complex restructuring processes, mainly driven by the ever-changing devel-

opments in technology and the great globalization processes which have made easier to move entire production processes abroad: those phenomena, along with many other reasons, have completely redesigned the network of relationships between districts and external environments and have also shuffled the power relationships among the same firms inside the district, enhancing in many instances the power of larger firms. On the other hand, firms could enjoy a lot of new opportunities, from the discovery of new markets to the exploitation of new technologies. Consequently to the opening firms are now put under pressure by new and stronger competitive forces which make necessary to achieve broad-scope innovations aiming to survive international competition or even to gain competitive advantage.

According to the global value chain[2] theory firms should focus on those products and processes from which they can gain the highest value added and in which they are most efficient. Focus on those processes and products is essential for the firm in order to achieve economies of scale and scope, concentrate resources in those areas and seize learning opportunities to increase knowledge at a faster pace than it would occur if the firms were spreading all their resources across many activities, many of which contribute with very little or even no value added to the development of competitive advantage. In other words, firms can then develop distinctive core capabilities which are the very backbone of their competitive advantage and on the basis of which firms can put themselves as market leaders. The remaining activities, those which do not add value to firm's competitive advantage, should be outsourced and the global value chains in which the firm is enmeshed reconsidered in their structures. Conversely, sometimes a firm can find it worth to enlarge its scope of activities if it can gain some kind of advantages from it (evidence shows, however, that trends in the market are not directed towards those strategies) or even change them totally.

Those movements along the value chains are defined *upgrading* and we can

[2]Early literature on the topic refers to Global Value Chains also as Global Commodity Chains, without any difference between the two terms. The first expression is the only used, though, following a formal convergence towards it.

list at least four kinds (Humphrey and Schmitz, 2002):

- *Process upgrading*: production processes become more efficient through the use of more advanced technologies or through the re-organization of the existing processes to more efficient forms;
- *Product upgrading*: switching to products which guarantee higher value-added;
- *Functional upgrading*: acquiring or abandoning functions to increase the skill of activities;
- *Intersectoral upgrading*: firms of clusters move into new product activities.

Another important issue in the global value chains is governance, useful to address the question of contractual power in the chain. Governance structures have been already studied in the framework of transaction costs economics (Williamson, 1975), where arm's-length market transaction and quasi-hierarchy structures are the two extremes of a continuum. Between the two an indefinite number of choices can be identified, characterized by higher or lower levels of cooperation and power coercion: among them Humphrey and Schmitz (2002) identify quasi-hierarchy relationships when the leading firms exercise great power over the other firms in the chain by specifying product features and processes to be used (usually downstream) or by poor performance of big suppliers (upstream), and network relationships where transactional dependence between the parties is low and co-specialization in asset use and development high. The former case is typical of the retail sector, whereas processes of intense concentration are responsible for the increased power that big retail companies are exploiting on their suppliers (Gereffi, 1999 and Gibbon, 2001), which are usually smaller firms, in great number and therefore without bargaining power. This is the traditional case for the small Italian firms in the district: the whole production processes, starting from the acquisition of raw materials to the creation of

the finished product are carried out by the firms in the district, which then sell the finished products to large retailing companies which put their own brand on and eventually sell them to the final markets: it appears clear that Italian firms are highly dependent over a single firm and puts them in a position of weakness. Overcoming this situation by getting access to the chains is a most discussed point and its outcome is not without controversy. Through studying global value chains in the garment sector Gereffi (1994) argues that firms who gain access to the chains finds easier to upgrade from simple assembly stages (they start importing inputs and then creating and assembly new product through local sourcing) to design (production of unbranded goods sold to other companies and brands) and finally to marketing and brand development (firms create and market on their own their brands). Other scholars (Schmitz and Knorringa, 2000), on the other hand, have a more pessimistic view about the consequences that firms pay entering global chains. While upgrading in production processes are confirmed by evidence, upgrading to new functions like marketing and distribution are not taken for granted: conversely, strong buyers in the chains discourage or even put hindrances to small firms developing those strategies because they see their core competencies being put under threat. Therefore relationships matters a great deal for the development of competencies, upgrading and knowledge flow across the chains, especially for local firms.

1.2.5 What future for the districts

So far the analysis has been centered on describing the static features of the districts and their insertion in the global economy. A major issue over which the academic debate is really fervent concerns the future of the district. Before examining the topic it is useful to introduce a dynamic model of development. A different perspective about the evolution of the districts relates to a life cycle model, which identifies four stages of development, its emergence, a growth stage followed by a maturity one and eventually a decline or a regeneration. Malmberg and Maskell (2002) describe into more

detail the steps: in the *emergence stage* a firm usually starts its activities and by imitation other firms set their own, usually geographically close to the first, thus creating a "protodistrict" or an early form of district. As the district grows (*growth stage*), the division of labour deepens on, resources are more easily attracted and better and better infrastructure are built. During the maturity stage, the district has reached its largest extension in geographical and numerical terms. Some firms are able to catch larger shares of the markets while others may end up to preserve their market or even slow down. Eventually, in the final stage, technological improvements put under threat the currently outdated district system: if it is able to face this changes by innovating its structure then it will be likely to experience a new life cycle, otherwise it will probably fall into a period of decline.

The life cycle model is a good starting point for the analysis. Nevertheless, the model falls short in explaining some situations, namely the fact that firms in a same district live different stages of the life cycle at a given time or that leading firms are later entrants in the district and not early "pioneers". The major shortcoming lies undoubtedly in the perspective it adopts: the unit of analysis of the district is the district itself (Becattini, 1991) and the fundamental contribution of the single firms in determining its development paths are overlooked. This is the main reason over which the academic debate is split: according to many scholars (Ferrucci and Varaldo, 1997; Corò and Grandinetti, 1999) the unit of analysis should not be the whole district anymore being instead the single firms within it. In this case the district acts as the breeding ground for the development of firms, gaining not a central but a supportive role.

This second approach to the study of districts introduces a new debate over the role that *flagship firms* play in the development of the whole district. Flagship firms are usually, but not necessarily, large firms that can benefit from the availability of many, different and new resources which make them stand out among the other firms in the district and that the firm can leverage upon with the aim of acquiring distinctive competencies and therefore

gain competitive advantage, not only in respect to the district's firms but also towards other firms and industrial systems outside. If we look at them from the global value chains perspective, those firms are usually embedded into specific networks unknown to the district itself. Hence we can derive the essential role that those leading firms take on for the development of the district because they act as intermediaries between the district and the industrial systems outside, providing local firms with new knowledge and technologies that can help them enhance their competitiveness in the global market. Through the activity of the leading firms the whole industrial district is able to catch, even though indirectly, the stream of information flowing through the chains and benefit from it.

Now it must be pointed out that this system may redesign totally the shape of the district and the power relationships inside it: one of the the issues is that firms which are not part of the network created by the largest firms can be easily wiped out, large firms acquire stronger bargaining power and within the district a concentration of small vertical systems may occur, still interrelated with one another, though. According to the aforementioned Markusen's model, we could state that in many districts we are witnessing a shift from the classic Marshallian district to the Hub-and-Spoke district. Clearly this transition should be intended as a movement among two extremes of a continuum, where processes of concentration take place with different degrees of intensity, leading to a single, very large and powerful firm only in a narrow number of situations.

The question of the point of view from which approaching the topic becomes then crucial when it comes to predict what road are districts going to take: should we think that districts are still competitive as a whole system or is their future relentlessly dependent upon its largest, most competitive firms? In my personal opinion leaning towards one option rather than the other is misleading if we want to have a proper understanding of the phenomena. Evidence shows that many districts have experienced concentration tendencies and others have preserved their horizontal structures, still being both

successful in facing globalization, in other instances the two models may co-exist in the same district, too. Such heterogeneity leads to think that any kind of generalization might result in shortcomings: each case should rather be studied in details because there are many peculiar factors that drive the development of the district towards one model or the other.

Chapter 2

A Focus on Italy

The main analysis of this work, regarding the district of Vibrata-Tordino-Vomano, will be executed in the next chapter. This chapter has a bridging purpose: on the one hand it aims to complete all the bunch of the most relevant theory summarized in the first chapter with some extensions towards empirical and theoretical contributions regarding the Italian districts in particular (mainly academic literature from Italian scholars who have addressed social, geographical and institutional issues), on the other hand it will provide economic data for the districts across Italy. In this sense the focus of chapter is on those features that cannot be extended to the academic model since it describes the very Italian aspects of the districts that make the Italian district something unique. This section will be extremely useful to make comparisons between the district under scrutiny and all the other districts, necessary to gain major insight into the phenomenon.

2.1 Geography and society

Italy has been always characterized by a strong inequality in terms of development: juxtaposed to an economically successful North-West (Lombardy, Piedmont and Liguria), whose development model was built on the establishment of large companies according to the typical Fordist tradition (its

geographical location was represented by the "Industrial Triangle" in the cities of Milan, Turin and Genoa), there was an underdeveloped South, with poor presence of firms and very low industrialization (the main economic activity was still agriculture), a major issue of the country which still Italy has to overwhelm. The narrow view of economic, politic and social actors was stuck to this dichotomy, too: we have already seen in the previous paragraph how the Fordist pattern was considered as the only suitable way of progress for a given country in the period between the end of the XIX and mid XX centuries, overlooking the cultural and social differences existing between localities. This assumption was so deeply rooted that the government decided to finance the settling of big subsidiaries of large companies in the South: this huge flow of money through the *Cassa del Mezzogiorno* in order to reduce the gap turned out to be a harsh failure.
During the 60's scholars were discovering the different way of development of the district model, through the pioneering studies of researchers from the Universities of Tuscany and Marche, who made enquiries into the local societies. This model of development was in fact established in a limited part of Italy, namely North-East and Center regions of Veneto, Tuscany, Umbria, Marche and Emilia-Romagna. For this reason, in the academic literature this region has been named NEC (Fuà, 1983) or Third Italy (Bagnasco, 1977), to stress the still unrecognized way of development. Figure 2.1 shows the districts distribution in 2011, where it is possible to notice their high concentration in those areas of Italy and the absence, or minimal concentration, in the southern regions (e.g the pasta district in Campania and the sofas district in Apulia). Why those areas have not been affected by an industrial development and, on the other hand, why NEC regions have developed the district model, has been a critical point of Italian researchers but we can say that historical and sociological reasons explain well the different paths of evolution.

