Small firms and industrial districts

MARCO BELLANDI and LISA DE PROPRIS

1. Introduction

Industrial districts (IDs) are dense centres of life and work, characterised by one or a few related localised industries tightly intertwined with the local society and the local institutional setup (Becattini et al., 2009). The agglomeration of firms, and thereby industries, in specific places when it coincides with the concentration and integration of related specialisations, may generate positive external economies. The persistent variety of localised industries illustrates the widespread importance of such advantages over times and across places. Nevertheless, the same variety suggests that the “agglomeration of firms” is not a sufficient condition to guarantee sustainable beneficial effects. Instead, it requires complex mechanism that involves a broad set of local public and private agents. IDs illustrate, in general terms, that sustainable competitive strengths and collective advantages are associated with the overlap of an industrial agglomeration with a local society. In particular, this overlap has an autonomous meaning when local social-cultural and institutional relations exceed the possibility of control by a few powerful economic agents, and ensure an aggregate stability and a sense of identity. Drawing on their localised strengths, IDs are adapting to confront the open space of the current global networks. This mechanism is exemplified at best by IDs which are characterised by the evolving populations of locally embedded small-sized firms together with a local society. In line with this, we would argue that IDs thrive on small firms, namely they grow thanks to the dynamism and interaction of small firms.

At the same time, there is ample evidence suggesting that small firms find in IDs an ideal context to blossom and be valued, in other words small firms thrive in IDs. The increasing importance of large-sized firms due to markets and technology requirements was at the core of industrial paradigms of the 1970s and 1980s – the golden age of mass production and mass marketing. Nevertheless, small firms did not disappear in that context, but their survival was underplayed as expression of businesses that had a peripheral or transient roles. However, since the 1990s, the Fordist paradigm showed its intrinsic weaknesses partly as a result of the demand sophistication and technological advancement it promoted. The demur of mass production led to a renewed interest in the role that smaller sized firms could have when...
market conditions require diversity and flexibility as new competitive advantages (Piore and Sabel, 1984). Market and technological niches proliferated, and the capacity of small firms especially when clustered to achieve sets of related economies of specialisation became again a core competitive lever (after the 19th century wave described by Marshall). The recognition that this model of organising production was here to stay, came from large firms changing their own structure and becoming lean and modular, with a dramatic shift which lasted a long time and took nothing away from the advantages that small firms organised in local systems of production were reaping. Such tendencies placed centre stage small firms which, when embedded in systemic local forces, were no longer peripheral, interstitial or transitional players in the economy, but engines of competitive advantages, engines of growth and drivers of innovation.

The literature on IDs advocates for IDs and small firms to simultaneously thrive thanks to their mutual support. We will discuss later how the very nature of IDs is changing as the role of small firms is adapting to respond to external shocks, whilst, the evolution of the systemic infrastructure of IDs is itself impacting on the sustainability of the smaller firms.

Small firms correspond with many different types of organisation, however, they are more broadly intended as business organisations whose small size allows for a flat governance where ownership coincides with control. Further, their system of decision-making and communications is exercised more through personal relationships than codified procedures; and their entrepreneurial drive tend to coincide with one individual or a group of individuals tied together by regular contacts and trust-based personal linkages. Indeed, small firms also rely on strong (even if not always exclusive) social relations and economic resources that are embedded in the place where they emerge and live. Finally they are specialised in one or very few categories of products or services. In terms of organisational complexity, they combine entrepreneurial leadership with the operational running of the business, as in artisan firms, with a moderate internal functional specialisation, as in medium sized firms. Sections 2 and 3 will expand on the synergies between small firms and IDs; Section 4 will illustrate the heterogeneous and evolving nature of small firms and IDs. Finally, Sections 5 and 6 present some thoughts on what are the perspectives of IDs as they adjust and adapt to the ever changing nature and complexity of the current production and social relations; i.e. globalisation and the knowledge economy.

