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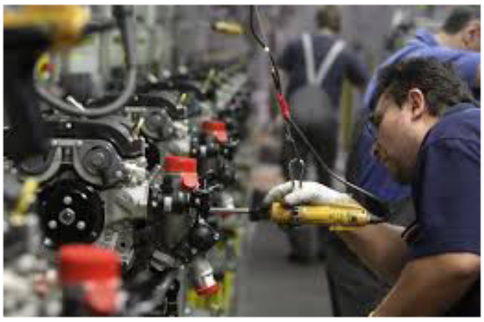
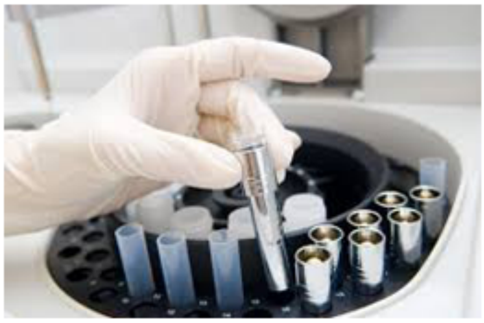
Local Economies in times of crisis: Italian Industrial Districts experience



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1. Introduction: Italian Industrial districts

The first definition of industrial district was formulated by Alfred Marshall in the late nineteenth century: it is a concept based on a organizational pattern known in Britain in the late nineteenth century, in which firms manufacturing certain products were geographically clustered.

The specificity of the Italian Industrial Districts (I.I.D.) consists firms of the I.I.D. are at the same time highly competitive and cooperative.

According to Marshall, development of human capabilities and economic development are closely linked: the man is part of a social organism localized in a time and place unit.

The "place" of living brings benefits to the person and to the development of his/her capabilities, thanks to his/her proximity to other people involved in the same job, and the know-how becomes a local common good of the place itself. (F. Sforzi, 2005)

The Italian economist Giacomo Becattini - among the firsts and most loyal supporters of Marshall – defines the industrial district as “a socio-territorial entity characterized by the active coexistence of a community of people and industrial firms, in a limited area which is geographically and historically defined. (G. Becattini, 1989)

According to Becattini definition, the *community of people* shares values behaviors, expectations and common languages while the *population of firms* is configured as concentration of firms in a geographically defined area.

In the long term, learning and dissemination of knowledge introduce a relational aspect that allows the sharing of the same symbolic language, the same technical terminology, a sense of belonging and processes of innovation (STOA)

The most interesting examples of industrial district were born in Italy in the 70s, especially in Tuscany and Emilia Romagna, during a problematic period of the industrial development in the world, characterized by the crisis of the Fordist model and the beginning of the decentralized production.

Industry finds new bases: decentralization instead of big centralized companies, specialization instead of vertical integration, flexibility rather than economies of scale, division of labor and cooperation between companies rather than progressive concentrations etc.

In Italy the concept of Marshallian industrial district arises from the interaction between two major factors: the diffusion of small-medium enterprises and the specialization of selected geographic areas (local system). (R. Rosini 2005)

Here the link between the structure of the production process and the daily life of the community assumes a central position, including division of labor and local know-how, which provide to the industrial districts economy the bases of its competitiveness. (STOA)

The I.D.D. are characterized by:

- high production specialization
- high number of firms (in absence of a leading company)
- efficient system of information flow
- high skilled workers
- "face to face" relationship among stakeholders that facilitate the diffusion of technological and organizational improvements

In the districts the balance between competition and collaboration generates a condition of collective efficiency, and improves the business results.

The competitiveness -which is part of internal dynamics in the industrial districts- is not based on production costs and prices, but mainly on customer service, quality of production, products differentiation, innovation of existing or creation of new products , and on substantial savings in transactions between companies with high level of reciprocal confidence. Development processes occur thanks to imitation effects, which determine the diffusion of knowledge within the local system, and complementary effects which determine agglomeration of companies and deepening of the production chain.

Tacit knowledge and its dissemination through processes of learning by doing assumes an important role in the innovation processes of small enterprises and their interaction, and on the transfer to codified knowledge.

This leads to competitive advantages for enterprises of the district and the accentuation of their propensity to innovate. (Gioacchino Garofoli)

Ultimately, the districts represents an excellent experience of the Italian industrial system, whose factors of success are their capacity of:

- building enterprises networks
- implementing joint innovations of product process
- implementing common strategies of marketing and internationalization
- restricting relocation processes
- building synergies with universities and research centers
- collaborating with social stakeholders

(Valter Taranzano)

Competitiveness does not disappear in the industrial district, but it coexists with and reinforced by joint with collaborative and cooperative relationships among enterprises, that occurs - for example - in the mobility of workers among local enterprises, a phenomenon that promotes the exchange of know-how and dissemination of innovative processes, or in the ability of jointly facing the obstacles to economic development, such as: counterfeiting, high energy costs, the disappearance of traditional skills, etc

An example of mobility

In the early '90 I was visiting a small mechanical firm in an industrial district in Emilia Romagna (Italy). While I was talking to the owner, an entrepreneur, called him and asked if he might lend him the technician of his plants, since the one working with him was sick. A problem occurred with an equipment that caused the stop of production, and he bended to solve it as soon as possible.

Without thinking twice, his interlocutor replied "No problem!", called his employee and sent him to his friend.

I asked my interlocutor if this behavior was usual among competitors in the same district. He said this was normal, because the next time the problem will occur to him, he would be returned the favor.

Giancarlo Canzanelli, ILS LEDA Director

The production model of the district foresees a strong social cohesion and positive relationship between capital and labor, which aims to reduce opportunities for conflict.

In the traditional district firm, the factory is not just a place for production, but it becomes a permanent laboratory for experimentation and learning.

2. Methodological note

The information included in the present paper has been collected by a survey by *Il Sole 24 Ore* - the best known Italian business newspaper - from data produced by the *National Observatory of Italian Districts* - the official data bank on Italian industrial districts - and the data produced by the Research Department of Intesa San Paolo.

In 1992, journalists of *Il Sole 24 Ore* travelled through Italian industrial districts to draw a map of this successful experience of the European economy, described as "*maybe the only great treasure created by the great generation of Italian businessmen survived the catastrophe of the Second World War"* (Il Sole 24 Ore)

The survey was followed by a publication, and former director Gianni Locatelli wrote in the foreword: *« In an international comparison, Italy certainly lacks big business. But if the current 65 industrial districts (and all those that will come) began to operate as so many "big business", the comparison would not be so unequal and, above all, the Italian system would find many other possibilities of international competitiveness "*

How did the italian districts grow since 1992?

Twenty years later, the same newspaper tried to give an answer to this question by publishing a new survey, coming back to the places that gave rise to the districts, by measuring what are the strengths and weaknesses of each district on the basis of 12 indicators, trying to detect *"efficiency, innovation, rate of export and the (positive or negative) transformations that occurred during these years."*

In Italy the crisis first of all produced a contraction of large companies and large private and post-public groups: in this context, industrial districts assumed an even more central role for the country's economy.

The present paper identifies the average strengths and weaknesses of the I.I.D., by using the data coming from the investigation by Il Sole 24 Ore and the Observatory of Industrial District. It tries to answer the following questions:

How did the system of industrial districts react in these years of crisis?

How may they maintain and improve their competitiveness?

The survey carried on by *Il Sole 24 Ore* analyzed 103 districts, meta-districts and production center disseminated throughout the country and belonging to different sectors.

By comparing the last results with the results of the survey carried out in the early 90s, it appears that some of the districts still exist and they resisted to the crisis in the last twenty years. On the other hand, other districts are significantly resized while maintaining the same productive vocation, and other ones were swept away but the their territory welcomes new successful production systems.

Information about the performance of 55 industrial districts are available on the total of 103 districts analyzed in the abovementioned survey (see table 2.1). Some of these districts are mentioned in the tables of *Observatory on Italian Industrial Districts* (by the *Federation of Italian Districts*).