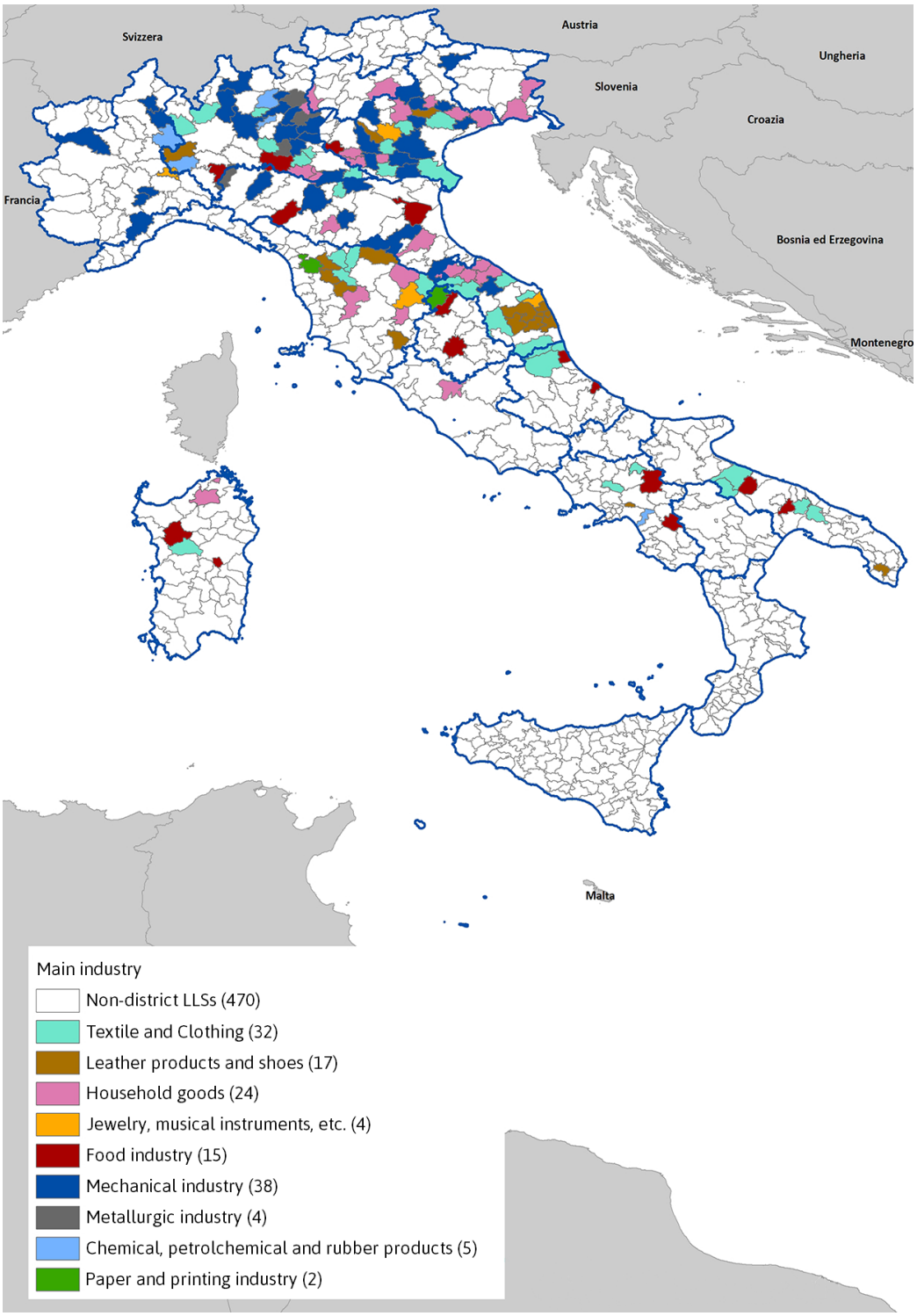
2.1.1 The *mezzadria* and the role of family in the district communities

In order to understand the different roads to development in Europe and Italy it is necessary to go back in time to the XVII century, where in northern and western Europe the extended family started slowly disappearing with the nuclear family taking over. This process is not recorded in Italy, in particular in central and north-eastern regions of the country. On the contrary, the singular organization of the agricultural work that here took place, called *mezzadria* (the Italian name for sharecropping), contributed strongly to the survival of the extended family on the one hand and to the development of the managerial skills of the householder. This configuration cannot be found in the southern regions, where the standard model of the extended land tenure (italian *latifondo*), a medieval heritage based on the feudal system, survived until the second half of the XIX century. This way of organizing agriculture based on the exploitation of workforce (assigned manual tasks only and nothing managerial) by one master who owned the land, according to some sociologists, did not allow for entrepreneurship to be grown and mastered among people. When this system came to an end, starting from the end of the XIX century, southern regions actually experienced a huge flow of migrants leaving their native places to move abroad, mainly Americas in a first instance and north-western Italy later on when the Fordist model had spread. Sociologists see this draining of workforce as one of the reasons for the disparities in human capital between the North and the South (Carboni, 2009).

Mezzadria rather was based on a dual relationship between the owner and the peasant: the former provided the latter with land and accommodation (a house usually located within the land) who in turn gave back a share of the fruits of the cultivation as a form of payment. The peasant never acquired the property of the land and house, which remained the owner's.

Organized this way, the capital was managed by the family of the peasant and, since the fruits were divided between the two parts, the peasant

Figure 2.1: Districts location in Italy



had his own interest to manage efficiently the capital he was given. Therefore, the householder had to develop managerial skills: he masters computational skills, the saving mindset and accumulation. This ability becomes a fundamental driver for the creation of an entrepreneurial spirit among a population. The other aspect to be mentioned is the paramount role of the extended family: the members of the family were substantially divided into those who worked for reproductive and living purposes, that is to say women and children, and men who took care of the productive work. Nevertheless, thinking of such structure as a stiff organization, where each member plays its own role and only that one, is misleading: high degrees of flexibility were accepted among the families, so that it was not unusual to find women or children helping members during times of harder work. Even though this division of labor was the consequence of an organization whose first purpose was the supply of the family and not the production for the market (self-sustainment), we might view this system as a proto-organizational form of firm paving the ground for the development of an industrial organization when the *mezzadria* system went into a crisis, which in addition provided the householder and his family with the necessary skills to run one (managerial ability of the householder and flexibility of the workforce).

After a long time this system started to collapse, under the pressure of the industrialization which was creating new needs for consumers in the market and widening the purchasing power of people. Along with it the outsourcing of many industrial processes of the large firms to small firms located in the other regions were creating the necessary demand for the system of small (often craft) firms to grow up. This shift to the industrial system weakened the power of land owners who preferred to give up on a land capital to invest in an industrial-type capital. At the same time, *mezzadri* were eager to free themselves from the landowners: many members of the family had been saving money for long times in order to buy the land back from them, those who moved away from the families joined craftsmen to get introduced

to the craft production systems in order to get a job and learn its basics[1]. Paci (1983) finds that the process from the *mezzadria* to the small industrial firm occurred in two stages:

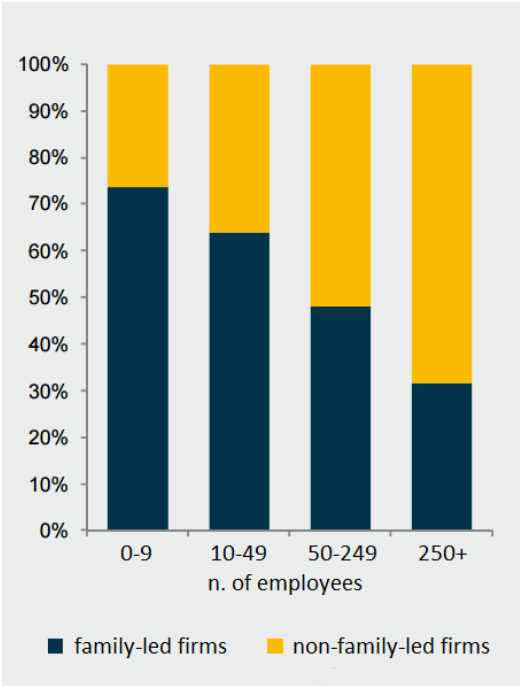
- the first being the shift from *mezzadria* to the small land ownership after the land buy-back: that was possible due to Italian legislation ("lodo de Gasperi") which facilitated the purchase of land by the peasants and the availability of long-term loans which *mezzadri* could take advantage of;

- the second being the shift from this last stage to the small industrial entrepreneur when enough resources were stocked up to invest in industrial activities which were becoming far more profitable. In particular this process was propelled by the devaluation of land vis-à-vis industrial capital. Former peasants, now small land owners, found their investments under the threats of excessive devaluation and impossibility to pay back debts. This danger pushed many members of the family towards industrial and craft work and the result was that the income of the family was then more and more heterogeneous, as it was divided between income from industrial activity and income from rural activity. As a consequence, also the division of labor and the roles adopted by the family members became more complex: younger men usually worked in industrial activities while women and elders took care of the rural and domestic ones. The access of people to industrial activities wass just the starting point for the launch of a small entrepreneurial activity.

In this context the family kept playing a central role and even during those profound changes it did represent the real core structure around which economic activities were carried out: no wonder why most firms are family-

[1]Initially, a family member of *mezzadri* was not allowed to move away from the family and get different jobs. The crisis of the agricultural economy, along with the enlargement of the families which created exceeding workforce who could note be placed in the colony, made it possible for a member to decide on his own about its future.

Figure 2.2: Number of family-led firms by classes of employees



driven, a situation which has continued to be undisputed, at least up to date. Figure 2.2[2] shows that still today 70% of micro and small firms are led by a familiar group whereas, as we move towards larger firms, the share of firms led by family units shrinks.[3] Needless to say that this structure that has been a dominant pattern in Italy for decades reveals also its downsides when competition shifts from the local to the global level: managerial skills become more and more a necessary requisite to run a successful business so that along with the members of the family firms nowadays rely on managers (hired or external) to get the related expertise, as well as never-ending improvements and changes in technology require the availability of high-skilled workforce, in particular engineers, to keep up-to-date in the field (Marcone, 2004).

[2]Source: ISTAT Annual Report 2013

[3]Among the family-led firms also individual firms are taken into account

2.1.2 Politics and institutions

It is not possible to have a complete understanding of the Italian district without studying the role of political institutions. Their role in the district goes far beyond the mere administrative functions: influenced by the local cultures and in turn affecting them, they acted as fundamental players to smoothen market and labor mechanisms within the district in ways that have been very effective, so to be often considered as benchmark at the higher regional and national levels.

Two main political parties have deeply marked the development of the districts (and the Italian political history as well), namely "Democrazia Cristiana", the christian democrats and "Partito Comunista", the italian communist party. The first drew consensus in the Northern and Southern regions (the so called "white regions"), so as far as districts are concerned Veneto was mostly involved; the second had widespread acceptance in the central regions, namely Tuscany, Emilia-Romagna, Marche and Umbria ("red regions"). What role have they played? How could they affect the economic activity of entire areas? Works by Trigilia (1990) and by Bagnasco and Trigilia (1984, 1985) proved fruitful to get a clearer picture of the panorama.

