

# Forschungsberichte Working Papers

Institut für Wirtschafts- und Sozialgeographie  
Department of Economic and Social Geography  
Johann Wolfgang Goethe-Universität Frankfurt



**Herausgeber** Eike W. Schamp  
**ISSN** 1439-2380

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**Internationalisation: threat or opportunity for  
the survival of the Italian district model?**

IWSG Working Papers 09-2004

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# 1 Introduction

National borders in Europe have been opening since 1992 and the Union is expanding to embrace more countries prompting enterprises to consider alternative and more attractive locations outside their home country to handle part of their activities (Van Dijk and Pellenbarg, 2000; Cantwell and Iammarino, 2002). International relocation is becoming more and more popular even for small and medium-sized firms that are involved in a growing internationalisation process, mirroring the path of multinational enterprises.

Italy, like other industrialised countries, is experiencing a fragmentation of the production chain: firms tend to shift high labour-intensive manufacturing activities to areas characterised by an abundance of low-cost labour (i.e. Central Eastern Europe, India, South East Asia, Latin America, Russia and Central Asia). The internationalisation process by Italian district SMEs has assumed significant dimensions. It has become a relevant topic in recent economic debate because of its consequences for the local context and, in particular, the implication for the survival of the Italian district model (see, among others, Becattini, 2002; Rullani, 1998 and Corò, 2000).

The purpose of the paper is twofold: it aims at (i) identifying the managerial approaches to the internationalisation process adopted by the Italian district SMEs and by the Industrial District (ID) itself and (ii) at investigating whether the international delocalisation to the South Eastern European countries (SEECs<sup>1</sup>) constitutes a threat or an opportunity for the Italian district model.

The paper is organised as follows. The general introduction is followed by a description of the evolution of the internationalisation processes in Italy over the last three decades. Section three presents a discussion of the internationalisation strategies adopted by Italian SMEs. Section four focuses on the internationalisation process of the Italian industrial districts SMEs. A review of the studies on the subject is offered in section five. Section six presents a qualitative study on the internationalisation process as undergone by sports shoes manufacturers in the Montebelluna district, in north-east Italy. This study shows different managerial strategies to the internationalisation process and emphasises that the motivations can evolve over time, from originally cost-saving to increasingly market-oriented or global strategies.

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<sup>1</sup> The SEECs are Albania, Bosnia, Bulgaria, Croatia, Macedonia, Romania, Serbia-Montenegro and Slovenia.

On the basis of a literature review, section seven investigates whether internationalisation constitutes a threat (i.e. loss of jobs and knowledge) or an opportunity (i.e. enlargement of the ID, update district's competitiveness) for the district model. Finally, some summarising remarks in section eight conclude the paper.

## **2 The evolution of the internationalisation process**

Italy is a late international investor and a multinational follower. The evolution of the internationalisation processes that characterised the country in the last three decades is composed by three stages (see table 1) (Balcet, 1997):

- (1) The traditional pattern (until the '70s)
- (2) The 'Oligopolistic heart' (until the '80s)
- (3) The emerging internationalisation process of SMEs (from the end of the '80s to the present)

In the first stage, a traditional pattern of internationalisation was characterised by the divergence between the very good export performance of Italian firms and their weak and delayed multinational growth. In this period, large multinational groups, operating in scale intensive sectors, invested in Latin America and the EU driven by market oriented motivations. Italy became increasingly attractive for foreign multinationals, as a market and as a production location, while domestic firms had a very limited propensity to expand abroad (Balcet, 1997; Onida and Viesti, 1988). Only from the middle of the '60s, the export performance of district firms heavily increased, new firms entered the market and employment and productivity grew (Garofoli, 2003).

The second stage was characterised by the restricted 'oligopolistic heart' of the Italian industry that expanded abroad through acquisitions, mainly in Europe, in order to enlarge its market shares and to improve the economies of scale. Four major private groups (IFI-Fiat, Pirelli, CIR-Olivetti and Ferruzzi-Montedison) alone controlled about 59 per cent of total employment in foreign affiliates and about 52 per cent of total sales (Cominotti and Mariotti, 1990 and 1992; Balcet, 1997).

While for much of the post-war period, Italy appears to play a relatively minor role as an international investor, in the last fifteen years, the trend towards outward FDIs has

shown a considerable upswing and, since 1990, Italy has become a net investor<sup>2</sup> (Faini et al., 1999). This recent phase (third stage) mainly regards SMEs, operating in scale-intensive and traditional sectors, investing in EU, Eastern Europe and Far East. These firms adopt market-oriented strategies as concerns investments in EU, while cost saving strategies as regards the SEECs and the Far East.

*Table 1: The evolution of internationalisation processes in the last three decades*

<b>Stages</b>	<b>Main players</b>	<b>Areas of destination</b>	<b>Sectors involved</b>	<b>Main motivations</b>	<b>Forms</b>
Until the 1970s	Big groups Minor multi-nationals	Latin America European countries	Scale-intensive	Market-oriented (tariff-jumping)	Greenfields Joint-ventures cooperative agreements
1980-1988	Big groups	European countries	Scale-intensive	Market-oriented Economies of scale	Acquisitions Joint-ventures cooperative agreements
1988-2003	SMEs	European countries Europe Far East	Scale-intensive Traditional	Market-oriented Cost saving	Acquisitions Joint-ventures cooperative agreements

Source: Elaboration on Balcet (1997)

<sup>2</sup> The main source of information on Italian multinationals and their affiliates is provided by the Reprint database developed by the Department of Economics and production of the Milan Polytechnic (Mariotti and Mutinelli, 2003).

### 3 Firm internationalisation strategies

The word 'internationalisation' implies several meanings. It can arise through foreign trade, foreign direct investments (FDI), outsourcing, subcontracting, international delocalisation and relocation, joint ventures, franchising and so on. Traditional statistical sources mainly refer to the amount of FDI without taking into account other forms such as subcontracting or joint ventures. This raises the probability that the internationalisation process is underestimated.

The 'international fragmentation of production', as labelled by Jones and Kierskowski (2000) and Venables (1999), can take the shape of horizontal or vertical integration processes (Markusen et al., 1996). In the horizontal process, the production structure of the parent company is reproduced in other geographical contexts through FDI in order to gain a better access to new local markets. Horizontal investments are driven by market-seeking strategies and are directed towards more advanced countries.

In the latter, the production process, initially realised by the parent company, is fragmented and relocated elsewhere through FDI or 'lighter' internationalisation forms (i.e. delocalisation, subcontracting relationships, joint ventures) with firms in other areas that offer lower production costs. The vertical integration process is mainly driven by cost-saving motivations and is directed towards less developed or developing countries.

FDI represents the main tool of internationalisation for medium-, large-sized and multinational firms. FDI is an investment realised abroad ('active' or 'outward' investment) or from abroad ('passive' or 'inward' investment) in plants, and can take place either through the opening of branch plants ('green-field' investment), or through the acquisition of or financial participation in existing firms ('brown - field' investment).