Table 2.1 – sample of Italian industrial districts (by region) evaluated by *Il Sole 24 Ore*

Piemonte	1. Districts valves and fittings – Valduggia (Vercelli) 2. District pens and markers – Settimo Torinese 3. Gold district Valenza (Alessandria) 4. District of industrial refrigerator – Casale (Alessandria) 5. District of household items Omegna, Stresa, Varallo Sesia 6. Mega-cluster mechatronics Torino 7. District of wines Langhe, Roero and Monferrato
Emilia Romagna	8. District of metalworking – Cento e dintorni (Ferrara) 9. District of Parmigiano Reggiano 10. District of Prosciutto di Parma 11. Ceramic district - Sassuolo 12. Biomedical district - MIrandola 13. Textile district - Carpi (Modena) 14. District of agricultural engineering - Reggio and Modena 15. District of packaging machinery - Bologna 16. District of food-machinery - Parma 17. District of stuffed furniture - Forlì

Lombardia	18. District of car-alarm – Varese 19. District embroidery – Varese 20. District of buttons– Bergamo e Brescia 21. Shoes district Vigevano 22. Nursery plants district – Canneto sull'Oglio – Mantova 23. District of weapons – Gardone Val Trompia 24. District of compasses – Palosco – Bergamo 25. District textile and stocking - Castel Goffredo 26. Iron District of Brescia valleys 27. District of metalworking Lecco 28. District of textile machinery - Brescia 29. District of scissors and cutting items – Premana (Lecco)
Liguria	30. Slate district – Val Fontanabuona – Liguria 31. Olive oil district - Imperia – Liguria
Veneto	32. District of classic furniture – Verona 33. Leather production district – Vicenza 34. District of artistic furniture - Bassano 35. District of thermomechanical 36. Mechatronics meta-district 37. Sportsystem district - Montebelluna
Toscana	38. Industrial district of Empoli 39. District of campers (not yet formally approved) 40. District of yachting - Viareggio 41. Gold district of Arezzo
Friuli Venezia Giulia	42. District of furniture -- Livenza (Pordenone) 43. Industrial district of components and thermo-electro-mechanical
Trentino Alto Adige	44. District of porphyry – Valle di Cembra
Abbruzzo	45. Textile industrial district - Val Vibrata – Abbruzzo
Marche	47. Leather production district -Tolentino (Macerata) 48. Shoes district - Fermo (Macerata) 49. Distretto plurisettoriale di Recanati / Osimo / Castelfidardo 50. Hats district - Montappone and Massa Fermana 51. Mechanical district - Fabriano
Puglia	52. Shoes district - Casarano 53. Aerospace meta-district
Campania	54. Textile district - S.Agata dei Goti, Casapulla, San Marco dei Cavoti, Aversa, Trentola Ducenta 55. Aerospace meta-district 56. District of advanced services - Nola
Sardegna	57. Corck district - Calangianus

3. *Performance of Italian industrial districts*

The abovementioned districts' performance refer to the following indicators (table 3.1)

Table 3.1 – indicators to evaluate districts' performance

- **Productivity (quantity and quality of production)**
- **Marketing**
- **Innovation**
- **Networking**
- **Combating unfair competition / developing *antidotes* against competition**
- **Attractiveness**
- **Employement (be able to create new jobs and to preserve high skilled human resources)**
- **Establishing strategic alliances**
- **Firm size**
- **Labour cost**
- **Selling in the domestic market**
- **Internationalization**

The survey conducted by *Il Sole 24 Ore* on the total sample of 55 districts indicates the strengths, the weaknesses and the obstacles to be overcome in order to survive and grow in times of crisis.

The assessment about the performances has been measured according to a scale from 0 to 10 and expressed in *quali – quantitative* values, as shown in table 3.2

Table 3.2 Performance Indicators

FINAL ASSESMENT BY IL SOLE 24 ORE	PERFORMANCE INDICATORS
Excellent	8 – 9 - 10
Good	7- 8
Decent	6
Low	4-5
Poor	2-3
Insufficient	0-1-2

Chart 3.1: Performance of Italian districts according to 12 indicators

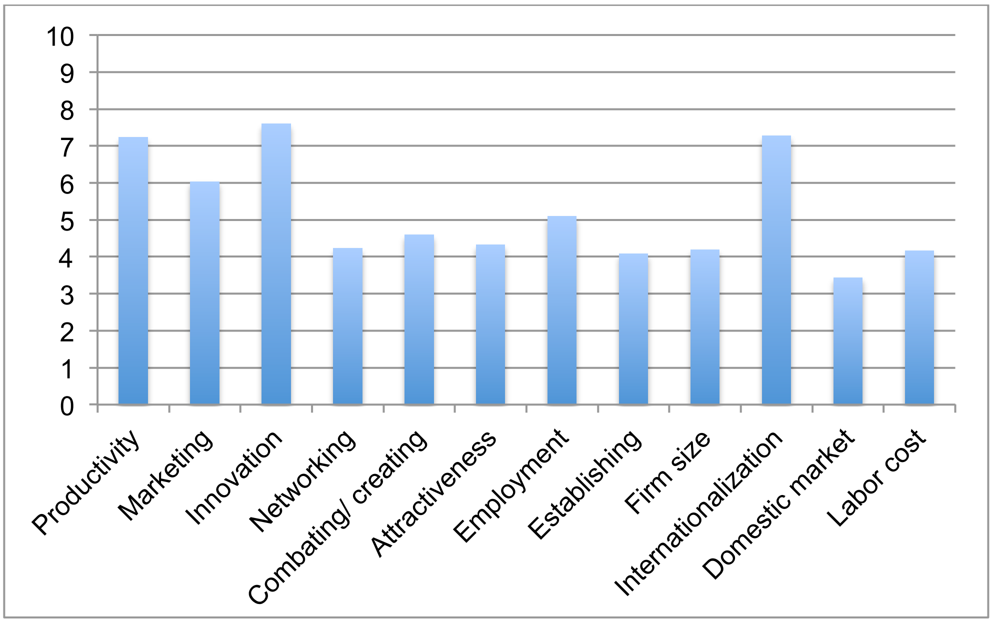


Chart 3.1 shows that the Italian districts' performances are above average in the case of the following indicators:

- Productivity
- Marketing
- Innovation
- Internationalization

The chart points out:

1. Performances are on the average with regard to the employment, defined as the ability to create new jobs as well as the ability preserve high quality human resources.
2. Performances are slightly smaller than average in the case of:
   - Combating unfair competition / developing *antidotes* against competition
   - Attractiveness (ability to attract foreign companies)
   - Networking
   - Establishing strategic alliances
   - Firm size
   - Labour cost

3. Performance are significantly below the average for:
   - Selling in the domestic market
4. The best performance of Italian districts concern the following indicators:
   - Productivity (specially in terms of quality more than quantity)
   - Innovation

- Export

The tabs below show some examples of districts' behavior in relation to each of the abovementioned **best performance** indicators (productivity, export, innovation).

<u>Productivity and high quality productions</u>: the *Parmigiano Reggiano* (Emilia Romagna)

The internationally known success story of *Parmigiano Reggiano* – an excellent cheese made in Parma and Reggio Emilia (Emilia Romagna) – makes no exceptions even in time of crisis.

Parmigiano cheese has a huge competitive advantage because it is unique, it is a high quality product and it has effective antidotes against attempts of imitations from all over the world, thanks to the DOP label and to the strict regulation of labeling.

In fact, to be *Parmigiano Reggiano* the cheese must be made from the milk of local cows, processed raw and in the limit of two forms for a boiler, it must be cured in wood and even packaged locally.

<u>Internationalization</u>: packaging machinery (Emilia Romagna)

The district of packaging machinery is an outstanding example compared to the other districts. It is in contrast with the average results because it is growing (in size, turnover etc.) and because it is stronger than the German competitors.

The internationalization was and is a crucial factor to the achievement of excellent results: the export reaches on average 95% of revenues and the major companies have branches in all major markets, while maintaining the heart of production and R & D in Italy.

<u>Innovation</u>: high-tech metallurgy in Lecco (Lombardia)

It is located in an area characterized by a long tradition in metalworking, and today the metallurgical district of Lecco (Lombardia) exports more than two billion euro and is highliy competitive, mainly due to the continuous product innovation of products and the high patenting.

More than a district characterized by a product, this district is characterized by its process and by its incredible know how.

The bodyworks of Ferrari and McLaren cars, the oil valves used 3000 meters under the sea, the cloaks of nuclear power plants, machineries for the best known brands of aviation industry and so on, all of them are manufactured in the Lecco district!

