



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

**REAL SERVICE CENTRES IN ITALIAN INDUSTRIAL DISTRICTS
LESSONS LEARNED FROM A COMPARATIVE ANALYSIS**

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Executive Summary

The focus of the paper is on the supply of real services (industrial policies towards SMEs focusing on the supply of business development services rather than of financial support) that are under-provided by the market because of their highly developmental nature. The reluctance of the private sector to invest on the supply of real service can lock an SME cluster within traditional ways of doing business and it thus provides the rationale for policy initiatives aimed at triggering structural change.

On the basis of a comparison of various Italian service centres, four features are identified which characterise effective policy initiatives: a) a clear guideline, b) its customisation to the needs of the beneficiaries, c) the achievement of embedded autonomy, and d) the capacity to strengthen the governance capacity of the cluster. The paper provides empirical evidence to support this conclusion.

Successful providers of real services present all such features, albeit at different stages of their history. Moving from one stage to the other is not an automatic process and indeed it requires a great deal of effort and determination by the managers of the real service centre. Nevertheless the identification of an effective guideline and its customisation to the needs of the SMEs are of crucial importance for the achievement of embedded autonomy by the managers of the real service centre, which in turn provides a solid foundation to strengthen the governance capacity at the cluster level. The constituents of an integrated institutional approach are thus identified. The achievement of any one of the four features is a necessary but not sufficient condition for the success of the institutional approach. Examples are offered of initiatives that, while on paper best suited to the needs of SMEs, never achieved their objectives because of the lack of an effective public-private partnership.

The final part of the paper discusses the relevance of lessons drawn from the Italian experience for policy makers wishing to support SME clusters in developing countries.

1- INTRODUCTION

It has long been acknowledged that the competitiveness of the small-scale enterprises (SMEs) located within an industrial district (ID) is a function of the resources that they can draw at little or no cost from the surrounding environment. Observers of the phenomenon have paid attention to the availability within such districts a) of a wide range of semi-manufactured components, b) of raw materials that can be purchased in relatively small amounts, c) of customised machine tools as well as d) of highly trained human resources (Amin 1994, Best 1990, Brusco 1982, Harrison 1992, Porter 1990). It is therefore not surprising to observe that within such settings public support focus on the supply of business development services (BDS) that are highly customised to the specific industrial tradition of each area (also known as real services in the literature). Such a tendency is indeed so wide-spread that it has attracted a great deal of attention in the literature (Asheim 1994, Bianchi & Bellini 1991, Garofoli 1991, Pyke 1992).

In a recent survey, over 130 real service centres were identified in 56 industrial district (Florida, Parri & Quaglia 1994). Such centres offer a wide array of services including credit guarantee, export insurance and/or promotion, organisation of fairs, access to information on the evolution of markets/technology, client rating, consultancy, training, waste management, pollution control, quality certification, award of trademarks, product promotion, support to innovation, bulk purchase of inputs, and product testing. These centre are invariably publicly owned (by producers' associations, local government, SME support agencies or partnerships among them).

The supply of business development services is characterised by such a strongly developmental nature that it rarely lies within the reach of for-profit businesses with a short-term orientation. Three inter-dependent obstacles stand in the way of greater private involvement. For a start, real services are aimed at satisfying a **demand, which is initially potential** and rarely disclosed: a great deal of uncertainty therefore surrounds the feasibility of supplying such type of services. Secondly, an even greater uncertainty surrounds the sustainability of demand in the long run since the latter depends upon the **willingness of the SMEs to successfully undertake radical internal re-structuring**. Thirdly, the creation of a real service centre requires significant initial investments not only in terms of financial

resources but also in terms of **the trust-based relationships to be established with the potential customers.**

The reluctance of the private sector to invest on the supply of real service can lock the entire district within traditional ways of doing business. The scope thus emerges for **non-profit initiatives** to be undertaken by one or more actors characterised by a) a medium-term orientation and b) the capacity to elicit the active involvement of the SME owners. Such public initiatives aim at triggering structural change (both at enterprise level and at the cluster level) so that the SMEs can take up the opportunities available within the global market. At a closer scrutiny, therefore, the supply of real services appears not only as the instrument for strengthening the competencies of the SMEs of the ID, but also as a key component of a more comprehensive industrial policy aimed at re-positioning the ID within the international markets.