On the other hand, small and medium-sized firms extend their supply chains abroad through the following :

- Strategic alliances and trade agreement
- International relocation and delocalisation
- International subcontracting.

Each of the above mentioned entry modes imply different degrees of relational and organisational complexity and different levels of risk for the firm. Since the early work, the literature on MNCs has not neglected this aspect, as it realised that building a plant imposes many additional costs on a foreign company, such as language,

cultural and trade barriers or the costs of being outside the local business and government networks (Markusen, 1996).

The lighter form of internationalisation is the assignment of production licences beyond payment of royalties. In the case of joint ventures and especially that of full proprietary control over the foreign factories, the investing firm has to bear not only organisation costs but also expenses for buying equipment and equity shares of existing firms (Crestanello and Dalla Libera, 2003).

International relocation concerns the transfer of production activities abroad by closing down a plant to replace it with a new unit in another place. Relocation is a strategy mainly adopted by single site firms. Delocalisation (or partial relocation) regards the relocation of part of the company's activities or production lines to a company-owned branch plant in a foreign country<sup>3</sup>. Firms adopt this form to differentiate their production and to take advantage of the most favourable locations. Partial relocation can also include some form of partnership with a local firm or a group of firms and can be adopted by SMEs that cannot bear the cost of setting up a branch plant on their own (Pellenbarg et al., 2002).

As will be emphasised in the next section, cross-border international subcontracting is the most common strategy adopted by those Italian SMEs<sup>4</sup> that are located mainly in IDs. It can take two forms (Watanabe, 1980):

- cross-border industrial subcontracting
- cross-border commercial subcontracting.

Cross-border industrial subcontracting takes place between independent units (the principal and the subcontractor) located in different countries and concerns the manufacture of intermediate products (parts, components or sub-assemblies) to be incorporated into a product which the principal will sell. Such orders may also include the treatment, processing or finishing of materials or parts by the subcontractor at the principal's request.

Cross-border commercial subcontracting takes place between two independent units located in different countries and concerns the manufacture of finished products (without assembly or finishing) that will be exported either via the principal or directly by the subcontractor.

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<sup>3</sup> For an overview of delocalisation strategies of the Italian district firms see Schiattarella (1999) and Corò and Grandinetti (1999).

<sup>4</sup> This entails subcontracting relationships with firms located in the SEECs.



The transfer of production abroad by Italian SMEs is a cost-saving strategy that is driven by the need to cut labour costs and, in the case of Northern Italian provinces, by the scarcity of skilled and unskilled workers and industrial areas to expand production capacity (Corò, 2000). In the SEECs the subcontractor's costs for certain operations (production or processing) are considerably lower. In the last decade, international subcontracting linked specific Italian IDs to a certain country, for example the manufacture of silk items in China (Como district<sup>5</sup>), or the production of woollen fabrics in Turkey (Italian IDs and large firms like Benetton<sup>6</sup>) or shoe components in Romania and Slovakia (Italian districts specialised in footwear<sup>7</sup>) (Belussi, 2003).

#### **4 Internationalisation of the Italian industrial districts: an overview**

The term industrial district dates back to the late nineteenth century, when Alfred Marshall (1896) noted that small firms in the same industry realise *economies of scale external to the firm through co-location*. For Marshall, market success was derived from increased specialisation and the development of more effective industrial organisations. One way in which this came about was through the concentration of production in particular areas — what Marshall called industrial districts (see Keeble and Wilkinson, 1999 and Salmi et al., 2001).

As Pyke and Sengenberger (1990) stressed the districts are '*geographically defined productive systems, characterised by a large number of firms that are involved at various stages, and in various ways, in the production of a homogeneous product*<sup>8</sup>. A significant feature is that a very high proportion of these firms are small or very small. Most of the districts are to be found in North, Central and North-Eastern Italy, the so-called 'Third Italy'. The term Third Italy is used to describe the fast growth of small

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<sup>5</sup> Como is one of the provinces of the Lombardy region in the North-West of Italy.

<sup>6</sup> Benetton is an Italian multinational company in the textile and clothing sector.

<sup>7</sup> The Montebelluna district will be described in section 6.

<sup>8</sup> There are a number of concepts, other than the 'industrial district', that have been used to describe the clustering of different economic actors. These include: *innovative milieux*, *learning regions*, *cluster of innovation and technology districts* to mention a few. See Gordon and McCann (2000).

district firms in North-Eastern and Central Italy<sup>9</sup>, in sectors such as textiles, shoes, furniture, tiles and mechanical engineering. Italian economists<sup>10</sup> have identified these complexes of small firms that captured the success of agglomeration in the abovementioned areas.

A characteristic of the ID is that it should be conceived as a social and economic whole<sup>11</sup>. IDs are not only networks of inter-firm relationships but also social networks, which link economic players as individuals. The Italian experience demonstrates the strength of those connections: firms are embedded into rich local contexts, where local manufacturing systems overlap social networks and competitiveness is directly related to territories<sup>12</sup> (Pyke et al., 1990; Becattini, 2002). The Italian district model is characterised by spontaneity, and functions mainly through the self-organising ability of local communities; it is a development model that has evolved without the support of public industrial policies (Quadrio Curzio and Fortis, 2002).

The population of small firms in the IDs is not just an aggregate of productive units. They are specialised in a particular stage of production or service complements and they are related to one another and their environment. This special kind of organisation is partly captured by the notion of vertical decentralisation (Pyke and Sengenberger, 1990).

In Italy there are more than 200 IDs, which account for over two million jobs, or about 40% of Italy's total manufacturing employment and 60% of all jobs in companies, that make the most familiar Made-in-Italy products (fashion, home furniture and furnishing, food and traditional mechanical engineering products).<sup>13</sup> Made-in-Italy products are recognised worldwide for their top quality and Italian IDs are the leading

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<sup>9</sup> The regions of Emilia Romagna, Tuscany, the Marche, Abruzzi and Veneto.

<sup>10</sup> See Brusco (1990) for references.

<sup>11</sup> According to Becattini (1990), the industrial district is a "*socio-geographical entity which is characterised by the active presence of both a community of people and population of firms in one naturally and historically bounded area*".

<sup>12</sup> "*Society and economic system are strongly related to each other and are mutually influential in many ways: firms are managed by family groups, economic success is considered in terms of social regard and recognition, while the economic growth increases the social welfare of the whole local community*" (Becattini, 2002).

<sup>13</sup> In 1991 the ID was recognised for the first time in Italian legislation (Law 317/1991). In 1996 the Italian Statistical Institute (ISTAT) divided Italy into entities at the local level that included 199 IDs. In the same year the 'Club dei distretti' (Club of the IDs) was founded which sought to represent the interest of IDs *vis-à-vis* public authorities at all levels, from local municipal governments to the EU and the WTO. There are also district institutions that are platforms for meetings, discussion and policy formulation (Becattini, 2002).

manufacturers of these products, accounting for more than one-third of all Italian exports (Quadrio Curzio and Fortis, 2002).