On the other hand, **the main risk factors** of Italian districts are the following:

- Scarce presence in the domestic market
- Low skills in networking and strategic alliances
- Small sized firms
- Low attractiveness
- Low skills in combating unfair competition / developing *antidotes* against competition

The tabs below show some examples of districts' behavior in relation to each of the abovementioned **risk** factors.

<u>Domestic market</u>: mechatronics meta-district (Veneto)

Advanced industrial machineries are manufactured in the present meta-district, the sales are steadily increasing over the past 10 years and 70% of products are exported abroad. But the lack of receptivity of internal market, strongly influences the evolution of revenues: the crisis of Italian building industry - which stimulated many companies of the district - should require more investments in production, but by the time the export is the only way out.

<u>Firm size</u>: textile industry in Campania

The textile and clothing district in Campania is greatly reduced compared to the past. Currently it has little presence throughout the area, and few companies with significant size and international reputation.

The companies still resist if they invest in their own brands, but the smaller and less known firms - 85% of local companies have less than 9 employees, in line with the country average - are not able to face the competition with the big international clothing brands.

<u>Antidotes against competitors</u>: Vigevano shoes

The shoes made in Italy are a *must have* for people all over the world.
But, even if Italian luxury shoes are competitive in international markets, the Vigevano shoes greatly suffer Chinese competition with regard to the medium and low quality products, both the competition from firms located across the border and the competition from firms that are slowly growing within the same district.
In China, the companies produce at unattainable rhythm and they have an extremely low labor costs, on the other hand in Italy are starting to occupy the spaces left over the years by local entrepreneurs, by providing low-end products and breaking every rule.

<u>Networking</u>: the end of the district of buttons for clothes

Formally the district doesn't exist anymore but the *buttons makers* are not completely disappeared from Bergamo and Brescia - even if they are highly reduced - and they offer very high quality products.
However, the inability to network and share knowledge and information among firms belonging to the same district, compromised the existence of the same district.
Since the 90s not only the productions begun to move abroad, but also the know-how has been disseminated and is no longer heritage of Italian companies

<u>Attractiveness</u>: Biomedica in Mirandola (Emilia Romagna)

The district of Mirandola produces highly innovative biomedical products, through which it has been able to attract investment from Germany, Sweden and the United States over the years.
But unfortunately large internationally recognized know-how and professionalism are not enough: the attractiveness of the district is severely limited mainly because of the huge delays in payments by public clients (a delay of 300 days is usually accumulated) and also due to inadequate infrastructure, especially the road network.

The abovementioned **risk factors** occur above the statistical average in the italian districts.

On the other hand, not all the districts have the same behavior.

The following examples concern cases offering **excellent performance in sectors where others districts show weaknesses,** in contrast with the average results of the analyzed sample.

Domestic Market: plant nurseries in Canneto (Lombardia)

In a context where export is one of the key elements to withstand the crisis, the case of Canneto (Lombardy) is especially relevant, because today it is considered the leader district leader in Italy in the cultivation of high trees.

By the late nineteenth century Canneto was very famous for the production of dolls, but the market entry of low-cost Asian products determined the closing of most of the businesses in the district.

In the last twenty years the local economy came back to the more ancient agricultural vocation, drawing on a high level of know-how and also finding opportunities in the domestic market, which in fact is unfruitful for many production sectors..

Antidotes against competitors: district of scissors of Premana (Lombardia)

The district combines in itself so many problems that it seemed destined to disappear: the firms are all small sized, the region is far from the main roads, the district manufactures low added-value products and it is highly exposed to Asian competitors.

But they have been able to put in place effective antidotes to the competition that allowed the district to survive and even grow, in contrast with every expectation.

The establishment of a consortium and the creation of a brand facilitated the marketing of products, as well as big investments in research yielded new patents and effective marketing initiatives.

<u>Attractiveness</u>: the sportsystem district of Montebelluna (Veneto)

It was born over a hundred years ago as a district of the *boot* (work boots, military boots, sky boots…), and Dolomite - the oldest brand in the world of mountain accessories – was born there too.
Today Montebelluna district produces a wide variety of sport and leisure shoes, making forays in the clothing industry.
Since '70s - thanks to its high-level know-how - foreign companies made investments in the area, and now its reputation attracts brains from all over the world, to work in research laboratories and in the direction of many big companies.

<u>Firm size</u>: the ceramic district of Sassuolo (Emilia Romagna)

It is the first center for the pottery in the world and it has been developing in Emilia Romagna, between Modena and Reggio Emilia.
Sales are growing but the number of firms has fallen by half, not only for closing caused by the crisis but also for mergers and acquisitions.
Then, compared to the average of the Italian districts, it appears as a district of "giants", that means each firm has an average turnover of € 46 million. This allows them to invest in research, innovation and win jobs all over the world, from the largest shopping center of the Gulf countries in Kuwait, to the paving of the legendary Madison Square Garden in New York.

<u>Networking</u>: CIS Nola (Campania)

CIS in Nola is the first italian district of advanced services, it integrates all stages of the supply-logistics chain and any kind of services.
It is the core of linking between the productive reality of the South and the Global Market, it represents
Asse portante di collegamento tra le realtà produttive del mezzogiorno ed il mercato globale, it represents a unique example of association because it allows companies to use economies of scale, sharing the risk and gaining in efficiency and competitiveness.
"(…)In this district, more than hopes, there are development and guarantees" Fabrizio Barca

4. Districts economies from 2008 to 2012

The *National Observatory of Italian Districts* helps us to obtain some useful information about the trend of industrial districts starting from 2008 – identified as the last pre-crisis year - and then to have new elements to answer the original question: *How did the system of Italian districts react to the economic and financial crisis?*
The Observatory applies its research to a sample of a hundred districts, most of them are located in northern Italy.
As mentioned in the first report of the Observatory (2010) *"the identification was carried out taking into account, on the one hand, the work done by Unioncamere and Mediobanca on the occasion of their annual survey of medium-sized firms and, on the other hand, taking into account the districts affiliated to the Federation of Italian Districts".*
Contrubutions included in the Observatory reports also refer to the researches carried out by the Censis Institute, the Edison Foundation and Services and Research Centre of Intesa San Paolo.
The sample of selected districts basically focuses on productive activities that are typical of *Made in Italy*: textile / clothing, home furnishings and mechanical automation, and the data of the following graphs / tables are related to it.

In general, the research concluded the industrial districts are able to give a good response to the crisis because, after an initial shock that causes a significant decrease in sales in 2008 and 2009 (-3 and -19% in the case of the study of the Observatory, and -17% in the case of Intesa San Paolo), there is an increase of 27% in 2010 according to the Observatory and almost 28% in the case of Intesa San Paolo, and then a decline two years later (between 5.5 and 5.8% in the first and 2.8% in the second year), but without reaching the bad records of 2009.
The survey included in the annual report of Intesa San Paolo[1] *predicts a significant improvement in 2013 and 2014 (+1% e + 4%) (see figures 4.1 e 4.2)*

A similar trend can also be deduced from the data relative to the EBTDA margin (*earnings before interest tax, depreciation and amortization*), although this trend is much more stable and the differentials are reduced (see figure 4.3)

In this framework, the distance between the best and the worst companies greatly increases, both as regards the turnover and net operating margins: the best companies record limited-value reduction in the growth or limited losses, while the worst companies suffer a real

[1] The annual report "Economic and Financial Affairs of industrial districts" by Research Department of Intesa San Paolo, contains an analysis of 13,098 districtual companies' financial statements and 35.957 not-districtual companies (same productive sectors) for the period 2008-2011, as well as estimates of financial results for 2012 and forecasts for 2013-2014.

collapse.[2]

Between 2009 and 2010 the differential has further increases, and it is ultimately found that the effects of the crisis have especially hit on micro-enterprises that registered in this period an average decrease in turnover of 13%.