2. IDs thrive on small firms

IDs are compact centres of dense life and working patterns, IDs present networks whose set-up, inter-penetration, as well as disaggregation depend on the complexity of many sets of connections related to the local production activities. Industry location could be explained by simple advantages of geographical proximity. However, the persistent overlap between a local

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4 In the EU context, small firms are defined operationally as businesses with less than 50 employees.
5 See Acs in this volume
society and a localised industry creates a high degree of embeddedness and tends to generate more complex forms of proximities, such as cognitive and organisational proximity (De Propris et al. 2008). Common attitudes and values, knowledge and norms are shared. Marshall wrote that such local identity supports local projects and investments in technical, human and social capital within the same or related sets of production activities; in this way, the advantages of geographical proximity are amplified by the spread of collective knowledge sharing and collective processes of learning (Becattini et al. 2003). It is well known that systemic processes of innovation are able to produce collective productivity gains and ultimately to determine the competitive advantage of IDs, especially when operating in certain worlds of production, i.e. within a certain mix of market and technological as well as institutional tendencies (Lester and Piore, 2004). Nevertheless, such virtuous local interplay runs within a larger frame of territorial scales and relations, where it may be further strengthened but also altered, weakened or even disrupted. Yet, such local forces of economic growth can potentially be autonomous from other more overarching factors of industrial development related, for instance, to the current challenges of globalisation, such as the accumulation and use of knowledge and economic power within large firms and public institutions.

The contemporary debate on IDs suggests that IDs require small firms to emerge and develop in ways that help the transformation of the talent and initiative naturally embedded in the local socio-economic fabric into entrepreneurial projects and investment. In particular, there are three main aspects of such a mutually reinforcing relation that is worth exploring: entrepreneurship as a life project, artisanship as an expression of talent and skill, and the formation of teams of complementary producers.

Firstly, in IDs the entrepreneur is the person who:

“Invests in the firm not only her/his personal savings and those eventually entrusted to her/him by the parental and friendship networks, but also and more her/his reputation in terms of technical and managerial competence, leadership and energy on the job, trade acumen, etc. who s/he has been able to build in the course of time within her/his community of life. This human and relational capital is much less transferable to different contexts than the financial capital at the core of the particle firm. Also the returns are measured not only in economic terms, but also in terms of the realisation of a life project, or of some revision of it.” (Becattini et al., 2009, p. xxviii)

In other words, entrepreneurial ventures emerge as expressions of individual ambitions but also as integral part of a social mesh of personal relations where social and economic networks tend to overlap. The firm is therefore an individual’s participation in the local economy, and the returns are often both monetary and non-monetary (e.g. social status or civic engagement), with the former more easily re-invested in the same context.

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7 See, for instance, Brusco (1986), Becattini and Bellandi (2002) on entrepreneurship dynamics in IDs.
Secondly, in IDs small firms can take the form of artisanship as expressions of individuals’ talent and skill. The many workshops and laboratories nested in an economically active local society contribute to the local activities with unique and customised services and products in a flexible and adjustable manner meeting the needs of multi-geometry markets (Becattini et al., 2009 p. xxii). Small firms as embodiment of artisanship can culminate in entrepreneurial ventures that translate expertise and specialisations in products and services which can be projected to external markets. Despite the extension of the final markets, entrepreneurs find themselves well anchored in the local socio-economic terrain from which they draw innovative ideas and processes, or where they find all sorts of cooperative links that expand their ability to innovate, or again where they test, experiment novelties coming from contacts with the external markets.

Thirdly, IDs thrive when entrepreneurial dynamism and talent can be combined with a socio-economic context where formal or informal teams of producers emerge as collective players which are able to pursue a joint investment in shared resources. These teams are able to replace or supplement market or hierarchical transactions, since they are underpinned by what economic theory refers to as quasi-market or hybrid transactions (Williamson, 1991). Teams are formed ad hoc to bring together knowledge and skills which support an entrepreneurial venture—that reflects a life project—for which the required resources are likely to extend beyond the single network of the entrepreneur, but within the broader IDs’ system. IDs can therefore be seen as a temporary meta-network, where each member has their roots in different network, but come together for a particular project. More recently, teams support firms’ ambitions to expand their production and trade capacities internationally whilst still maintaining strong links with the home locality. Current studies have looked at the impact of these collective initiatives on the home system of socio-economic relations and it has been found that in some cases they can achieve functional up-grading for local firms without social disruption and full scale de-localisation (Bellandi and Caloffi 2008, De Propris et al. 2008). In this perspective, trans-local firms appear to be a recent and interesting phenomenon which would somehow support the renewal and persistence of IDs.

