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Economic governance and the evolution of industrial districts under globalisation: the case of two mature European industrial districts

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Abstract

For many mature European industrial districts, the present decade has been one of trying (and often failing) to meet the difficult challenges posed by the rising tide of globalisation. The future of these districts in the new global economy has become a key issue for regional and local development policy, and, in this respect, it has sparked a renewed interest in economic governance. Economic governance is important in that it underpins a region’s long term economic development path. This paper is a contribution to the study of the economic governance of industrial districts and the related policy debate. The paper does so by specifically exploring the economic governance issue by considering the experiences and challenges currently facing two mature European industrial districts in the global economy.
1.0 Introduction

For many mature European industrial districts, the present decade has been one of trying (and often failing) to meet the challenges posed by the rising tide of globalisation. Indeed, in many European regions, the growth in international competition - mainly from low cost operators in the Far East - and the increased use of global outsourcing by district firms, has often had a painful impact upon local industry and employment levels, raising serious concerns of industrial ‘hollowing out’. Not surprisingly, the future of these mature European districts in the new global economy has become a key issue for regional development policy.

The policy debates on dealing with the effects of globalisation and structural change within regions have been wide ranging. Most policy initiatives have emanated from the substantive work in the academic literature, from the late 1980s onwards, which have highlighted the competitiveness of particular industrial districts (and regional clusters) in the new global economy (see, for instance, Beccattini, 1978, 1991, Best, 1990, 2001, Markusen, 1996, 2003, Porter, 1990, 1998). In some quarters, the promotion of regionalism and ‘cluster targeting’ has become regarded as a useful antidote to the displacement effects of globalisation, with regions striving to retain and attract highly productive firms (in Markusen’s (1996) parlance, to become a ‘sticky place’). In recent years – at least in some European policy circles (see Section 4) - there has been a renewed interest in the organisation of production within districts and the role of inter-firm networking in regional economic development. These issues relate to the concept of economic governance, a salient issue which has largely been underplayed or even ignored in the mainstream literature (Alberti, 2001, Sugden and Wilson, 2006).

The term ‘governance’ is widely used in the literature. According to Le Gales and Voelzkow (2001: 6-7) governance ‘refers to the entirety of institutions which co-ordinate or regulate action or transactions among subjects within a system’. These authors then identify the main components of a governance
system as the market, the (business) organisation or firm, the state, the community and associations of shared interests (such as local business consortia or trade unions). While exploring these separate (and related) components undoubtedly offers invaluable insights into governance processes within localities, our aim in this paper is to primarily focus upon the economic governance of firms and inter-firm relationships within industrial districts. This is because, as Coase (1937) suggested, firms can be seen as ‘islands of planning’ whose choices, however, can impact on other economic actors. Besides, depending on their networking strategies, firms do not ‘plan’ or act in complete ‘isolation’. A key issue is the distribution of economic power among constituent firms and its implications for strategic decision making processes within the district, since this influences the district’s development path.

In exploring these issues we consider the experiences and challenges currently facing two old European industrial districts in the global economy. The cases chosen are both mature districts: the North Staffordshire ceramics district, in the UK and the Prato textile district, based in Tuscany. Both regions have a long historical association with their respective industries. We will argue that as the economic structure of districts are becoming more hierarchical, an understanding of economic governance and the nature of relationships between actors within a district is crucial for the design of appropriate policy and for ensuring sustainable economic development.

The remainder of the paper is set out as follows. In Section (2), we explore the issue of economic governance, carefully distinguishing between hierarchical modes of economic governance (‘networks of direction’) and more heterarchical modes (‘networks of mutual dependence’). We argue that the nature of a district’s governance structure has implications for its development path, and this point is explored further in Section (3), where we consider the literature in relation to district evolution. In Section (4) we introduce our case studies, where we draw upon qualitative insights and secondary data to highlight the implications of changing governance structures for development within our two traditional industrial districts. Finally, Section (5) concludes.
2.0 Economic Governance in Industrial Districts: Networks of direction Versus Networks of mutual dependence