Figure 4.1 Evolution of district firms turnover (% on previous year)
Source: Reports of National Observatory of Italian Districts 2010 - 2013 - data processing iby ILS LEDA

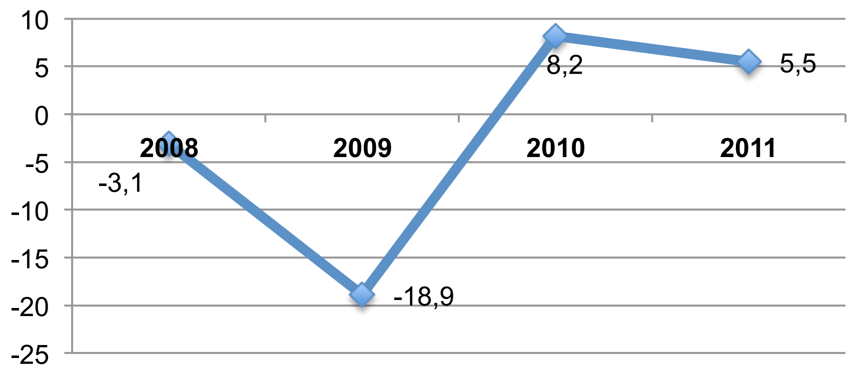
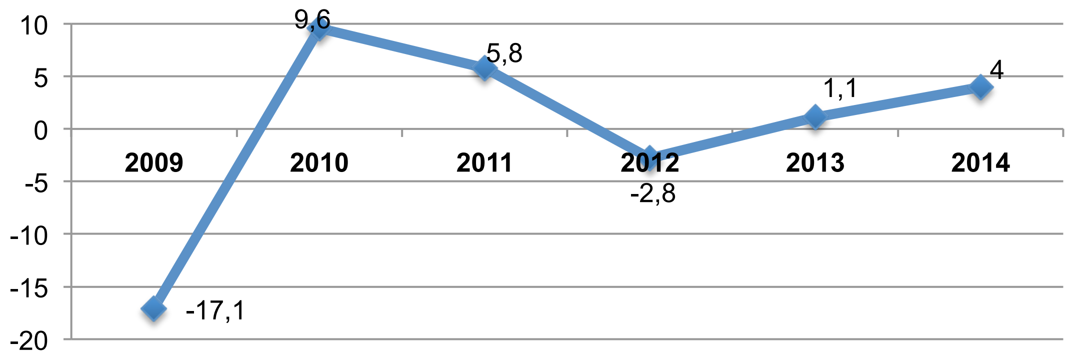
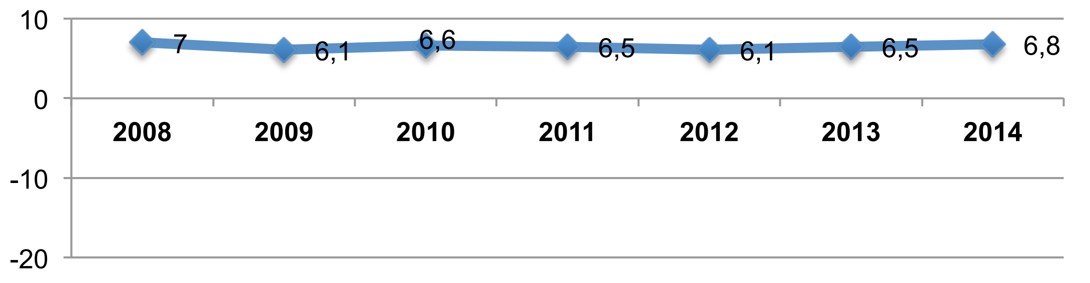


Figure 4.2 Evolution of district firms turnover (%)
Source: Economics and finance of industrial districts - Annual Report No. 5, by Research Department Intesa San Paolo - elaboration by ILS LEDA



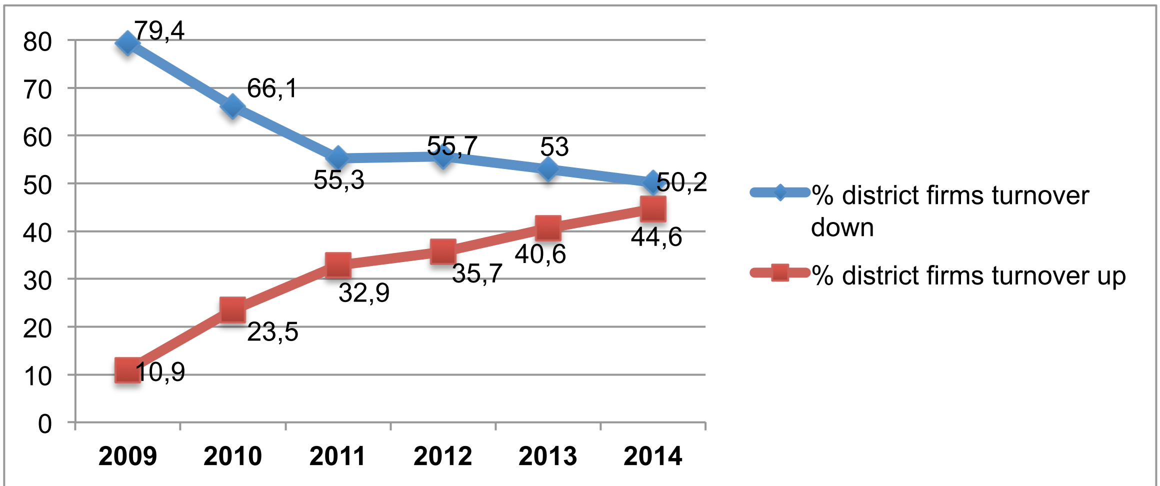
[2] The best companies record revenue growth of +9.8% in 2009 (24.4% in 2008), the bad ones have a collapse of -48% (- 26.1% in 2008). The best companies showed a slight decline in net operating margins, from 12.7% in 2008 to 11, 8% in 2009, the worst -4% in 2008 to -14% in 2009. The differential between the best and worst companies is further increased between 2009 and 2010, when the median growth in sales of the best companies amounted to +48.3%, while that of worst firms is equal to - 24.4% with a gap of almost 73% (was 57% in 2009). (*Reports of National Observatory of Italian Districts published between 2010 and 2013*)

Figure 4.3 district firms EBTDA margin %
Source: Economics and finance of industrial districts - Annual Report No. 5, by Research Department Intesa San Paolo. Years 2012 – 2013 – 2014 are estimated



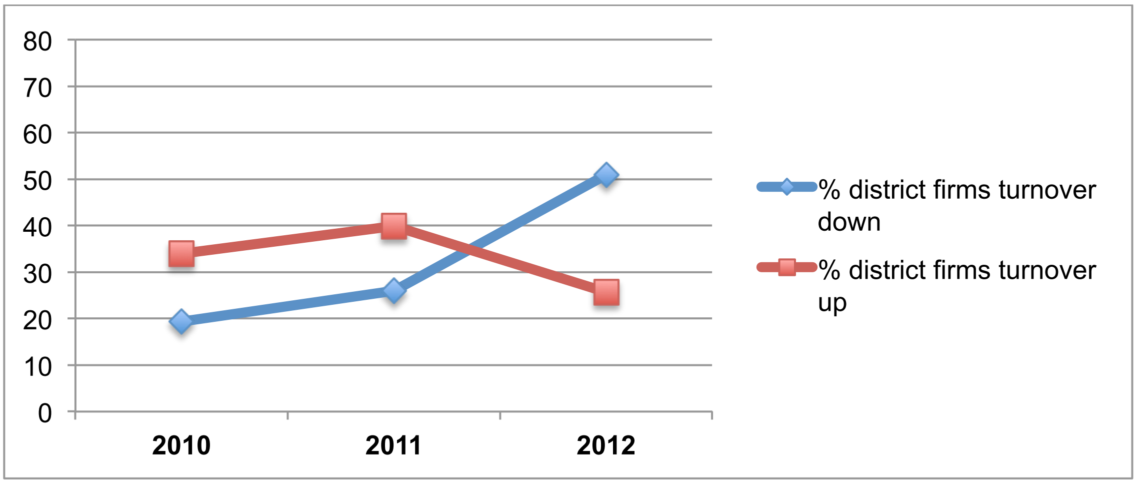
In 2010, the inversion of negative trend is also confirmed by comparing the number of firms that are experiencing growth and those that are experiencing a reduction in turnover. According to a survey of Intesa San Paolo, the number of growing companies is steadily increasing, while the number companies that are donwsizing is continuosly reducing
(see figure 4.4)

Figure 4.4 Revenue trends per share (%) of companies, compared to 2008
Source: Economics and finance of industrial districts - Annual Report No. 5, by Research Department Intesa San Paolo. Years 2012 – 2013 – 2014 are estimated



It should be noted, however, that the abovementioned figures do not coincide with those provided by the Observatory, according to which in 2011 both the percentage of growing firms and firms in downsizing have increased (in line with the figure for the growth of total turnover, which in 2011 is 3% lower than the increase of 2010), while in 2012 the number of growing companies increases and the number of companies in downsizing decreases (see figure 4.5).