The demise of Fordism did not necessarily coincide with the death of large sized firms, and to some extent their role in the economy and in IDs in particular cannot be completely neglected. The three aspects just described (entrepreneurship as a life project, artisanship as an expression of talent and skill, and the formation of teams of complementary producers) do not necessarily prevent larger firms from playing a role. In IDs, (medium to) large firms can be the remains of an even larger firm that had downsized or be the outcome of a small firm growing internally into a larger one—although current evidence shows that IDs’ leaders tends to grow externally by creating groups (Cainelli and Iacobucci, 2007). In fact, recently, if globalisation and technology were to be seized as opportunities rather than feared as threats,

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8 See also Buchmann and Pyka on innovation networks in this volume
9 We would refer to De Propris and Creviosier (2010) on anchoring and local development more broadly.
the costs, riskiness and exposure that are required have favoured firms’ growth and created local leaders\textsuperscript{10}.

In IDs the presence of large firms can be ambiguous. Large firms can play an analogous role to aggregations of small firms in business teams, mobilising social networks and industrial platforms, thanks to their position in international value chains and the extensive relations with local smaller partners. For this, large firms can be quite strongly embedded in the local society (Piore and Sabel, 1984). On the other hand, of course, large firms can predate and leave the district after having depleted rich local resources or generous public aids. Some of these issues will be discussed in Section 5.

3. Small firms thrive in IDs

Small firms thrive in IDs: this is one of the main arguments and findings of a literature in the 1980s (Brusco, 1986; Goodman and Bamford, 1989; Pyke \textit{et al}, 1990) that has reflected on the renewed role of small firms in the flexible organisations of production that post-Fordism was advocating.

There are well known intrinsic constraints that small firms face, e.g. inability to reach significant scale economies; limited financial resources; lack of managerial and marketing skills; difficulties in exporting or in major risky and costly investments. Some of these are particularly problematic in the current context. In fact, the globalisation of trade, production, as well as knowledge flows, together with the pace and the nature of technological change, both require ability to take risks, to raise the necessary finance, and to adjust that expose small firms’ dramatic shortcomings. However, small firms have everything but lose out in the turmoil of the 1980-90s and the emergence of the knowledge economy.

It could be argued that small firms have always been there, thriving or surviving – usually somewhere within a short cycle of birth, maturity and decay or transformation – in worlds of production dominated by big companies (Sylos Labini, 1962). They may have been: a) marginal (sunk in insulated and poor markets), b) satellite (inserted within networks controlled by big firms), or again c) interstitial (suppliers in market niches at the side of mass consumption dominated by big firms), or finally, d) highly innovative, creative to the point of growing in size.

The first two models illustrate the result of empirical constraints to the free exercise of the so-called “principle of asymmetry” (J. Steindl, 1945), according to which all the economies achieved by a small firm can be internalised by a large firm, however, not all the economies achieved by a large firm are realised on a smaller scale. The other two models have illustrated peripheral or transitional exceptions to the above-mentioned principle of asymmetry, in so far as they recognise that there are efficiencies that small firms only can achieve: this stresses the importance of the economies of specialisation in niche markets or infant industries (Penrose

\textsuperscript{10}See Coad and Hoelzl in this volume on firms’ growth
In particular, as an exception to the presumed superior efficiency of large firms, the economies of specialisation draw on the opportunity costs of organising resources within a hierarchical organisation of increasing size. Those costs are limited when markets demand requires mass production and mass marketing so that production can be standardised. However, in case of specialised activities aimed at market niches, the opportunity costs for large firms devoted to mass markets are high. In this case, it is more convenient for large firms to leave such niches to smaller and specialised firms, sometimes controlled and sometimes just independent. The same is true of inventions which come more or less randomly from scientific knowledge spilling over from the main lines of R&D controlled by big firms or big public research entities. The opportunity costs of following all those knowledge threads are too high for large firms, but small innovative enterprises may try, and sometimes succeed in pursuing them successfully; this leads them to create new markets which can be then scaled up exponentially. In this case, either small innovative firms grow rapidly and become large firms (as is the case of Microsoft some decades ago), or they end up being acquired by large firms already incumbent in traditional markets and willing to enter new and more importantly expanding markets (as was the case of Innocent acquired by Coca-Cola in 2009).