The supply of BDS is by no means an Italian invention and it is indeed rapidly becoming a key component of numerous SME support programs (Tanburn 1998). Within such a context, understanding the key features of the Italian case appears valuable for two reasons. On the one hand, the Italian real service centres have been established in a **de-centralised and uncoordinated fashion** rather than as a result of nation-wide SME support programs. As a result, the Italian experience is characterised by high variety and it can constitute a source of inspiration in a large number of cases. Secondly, the Italian real service centres have invariably emerged within IDs and therefore are **ideal case studies for cluster-based SME support programs.**

2- KEY FEATURES OF A SUCCESSFUL REAL SERVICE CENTRE

On the basis of a comparison of the service centres that have been the focus of previous case studies commissioned by UNIDO*, this section identifies four features of successful initiatives aimed at triggering structural change with the purpose of enabling the SMEs to take up the opportunities available within the global market. The four features are highly inter-dependent and there is indeed a progression, which links the first to the last. While only a few of the real service centres reviewed managed to successfully undertake the entire process (and thus to

* M.Clara, 1999, *CITER*, Case Study, UNIDO - 1998, *Promosedìa*, Case Study, UNIDO - 1998, *SPRINT*, Case Study, UNIDO - 1999, *Effluent Treatment Plants*, Case Study, UNIDO - 1999, *Quality Consortia*, Case Study, UNIDO - 1999, *Museums*, Case Study, UNIDO

establish themselves as prime actors behind the structural re-definition of their ID) it cannot be denied that they all displayed, albeit with varying intensity, all such features.

2.1 An effective platform

The success of an initiative whose aim is to catalyse the collaboration among actors from various constituencies (entrepreneurs, policy makers, civil servants, technicians, etc.), depends crucially upon the identification of a **platform** which balances long-term developmental objectives with the realistic prospect to impact upon the profitability of the cluster producers. The platform is neither an all-comprehensive 'plan for action' nor a clear description of the rights and duties of the participants to the initiative, but it rather provides the **opportunity to initiate a dialogue within the district** and to set its tone. Altogether it resembles more closely a 'business idea' (which identifies a latent and yet unaddressed demand, the long term viability of a business, etc.) than a well defined 'business plan'.

From the start, such platform enshrines all the crucial elements of the SME support initiative: a) it identifies an area for intervention (thus putting forward a vision for the future of the district as well as a strategy to realise it), b) it discloses the opportunity for the district producers to strengthen the viability of their own businesses, c) it lists the priorities for public support, and d) it sets an agenda for a public-private dialogue. Implicitly, such platform puts forward the needs that the real service centre should aim to address (in the short- as well as in the long-run) and it outlines the conditions under which it can gain greater financial sustainability. The case of Promosedia (described in greater details in Box 1) is a good example of a service centre, which was founded on a remarkably effective platform.

BOX 1 - Promosedia and the International Chair Exhibition

Promosedia is an export-support agency jointly owned by around 100 chair-manufacturers from the cluster of Manzano and by the local Chamber of Commerce. It was established in 1983 to provide the district producers with new opportunities to access export markets and to side-step foreign whole-sellers. Its long-term objective was to help the SMEs of Manzano to move upwards in the value-added chain. The strategy implemented by Promosedia was to strengthen the appeal of the Udine Chair Exhibition and to turn it into the prime meeting place for chair producers and buyers from all over the world. Under the management of Promosedia, the Exhibition has witnessed a five-fold increase in the number of visitors (from 3,000 in 1983 to over 15,000 in 1997).

The appeal of such an event is clearly testified by the speed at which the available exhibition lots are sold (overwhelmingly to the district producers themselves). As initially envisaged by its founders, Promosedia earns the greatest share of its revenues from such event (covering over 75% of its running costs) of which it is the only organiser. The agency is also heavily involved in supporting the participation of its associates to the major furniture exhibition throughout the world. Over its 15 years of life, Promosedia doubtlessly supported a dramatic restructuring of the Manzano district witnessing an explosive increase in terms of the number of chairs produced to nearly 40 m. units per year as well as of aggregate turnover which was estimated in 1996 to be in excess of 2,500 billion lire (over 80% of which derived from exports)

2.2 Customer-orientation

The definition of a platform should not be mistaken as the indicator of a top-down (i.e. supply-led) approach to the delivery of BDS. Quite on the contrary, the value of such a starting point resides in the opportunity to **set an agenda within the district** and thus to 'frame' the requests of the various local actors. The lesson, which emerges most clearly from the case studies, is that ample scope needs to be left to the district entrepreneurs to allow an adequate 'customisation' of the BDS. At such level, there appears **no substitute to the in-depth knowledge** of the market as well as of the production process, which is held by the district entrepreneurs.