First of all, we can say that, although the political ideologies which underlaid the two parties were clashing with one another, both of them reached the same purpose of shielding the local communities from the market and the state, preserving a local structure upon which different forms of "community-friendly" organizations could be built. Whereas in the red areas it happened through the strong presence of unions and cooperatives (*municipal socialism*), in the white areas a dense network of institutions rooted linked to the Church prevailed (banks, charities, etc.). Both of them were firmly anchored to the local society though.

Second, those institutions allowed for greater flexibility to be reached in the labour market. For instance, the presence of local unities of trade unions (or catholic associations) fostered the practice of direct negotiations between the employer and its workforce instead of relying on national standards for

work. Clearly it was facilitated by the common roots which the locals shared, whose consequence was the acceptance in many cases of non-waged work in extreme cases and child and women work. However, findings show also that the average wage for district workers was in may cases even higher than the national average (and this can be attributed in part to the direct negotiations).

Third, governments in those areas really had a strong community orientation: in contrast with southern regions, corruption, political patronage and favoritism to families was strongly limited. Conversely, resources were allocated by local governments for community expenses which had the consequence of reducing labour costs for firms and entrepreneurs (social services for workers like transport and public housing) and also operational costs (industrial estates, infrastructures, training for workers), directly tackling periods of crisis through direct intervention as well (political intervention was more a feature of red governments).

The term "flexible rigidities" sums up perfectly the role of politics, posing limits to the market on the one hand and to the state on the other hand, granting at the same time the necessary flexibility for the economy to keep up with innovations and major economies.

Eventually, the role of financial institutions for the development of districts deserves to be briefly covered. In all those areas where the districts have spread, or even in areas not identifiable as districts but still a bunch of firms locally concentrated used to be, banks helped the firms finance their operations. The very peculiar aspect is that those banks were very small and deeply rooted in the economic and social context. This last feature has been extremely important for the generation of what some scholars have called "patient capital" (Markusen), meaning the possibility for firms to get access to long-term loans in an easier way than a common firm in other areas could do. This was possible owing to the trust existing between local financial institutions and small firms finding its breeding ground in the set of common norms, rules and culture shared in the community, strengthened by the

political belonging too (e.g. *crediti cooperativi*, left-wing popular banks in the red regions). To stress this aspect it is enough to say that in the first instances of districts' growth it was very likely to find a distinct, local bank in each little town composing the district: no wonder that at those narrow geographical dimension, almost every people knew each other and trust was pervasive. Years on, as the districts grew in size, many banks have undergone processes of agglomeration and fusion and some of them have reached national relevance, opening up new growth opportunities to the whole district. Downside can be a loss of trust, though, especially towards smaller firms.

2.2 Economic figures of districts

The classic argument over which Italy has been often criticized by most economists is the dominance of micro and small firms leading its economy.[4] Table 2.1 shows it in detail: SMEs account for the 99.9% of the overall number of firms in Italy with nearly 70% of the GDP. If we rule out also medium firms from the analysis and have a look at micro and small firms only, we derive that they account for 99.4% of the firms and contribute to slightly more than the 50% of the GDP.

Figure 2.3 [5] also shows the number of employees of small and medium firms compared to those of the biggest countries of the EU: 55.4% of Italian employees work in small and medium firms, a figure which far exceeds the average of the biggest and most advanced EU countries and more than doubles the numbers of Germany, where districts, even in more limited numbers, yet exist, but they account for very few of the national GDP, whereas MNEs are the real engine of the country. France benefits from a similar development model, as well.

[4]The classification of firms is defined by the Recommendation 2003/361/EC. Micro firms are those employing less than 10 employees and generating revenues for less than 2 mln €; small firms employ less than 50 employees and generate less than 10 mln €per year; medium firms have less than 250 employ and 50 mln €; the remaining are considered large firms.

[5]Source: ISTAT, Report Osservatorio Nazionale Distretti 2014

Figure 2.3: Number of employees of small and medium firms in the biggest EU countries

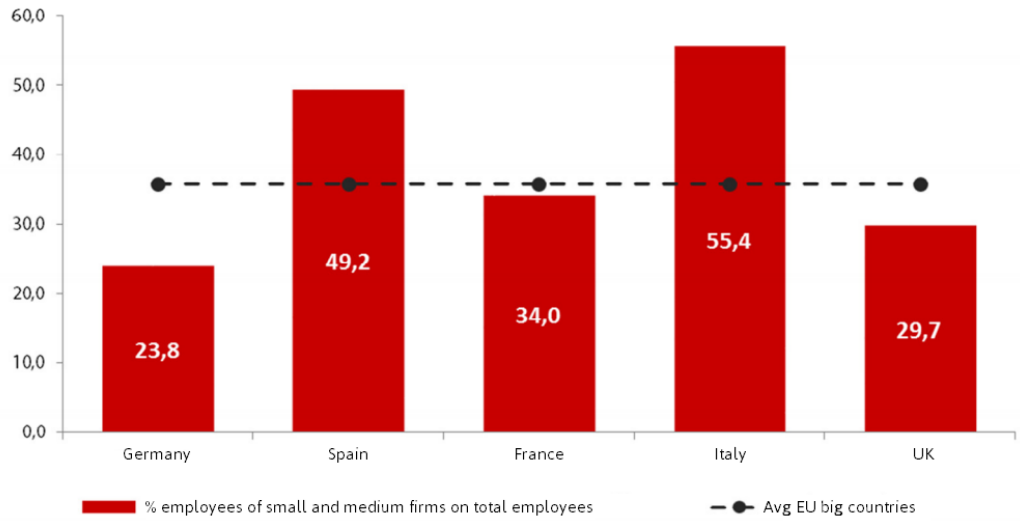


Table 2.1: SMEs in the Italian economy

Size	**Firms**		**Employees**		**Value Added**	
	N	**%**	**N**	**%**	**Bln €**	**%**
Micro firms	3.527.452	94.8%	6.629.987	45.8%	201	30.4%
Small firms	171.658	4.6%	3.049.375	21.1%	141	21.3%
Medium firms	19.126	0.5%	1.837.003	12.7%	118	17.8%
SMEs	**3.718.236**	**99.9%**	**11.516.365**	**79.6%**	**459**	**69.5%**
Large firms	3.139	0.1%	2.960.003	20.4%	201	30.5%
Total	**3.721.375**	**100.0%**	**14.476.368**	**100.0%**	**661**	**100.0%**

EU Commission projections for 2013 on Eurostat data 2008-2011

Although this structure might seem just a weak point of our economy, figures regarding export in the manufacturing sectors are more than encouraging and place Italy among the strongest players in the international field.

Table 2.2: Manufacturing export in % of VA

Countries	**Exchanges in VA**		**Gross Exchanges**	
	2008	**2011**	**2008**	**2011**
1 China	13.9	16.7	11.4	14.1
2 USA	10.2	11.2	8.5	9.0
3 Germany	12.1	10.8	12.2	11.0
4 Japan	7.8	7.7	5.8	5.6
5 South Korea	3.4	4.2	3.6	4.2
6 Italy	**4.3**	**3.6**	**4.4**	**4.0**

Edison Foundation on WTO data

As displayed by Table 2.2 Italy is the sixth exporter of manufactured products in the world (in terms of value added), and the second in Europe lagging just behind Germany. Those figures are the main evidence that even with an economic fabric built on small enterprises a country can still compete on a global level against major players whose economy is based mostly on the production of large firms, in most cases MNEs.In fact, Italy is characterized by a great dispersion of a large number of firms across the country.

2.2.1 Local Labour Systems, Local Productive Systems and Districts

ISTAT introduced different categories to identify and study Italian productive systems. Specifically, it is possible to find Local Labour Systems, Local Productive Systems and Industrial Districts. Here the differences are outlined in order to clear ambiguities.

Local Labour Systems

Local Labour Systems (it. *Sistemi Locali del Lavoro*) were identified by ISTAT in 1991 with D.M. 21 April 1993. LLSs were composed of aggregations

of municipalities according to specific criteria.

- Self-containment
- Contiguity
- Time-space relationship

Self-containment stands for the ability of an area to offer enough production activities and services to sustain the resident population and its ability to contain great part of the human relationships occurring through the interaction between working activities in the working place and reproductive activities at home.
Contiguity means that the municipalities of the LLSs stand next to each other whereas with *time-space relationship* is meant the distance and time between residence and workplace, a relative concept based on the efficiency and accessibility of infrastructures and transport system. In other words, they are built studying the daily movements of commuters.[6] This means that LLSs' boundaries do not match administrative boundaries and different municipalities can be part of a single LLS. In total Istat found 611 LLSs existing in Italy.

Local Productive Systems

In 1999 the Italian legislation introduced the concept of Local Productive Systems (it. Sistemi Produttivi Locali). Their identification bears from the LLS, taking into account those marked by high concentration of firms, mostly small and medium, with a peculiar internal organization. Some criteria have been added to LLS on purpose:[7]

[6]The concept reflects the one of Functional Urban Regions. For more details on the topic see Williams and Shiels, 2007

[7]In this paper I use the term "overall industry" with reference to all industries , whereas the term "restricted industry" stands for all the manufacturing industries except the constructions and adding those firms producing and distributing electric energy, gas and water those of mineral extraction

- *Entrepreneurial density rate, EDR*: number of firms in the restricted industry each 1000 inh.;
- *Manufacturing entrepreneurial density rate MEDR*: number of manufacturing firms in the restricted industry each 1000 inh.;
- *Industrialization rate, ID*: number of people employed in the restricted industry each 1000inh.;
- the rate of people employed in the manufacturing industry on those employed in the restricted industry (RMR);
- the rate of people employed in the manufacturing industry on those employed in the overall industry (RMO).

Industrial Districts

Applying the further criteria of the high concentration of manufacturing firms and the product specialization of the firms' system to the LPSs Istat has reached to the definition of Industrial District. Technically, the criteria are the following:

- Rate of employment in the specialized industry, the rate of people employed in the special manufacturing industry on those employed in all the manufacturing industries, here RESI;
- Rate of employment of SMEs belonging to the specialized industry: the rate of people employed in SMEs of the specialized industry on those employed in SMEs of the overall industry, here RESMES.

And Table 2.3 shows what the numerical conditions are. As of today, 141 districts have been identified according to these criteria.