One of the main features of post-Fordism has been the volatility and segmentation of demand as consumers have become more sophisticated in the way they have wanted their personalised needs to be satisfied. This has led to the creation of market niches especially at the top end of demand where price is quite inelastic. These niches have forced producers to expand product ranges as well as to offer customised solutions. In so doing, the range of variations has become more and more dense. This has increased the competitive advantage of organisations of production able to combine, within the same or across complementary filières, economies of specialisation in activities related to product and knowledge differentiation, with economies of scale and stock for those production and service activities reliant on cost savings. The organisation of production that emerged as being able to respond to such challenges was not necessary under the same roof.

The combination of specialisation and scale economies was made possible by the divisibility of the production process and thereby the possibility to have it segmented and dis-integrated across a number of complementary stage-specialised producers (Tani, 2009). Those modular and flexible organisations of production took the form of “local systems” of independent, specialised and above all, small firms, which not only found a role to play in these contexts but became the repository of their competitive advantage. Crucial to the renewed role of small firms was the possibility for them to be part of a system underpinned by specific public goods, and in particular, accessible shared indivisible resources which often, but not necessarily, are organised and accessed locally. These shared resources enable individual firms to overcome the limits of their size and knowledge, by integrating across the value chain with other small firms, so that the collective output is more than the sum of the parts. In fact, the joint economies of specialisation and scale, coordinated at the local level by the appropriate governance of specific public goods, realise what at an aggregate level may be seen as agglomeration economies, i.e. competitive advantages that small firms could only achieved
collectively thanks to proximity. Indeed, the inter-penetration of a localised industry of small specialised firms with a local society is able to support the governance of specific public goods with the help of embedded socio-cultural and institutional relations. The same relations work as hotbeds for the birth of new entrepreneurial ventures, which replace failing ones and/or diversify the scope of the cluster’s specialisations. More importantly, they increase the opportunities for inventing and innovating thanks, for instance, to cross-sector fertilisation, serendipity, and multiple inter-firm feedbacks with experience-based knowledge.

Ample evidence suggests that small firms thrive in IDs. Case studies have been able to unearth the complex web of interdependent relations above sketched, while large scale econometric models have measured for instance the “district effects”\(^\text{11}\). Such empirical investigations have looked at IDs in Italy (Sforzi, 2009), as well as internationally. In fact, as shown, in the *Handbook of Industrial Districts* (Becattini et al. 2009), studies on IDs cover a much larger geographical and historical scope, with recent studies looking at IDs in emerging and developing countries (Posthuma, 2009).

The revival of Marshallian IDs and the role of small firms are linked to the distinction between external and internal economies. Advancements in our understanding of the opportunities for small firms on IDs should have been easier and more widespread in industrial and political economy if a correct interpretation of new institutional economics had prevailed, suggesting the centrality of heterogeneity of organisational solutions to the problems of integration of evolving fabrics of division of labour (Dietrich and Krafft, 2008). This would lead to a “theoretical”, as well as an empirical, getaway from the trap set by the asymmetry principle. Becattini and Bellandi (2002, p. 380) in fact argue that:

“For some products, everything that a large firm can do in terms of efficiency can be done by a population of small firms specializing in single phases, provided that they are contiguously located and operate in a socially, culturally and institutionally congenial environment. This shifts the emphasis, in seeking to explain the relative efficiency of production, from company size to the congeniality between type and organizational form of the main product in any local system and the social and cultural configuration of the community”.

So, as much as the local factors of competitive advantage embodied in IDs have enabled small firms to thrive; small firms are the repositories of IDs’ efficiencies and economic dynamism. Successful IDs typify the effective coming together of these factors. However, as living and ever changing forms, IDs themselves have been characterised by heterogeneity and are prone to life cycles. Indeed changes in the relations between small firms and IDs may occur in sequence, and not always in a mutually reinforcing way or through simultaneous virtuous circles (see for example Dei Ottati, 2009 and Robertson et al., 2009). The makeup and evolution of IDs combine with other forces of industrial development as recalled in the introduction, producing various models of local development (Becattini et al., 2003). In the next section some aspects of such heterogeneous and evolving entities are detailed.