Traditionally, scholars describe Italian IDs as closed manufacturing systems of SMEs embedded in local contexts, able to interact with the outside only at the two ends of the value chain and where well-identified firms were in charge of managing the relationships with final markets (Becattini, 1989; 2002; Piore and Sabel, 1984; Markusen, 1996). However, at the end of the nineteen eighties and during the nineteen nineties, even local systems of SMEs perceived the importance of developing their contacts with firms outside the local district area (Micelli et al., 2003).<sup>14</sup> The emerging delocalisation process highlights the firms' abilities to globalise not only by selling products manufactured locally in international markets (export-based perspective), but also in terms of the international reorganisation of local supply chains.

The internationalisation process of the ID can be 'active or 'passive'. The passive internationalisation is determined by foreign firms, either multinational or transnational firms that invest in the ID through FDI. When foreign multinationals acquire leader district firms, they tend to internalise the domestic firm's high value added activities. Doing so, leader firms reinforce their commercial position at international level and are pushed to adopt innovative managerial models (Corò and Grandinetti, 1999; Belussi, 2003). One of the most significant cases, is represented by FDI (like the ones by Rossignol and Adidas) in the footwear industrial district of Montebelluna and by the settlement of Nike's Research Centre in the district (see Belussi, 2003).

It is common opinion that the passive internationalisation of the IDs improves in terms of competitiveness to the local system as well as to the investors (multinationals).

There are three main drivers of the 'active' internationalisation (Corò and Grandinetti, 1999):

- (1) the management and coordination of the final market and of raw materials' market
- (2) the purchase of immaterial services
- (3) the delocalisation of production phases or of larger segments of the chain (filierè).

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<sup>14</sup> For an overview on 'sticky' places in 'slippery' space (regions and cities where firms stick to the place where they are located which enables them to adapt and flourish despite globalizing tendencies) see Markusen (1996).

Leader district firms manage and coordinate the final market in an effective and sustainable way. The modes that are adopted may vary from the direct control of the international distributive network to the creation of exclusive agents operating in the final markets of the firm. Doing so, the traditional district buyers or import-export agencies lose their power. In some cases, the management of the resources' market is linked to *global sourcing* strategies for phases concerning the transformation of resources. For instance, the leader firms of the tanning district in Arzignano relocated the leather processing phases close to the raw materials' markets in order to reduce the environmental impact as well as the labour intensity on the local system.

The most dynamic leader firms can purchase immaterial services from firms outside the district. These immaterial services concern: technological innovation, quality management, design, communication, marketing, financial services and so on (Mariotti I. et al., 2004).

The delocalisation of phases of the production cycle is one of the ways in which the value chain is opening up. If in the past the intermediate goods and services markets were *captive* for the firms within the ID, in the most recent phase leader firms have started to transfer part of the production segments to countries characterised by cheap labour costs, through subcontracting relationships or *joint ventures*. In those IDs characterised by a division of the productive phases, the delocalisation of specific segments is more frequent. This is the case of the ID of Marzano in the North East of Italy, where leader firms delocalise the first production stages in the SEECs that have cheap labour and are raw markets. Firms in the fashion industry delocalise in the Far East, in the SEECs.

The transfer of the *filière* through new establishments or *joint ventures* can be limited to the assembling phases or be extended to additional production competencies or activities. This strategy is typical of the multinationals and has been adopted, at a smaller scale, by some district firms of the footwear district. They delocalised complete production systems in areas close to the final markets. Another strategy adopted by a small number of leader firms concerns the adoption of a strategic organisational model of integrated network that is typical of the large global firms or transnational firms. In this model the division of labour in the productive field regards a plurality of nodes localised in various countries and specialised in the production of components, in the assembling phases, in the production of finished products.

## 5 Internationalisation strategies of industrial district SMEs in the *Made in Italy* sector - a review

Recent studies show that Italian district firms exhibit a higher degree of internationalisation in terms of foreign trade and a lower degree in terms of delocalisation in comparison with firms that do not belong to a district (see table 2) (see among others, Centro Studi Unioncamere-Assocamere Estero, 2002; Federico, 2002). This pattern confirms their embeddedness in the local context. We will illustrate this growing degree of internationalisation by referring to three surveys. The first one is that by Centro Studi Unioncamere - Assocamere Estero (2002) that emphasises how international subcontracting is the main form of internationalisation adopted by district firms, while FDI and joint-ventures with foreign firms is a less important strategy because they imply higher sunk costs. Generally speaking, Italian FDI is limited by the the smaller number of multinational firms and the smaller size of Italian firms compared to the European average. At the beginning of the 1990s, the proportion of manufacturing firms with less than 20 employees was 39% in Italy, 13.1% in France, 14% in Germany and 18% in the United Kingdom. By contrast, the weight of employment in firms with more than 500 employees was about 15% in Italy, 42% in France, 52% in the United Kingdom, 56% in Germany and 64% in the USA (Filippi and Zanetti, 2001; Onida, 2002).

*Tab. 2: Internationalisation strategies of Italian firms (%)*

<b>Internationalisation type</b>	<b>District firms</b>	<b>Other firms</b>
Industrial subcontracting	38.5	17.4
Commercial subcontracting	22.2	16.5
Joint ventures	15.4	22.4
Supply contracts	12.8	22.2
FDI	11.1	21.4
Total	100.0	100.0

Source: Centro Studi Unioncamere-Assocamere Estero (2002)

The second survey was carried out by Micelli et al. (2003)<sup>15</sup> who examine the international strategies adopted by a sample of 182 leading firms<sup>16</sup> of 20 of the most important Italian districts specialising in the three main industries of the Italian economy (see figure 1 and table 3):

- (1) home furnishing (furniture, glass ceramics)
- (2) fashion (textiles, eyewear, shoes and sportswear)
- (3) engineering.

The district firms are located in the North-East (40.7%), Lombardy (28.0%), Emilia Romagna (18.7%) and Tuscany (12.6%). More than 43% of the firms were located in IDs related to the fashion industry, whereas 26.4% operated in the engineering industry and 30.2% in home furnishing. The firms interviewed had a 2001 turnover of about € 30 million on average. Almost 65% of the firms have a turnover between € 13-52 million. The firms in the survey perceived themselves as leaders or felt that they held a strong position in their respective markets.

*Figure 1: The Italian regions under survey*



Source: Elaborated from Micelli et al. (2003).

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<sup>15</sup> This survey was carried out in 2002 as part of the annual survey of the TeDIS (Center for Studies on Technologies in Distributed Intelligence Systems) centre research programme.