It is important to reflect upon such a feature. In none of the case studies under consideration the supply of real services was originated by a univocal demand from the local producers. In spite of their spatial proximity, the district producers habitually operate on a highly individualistic basis. When asked about their needs and priorities, they respond on the basis of their own individual experiences thus failing to perceive the interdependence among their fates as well as the opportunities disclosed by a "collective" action. At the same time, however; the knowledge dispersed within the district can only be grasped as a result of the willing participation of the local producers. As a result, the SME support initiative should be neither predominantly 'supply-based' nor uniquely 'demand-led' but they should rather present a careful mix of the two.

Customisation involves **three interdependent tasks** for the (will-be) managers of the real service centre, namely a) uncovering the latent needs of the cluster SMEs, b) re-interpreting such needs in light of the original platform and c)

rallying a consensus within the district about the opportunity to tackle them through a collective initiative. The **first task** invariably requires the creation of a solid and trust-based link with the district entrepreneurs for the latter to disclose sensitive data about their problems. Initially it is significantly time-consuming, but it becomes easier away as the reputation of the (will-be) service centre's managers becomes better established and as communication barriers fade. The **second task** does not require the same extent of "users' involvement" and it rapidly becomes the exclusive domain of a very small group of highly influential actors (such as the future managers of the real service centres, or senior representatives from the producers' associations, or a handful of top local policy makers). The evidence gathered indicates that it is important to involve the largest audience of potential BDS consumers in such a task (to avoid the sensation of preferential treatment) and to publicise its key results throughout the ID. Frequently, the success with respect to the **third task** depends on the results achieved in the previous two. If the entire customisation process is carried through smoothly and if it involves the largest possible number of local actors, its end result emerges as an achievement of the district as a whole.

BOX 2 - The establishment of CITER

Over much of the last decade, CITER has been heralded as the most effective real service centre in Italy. Scores of experts and policy makers from all over the world have visited this institution located within the knitwear district of Carpi and jointly owned by the regional development board, the local producers' associations, and nearly 500 SMEs. CITER offers to its clients access to a vast body of knowledge concerning a) the evolution of fashion in the textile industry, b) the introduction of new production technologies, and c) the availability of sub-contractors. It is widely acknowledged that CITER significantly increased the capacity of the district SMEs to diversify towards the highly profitable prêt-à-porter market in the late 1980s.

CITER was established in 1980 as an offspring of a training initiative undertaken between 1976 and 1979. Thanks to the largely innovative approach (with young and motivated class tutors to monitor the satisfaction of the participants) and to the active involvement of all the local producers association, the training initiative catalysed a great deal of interest attracting over 600 people from more than 300 local enterprises. Already during its second year, working groups of motivated entrepreneurs emerged spontaneously aiming at broadening the scope of the courses and at fine-tuning them to the evolving needs of the former. Certainly much

of the success of this training initiative rest upon the capacity of the class tutors to promptly grasp such demands and to convey them to the managers of the initiative.

Unsurprisingly, the success of the training initiative strengthened the relationships between its organisers and the participating enterprises. As the former learned to focus the request of the latter, it became clear that most district producers were in need of long-term support than of a one-off training course. The scope was thus disclosed for a centre that could offer instant access to the rapidly evolving trends of the fashion industry. As an audience of potential clients had already been contacted, CITER could from the beginning define user-fees for its services. By the same token it proved remarkably easy to involve the key SME support institution operating at the local level and to obtain much needed financial support for such an highly innovative initiative.

2.3 Embedded autonomy

The capacity expressed by the management of the service centre to carefully balance its own priorities with those of the other agents of the district is a feature of all the successful initiatives not only during their establishments but also throughout their lives. Such a characteristic mode of behaviour is actually so pervasive that it assumes the features of a well defined *modus operandi* also known as “embedded autonomy” (Evans 1995). The term, initially developed to account for the extraordinary effectiveness of the industrial policies in a range of East Asian countries, refers to the capacity of a public institution to successfully **balance** a) the need to retain a developmental character (thus being able to hold a vision encompassing wide-ranging structural changes) and b) the need to maintain a dialogue with its private counterparts (who are the beneficiaries of the initiative but also the main actors behind its implementation). By the same token, embedded autonomy reflects the capacity of a public institution to resist the most detrimental pressures from the surrounding environment (which often result in patronage) while remaining essentially open to more developmental forms of partnership (thus favouring an adequate customisation of the initiative). Examples of embedded autonomy have been identified in the most different environments ranging from successful nation-wide programs to support the information technology industry to innovative programs of water sanitation in the suburbs of Latin American cities.

