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From the Industrial District to the District Group. An Insight into the Evolution of Local Capitalism in Italy

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Abstract

he aim of this paper is t o fold to analyse the e tent of corporate grouping in the main industrial districts of Emilia omagna and the reasons for their formation and development and to sho ho their evolution in recent years re uires rethin ing the very concept of industrial district in favour of a unit of analysis capable of grasping the role ta en by o nership lin ages among firms. In this respect, e suggest a ta onomy of business groups that brings out the ey role played by district groups . he choice of Emilia omagna as our field of investigation is motivated by the fact that in a number of ays the region s industrial system represents a paradigmatic model of local capitalism, combining the large scale presence of industrial districts ith a mar ed entrepreneurial spirit, strong social cohesion, and an e ceptionally efficient system of local institutions and intermediate organisations. In this sense, even though e start from the empirical study of a case albeit a significant one li e that of Emilia omagna , our paper has the more general purpose of depicting the forms and ays through hich a special form of local capitalism characterised by the massive presence of industrial districts has evolved, hile at the same time signalling the need to reconsider the theoretical concepts and methods of empirical in uiry used to analyse and interpret the ne forms ta en on by the Italian local capitalism.

EL classification L22
ey ords Industrial districts, business groups, district groups, Emilia omagna, local capitalism.

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1 Introduction

Italy s model of industrial development has al ays been vie ed as anomalous in the panorama of the industrialised economies. Satisfactory long run performance, on the hole, despite a number of structural ea nesses, has been achieved by an industrial system consisting largely of small and medium si e enterprises not generally operating on a large enough scale to ithstand international competition. his paper e amines t o of the most convincing among the many e planations suggested for this anomaly, in their relation to the phenomenon of industrial districts. he first e planation lies on the presence of long run informal lin ages among firms, hich tend to generate agglomeration economies and, more generally, Marshallian e ternalities that ta e the place of economies of scale internal to the individual firm. his e planation hich has a general validity has been proffered to account for the success of Italy s industrial districts, constituted by territorial agglomerations of small and medium si e businesses interacting in a single production sector Brusco, 1 2 Becattini, 1 , 1 , 1 0 . he second e planation essentially disputes the significance of the statistics on firm si e in the Italian manufacturing industry. If instead of the single firm one considers the business group if, that is, one discards the legal definition in favour of the economic substance of the concept of enterprise then firm si e rises substantially Barca ***et al***., 1 . his is because, as it is ell no n in the business groups literature, a set of firms under the control of a single o ner or a single coalition of shareholders may in many respects central handling of various business functions e tended po er to ards the ban ing system, suppliers and customers e ploitment of other synergies be considered as a larger si e single enterprise. It is perfectly plausible that such a phenomenon be found also ithin industrial districts ith the gradual replacement of informal relations bet een firms by mutual o nership lin ages.

Despite the potential importance of inter loc ing shareholdings among firms ithin Italy s industrial districts, ith the significant e ception of some recent empirical research revie ed in Section 2 the vast literature on industrial districts has sho n surprisingly little interest in this issue. ne possible reason is that the precise prevalence of groups in industrial districts is e tremely hard to identify ith available statistical data hitford, 2001, p. . his is precisely the theme of the present paper. e sho in particular

a that Emilia omagna s industrial districts are in fact characterised by significant corporate grouping, ma ing the actual si e of district firms larger than the official statistics e hibit b that the groups detected in the districts under investigation in this study are mostly composed of firms belonging to the district district groups , this evidence being at once a factor of rupture and of continuity ith the districts ***modus operandi*** as described in the literature.

he paper is empirical the conclusions derive from an interpretation of observed facts. he empirical analysis is conducted at several different levels, and ith a variety of methodologies. First, e perform a broad spectrum statistical analysis on all the firms in Emilia omagna ith no n o nership structure in order to determine ho many belong to a group. he analysis is performed for the entire region, for the three sub regions into hich Emilia omagna is traditionally divided, and finally for its thirteen historic industrial districts Section . Ne t, a field survey is carried out on four especially important Emilia omagna s industrial districts ith the aim to bring to light the features of the business groups and the reasons for their formation and development Section . Finally, a number of theoretical and policy implications are offered ith regards to the effects of corporate grouping on the district organisation Section .

he choice of Emilia omagna as our field of study is motivated by the fact that in a number of ays the region s industrial system represents a paradigmatic model of local capitalism, combining the large scale presence of industrial districts ith a mar ed entrepreneurial spirit, strong social cohesion, and an e ceptionally efficient system of local institutions and intermediate organisations see, among others, Brusco, 1 2 Bellini, 1 0 Bianchi and Gualtieri, 1 0 . hus, even though e start from the empirical analysis of one case albeit a significant one li e Emilia omagna , our paper also has the more general aim of analysing the ays and forms in hich a particular form of local capitalism mar ed by industrial districts has evolved and been transformed over the years, hile at the same time signalling the need to revise the theoretical concepts and methods of empirical in uiry used to analyse and interpret the ne forms of Italian local capitalism.

o conclude, it is orth mentioning that our study represents the most comprehensive empirical research ever carried out in Italy on corporate grouping, both at the statistical level more than ,000 firms involved and at the field survey level 1 firms intervie ed . n the other hand, hile recognising the relevance of our results, e are fully a are that solely considering the firms ith disclosed o nership structure allo s us to capture the behaviour of only a portion of the firms of a district, typically the largest si e ones.

2 Industrial districts, o nership lin ages and business group structures

he debate over the structural, organisational and developmental specificities ta en on by the Italian industrial system in the course of the 1 0s has gro n and been articulated into at least t o different directions of in uiry. ne has led to the recognition of the pervasiveness of the business group form not only among large firms listed and unlisted ali e but also among small and medium si e enterprises. he or in this strand above all the studies of the Ban of Italy Barca ***et al***., 1 and of Mediocredito Centrale Barbetta ***et al***., 1 has emphasised that in many cases the business group[1] is small Italian enterprises preferred ay to cope ith changes in mar et conditions and rules of competition and to respond to the need to e pand in si e. he second strand of research focuses on the evolution of the main industrial districts y e ***et al***., 1 0 Cossentino ***et al***., 1 . his line of research has adopted the theoretical paradigm and the analytical approaches first developed, in the Italian literature on industrial districts, by Brusco 1 2 and Becattini 1 , 1 , 1 0 . As it is ell no n, these t o scholars returned to the Marshallian concept of industrial district[2] as a unit of analysis offering a most useful conceptual frame or in the interpretation of the structure and industrial organisation of a large number of Italian local systems of small and very small businesses.