<sup>16</sup> The survey is based on a structured telephone interview. One hundred and eighty-two firms were interviewed out of a total of 306 leading industrial district firms (see Micelli et al., 2003).

Tab. 3 The industrial districts under survey

**Lombardy**

- Furniture and parts – Brianza
- Other wearing apparel – Castelfreddo
- Textile fabrics – Como
- Mechanical Industry – Lecco
- Metals – Lumezzane

**Emilia Romagna**

- Tiles and ceramics – Sassuolo
- Textile, clothing – Capri

**Tuscany**

- Textile, clothing – Prato

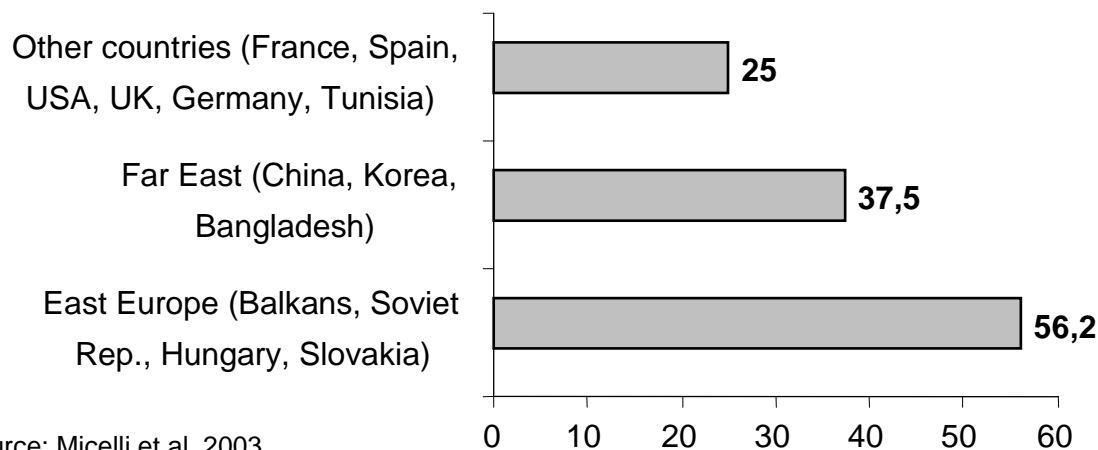
**North East**

- Furniture, charis – Manzano
- Furniture and parts – Livenza
- Furniture and parts – Quartiere del Piave
- Glass – Murano
- Glasses – Belluno
- Footwear – Brenta
- Footwear – Montebelluna
- Textile and clothing – Schio Thiene
- Leather – Arzignano
- Mechanical industry – Inox valley
- Mechanical industry – Schio Thiene
- Mechanical industry – Montecchio

Source: Elaborated from Micelli et al. (2003).

It was found that firms in fashion and engineering were more involved in internationalisation, while firms specialising in home furnishing were more embedded in the local contexts. Ninety per cent of the firms outsourced at least some activities of the supply chain. Concerning the alternative strategies, 14% realised FDI as 'green field' investments, 47.7% developed partnerships with foreign strategic suppliers, 13.4% turned to international subcontracting and 15% developed more than one internationalisation typology. Both, green-field investments and subcontractors are mainly located in Eastern Europe (46.1% and 56.2%, respectively) and 37.5% of foreign subcontractors are in the Far East (see figure 2). The main motivation behind the transfer of activities by Italian industrial district firms to the SEECs and the Far East was to cut labour cost (68%), while market proximity pushed firms to invest in Western Europe.

Figure 2: The location of foreign subcontractors



Source: Micelli et al. 2003.

In the third survey, Turato (2002) focused on the delocalisation trends of Italian district SMEs in the North-East (Friuli Venezia-Giulia, Trentino-Alto Adige and Veneto regions). The study is based on a survey involving 37 entrepreneurs that relocated to the SEECs: Albania, Croatia, Romania and Slovenia. The interviewed firms were active in the apparel and textile sector (49%) and engineering industry (49%). Forty-three per cent of the firms moved to the SEECs during the last five years, the rest had already moved six to ten years ago<sup>17</sup>. Sixty per cent of them relocated to Romania, 16% to Croatia and over 10% to Slovenia and Albania. As recent studies have underlined, in the last decade, Romania has been the main country of delocalisation for several Italian industrial district firms. It offers low wages together with the availability of skilled labour, especially in the shoe-manufacturing sector due to the presence *in loco* of state-owned footwear industries.

The activities that have been transferred abroad are low added-value and labour-intensive activities (48.6%) because the SEECs are considered as a 'supply market' (see table 4). Firms tend to confine the following activities within the local area: those linked to the production of samples, reorders of merchandise and products made with expensive materials, in which labour costs have a low influence on the final price<sup>18</sup>. However, after being in the area for 6-10 years, the majority of the firms transferred more complex and higher-technology content activities. It means that there is an entrepreneurial link having emerged over the years. The type of delocalisation mainly adopted is industrial subcontracting or partnerships with local suppliers.

*Table 4: Activities that have been relocated to the SEECs (%)*

All activities	48
Low-cost productions	50
Higher-technological productions	2
New production line	0

Source: Elaborated from survey by Turato (2002)

<sup>17</sup> Italian SMEs started migrating to the Balkans before the fall of the Communist regime (Diamanti and Marini, 2001).

<sup>18</sup> For a detailed description of the internationalisation of the fashion industry in Veneto region see Crestanello and Dalla Libera (2003).



*Table 5: Motivations to delocalise (%)*

1. Cheap cost of production	36.6
2. Labour availability	26.8
3. Exploitation of final foreign markets	22,0
4. Accessibility	11.6
5. Flexibility	2.9

Source: Elaborated from survey by Turato (2002)

Production delocalisation is stimulated by the need to save labour costs, shortage of space for present and future industrial expansion and a lack of labour at the present location (North-East) (see table 5). Italian IDs are in fact located in regions (Third Italy) characterised by high employment levels and the ‘Made-in-Italy’ industries are not considered very appealing in terms of pay and labour conditions. The availability of highly skilled workers was traditionally one of the main advantages for firms located in industrial districts. Therefore the difficulty in finding workers, mainly skilled workers, has a negative impact on the district, increasing labour costs, decreasing flexibility and becoming an obstacle to further expansion (Rabellotti, 2003). In particular, in the clothing apparel and footwear industries, the very low wages of some countries compensate highly for a lower level of productivity (Crestanello and Dalla Libera, 2003). The exploitation of final foreign markets is the third factor which played a role in the location choice, followed by the closely connected factor of accessibility due to geographical proximity. This is an important factor for socio-economic integration and it fosters the implementation of trade linkages.