Table 2.3: Conditions for a LPS to be District

Indicators	**Parameters**	**Conditions**
RBR	RBR on regional scale (RBRr)	RBRr higher than 1.00
MEDR	MEDR on regional scale (MEDRr)	MEDRr higher than 1.00
RESI		RESI at least 0.25
RESI	RESI on national scale (RESIi)	RESIi at least 2.50
RESMES		RESMES higher than 0.33

Source: Elaboration from Unioncamere

2.2.2 Production

Italy is particularly renowned for the high quality of its products, but among the many industries four in particular stand out for the high quality that people and firms from all over the world assign to them. Those four industries have been dubbed "the four A's" (from the capital letters of the Italian words which are all A's) and are *home furniture* which entails mostly wooden furniture, ceramic tiles, kitchens, chairs and sofas; *fashion industry* which entails the production of clothing, textile products, accessories, leather products, jewelry and eyeglasses, usually high-end products addressed to mid-high target consumers; *automation and mechanical* industry which includes light machinery and equipment, sport cars, bikes and motorbikes and all related high-engineered products; *food industry*, of which typical products and those related to the *Mediterranean diet* are the most representative.
It is not a coincidence, how data show, that the majority of the districts is involved in the production of goods that refer to the 4 A's: 41.3% of the districts are specialized in the production of textile and clothing, 23.9% in the home furniture, 21.7% in mechanical and automation industry and 10.8% in the food industry.[8] Those figures confirm how Italy's competitiveness is strictly related to the performance of districts. All those products manufactured in the districts find their source of competitiveness in the artisan nature of the production processes: people working in these firms have growth a great

[8]Source: First Report "Osservatorio Nazionale Distretti"

amount of experience of the products and processes over many years and this knowledge has been inherited between people in the firms. Moreover, both products and processes are the outcome of a continuous application of new solutions: *incremental innovation* has been one of the key driver of success of the district. Whereas large firms usually invest great amount of money in research and development, those small firms have been able to keep up with the most advanced technologies thanks to this never-ending commitment to innovation. In addition, innovation involves in most cases all the people in the firms and production stages at the same time: new solutions are obtained through the tight collaboration between employees and engineers, who combine the manual and scientific aspects of the job (Micelli, 2011), in contrast with large firms which usually create (having also financial endowment) dedicated facilities to R&D. The typical stages of design and production overlap and usually the generation of innovation is a byproduct of this relationship. This ability to combine craftsmanship with new technology and innovation is at the core of the Italian products success: the perception of high quality attached to the products allows Italian firms to set higher prices of sale, even though this price strategy should get along with other marketing strategies (e.g. strong product customization, targeted communication and distribution choice).

2.2.3 Internationalization Strategies

The ability to preserve competitive advantage is fundamental for firms and entire economic systems, let alone Italian districts. Nonetheless, globalization processes pose new challenges which districts must face, among which some can be mentioned as example such as the contact with ever-changing technologies at very fast pace, new customer needs which emerge also in the local markets, increased competition in particular based on prices. Those new challenges can be difficult to tackle, but clearly globalization is not only about negatives but also new opportunities that firms must be able to meet and leverage, the most important of them being the opening of new, very

larger markets than those domestic. Firms are then forced to elaborate new strategies to gain back competitive advantage at the global level.
Historically, Italian districts have not been affected by strong internationalization processes: in particular, FDIs have been always quite weak when compared to other European countries. Among the reasons three stand out: internationalization processes come easier for larger firms, since they require managerial, financial, technical and strategical conditions that a large firm can easily afford compared to these small and medium firms which account for the vast majority of Italian economy. In contrast, internationalization in Italian firms occurs mainly through *non-equity* agreements (Corò and Volpe, 2003). Those firms, in addition, benefit from external economies within the district which have made useless, at least for a long time, the reliance on external suppliers, given that high level of competitiveness were already reached thanks to this organization. Eventually, high degree of internationalization involve in most cases those industries characterized by strong economies of scale and low differentiation of products (especially very complex products with modular architecture), whereas Italy builds its competitive advantage on more traditional sectors and on highly-customized products.
What are the best strategies to undertake in order to win in this messed environment? The answer is easy: there is no single way of success. What can be done however, is trying to take a look at how Italian firms are coping with this evolutions, by assessing the presence of Italian firms in the international field. Using the global value chains approach, whose main features have been outlined in the previous chapter, Chiarvesio et al. (2010) have detected four kinds of leader firms in the districts, assessed along two dimensions. The first being the presence on international markets (different ranges varying from typical export-oriented firms to firms making FDIs) and the second being the geography of sourcing (from firms sourcing only locally to other firms sourcing either locally and globally or even globally only).
Firms can be then divided into:

- *Traditional local firms* which are really little exposed to the interna-

tional markets both at upstream (sourcing from local suppliers) and downstream levels (export occurs through classic channels, such as intermediaries, agents and distributors);

- *Firms with upstream suppliers* that, more open upstream, rely on foreign and local suppliers but still make use of classical channels for the distribution of their products;
- *Local firms with commercial outlets abroad* which make investments for direct channels abroad downstream but their source for raw materials and intermediate stages of production is local;
- *Open networks* whose presence in the global networks is particularly active, by relying on foreign suppliers and direct channels for sales: in this sense they have diversified strategies.

Open networks, even if more dynamic than other firms, are not necessarily better performers though. In fact, along with the exposition to foreign markets in terms of supply and sales, firms must invest in determined sectors in order to be successful: investments in new technologies through research or collaboration with other institutions or firms, investments in design and innovation by creating on-purpose facilities *in loco* and eventually investments in ICT, a large group of technologies starting from ERP to the management of social networks platforms and coordination with suppliers and customers. Since the performance of the firms seems to be strongly affected by their presence on international markets, it is interesting to see what the geography and structure of this internationalization appears like. The scale of competition has dramatically increased consequently to the surging globalization and firms are then required to respond nimbly and through alternative strategies to keep up with it.
As Volpe (2006) points out firms have been forced in the last decades to turn to external, international sources for the accomplishment of different stages of production, owing to various reasons: the impossibility to control monetary policies after the introduction of the common currency which does not

allow countries to depreciations to sustain production and the steady pace of technological innovations and development which causes firms to define new strategies and focus on their critical competencies through a substantial allocation of resources to those functions are two main reasons.
Nonetheless, the most important reason and very linked to the first one is the emergence of new countries and whole regions as drivers of stronger competition. Above all stands China which has become a key destination for firms both as a final market for the placement of products (high concentration of wealth lets firms address to the higher segments of the population) and for the offshoring of intermediate production stages, especially because of the very low local labor cost. As far as Italy (and Europe) is concerned also the countries of the Eastern Europe have gained an increasingly central role in the economic panorama: many firms are not only drawn by the low labor costs, but also by the low tax levels of the countries, the development of the local economies and, last but not least, their proximity which consistently drives down transportation costs. Serbia, Romania, Moldavia and Ukraine, just to mention some, have become common destinations for a lot of firms, large as well as smaller ones.
Let me spend some words over this issue, though. Whereas outsourcing to such countries provides firms with substantial savings on the labor costs side it is clear that these choices have to be put carefully under scrutiny in order to preserve consistency with the overall strategy of the firm. Many Italian brands have built their competitive advantage on the perception that people attribute to their products as high quality ones thanks to the knowledge that they have amassed across decades of experience in manufacturing, a message conveyed by the well-known "Made in Italy" brand. Although the issue might seem trivial, in recent years also renowned brands of the Italian luxury have stumbled upon decisional inconsistencies which proved unfruitful, even damaging, for their businesses.[9] Hasty outsourcing choices that might

[9]In particular I refer to the famous cases of Moncler and Gucci which shocked the public opinion and stood out on the Italian newspapers for some days. The revelations hit significantly the brand image and are the perfect example of how a company must pay

seem profitable in the short run may turn out to be unprofitable in the long term, and many Italian firms are already sourcing back to Italy many of their operations previously outsourced to foreign countries. As Buciuni et al.(2013) show, products that require higher degrees of customization, like those which Italy is building its competitive advantage upon, need in turn higher flexibility and a continue overlap between the manufacturing and the design and creation stages of production. In this case, manufacturing processes become real value adding processes and part of the core competencies of the firm: consequently there is no point in their dismissal.

extreme attention to this kind of choices and this applies to all the decisions a firm takes and also to small firms deciding to move out.

Chapter 3

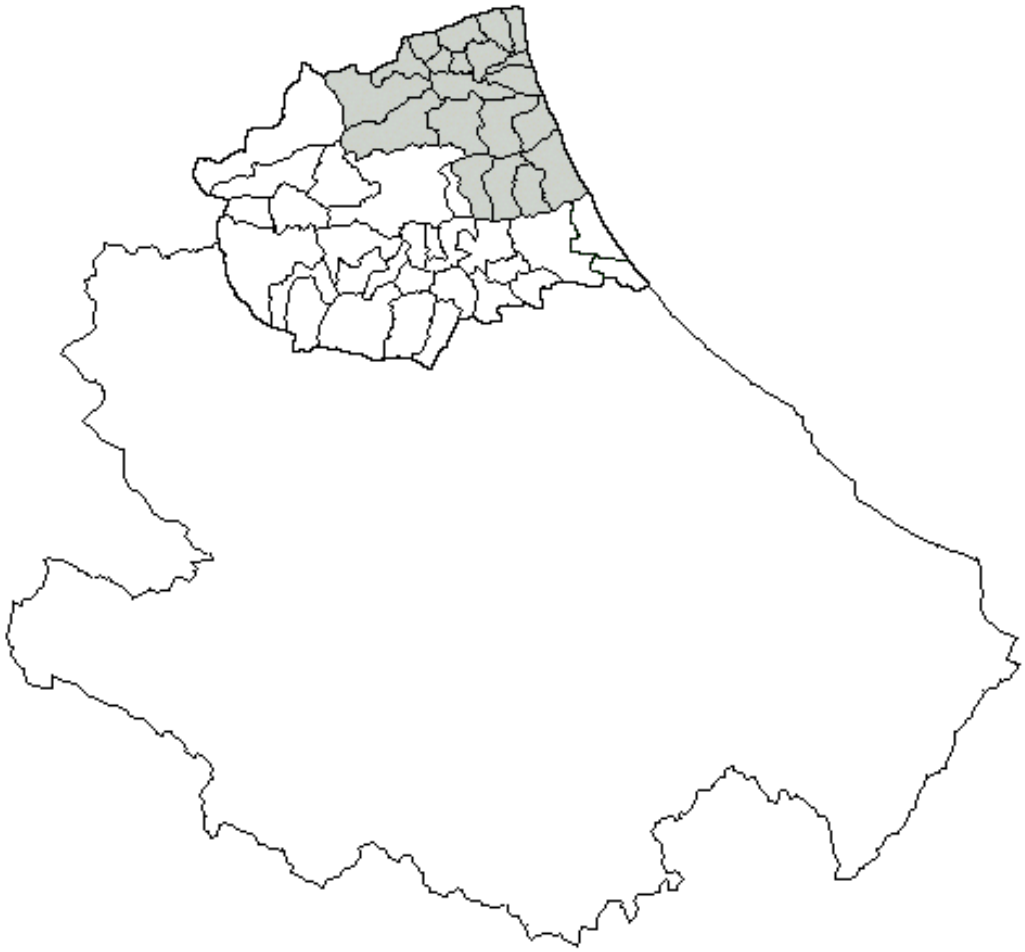
The clothing district of Val Vibrata

3.1 A brief description of the district

Val Vibrata (*val* is a shorthand form of the word *valle*, which is the italian word for valley) is a small area located at the extreme north of the Abruzzo region (see Figure 3.1), in the Adriatic side of the central Italy. The territory stretches from the inner mountains of the Appennini chain in the west up to the Adriatic Sea in the east, bordered to the north by the boundaries of the Marche and Abruzzo regions and entails the towns of Alba Adriatica, Ancarano, Bellante, Campli, Castellalto, Civitella del Tronto, Colonnella, Controguerra, Corropoli, Giulianova, Martinsicuro, Morro D'Oro, Mosciano Sant'Angelo, Nereto, Notaresco, Roseto degli Abruzzi, Sant'Egidio alla Vibrata, Sant' Omero, Torano Nuovo and Tortoreto. It is home to one of the largest districts, in geographical terms, in Italy and one of the officially recognized districts (among the LLSs) by the Italian institutions under the name of "Vibrata-Tordino-Vomano" (see Figure 3.2). For simplicity, I will keep using the term Val Vibrata.
As reported in the official descriptions and statistics, the district is specialized in the production of clothing, leather products and shoes. Nevertheless,

