International Seminar on

Enhancing Access to Finance for Small- and Medium-Sized Enterprises

WHAT IS (SO) SPECIAL ABOUT ITALIAN SMEs AND INDUSTRIAL DISTRICTS?
What Is (So) Special About Italian SMEs and Industrial Districts?

Agenda

1. SMEs in the Italian economy
2. The economics of industrial districts
3. Policy reform priorities
## Structure of Production in EU countries

<table>
<thead>
<tr>
<th>Country</th>
<th>0-9</th>
<th>10-49</th>
<th>50-249</th>
<th>&gt;250</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>17.7</td>
<td>18.1</td>
<td>20.1</td>
<td>44.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>12.6</td>
<td>20.3</td>
<td>25.8</td>
<td>41.4</td>
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<tr>
<td>Germany</td>
<td>7.3</td>
<td>14.3</td>
<td>16.0</td>
<td>62.4</td>
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<tr>
<td>Greece</td>
<td>16.2</td>
<td>28.4</td>
<td>28.3</td>
<td>27.1</td>
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<tr>
<td>Spain</td>
<td>22.5</td>
<td>26.9</td>
<td>20.8</td>
<td>29.8</td>
</tr>
<tr>
<td>France</td>
<td>13.1</td>
<td>18.1</td>
<td>20.0</td>
<td>48.7</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td><strong>25.0</strong></td>
<td><strong>31.0</strong></td>
<td><strong>18.1</strong></td>
<td><strong>25.8</strong></td>
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<tr>
<td>Luxembourg</td>
<td>6.2</td>
<td>12.3</td>
<td>20.6</td>
<td>60.9</td>
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<tr>
<td>Holland</td>
<td>13.5</td>
<td>16.1</td>
<td>20.3</td>
<td>50.1</td>
</tr>
<tr>
<td>Austria</td>
<td>13.7</td>
<td>18.9</td>
<td>29.3</td>
<td>38.1</td>
</tr>
<tr>
<td>Portugal</td>
<td>17.5</td>
<td>27.2</td>
<td>29.0</td>
<td>25.6</td>
</tr>
<tr>
<td>Finland</td>
<td>9.6</td>
<td>13.8</td>
<td>20.8</td>
<td>55.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>10.8</td>
<td>15.0</td>
<td>21.0</td>
<td>53.2</td>
</tr>
<tr>
<td>UK</td>
<td>12.8</td>
<td>14.9</td>
<td>20.2</td>
<td>52.1</td>
</tr>
<tr>
<td>Iceland</td>
<td>21.5</td>
<td>31.0</td>
<td>16.0</td>
<td>31.4</td>
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<tr>
<td>EU</td>
<td>13.7</td>
<td>19.4</td>
<td>19.5</td>
<td>47.4</td>
</tr>
</tbody>
</table>

Source: Eurostat
What Is (So) Special About Italian SMEs and Industrial Districts?

Firm distribution by employment size, 2010
Percentage values

- Micro (1-9)
- Small (10-49)
- Medium (50-249)
- Large (250+)

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Enterpreneurial Italy

OECD Product Market Regulation Indicators

From 0 (less restrictive) to 6 (more restrictive)
What Is (So) Special About Italian SMEs and Industrial Districts?

Sales and exports: MEs vs. manufacturing

Left: sales / right: exports; percentage change (closed sample)

<table>
<thead>
<tr>
<th>Year</th>
<th>Medie imprese</th>
<th>Manifattura</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-08</td>
<td>32,3</td>
<td>23,8</td>
</tr>
<tr>
<td>2004-13</td>
<td>35,3</td>
<td>16,3</td>
</tr>
</tbody>
</table>

Source: Mediobanca-Unioncamere
What Is (So) Special About Italian SMEs and Industrial Districts?

**Financial performance: MEs vs. manufacturing**

Left: ROI / right: ROE; period average (closed sample)

Source: Mediobanca-Unioncamere
What Is (So) Special About Italian SMEs and Industrial Districts?

Heterogeneity in performances

N. indice PD media nel 2013 (2004=100)

Source: Mediobanca-Unioncamere
What Is (So) Special About Italian SMEs and Industrial Districts?

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What Is (So) Special About Italian SMEs and Industrial Districts?

The “Structural Paradox of Italy”

- an industrial basis made up of micro and small enterprises specialised in traditional sectors (e.g. furniture, shoes, leather, jewelry, etc.)
  - low- to med-tech
  - Low capital content
  - high competition from emerging markets and developing countries
- sharp North-South dualism
- And yet SME and in particular local production systems -- i.e. industrial districts – have driven endogenous growth
  - know-how
  - design
  - “creativity”.
An area can be defined as district when:

- production is flexible;
- there is a geographical concentration of small and medium firms in particular sectors;
- some of the small and medium firms operating in the district sell directly on the market, while others produce intermediate products;
- there is no strict distinction between firms producing final products and others producing intermediate components; a firm can be both producer of final products for some of its production and subcontractor for other production;
- cooperation and competition are intertwined in the district; trust is diffuse, due to historical reasons (Putnam) and business demographics;
- there is strong interdependence between business activities and performance and local socio-economic dynamics.