The geographical proximity of the SEECs together with accessibility, in terms of the transport system, to the Italian North-East are seen by the entrepreneurs as relevant reasons to relocate: East Europe is ‘*just outside the front door*’. In addition, for some border countries, proximity is not only spatial but also socio-cultural (Bianchi and Mariotti, 2002; Cutrini, 2003). In the case of Romania, for instance, a linguistic affinity that facilitates communication played a prominent role (Viesti, 2002). Finally, flexibility in terms of less restrictive legislation and custom controls is considered an important *pull* factor.

The studies described above highlight the following trends:

(1) Delocalisation by Italian SMEs is a step in a wider process of internationalisation of local manufacturing systems (Grandinetti and Rullani, 1996; Storper, 1993). It is one of the ways in which the international reorganisation of firms’ economic processes can take place.

(2) District SMEs, due to their size, prefer to employ contractual measures rather than FDI or different kinds of partnerships or shareholdings in order to avoid sunk costs and reduce entrepreneurial risks.

(3) Activities relocated to the SEECs and the Far East are low-value-added and labour-intensive activities because labour in the recipient areas is cheap; however, in the course of the years Italian SMEs tend to transfer more and more higher-technology content activities.

## 6 The case of the sports shoes district of Montebelluna

The Montebelluna district is located in the North East, at the heart of the Veneto region<sup>19</sup> and specialises in the production of sportswear and sports equipment. It is considered one of the most innovative districts in Italy and 580 firms that employ 9,600 people are located there (ISTAT, 1996<sup>20</sup>). About two-thirds of the firms are producers of footwear and one-third are producers of clothing; about three-quarters of employees work in footwear and one-quarter in clothing. At present Montebelluna district manufactures 80% of motorcycle shoes produced in the world, 75% of all skiboats, 65% of after-skiboats, 50% of climbing mountain shoes and 25% of inline skates (Osem, 2001).

Since the end of the 1970s Montebelluna has gained worldwide recognition as the leading centre for the manufacture of sports shoes<sup>21</sup>. Over the 1980s and the end of the 1990s Montebelluna became an area of extraordinary international concentration of competencies and production capabilities. In the mid-1990s, Montebelluna was already very open to international markets; about 70-80% of ski boots production and half of its total production (€550 million) were exported (Belussi, 2003).

The shoe manufacturing sector has reached a mature phase in which it is imperative to undertake organisational upgrading in order to satisfy a more sophisticated and unpredictable end demand. To meet these challenges, the shoe districts, such as Montebelluna, adopted a twofold strategy: (i) to combine flexibility with high quality in

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<sup>19</sup> In particular, in the last ten years, Veneto speeded up the production delocalisation process abroad, and it ranked first among Italian regions in terms of the value of products imported from low-wage countries (see Crestanello and Dalla Libera, 2003).

<sup>20</sup> ISTAT stands for 'Italian Statistical Institute' (see <<http://www.istat.it>>).

<sup>21</sup> At the beginning of the twentieth century the district's first specialisation was the mountain boot (using leather) (see Belussi, 2003 for a detailed description).

the manufacture of the final product, and (ii) to reduce production costs, particularly with regard to some initial phases of the production process. Delocalisation is one manifestation of this dual strategy (Cutrini, 2003). District firms relocated, low value-added activities mainly to the SEECs and the Far East in order to contain the costs of production,. This entailed the substitution of some local subcontractors and the creation of a local network in the new location that was able to realise the highest levels of qualitative performance and production efficiency.

Although it is difficult to directly evaluate the impact of the delocalisation process on the Montebelluna district, official data for province of Treviso show that in 2001 local firms exported about €430 mill. to Romania (ISTAT, 2002). These data register all operations involving the supply of components to Romanian subcontracting firms. They correspond to about 35% of the total output produced in the Montebelluna district where shoes and sports apparel are concerned (Belussi 2003).

### ***Managerial approaches to the internationalisation process***

In order to investigate the alternative strategies chosen by district firms, the outcomes of a qualitative survey conducted by the author (Mariotti I., 2004) will be discussed.<sup>22</sup> Five entrepreneurs of leading firms producing shoes and sports wear in Montebelluna district and a few key actors<sup>23</sup> were interviewed. These firms are associated with well-known brands and are leaders in sports merchandise (Lotto, Rossignol-Lange<sup>24</sup>, Scarpa, Stonefly and Tecnica). The choice of interviewing leading firms has been suggested by the fact that their internationalization behaviour figures as a kind of 'best practice' for other firms in the district and, in some ways, it affects the 'equilibrium' of the local system. Face-to-face interviews revealed the dominance of the following four management approaches in the internationalisation process.

The first one has been adopted by some leading firms. Since the beginning of the nineteen eighties, 'the pioneers' transferred labour-intensive activities (like the inner shoe of the ski boot) to the SEECs such as Slovenia, in the case of Tecnica, or Romania, in the case of Lotto or Lange-Rossignol. However, at the beginning of the

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<sup>22</sup> For an overview on firm strategies in the footwear cluster in the Pirmasens area and in the leather cluster in the Offenbach area, in Germany, see Bertram and Schamp (1999).

<sup>23</sup> They are: Unindustria Treviso (Entrepreneur Association), Trade Association of the province of Treviso (CISL), the Montebelluna Industrial district club and a few scholars in the field.

<sup>24</sup> Rossignol-Lange is a French multinational and it represents an example of inward investment to the ID.

nineteen nineties when the political and the socio-economic situation in the SEECs dramatically changed, the production cycle became less profitable in terms of production costs. Thus the original advantages disappeared. In this scenario, firms had to look at other areas for competitive advantage. For instance, Tecnica relocated to Romania, Slovakia and China through the transfer of highly labour-intensive activities to local suppliers (partnerships). On the other hand, Lotto transferred its whole production and sales activities to subcontractors in the Far East (China, Vietnam and Cambodia) while high value-added activities (R&D and planning) and most higher-technology content production activities are still managed in Montebelluna.

The main determinant of the diversified delocalisation strategies adopted by the 'pioneers' is the type of product. In the case of Lotto, for instance, a leading firm in sports goods<sup>25</sup>, the delocalisation to the Far East was driven by the need to compete on international markets with other leading companies such as Nike, Adidas, Reebok and Puma that were already operating in the Far East markets. On the other hand, firms such as Tecnica and Rossignol-Lange do not consider the Far East markets as a unique investment area. They are willing to operate in the SEECs where, in the next years, more and more higher-technology content activities (such as the plastic part of the ski boot) will be transferred because of the shortage of low skilled labour in the North-East. Moreover, locating in the SEECs implies less logistic costs.

Other firms, e.g. Lange-Rossignol, stated that in the coming years they would focus on selling products on the international market from countries like Romania. At present, this strategy is difficult given the high costs of services in Romania compared to Italy. Firms such as Tecnica state that sales would always be managed by the parent company which receives all intermediate components coming from abroad. In this company a part of the production would still continue in Italy in order to retain the know-how.