Our interest in the economic governance of an industrial district is primarily concerned with gaining an understanding of the economic structure of the district and in particular the nature of relationships between constituent firms. The key issue is the distribution of economic power among firms, in particular what it entails, where it resides and how it might be exercised. At the firm level, economic power essentially involves the ability to take and subsequently implement strategic decisions which determine its broad business orientation (Zeitlin, 1974). A significant element in formulating these strategic decisions is that of economic planning which for Coase (1937), was the central feature of the firm’s internal (strategic) decision-making processes: indeed, Coase regarded firms as ‘islands of planning’. The ability to plan employment/output levels and undertake activities such as new capital investments or relocating production might (therefore) be considered as an expression of a firm’s economic power although in reality, a firm’s pursuit of such objectives may be constrained by it’s external environment (either through government regulation and/or the behaviour and activities of other firms with which it interacts).

The extent to which a firm can implement its own strategic decisions will ultimately depend upon the distribution of economic power among related actors and here there is no guarantee that such power will be evenly distributed (see Palermo, 2000). Indeed, economic power asymmetries are likely to prove to be the norm rather than the exception. Consequently, the more powerful actors might be expected to use their position to further their own strategic interests, possibly to the detriment of others (Cowling and Sugden, 1998). For instance, smaller firms might find themselves being ‘closed out’ of markets because of the anti-competitive strategies of larger competitors or they might be coerced into accepting an iniquitous set of

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1 This seems particularly the case given the rising levels of industrial concentration (and the associated concentration of economic power) which are widely observed around the world (for recent evidence see Cowling and Tomlinson, 2005).
contract conditions from a large powerful contractor. Such power asymmetries can have important implications for the future development of a district or region.

In exploring the implications of the distribution of economic power within industrial districts it is useful to consider Sacchetti and Sugden’s (2003) distinction between ‘networks of direction’ and ‘networks of mutual dependence’\(^2\). Each type of network represents the two ends of the spectrum in defining the nature of inter-firm relationships. The first case relates to networks of firms where strategic decision-making and economic planning is concentrated among either one or possibly a few core firms\(^3\). Economic relations within ‘networks of direction’ are predominantly hierarchical in the sense that the core firms independently pursue their own strategic objectives, often with little consultation with their trading partners and/or other stakeholders in the locality. Such a network might typically be observed in a vertical production chain, where there is either a monopsonistic buyer or seller which engages in activities with less empowered partner firms (such as smaller sub-contractors)\(^4\). The terms of such engagements are often dictated by the dominant or core firm, with the smaller partners playing a largely subservient role, often being required to deliver lower production costs and meet tight (output) efficiency criteria. For such partner firms, there is little room for manoeuvre and few opportunities to influence the whole production process, which is geared towards serving the flexibility requirements of the

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\(^2\) Sacchetti and Sugden (2003) regard networks as being somewhat spatially looser and not necessarily confined within a geographical area. Nevertheless, the framework is useful here, particularly in the context of the current evolution of traditional industrial districts towards the ‘networks of direction’ model (see Sections 3 and 4).

\(^3\) In Markusen’s typology of clusters (1996), this might be considered as the ‘hub and spoke’ cluster.

\(^4\) While our example here focuses upon vertical structures, this is not to say that hierarchical forms of economic governance do not arise in more horizontal industrial structures where there are less direct ties between particular firms. For instance, consider a district where there are one or two dominant oligopolistic firms, and which is supplemented with a group of smaller players within the same sector, who operate in their own niche markets (the so-called ‘competitive fringe’). In such cases, the dominant firms, through their scale and scope can have a profound influence upon production and market outcomes and ultimately the strategic direction of the district, either directly in negotiations with other firms and/or involvement in local institutions or indirectly through their presence in both product and local labour markets (see the North Staffordshire case in Section 4).
core firms (which more often than not are the sole beneficiaries from the fragmentation of production) (see De Propris, 2001)\(^5\).