Figure 4.5: Companies having an evolution of turnover (in%)
Source: Reports by National Observatory of Italian Districts 2010 – 2013. Data processing by ILS LEDA



The crisis of 2009 and the recovery of 2010 are also confirmed by a survey carried out by Censis, interviewing a sample of firms and relevant stakeholders operating in the main Italian industrial districts.

It 's interesting to note that the perception of the economic trend of the districts is much more pessimistic than the perception of the economic trend of each individual company: in 2009 as many as 82% of respondents perceive the district being scaled down, while "only" 35% perceive the individual company being downsized.

Clearly, the perception of the district "value" - as the bearer of benefits to firms that make part of it - is decreasing: solidarity and internal economic transactions are lost, the company cowers in his individual sphere and reacts by itself, so the most capable and enterprising firms are improving compared to the others.

In any case, the perception improves in 2010 and worsened again in 2011.

In 2011, in fact, the perception of downsizing and stationarity significantly grows , while very few companies are perceived growing. (see figures 4.6 and 4.7).

Figure 4.6 Economic phase recorded for the individual district firms (%)
Source: Reports by National Observatory of Italian Districts 2010 – 2013. Data processing by ILS LEDA

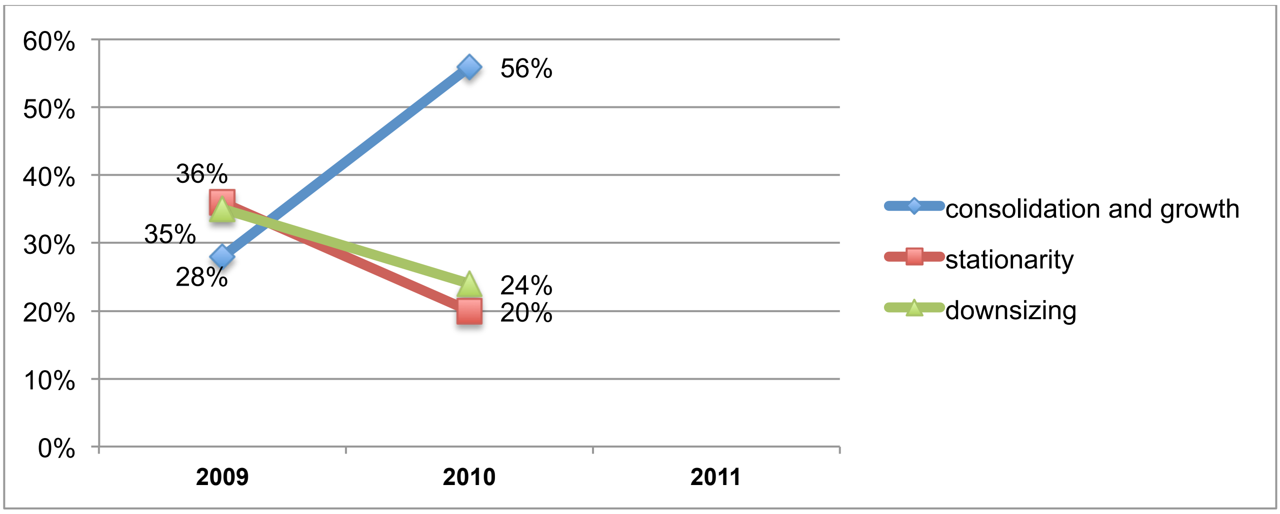
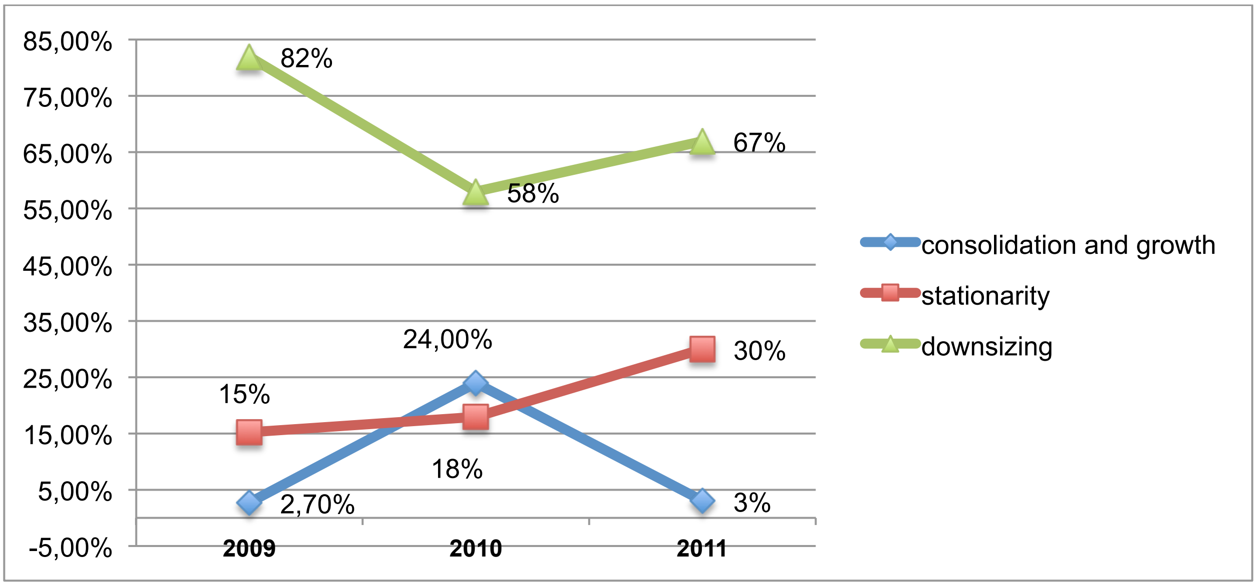
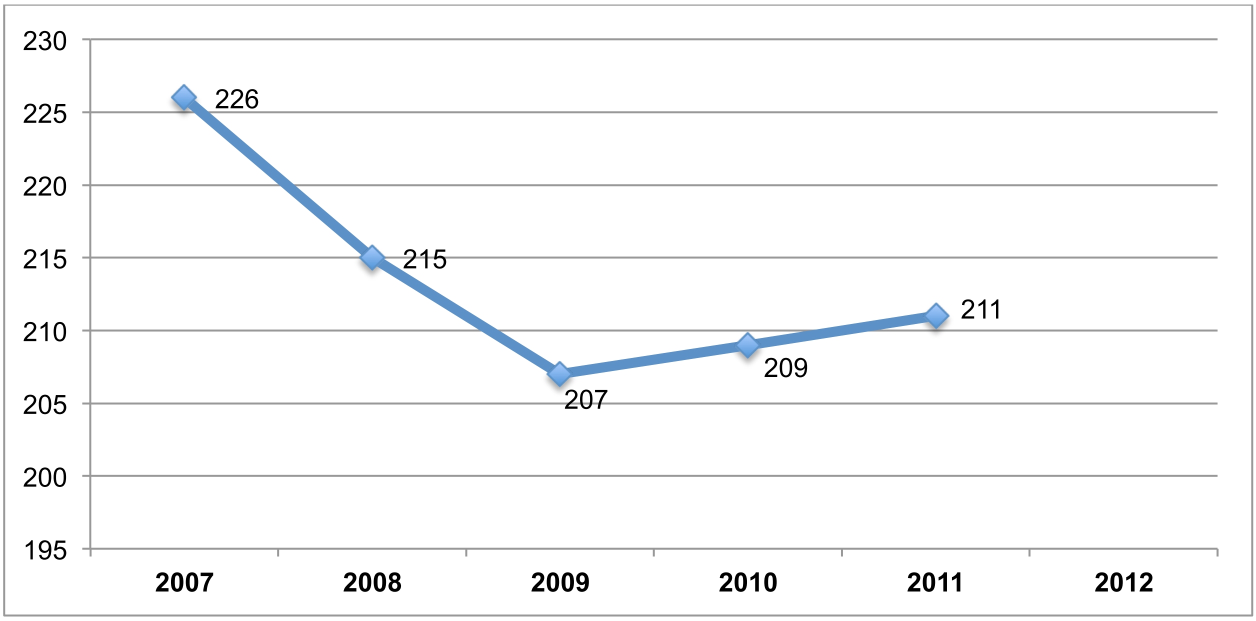


Figure 4.7 Economic phase recorded for the industrial districts
Source: Reports by National Observatory of Italian Districts 2010 – 2013. Data processing by ILS LEDA



The crisis has resulted in a relative reduction of active enterprises in the districts (- 6.6% between 2007 and 2013, see figure 4.8), although since 2009 there was a costant albeit almost imperceptible increase.