Figure 3.1: Position of the region Abruzzo in Italy

Figure 3.2: Position of the district Vibrata-Tordino-Vomano in the province of Teramo



those two latter specializations contribute for only a small share of the local production system and consequently the analysis is going to involve the sole clothing industry. It is necessary to keep in mind this distinction since the official data available about the district and used in this analysis refer to the three production systems.
The district history and its specialization in the clothing industry can be traced back to several years away in the past. Two main historical reasons for the development of the district in the area can be identified:

- The economy of the area was based almost totally on agriculture up to the Second World War (and to a less extent craftsmanship) and in particular it was renowned for the cultivation of hemp, whose fibers were used for multiple reasons, from the production of textile products to food for animals and miscellanea. Moreover, in particular in Val Vibrata, the silkworm farming was quite common. In this sense the natural endowment of the area is certainly one of the reason for the spontaneous growth of a local specialized industry, providing more than the material for the future development a population with a relative advanced knowledge of the materials, already able to use and transform the textile fibers;

- Along with this "natural" inclination to the textile is the historical presence of the *mezzadria* organizational form which, as we have already explained in the previous chapter, favored a highly specialized division of labor and the attainment of entrepreneurial skills by the householders. In regards to this second aspect, Val Vibrata differs totally compared to the southern regions and also to the rest of Abruzzo, where the presence of districts is far less dense. In fact, Val Vibrata has always been strongly influenced by the proximity with Marche, where mezzadria was everywhere the dominant pattern.

Those particular conditions made it easy for the dwelling population to develop a local industry when the economy started surging after the Second

World War and during the 60's. The first economic framework of Val Vibrata was then made up of small, artisan, family-owned firms who used to manufacture and sell their products.
The real propeller was the setup of subsidiaries of larger firms from northern Italy and northern Europe which began to look for cheaper prices for the manufacturing of the products, since labor cost was skyrocketing along with working conditions of workers: it is not a coincidence that the growth of the district took place at the beginning of the 70's, the most flourishing period for the Italian workers movement which led to the conquer of rights never seen before (symbolically represented by the "Statuto dei Lavoratori", the Workers' Statute). At the end of the decade many of these large firms closed down and those who once were their employees opened up their own firms. Meanwhile, micro firms started taking up work assigned from other large firms: they still could provide valuable products at very low costs owing to the high flexibility of the workforce which, in absence of legislation enforcement, could still avoid taxation and exploit also the work of very young guys and women without hour limitation as well. Along with it, lured by the economic ferment many craftsmen turned their activities from craft into industrial ones thanks to the many investments made possible by the easy lends provided by the local banks. It is exactly during those years that the area shifted from its initial craft structure to a real industrial district system and the numbers help to have an idea of the growth: in 1951 the workforce employed in the district's firms were assessed to hit about 1.200 units, rising to 2.000 in 1961, and surging to over 5.000 at the end of the 70's.

The latest data (Table 3.1) show that in 2011 the district hosted about 7.000 firms but as we can see almost the totality of them (98,75%) is composed of small firms, whereas medium firms are the remaining part (1,5%). Large firms are still not detected, even though something is changing and in the years to come some, very few, firms are very likely to make the jump.

Table 3.1: Firms and employees in the Vibrata-Tordino-Vomano district

Description	**Number**
Total number of firms	**1.040**
- of which up to 49 employees	1.027
- of which between 50 and 499 employees	13
- of which at least 500 employees	0
Total number of employees	**7.172**
- of which up to 49 employees	5.706
- of which between 50 and 499 employees	1.466
- of which at least 500 employees	0

Osservatorio Nazionale Distretti Italiani - 2014 Report

Table 3.2: Export of some Italian textile-clothing districts

District	**Firms (N)**	**Export (E)***	**E/N**	**Large firms**
Val Vibrata	1.604	173	107.855	0
Prato	11.633	3.198	274.908	0
Verona Pronto Moda	4.144	4.022	970.560	4
Biella	1.513	1.871	1.236.616	2
Filiera Moda Puglia	14.719	597	40.560	0
Empoli	6.350	2.947	464.094	1

Source: Osservatorio Nazionale Distretti Italiani - 2014 Report
**Export values in mln €*

The picture nowadays is totally changed compared to the golden years of the burst: the working conditions of the workers are strongly improved, salaries are in line with the national average and the intensive use of illegal workforce like children and women is today to exclude. The reasons are to be found in the establishment in the area of very large companies in the 90's, in the development of relatively large subcontractor firms that worked for large companies from the North with which, for fiscal reasons, illegal work was impossible and eventually in the development of local infrastructures and the progressive working culture of entrepreneurs. The outcome is that less of 10% of the workforce is today illegal and limited to very small firms. This clashes with data related to other districts in the region, where illegal

work allegedly hits figures between 25 and 30% (Viesti, 1998). Despite the substantial growth of the economy, there have still been many downsides that have exposed all the weaknesses of the district. Starting from the 90's the wave of globalization has reshaped the economic structure of production processes and he districts were its first victims.[1] The districts of southern Italy were chosen by large firms for the possibility to obtain cost savings on labour-intensive activities but with the globalization many foreign countries proved even worthier to outsource production processes. At the same time the difference between local salaries and the northern ones was flattening, so much to make offshore outsourcing a cheaper alternative. Many firms working for the large contractors, but also some others selling directly to final customers, were forced to close. The only surviving were those working for the large multinationals of fashion industry (Dolce & Gabbana, Prada, Gucci, Louis Vuitton to mention some).

Actually, all the districts are heavily affected by the globalization and contracting seems to be not a profitable choice anymore: external firms are not paying much attention to the local system, nor they are interested in doing it. The best choice would be, for each firm, to pursue proper strategies that help them to be the most independent they can: this means he possibility at least to control final markets. Such strategies however require investments that usually firms, especially small firms, are not able to undertake, complex structures hardly to find in Italian firms and, in the best situations, very much time. In other words, those firms suffer from structural lacks that are very difficult to overcome.

The direct consequence is that the development of the district cannot depend anymore on the contribution of subsidiaries of large external firms,

[1] A crucial year for the clothing industry was 1994 with the stipulation of the Agreement on Textiles and Clothing at the end of the GATT's Uruguay Round. The agreement stated the substantial abolition of the Multi Fiber Agreement of the 1974: this one aimed to limit the quantity of textile products that developing countries could export towards the developed countries, which bragged comparative advantage in such traditionally labour-intensive industry and could put under threat the developed countries' clothing and textile industries. The ATC paved the way for the complete liberalization in the industry, causing many firms in the clothing districts to move production away.

especially in southern regions where there is a lack of resources (human capital and financial, universities and research facilities), investments and poor infrastructures compared to the northern ones. That holds true considering that they cannot provide cost advantages anymore. On the contrary, it seems that local, flagship firms are strengthening their position in the district and, through their strategies are the only to determine where the district will move to and how. Export, along with the role of large flagship firms, seems to be a key driver of development for districts. Table 3.2 shows it. In first place, it is noticeable to see how the district of Val Vibrata has a very low inclination to export compared, for instance, to other similar important districts like Verona and Biella, and this is shown by the ratio of export value to the number of firms. A second important figure is then related to the relationship between this value and the number of large firms (those with more than 500 employees) in the districts. It is not a coincidence that those district that are performing better are those in which there is presence of large firms.

3.1.1 The value chain in the clothing industry

This subsection helps to gain insight, for those who are not accustomed to the clothing industry, into the different tasks that lead from the idea of the product to its creation. For simplicity, I am going to explain only the essential parts of the process which is far more complex than the few following lines and would need a deeper treatment. It is sufficient for the purpose of this paper, though.

- *Generation of the idea*: the very first stage is the generation of the product concept, through ideas and drafts. Usually the products that are selected are those which satisfy the following three criteria: economic feasibility (the product should not be too expensive), match with the final customers' needs and wants (meaning also products which meet the common trends) and technological feasibility (products that can be made with the technology at hand). Those which do not meet these requirements are disposed of.

- *Design*: The selected products are then designed through computerized workstations so as they can be sent as files to the looms. In small and micro firms it is likely for the process to be still manual.

Before moving to production firms acquire orders from customers (the process of order acquisition is quite long and usually takes months) and make then assessments on how much raw material needs to be bought (if the production is outsourced the firm communicates the data to *fasionisti*. Once the materials are received and have undergone accurate checking processes to ascertain their quality and conformity, the real production process sets off.

- *Cutting*: In this stage the files including the garments' size and feature are sent to the looms which, equipped with yarn bobbins, build up the front and the back sides of each piece, ready to be sewed. Looms are today electrical machines but it may still happen to find mechanical man-led equipment in very small firms owing to the high cost hardly affordable in small firms.

- *Assembly*: The single parts of the garments are sewed up. This task is still performed through the use of classical machines and the contribution of the person working at it is very important and this makes this task the one which accounts the most in the labor cost.

- *Laundry and Finishing*: Once ready, garments go through the laundry (in order to get cleaned and treated with different products), are then ironed and checked in latest controls to verify their conformity to sales.

  Once packed, the garments are ready to get delivered.

