

# The decline of a model? Challenge and response in the Italian industrial districts

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## Abstract

The article presents an extensive critical review of recent debates on the restructuring of Italian industrial districts in the 1990s. It shows that, despite consensus on the empirical 'facts' of district restructuring, there remains extensive disagreement over appropriate public policies. This debate fundamentally turns on analysts' interpretations of how, or indeed whether, strong institutions and localized subcultures allow territorial networks of small firms to compete successfully with larger and more highly capitalized multinational corporations. But perhaps the most crucial and contentious issues are questions about the past adequacy of the districts' regulatory and service institutions in overcoming structural difficulties of the model, and, more importantly, about further innovations that may be required given recent changes in the external economic context.

Keywords: Italy; industrial districts; industrial restructuring; interorganizational networks; institutional innovation; regional development.

## Introduction

Already by the late 1970s, Italian academics were touting the industrial districts of north-eastern and central Italy as an example, even an *exemplar* of a possible production model for the future. The big splash in the Anglophone literature came in 1984 when Piore and Sabel's book, *The Second Industrial Divide*, sang

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the praises of the 'Emilian model' of flexible-specialization. Suddenly, Italy was no longer Europe's poor backwards relative to the south.<sup>1</sup> Attention focused on these dynamic regional economies as academics and policy makers sought to explain how systems of small and medium-sized firms could successfully compete in world markets. As is now well known, they returned to the work of Alfred Marshall and used the concept of the 'Industrial District', or, in Becattini's (1979, 1987) terms, the 'Marshallian Industrial District'. Finally, it seemed, Italy had a production model to go with its cathedrals, something the world could envy.

The initial international interest was extremely optimistic, filled with somewhat idyllic descriptions of small firms with high labour standards in communities where co-operation was king. However, many of the districts, including one often seen as the canonical example, Prato, experienced difficulties in the mid to late 1980s, leading some prominent 'nay sayers' to say, essentially, as Cooke and Morgan (1998) put it, the 'big firms must win'. In the Anglophone debate, the late Bennett Harrison (1994) argued that (at the very least) his account of changes in Emilia-Romagna should take some of the bloom off the rose, while Amin and Robins (1990) reminded us that ('need it really be said?') multinational corporations remain the real 'shakers and shapers of the world economy'. Perhaps due to such 'debunking', or perhaps due to the problems encountered by many of the districts that made them no longer seem a solution, the Emilian model does not get the same press it once did.

Nevertheless, in Italy, a law enacted in 1991 to define and support industrial districts formally moved them into national industrial policy,<sup>2</sup> and there continues to be extensive study of the industrial districts' evolution, with considerable discussion of the model's future as well as arguments over what should 'count' as a district. In English, interesting recent work includes a 1996 ILO volume (their third, edited by Pyke and Sengenberger) and a 1995 three-article symposium in the *Journal of Industry Studies* (now *Industry and Innovation*) looking at developments in the late 1980s and early 1990s. Cooke and Morgan (1998) used Emilia-Romagna as one of their cases in *The Associational Economy*. Richard Locke (1996) compared developments in Prato and Biella in the pages of this journal. Finally, the 'Emilian model' is often discussed in *World Development* by a group of scholars (associated particularly with Hubert Schmitz) interested in the clustering of production who keep an eye on the Italian debate.

Critics like Amin and Harrison were on to something – new pressures did emerge in the 1980s that changed and continue to change Italian local industrial systems – but the Italian literature has developed a sophisticated debate that goes beyond simple claims that large firms will either buy up or hollow out the districts, or that they will remain what Amin and Thrift (1992) called 'Marshallian nodes in global networks'. The Italian debate is sporadically cited in the Anglophone literature, but there has been to date no extensive critical treatment in English of what the Italian-language literature has deemed an extremely important series of questions. What are the pressures of the late 1980s and 1990s that led the districts to experience difficulties and need to restructure? How are the

districts restructuring? How *should* the districts be restructuring? Is there a unilinear trend? *Should* there be a unilinear trend? In 1990, Pyke and Sengenberger could (relatively) honestly write that ‘the whole question of definition is not without controversy. Most of the controversy, however, appears to relate to issues outside of Italy. There seems to be broad agreement . . . on the basic shape of Italian industrial districts’ (Pyke and Sengenberger 1990: 2). That same statement could not honestly be made today.

A changing external economic context coupled with different districts’ quite variant evolutionary trajectories has led some analysts, often associated with business schools (*‘aziendalisti’*), to argue that, while the districts literature has taught us something, it is time to move on, refocusing attention on the strategic capacities of the *firms* in the district. These same developments are differently interpreted by the ‘classic’ theorists, who recognize that the districts do face new problems, but see the solutions in the creation and/or strengthening of institutions that can formalize co-operation and co-ordination, giving strategic capacity to the *system* of firms rather than to the firms themselves. This seemingly trivial quibble over the proper unit of analysis, the ‘system of firms’ or the ‘firms in the system’, has big implications for the policy prescriptions that follow, with the one leading to a relatively *laissez-faire* attitude and the other leaving space for strong supply-side intervention by the local and regional state.

### **The classic model and the classic debate**

Although there is no universally accepted definition of either the elements that make up an industrial district or the underlying mechanisms that allow the districts to compete in export markets, one does find agreement on a core ‘thin’ model (Zeitlin 1992), and, to varying degrees, on some features of a ‘thicker’ definition.

In the thinnest of definitions, the unit of analysis is no longer the single firm, but an area that includes many firms in a vertically integrated sector. The products sold on the final market are made entirely (or almost entirely) in the district, but not in a single factory. They can be consumer or investment goods, easy or hard to produce, and involve at times relatively sophisticated technology, but, most importantly, their manufacture must be readily separable into stages to allow production to be carried out across multiple firms.<sup>3</sup> Historically, the lines have not been tightly drawn between ‘final firms’ and ‘stage firms’, but that may be changing (as we will see). Individual companies are usually quite small, but the district itself is not, and can capitalize on what Marshall called *external* economies of scale. Firms generally have very flexible production methods, are able to produce quickly whatever is asked of them and concentrate on being able to turn a profit on a very short production run. The combination of each firm having a wide production range and the extreme ease with which the subcontracting arrangements can be rearranged allows those with final market access

to produce (or have produced) exactly what is required, and quickly (Piore and Sabel 1984; Hirst and Zeitlin 1991).

Decentralized, diffuse, and reactive production is an essential dimension of industrial districts, but is not exclusive to *territorial* production agglomerations. The key features differentiating a more 'thickly' defined industrial district from network production generally are an abundance of local productive knowledge, strong institutions, and a culture that facilitates co-operation, leading to enhanced information flow and lowered transactions costs. A succinct definition that would be accepted by many in Italy as the 'classic' model is offered by Giuliano Bianchi: an industrial district is:

a territorial agglomeration of small firms, normally specialized in one product, part of a product or phase of production, held together by interpersonal relationships, by the common social culture of workers, entrepreneurs, and politicians surrounded by an industrial atmosphere which facilitates the diffusion of innovation, generating, in this way, important flows of external economies that are still internal to the local productive system.