Despite the importance of business groups and industrial districts in the interpretation of the specificities of the Italian economy, only recently have the t o strands of in uiry been integrated Bianchi and Gualtieri, 1 0 iesti, 1 2 Dei ttati, 1 Brusco ***et al.***, 1 Cainelli and Nuti,1 Balloni and Iacobucci, 1 Becattini, 1 Bianchi ***et al***., 1 Brioschi and Cainelli, 2001 . Bianchi and Gualtieri 1 0 clear sightedly understand the on going evolution of industrial districts already a decade ago, spotlighting the process of concentration via the formation of business groups. iesti 1 2 sho s ho the formation of groups ithin industrial districts identifies for these local production systems a ne evolutionary model. In her analysis of the main uscan industrial districts, Dei ttati 1 sho s that district firms tend to organise themselves in groups. his tendency apparently dates bac to the early 1 0s, though it is only in the

[1] A business group can be defined as a set of legally independent companies connected by reciprocal shareholding lin ages hich, ta en as a hole, permit unitary control of all their activities Brioschi et ***al***., 1 , 1 1 .

[2] An industrial district can be defined as a socio territorial entity hich is characteri ed by the active presence of both a community of people and a population of firms in one naturally and historically bounded area Becattini, 1 0, p. . It follo s from this definition that industrial districts have a t o fold scope, one referring to the social environment and one related to the economic environment Dei ttati, 1 .

subse uent decade that she finds that district firms essentially gro by the creation of ne units and by the ac uisition of ne companies hich ere already operational but possibly found themselves in financial difficulties, o ing to a lac of orders because of changes in demand Dei ttati, 1 , p. 2 . Analysing the same industrial districts under investigation in this paper, Brusco ***et al.*** 1 suggest that in Emilia omagna there is a strong tendency to ards an increase in industrial concentration. he authors sho , in particular, that this process has been primarily carried out through the creation of business group lin ages rather than through mergers and ac uisitions resulting in single uridical firms. Cainelli and Nuti 1 , in a paper published ithin a three article symposium in the ***Journal of Industry Studies*** on the development of Italian industrial districts in the late 1 0s and early 1 0s, suggest that these production systems reorganise themselves in hierarchies because predictable relationships among partners can be an effective eapon against unpredictable mar et relationships, privileging voice over e it hitford, 2001, p. .

A common feature of these papers is that they do not try to measure the e tent of corporate grouping ithin the industrial districts under investigation. An attempt in this direction has been provided for the first time by Balloni and Iacobucci 1 , ho present the findings of a survey on groups of small firms in the leading industrial districts in the Marche region. his study brings out several interesting features of the group form ithin districts i close relationship bet een the activities of the group firms and those of the originator firm ii gro th of groups through formation of ne companies engaged in activities similar especially in the 0s or complementary especially in the 0s to those of the originator firm iii lo degree of separation bet een o nership and control the e uity held by shareholders outside the controlling core typically, the family of the founder of the originator firm is unli ely to reach 20 percent. Becattini 1 documents the district groupification ith reference to a number of uscany s industrial districts. Bianchi ***et al***. 1 and Brioschi and Cainelli 2001 are the first contributions to the research presented in this paper. heir main achievement is to sho that at least for some industries, the phenomenon of industrial districts can be traced bac not only to the sort of informal lin s among firms largely highlighted in the literature but also to the presence of formal, e uity arrangements Bianchi ***et al***., 1 , p. 2 1, our translation .

Corporate grouping in Emilia omagna a statistical analysis

3.1 The data, the group-identification algorithm and the sample

o identify business groups in Emilia omagna e have combined t o statistical sources the Emilia omagna's ***archivio Soci*** i.e., the shareholder database of Infocamere and the ***Impero*** database of the regional agency for technological development Agen ia per lo Sviluppo ecnologico dell Emilia omagna, AS E . he Emilia omagna s shareholder database covers all regional firms re uired to register their o nership structure ith the Chamber of Commerce, i.e. to report the names of their o ners individuals or legal persons and their o nership sta es. he Impero data ban gives information on location, economic sector and number of employees of all firms ith legal head offices in Emilia omagna. he reference data used here for both data sets is the end of 1 .

From the shareholder database e e tracted ,0 regional firms ith a no n o nership structure . heir shares are held by 102, individuals and 1 , companies. f the latter, , are in turn among the set of the ,0 e tracted the other , 2 are firms hose o nership is un no n but about hich, than s to Impero, e do have a good amount of other information, such as location, economic sector and si e in terms of number of employees . o avoid losing some o nership lin s and precious information on the characteristics of the business groups, in the effort of reconstructing the groups e used both the ,0 firms ith no n o nership structure and the , 2 outside firms that figure among their o ners. his gave us a set of , 11 firms Figure 1 . o identify the business groups, e applied the algorithm described belo .

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nfortunately, both data sets have gaps relevant to an analysis of the e tent of corporate grouping e.g., the shareholder database contains firms for hich a full o nership structure is not available, hile some firms of the Impero data ban do not report the number of employees.

Although they constitute only 10 percent of Emilia omagna based firms hich numbered 0 , 0 at the end of 1 , the firms in the shareholder database are the most important ones, representing all the incorporated companies ith head uarters in the region. o ascertain this, consider that they account for more than half of all Emilia omagna firms employees, and that the regional firms not in the database average less than t o employees each.

f hich ,21 are head uartered outside Emilia omagna.

Figure 1 – Composition of the sample to which the group-identification algorithm was applied

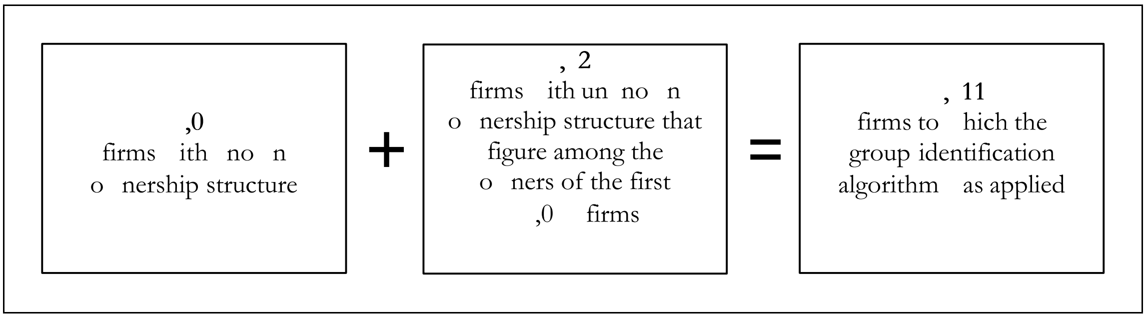
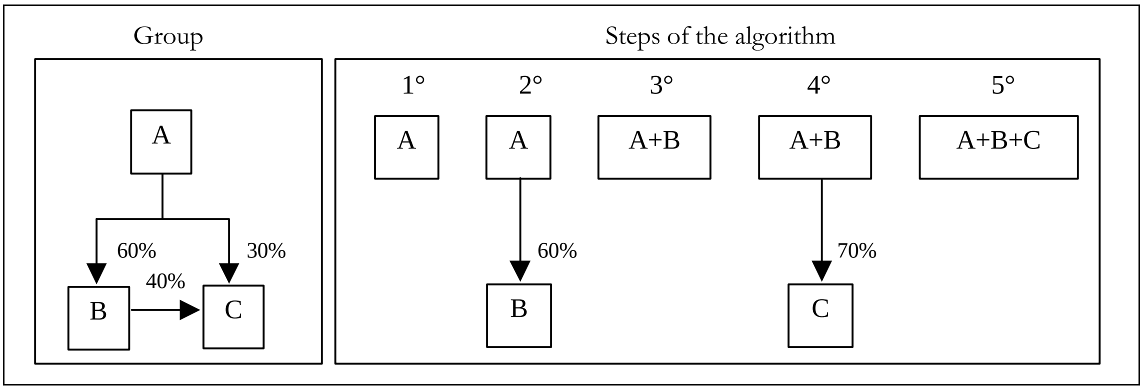