Figure 4.8 Total number of firms operating in the districts (in thousands)
Source: Unioncamere – Istituto Tagliacarne. Graphics processing by ILS LEDA



5. *Exports, employment and firm size of the Italian districts in the crisis years*

The Observatory of Italian District reported the results of a search by Edison Foundation[3]. It reveals that district exports are historically very strong and they have been able to continuously grow by 168%, from 1991 to 2001.

The year 2003 was a critical year but in 2004 there was a recovery that lasted until 2007.

In line with the data analyzed in the previous chapter, the year 2008 marked a setback and 2009 was the year definitely harder: - 20.3% of exports over the previous year (see figure 5.1) However, it is important to note that this decline in the Italian districts is less than the average decline in exports of countries such as Germany (-24%), the UK (-24%), Italy (-24%) and France (-22%).

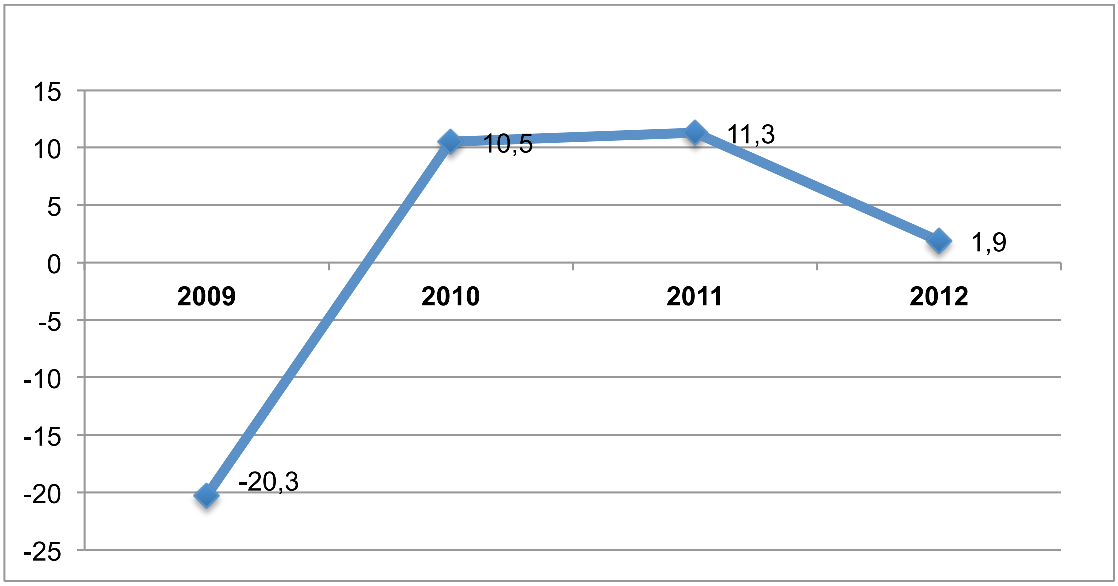
The reports of the Observatory say that in the two years following 2009 there is a general rise in exports, even to emerging countries.

The recovery is fast: in 2010, 48 out of 101 districts have exceeded the export levels recorded in the first 3 quarters of 2008, and there is a general higher penetration into extra-EU markets.

The exports continue to grow in 2011, as well as the percentage of firms showing an increase in exports grows from 32,8% to 38,1%. Although the year 2012 records lower growth values, the Italian districts seem to be out of danger and far from the critical figures recorded in 2009.

Figure 5.1 Export trend (figures expressed in %)

source: survey Edison Foundation in Reports of National Observatory of Italian Districts 2010 - 2013

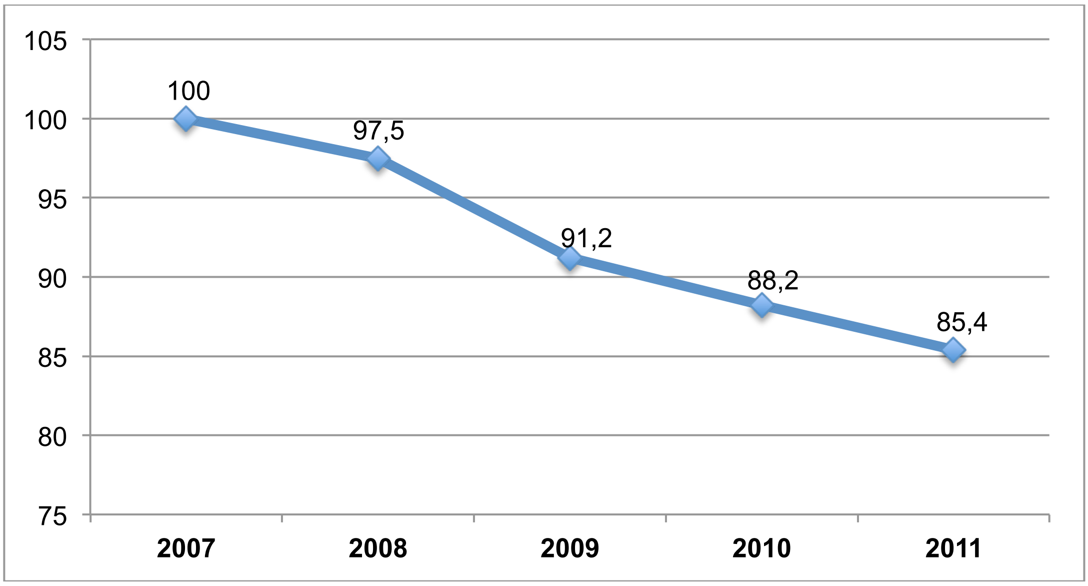


[3] The Edison Foundation develops a quarterly index of exports of the main Italian industrial districts, based on provincial data provided by Istat. The Index includes 101 districts, which coincide with those of the sample analyzed by the Observatory for about 50%.

The employment in the districtual firms is the most critical data.

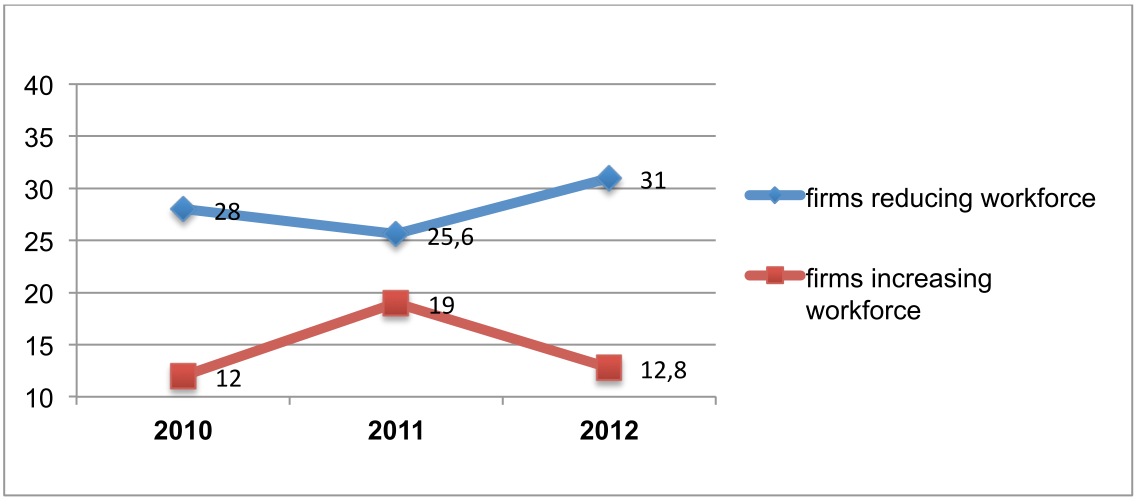
Looking at the reports by Observatory of Districts, it derives that the number of employees dorps of -3,8% from 2004 to 2006, and there is a decline in the employement figure of -15% from 2007 to 2011 (see figure 5.2)

Figure 5.2 Trend of employment in district firms (%)
Source: Unioncamere – Istituto Tagliacarne. Graphics elaboration by ILS LEDA



The graph 5.3 confirms a negative trend in 2012 too. The percentage of firms reporting an employment reduction has a trend consistent with the trend of firms showing an increase: after 2009 *annus horribilis,* the employment figures record and improvement between 2010 and 2011 and they worse in 2012.