\(^{11}\) See de Blasio et al. (2009) for a critical survey; and Bellandi and Ruiz Fuensanta (2010) for an econometric analysis of district external economies.
4. The heterogeneous nature of small firms in IDs

The nature of small firms within an ID tends to vary especially so over time when ID evolve along trajectories of change shaped by internal and external factors. There is a wide literature on processes of ‘districtualisation’ –district life cycle- describing embryonic, growing, mature and transitional states through which ID go through as dynamic forms of organisation (Belussi, 2005).

The dis-integration of the division of labour above described leads to a pool of firms specialised in many tasks and functions. Such specialisations coincide with specific sector niches related to each other by the role and position along the value chain. Some firms are more product-oriented, including micro firms that are artisan in nature, as well as other which have internally integrated some process because of technological constraints. At the same time, there are firms that provide a wide range of district-specific business support services.

The systemic integration of firms’ task specialisations take place through the functioning of a multitude of internal markets for intermediate goods. Many firms would act in these intermediate markets as both sellers and buyers; however, some would engage also with outside markets, albeit still in relation with the same intermediate or final products. Such ‘bridging’ firms act as intermediaries between the ID and the outside markets. Some firms play as sub-contractors; a few play as integrators of sets of sub-contractors and are, thereby, connectors with external markets. The constant buying and selling in the intermediate local markets creates stable networks of exchanges as firms maintain low transaction costs thanks to recurrent relations. Sometimes such networks of related specialised firms behave according to formal or informal teams. Teams may vary in origin and form, spanning from networks underpinned only by social relations, to more formal business groups with varying degrees of ownership inter-locking, to hierarchical formal groups.

Among the more established and mature ones, some small firms succeed in reaching a position of leadership –more or less stable- within a certain internal network and in local and external markets. Leadership positions are more likely to coincide with larger size – firms becoming therefore medium-sized – or with the creation of business groups. The degree of vertical integration varies in the latter developments, depending on organisational strategies, market access and technology constraints, the position of the firms along the value and the position of the ID in its life cycle (Cainelli and Iacobucci, 2007:71-79; Robertson et al., 2009:274-276).

Some firms are young, weak, and dependent on more mature and established small firms, from which they have possibly spun out. Among the young ones, many are doomed to be short lived due to the natural process of natural selection especially at the start of a business when a weak business plan or an under-estimated business risk could be lethal.
The drive behind new born firms in IDs can vary, although they all germinate from the local social networks. In addition to the life project entrepreneurs already mentioned, small firms could start from a pure financial calculus and as an opportunity of capital investment; alternatively, they can represent a survival option whereby self-employment becomes a way-out from unemployment. Many small start ups are incremental innovators, and venture in a new business picking up from an existing and well-known route. They concentrate on products and services that present marginal improvements or small adaptations since their motivation is filling market niches their experience has identified. Indeed they build their entrepreneurial idea on their personal experience, known trade contacts, and the informal circulation of ideas within the ID. On the other hand, other small firms, usually fewer, are more risk-takers and really radical innovators. They might stumble across new technologies or see the opportunity to create new markets, and in this case, the entrepreneurial venture can push the knowledge frontier forward not only for the firm, but also for the ID. The capacity of the ID to favour the germination of radical entrepreneur is one of the most dynamic features of its sustainability. In ID, such risk-taking ventures – which could still fall under the life project entrepreneurship category – are facilitated by the thick social network; the personal and multi-faceted relationships between people and business partners; and the sharing of information, knowledge and market intelligence. Finally, more recently, IDs have attracted multinational firms which have located – more or less temporarily – there for instance to seek technology and knowledge (De Propris et al 2005) that is anchored and immersed in the tacit know-how of specific places. These multinational firms might be large or small-to-medium sized; as leader firms, they can have a bridging role between the ID and the outside; however, they could also have predatory strategies that damage the ID.

The heterogeneity in business organisational forms in IDs is related to the extent of the internal system of markets and resources allocation (referring to Smith’s well known dictum), to the tight interpenetration between businesses and the local society, as well as to the fact that small firms intrinsically reflect more directly the individual traits of their entrepreneurs and the contingencies of their foundation. For this reason IDs, especially mature ones, tend be ideal environments for observing variations in industrial organisation.

5. Medium sized firms, business groups and trans-local firms in IDs

The nature of firms in IDs is undergoing significant changes against external challenges – namely, technology and globalisation. The impact of these changes may take two forms, one relates to the internal and external growth of lead firms which still maintains deep roots in the ID (Cainelli and Iacobucci 2007, Coltorti 2009). The other relates to the geographical extension of production activities of ID firms across localities, i.e. trans-local firms (Bellandi and Caloffi, 2008). These cases were quite rare in the past, but are becoming more frequent especially in product sectors where the contribution of scale economies to specialisation economies is particularly relevant.