3.2 The study

3.2.1 Methodology

This section is dedicated to the analytical part of the work, but before going straight to the point, it is necessary to define the conceptual framework that it is going to be followed.
First of all, we have already seen how two main different approaches can be taken to the study of districts: the district as a whole structure or the single firms inside. I want to repeat here that, in my opinion, there is no right approach between the two, but each district should be studied according to its own features. As a matter of fact nobody knows in advance what the right approach is for a single district, so a choice must be made. In this case I opted for the single firm approach, since I think that in the Val Vibrata district the role of large firms has always been crucial: we must not forget that large firms, both local and external, to a large extent boosted the development of a dense network of firms. So my assumption is that larger firms will always play a determinant role along with their strategies.
The methodology used for the collection of information has been the direct interview: interviews were carried out on site with representatives of the companies, each with an average duration of 30 minutes. I deem the direct interview is the methodology which best fits this kind of analysis for mainly two facts: the quite narrow panel of firms could be easily reached and made it unnecessary to get them surveyed through paper documentation, which would have provided a more incomplete information (especially body and voice signals, which I consider fundamental to get a whole understanding of the results). Second, as the assumption of this dissertation lies on the critical role of single firms in the development of the district, it is far more important to have a deep focus on them rather than a general and incomplete view of a larger panel (which tends to become irrelevant in this case where only a very limited number of large firms is locally rooted), in order to catch the most peculiar features of each firm's strategy.

As far as the firms are concerned, I preferred to preserve their privacy in order for them to be more willing to provide the needed information. Hence in the following lines their name will be indicated as simple Greek letters.
I am going to describe each firm and its strategies and organization one by one, and after the analysis I will try to summarize the pros and cons of each firm, the common points with one another and the differences and I will provide some very personal conclusions, suggestions and takeaways.

3.2.2 Alpha

Alpha is a company founded at the beginning of the 50's by four brothers, a large manufacturer of knitwear (ranging from shirts and polos to cardigans, pullovers and jerseys) located in the municipality of Sant'Egidio alla Vibrata, a small town of almost 10.000 inhabitants. In the very first years the company was family-driven under the lead of the brothers and had the typical features of the small firm producing locally for the local market, taking care of both manufacturing and sales, without huge plants and selling their products in open markets in the local towns. Thanks to the entrepreneurial spirit of the founders who started investing in more technologically advanced machinery which could afford higher production volumes, the once familiar firm expanded so much to become a real industrial activity at the beginning of the 70's, sustained also by the positive trend of the economy which made northern firms steer south for the outsourcing of their manufacturing processes. Today the company is the largest in the district with a turnover which floats around 40 million euros and more than 300 employees and has always gained profits in the last 10 years, in the economic crisis period too. Why is the firm performing so well? What are the main reasons behind those results? What strategies is the firm undertaking? How those strategies impact on the district performance? To answer those questions it is necessary to focus on the sales strategies (distribution channels, market tapped, brand management and marketing, product position) and on the outsourcing choices for manufacturing stages.

Commercial strategies

Like the vast majority of the firms in the district, Alpha succeeded in reaching industrial dimensions thanks to the acquisition of commissions from the largest firms of different clothing industries but in particular the luxury industry. In spite of it, along with third-party commissions the firm has kept managing its own brand which has always promoted and sold especially in Italy, reaching very good levels of recognition and gaining wide ground in the Italian market. The fact of promoting their personal brand, even though initially did not guarantee high shares of revenues compared to those coming from the orders of large clients, can be said to be one of the most important factors that have allowed the firm to survive the periods of economic downturn from the 90's on. In fact, if we consider the contribution of the own-brand products on the firm's revenues, the share has always been increasing and today the figures show that 70% of revenues stem from products with the company's brand against a 30% from large clients' orders. Moreover, according to Alpha's CEO, their intention is to increase this share in the future, freeing the company from any possible external dependence: not only to decrease the risk of relying on third parties, which is a strategical issue, but also for purely economic reasons. In fact the bulk of the orders are from large firms of the luxury and fashion industries which have higher contractual power than Alpha and are able to set the prices they want for the garments (not only prices but also delivery dates and other details are tailored on clients' requests), thus leaving little room for profit. On the other hand Alpha can set higher prices on own-branded garments and manage them according to their plans. Although the large client firms represent a hindrance for the development and growth of a local firm, it must be added for truth's sake that the same luxury companies that have always been Alpha's clients are the same which provided (and to some extent still do) stability during times of crisis as they never made their orders miss whereas other companies preferred offshore outsourcing to the production in Italy, thanks to the "Made in Italy" brand being a prime competitiveness driver of their products

(one of them is Dolce & Gabbana). Another reason for the company's success is the increasing tendency to rely on foreign markets: sales abroad account nowadays for about 40% of the total revenues and also here the figure is slowly increasing. The main markets for Alpha are still the european ones: France, Germany and Spain account alone for about half of the revenues from abroad but the company is widening its foreign customers portfolio, selling in countries like USA, China and Russia, which are standing out among the others for their performance and are strengthening their position. A 40% of the rate export/revenues is not a very high figure though, especially if we consider the clothing industry where the best performances come from those firms which register strong presence in asian markets, with China and The Middle East at the top of the list for their high-end consumers' propensity to spend much money only for exhibition. Certainly this market niche cannot be reached without proper marketing strategies in order to induce brand awareness in the consumers that only then will be willing to pay high figures for the products, something which large luxury brands just can take for granted, but is harder matter for small local firms.
How Alpha is promoting its brand is then another important issue if we assume that the brand management is crucial for local firms to detach from buyers and develop. To understand this aspect a brief description of the distribution channels is earlier needed. Alpha has always used the typical channels of the industry, namely sales representatives, each managing its own geographical area for both the Italian market and countries abroad. They collect orders and act as intermediaries between the firm and the client in case of troubles. As far as USA and Canada markets are concerned Alpha relies on wholesalers rather than representatives but the only difference lies in the payments which are made directly by the wholesalers. This organization of the distribution channels reflects also the promotion strategies: Alpha has always relied on the clothing industry fairs (the most important which they annually take part to is Pitti Immagine in Florence) as the main channel but this option finds a strong limit in the very narrow target of people reached.

Fairs mainly draw the attention of retailers and other operators specialized in the industry but hardly get to the final customers (except the fair visitors, but usually those people are more interested in renowned brands), they are just the most important way to collect orders.
In order to promote the brand Alpha has invested in ICT through the creation of a web platform that is split into two sections:

- the first being a sort of showcase where the company describes itself to the customers (website visitors or potential customers), with the aim of increasing *brand awareness* and changing *positioning* to a high-end brand;
- the second is to create a direct link between the company and final customers with the setup of an *e-commerce section* where customers can buy straight from the firm.

The e-commerce platform has a strategic function since it is the main tool the firm is using to build up its own loyal customer base at global level and is helping the company change the positioning of the products through different pricing strategies. Regarding this latter aspect, as long as the company's main market had been Italy, the products were targeted to an average customer belonging to the middle class. Over the last ten years the loss of purchasing power has been a common trend, forcing firms (those that did not already do it) to readdress their product and redefine strategies. Products in Alpha's e-commerce are priced noticeably higher than they are to Italian shops: in this way the company is able to meet *abroad* a niche which is now made up of wealthy people who attach great value to products and are in turn willing to spend according to this value. Conversely, changing positioning in Italy is a more complex matter owing to established long-term relationships and practices which have already given an image to the brand: in this case the firm cannot establish the final price but sales at a wholesale price. No wonder that the platform is also a way to expand sales abroad.
The web platform is a powerful tool to clear off the distance between the

company and the customers, but it is not the only part of Alpha's marketing mix. Promotion is made also through the opening of a showroom in via Montenapoleone in Milan, the most famed fashion road of the city, crowded each day by never-ending flows of tourists. The investment seems weirdly to be a good alternative to a FDI abroad since the great presence of foreign tourists works well to enhance the brand's recognition in the local and global market and at the same time allows interested operators to receive information and place orders. Alpha boasts an additional store in Moscow, since the firm founds it worth to invest in the flourishing russian market, through a franchising though. Social networks give also great contribution to the brand promotion. Alpha makes intensive use of this tools mainly through Facebook (promotion and customer care) and Instagram, which today is the most common platform for the development of the brand and its image, thanks to the collaboration that fashion companies engage with opinion leaders and endorsers. Additionally, the firm leverages heavily upon the brand Made in Italy, a traditional conveyor of high-value perception: it is not by chance that the fashion industry is part of the four A's and the firm obviously relies also on this brand.

One of the most important limit we can find in Alpha on this side can be found in its structure and organization dedicated to marketing. The supervision of the modern marketing policies like the website and the use of social networks are still in charge of the Sales Department because the firm lacks of a dedicated Marketing Department. As a consequence, the firm is still "too young" from this point of view and cannot leverage upon very skilled human resources. The company should invest more in human resources and a reorganization of its structure but it is true that such investments would be likely to require financial distress and allocation of resources and time that a firm of this dimension might find difficult to pay back. One other limit is the lack of skilled human resources: the average age of the workforce is quite high and many employees are not in possess of high qualifications. This aspect is clearly a byproduct of an industry which is traditionally labor-intensive

and only in the last years has emerged the importance of investing in new managerial capabilities especially related to marketing.

Production

Production is heavily affected by the commercial strategy Alpha adopts, and here the reference is to the Made in Italy and the product pricing. The most important thing to notice is that production is entirely made in Italy and the production processes are carried out in part by Alpha itself (more or less a 30% of the whole production is kept in-house) with the establishment of two plants (both in Val Vibrata) while the rest is outsourced to local *fasionisti*[2]. Therefore Alpha integrates all the production processes: from the design to the latest quality control. In line with all modern big companies, the stages of creation of the product and design, those characterized by higher creativity, high value added and a deployment of more skilled workforce are only carried out in the headquarters. But contrarily to what usually occurs in the clothing industry where manufacturing activities are outsourced, in this case the cutting and assembling, as well as the laundry and finishing are kept inside. The first two are in close touch with design and creation offices. The manufacturing activities can be considered in Alpha like *core competencies* in the more general frame of the Made in Italy and, in addition, it is necessary for a high-quality craft product, because in case of issues arising during one of the processes, their overlapping allows for problems to be solved in shorter times and usually in craft production (or at least in product which are marketed as handmade) there is no room for mistakes or imperfections. What are *fasionisti*'s features? They are for almost the totality located inside the district and each of them is specialized in one stage of the production process, either the cutting or the assembling stages (laundry and finishing are performed by a subsidiary of the company, located also in the proximities of

[2] *Fasionista*, in Italian, is a term which is typical of the clothing industry jargon and indicates the fasionista to which a manufacturer outsources all or some stages of the manufacturing processes. The term derives from the original french term *façonnier*, which has the same meaning.

the headquarters). Only one firm is located in Umbria and is the only which performs all the cutting and assembling stages. They are all small firms who employ 20 people at most, whose production capacity is quite low (they are not financially strong enough to invest in heavier and technologically advanced machinery) and for the most part are founded by former Alpha's employees that after leaving Alpha decided to open their own enterprises. Moreover, Alpha's *fasionisti* manufacture exclusively for Alpha, very few produce also for other buyers but other firms' commissions do not account for great shares of their revenues. In this sense we can see a high degree of dependence between Alpha and its suppliers so that a potential decision of outsourcing might harshly impact on the district employment: nonetheless it is necessary to point out that italian legislation puts strong limits to the bargaining power of large firms to preserve small firms (see Appendix). The reason that make Alpha keep its production activities in the district are mainly two:

- The first for *strategical consistencies* since a firm which builds its competitive advantage on the ideas of Made in Italy and craftsmanship cannot but rely on local manufacturers which have deep knowledge of the cutting and assembly processes; the need for transparency of operations is satisfied also by the request of the DURC[3] by Alpha to all its *fasionisti*. This document proves the regularity of the firms as far as fiscal issues and working conditions are concerned (see Appendix for a focus);

- The second is the need for Alpha to *oversee* all the processes. Hence Alpha checks carefully the work of *fasionisti* by sending in their plants some representatives to control whether there are issues in the processes

[3]The DURC (it. *Documento Unico di Regolaritá Contabile*) is a document which certifies the compliance of an enterprise to fiscal obligations and insurance and welfare duties that the firm has in regards to its employees and to the State. The document is not mandatory for the firms studied in this analysis but usually is requested by those ones which sell high-end products. The reason, along with a simplification of fiscal duties, lies in the fact that in case of possible irregularities the image of the firm and the brand would be heavily tarnished so the buyers use this tool as a warranty on the suppliers' compliance.

or by giving them instructions in case they are not able to apply particular innovations. It is a matter of fact that geographical proximity helps Alpha to perform such controls faster and more efficiently than it would be in case of higher distances, let alone abroad.