Figure 2 – The group-identification algorithm



he algorithm follo s an e tremely simple iterative procedure. he first step uses a selection criterion that identifies potential group controllers , hich can be either companies or individuals the companies selected are those for hich it is not possible to find a controlling o ner in the database the individuals are those ho hold absolute ma ority sta es in one or more firms. At each follo ing step, the algorithm applies a procedure to search for all the firms controlled ith an absolute ma ority sta e by the group controllers and by all the firms associated ith the group controllers up to the previous step. he algorithm ends hen no more of the still unassigned firms is controlled by any of the e isting groups. At the end of the iterative procedure, the algorithm identifies groups composed of firms lin ed by absolute ma ority shareholdings, groups composed of firms bound together under the control of the same individual, and isolated firms. o illustrate the mechanism, Figure 2 traces the reconstruction of a group consisting of three companies in hich firm A is the parent company. At the first step the algorithm identifies firm A as the group controller in the ne t t o steps it identifies firm B and associates it to

he algorithm groups firms only if connected through absolute ma ority o nership lin ages, i.e. shareholdings of more than 0 percent.

the parent company at the fourth step it recogni es that group A B holds a 0 percent sta e in firm C finally, at the fifth step it lin s firm C ith the group that controls it.

At the end of the group reconstruction process outlined above, the ,21 non regional firms employed in the algorithm ere eliminated, together ith another 11, firms ith head uarters in Emilia omagna for hich the Impero database does not include the number of employees. his gave us a ne set of , firms ith legal head uarters in Emilia omagna and a no n number of employees. his is the reference sample for the rest of the statistical investigation . Interestingly, despite the cuttings that ere carried out the degree of representativeness of the sample is very good the total number of employees of the , sample firms is 2,2 , that is more than 2 percent of all employees of the firms located in the region .

3.2 The extent of corporate grouping region-wide and in the three sub-regions

Let us no present our main findings on the e tent of corporate grouping among our sample companies, first at the regional level, then for the three geographical sub areas into hich Emilia omagna is ordinarily divided Bellini, 1 0 , and finally for the thirteen historic industrial districts in the region.

Table 1 – Sample firm group members by size and geographical area

Si e class number of employees	Central Emilia		arma and iacen a		est of the region		otal region	
	All firms	In group	All firms	In group	All firms	In group	All firms	In group
	No.		No.		No.		No.	
1	1 ,	21.	, 0	1 .	,	20.1	2 , 2	20.2
10 1	2,	2 .0	2	20.2		22.	,	2 .
20	1,	.1		2 .	2	2.	,200	2.
0		.	1 0	.1	220	.0		.
100 1	2 1	1.		.		1.	1	.1
200	1 2	0.		2.		.	2	.
00		.	10	0.0	1	0.0	2	.0
≥1.000	2	.1		.		.		.
otal	22,1	2 .	,	1 .	,	22.	,	2 .
otal ≥10	, 1	.	1,	2 .0	2,21	0.1	,20	2.
otal ≥ 0	1,0	.2	2	0.	1	.0	1,	.
otal ≤ 0	21,1 2	2 .1	, 2	1 .0	,0 2	1.	, 1	21.

Table 2 – Employees of sample firm group members by size and geographical area

Si e class number	Central Emilia	arma and iacen a	est of the region	otal region

As already mentioned, the e tra regional firms ere used in the group identification process because they could represent the lin bet een other ise apparently dis ointed regional firms.

In methodological terms, this set of firms should not be labelled as a sample . ithout imperfections in the data ban s, in fact, the set of Emilia omagna firms ith no n o nership structure considered ould correspond to the entire population of incorporated companies in the region.

According to nioncamere data, at the end of 1 the number of employees of firms ith head uarters in Emilia omagna as 1,2 , .

of employees	All employees	In group	All employees	In group	All employees	In group	All employees	In group
	No.		No.		No.		No.	
1	,	20.	12, 1	1 .0	1 , 1	1 .1	, 1	1 .1
10 1	,	2 .	,	20.	1 ,22	2 .0	, 1	2 .
20	, 1	.	1 ,	2 .	22, 0	.2	,	.
0	,	0.	,0	2.2	1 ,2	.2	1,	.
100 1	,2 1	2.	, 2	.2	1 ,2	1.	,1 0	.
200	1,02	1.	10,	2.0	1 , 0	.	, 02	.0
00	2 , 1	.	, 1	1.	10,	2.2	,	0.
≥1.000	, 2	.	11,	0.	,1	0.	1,	0.
otal	,	.	0,	.	11 , 2	0.	2,2	0.
otal ≥10	00,	1.0	,0	1.	,2	.2	,	.1
otal ≥ 0	20 , 12	.	,	.1	2, 1	2.	12, 2	.
otal ≤ 0	1 0,	2 .2	, 10	21.	,2	2 .0	22 , 22	2 .

able 1 sho s the distribution of companies belonging to a group by si e and geographical area. Loo ing for no only at the last column, referring the entire region, e see that the incidence of business grouping rises along ith firm si e. In particular, the percentage of firms belonging to a group rises from 20.2 percent for firms ith 1 employees to . percent for firms ith 1,000 employees or more. n the hole, the share of sample firms organised in groups is 2 . percent for all firms and . percent for firms ith at least 0 employees this being, due to data unavailability, the si e threshold usually considered in the studies on the e tent of corporate grouping [10]. able 2 gives the distribution of employees of the sample firms belonging to a group by si e and geographical area. Interestingly, more than half of all the employees or for companies belonging to a business group, hilst for firms ith more than 0 employees the share of employees of firms organised as a group rises to over t o thirds.

No let us turn to the three traditional sub areas of the region Central Emilia the provinces of Bologna, Modena and eggio Emilia , the provinces of arma and iacen a, and the rest of the region the provinces of Ferrara, avenna, Forl Cesena, and imini . Going bac to able 1, e find that most of the sample firms are located in Central Emilia 1 percent , hile the distribution of firms by si e is virtually uniform throughout the three areas[11]. As to the e tent of group membership, there is some geographical difference hile the region ide average is 2 . percent, the share of firms belonging to a group is 2 . percent in Central Emilia, ust 1 . percent in the area of arma and iacen a, and 22. percent in the rest of the region. his result hich is confirmed by the employee

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[10] It is interesting to compare these findings ith those of the Ban of Italy for groups of manufacturing firms nation ide Barca ***et al.***, 1 , p. 12 . he comparison sho s that the e tent of corporate grouping in Emilia omagna is, on average, comparable to the one detected at the national level, but ithin Emilia omagna the incidence of groups among smaller firms is much greater.

brea do n given in able 2 is some hat surprising in vie of t o considerations first, that Central Emilia is the area comprising most of the region s industrial districts and, second, that, according to the literature on industrial districts, relations among firms ithin a district are governed by co operation agreements and informal mechanisms based on mutual no ledge and reputation rather than by formal o nership lin ages. In the light of the higher incidence of group membership among Central Emilia enterprises, e elected to ta e our in uiry to a further level of detail, e amining the e tent of corporate grouping ithin the industrial districts of Emilia omagna.