For a critical survey of entrepreneurship, see Mwuara, De Propris and Singh (2010).
ID firms that have been successful in building a competitive advantage have in some cases also been able to secure growing markets. These firms tend usually (but not necessarily) to be positioned downstream and therefore nearer to demand and to have many, complex and diversified production links upstream with other firms in the ID – as already mentioned. In these circumstances, such lead firms have found themselves confronted with the incentive and the opportunity both to expand markets for instance abroad, and to invest in product development. Both initiatives require significant risk capital and would greatly benefit from scale economies, forcing the typical ID firm to grow in size internally, with small firms growing into medium-sized firms (Coltorti, 2009). The increased scale has been congenial to firms which have had to maximise the benefits reaped by the combination of specialised economies on some function of its production, and internal scale economies on other, for instance product development, marketing, or export. At the same time, a larger scale has strengthened the ability of firms to raise risk capital to undertake innovation and to explore new product and geographical markets.

Alternatively to internal growth, some lead firms have chosen to grow externally, through the formation of business groups, via the acquisition of existing firms within the ID. A business groups is driven by various motivations: to increase control over strategic complementary production stages; to extend the product range; to acquire frontier knowledge or complementary knowledge; to gain and secure access to product or geographical market; to gain access to venture capital and risk finance (Cainelli and Iacobucci 2007). Through a business group, a lead firm can therefore realise risk project (like innovation or market expansion) that small size would disallow.

In both cases, we witness a small entrepreneurial firm growing into a larger organisation of production. Whilst their activities are similarly embedded in the local socio-economic terrain, they are more vertically integrated and better able to manage systemic investments for radical innovation and discontinuous change (Becattini et al. 2003, pp. 138-146). If successful, their innovations may spill over to the entire ID and open up not only new technologies but also new markets and opportunities. Such positive impact on the local economy can involve dedicated public and private institutions able to catalyse collective actions and initiatives. However, current studies are also warning of the risks derived from an increased hierarchisation of the system of relations between firms, that results from the vertical integration of production, creating unbalanced power between firms; increased competition coupled with reduced cooperation and more control; and preferential or exclusive relations with intermediary firms. In the extreme case, the leading firms can cease to invest (monetarily and relationally) in the locality and uproots itself from it, in so doing causing the dis-integration of the ID (Garofoli 2009, pp. 494-499).

More generally, the role of medium-sized and large firms as key players in intra-systemic local and regional dynamics has been acknowledged in various streams of current literature,
more or less explicitly related to IDs studies. This debate tends to consider examples of systems in countries like the US where firm size is endemically larger than in Europe, and sectors where the high degree of industrial concentration tends to create large players as well as multi-national firms, such as biotechnologies, pharmaceutical, aerospace or IT.

In the same way as the forces of globalisation and technological change are altering the ID internal division of labour with a larger number of small firms growing internally and externally, a parallel phenomenon has been the de-localisation of some production activities outside the ID borders. Indeed, ID lead firms have also started shifting some functions abroad, or engaging in international joint ventures or hosting foreign capital in search of efficiency, new knowledge or markets (Tattara, 2009). By and large the internationalisation process has been gradual following a process of learning and adaptation not by the single firm but by the system of firms. The impact of these trans-local firms (Bellandi and Caloffi, 2008) is unclear. They can have a positive impact if they act as ID gateway by activating two-way channels for the flows of goods, services, knowledge and technology between the ID and the rest of the world. However, if they re-locate nodal tasks for the ID or a critical mass of tasks, the impact on the socio-economic system of activities is negative. The outcome can be the break-down of the socio-economic networks, the interruption of the circulation of information and the hollowing-out of its know-how (De Propris 2008).

The recent debate on forms of proximity (De Propris et al 2008) helps understand that district firms will not choose to embark in footloose international operations, but instead they would prefer to develop and strengthen common patterns of behaviour, common practices and routines together with informal communications. Even if the ties of geographical proximity might become loosed, the softer but nevertheless binding ties of cognitive and social proximity seem to still characterise inter-firm relations across multi-local value chains. Benefits from internationalisation would come from an ID being able to maintain a critical mass of its embedded know-how, together with ‘bridging’ actors (rather than gatekeepers) able to search, read, understand, translate and finally integrate external knowledge inside the framework of the local know-how.