In order to understand the close relationship and dependence between Alpha and its suppliers it is sufficient to see how production processes are in some instances even organized to make small firms survive. In the clothing industry production is traditionally planned according to two seasons: fall/winter and spring/summer. Sales campaigns start for a given season in the previous year[4] to let firms plan production. This means that particularly in the fashion industry production is characterized by peaks in the months immediately following the sales campaigns turning to troughs as the months go by until the next campaign when there are peaks again. As a consequence Alpha finds itself in a situation of insufficient production capacity during peaks that makes necessary to rely heavily on outsourcing while production capacity exceeds the productions volumes during troughs. Those latter periods are not a real danger for Alpha itself since the company is financially strong enough to withstand many weeks of low sales; the question becomes instead crucial for their small suppliers because, owing to their high degree of dependency and the weak financial resources, during periods of low they could not be necessary anymore since Alpha's production capacity would fill entirely the production volumes and suppliers would close down. Alpha avoids this situation by relying on product lines (above all the evergreen pullover) whose sales do not follow the seasons fluctuations and are evenly spread across the year: their production is outsourced to suppliers so that they can survive periods of troughs. Even though Alpha barely earns from the sale of these products, their production still generates a win-win situation. On the one hand it is clearly worth for the small firms because they can keep manufacturing, in the other hand Alpha can still take advantage

[4]The orders for the s/s campaign of the year y are acquired starting from June of the year y-1 when the most important fairs take place and the same stands for the f/w campaign

because it can control suppliers with which communication is relatively easy thanks to the long-term partnership and that can provide a very good services thanks to the knowledge stocked up across the years.
This is a brilliant example of how an entire district can get benefits if great trust endures between the large firm and its local suppliers. No wonder that to get a system like this work that well the strategy of addressing products to high-end customers helps a lot.

Considerations

Alpha has been slowly reorganizing its strategy in order to cope with the crises and the globalization by redefining its product and brand positioning to high levels. The most important one is maybe the e-commerce which allowed the firm to directly meet the niche and control products price. Those strategies have allowed for the production processes to be still locally outsourced. The high degree of dependence between the company and its suppliers makes Alpha a great example of how a flagship firm can impact on the district structure, but it is possible to say that the overall strategy makes this firm a virtuous one. One point to stress is the relatively large dimensions of the firm which make possible for Alpha to invest more resources than many other firms in the district could.

3.2.3 Beta

Beta is a manufacturer of jeans and trousers located in the municipalities of S. Egidio alla Vibrata and Sant'Omero. It is a significantly smaller company than Alpha, but it is still interesting to study and I decided to consider it a flagship firm because of its "traditional" brand which was one of the most recognized and advertised during the 80's and 90's in Italy. Beta's history dates back to the 30's, when a man, which is the grandfather of the current managers (which are also the owners), started its own activity of tailor-made suits in an atelier in the province of Teramo. After the War, the growing economy of craft products in the area pushed his son to enlarge

this activity by manufacturing jeans and selling them in the local market until the 70's. Like Alpha also Beta experienced the industrialization wave in this period and from a small craft activity it became an industrial one thanks to investments and entrepreneurial spirit of the owners. The 80's were for Beta the most flourishing period: the Italian market was extremely dynamic, Italians were turning into consumers and the disposable income was increasing along with the number of employed people. The company took advantage of the moment promoting a brand of jeans which rapidly became one of the most famous and renowned in Italy (here called BetaX), so much to be visible in the Serie A top football matches of those years. The company's golden age started declining at the beginning of the 90's and, hit by globalization and the slowing consumption of Italian families which shrank Beta's main market, their enterprise nearly collapsed along with their brand which slowly sunk in the oblivion. As of today, the company reaches a turnover of about 15 million euros and employees nearly 60 people.

Commercial strategies

Until the beginning of the twentieth century the company marketed only the brand BetaX. The central market for Beta's brand had been Italy which accounted for almost the totality of the sales, whereas the contribution of foreign markets on the company's turnover was negligible. The target which the brand was addressed to was the middle class but with globalization this share of the market had become unworthy, new products emerged and BetaX lost its past fame: as a consequence a new product positioning was required to overturn the negative situation. Beta's strategy was then the introduction of two new brands, that we are gong to call BetaY and BetaZ, beside the still existing BetaX, a brand which today is addressed to a mid-low end of customers which is not performing well as it did in the past and it does not represent anymore the company's corner stone. The positioning for the new brands' products is different from the brand BetaX: they are addressed to a mid-high customer and they are priced quite higher compared to BetaX

products, almost two times than the average BetaX. The prices that Beta set are however *wholesaler prices* and it is due to its distribution strategies, meaning that the price of a product is eventually different from shop to shop and the company cannot control (or only partly) the final price.
Beta's distribution strategy is in fact quite traditional: they sell their garments only to retailers through the use of agents and this is the only channel they exploit, lacking an own-managed channel to straightly reach the final customers without intermediaries. Clearly there are differences between the channels used for BetaX on the one hand and BetaY and BetaZ on the other. The former brand is addressed to retailers which usually sell sport garments in malls or in sportwear shops where product differentiation is low along with perceived quality; the latter brands are instead sold to boutiques and shops where the average customer is wealthier and willing to pay more for an exclusive product. Promotion strategies are also quite traditional: products are promoted mainly through fairs where the orders of retailers gets collected. As far as the brands BetaY and BetaZ are concerned, since the company is investing on them much more, they opened also a showroom in Milan in order to catch foreign customers. Eventually, the promotion strategy relies also on the ICT, through the setup of a website with only promotion purposes (the company is not placing an e-commerce section in it).
Communication is a fundamental part of Beta's marketing mix and it is centered on the Made in Italy brand, beside which they set an unusual "Made in Val Vibrata" brand, and on the perception of a craft, tailor-made product, everything fine-tuned with the message of long-term experience in the production of jeans garments. The opening of the showroom in Milan in 2012 coincides with the entry of the company in foreign markets with the brands BetaY and BetaZ. Since then 20% of the turnover generated by those two brands has come from sales abroad, mainly Russia, Asian markets (Japan above all, China, Hong Kong, Taiwan) and Europe (Benelux, Scandinavia, France and Germany). Regarding BetaX, the brand was also previously marketed with different products for the foreign customers: this policy has been

abandoned though, after the fall of the brand in the market.

Production

The point to start from in the analysis of Beta's production strategies is a noticeable one: Beta can be considered as a designer rather than a manufacturer. Indeed, along with all the commercial areas, Beta takes care only of the *creation* of the garments and *design* which are made in-house. The *cutting* and *assembly* tasks are all outsourced to local, very close small firms: this helps the company to easily exercise its control over them and collaborate in case of need. The only task of the production process performed directly by Beta is the *laundry* where all the assembled garments flow through from the different suppliers, before being packed up (also made in-house) and delivered. Beta's suppliers are not many in number, almost 15 in total, and, more important, their production volumes is not filled by Beta's orders, meaning that they manufacture also for other firms. This aspect poses a crucial difference between Alpha and Beta: the degree of dependence of Beta's suppliers is lower than Alpha's and this implies that in case of a possible offshore outsourcing decision the firms would be of course less affected than in the case of Alpha. Nevertheless, the likelihood of such a move is extremely low according to its management: also in this case the Made in Italy brand and its perception of a craft product provides such a competitive advantage that the company would stumble upon fatal inconsistencies with the marketing strategies. The company and its management are also deeply rooted in the local territory and maybe this sentimental tie contributes to keep on producing there.

Considerations

After the great success of the company in the 80's, the downturn of the 90's has pushed Beta to redefine its commercial strategies by creating two new brands with high-end positioning on which the company invests today most of its resources. Investments were made in particular in communication,

through a website and a showroom, and in tapping international markets exploiting the same tools. On the internationalization side the firm is experiencing a positive period, with foreign sales reaching 25% of the sales in three years and still increasing in percentage. If Beta is largely investing in this side, on the other hand there are limits to its development. The first is the lack of a direct contact with customers: the absence of direct distribution channels limit the possibility to have a clear image of Beta's customer profile which is then critical to properly set related marketing policies. As far as the production is concerned, the firm can take advantage of the flexibility given by a "lightweight" structure in which production is absent: along with cost savings it allows the company to focus on design and marketing. Eventually, the relatively small dimension of this medium firm curbs the possibilities of making big investments.

3.2.4 Gamma

Gamma is a clothing manufacturer whose headquarters are located in the municipality of Nereto. The company was founded at the end of the 60's by an entrepreneur who, differently from the previous two cases where the company were craft firms at the very beginning of their history, decided to start from scratch an industrial activity by taking advantage of the upcoming industrial wave. During the 80's Gamma became, in a very similar way to Beta, a greatly renowned maker thanks to its jeans brand, one of the most important in Italy in the industry, advertised, like Beta, in the most viewed football matches in Italy. Like Beta, the company was hit by globalization and the loss of the middle class purchasing power in the 90's along with its brand whose fame sinked during those years. Up to this moment Beta and Gamma had run the same path and their histories resembles with one another. Since then though, the paths split up and Gamma took a different way.