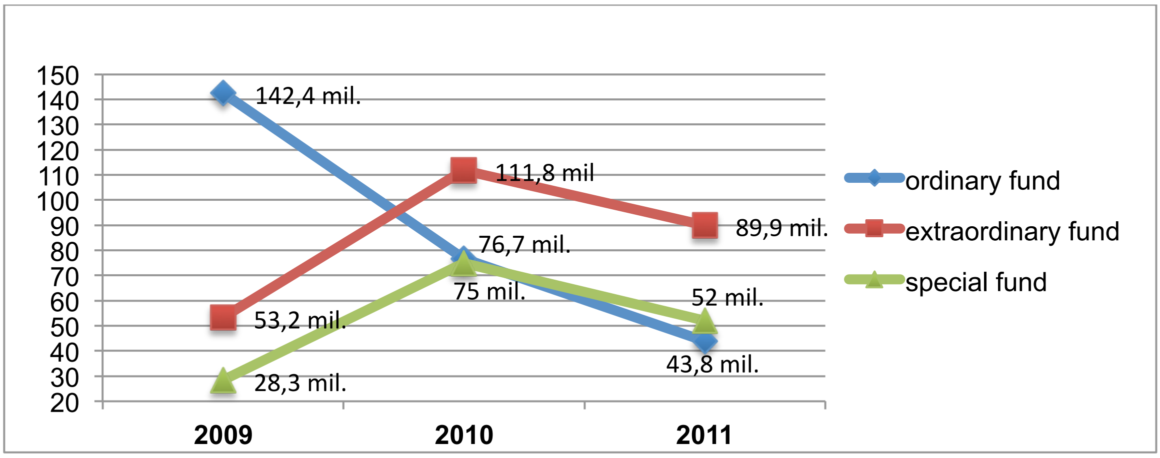
Figure 5.3: Employment in district firms (figures expressed in %)
Source: Reports of National Observatory of Italian Districts 2010 - 2013 - data processing by ILS LEDA



The graph 5.4 seems to show a turnaround in 2012, at least if you look at the redudancy fund: the use of ordinary redundancy fund decreases from 2009 to 2011, but in 2010 the use of extraordinary and special redundancy fund increases.

In 2011, however, there was a general reduction in the number of hours: if you totaling 224 million hours in 2009 and even 270 million in 2010, the total decreased in 2011 up to 185.7 million.

Figure 5.4 Composition of redundancy fund hours (millions) in the districts from 2009 to and 2011
Considering the manufacturing sectors except food and technological industries. Source: INPS elaborated by Intesa San Paolo



In the period 2009-2011 the size of district firms does not record significant changes.

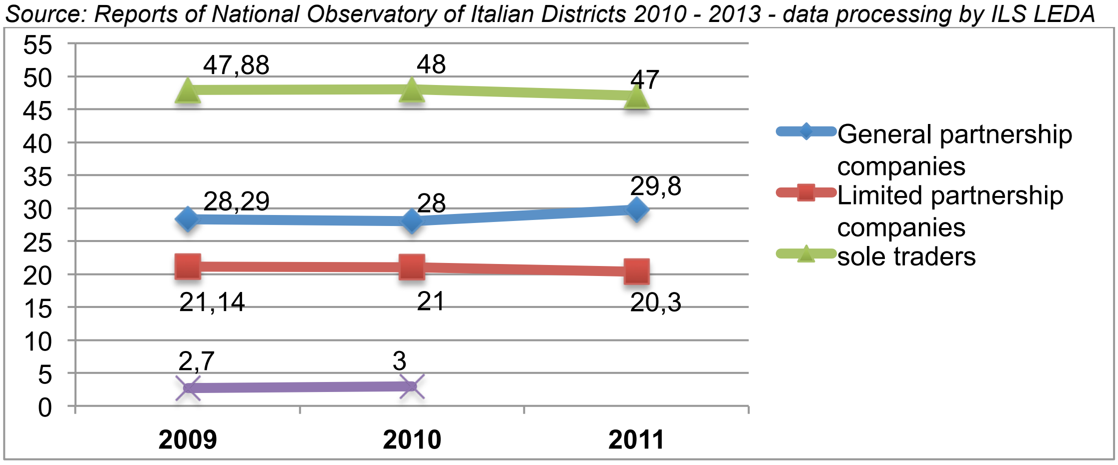
The majority is made up of sole traders (around 48-49%), 29-30% of limited partnership companies (LP Companies) and only 20% of general partnership companies (GP Companies).

On the whole, more than 98% of firms do not exceed 49 employees and 85% of firms has less than 9 employees.

However, the average firm size in the districts is higher than the national figure, respect to the LP and GP companies: 30% of GP companies compared to 22% at national level, the micro-enterprises (1 to 9 employees) account 86% (the national percentage is 96%) and companies having from 10 to 249 employees amounted to 13.6% (the percentage is 5% at national level).

Figure 5.5 Legal form of district firms

Source: Reports of National Observatory of Italian Districts 2010 - 2013 - data processing by ILS LEDA



6. *Comparing the district economy and the national economy during the crisis years*

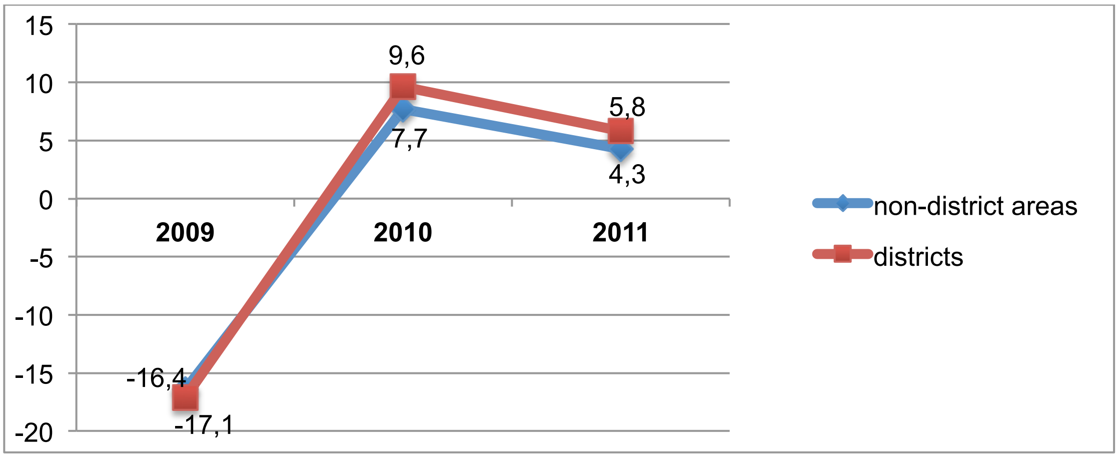
In the years of crisis, a new factor stating that Italian districts' behavior is right, is the comparison between the evolution of turnover of the two sets, the district and non-district firms.

A sample survey of Unioncamere notes that the district firms are better than non-district firms, although some values do not coincide with the previously mentioned figures (see figure 6.1): in the years 2010/2011 the first ones, after the widespread collapse of 2009, increased their turnover of 9.7% and then by 5.2%, compared to respectively 7.7% and 4.3% of non-district firms.