3.3 The extent of corporate grouping within the industrial districts

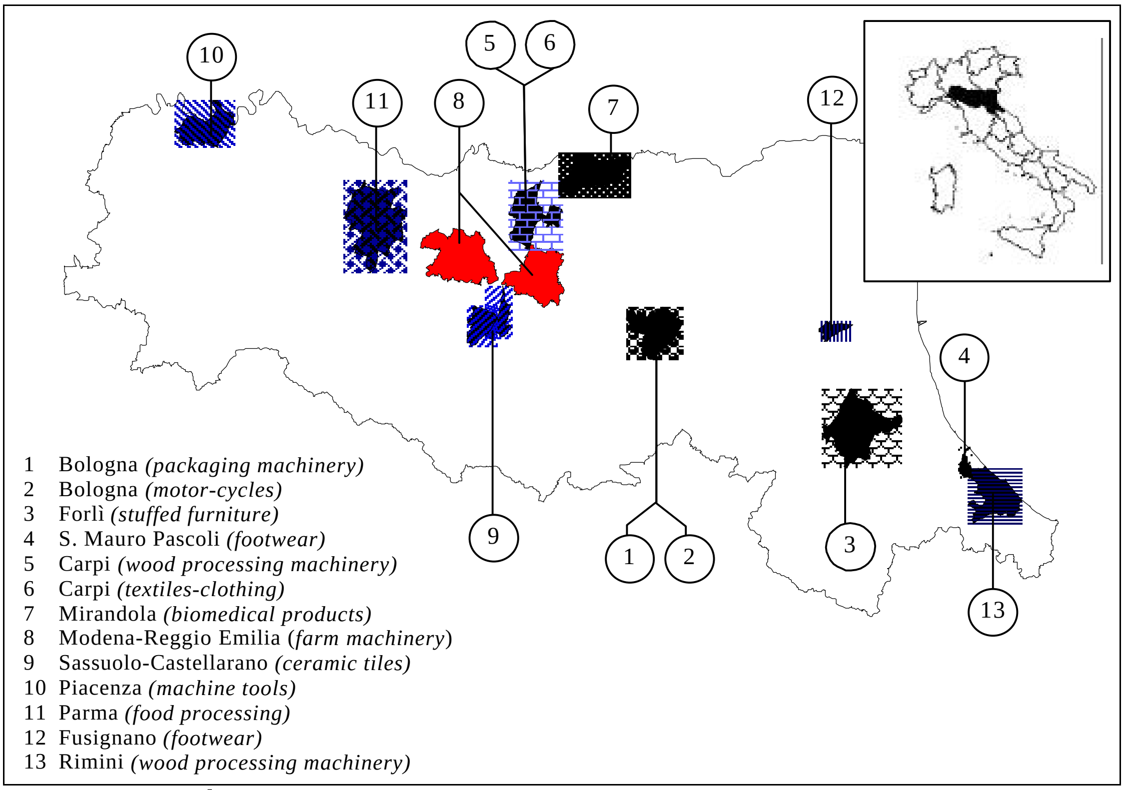
he first problem in this ind of surveys is that of definition ho to identify the industrial districts to be studied. he rich and diversified literature on Italian districts has in fact devoted considerable attention to devising definitions that could be useful for purposes of empirical research. In this regard, let us ust cite the contribution of Sfor i 1 0 and the vigorous debate that follo ed the enactment of La 1 1 1 in the effort to develop uantitative indicators for mapping Italy s industrial districts.

As e no , ho ever, many problems have remained unsolved, mainly for three reasons. First, the concept of industrial district is hard to capture on the basis of a simple set of statistical indicators, in that districts are not only composed of production apparatuses they also include hole series of social relations and value systems Brusco ***et al.***, 1 , p. 1 . In other ords, the comple ity and articulated structure of the district as a unit of analysis may ma e its recognition arbitrary at times, and thus also its empirical identification ith a given economic and geographical configuration. Second, even though some statistical indicators are agreed to be significant for the empirical identification of a district, a fe fundamental problems remain open. he most important is that using Istat s classification by branches of activity A EC to recognise a district produces a bias against areas specialising in metal or ing and engineering. his is because, hilst a te tile or a shoema ing district are readily pic ed up from the product standpoint using the t o or three digit A EC code, this is not true for a metal and engineering district, in hich firms engaged in different stages of the production process are tagged ith different code numbers. hird, there is the problem of defining the territorial boundaries of a district. In the consciousness of the above described problems, in this paper e shall identify the

[11] In order to avoid overloading able 1, this distribution is not given, but it can be easily observed that in all three areas about percent of the firms has less than employees and only 2 percent has more than 100

industrial districts of Emilia omagna referring to the set of choices adopted by the research team co ordinated by Brusco Brusco ***et al***., 1 . ence, the industrial districts e amined are those displayed in Figure and listed in able .

Figure 3 –The thirteen industrial districts in Emilia Romagna



Source Brusco ***et al***. 1 , p. 1 .

Table 3 – Corporate grouping among Emilia Romagna's industrial district firms

Industrial district	All Firms		Firms ith no n o nership structure			
			All firms		f hich in group	
	No.	Emplo yees	No.	Emplo yees	of firms	of empl.[a]
Motor cycles Bologna		,2	2	,222	2.1	2.
ood processing machinery Carpi			2	2	.	2.1
Stuffed furniture Forl		2, 1	1	1,1	1 .1	.
Biomedical products Mirandola	2	,01	1	1,	2 .	.1
Ceramic tiles Sassuolo Castellarano	2	1 ,	2 2	1 , 2	2.	.
Machine tools iacen a	101	1,2			.	1.
Food processing arma	1, 2	11,	2	,	2 .	.
Foot ear Fusignano	1	1,	0		.	1 .
ood processing machinery imini	1	1, 0	1	1, 1	2 .	.
ac aging machinery Bologna	2	,2 1	112	, 11	2.	1.1
Foot ear San Mauro ascoli	1	2, 20	1	1,	12.	2 .
e tiles clothing Carpi	2,	11,02		,	1 .1	2 .2
Farm machinery Modena eggio Emilia		, 1	12	, 0	2.	.
AL	,	,1 2	1, 2	, 2	2 .	1.2

[a] Share of employees or ing in firms belonging to a group over total employees.

employees.