Within the context of the IDs reviewed, embedded autonomy is the basis for the real service centres to trigger a radical redefinition of the internal structure of the

local SMEs (for an example see Box 3). Indeed, the managers of the real service centres rarely proved able to “force” their decisions upon the district entrepreneurs. Quite on the contrary the autonomy of the real service centre (in terms of the capacity of its managers to identify the challenges faced by the district and to put forward proposals to address them) was systematically balanced by its embeddedness within the local economy (a feature that tamed the most far-reaching projects but that certainly contributed to the disclosure of the otherwise tacit knowledge dispersed within the district). The achievement of such an equilibrium is by no means trouble-free. On the contrary, a **creative tension** exists between the management of the centre (resenting the limits imposed by the excessive individualism and limited long-term orientation of the local entrepreneurs) and the SME owners (who protest against the excessive freedom of the centre managers and against their propensity to undertake ‘outlandish’ projects with uncertain prospects).

If the achievement of an embedded autonomy is a “**work in progress**”, the management board of the real service centre and its annual general meetings are the venues where the characteristics of such “work in progress” are defined. The importance of such events for the economy of the district should not be underscored. In many IDs, they constitute the only opportunity for the district as a whole to be represented and one of the few chances for the various local players (entrepreneurs, policy makers, unions’ representatives) to look upon the challenges faced by the district from a more global perspective.

Box 3 - FIC and the adoption of environmental-friendly technology

The FIC consortium operates the waste treatment facility of the leather-manufacturing district of Arzignano. It was founded in 1973 by the six township administrations of the Chiampo River Valley with the purpose of reducing the environmental impact of the production process. Thanks to the endorsement of the local entrepreneurs (fearing the high fines imposed by the local courts) and the generous co-funds made available by the regional government, the consortium inaugurated in the summer of 1983 a large treatment plant. From the very beginning, it proved incapable to significantly reduce pollution, as the chemicals compounds discharged by the tanners could not be processed by the consortium at sufficiently low costs. Over the decade, the hardest task of the FIC managers was to convince the local producers to implement pollution-abating technologies and to upgrade their in-house water processing facilities. Apparently, the strategy implemented by FIC was to increase its water treatment fees (as to make the use of selected toxic

compounds increasingly more expensive) and to tighten its water pre-treatment requirements.

At a deeper scrutiny, however, FIC repeatedly embarked upon more wide-ranging initiatives. For a start, it acted as a forum for discussion among the district producers, allowing them to perceive collective challenges and to relate them to their individual ways of doing business. Furthermore FIC initiated and funded pilot projects in connection with the local machinery producers with the aim of identifying suitable technologies to reduce the environmental impact of production. The consortium took upon itself also the task of dispersing 'best practices' within the district. In a number of cases, FIC also pioneered innovative entrepreneurial activities related to the recycling of chemical to provide a further incentive to the district tanners to adopt a more environmental friendly approach. Ultimately, the consortium liaised with the enforcement institutions to slow down the implementation of more stringent environment laws, thus buying time to the district producers. In the last analysis, the re-definition of the water processing fees was the last component of a complex initiative aimed at sensitising the district producers to the increasingly demanding environment-protection legislation, but also at providing them with the support they needed to rapidly respond to such a challenge. Throughout such a process, FIC retained its 'leadership' within the district acting as a stimulus as well as a path-breaker for the private sector.

2.4 Enhancing governance potential

The embedded autonomy of the real service centre contributes considerably to the effectiveness of BDS supply and thus to competitiveness of the district producers but it is by no means an end in itself. In the medium term, the challenge for the centre is to strengthen the capacity of the ID to act as a coherent entity with respect to the challenges faced by its entrepreneurs, and thus to favour **an enhancement of the governance potential of the local economy**. Even when such a challenge was successfully tackled (as in the case presented in Box 4), significant resistance had to be overcome, as the district entrepreneurs perceived such a transition in the role of the real service centre as an encroachment upon their autonomy and as an 'exogenous' attempt to challenge well-established business routines. **Resistance** reached its climax as the management of the real service centre disclosed their willingness to alter their function within the district from being providers of support services (whose positive impact is acknowledged within the

district) to becoming a relevant player in the definition of the firms' strategies. It was at this junction that the "embeddedness" of the centre within the local economy displayed its most beneficial effects, as the dialogue between district entrepreneurs, local policy makers, producers' representatives and the managers of the real service centre became the only way out from a tension-rich lock-out.