(Bianchi 1994: 19)

North-eastern and central Italy (the 'NEC') has been favoured by a history of political subcultures said to have fostered high amounts of trust both among small firms and between workers and management. The 'white' Catholic culture of the Veneto and the 'red' communist culture of Tuscany and Emilia-Romagna, ideologically quite different, have in common an emphasis on the value of the *local* (Triglia 1986, 1990). Rates of associationalism are high, and production networks are embedded in a dense network of institutions that provide shared conventions and understandings. Reputations are known, facilitating the punishment of rogue elements and somewhat softening the prisoner's dilemma dynamic inherent in contracting. Workers are more likely to share their knowledge of the production process in the less conflictual situations typical of industrial districts (Brusco 1994).

Historically contingent cultural factors can be overemphasized, however, obscuring the important role played by formal institutions and local government.<sup>4</sup> The industrial districts did not just 'happen' fortuitously, and, while I shall not document here the historical circumstances that led to their emergence, it is important to note the importance of subjective choice in their development from proto-industry to major players on world markets (Alaimo 2000). It was recognized relatively early in both the districts and the literature surrounding them that a non-hierarchical, decentralized regional economy dominated by small firms faced certain structural difficulties, especially with respect to the production of collective goods, and thus required the establishment of a *formal* institutional underpinning.<sup>5</sup>

Regional and local institutions that have been essential include entrepreneurial, artisan, and worker associations providing services to their members, local technical schools that provide needed skills, credit co-operatives in which local artisans underwrite each other's loans to lower interest rates by reducing default

risk, and strong networks of local banks closely tied to the community able to lend cheaply based on an extensive knowledge of clients' trustworthiness (Brusco and Righi 1989; Capecchi and Alaimo 1992; Ferri 1997; Padoa-Schioppa 1997). Additionally, regions in the NEC have helped establish development agencies to provide small firms with the technical advice and business services that are available to their larger competitors. Small artisanal firms are often unused to scanning the horizon regularly for emergent possibilities and often need to be *convinced* to take on innovative practices, to enter into new markets ahead of the curve. Hence, at their best, these service centres are proactive, finding the 'hidden needs' (*bisogni nascosti*) of their constituencies (Brusco 1990, 1992; Bellini *et al.* 1990).

In understanding the role of institutions in the districts, Trigilia (1990) cautions that, although the local state does provide some collective goods, most municipal intervention is not strictly 'economic', but consists of providing infrastructure and social services and, importantly, brokering compromise between the players in the local economy. Policies vary from district to district, with significant differences in approach between the Catholic administrations of the Veneto (less active in land use, delegation of social services to associations) and the 'red' regions (considerably more interventionist), but both approaches have been able to engender successful industrial districts, at least for certain periods.

Foreshadowing the current debate, the 'classic' literature was well aware that the district model needed to go beyond the informal cultural norms and conventions that gathered so many of the headlines, that it needed to build formal institutions to provide collective goods. Discussing the strengths and weaknesses of the model, Brusco wrote that 'industrial districts – when they are successful – are creative, display originality, are often able to discover new markets, continuously introduce incremental innovations, some of which may prove important, and enhance social mobility and worker participation' (1992: 196). However, they also are 'slow to adopt new technologies, lack expertise in financial management, have little of the know-how required for basic research, and are unable to produce epoch-making innovations'. Hence, 'the district has to be viewed not only as a unit of analysis but also as a unit of initiative: as a fully-fledged and organically unified organisation, whose development is slowed down or impeded by bottlenecks that public action must turn into opportunities' to resolve problems the private sector would be unable to solve alone (Brusco 1992: 195). Trigilia (1990: 182) recognized that, as the districts grew, their 'strong localist aspect . . . could change status: from a past source of strength to a menacing future constraint'. He argued that both the districts' historical reliance on local (municipal) regulation and the institutional weakness of the regional level of government in Italy were challenged by emerging external economies and dis-economies exceeding the range of action and competence of local authorities. Difficulties in technological research, marketing, training, and export services could not be solved locally, nor could dis-economies of traffic congestion, pollution, and waste disposal. Already by the late 1980s, if not earlier, problems of scale were becoming apparent.

Calls for more conscious and strategic action anticipated what has become the key issue in the industrial districts literature today: how successful have the districts' regulatory and service institutions been in overcoming the structural difficulties of the model, and, more importantly, what further innovations are required given a series of changes in the external economic context? The vigorous debate in Italy over the appropriate public policy for industrial districts turns fundamentally on the details of analysts' interpretations of how, or indeed whether, strong institutions and localized subcultures allow territorial networks of small firms to compete successfully with larger and more highly capitalized multinational corporations. Before turning to this question, however, it is necessary to get a handle on the ways in which the districts and their world have changed in recent years.

### New challenges in the 1990s

In a 1982 article in the *Cambridge Journal of Economics*, Brusco wrote that 'so long as demand continues to expand, this social and productive structure will face only the problem of integrating into itself only those who declare themselves to be outside it', but should there be a decline in demand, he suggested, 'unless the local entrepreneurs could quickly copy and improve on the new styles (which could well happen), the dynamic interaction of the parts of the industrial district which guarantee a flexible response to the product market could quickly deteriorate in a competitive scramble for orders'. This would in turn, he wrote, 'cause a reduction of prosperity and a dismantling of the productive structure upon which that prosperity is based'. Even in early formulations of the model, there was a recognition that its success was dependent on external conditions. Recent changes are more complicated than a simple decline in aggregate demand, but they do have implications for the viability of small firm production networks.

#### *The altered competitive context*

Because so many of the Italian industrial districts are specialized in so-called 'mature' products, they are susceptible to competition from lower-wage countries.<sup>6</sup> Quality upgrading is recognized as a strategy that can prove effective against cost competition, but it often has effects that somewhat mimic an overall decline in aggregate demand: higher end markets tend to be smaller. If developing countries continue to improve their own quality and if (a big if) they manage entry into the fashion-conscious markets in which Italian producers specialize, this will become an increasingly pressing challenge. There are indications in shoe production, for example, that quality improvement is the strategy of choice for mid-level producers like Brazil (Schmitz 1999).