able sho s the incidence of the group model among the firms operating ithin the thirteen regional districts. f the overall , regional district firms e tracted from Impero, using the Emilia omagna s shareholder database e ere able to trace the o nership structure of 1, 2. Notice that, though accounting for about 22 percent of the firms e tracted from Impero, in terms of employees the set of 1, 2 firms ith no n o nership structure considered represent more than percent of the Impero archive. f these 1, 2 district firms ith no n o nership, 2 2 . percent, that is, a considerably higher percentage than for the entire region belong to a group. Moreover, if e assess corporate grouping in terms of employees instead of in terms of firms, then the e tent of business grouping raises up to 1.2 . hese are most significant findings, largely confirming the evidence put forth above of remar able groupification even in the areas of Emilia omagna characterised by a multitude of small enterprises and by industrial districts. Going into greater detail, the district areas ith the highest incidence of groups are those of ceramics in Sassuolo and Castellarano 2. percent in terms of firms and . percent in terms of employees and pac aging machinery in Bologna 2. and 1.1 percent . Conversely, the district firms operating in traditional sectors such as te tiles and clothing, furniture or foot ear sho a lesser propensity for the group form. In particular, in the nit ear and garments district of Carpi only 1 .1 percent of the firms ith no n o nership belongs to a group, hereas in the stuffed furniture district of Forl and in the foot ear district of Fusignano group membership is even lo er, at 1 .1 and . percent, respectively.

Corporate grouping ithin four industrial districts a field survey

So far e have highlighted the significant e tent of corporate grouping among Emilia omagna s district firms. In this Section e present the results of the succeeding phase of our or that of an e tensive field survey underta en in four of the thirteen regional districts ith the aim of identifying the main features of business groups and understanding the reasons for their formation and development[12]. he industrial districts chosen for the field survey are those of farm machinery in eggio Emilia and Modena, te tiles and clothing in Carpi, pac aging machinery in Bologna and foot ear in San Mauro ascoli. Needless to say, this selection may have influenced some of our findings, lumping

[12] e ish to than Federico Caloi, Mauro Casamatta, ittorio Checchia, Fulvio Delaiti, Simona Fantini, Simona Galimberti and oberto Marabini for outstanding research assistance during the field survey.

together as generic industrial districts local systems that differ sharply in si e, technology and organisation.

4.1 A new procedure for identifying business groups

here is a necessary methodological premise to the account of our supplementary in uiry into the four districts selected. In particular, the algorithm used so far to identify business groups in Emilia omagna from a data set of individual firms underestimates the e tent of corporate grouping. his is because, lac ing full information on the firms o nership and control structures as e shall see shortly , the algorithm has t o ea nesses first, it does not identify all the possible forms of business group second, it may not recognise a firm s membership in a group that has already been identified.

o clarify the nature and the relevance of these problems, let us cite a fe of the many possible e amples. As for the first ea ness, consider a group consisting of t o companies, here the first is o ned 0 percent by a husband and 10 percent by his ife and the second is o ned 0 percent by the ife and 10 percent by the husband. r a group of t o companies controlled by three o ners ith varying o nership sta es, each lo er than 0 per cent, in the t o companies. hese are t o simple instances of hat is actually a very large number of cases of groups that the algorithm cannot pic up. hese groups e ist not as the result of o nership lin ages bet een firms but as the e pression of a set of firms bound together by the fact of all being o ned by a coalition of shareholders. No , since e have no information on shareholder coalitions as for unlisted firms there is no re uirement that coalitions be publicly disclosed , it is clear that corporate groups li e those ust depicted ill slip through our algorithm s net. As to the second limitation the inability to al ays recognise membership in a group that has already been identified recall from Section .1 that our group identification algorithm recognises as group members only firms more than 0 percent of hose e uity is held by group companies. Involving a set of over ,000 firms Figure 1 , the algorithm as prudently set up ith this criterion and not ith that of grouping firms tied to a corporate group through a ho ever large minority sta e and ith dispersed residual o nership. For in fact if one cannot verify the situation ***ex post***, then one ris s to attribute the control of a firm to the holder of a minority sta e, hile the actual ma ority may be in the hands of a set of shareholders, each ith a small e uity interest.

aving e plained the t o ea nesses of the algorithm, it shall no be clear that the only ay to overcome them is by manual reconstruction of the group structures. a ing firms one by one and identifying their shareholders by name and address, e can identify coalitions of shareholders and verify relying also on additional information for each district such as trade fair catalogues and trade association publications hether a firm in hich a minority sta e is held is actually part of a group. In a study li e ours, focusing on corporate grouping in local production systems and industrial districts here family controlled groups and permanent shareholder coalitions are a li ely hypothesis the t o limitations of our algorithm may have led to a significant underestimate of the e tent of corporate grouping. aving decided to restrict our attention to a limited number of districts, and hence to a much lo er number of firms than the original ,000, e resolved to re assess the incidence of the group form in these districts by tracing group structures manually .

able compares the results obtained hen the 01 firms ith no n o nership in the four selected districts are classed as stand alone or group members first using the old algorithm and then using the ne manual method. he bottom ro of the table sho s that the e tent of corporate grouping detected using the ne procedure is practically t ice as large . as against 2 . percent.

Table 4 – Corporate grouping in the four industrial districts: two group-identification methods compared

Industrial district	All firms ith no n o nership structure	ld algorithm				Ne manual procedure			
		Stand alone		In group		Stand alone		In group	
		No.		No.		No.		No.	
Farm machinery Modena eggio Emilia	12		.	0	2.	2	0.0	2	0.0
e tiles clothing Carpi		2	2.		1 .1	2	0.	1	.2
ac aging machinery Bologna	112		.1		2.		1.1		.
Foot ear San Mauro ascoli	1	1	.	2	12.		1.2	11	.
otal	01		.2	1	2 .		.1	1	.

he results confirm the remar able and systematic underestimate of corporate grouping produced by our group identification algorithm. his suggests that the previous count of the e tent of business groups in Emilia omagna and in the three sub areas is highly underestimated as ell. In other ords, these findings support the vie that the pervasiveness of the group organisational form in Emilia omagna is even greater than the already high level detected in our previous analyses.

4.2 The sample structure

For each of the four districts selected for the field survey e identified a sample of firms, each of hich as intervie ed directly ith the aid of a uestionnaire. n the hole, the four samples account for 1   of the   01 population firms   ith   no n o nership. Methodologically, the four samples   ere identified by means of a dual stratification of the reference population.   he first criterion   as firm si e, measured by the number of employees. All the empirical   or   on business groups has in fact sho n that as firm si e increases, so does the fre uency of group membership see, among others, Barca ***et al.***, 1   Barbetta ***et al.***, 1   Bianchi ***et al.***, 1   .   ithin each si e class, firms   ere then sampled in proportion to the incidence of group membership   ithin that class si e. In other   ords, the second stratification   as achieved by adopting the criterion of group membership, such membership being determined using the manual procedure described in Section .1[1] .   he intervie s   ith the stand alone firms   ere conducted for purposes only indirectly relevant to the topic under in uiry here.   hat is, gathering information on both types of firm,   e sought to chec   hether behaviour and features differed, si e being e ual, bet een group and non group firms.   reliminary results not given here suggest that the differences are in fact very substantial small firms belonging to a group have parameters such as financial behaviour, productivity and profitability typical of larger independent firms, suggesting that firms in group can be regarded as divisions of a larger si e enterprise.   his evidence goes in the direction of confirming that the business group, more than the single firm, should be the proper unit of economic analysis.