The **management board of a real service centre** provides in many ways an ideal opportunity to facilitate the emergence of a consensus among the various district players. For a start, most of such players are represented on such a body and these meetings are often the only opportunity to look beyond immediate needs. Secondly, the autonomy gained by the managers of the centre allows the latter to put forward proposals as 'impartial' referees who can credibly claim to act in the interest of the district. Thirdly, it provides the opportunity to reward the actors who are most likely to be negatively affected in anticipation of their welfare losses (for example granting privileged access to the services provided by the centre). As a result, the task of the centre becomes increasingly the re-definition of the relationships within the district and between the district entrepreneurs and their surrounding environment. Over time, the supply of BDS becomes an increasingly standardised activity, that can be easily spun off thus freeing the managers of the service centre to undertake new activities.

Box 4 - Minimum quality criteria in the San Daniele district

The Consorzio del Prosciutto di San Daniele was established in June 1961 as a lobbying initiative aimed at enshrining the "traditional ham-manufacturing procedures" within the national legislation, thus protecting the local producers against unfair competition. The achievement of such an objective required 25 years and by 1986 the consortium was entrusted with the mission of overseeing the implementation of the production protocol and of awarding the guaranteed origin trademark.

Starting in 1987, the consortium decided to press forward the project of enforcing minimum quality standards for all the products of the district, strengthening its screening capacities upon the entire production process (ranging from the provision of basic inputs to the distribution network) with the prospect of introducing production quota. This second component of the project proved itself a remarkable challenge to the economic viability of the district producers as it envisaged a drastic reduction of production capacities (as a result of which only about half of the ham-legs which could be processed in the ID could be awarded the origin trademark).

The plan was effectively enforced over a three-years period as the production quota were sub-divided among the district producers favouring those who had already invested more heavily on production quality. Of great importance for the success of the endeavour was its implementation over an upturn of demand in the traditional markets of the district (so that the reduction of firm profitability was limited): when the market slowed down in the early 1990s, the district had successfully established itself within the more profitable market niches and it could therefore wage the crisis. In the latter part of the 1990s the Consortium spun off its entire product testing facilities to an outside body and it could therefore focus more intensively on the definition of long-term strategies for the ID.

3 SOME CAVEATS

It would be misleading to suggest that the real service centres operating in the Italian industrial districts have all achieved the four features presented in the previous section. Indeed, only a minority among them appears to have achieved such an objective. There are clear reasons for such an outcome that need to be reflected upon, especially if the attempt is made to extract lessons from the experience of the Italian real service centres and to build SME support upon them. This section reflects upon two of the key obstacles that stand in the way of the realisation of an effective real service centre, providing empirical evidence to back up its conclusions.

3.1 Successful initiatives display all four features

An important lesson to be learned from the case studies under review is that the progression from the first to the fourth feature is an **incremental process**, which takes its time to be fully realised. In other words, the hope to positively impact upon the governance potential of a cluster crucially depends on the identification of a valid platform, on its careful customisation to the requests of the local producers and on the achievement of a sufficient degree of embedded autonomy. Lacking such a progression, an SME support initiative is often doomed to failure. Box 5 reflects upon one such experience, where the impact of on otherwise largely valid platform was seriously reduced by the inadequate extent of its customisation. As a result, the embeddedness of the initiative within the local economy proved to be limited and the latter withered in a relatively short time after the first technical problems set in.

Box 5 - The experience of SPRINT in the Prato district

The SPRINT project refers to the attempt made by a national technology diffusion agency (ENEA) over the 1980s to introduce more advanced IT within the textile manufacturing industrial district of Prato. At least for what concerns the introduction of a rudimentary Internet protocol modelled along the French 'Minitel' experience, the failure of SPRINT is by and large acknowledged. Several off-springs of the project (concerned more directly with product and process innovation) did however generate much more sustainable results. Several technical problems plagued SPRINT from its creation, including the shifting attitude of the national TLC operator, whose initial enthusiasm with this pilot project was not matched by sufficient investments. At a closer scrutiny, however, it appears that the main obstacles to the realisation of the initial vision lied in the institutional problems that troubled its realisation.