A second approach is typical of young firms that had located their production activities abroad from the very beginning of their foundation. This is the case of Stonefly, a shoe producer, that in 1993 first delocalised to Romania and Morocco (through joint ventures) and later to Bulgaria and China. These firms import raw materials from Italy and subcontract transformation phases or even the processing of the whole product to foreign firms. In the first case, semi products are re-imported by the parent company; in the second case the product is directly sold in the market

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<sup>25</sup> Lotto is a world-leading manufacturer of boots, footwear and clothing for football and tennis.

(local as well as international). Activities managed by the parent company are a small percentage of the high value-added productions and the commercial functions. In this case, as well as in the previous one, the typology of product has a relevant impact on delocalisation strategies. For instance, for a firm like Stonefly, the economic growth of the SEECs makes the latter appealing as final markets. Having operations in these areas can provide a competitive advantage in terms of market control.

A third approach is exhibited by firms that experienced late delocalisation in the late nineteen nineties and that transferred a limited part of the production activities. These firms such as in the case of Scarpa, producer of sports shoes and sportswear in a niche market, focus primarily on quality and technological innovation rather than low product cost. The activities that have been relocated to the SEECs, such as Romania in the case of Scarpa, concern production in the upper end (cutting, hemming, sewing) and some finished products that are reimported by Scarpa. These firms do not look at the SEECs as future production areas, but tend to keep their 'presence' in the SEECs for purposes of market development.

A fourth approach has been adopted by small owners of subcontracting firms, who suddenly lost their 'outsourced' orders<sup>26</sup>. These small local firms (workshops), suppliers of high labour-intensive activities, had to choose between the following alternatives: (i) close down, (ii) diversify production, or (iii) follow the contractors by opening new workshops in the same foreign areas in order to maintain the supply relation. In the Montebelluna district, according to experts, the mortality rate of the workshops increased by 40-50% during the last decade, while 30-35% diversified production and 20% relocated to the SEECs, with the subsequent closure of the establishment in Montebelluna. In addition, several owners of small subcontracting firms became quality controllers of the local subcontractors (information obtained from an interview with the manager of Stonefly).

Delocalisation of leading firms had a significant impact on district suppliers that besides losing a market share lost an opportunity to learn and grow through the relationship itself (Micelli et al., 2003). Concerning the impact of the loss of jobs, due to the shifting of production abroad, recent studies on the north-eastern IDs demonstrated that delocalisation did not bring about any significant social

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<sup>26</sup> Other studies showed that domestic suppliers, due to the competition with the foreign producers, reduced their turnover and jobs. In Vicenza (in Veneto region), between 1991 and 2000, the textile and clothing industries lost about 1,000 firms (36%) and more than 10,000 workers (28%) (Crestanello and Dalla Libera, 2003).

consequences.<sup>27</sup> However, following dismissals, affecting especially unskilled workers, it has been fairly difficult for these workers to find new jobs, even in a full employment labour market such as that of the North-East (Crestanello and Dalla Libera, 2003).

*Figure 3: Countries in Central and Eastern Europe receiving Italian investments*



The outcomes of the studies described here underlined that since the beginning of the nineteen eighties less developed countries such as the SEECs have become attractive targets for delocalisation in order to cut costs as well as to compensate for the increasing scarcity of skilled local labour in Italy (see figure 3). The so-called ‘first generation’ delocalisation concerned the transfer of production segments, that require simple technologies and operations, or low quality productions to countries in East Europe, while high value-added activities (R&D, planning, marketing, administration and specialised productions) continued to be located in Italy (vertical investments).

However, at the beginning of the nineteen nineties political and social change in the destination countries, in particular the SEECs, provoked different reactions by the

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<sup>27</sup> In particular, the Montebelluna district is located in an area of full employment, with the lowest unemployment rate in Italy (about 1.8-2.0%).

firms. To deal with increased labour cost and a strengthened institutional context, firms responded in two ways:

Some firms further relocated (or are willing to relocate) to even more favourable areas. This can be called a 'delocalisation cascade', because the firm tends to move (i.e. transfer operations) to areas where costs are lower<sup>28</sup>. This phenomenon has interested the SEECs when firms moved from the 'first delocalisation' countries (Slovenia and Croatia) to the 'second delocalisation' countries (Romania, Slovakia and Bulgaria or even to the Far East like China, Vietnam and Cambodia<sup>29</sup>). These firms, metaphorically named 'factories on wheels' are always looking for geographical areas with competitive advantages. This tendency is confirmed by management and organisation models through which production activities have been transferred: at the beginning, the preferred internationalisation mode was the opening of a new firm or a new branch plant; most recently industrial and commercial subcontracting has become more popular, in order to minimise entrepreneurial risks and sunk costs.

Another group of firms seeks to benefit from the development processes in the 'destination' countries. They appreciate the presence of an articulated system, in terms of infrastructure, human capital and social capital, and, consequently, the conditions for the development of autonomous local contexts will take place. This strategy is confirmed by the transfer of diversified production activities that embraces more and more higher-technology content production segments (second-generation delocalisation). Those firms in the SEECs not only search for new investment opportunities but they believe in medium and long-run development perspectives of the local markets that will become consumption markets in themselves. This implies that motivations behind delocalisation evolve from originally cost-saving to increasingly market-oriented or global strategies. In this scenario, firms tend to transfer abroad more and more higher-technology content phases of production and, in some cases, export finished products from foreign countries to third countries through commercial subcontracting.

These conclusions, although limited to a partial sample, underline that the response of Italian firms in the Balkans is twofold: those who look for new selling opportunities appreciate the new situation and adopt a market-oriented strategy; others that still

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<sup>28</sup> Asia experienced the same phenomenon: the production shifted from traditional countries specialised in clothing and footwear, such as Hong Kong and Taiwan to China, Thailand and Vietnam (Crestanello and Dalla Libera, 2003).

<sup>29</sup> Labour costs in South-East Asia are low and these countries are popular choices. Many of the firms cater for the markets of Japan and USA (Corò and Grandinetti, 1999).

need conclusive conditions for production keep on searching for cheaper areas (nowadays it is China and the Far East) in order to maintain their supply or cost-oriented strategy. In the first case, the Balkans become potential markets, while in the second case these countries lose their attractiveness to Italian firms in terms of subcontracting relationships and foreign investments.

## **7 The impact of internationalisation on the survival of the Italian industrial district model<sup>30</sup>**

Another question is whether the delocalisation to border countries, such as the SEECs, could represent a threat or an opportunity to the survival of the Italian industrial district model.<sup>31</sup> As the most recent studies emphasised, in a few years the district firms will move all their production stages abroad, keeping only product design, quality control and marketing within the local context (industrial district). The gradual replacement of domestic firms with foreign suppliers as well as the increasing transfer of specialised knowledge and internal strategic manufacturing competencies outside the local systems involves open new issues concerning the stability of local networks.<sup>32</sup> It can be stated that the internationalisation process represents a threat for the survival of the district model because it can lead to:

- higher firm mortality rate, losses of jobs and rise of unemployment
- loss of market shares, by district suppliers, and loss of the opportunity to learn and grow through the relation
- changes in work organisation, in the value systems and inter-firm relationships
- decrease of the firms' competitiveness due to the increasing transfer of specialised knowledge and internal strategic manufacturing competencies outside the local system.