Beyond the low-wage threat to districts competing in 'mature' sectors, there

are other changes that potentially affect all industrial districts. Small firm clusters have enjoyed a relative flexibility and reactivity relative to larger competitors, but this advantage has been weakened by large firms' discovery of 'lean' and networked production. Furthermore, small firms' relatively greater labour flexibility – in large part due to the weaker presence of unions in the smaller firms and to the less stringent labour regulation for those classified as artisanal – has been narrowed as labour relations have been restructured to become less conflictual, even to the extent that Italian unions will set rules at a national level that are 'interpreted flexibly' at the plant, and engage as well in regional 'micro-concertation' focused less on wages than on questions of labour use (Regini and Sabel 1989; Regini 1995). Technology and labour flexibility were never the whole story of district vitality, but some of the competitive advantage of productive decentralization did lie in niches created by the relative prevalence of a production method too rigid for the demand it was trying to service. Even Regini and Sabel (1989), while critical of attempts to explain big firm recovery in terms of neo-Fordism, argue that firms seek a mix of productive decentralization and single-roof restructuring aimed at combining the flexibility gains of productive decentralization with scale advantages where they are really needed. That is, large firms are attacking the traditional turf of their small networked competitors.<sup>7</sup>

#### *Adjusting to structural change*

Dependent on 'spontaneous coordination' and an 'industrial atmosphere' for information diffusion, the cachet of the industrial district model has long depended on claims of a differentiated product market in which firms compete not just on price but also on being 'flexible' and 'specialized'. However, we now read statements like that of Paniccia (1998) that 'it is well known that final customer demand has become more sophisticated and differentiated, which has resulted in the demand for higher quality and wider variety'. Greater demand fragmentation, the continuous seeking of new niches, and the closing off of low-price markets by low-wage competition pushes firms to seek a higher intrinsic quality of production.<sup>8</sup> In fashion industries particularly, *pronto moda*, a general increase in the assortment of models and the shrinking of product runs means that delivery times are tighter than ever.<sup>9</sup>

Notably, such 'changes' are largely intensifications of economic conditions that have historically *favoured* flexibly specialized industrial districts capable of rapid product and process innovation. However, there is no reason sufficient quantitative change in external conditions cannot require qualitative changes in the districts; the claim is not that the flexibility of the districts is a problem, but rather that an excessively fragmented productive structure may be hamstrung by an inability to be consciously strategic, to co-ordinate action.

Higher quality and quicker delivery times require more stable relationships between firms, as do practices of concurrent engineering and product co-development (especially relevant in mechanical engineering districts). This is

noted by Guidalberto Guidi (1996), a representative of the regional employers federation of Emilia-Romagna who suggests that 'sweeping changes in production process technologies' were one of the many 'economic storms' weathered by the districts in the 1980s. Sometimes held out as an example of 'innovation without R&D' (Camagni and Capello 1997), industrial districts specialize in incremental innovation and cannot necessarily compete with big steps produced elsewhere. These 'big steps' are often scale intensive and require connections to international networks of codified scientific knowledge, areas in which the traditional district structure is notoriously weak (Bianchi 1994; Balloni *et al.* 1998; Camagni and Capello 1997).

Brand promotion and commercialization strategies often require that a few firms specialize in the 'noble' aspects of production and perhaps co-ordinate enough firms to overcome scale disadvantages, while not necessarily vertically re-integrating. Mistri (1994; see also Crestanello 1997) argues that, in the 1980s, commercial and marketing firms grew in importance, leading to an externalization of elements once in the district, ceded in a sort of 'rationalizing of information by third parties who strengthen their bargaining power vis-à-vis the smaller district firms'. Minimum efficient size in many products is quite low, but active commercialization and internationalization strategies have returns to scale. To reduce their information-gathering costs, small firms turn to intermediaries and large distributors with connections outside the districts, though this results in a decrease in the number of final firms. Balducci *et al.* (1992) say that in Prato 'the number of final firms is shrinking, as a result of the growing complexity of the process of creating and commercializing a product'. In the literature, there is virtually unanimous agreement that the classic district structure faces dramatic scale disadvantages in marketing, even as brands increasingly become guarantors of both intrinsic quality and profit margins.<sup>10</sup>

Questions about the ability of the present system of formal institutions – associations and real service centres – to play their historic role in solving problems of scale strengthen the claim that continued district viability requires qualitative transformation. Mistri (1994) argues that public mechanisms of market information such as export consortia are now insufficient since they 'move largely on a traditional promotional plan based on accenting the price factors that are the primary means of competition for a part of the universe of small firms'. They fail because many small firms compete by developing qualitative factors to get into niche markets, and, for such non-price competition, the conditions of building a successful sales consortium are restrictive, requiring that each firm specialize differently.<sup>11</sup> Panizza (1998) asserts that, looking retrospectively at co-operatively established service centres, we can see that they have generally worked only when they serve firms by supplying relatively homogeneous goods (e.g. administrative services). Sectoral associations are also hampered as a general solution – their ability to follow a long-term logic in the production of the sorts of strategic goods that might speak to 'hidden needs' is constrained by the need to respond to direct requests from the base (Burroni 1999a).

The strength of the service centres in improving collective good provision is that (at least in theory) they are truly *public*, in the sense of being open to all district firms. Their partial budgetary detachment and professional staff allow them to take a forward-looking view, to aim for Brusco's 'hidden needs'. However, in a context in which firms and districts must increasingly differentiate themselves, this can become a weakness. Individuating needs presupposes the careful monitoring of each local economy coupled with an analysis of market tendencies, but this can outstrip the capacities of the centres and lead to irrational institutional isomorphism – the imitation of solutions from other local systems, regardless of their effective exportability (Burroni 1999a). Amin contends that, at least in Emilia-Romagna, the 'legacy {of institutional innovation} is being threatened by both the rise of a new professional technocracy across the region's public institutions and bureaucratic governance within individual organizations' (1999, citing personal communication from Vittorio Capecchi).

Perhaps the clearest recognition of the limitations of and pressures on the service centres is found in the recent experiences of Emilia-Romagna's historically successful ERVET system of business service centres. Quoting Amin (1999), 'in 1993, after considerable pressure from the region's Confederation of Industry, which was seeking greater policy influence, the regional authority introduced a series of reforms to change ERVET into a more market-driven organization, away from its traditional role as an intelligence gathering regional development agency'. Some local centres were closed down in favour of regional-level centres, and their funding became more dependent on project-based initiatives. This was intended to improve efficiency and accountability, but it also reduces the 'scope for programme-based and strategic policy making (owing to cuts in capacity, project-driven fragmentation, commercial legitimization)'. Cooke and Morgan, no spokesmen for neo-liberalism, write that 'by the mid-1990s, the recognition was beginning to become widespread among policy-makers and their advisers that the service-centre idea may have served a valuable interim function in enabling microfirms to survive in the hostile, international environment of the 1980s and early 1990s'. After that, however, 'groups of lead firms that had been forming to seek internal economies of scale to match external economies of scope were clearly in need of access to a more full-blooded regional or even national system of innovation' (1998: 128–9).

Another institution under pressure is the system of local and regional banks, which has been somewhat undermined by the consolidation of the financial system. Their ability to lend cheaply based on information about trustworthiness has been important in the growth of the districts, and, according to Padoa-Schioppa (1997), 'the cooperative credit bank remains for the economy a formula that is more vital and necessary than ever'. However, these banks tend to have weak internal organization and difficulties competing with larger rivals who are entering their previous markets at a rapid rate, eliminating an important provider of credit to small district firms whose primary asset is a reputation likely to be less valuable with a more distant bank (Ferri 1997; Padoa-Schioppa 1997). On balance, this new competition may be good for these regions, but it is not without costs.