In 1983, ENEA masterminded the establishment of the SPRINT consortium among all the producers' association of the district and subsequently pressed for the inclusion of the township administration as well as several local banks. Nevertheless, the decision to invest on the Minitel technology had already been taken autonomously by ENEA earlier on in the 1980s. The purpose of the consortium was therefore to act as an interface between ENEA and the district for the definition of the services to be provided on line.

In practice, however, the consortium never quite managed to fulfil its role. Communication barriers burdened the work of the technical consultant selected by ENEA who proved unable to identify the demands of the district producers. The producers' association did not all display the same enthusiasm: while the larger district producers spontaneously gathered in several working groups, the small producers remained largely aloof. As a result, the first generation of on-line services proved remarkably under-used, thus failing to generate the expected network externalities. Average service costs therefore soared (to much higher levels than those initially presented to the local entrepreneurs) and the TLC operator lost much of its interest in the project, thus failing to upgrade the network. While the producers' associations were becoming disenchanted with the project and ENEA was becoming very worried by the disengagement of the TLC operator, the bankruptcy of the local bank (itself a valuable member of the consortium) dealt the final blow to the entire initiative.

It is important to reflect upon a key implication of this box. The capacity of a real service centre to impact upon the structure of an ID has been related repeatedly to the balance between its embeddedness in the local economy and its ability to autonomously identify the challenges faced by the district. This balance is not a characteristic that can be artificially inspired but it emerges as the result of the mutually balancing (but otherwise only marginally converging) expectations of the various representatives of the local economy. What is been emphasised is that the managers of the real service centre are in a position a) to set the agenda for such a process and b) to act as impartial referees for the establishment of a consensus within the district. In order to deploy such a capacity, they however need to win over the trust and support of the local players, and especially of the most sceptical among them, namely the entrepreneurs. **Trust-building** does not appear to be an especially easy task in IDs characterised by a great deal of individualism and bitter inter-firm competition. Under such settings, trust can only result from repeated interactions whereby the managers of the real service centre and the local entrepreneurs learn to know and understand each other. In the case of SPRINT, there is hardly any indication that the trust of the key players (the cluster manufacturers but also their associations) was ever significantly won.

3.2 Success needs to be continuously re-invented

A second qualification to the analysis presented in section 2 is that the achievement of the four features discussed does not in itself ensure their **sustainability over time**. In other words, the success of a real service centre in re-defining the structure of an ID is a continuously moving target, which needs to be closely targeted by the centre managers. Failure to appreciate such a feature inevitably condemns the centre to an increasingly marginal role within the local economy and ultimately to its irrelevance. At least four forces can be identified which support such conclusion.

First of all and most obviously, the implementation of a valid and sufficiently far-reaching platform inevitably triggers **structural changes** in the district, which in turn can undermine the relevance of the services centre. A change in the relationships among the district firms, the introduction of new technologies and the exploration of new markets disclose new scenarios to the local entrepreneurs. The rise of new opportunities to strengthen the profitability of their businesses inevitably

reduces the urgency of the challenges faced by the district producers, and therefore their willingness to forgo their own autonomy in favour of a collective initiative.

Secondly, the success of the real service centre discloses to a whole range of private businessmen the economic viability of providing services, which initially appeared of an excessively developmental nature. Unless the managers of the service centre are in a position either to keep ahead of such **competitive pressures** or to legally prevent them, they are rapidly going to see the economic viability of the their centre challenged. While from a global perspective this second force is certainly to be welcomed (since it results in the diffusion of best practices within the district and potentially to a more efficient supply of services), it inevitably constitutes a challenge for the service centre and for its personnel.