Table 5 – Corporate grouping[a] in the four industrial districts: population and sample compared

Industrial district	opulation			Sample		
	All firms ith no n o nership structure	In group		All firms ith no n o nership structure	In group	
		No.			No.	
Farm machinery Modena eggio Emilia	12	2	0.0		2	.
e tiles clothing Carpi		1	.2		1	.
ac aging machinery Bologna	112		.		0	2.
Shoes San Mauro ascoli	1	11	.	1	11	.
otal	01	1	.	1		.

[a] Group membership is evaluated using the manual procedure.

he results of the sampling are given in   able   . In general terms, the structure of each sample sho s   uite a good resemblance to that of its reference population. Additionally, it is   orth noticing that the degree of coverage of the samples is very high compared to other   or   of this   ind.

[1] For a more detailed description of our sampling strategy, and of the methodology in general, see Brioschi and Cainelli 2001 .

4.3 The findings: main quantitative characteristics of business groups

he main uantitative results of the field survey are set out in ables to 10. Starting from the 1 sample firms, a total of groups ere identified in the four districts under in uiry, ith an average of .2 firms per group. his overall average conceals a substantial difference bet een the t o traditional districts te tiles and foot ear and the t o higher tech districts farm and pac aging machinery in that the former tend to e hibit corporate groups composed of a significantly lo er number of firms.

For a closer reading of this evidence, in the course of the study e developed a ta onomy of business groups, according to hich the group structures found ithin the industrial districts under investigation could be classed in four types ***i*** pseudo groups , ***ii*** conglomerate groups , ***iii*** district groups , ***iv*** international groups . he term pseudo group refers to a structure consisting of ust one production company plus one or more financial and or real estate firms, the latter often employing very little staff or none at all. It is generally employed as a mean to separate the o ners corporate activities from their additional properties real estate or other . Conglomerate groups are arrangements of t o or more firms operating in separate industries and generally include one or more financial real estate companies. hese structures highlight the entrepreneurs business dynamism and ability to diversify across investment types. A district group is a cluster of firms head uartered in the district that are engaged in the district reference production sector, hatever their compartment or level in the product chain. hey may include one or more financial or real estate companies. he presence of this type of group significantly affects the district organisational structure since it enhances the district industrial concentration and or degree of hierarchisation . Finally, an international group is a highly evolved and diversified structure ith one or more companies ithin the district generally, production companies and one or more companies abroad typically, mar eting and financial arms .

Applying this classification to the groups identified in the field survey, e obtained the results sho n in able . he most fre uent type of business group detected in the four districts is the district group , testifying the importance of this particular organisational form in local production systems such as those under investigation. his architecture is pre eminent in the districts of Modena eggio Emilia, San Mauro ascoli and Carpi, hilst the pac aging machinery district in Bologna seems to be distinguished by the presence of group structures ith a pronounced international orientation. In this respect, ho ever, it has to be noted that in cases out of the Bologna based international groups are former district groups that over time e panded internationally.

Table 6 – Types of business groups in the four industrial districts

Industrial district	All groups	Firms per group	seudo group	Conglo merate	District	Interna tional
	No.	Average	No.	No.	No.	No.
Farm machinery Modena eggio Emilia	20	.	2		12	1
e tile clothing Carpi	0	.	10		1	1
ac aging machinery Bologna	20	10.			a	
Foot ear San Mauro ascoli		.		1		2
otal		.2	1	10	1	1

Table 7 – Industrial diversification of business groups in the four industrial districts

Industrial district	Number of groups	Corresp. number of group firms	Industrial ithin district sector	Com mercial	Financial	eal estate	Industrial out of district sector
	No.	No.	No.	No.	No.	No.	No.
Farm machinery Modena eggio Emilia	20	1	1		11	11	1
e tile clothing Carpi	0	100		10	1	1	
ac aging machinery Bologna	20	212		0	1	2	
Foot ear San Mauro ascoli		0	1				1
otal			2	10	2	0	

Table 8 – Geographical diversification of business groups in the four industrial districts

Industrial district	Number of groups	Number of group firms	ithin the district	In the rest of Italy	Abroad
	No.	No.	No.	No.	No.
Farm machinery Modena eggio Emilia	20	1	101	1	2
e tile clothing Carpi	0	100	0	1	
ac aging machinery Bologna	20	212	2	20	1 0
Foot ear San Mauro ascoli		0	2	2	
otal			2	2	1

he importance of the district group strongly emerges also from ables and , respectively e hibiting the industrial and the geographical diversification of the groups detected in the four districts. hese t o tables confirm that the ma ority of the firms belonging to the groups under investigation are industrial firms operating in the district reference industry and located ithin the district boundaries.

Table 9 – Business strategies of 'district groups' in the four industrial districts

Industrial district	Number of district groups	revailing strategy		Main advantages of business grouping		
		ori on tal diversi fication	ertical integration	Economies of scale in distribution	Economies of scale in industrial planning	uality reliability of sub contractors
Farm machinery Modena eggio Emilia	12			✓		
e tile clothing Carpi	1	2	1			✓
ac aging machinery Bologna			1	✓	✓	
Foot ear San Mauro ascoli		2				✓

Beyond recognising the numeric relevance of district groups , the field survey also allo ed us to e plore the business strategies of these local group structures. Such strategies, along   ith the attached main advantages of business grouping, are sho n in   able . In the farm machinery district of Modena and   eggio Emilia,   district groups out of 12 adopt a hori ontal diversification strategy. District groups entrepreneurs ta e advantage from the central handling of the commercial distribution function, allo ing them to supply several different customers   ith an articulated range of products often under a single brand. Similar results emerge from the analysis of the pac aging machinery district of Bologna,   here the prevailing strategy is again hori ontal diversification for   district groups out of . In a district   here the technological content of the goods produced is high, district groups e ploit economies of scale both in industrial planning and in the distribution phase, the latter often implying after mar et presence abroad. A different story emerges in the other t o districts under investigation,   here the prevailing strategy of the district groups detected appears to be vertical integration. In particular, in the   nit ear and garments district of Carpi the ma ority of district groups is integrated up ard,   hereas in the foot ear district of San Mauro   ascoli district groups are also integrated do n ard.   o e plain   hy district groups in Carpi resort to up ard vertical integration,   e shall recall that in the last ten years this district has reacted to the aggressive competition of the lo   labour cost countries by repositioning on a higher uality segment of the mar et.   o guarantee uality and delivery times in a sector   here uality standards and speed of e ecution are crucial, many final firms ac uired their sub contractors. Also in San Mauro s foot ear district the ma ority of district groups is vertically integrated.   o ever, as here district groups are shoe factories of   orld   ide reno n, local final firms have integrated both up ard to better control for uality and do n ard to monitor distribution and manage sales points.   he above analysis suggests that district corporate grouping alters the traditional organisation of the district in districts mainly comprising groups   ith a vertical integration strategy Carpi and San Mauro   ascoli , spontaneous co operation along the production ***filiere*** is replaced by hierarchical relationships by contrast, in districts   here groups have a prevailing hori ontal diversification strategy,   e observe a gro ing concentration of the district output,   hile the degree of hierarchisation along the production ***filiere*** remains unchanged[1] .