*The threat that wasn't – the entry of foreign capital*

Readers who have kept a sporadic watch on developments in the industrial districts may be surprised by the absence thus far of discussion of foreign capital entry, feared in the early 1990s as a potential death knell. When Bianchi and Gualtieri reported on the large number of mergers and takeovers in the Emilia-Romagna manufacturing sector between 1983 and 1988, alongside evidence that larger firms were acquiring smaller ones in similar sectors, concentrating ownership and taking some strategic control, one fact really raised eyebrows: foreign capital was present in 28 per cent of operations, and, in addition to the buying of Emilian firms by foreign groups, many Emilian companies bought firms outside the region (Bianchi and Gualtieri 1990, 1992; Leonardi and Nanetti 1990).

The 'threat' of ownership concentration and hierarchy generally must be separated conceptually from that of foreign (or at least external) capital entry; the effects of the former remain the subject of intense debate, while the latter seems to have been a false alarm and has largely dropped out of the literature as discussion of control dominates that of ownership. A blurring of this distinction can be found in the oft-cited *Lean and Mean* (Harrison 1994), which argues that, while the jury is out on whether or not they will negatively affect the Italian economy in the long-run, takeovers by outside multinational corporations are an 'invasion' that qualitatively transforms 'the nonhierarchical, collaboratively competitive nature of interfirm relations within the districts'. There are certainly plausible reasons why the rise of powerful actors in the districts might have major implications for the 'collaboratively competitive' aspect of the districts, but it is not clear how it matters (in this respect) if these firms are foreign.

For foreign entry alone to undermine the districts, external firms must be swooping in to steal the districts' jewels, uninterested in connections to suppliers' and local partners' wealth of contextual knowledge. This is first challenged by the wealth of evidence (discussed below) that leader firms endogenous to the district can become significant players in world markets and are perfectly capable 'scanning globally' for contracting partners; one need not be foreign – Benetton is a very powerful firm, and hardly came from abroad.<sup>12</sup> It is further dismantled by case studies – for example, Biggiero (1999) in Mirandola biomedical and Corò *et al.* (1998) in Montebelluna sport system – showing that, at least in some instances, multinational entry is designed precisely to get access to the skills and knowledge of the local system rather than to control it.

**New problems, new solutions?**

Foreign capital may not have destroyed the districts, but very real changes are occurring. Firms are focusing on their core activities and externalizing irreversibly other productive stages. The fashion and furniture districts especially have seen a specialization of some in relationships to the final market, with a

concomitant vertical dis-integration of productive activity. In general, district firms are creating stable relationships with a more restricted number of suppliers and increasing the levels of supply. *Vertical* co-operation is intensifying in an effort to co-ordinate production more quickly, to ensure adequate quality at all stages of the production process, and to safeguard investments in capital goods required for product diversification strategies (Innocenti 1998). Where once contracting firms were content to leave agreements implicit and informal, they are now more likely to formalize them and use written contracts, tiering suppliers and maintaining 'preferred' relationships with some of them (Innocenti 1998).

Beyond simple formalization of inter-firm relationships, there is clear evidence that more groups (*gruppi*) are forming in the districts. 'Groups' in the districts literature refers to firms held together by ownership relations – through cross-shareholding or by all belonging to a single subject or family – while remaining juridically distinct. Although a point of contestation among Italians writing about the districts, for many the group form implies more hierarchical relations between firms, with final firms in a leadership role co-ordinating the production and investment behaviour of the others (Dei Ottati 1995; Balloni and Iacobucci 1997). For example, in the furniture production district of Livenza and Quartiere del Piave, Paola Guerra (1998) finds the widespread formation of groups, some with strategic capacity. Nuti and Cainelli (1996) suggest that 'today's districts are forced to reorganize themselves in hierarchies, in order to exploit a different sort of division of labor from that which existed in the past', because 'predictable relationships among partners can be an effective weapon against an unpredictable market', privileging voice over exit.<sup>13</sup>

The precise prevalence of groups in the industrial districts is extremely hard to identify with available statistical data, though the most comprehensive survey to date (Barca 1994; see also Balloni and Iacobucci 1997) found the group form to be extremely common, at least among firms with more than fifty employees (the surveyed population). Dei Ottati (1995) notes that in Prato several of the historically important district firms are involved, implying that we can expect them to have an orienting importance for other firms despite the relative lack of statistical data on their frequency.

### *Different solutions in different places*

Characterizations of a relatively homogeneous industrial district model no longer apply. The degree of hierarchy in relations between supplier and final firms varies from district to district, not all areas are equally specialized in a single product and firm-size distributions vary. Even depictions of the NEC as the exclusive cultural home of the model are undermined by the rediscovery of (neglected cases of) similar regional economies in Lombardy and the emergence of industrial district-like phenomena in 'Fordist' Piedmont and in the 'backward' south.<sup>14</sup> This confusion has led Alessandro Innocenti (1994) to suggest

that the ‘industrial district’ itself is a ‘category to rethink’, meaning that there is too much within-category variation to assign functional attributes to industrial districts by virtue of their classification, so they should be treated only as a useful unit of investigation.

As discussed, some of the important early work on industrial districts by Bagnasco and Trigilia (Bagnasco and Trigilia 1984; Trigilia 1986, 1990) showed a regional variation in the subcultures that sustained the industrial districts, but emphasized that strong localisms made the different institutional configurations into functional substitutes, capable of undergirding a common ‘third Italian’ production model. Recent writings have begun to focus instead on the variation *across* districts. Paniccia’s (1998) comparative study of twenty-four Italian local productive systems, using statistical data going back forty years and interviews of local leaders, concludes that ‘the “canonical” features can be found in only a few local systems and at certain periods of time’. More importantly, the red and white institutional configurations that once provided slightly different paths to a similar outcome are now seen to favour significantly different production models. In knitwear, Brusco and Bigarelli (1997) find that, in Tuscany, small final firms are not integrated and buy processing from subcontractors who often work on a single production stage, putting together new ‘teams’ every year. In the Veneto, medium and large firms are integrated and outsource to relatively large and multi-stage contractors in significantly longer production runs. In between, they find an ‘extraordinary variety of regional productive systems’.

This variation is clearly shown by Burroni (1999a, 1999b). Analysing data on firm size, location, and specialization, he finds that manufacturing systems of medium and large firms characterized by the presence of several related productive specializations play a particularly important role in the Veneto.<sup>15</sup> Tuscan districts, on the other hand, approximate the ‘classic’ model in which local systems are dominated by small firms and specialize in a single product. Furthermore, employment growth patterns point to ‘a progressive strengthening of the structure of the local systems in the two regions’ (Burroni 1999b: 17).<sup>16</sup> Overall, the Veneto districts have had greater increases in manufacturing employment, especially in the local systems that most characterize the region – those centred around large or medium-sized firms, with several related specializations within the district. However, Burroni (1999b) cautions that this superior performance is probably a statistical artefact caused by restricting the count to *manufacturing* employment, and shows that, if the growth in service jobs related to manufacturing is included, Tuscany’s performance lags only slightly behind that of the Veneto.