Commercial strategies

Since the first years of its life Gamma has marketed, and has also identified with, one brand only, which we call GammaX. The brand stood out in the 80's as one of the most common italian brands for jeans and was addressed to the a middle-class consumer. After the crisis of the 90's, conversely to the previous companies, Gamma has always kept addressing the brand and its garments to the same target up to today, a middle end of customers which are seeking for a cheap but still reliable garment. According to this strategy and in the more general frame of the middle-class consumer the differentiation of products is made only on the basis of gender and age: the company has created different brands (always recalling GammaX) for men, women and kids but the products are quite standardized if style is considered. As far as the promotion of products is concerned Gamma relies on heavy investments in media advertising through spots in tv (use of different endorsers for men, women and kids, mainly famous actors), radio and events. The use of ICT for promotion and customer care is not as important as the classic promotion channels: the company has invested limited resources in the creation of social media profiles on Facebook, Instagram, Youtube and Pinterest and the website (also in this case there is no e-commerce). Distribution channels are traditional: Gamma sells more than a half of its products to wholesalers and the remaining part is equally split between small retailers and chain stores. The major market is Italy, which accounts for the 80% of the company's turnover while the rest is sold abroad in Europe and Russia: all the markets are tapped by agents, each of which serves its own geographical area and orders are collected in specialized fairs.

Production strategies

Once again, production strategies go hand in hand with commercial ones. The choice of addressing products to the same middle-class target exposed Gamma to the fierce price competition on labor costs of foreign countries making local suppliers' prices not competitive for a non-differentiating prod-

uct. Moreover, at the beginning of the new centuries other local firms had already started outsourcing abroad production processes. After a progressive downsizing performed by dismissing some of its own production facilities in Val Vibrata, Gamma outsourced the cutting and assembly processes for some of its product lines in the eastern Europe, in particular in Albania. There are three main reasons for which Gamma opted for Albania:

- Not only has Albania low labor costs but low levels of taxation make it even cheaper than other eastern Europe countries. In spite of it, the skill levels of the workforce are more than sufficient for the manufacturing of garments which do not require complex works for details, and this is the case for Gamma products;
- Albania is still geographically close to Italy and easy to reach both by road and by sea. This makes transportation cost still affordable compared to far-east countries where labor cost is yet very low but their required transportation costs would exceed economic savings on the labor side, in particular for the insufficient production volumes that Gamma outsources;
- Eventually the Italian language is largely spread in Albania, making also communication between firms easier than in other countries. This allows to save on those coordination costs which arise in case of difficult communication and transfer of information.

The finishing and laundry stages are kept in-house or outsourced to small local firms in Val Vibrata: finishing requires particular skills and knowledge that the company cannot find abroad and the laundry, which is performed after finishing, is worth to be carried out locally (and being also capital intensive does not provide substantial cost savings). The firm has also kept control over the acquisition of raw materials, contrary to what happens for other firms in the area which outsource the whole processes, from the acquisition of materials to the finished products.

Considerations

To overcome the crisis Gamma decided to fly away from the concept of Made in Italy and to compete on prices rather than products. The company has not much innovated in terms of marketing and since the 80's has always relied on the same channels, investing few resources in own-managed ones, both for promotion(no e-commerce platforms) and distribution (no investments have been made for showrooms or stores): the consequence is a distance between the company and the final customer. The decision of competing on prices made it a necessity the offshore outsourcing.
The strategy, however, seems to be not paying back. Considering that the company in 2006 had revenues for about 45 mln euros, today the figures have collapsed to about 25 mln euros with a constant decrease, and employees have reduced from about 60 to 40.

Conclusions

What can be derived from the study of the district of Val Vibrata? The clothing industry is undoubtedly labour-intensive, most of the tasks in the production process can be carried out by an unskilled or low skilled workforce and in most situations the technology used is quite traditional, except for large firms that can afford very expensive investments in the latest ones (but the average size of firms in the district makes it a rare situation). Therefore, we are discussing about a traditionally mature industry which has been strongly hit by the global competition that has triggered a never-ending search for the lowest cost of the labor and that can hardly face through investments in new technology and innovations. In addition, a peculiarity of the clothing industry is the impossibility of leveraging upon economies of scale, owing to the low degree of product standardization caused by the need for flexibility that the production in two seasons requires (the fact of planning production according to the fall/winter and spring/summer seasons creates peaks and troughs that make the production process and volumes required not even).

The district has paid much in terms of firms number and people employed since the liberalization of the industry, with many closing down their activities. Those firms which were able to survive are the ones that faced globalization by redefining their strategies in mainly two ways and we group them according to those strategies. The first is a different *positioning* of products and brands (Alpha and Beta): by moving from middle class customers to high-end ones firms are trying to catch limited niches of the markets com-

posed of people that recognize a higher value to the garments sold and are in turn willing to pay higher sums of money. Such strategy is by itself useless because the value of the products must be properly conveyed. To make this possible, firms are investing in new *promotion* and *distribution* channels, mainly with the use of company websites, which allow firms to deliver the company's and brand's messages and to get awareness and visibility in the market. Social media are largely used with the aims not only of promoting the brand, but also of reducing the distance between the final customer and the firm by creating a direct contact. They are not expensive and are perfect to reach the targeted niche, whereas classic promotion channels, that firms are giving up on, (radio, tv, newspapers, events etc.) fail in meeting only the desired target and are much more expensive compared to the results they offer. Communication points to emphasize the role of the Made in Italy product and the long-term tradition in the manufacturing of the garments.
On the distribution side, innovation in the channels only in the case of Alpha the company has established an e-commerce platform to sell directly to the customers, and the opening of showrooms in strategic locations seems to be a satisfying solution, even though not in the forms of FDI abroad (franchising is preferred).
In the second group of firms are those that have not changed product positioning and compete on prices, forced then to *outsource* production processes to foreign countries. In this case the firm under scrutiny is Gamma. Those firms have preserved only the stages of design and creation in house and the final processes of laundry, finishing and packaging either in-house or assigned to local suppliers. Their performance seems not to be paying, though.
A common trend, for all flagship firms, is the concentration on core competencies which brings to a deep specialization that in the Val Vibrata district is a recent trend for large firms. Whereas in the past they used to integrate production processes inside the firms, today they are supervising only the intangible parts of the process, outsourcing the tangible stages to specialized suppliers who usually care only about cutting or assembly. This is not the

case for Alpha, the largest, but the production volumes manufactured inside are a little share.

At the end of this analysis some conclusions can be drawn. The growth of Val Vibrata district has historically been propelled by the presence of large firms that settled subsidiaries in the area, and this dependence seems to be strong still today if we consider that the downturn of the local economy after the liberalization of the industry. So the strategies of large firms are crucial for its evolution.

First of all, in order to be competitive flagships firms should opt for the repositioning of products and brands rather than competing on prices. Price competition seems not to be an effective solution for flagships: the main reason lies in the relatively small dimension that these firms have compared to other multinationals of clothing, making them not able to reach great production volumes and in turn leverage upon economies of scale to compete with other global brands. Competing on products, even though requires significant investments in marketing, reliefs the firms from the heavy burden of the price, over which firms can have more discretion.

Second, in order to be effective, product competition must be based on a differentiation which requires investments in brand development and marketing. The use of the ICT technologies is crucial and allows for firms to invest resources in a more efficient way. Still there is lack of investments in direct channels like own-branded shops or e-commerce platforms (only Alpha has one in the whole district, and it is very recent), but this point brings directly to the next third issue. We must not forget that these flagship firms are still *medium* firms and have not enough resources to allocate for heavy investments, so it will take time for them to expand and acquire sufficient dimensions to become influent global players and set up more complex and differentiated strategies.

Fourth, the insertion of the firms in the global value chains is very weak, they are very limited in acquiring knowledge from global networks since all the functions are mainly locally-bound and the exposition to the world networks

occurs only on the sales side and through the web platform and fairs. FDI may help the firm but they cannot take place for production stages if the competition is based on the product: the only investments that the firms can make are in marketing (through the opening of showrooms and stores abroad which is very likely to occur in the future), but the competitive advantage that lies the Made in Italy and the perception of craftsmanship forces the firm to keep production in the district (nor they want to move away). Moreover, the Italian market make the greatest part of the revenues for all firms and some critical markets like China are still not exploited by the firms. They should invest in engaging new markets and increasing figures form them. The trend however is inverting and the contribution of foreign markets is sharply increasing.

Fifth, from the point of view of internal structure many firms suffer from a lack of managerial skills and are not so evolved: the symbol for this weakness is the fact that even though firms need significant marketing investments, no one can rely on a marketing department. Still today all the marketing functions are performed by the sales departments. This lag reflect also the low investments of the firms in human resources, on the one hand due to the familiar footprint of the firms and on the other hand to the limited dimensions. The bottom line is that in the short term the district will be still undergoing a process of restructuring and flagship firms cannot influence that much its developments. However, their role in the long term can be crucial since flagship firms (in particular those competing on products) are very bound to the local environment and small manufacturers in the area (which make up the real backbone of the district) represent a value added for them. If their strategies will confirm the positive trend, it is very likely that their incidence in the development of the district will be more and more evident. Doubts arise for price-competing flagships: so far they have contributed to the disruption of the local framework, in the years to come it is still not clear whether their impact will be positive, but everything depends on their ability to reach high production volumes.

Appendix A

Legal aspects

A.1 Italian legislation over the exploitation of small firms

Micro and small firms, as they account for the largest share of the Italian industrial framework, are the real propeller of Italy's economy. Nevertheless, they are as important for the economy as extremely weak in terms of bargaining power compared to their more powerful buyers and have been very often overwhelmed and exploited by those firms as evidence has proved. The most common situations of subjection are concealed behind apparently neutral behaviors: the rejection of buying from or selling to a given firm, or a progressive delay of payments. Both these situations can stress so much a small highly dependent firm to force it to shut down. Also the decision of breaking off an ongoing contractual relationship or the imposition of discriminatory clauses can be extremely harmful as the firm is more and more dependent and small.
The State has always recognized their critical role but for a long time no formal law had been protecting them, until 1998 with the publication of a specific legislation, namely the 192/98 which introduces for the first time a formalization of the *subfornitura* (outsourcing) contract between the large buyers and small local firms. The main points are the following ones:

- Contracts must have *written form* and, if not, they have no validity;
- The right of the vendor to get paid for the duly performed activities;
- The right of the vendor to get paid within 60 days from the delivery date of the products or the communication of accomplishment of services;
- Interests in case of belated payments.

In short terms the law obliges the firms to formalize each part of the contractual relationship and appoints sanctions in case of infringement of the contractual and legislative terms.
Even though the intentions of the legislator are praiseworthy the real efficacy of the law has been in practice very limited. Many firms still exploit their bargaining power and some sanctions, like the forced interruption of the contractual relationship, still put under threat the possibility for a small firm to survive. The bottom line is that like in many other situations of power unbalances the destiny of a small firm depends on many factors, e.g the strategies and purposes of the large firms and the market trends, over which the law has very little room for prevention.

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