Thirdly, there appears to be a real chance that the acquisition of greater autonomy margins by the real service centre and its willingness to play a role in enhancing the governance potential of the district can **scare the local producers** and worry other district players (such as the producers associations, other local SME support institutions, even the local policy makers) to the extent that the centre is perceived as a 'threaten' rather than as the instrument to initiate and to sustain restructuring. It would be in other words naive to imagine the real service centre as operating in an "institutional vacuum". On the contrary, the evidence suggests that running one such institution requires a great deal of political skills and a clear understanding of the power relationships within the district. The approach that has been described in the previous section aims at taking back all such possible conflicts within the management board of the centre in order to reduce the amount of uncertainty surrounding the centre's initiatives, to clarify its purpose and to find an accommodation to the potential tensions. Clearly there is no guarantee that the board will always prove up to such task. In the case reported in Box 6, the tensions resulting from such a failure effectively brought the initiatives of the service centre to a sudden end, in spite of the validity of the proposal set forth by its manager and in spite of the embeddedness that the institution had gained over the previous decade.

Box 6 - The limits to the evolution of FIC

The history of the FIC consortium has already been reflected upon in Box 3. In the early 1990s, as the most pressing environmental emergencies of the Arzignano district had been addressed, the consortium moved to tackle problems that, while not immediately urgent, were causing a great deal of discomfort within the public opinion such as the one of the smell released into the air by the tanneries of the district. As it

had already done in more than one occasion, the director of FIC contacted a range of experts to identify a sustainable technological solution to put forward to the local producers. Since a radical re-design of the entire sewage network was deemed excessively expensive, the director turned to a more inexpensive solution, which required the producers to store part of their effluent waters and to deliver them separately (through a lorry service) to the consortium where they would be processed.

A largely unexpected consequence of such a scheme was however that FIC could monitor its clients' leather production to an extent that was previously impossible (through its control over the amount of pollutants used). The fear that such confidential data could become public (and therefore available to competitors as well as to all public institution) spread among the local producers and it effectively brought the project to a sudden stop. Very soon afterwards, the director of the consortium lost an important vote of confidence and decided to resign. While the processing plant operated by the consortium remained heavily used by the local producers, further attempts by FIC to enhance the governance potential in the district met increasing resistance and they were eventually abandoned.

Lastly, it needs to be realised that every service centre operates within a broader environment than the district itself and that, as a result, it needs to respond to **“exogenous” challenges** (such as the evolution of the final markets, the emergence of new competitors for the district producers, sudden changes in the legislative framework). Under such conditions it is always possible for the real service centres to lose its relevance. Box 7 reflects upon such an event.

Box 7 - The ongoing challenge to the viability of CITER

The case of CITER has been presented in Box 2 with reference to its establishment as a result of an earlier training initiative. The success of such an institution was related to its capacity to effectively respond to the requests of the district producers concerning the evolution of fashion trends. Over much of the 1980s, the success of the prêt-à-porter market insured significant profit margins to such entrepreneurs and it disclosed to CITER a rapidly expanding demand for its fashion-related services.

The collapse of such market in the early 1990s precipitated the district in a serious crisis that resulted in the loss of 600 firms (one fourth of those operating in

1988) and of 4,000 job places. As a result, CITER witnessed a rapid decrease in the number of its clients, a large number of whom preferred to concentrate upon their sub-contracting capacities and therefore cut their investment on fashion-related services. As the leading district producers were taken over by producers from outside the Carpi district, much of the design-related phases of the production process were furthermore de-localised to other areas. Such a transition drastically reduced the economic viability of the centre which had to rapidly undertake a severe re-structuring of its staff and to re-focus its supply towards the SMEs which proved willing to pay (thus cutting drastically on its initial open-to-all emphasis). CITER appears to be currently struggling to find a solution to such problems.

4 OPEN ISSUES

The remarkable economic success of numerous Italian industrial districts over the last two decades has understandably raised a great deal of interest around such an experience (Best 1990, Goodman, Bamford & Saynor, 1989, Van Dijk 1992). The repeatability of such a peculiar mode of SME-based industrialisation has been the subject of a great deal of discussion (Amin 1994, Nadvi 1994, Rabellotti 1995, Schmitz & Musych 1994). The purpose of this paper has been to highlight a key feature of the Italian experience, namely the role of the real service centres as provider of highly customised BDS but also as an opportunity to enhance the governance potential at the district level. This paper, as well as the case studies upon which it is based, have been commissioned with the purpose of extracting a set of lessons that may act as a template for development agents operating in developing countries. While such a task has been accomplished in section 2 and 3, it is now time to reflect upon the inherent limitations of such an approach.