### Time for a firm-centred view?

Despite agreement on the ‘empirical facts’ of district development, their interpretation is the subject of considerable debate. Positions depend largely on whether or not one places the *firm* or the *system of firms* at the centre of

analysis. The industrial districts literature has long been dominated by those who focus on the system itself, though not without dissension. Now, some combination of recent developments – the changing external conditions, the apparent difficulties of the business service centres, the increasing importance of lead firms (at least in certain areas), and perhaps the arguably better performance of the north-eastern (Veneto) districts – has led this dissenting voice to get considerably louder and to gain credibility.

*The firm-centred view*

The foremost proponents of the firm-centred position are undoubtedly Luca Ferrucci and Riccardo Varaldo, authors of a widely cited 1993 article in *Economia e Politica Industriale* (republished in 1997) entitled ‘The nature and dynamics of the district firm’. They admit that industrial economists have been unable to use their ‘toolbox of ideas’ to ‘examine in profundity and specificity the reality of the district firm’ (1993: 82). They acknowledge that the district firm is and was different from a ‘normal’ small firm, and much more strongly rooted in the local socio-cultural context, but argue that the changes in the external environment and the

general loss of dynamism of many district systems . . . is accompanied by a decomposition and recomposition of relations between firms according to which the firm and its strategies are becoming more relevant, while the original advantages, constituted in essence of external economies that could not be appropriated by single firms, are less important, especially if not adequately regenerated.

(Ferrucci and Varaldo 1993: 74)

They contended that it was therefore time for a shift in the level of analysis, away from the district *system*: ‘the strategic behavior of the firm becomes, therefore, a fundamental variable for the analysis of local systems and for the comprehension of their patterns of evolution’ (ibid.: 74). Previous analysis put too much weight on external agglomeration economies, ‘to the point of considering them to be possibly able to compensate for structural and strategic deficits at the level of the single operating units’. For Ferrucci and Varaldo, a shift in focus will help to transform the districts to compensate for declining external economies by promoting a ‘re-composition of their structure’ through ‘specific and original evolutionary pathways, followed by leader firms who distance themselves in culture, means, and strategic capacity from other district firms’ (1993: 85). The rise of groups suggests a

common tendency in many districts that appears . . . destined to consolidate itself: that of a transformation through the contributions offered by a category of firms who become points of reference and coagulation for networks of firms, with the introduction of elements of coordination and integration in a context that has traditionally been fragmented and de-verticalized.

(Ferrucci and Varaldo 1993: 91)

In short, the values and informal norms that were sufficient in the past will be unable to carry the model into the future, with or without a series of public institutions to compensate for its known weaknesses. The districts may be an 'effective incubator' of new entrepreneurs, but the extreme embedding in the local context and retention of total control in the hands of a dominating individual entrepreneur ensures that firms remain small, de-verticalized, extremely specialized, and unable to look outside the district for solutions. Instead, the co-ordination of the 'headless beast' in evolving global markets will be found in allowing for and stimulating the emergence of 'world-class' lead firms able to co-ordinate a ring of capable suppliers, not in a series of public institutions that allows the mass of firms to avoid necessary processes of modernization and reorganization. Put bluntly, market and technological information gathering and organizing the division of labour are problems best solved privately.

A focus on firm strategy leaves ample theoretical space for variation in the evolutionary paths that different districts will follow. When not assumed to be ordered by an abstract 'socio-cultural context', firm strategy becomes very contingent, with no guarantee that all districts will see the emergence of leaders; the mere presence of large firms does not mean that they will successfully co-ordinate a flexible ring of suppliers. Nonetheless, much of this literature does insinuate that districts unable to stimulate the emergence of lead firms will experience difficulties, a *normative* position made particularly explicit by Varaldo *et al.* (1997) in a book on the difficulties of Tuscan small-firm systems. They lament that:

Tuscany has irreparably lost its chance to restructure after the crisis of the 1980s. While in other regions of the north, we saw in that period a process of rationalization and consolidation of small firm systems around leader firms, network firms and groups, in Tuscany the relatively favorable demand conditions allowed for an avoidance of this process.

(Varaldo *et al.* 1997)

Now, they argue, the Tuscan economy must become less dependent on traditional industries and Tuscan firms must get bigger and integrate more fully into processes of internationalization and capital mobilization, rejecting the traditional form of vertical disintegration for something more organized.

Like Ferrucci and Varaldo, but paying particular attention to the workings of and importance of groups in the NEC, Balloni *et al.* (1998) also place firm behaviour at the centre of analysis of SME (small and medium enterprises) systems they think must change to survive. They argue that, although a diffuse production system can be efficient and socio-cultural characteristics that reduce opportunism matter, a changing external environment requires some of the elements of hierarchy, particularly more strategic co-ordination. In a district-like context, this implies building groups or networks endowed with lead firms able to exercise some sort of 'control over the final market, in order to acquire a lasting competitive advantage' through internal competition and efficiency in selecting markets without losing the 'entrepreneurial tension'. The

retention of juridical autonomy allows the parts to maintain their own relations with suppliers, and generally ‘safeguards the characteristic operating flexibility of the district system’, while the more structured relationships, often with specific ownership ties, or at least explicit contractual relationships, can ‘eliminate the weaknesses of a system . . . that requires contemporaneous changes and coordination at different levels of the productive *filiere*’ (Balloni and Iacobucci 1997: 60).

Balloni *et al.* hold that, in the NEC, expansion by group is the only real option because such a loose organization is sufficiently consistent with the traditional ‘entrepreneurial’ direction of firms; a Chandlerian M-form divisional corporation would clash with deeply held cultural traits. However, even as the ‘entrepreneurial culture’ contributes to expansion by network, it can act as a brake on continued development. The old model was limited in producing people able to ‘interpret the new competitive scene and manage the new and more complex organizational configurations’ (1998: 63), so continued growth can occur only if the ‘entrepreneurial capacity’ takes on a much more managerial flavour; firms must co-ordinate sets of actors rather than individualistically taking on the world, invest non-owning managers with real power (quite uncharacteristic for a ‘district firm’), or elevate to partner status employees who show entrepreneurial talent. Only where lead firms are able successfully to impose a quasi-hierarchical model will local systems thrive. It can happen, but it is not inevitable, and depends on ‘great coherence in local and central governments’ decisions to act or not to act’ so that reorganization with leader firms can occur.<sup>17</sup>

Although not logically necessary, it is unsurprising that putting the firm at the centre of analysis leads theorists to look first to the firms themselves for solutions to the emerging challenges outlined in the ‘New challenges in the 1990s’ section above. The belief that a district is ultimately just a set of *firms* whose interaction may or may not create positive externalities leads to an explanation of district weakness couched in the failure of *firms* to respond adequately to changed conditions, and the advocacy of policy that can favour the emergence of *firms* with sufficient strategic capacity to overcome the co-ordination and scale difficulties endemic to a diffuse production model without giving up the flexibility that so favoured the districts in the past. In their interpretation of groups, they see hierarchy and co-ordination under the guiding hand of a strategic actor able to connect the system as a whole to new knowledge and markets. Systemic differentiation depends on the success or failure of firms in the system to aggregate about a particularly capable lead firm, to emulate a localized *one best way*. Policy prescriptions follow this line, focused on the strengthening of lead firms as they decry the ‘insufficiency of the community dimension of the district’ (Guidi 1996: 117).