Executive decree (21 April 1993) spells out identification variables (not a mechanical process)

- Istat Local Labour System (entrepreneurship, specialization)
- Manufacturing employment > 30%
- SME employment > 30%
What Is (So) Special About Italian SMEs and Industrial Districts?
More recent public policies

- Decree law 112 (6 August 2008)
- Law n. 33 (9 April 2009)
  - Introduces *contratto di rete*
- Law 122 (30 July 2010)
  - Fiscal incentives for *contratto di rete*
• New legal form that allows firms to develop working networks while maintaining formal independence

• Contract must include
  – Strategic goals and shared activities, in order to show the contribution to innovation and market competitiveness;
  – Duration, membership modalities and recess conditions;
  – *programma di rete*, including
    • Rights and obligations of participating firms
    • Working modalities to reach common goals
Contratto di rete

• **Benefits**
  – Enlarge supply portfolio without major investment
  – Make investments that would be out of the reach of individual firms
  – Increase bargaining power
  – Improve know-how
  – Optimize costs for shared services

• **Typologies**
  – Horizontal
  – Vertical (with a leader, called hub)
  – Intermediary: based on “multiple gravitational centres” leaving it to the market to determine which firms acts as hub
Three trajectories:

1. Delocalisation of production towards low-cost markets (e.g. Romania)
2. Delocalisation of some production stages
3. “Tertiarisation” in GVCs
   - “noble” services and activities stay in Italy
   - production outside Italy

The geographic concentration of production remains important despite globalisation
The advantage of being districtual: firm characteristics

Source: Intesa Sanpaolo Integrated Database (ISID)
The advantage of being districtual: aggregate sales

Average growth rates (median value)

Fonte: ISID (Intesa Sanpaolo Integrated Database)
The advantage of being districtual: aggregate EBITDA performance

EBITDA margin of districtual firms, difference relative to 2008 (%; median values)

Fonte: ISID (Intesa Sanpaolo Integrated Database) e ASI
Best-performing districts in terms of growth and profitability

(min=0; max=100)

Source: ISID (Intesa Sanpaolo Integrated Database)
Thanks to bold corporate strategies ... 

Change in sales 2008 vs. 2014 depending on adopted strategy (median value)

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... and the district’s competitive advantage

Districts vs. non-district areas: change in sales 2008 vs. 2014 depending on adopted strategy (median value)

Source: ISID (Intesa Sanpaolo Integrated Database)
**Technopoles do it better – in terms of sales ...**

Sales trend 2011-14 in high-tech districts
(% change; median values)

<table>
<thead>
<tr>
<th>Sector</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aeronautica</td>
<td>23.5</td>
</tr>
<tr>
<td>Biomedicale</td>
<td>5.9</td>
</tr>
<tr>
<td>Farmaceutica</td>
<td>5.7</td>
</tr>
<tr>
<td>Totale poli tecnologici</td>
<td>2.6</td>
</tr>
<tr>
<td>ICT</td>
<td>1.9</td>
</tr>
</tbody>
</table>

**Traditional districts:**
+1.4%

Source: ISID (Intesa Sanpaolo Integrated Database)
... and profit margins

EBITDA margin: high-tech vs. traditional districts
(median values)

Source: ISID (Intesa Sanpaolo Integrated Database)
The role of local institutions remain crucial ...

Activities promoted by local institutions in eight representative districts*

- Formazione: 8
- Internazionalizzazione: 4
- Certificazione: 4
- Innovazione: 3
- Indagini sulla filiera: 2
- Tracciabilità prodotto: 1

* Eyeframes (Belluno); knitwear/clothing (Carpi); chairs (Manzano); footwear (Lucca & Lamporecchio); tiles (Sassuolo); textile/clothing (Prato); footwear (San Mauro Pascoli); footwear (Riviera del Brenta).

Source: Intesa Sanpaolo Integrated Database
... and districts are also increasingly open to MNEs

Hi-tech districts: foreign-controlled companies’ sales as % of total sales, 2014

- Farmaceutica: 71%
- ICT manifatturiero: 55%
- Totale poli tecnologici: 54%
- ICT servizi: 51%
- Biomedicale: 45%
- Aerospazio: 14%

Source: Intesa Sanpaolo Integrated Database
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Access to finance is an obstacle to growth...

**Distribution of bank credit**
Percentage in 2011

**Risk capital volume**
Percentage of 2012 GDP

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**What Is (So) Special About Italian SMEs and Industrial Districts?**
... and so is red tape ...

Procedures, delays and costs of contract enforcement, 2014

What Is (So) Special About Italian SMEs and Industrial Districts?
... also because take-up of eGovernment is low

While most large enterprises already use eGovernment services, the take-up among SMEs is slow (2012)

Source: Eurostat
What Is (So) Special About Italian SMEs and Industrial Districts?

Priority areas

- Trim tax wedge.
- Reiforce innovation support and ease university/research/business interactions.
- Simplify administrative procedures and strenghten contract enforcement.
- Support the development of risk capital (VC, PE, long-term investors, etc.).
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eCommerce: SMEs selling online (% of all SMEs, 2012)

Source: Eurostat
Is it possible to recreate industrial districts in other geographies?

Although IDs are not a uniquely Italian phenomenon ...

... so far no well-defined and reproducible mechanism has been found to engender IDs!

– local authorities play a fundamental role
– History, diasporas, networks
– a properly designed regulatory framework alone is not sufficient

In Italy the policy bias towards SMEs has contributed to exacerbate the structural characteristics of the economy

– High fragmentation
– Small size
– Low innovation