6. Some concluding variations on small firms and IDs in a knowledge economy

Heterogeneity and variation in organisational forms can be an effective lever to evolutionary change; in particular, entrepreneurial firms that reflect a life project are the constant germination of the fertile terrain that IDs are. In fact, especially in the face of difficult market and social challenges, the survival of IDs often depends on the constant regeneration of its pool of firms, especially on the constant emergence of radical innovators and their truly entrepreneurial ventures. Langlois (2007, pp. 1120-1121) helps describe such ventures:

13 See for examples the Porter’s cluster model (Porter and Ketels, 2009); the innovative milieux (Maillat 1998); the regional innovation systems (Cooke et al. 2004); the learning regions (Asheim 1996); the cultural clusters and cities (Cooke and Lazzaretti, 2007).
“What is common to the entrepreneurial firm ... is that it involved self-conscious design... This is so because, rather by definition, they do not draw on existing unselfconscious repositories of knowledge and capability, whether these be existing market patterns or existing systems of rules of conduct within organizations... This is why entrepreneurial firms are sources of systemic novelty... If we mean by an entrepreneurial firm a firm in Coase’s sense not just in Knight’s, then design also involves direction of the effort of others... Knight reminds us, however, that the ‘effort’ the entrepreneur must direct, actually involves the exercise of judgment. This complicates the problem somewhat, since, even in a small entrepreneurial firm, there may be a good deal of delegation of judgment, and that judgment may cover a wide ground.”

However, as the challenges of technological change and globalisation assume more stable patterns, and IDs embrace or lead the transition to the knowledge economy, the local capacities IDs in handling these forces needs to be upgraded with a wide diffusion of organisational platforms and cultural attitudes that promote the emergence of a different generation of small entrepreneurial firms. In particular, thriving IDs would require a larger presence of small firms embodying a business culture that enables boundary-spanning activities and the integration of diverse fields of judgment. In such firms a common orientation in decision practices is shared within an entrepreneurial team of highly skilled people, thanks to a consistent cognitive and motivational framework. The knowledge and the strategic considerations of the team’s members and their different perspectives and fields of operation and decision-making are integrated, so as to facilitate the ability of the firm to liaise with and evaluate in a coordinated way a variety of external opportunities (Best 2009).

The diffusion of such types of firms within IDs, even mature ones with a record of past successes and evolutionary capacities, is however far from granted, although desirable, even within well established IDs with a dynamic population of active entrepreneurs. Consider, for example, that in many Italian IDs that emerged in the mid 1960s and that contributed to create the ‘Made in Italy’ brand internationally, the prevailing business culture saw business leadership coincides with small successful entrepreneurs who were self-made business people and a sort of stand-alone little genius who coordinates paternalistically very small ventures and possibly small teams of related producers.

One key concern is what are the conditions, and perhaps the policies, that may enable IDs and district-like systems to up-grade their business culture and trigger again virtuous circles of local socio-economic forces based on systems of small (to medium sized) firms (possibly in interaction with local entities of big firms and public institutions).

Referring to American cases of university-centric industrial districts and of high-tech regions, Lester and Piore (2004), Patton and Kenney (2009) and Best (2009) cautiously suggest some factors that might play a decisive role; these include: a) open attitudes at networking for knowledge enhancement and discovery, featuring good and dynamic universities and other scientific and technical communities partly embedded in a territory, b) appropriate business and knowledge services infrastructures, and c) a rich entrepreneurial environment with attitudes, competencies and support institutions somehow related to the business trajectories that may develop from the areas of excellence of the local research communities.
The delicate balance that traditionally enables IDs and small firms to thrive jointly seems somewhat altered by the pace and nature of globalisation and technological change. Open systems of local and global relationships combining tacit knowledge with codified stimuli are increasingly requested. Entrepreneurship in this dynamic context becomes an opportunity-seeking and boundary-spanning activity. The sustainable local development of places rests therefore on IDs maintaining socio-economic embedded cohesion across the population of small businesses whilst opening gateways to multi-local synergies.

References


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