### **The district as a system**

Those who take the system itself as the unit of analysis continue to believe that the norms and institutions once seen as central remain fundamental to understanding

the industrial districts in evolution. Different trajectories are explained primarily with variation in institutions, governance, and (sometimes) culture, while policy prescriptions call for strengthening co-ordination by way of *collective* activity, rather than through the empowerment of lead firms.

The first to revisit the work of Alfred Marshall in the explanation of the anomalous economy of central Italy, Giacomo Becattini (1975, 1978, 1979) is the most prominent proponent of taking the industrial district as an overall system and productive community. In his best-known work in English, he defines it as

a socio-territorial entity which is characterised by the active presence of both a community of people and a population of firms in one naturally and historically bounded area.

The most important trait of the local community is its relatively homogenous system of values and views, which is an expression of an ethic of work and activity, of the family, of reciprocity, and of change. . . . It constitutes one of the preliminary requirements for the development of a district, and one of the essential conditions of its reproduction. . . .

Parallel to this system of values, a system of institutions and rules must have developed in such a way as to spread those values throughout the district, to support and transmit them through generations. . . .

This will not mean that there will be no clashes of interests between the members of the district, or no perception of such clashes. Rather, they are experienced and defined in similar forms and within a framework of a sort of community-like superior interest which becomes an inner principle for the people of the district as a whole.

(Becattini 1990: 38–9)

A seemingly powerful criticism of such system-centred work is that it depends on an implied hypothesis of stability that assumes away creativity and change (Bursi *et al.* 1997; Franchi and Rieser 1991). However, while some system-centred work is perhaps guilty of such an assumption, it is not inherent in conceptualizations of industrial districts as coherent systems dependent for their functioning on a set of deeply embedded rules and institutions interacting with the productive structure. Institutional approaches can be quite open to evolution and change. For example, the work of the prominent Florentine scholar Gabi Dei Ottati (1995, 1996) combines an emphasis on norms and institutions with insights from transactions cost economics to explain both how a district could be expected to maintain itself at a stable equilibrium and also to understand how the system, *as a system*, will react (and is reacting) to the changes outlined in previous sections. She posits that the high levels of trust, sedimented productive knowledge, strong social ties, and reputation effects in the district form a sort of communitarian market with a balancing of competition and co-operation that mutually reinforce each other in a ‘dynamic equilibrium’ able to recreate the conditions of its success, where inter-firm agreements are co-ordinated through ‘customs and credible commitments’ able to permit *ex post* adaptation without threatening *ex ante* co-ordination (Dei Ottati 1995: 87).

Drawing heavily on Tuscan cases and cognizant that the ideal typical form has not emerged unscathed from the changes in external conditions that emerged in the 1980s, Dei Ottati also speaks to the increased importance of groups in the districts. She agrees with an aspect of the firm-centred view – that groups form because they are a means of more tightly linking firm strategies and safeguarding against final market risk than is possible if production networks re-form each season – but she differs significantly in stressing that ‘the kind of grouping developed in the districts of Tuscany should be interpreted more as a form of bilateral governance structure than as a hierarchical or unified one’, in which firms *jointly* co-ordinate strategic direction but no single firm has the power to unilaterally enforce its will (Dei Ottati 1996: 58). Such grouping is greatly favoured by being in a district where existing social relationships can be mobilized and formalized to protect against the increased returns to opportunism of today’s more uncertain markets, where interlinking transactions and strong reputation effects already push firms into multilateral strategic co-ordination, where equity investments serve largely to safeguard reciprocity.

The fundamental insight of the ‘districts as systems’ perspective is that a complex of values, rules, and institutions defines and explains variation in industrial districts. Where Varaldo *et al.* (1997) find a Tuscan ‘decline’ caused by the failure of strong leader firms to emerge, those who see the districts as partially integrated systems argue that the different trajectories are not simply contingent on the failure, or not, of firms to follow the logic of global capitalism. Rather, districts with different institutional legacies react to the developments of the 1990s in different ways, some better and some worse, but the key variable remains the system itself. Fundamentally, each district has a logic of its own (though there are explainable patterns).

In Brusco and Bigarelli’s (1997) survey of knitwear producers, they find that in the Veneto final firms are often linked by a high degree of ‘objective’ dependency to large subcontractor enterprises. The customer saturates the producer’s entire productive capacity, so that the subcontractor can plan production efficiently. The final firm initially sets prices that can be modified ‘if they do not allow for normal profits and are not high enough to provide for the investment needed to achieve the highest productivity levels that technological progress allows’. In Emilia-Romagna, on the other hand, final enterprises bring short runs to market and have a much smaller order volume, while subcontracting firms strongly prioritize keeping multiple clients. As in the Veneto, ‘price is fixed by the customer and the subcontractor can object if this price does not make it possible for him to remain in the market using the best technology available’. They find two different logics, both in decentralized industrial district production environments, but from the point of the view of ‘districts as systems’, what matters is that all the players are on the same page and operate according to the local version of the ‘highly structured, although unwritten, mixture of trust, inspections and sanctions’.

Beyond variation in informal institutions and practices, there is evidence that the different productive structures and variant logics of inter-firm contracting

are also bolstered by *formal* institutional infrastructures that vary with the production models. Burroni (1999a) shows that the historical interventionism of the small-firm dominated 'red' Tuscany continues: the local and regional state provide services to firms and programme economic development, favouring decision processes from below in a sort of local neo-corporatism. In the Veneto, local and regional governments are less interventionist, often acting principally to obtain financing for individual firms, which are expected to play an important role and depend on associations to provide other services. In the Veneto district of Thiene (which, he suggests, is typical of the region), Burroni writes:

the local state does not intervene in the local regulation of the economic sphere. These actions are nevertheless undertaken by other actors: by single medium-large firms, through particular organizational formulas based on highly structured productive networks and external hierarchies and through the direct internal production of strategic services.

(Burroni 1999a: 115)

It may strike the reader that the 'subjective choice' of various state agencies in the Veneto model to delegate co-ordination where possible to lead firms looks like the policy advocated by the firm-centred position. In a sense, this is so, but, as the Varaldo *et al.* book on Tuscany cited above makes clear, those who take a firm-centred approach do *not* think it should be applied only to the Veneto. Likewise, the system-centred approach seeks generality, and is not a stylization of Prato writ large. It is quite open, taking as its fundamental assumption only that there are interdependencies between the actions of firms and local formal and informal institutions; change in the one is likely to require change in the others (and vice versa). This does not mean that strong lead firms cannot be an answer to the sorts of problems districts typically face; it implies only that a district with co-ordinating lead firms is *still a system* and often is not dependent *only* on those lead firms. It may still need the reproduction of the 'old' values and informal mechanisms of co-ordination, and there may be some collective goods that lead firms and their networks can create only with difficulty.