The traditional view in the literature states that firms expanding their production in low-cost and less developed countries tend to substitute domestic employees with employees in foreign affiliates (e.g. Markusen et al., 1996). In particular, firms that undertake 'vertical' investment actually dismantle the structure of their value-chain

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<sup>30</sup> This section is based on a literature review and a collection of articles of the Italian Economic Journal (Sole24Ore) in the period January 2002 – December 2003. In addition, a sample of key informants and scholars in the field have been interviewed.

<sup>31</sup> For a review on the global challenge to industrial districts see Guerrieri and Iammarino (2001).

<sup>32</sup> See, among the others, Amin (1993).



through the re-localisation of the labour-intensive activities in low-cost countries (Mariotti S. et al., 2003). Vertical investments are explained by the need to exploit location-specific factors of production (cheap labour, natural resources, and specific skills). As a consequence, the structure of domestic production changes and it affects the domestic market either through a net decrease in employment level, or through an increase of its domestic and foreign market share. In the first case, a net decrease in employment level is associated with the increase of both capital and highly skilled labour intensity. In the second case, it can happen that the increased efficiency associated with the new structure of the production chain can enhance the parent company's competitive position and increase its domestic and foreign market share through positive externalities exerted on domestic production and demand (Mariotti S. et al., 2003).

The theoretical debate about the impact of firms' foreign activities and on the labour intensity of home production with reference to the Italian case, has been limited to some explorative studies. These studies focus on the delocalisation of production by Italian firms towards developing countries (among the others, Mutinelli and Piscitello, 1997; Faini et al., 1999; Mariotti S. et al., 2003; Crestanello and Dalla Libera, 2003). Mariotti S. et al. (2003) provide some empirical - statistically robust - evidence on the relationship between FDI and home country labour intensity with reference to the decade 1985-1995. They show that the variation in employment in foreign affiliates in low-cost countries by Italian manufacturing firms, in the period 1985-95, significantly influenced the labour intensity of domestic production. The results corroborate the standard interpretation which underlines that vertical investments lead to a reduction in domestic labour intensity, as firms respond to delocalisation strategies of low-skilled production stages towards low-wage countries.

The study on the internationalisation of district firms in the fashion industry of the province of Vicenza by Crestanello and Dalla Libera (2003) showed that domestic suppliers, due to the competition with the foreign producers, reduced their turnover and jobs. In Vicenza, between 1991 and 2000, the textile and clothing industries lost about one thousand firms (-36%) and more than 10 thousand workers (-28%). According to the authors, two thirds of the jobs in the clothing sector (between 1996 and 2000) were brought about by production delocalisation abroad. In Vicenza, where the unemployment rate in 2001 was only 2%, the impact of dismissals did not cause any significant social consequences. The dismissals involved especially unskilled young women that faced several difficulties in finding new jobs; a large number of them were forced to leave the labour market.

However, it is important to underline that other specific analyses on the labour market of the IDs mainly affected by the delocalisation process emphasised limited unemployment effects and a high capacity of the system to absorb labour supply. This has been due to the change of the local economies in terms of productive diversification (where it is relevant the growth of services and of instrumental mechanics). In other words, the delocalisation is synonymous of a change in the way in which the spatial division of labour is organised.

But the loss of jobs is not the only effect that international delocalisation has on the social-economic system. At the local level, this phenomenon generates changes in work organisation, in the value systems and inter-firm relationships. Going abroad (to sell and to produce) requires different organisational systems and tends to aggregate in a new way interests and advantages existing at the local level. For example, a final firm which has moved its production to another country has no more direct interests in local vocational training for blue collars. On the other hand, the interest for training policies increases in those areas to where the production has moved. Several firms that delocalised abroad ask local institutions (Regional Government, Provincial Government and the Chambers of Commerce) for services and assistance (Crestanello and Dalla Libera, 2003).

Another risky element is represented by the disappearance of some technical competencies at the local level. As Crestanello and Dalla Libera (2003) emphasise, in the case of the Vicenza fashion district, the exit of some traditional professional figures such as the skilled female workers leaves a competence deficit that risks to compromise the capacity to create new products. International delocalisation causes uncertainty in the local area that discourages investments and the entry of young workers and entrepreneurs in the industry. Few vocational schools in Veneto region are in the process of closing because of the lack of students. At the local level, the most traditional worker figures are more and more frequently being replaced by extra-EU workers, because of lower wages (see Mariotti I. et al., 2004).

On the other hand, the 'productive decentralisation' can be seen as an opportunity where it leads to:

- (1) enlargement of the local context through the generation of new clusters linked to the original ID
- (2) contribution to the district's competitiveness by promoting a differentiation in specialisation and competencies between countries

Some areas in the SEECs have the characteristics that several authors (Becattini, 1989, 2002; Viesti 2000) consider crucial to become a favourable *milieu* for the growth of new districts because of factors such as (specialised and non-specialised) labour availability at low cost and indigenous production factors, as well as favourable geographical position. Another incentive consists in the availability of raw materials such as wood and leather and more favourable environmental regulations regarding their processing. This is the case of Romania that presents the above mentioned characteristics as well as low language barriers. In addition, incentives offered by the Romanian government for foreign investment enterprises and exporting companies may also play a role in the attraction of Italian investors (Baga, 2003).

Although traditional sources tend to underestimate the presence of Italy in Romania, a recent survey by Antenna Veneto-Romania and Centro Estero delle Camere di Commercio (2003)<sup>33</sup> showed that there are 12.366 Italian firms<sup>34</sup> that had registered at the Chamber of Commerce in Romania (in the years period 1990- 2002).<sup>35</sup> Of those, 2,038 (16%) come from the Veneto region<sup>36</sup>. Italian firms are mainly from the centre-north, are small-medium sized and present a scarce capital direct investment in the country. Italy is at first place as number of firms located in Romania and at sixth as far as invested capital<sup>37</sup> is concerned (after the Netherlands, Germany, USA, France and Austria). An in depth analysis on a sample of Veneto's firms (10% of the total) showed that about 50% of the 2,038 stay in business, while about 70% do not have any turnover.

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<sup>33</sup> Antenna Veneto-Romania is an information centre for Italian and Romanian businesses interested in bilateral cooperation. It was set up in collaboration by the Centro Estero delle Camere di Commercio del Veneto (Foreign Centre of the Veneto Chambers of Commerce) and the Chamber of Commerce of Timisoara in Romania.