4.1 Relevance of the Italian experience to Developing Countries

An issue which needs to be discussed concerns the focus of industrial policies based upon the lessons learned from the experience of the Italian real service centres. More specifically, the practitioner operating in a developing country as well as the development agencies supporting him or her need to clearly define what could be most effectively replicated within the settings of an SME cluster in need of support to **adapt of the institutional approach** which has been presented in section 2 to the institutional settings of the developing country. The purpose of such a strategy is to establish a private-public partnership in the DC context thus allowing for a much more significant customisation of the real services to be provided.

Furthermore, this strategy appears as the most likely to trigger the most beneficial effects upon the governance potential of the cluster, as already illustrated in section 2.4.

4.2 The role of a development agency

The clearest ‘limit’ of the Italian experience (concerning the whole ‘industrial district’ phenomenon and, more specifically, its real service centres) is the **endogeneity of the policy initiative**. In other words, the inspiration for the overwhelming majority of initiatives presented in this paper came from within the district and therefore from ‘experts’ about the local environment. In the case studies reviewed, such experts were characterised by the most diverse background as in the case of the retired Army general who contributed to the foundation of Promosedia, or of the president of a producers’ association and the young graduate in sociology who created CITER, or of the local mayor who almost single-handedly established FIC.

Attempts to draw inspiration from this experience must identify the interventions that can trigger within the DC cluster the same endogenous response identified in numerous Italian industrial districts. Institutions wishing to perform such a task (e.g. international development agencies, local development boards, private consultants, industrial counsellors at a regional/national level, etc.) need to carefully select the partners with whom to operate in the ‘target’ SME cluster. Three ‘levels’ of operation can be identified depending upon the constituency which is being addressed.

The first level concerns those **cluster entrepreneurs** who are to become the prime beneficiaries of a real service centre. Section 2.2 already emphasised the importance of customisation as a key determinant of the effectiveness of the real services. Indeed, the ability to establish a solid dialogue with the local entrepreneurs has been emphasised as one of the key objectives of the managers of the real service leading to the establishment of an effective private-public partnership. In light of the scepticism with which private entrepreneurs invariably welcome any public support initiative, it is therefore quite clear why a development agency should aim its awareness-raising endeavours at the players who are most likely to display the greatest resistance, namely the cluster entrepreneurs. Having won their trust and determination, it should then become significantly easier to raise an adequate consensus within the cluster at large.

By the same account, it is also of crucial importance to target the awareness-raising endeavours of a development agency at the 'public' components of the private-public partnership, namely at the **local policy-makers**. More specifically, it often proves impossible to initiate any initiative such as those reviewed in this paper without significant modifications of the legislative environment within which the cluster entrepreneurs operate. Furthermore, it is often of crucial importance to link-up at the earliest possible stage the proposals of the cluster entrepreneurs with suppliers of much needed financial and/or cognitive resources. On both accounts, a responsive political environment, which is aware of the development potential of SME-based clusters, is a valuable resource.

The analysis of section 2, especially with reference to the developmental impact of a real service centre which enjoys a certain degree of autonomy from the surrounding environment, unequivocally points to a third level of intervention which concerns the **potential managers of the real service centre** in the 'target' country. These are agents who, while not directly involved in the production process at the cluster level, enjoy a significant degree of embeddedness within the local economy such as, for instance, the directors of already existing business support centres, senior staff members from the local branches of producers' associations, trainers from vocational schools, experts from SME support agencies. These people (whom we may refer to as facilitators) should act as intermediaries between the local policy makers and the cluster producers. Especially if frustrated with their current occupation or if worried about the financial sustainability of the institution where they currently operate, these 'facilitators' have the potential to act from within the cluster, very much as their counterparts did in the Italian industrial districts. The activation of such facilitators therefore emerges as a key challenge for a development agency willing to build upon the Italian experience of real service centres, especially because, much unlike the cluster entrepreneurs or the policy makers, they are much harder to identify.

5 CONCLUSION

As emphasised in the introduction, the purpose of this paper has been to summarise the main findings of a research undertaken on a sample of real service centres operating in various Italian industrial districts. The paper has identified four important features of such institutions (a valid platform, its customisation to the needs of the SMEs, the achievement of an embedded autonomy, the capacity to enhance

the governance potential of the cluster) and it has also provided empirical references to back up such a conclusion. On the basis of such analysis (which was further qualified in section 3), the paper has indicated a paradigm for action and it has indicated some unresolved issues that need to be addressed by SME support initiatives which aim to draw from the remarkably successful experience of the Italian industrial districts.

6 BIBLIOGRAPHY

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