It is problematic to use the relative success of the Veneto to adjudicate between system and firm-centred perspectives. The social science literature is littered with articles touting the 'obvious' superiority of the model-of-the-month, from the most exuberant observers of the industrial districts to purveyors of the Japanese model, but it is not obvious that one way will be better than others in all conditions, or that the solution of the month can be profitably emulated by all given their initial institutional endowments. There are functionally equivalent solutions to the common problems encountered by regions competing in the same global economy, but the 'one best way' is to recognize what you have and react, drawing selective lessons from others in similar situations. The single clearest message of the initial work on Italian industrial districts is that there is more than one way to run a capitalism, with flexible-specialization usefully counterpoised to mass-production (Piore and Sabel 1984; Sabel and Zeitlin 1985); the system-centred variant of the ongoing

industrial districts literature is testimony that there is also more than one way to run a *decentralized* capitalism. A district with strong lead firms may not need equally strong public institutions, but that does not necessarily mean it is impossible for those industrial districts that more closely resemble the classic model to survive a changing world, though perhaps contingent on continued institutional innovation.

### Rebuilding institutions and ensuring system reproduction

By the late 1980s, it was already clear that the industrial district model required bolstering by a series of institutions, formal and informal, to compensate for scale and co-ordination inadequacies endemic to a diffuse and decentralized production model. Now, product quality improvements in developing countries, large firm readjustment, a demand for a more diverse product range with ever quicker delivery times, and active product commercialization in many sectors create a need for still further institutional adjustment in the Italian industrial districts. Trigilia (1997) stresses that, while we should not overestimate the importance of formal political institutions in building up the industrial districts, *prospectively*, we should expect an increased salience of politics. In the past, he writes, 'the fundamental resources . . . have been values, competencies sedimented in particular areas, types of social relations, and resources which have favoured co-operation, lowered transactions costs, and led to innovation'. In the future, however, the development of small industry areas will be ever more conditioned by their capacity to produce collective goods. For Dei Ottati, the survival of industrial districts as such requires institutional support for 'accelerated renewal and upgrading of localized pools of industrial knowledge and know-how' as well as for 'ensuring a more conscious and predetermined cooperation among the many competing actors that populate the district' (1996: 61).

Industrial districts that hew relatively close to the classic model with few co-ordinating lead firms are not the only ones that would benefit from renewed institutional support. Corò *et al.* (1998) report that in the successful north-eastern 'sport-system' district of Montebelluna, a district increasingly focused on marketing and logistics, with no shortage of co-ordinating lead firms, the space for new firms requires that entrepreneurs have managerial, cognitive, and organizational skills – things not necessarily produced by the local context. Despite a description of leader firms as the 'original economic wealth of the northeast', Anastasia and Corò (1996) lament that the region suffers from a lack of explicit collective organization. Economic development depends on things a single firm can produce only with difficulty, immaterial resources governed by knowledge, while innovation can be greatly favoured by – as in the classic district literature – widespread diffusion and circulation of information in firms' local context. Contrary to the arguments of some of the firm-centred theorists mentioned above, the presence of able leader firms is not in and of itself a panacea.

It is easy enough to state in principle a need for collective institutions able to formalize co-ordination and co-operation and contribute to an innovative atmosphere, but it is not always obvious what that means in practice. Still, there are relatively concrete proposals that could help to ensure greater collective co-ordination, hopefully connecting the districts to the resources required to continue their historically innovative ways. Trigilia (1999b) calls for constructing networks that include both external and local actors, connecting local systems to outside knowledge, because 'only the growth of local subjects learning capacity constitutes a solid guarantee of development in the epoch of globalization'. Cooke and Morgan (1998) argue that the Emilian experience of the early 1990s demonstrates that, even in districts where groups of lead firms formed to seek internal economies of scale, the districts require access to a significantly more developed system of innovation, one with closer ties to universities and professional research institutions. Amin (1999) advocates a move away from an associational and governance culture of providing services to one of trying to mobilize intermediaries and stimulate experimental approaches to problems, suggesting that 'learning by monitoring' (Sabel 1994) might be a useful template.

Proposals to ensure more explicit co-ordination and co-operation, aside from calls to strengthen leader firms, often echo Trigilia's call of ten years ago for an empowerment of the regional (understood as the administrative body) state in matters of economic governance. Bagnasco and Oberti call attention to the barriers to regional regulation in the Italian case, writing that politics 'continues to be organised on a local rather than a regional basis, and leads local interests toward the center rather than formulating and redefining regional interests'. Because 'the regions are only agglomerations of localisms, they are unable to provide a dynamism or to establish a coherence among different actors', which is problematic because 'development based on small firms requires significant investment in infrastructure and collective equipment which cities and local collectivities are unable to produce alone' (1998: 161–2, 164). Rullani (1998) argues that the districts must be given more strategic voice as collectivities, which is not currently possible given the dominance of the local and the central state. 'The essential question,' he writes, 'is to as much as possible give representation and capacity of self-government to productive forces, respecting as much as possible their territorial stratification.'

### *The importance of system reproduction*

The larger implications of taking a systems perspective go beyond the contingencies of the present need for governmental regulation and new collective institutions to ensure co-ordination and innovation. The fundamental necessity of reproducing the 'old' institutions and values is embedded in the belief that the districts remain partially closed systems dependent to some extent on a series of positive externalities derived from their operation as communitarian markets.

Corò and Rullani (1998) caution that the wealth of local productive knowledge

could be at risk from a potential 'division between leader firms, continuously in search of new commercial and productive partners in the many areas of the world economy, and the local networks of production and service, destined to live a brief phase of uncertainty and possible decline, awaiting a difficult process of industrial readjustment'. Given a systems perspective, fears of a bifurcation of interests between leader firms and the productive hinterland are *economic*, not moral. If the conditions of advantage on which the leader firms have based their success cannot be separated from the institutional context, there is a real danger that firms who co-ordinate large production systems and can scan globally for partners may not recognize the medium to long-term material and immaterial advantages of the local system, internationalizing even important phases for short-term cost savings (Corò *et al.* 1998; Anastasia and Corò 1996; Conti and Menghinello 1998).

Even in the revamped version of the 'classic' district, where groups are understood as bilateral governance structures, recent and expected developments have an impact on informal institutions and values. Dei Ottati (1995) writes that 'the structuration of the district, though it allows for the coordination and dimensions required by the new product strategies and process innovation, can elevate the barriers to entry of new firms'. This, in turn, reduces the firm rate of birth and generally attenuates the internal mobility of the local system with consequences that are certainly not positive for the diffusion of entrepreneurialism. Barriers to new firm formation are a genuine threat to the reproduction of the culture of work and the diffuse knowledge of the production process, relating as well to an increasingly documented difficulty in the industrial districts: the generational turnover of the workforce. Case studies in districts have documented an increasing mismatch between labour demand and supply; high school graduates do not want to work in factories (Blim 1993; Corò and Rullani 1998; Calistri 1994; Guerra 1998).

Becattini and Rullani (1994) remind us that, in any analysis of the economy, 'the production of goods includes the social reproduction of the productive organism: a truly complete productive process must co-produce, along with goods, the values, knowledge, institutions and the natural environment that it requires'. The Italian industrial districts are clearly changing, probably in ways largely functional to their continued survival, but increasingly formal contractual relations, grouping, external hierarchy and especially the rise to prominence of lead firms with access to global markets can have enormous consequences if the industrial districts really need (or at least greatly benefit from) the widespread trust derived from a common social culture, entrepreneurialism, and a diffuse knowledge of the production process.