<sup>34</sup> These firms are registered at the Chambers of Commerce in Romania and their membership is made up by, at least, one person or one firm resident in Italy. However, it is important to underline that in Romania, firms are not obliged to register at the Chamber of Commerce.

<sup>35</sup> There is a lack of data concerning Italian firms in the South Eastern countries. This is one of the few attempts to count and describe the phenomenon.

<sup>36</sup> These firms are classified according to the criteria explained in the previous note.

<sup>37</sup> Several Italian banks have branches in Romania (Banca di Roma, Gruppo Veneto Banca) or desks (Banca Intesa BCI, Monte dei Paschi di Siena, Banca Popolare di Verona). Besides, Unicredito acquired the majority stake of the Turkish Demirbank transforming it in Unicredit Romania and the Banca Popolare di Vicenza acquired 5% of the Romanian branch of the Austrian Volksbanken (see < [www.ice.it](http://www.ice.it) >).

With regard to the geographical distribution of Italian firms in Romania, about 50% are located in the counties of Bucarest (31%), Timis (12%) and Arad (7%). About the same percentage of Veneto's firms (47%) are located in the three counties but there is a larger concentration in Timis and Arad (about 19% each) while Bucarest counts 10% of the investments. Another county that registers about 10% of the firms is Bihor. Veneto's firms located in Bihor and Arad are mainly clothing and textile firms, while those settled in Timis are mainly shoes factories. These firms are subcontractors of Italian firms located in Veneto. They manufacture intermediate products to be incorporated into a product which the Italian firm will sell (industrial subcontracting). The preference of Veneto firms to locate in Banato, the region Timis, Arad and Bihor are part of, is due to geographical proximity: the three counties are located close to the border with Hungary. Another pull factor is represented by a relatively good transport infrastructure (an international airport in Timisoara). Besides that, Banato presents a high economic productivity level and the dynamism in comparison with the other Romanian regions.

In particular, Timis County, where Timisoara is located, is commonly considered as an extension of Veneto region.<sup>38</sup> Besides, the 'clusters' of Veneto's firms in this county are commonly called 'districts' because they tend to reproduce the characteristics of the Italian IDs.<sup>39</sup> However, this is not proved scientifically. As the literature and the scholars state, the district model cannot be exported merely by transferring production activities (Garofoli, 2003; Becattini, 2002).<sup>40</sup> The export of the district model entails the development of the social and economic conditions abroad that made the success of Italian SMEs possible. The expansion of firms' networks outside the local context needs investments in co-ordination solutions as well as in relational competencies. District firms will not exploit the total benefits ensuing from the international division of labour if they are not able to develop trust-based relationships, to invest in communication tools to manage good information exchange and to create new strategies that support the district model even internationally.<sup>41</sup>

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<sup>38</sup> The Italian newspaper 'La Repubblica', 05.03.2001 (Baga, 2003).

<sup>39</sup> In these areas Italian firms have established their own institutions, which they use exclusively.

<sup>40</sup> See the web site of the Italian Institute of Foreign Trade (ICE)

(see <[http://www.ice.it/servizi/contattaci2.htm?uff\\_studi](http://www.ice.it/servizi/contattaci2.htm?uff_studi)>) where are reported the interviews to few of the most acknowledged Italian scholars in the field of the Italian districts ('distrettologi'), concerning the survival of the model.

<sup>41</sup> See Micelli et al.(2003).

The growth of foreign clusters could become a real opportunity if the IDs focus on the 'propagation development model' (Viesti, 2000) in order to enlarge their chain abroad through the following changes:

- transformation of the local clusters into nodes of a larger and international system
- transformation of short networks into long networks
- transformation of the domestic social capital in a more complex and articulated system able to sustain long-distance relationships.

In other words, it is necessary not only relocate the activities abroad but to transfer the whole system. This also includes investments in physical infrastructures (transport and logistic) and business-friendly institutional infrastructure, education and training. The establishment of a business-friendly institutional infrastructure involves: reduction of local bureaucracy, safeguard of good access to financial resources, establishment of organisations being able to represent the interests of the investors (Baga, 2003).

## **8 Preliminary conclusions**

The internationalisation strategies adopted by the Italian district SMEs and by the Industrial District have changed over the past three decades. As the studies showed, once a company has internalised its capability to manage transnational production and the co-ordination involved, proximity ceases to play a relevant role and management over distance becomes less of a problem. Besides, the motivations can evolve over time, for instance from originally cost-saving to increasingly market-oriented or global strategies. District firms tend to delocalise all their production stages abroad while they keep product design, quality control and marketing and the brand within the local system.

Whether the gradual replacement of domestic firms with foreign suppliers represents a threat or an opportunity for the survival of the district model attracts the most interest in the Italian scientific debate. Some scholars state that the increasing internationalisation of Italian district firms does neither necessarily imply a sharp reduction of the specific location advantages nor a crisis of the Italian ID model. Rather, it is the consequence of a set of changes in the macroeconomic context, in light of expectations of competitive threats and opportunities created by the growing integration of the world economy. The transfer of activities abroad could be seen as

an opportunity for the Italian district model which should enlarge the local system, create a new cluster in the foreign countries and specialise the domestic district in high value-added activities.

Other scholars state that a negative impact on the trade balance and employment in Italy is possible. However, it should be noted that different types of internationalisation strategies have different impacts on the home countries. For instance, the impact of joint ventures and subcontracting relationships seems largely positive in terms of technological and organisational learning by Italian firms.

The phenomenon is complex and there is not a unique answer to the problem. The studies on the IDs in North Europe show that the survival of the district model cannot depend upon standardisation and mass production (Zeitlin, 1985; Bertram and Schamp, 1999; Garofoli, 2003). It might be closely linked to 'innovation' and the coordination and control of production and distribution. District firms may invest in innovation, through the introduction of new products and quality requirements, in order to avoid a takeover by medium and large corporations' networks, as it has happened to the IDs in North Europe in the period between the two World Wars (see Garofoli, 2003). Standardised production and low price are not the elements with which district firms should compete on the market. Labour intensive, low wage and low technology sectors are highly vulnerable. Productive systems with a concentration of such firms tend to lose their competitive advantages and to be replaced by competitors in less developed or developing countries.

As several authors stated, industrial policy in Italy should focus on designing a strategy for the IDs, based on improving local competitive advantages of the local system (relational capital, knowledge spillovers, external economies, reduced transaction costs, existence of a pool of competencies) and investing in innovation (new technologies, R&D, management). Local actors and entrepreneurs have to work together to identify specific characteristics of the local system and its competitive advantages that make it able to play a role in the future scenarios. The lack of data on the investments in countries like Romania, that has attracted so many Italian firms, together with the lack of effective research on the process, as a whole, underline the scarce interest of the Italian industrial policy on this topic.

Finally, a further question is whether the international delocalisation to central and south eastern Europe represents a real opportunity for their local development.

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