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1   e o e an anonymous referee the suggestion to perform the above analysis on the effects of business groups development strategies on the district internal organisation.

Last, before passing on to the more ualitative results of the field survey, e believe it is important to give a measure of the eight of business grouping in our four districts. In particular, ta ing the vie that the group is the relevant unit of analysis[1] , e can assess the degree of industrial concentration generated by the district groupification simply by relating the employees of the largest groups[1] of each district to the total number of district employees. f course, in order to obtain a correct measure of industrial concentration, of the groups considered only the firms operating in the district reference sector and located ithin the district boundaries have to be ta en into account.

Table 10 – Employee structure and concentration indexes in the four industrial districts

Industrial district	otal district employees	Share of employees in firms ith 20 employees	Share of employees in firms ith 0 employees	Share of employees in firms ith 200 employees	Industrial concentration inde	
					C a	C a
	No.					
Farm machinery Modena eggio Emilia	. 1	1 .	.1	.	.	.2
e tile clothing Carpi	11.02	.	1 .2	.1	.	.2
ac aging machinery Bologna	.2 1	10.	.	.2	.	.1
Foot ear San Mauro ascoli	2. 20	2 .	.1	11.	.	.

C4 and C8 are respectively the share of the employees of the first four groups and of the first eight groups over total district employees. The employees of the group firms located either outside the district or not operating in the district reference sector are disregarded in the calculation of these indexes.

able 10 sho s the industrial concentration inde es built using the largest four and the largest eight groups in the industrial districts of interest. ith the only e ception of Carpi, the data sho that the districts are highly concentrated, spotlighting a significant departure from the original district nature. In the farm machinery district of Modena and eggio Emilia, for instance, the employees of the first four groups account for about t o thirds of the district employees, those of the first eight groups almost reach three uarters of total employees.

4.4 *The findings: determinants of business grouping*

In the last fe years district firms, ust li e all other enterprises, had to reorganise and gro in order to face the increasingly intensive transformation of rules and arrangements mar ing international competition. In the four districts ta en into account in our field study, this process of gro th has led both to greater product differentiation hence more hori ontal integration in order to broaden the product range and to an increased attention to uality, hich has often meant vertical integration upstream for

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1 he reason for such a choice is e plained both in the Introduction and in Section .2, here e report the results of a comparison made in the field survey bet een firms in group and independent firms.

better uality control on semi finished products and components and do nstream to ensure better control of sales channels[1] . In other ords, in order to be competitive at international level district firms rearranged operations so as to operate on a larger scale and ith stronger integration of production processes.

he intervie s that e carried out during the field study highlighted the choice on the part of district businessmen to spur gro th mainly via the business group device and revealed the motives behind this decision. In particular, the choice to e pand through the group model has depended and depends both on general factors and on other factors lin ed ith the specifities of the industrial district as such. he former include labour la trade union representation rights are sub ect to a si e threshold of 1 or ers , ta considerations such as the constitution of a holding company in a country offering ta brea s , the accommodation of the need to bring relatives and employees into the o nership structure, and the opportunity to separate corporate activities from personal often real estate properties.

he field survey found other, more specific motivations as ell. he enlargement to ards the group form can ta e place either by the formation of ne companies or by the ac uisition of e isting firms. Both avenues ere found during the field study. In some cases, having decided to e pand generally in the same product line or in related products, either upstream or do nstream , the firms of a district founded one or more ne companies in the same district rather than simply e panding the si e of the e isting firms. he entrepreneurs intervie ed e plained that this option as ta en in order to repeat a tested organisational model, i.e. that of the small enterprise. o ever, it as in the case of e ternal e pansion, i.e. e pansion by ac uisition hich e found to be the most common , that firms membership in a district had the highest impact on their ay of gro th. han s to thorough familiarity ith the other firms in the district competitors, suppliers and customers , the district entrepreneurs could ac uire businesses ith sure no ledge of their characteristics, ith no need for the intercession of an investment ban er not al ays reliable and al ays costly . he mutual familiarity of the firms ithin each district and the relationships of trust built up bet een businessmen hich the literature correctly considers to be the fundamental element in the very formation and development of the district La erson and Loren oni, 1 turned out be decisive factors in many of the corporate finance operations underta en by district firms. In most

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1 In terms of employees.

1 Similar patterns of evolution for district firms are observed by Innocenti 1 and aniccia 1 .

cases, the ac uisition as not follo ed by the merger of the purchaser ith the ac uired company. In order to preserve a brand name or to leave the management of the ac uired company intact, or in the desire or necessity to leave a sta e in the company to the seller, the ac uired company as left in e istence albeit ith a totally or significantly renovated o nership and became part of the group headed by the purchaser. he fact that e ternal gro th strategies ere often carried out ithin the district led to the formation of district groups .

he evidence here presented gives substance to the uantitative importance of district groups documented in the field study and suggests that the district group is one of the organisational architectures that district firms prefer to face international competition. For the district group combines the large scale of operations and the central handling of such functions as production, distribution and finance ith the fle ibility of small legal firm si e, one of the un uestioned strengths of Italian districts and of Italian local capitalism in general.

he changing nature of industrial districts

he empirical analysis presented in this paper has sho n that the e tent of corporate grouping ithin the industrial districts under investigation is very significant. he analysis has further ascertained that the nature of such groups is by no means homogeneous and that their formation can be ascribed to a number of different factors. In this respect, the ta onomy introduced in Section is helpful for understanding both the nature and the role of business groups in the evolution of the district organisation. he pseudo group , hich comprises one single industrial firm, is essentially employed to separate the o ners main economic activity from their additional ealth real estate or other , sho ing in any case the financial sophistication achieved by district entrepreneurs. he conglomerate group highlights the entrepreneurs activism and ability to diversify investments, possibly enhancing their bargaining po er ithin the district competitive process. From the point of vie of the evolution of the organisational structure of the district, the most important type of group identified during the field study is the district group , composed of a plurality of firms located ithin the district and operating in the district reference sector. he field study has spotlighted its idespread presence, sho ing that the district group can be considered as the main organisational form chosen by district firms in their process of gro th. Finally, the international group is a group ith a strong international orientation. In many cases, it is simply a former district group hich has e panded abroad and often it can be regarded as a true small multinational enterprise. It is important to note that corporate grouping and, more specifically, district grouping is idespread not only in industrial districts characterised by the presence of large firms Bologna, Modena eggio Emilia, San Mauro ascoli but also in the te tile district of Carpi, still characterised by a lo degree of industrial concentration.