### **Conclusion: the contingent future of the Italian industrial districts**

I began this foray into the Italian literature on industrial districts by suggesting that there was vigorous debate over a series of questions insufficiently discussed

in the English language literature. To three of those questions – the pressures leading the districts to restructure, the patterns of restructuring, and whether or not there is a unilinear trend – the literature provides relatively clear answers. Competition from low-wage countries and large firm restructuring are forcing the industrial districts to compete almost exclusively in quality-conscious markets. At the same time, changes in demand composition, a need for higher intrinsic production quality, shorter delivery times, and a more active product commercialization push firms to specialize in their core businesses and develop stable relationships with a limited number of suppliers. Groups are becoming common, and at least in some districts there is an increase in external hierarchy. The adequacy of the collective and local governmental institutions so important in the districts' past is being challenged. There are patterns in the responses to similar functional imperatives across districts, but it would be misleading to call them a 'unilinear trend' as important elements vary significantly from district to district – most particularly the level of external hierarchy, the role of lead firms and types of collective institutions.

The answers to the two questions with a normative bent – how the districts should restructure, and whether or not they should all try to follow the same path – are the source of much disagreement. The firm-centred position seeks the emergence of 'world-class' firms able to solve privately the difficulties of scale and co-ordination endemic to a small-firm-dominated diffuse production model. In the system-centred work heir to the initial literature of district discovery, the bias is to look first to ways in which the state or associations might be able to more closely preserve the 'classic' form of the district with little external hierarchy and a minimal role for lead firms. However, this literature is also able to provide answers that are general to agglomerated network production systems without requiring convergence on a *one best way*, giving as well some general insight into the sociological study of the economy.

Beginning with the simple claim that there are interdependencies between the actions of firms, local institutions and the values and culture of local actors, system-centred scholars carefully show that, despite particularities, the Italian industrial districts are not an island apart from the rest of the world economy. They may have a culture 'conducive' to a diffuse production model, but their continued viability is dependent on sustaining formal institutions that can ensure co-ordination, overcome scale difficulties, and, importantly, guarantee the reproduction of the norms and values underlying the system. This is true not just of districts that still approximate the traditional model, but also of those with strong lead firms. There is no single pathway to district success nor is there a single set of institutions that could meet the needs of every industrial district in Italy, but there does need to be a general 'fit' between institutions and the local productive structure.

Intrinsically, the future of the Italian industrial districts is neither bright nor bleak. They find themselves in a globalizing world, pressured from below by countries with lower labour costs and from above by larger competitors who control distribution and have stronger capital bases. Without adjustment and

institutional innovation, the likeliest prospect for most districts would be a bifurcation into a few lead firms well integrated into the world economy and a hinterland of small firms slowly failing as the local skill base dwindles to nothing. But institutional innovation has been a hallmark of the districts throughout their history, and there are signs that, at least in this regard, the next decade may be no different. To paraphrase the aristocrat Tancredi of Tomasi di Lampedusa's *Il Gattopardo*, everything must change if everything is to remain the same.

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## Notes

1 The districts had been discussed in Anglophone journals prior to 1984 (see especially Brusco 1982; Becatini 1978), but the *Second Industrial Divide* was the 'big splash'.

2 The law 317/91 defines industrial districts as 'local territories characterized by an elevated concentration of small firms, with particular reference to the relation between the firms present and a resident population, and not only to the productive specialization of the set of firms'. The model is also a touchstone for policymakers looking for ways to revive the laggard economy of southern Italy. See, for example, Trigilia (1999b).

3 Most Italian industrial districts are in the fashionwear industries – textiles, clothing, footwear, leather goods and tanning – but there are also many in metal-goods industries, mechanical and electrical engineering, ceramic goods, musical instruments, wooden furniture, and toys (Sforzi 1989).

4 For example, people use Putnam's (1993) claim that social capital in these regions is a result of centuries-old traditions to argue that Emilia-Romagna is *just different*. However, note that Putnam uses social capital to explain *governmental* efficiency, so, even there, formal institutions matter.

5 That this was recognized nearly simultaneously in both the policy and academic worlds is probably due to the active role many 'district scholars' took in the local and regional policy-making arenas.

6 The pressures of low-wage competition are particularly well documented (see, for example, Alacevich 1995–6; Anselmi 1989; Crestanello 1996; Lanzara and Ferrucci 1997; Pyke and Sengenberger 1996).

7 The idea that there is a sort of 'double convergence' (Regini and Sabel 1989) between big and small firms has found some favour in the literature (see also Bianchi 1993; Brusco 1994; Franchi and Rieser 1991; Rinaldini 1996).

8 See Balducci *et al.* (1992); Carminucci and Casucci (1997); Blim (1989); Balloni and Iacobucci (1997); Nuti and Cainelli (1996); Pyke and Sengenberger (1996); Zagnoli (1993).

9 *Pronto moda* means 'ready fashion' and refers to fashion goods that are produced very

quickly to respond to what is selling *at that moment*. Firms will initially produce/order many small runs and then re-order only when they see exactly what is selling in a given season. Crestanello (1997) argues that, overall, the quick turnaround times induced by *pronto moda* have been significant in the defence of local employment. This is undoubtedly true, but also represents a real change from the past that could necessitate concomitant adjustments in district structure.

10 See Crestanello (1997); Brusco and Bigarelli (1997); Bellandi (1997); Bianchi (1994); Varaldo and Ferrucci (1997); Possa (1992).

11 Mistri's claim is primarily an empirical one that consortia, especially public ones, are weak in non-price competition because they are open to all comers. It is certainly *theoretically* possible for consortia to facilitate non-price competition, as long as allied firms specialize differently.

12 In his defence, Harrison is certainly aware that Benetton grew from the inside. But, given that he does not present them as the best of neighbours, it remains unclear why the 'foreign-ness' of external entrants would make them any worse.

13 Others who argue, with some variation in the details, that grouping and formalization lead to hierarchy and a decreasing importance of social characteristics include Bianchi (1994), Bortolotti (1994), Crestanello (1996) and Tamperi (1999).

14 For Lombardy cases, see Arrighetti and Seravalli (1999). Bianchi and Enrietti (1999) document the development of a 'technology district' in Piedmont, while D'Ercole (1992) (among others) uses the idea of the industrial district to discuss footwear-producing areas in Puglia (see also Trigilia 1999a).

15 Anastasia and Corò (1996) make similar claims about the importance of varied sectoral specializations in the Veneto.

16 That is, in Tuscany, employment is growing only in the class of firms with ten or more employees, but employment in the district itself continues to be dominated by firms with fewer than ten employees.

17 To give coherence, I have chosen to give the details of a limited number of works. However, arguments that there is a strategic role for co-ordinating lead firms in the NEC are common in case studies of districts. For a smattering of other examples, see Onida (1992); Balducci *et al.* (1992); Possa (1992); Sbrana (1988); Viesti (1992).

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