Similarly, the percentage of district companies reporting an increase of revenue, grow from 34% to 39.9% compared to 2010, while manufacturing companies not located in the district, grow of 37.2%[4].

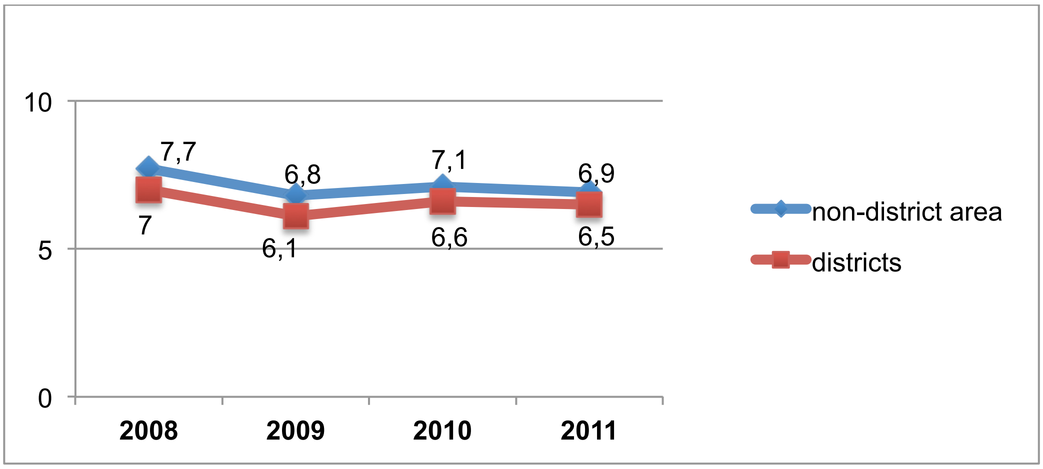
[4] Survey by Unioncamere

Figure 6.1 Turnover evolution (% change at current prices – median value) for district and non-district firms
Source: Economics and finance of industrial districts - Annual Report No. 5, by Research Department Intesa San Paolo.



The high effect of fixed costs, the recovery in prices of many basic inputs, combined with the need to broaden the sales base, brought in a highly competitive environment, where it is needed controlling pricing policies, and that has a negative impact on operating margins.
After the recovery of 2010, the EBTDA margin of districtual firms has stagnated at 6.5%, distant from the 7.0% in 2008.
Non-district areas showed a reduction of margins at the top, thus reducing the advantage over districts, historically disadvantaged by greater external projection and thus by higher competitive pressures[5](see figure 6.2)

Figure 6.2 EBTDA Margin (median value) in districts and non-districts
Source: Economics and finance of industrial districts - Annual Report No. 5, by Research Department Intesa San Paolo.



[5] *Economics and Finance of Industrial Districts - Annual Report No. 5, by Research Department Intesa San Paolo*

Looking at the long term situation, it should be noted that the impact of the districts on domestic manufacturing remains fairly constant between 2005 and 2011, with values ranging between 27% and 30% with regard to indicators such as the number of enterprises, export values and employment.

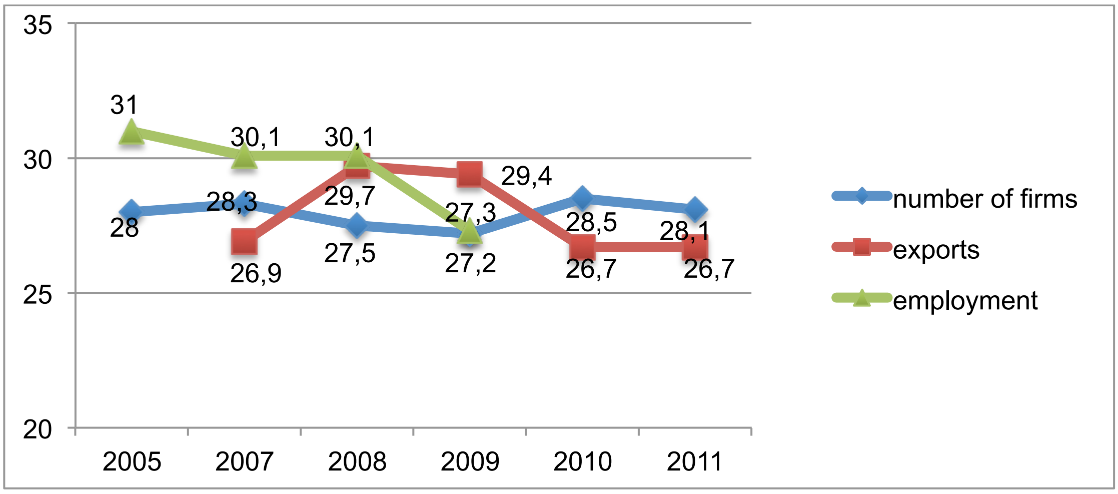
In 2009, the most difficult year of the crisis, the effect of the districts on the national employment is scaled by almost three percentage points.

The effect of the crisis is stronger in the following year, especially about exports, while in 2011 there is a stabilization of the process, in which, however, districts have reduced their significance to the national economy in employment and export.

However it should be noted that employment data are missing for years 2011 and 2012. in the districts the employment has decreased, as long effect of the strong crisis of recent years, but it is said that it was better than the national figure.

Nevertheless, the weight of the number of district firms on national data is not subject to strong fluctuations (see figure 6.3).

Figure 6.3 Percentage of districts on total manufacturing in Italy
Source: Reports of National Observatory of Italian Districts 2010 - 2013 - data processing by ILS LEDA



Conclusions

ILS LEDA is dealing with the local economy for more than twenty years and it has always considered the story of the Italian industrial districts as an important reference model. It was inspired by the survey of *Il Sole 24 Ore* and by the analysis of the *National Observatory of Italian Districts* to better understand how districts have reacted to the crisis years 2008-2013.

By comparing data and information from various sources, it is possible to highlight items that have provided answers to the initial questions and doubts.

How did the industrial districts behave in the crisis years?

How may they maintain and improve their competitiveness?

At the end of the analysis the conclusions that can be drawn are:

1) the economy of the districts is and continues to be an important share of the Italian industrial economy, even in the worst period of crisis of the last 60 years.
2) The districts that best responded are those that have a high specialization and quality manufacturing, which maintained a strong relationship between the companies, which have been able to innovate and open up a commercial space abroad.
3) The survey of *Il Sole 24 Ore* confirms that the districts' competitive advantages on average are:
    - Productivity, with reference both to the quality standards of production and to the low cost, thanks to internal transactions and relationships of trust within local networks
    - Marketing
    - Innovation
    - Internationalization
4) The weaknesses are:
    - Scarce presence in the domestic market
    - Low skills in networking and establishing strategic alliances
    - Lack of attractiveness, due to external factors, such as the banking and legislative system, the high cost of energy, the dearth of state infrastructures
    - Low skills in combating unfair competition / developing *antidotes* against competitors, mainly against Asian low-cost productions
5) In the crisis period 2008 - 2011 there are two phases: a negative shock in the first two years and a recovery in the next two, although this has not prevented a continuity in job losses.

    This result is the combination of two conflicting effects: companies having good skills for competing abroad – thanks to their quality, specialization, typicality, and investment capacity –well responded to the crisis, by recovering and in some cases improving their economic performance. Companies having low capacity to invest in research and innovation and having a vocation for standard production (therefore they are more exposed to Asian competitors), they greatly downsized - especially in terms of employment - or are completely disappeared.
6) The crisis did not reduce the weight of district firms with respect to the economy as a whole

Ultimately, the district model still works, although the crisis revealed significant weaknesses and highlighted the need for retraining and restructuring.

The lessons learned from the districts' behavior during the crisis 2009-2013 is the district firms need to invest more in research and innovation to ensure high quality products, to be specialized, and to be prepared for international marketing, although it must be kept a balanced mix of domestic and international market.

One of the elements that fueled the successful district model was the employment, because it guaranteed the social and cultural ties with the area. But at present it is evident many districts, especially small sized firms, are not able to ensure stability, and it threatens to undermine the social foundations of industrial success.
Even in this case is likely to be rethought employment strategies, ranging from contracts of solidarity extended to companies network, higher education and training, the outsourcing of activities common to most enterprises, the increase of high-skilled professionals such as in the case of research, innovation and marketing.

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