 hile all group forms affect the district configuration, the presence of district groups directly changes the internal organisation and thus the governance structure of the industrial district since it affects the degree of industrial concentration and the degree of hierarchisation of the district. he prevalence of one of these t o effects depends on the type of development strategy adopted by district groups , i.e. vertical integration or hori ontal diversification. ur analysis has brought to light that ithin traditional districts such as Carpi and San Mauro ascoli groupification produces an increase in the degree of hierarchisation of the district via the substitution of the traditional co operative relationships bet een sub contractors and final firms so ell described in the literature on industrial districts ith o nership relationships hich are by definition hierarchical. By contrast, in the industrial districts of Bologna and Modena eggio Emilia here groups mainly adopt a hori ontal diversification strategy, the prevailing outcome of groupification seems to be an increase in the level of industrial concentration.

 he empirical identification of the district group as a ey form of business organisation in industrial districts raises several theoretical issues of considerable importance. First, it is orth noting that the concept of industrial district generally employed in the Italian literature is slightly different from that commonly attributed to the tradition dra ing bac to Marshall 1 20 . As a matter of fact, this term applied to the hird Italy describes a some hat different type of organisational structure. In particular, this term indicates a higher degree of co operative co ordination than ould be present in a Marshallian industrial district. roduct differentiation rather than price is the dominant competitive characteristic. acit idiosyncratic no ledge is central to firm performance and competition is limited to certain spheres of activity in hich firms might be e pected to develop distinctive competencies Langlois and obertson, 1 , p. 12 . Moreover, the relations ithin the district are not only deemed to be informal but also based on e ual rights, thus precluding the possibility of hierarchical relations. Co ordination of the activities among different district firms is achieved through mar et transactions, but even so interaction mechanisms including social interactions based on trust, reputation and co operation play a ma or role Dei ttati, 1 . In such a theoretical frame or , the industrial district shapes up as a production arrangement characterised by a high degree of co ordination and little if any o nership integration. he emergence of organisational forms based on o nership lin ages, hence greater concentration of o nership and control, is altering these traditional arrangements, gradually replacing the old mechanisms of competition and co operation ith others based on more formal and stable relations.

Secondly, our results on the relevance of district groupification allo us to ta e part in a theoretical discussion lively debated ithin the district literature that on the prevalence of the systemic nature of the district or of the centrality of the single firm as unit of analysis. In this literature t o different approaches can be identified a system centred vie and a firm centred vie [1] . Behind the first approach, there is the idea that the district or s as a comple evolutionary system, here the integration bet een firms is mainly achieved by means of a mi of automatic mechanisms based on both mar et competition bet een firms belonging to the same stage of the production process and co operative behaviours bet een firms belonging to different stages of the ***filiere***. In this perspective, mainly developed by Becattini and Brusco ithin the traditional theory of industrial district dra ing bac to the seminal contribution of Marshall, little room for the strategic behaviour of firms is left. ecently, Ferrucci and araldo 1 have proposed a ne approach to analyse the pattern of evolution of industrial districts. hey suggest that the appropriate unit of analysis of a district is the district firm and that the district firm strategic behaviour is the ey variable for the analysis of an industrial district and for the understanding of its pattern of evolution. ur point of vie is close to Ferrucci and araldo s. e have emphasised the role of business strategies and hence of the strategic behaviour of district groups in the process of evolution and transformation of an industrial district. his does not mean that the district as a system does not matter. n the contrary, the district constitutes a favourable environment stimulating the formation and development of district groups . In this sense, the district group represents both an element of rupture ith respect to the traditional organisation of the district and a factor of continuity ith the districts traditional ***modus operandi***.

Finally, it is orth analysing the policy implications of our investigation. It is useful to start from the actual e perience of industrial policy in Emilia omagna since the late 1 0s. As e no , regional policy ma ers have generally designed industrial policy having

1 See hitford 2001 for an e tensive description of the t o approaches.

the industrial district or the local system of small and medium si e firms as the reference organisational model. ust consider the Ervet system centres, conceived from the outset as centres to support small businesses ith the provision of real services Bellini ***et al.***, 1 0 Ma onis, 1 . ur findings sho that the small uridical si e of individual firms ma ing up these local systems is only one of the variables to consider in designing the industrial policy programs. he high e tent of corporate grouping even detected among the smallest si e firms certainly suggests that firm o nership is concentrated in a lo er number of controlling o ners. ne possible implication is that the fragmentation of organically unified enterprises into a large number of legally independent firms may result in a concentration of policy benefits on a lo er number of actual beneficiaries. In addition, as uridical si e is often an essential factor in determining ho is eligible for a given benefit, the district group form may permit circumvention of si e ceilings. hat is, corporate grouping could distort the allocation of public resources ithin a district to the disadvantage of small independent firms.

Conclusions

he industrial district is traditionally vie ed both as one of the most interesting peculiarities of the Italian industrial system and one of its main strengths. et, in recent years faith in the role of industrial districts has avered some hat. hile some scholars notably, Becattini and Brusco continue to believe in the district , many others onder hether this form can cope ith the challenges of globalisation, or hether it is doomed to decline. ur paper has revealed that the uestion is ill put. District firms are still operating successfully in Italian and international mar ets. Nevertheless, over time industrial districts have been sub ect to a transformation process hich radically altered their characteristics. ithin industrial districts today e find the coe istence albeit ith relative eights that differ from case to case of traditional arrangements ith other, hierarchical mechanisms depending in many cases on the presence of business groups. During our field study e have identified corporate groups, of hich several are medium or large si e and three comprise a listed company Ema , Ima and Sasib Cir . Significantly, many of these groups are the product of a process of gro th involving district firms. hat is, many of the districts large enterprises in the economic acceptation started out t enty or more years ago as small firms. his result offers a ne interpretation to the issue typical of the literature on industrial districts essieri, 2000 of the interaction fruitful or other ise bet een small district firms and large firms, the latter al ays being considered as e ternal . As e have seen, many of the large enterprises operating today ithin districts are actually the result of an on going gro th on the part of district firms themselves and should thus properly by considered internal . In our vie , the decade old observation of Bianchi and Gualtieri 1 0 on the Emilian model is perfectly suitable that ta e overs have been the gro th device for local enterprises and that this has been accompanied by the creation of group configurations that tend to remain unaltered in legal and operative standing, hilst still guaranteeing the control of functions considered to be strategic Bianchi and Gualtieri, 1 0, p. 100 .

Ne t to these findings, the paper has further sho n that one particular form of business group specific to industrial districts the district group is very common and plays a ey role in the economy of district areas. From one point of vie , their e istence deeply alters the nature of the district, but from another standpoint they are a po erful element of continuity. n the change side, the substantial presence of corporate grouping suggests the e istence of a process of hierarchisation of the economic relationships among district firms. n the continuity side, the function of the industrial district, and of the forms of local capitalism shaped by industrial districts, stands confirmed and highlighted as the source of s ills and abilities producing a competitive edge for district firms and prompting entrepreneurs to e pand ithin their district.

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