The implications of the ‘networks of direction’ model for the industrial district are mixed. On the positive side, the emergence of large dominant firms within a district may lead to new investment in technology on a scale which might not have been undertaken by smaller firms (Lazonick, 1993). This can lead to greater economies of scale, thus improving the district’s competitiveness. A further advantage is that as core firms develop their own brand identities on a national and international scale, these may act as a source of demand for smaller district-based subcontractors. Indeed, the ‘brand identities’ of particular firms could, over time, become synonymous with the district itself, with positive spillovers such as attracting new firm entry into the district and the promotion of industrial tourism.

On the other hand, the ‘networks of direction’ model raises particular concerns for the industrial district. These primarily relate to the district becoming ‘locked in’ to the objectives and strategic decision making processes of a few or even a single firm. In such circumstances, the district’s outlook can become mono-directional. This poses two related dangers for the district’s development. The first is the district becomes vulnerable to economic factors affecting the core firm(s). This is particularly the case where the district over-specialises by focusing upon meeting the technological requirements of the core firm(s), thus raising the possibility of technological isomorphism whereby the district fails to significantly diversify and adopt more flexible technologies (Bailey, 2003)\(^6\). The second danger relates to governance and is more fundamental in that the district’s development path becomes entwined with the ramifications of the core firm’s strategic decisions. For instance, a strategic decision (or even a threat) by a core firm to

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\(^5\) This is often the case in automotive clusters where local suppliers are typically required to meet the stringent demands of transnational assemblers. In the Japanese automobile industry, for instance, small *keiretsu* subcontractors were often subjugated to the demands of Japan’s large auto-assemblers (for further details, see Coffey and Tomlinson (2003a and b)).

\(^6\) The danger here is that in extreme cases, shifts in demand may render the entire industrial base obsolete (Helmsing, 2001).
shift production overseas and/or pursue a global outsourcing strategy will have significant repercussions for the district’s smaller firms, workers and the skills base which will alter the district’s development trajectory (see Section (4)).

The second case is described as one of ‘networks of mutual dependence’. The main characteristic of this network is of a relatively ‘flat’ or ‘heterarchical’ governance structure, whereby firms are engaged in a series of ongoing economic relationships with each other, which are such that their mutual interdependencies – such as their dependence upon each others’ resources and activities – tend to support and re-enforce co-operation, reciprocity and mutually supportive actions across the network (which might involve firms across the district) (Powell, 1990). Indeed, it is the mutual dependence of these interactions which tends to reduce the dominance of any one particular firm, thus maintaining heterarchy and promoting pluralism in the decision-making processes (Sacchetti and Sugden, 2003).

In elaborating upon this concept, let us consider Jessop’s (1998) three forms of heterarchical governance. In its simplest form, heterarchy arises through interpersonal networking, whereby individuals discuss, share and pursue a similar set of interests, interactions which can nurture and re-enforce trust in relationships. The second form of heterarchy is at an institutional level, whereby autonomous but interdependent organisations (such as firms) co-ordinate their resources in the pursuit of a set of common objectives. In the aggregate, these mutual ties can evolve into collective competences and strengths that outweigh those of any one particular firm or organisation (see also Richardson, 1972). The third form of heterarchy is inter-systemic steering or communication, where actors engage in ongoing dialogue and

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7 It is worth noting that the importance of ‘collective competencies’ for local economic development was initially raised by Richardson (1972) who, drawing upon a Penrosian view of the firm, recognised the value in firms developing ‘network competencies’, through coordinating their own activities and utilising the expertise of others within the network. Pitelis and Pseiridis (2006) have since made the observation that the Penroean entrepreneur is able to identify those particular activities which necessitate cooperation through the network.
negotiation\textsuperscript{8}. For Jessop (1998) this process serves the dual purpose of i) ‘reducing noise’ since it promotes a greater mutual understanding and sensitivity between different organisations, in particular in relation to each other’s respective identities, operations and interests and ii) re-enforcing self restraint among actors as they become more aware of the wider impact of their own actions (and decision-making) on other parties.

As Jessop acknowledges, these forms of heterarchy are not always easy to supervise. For instance, trust within inter-personal relations may be difficult to manage and maintain as networks grow, while co-ordinating resources between organisations is problematic, particularly where resource synergies are not easily transparent and individual organisations are inert in adapting to changing circumstances. Yet, the three forms of heterarchical governance should not be considered as being mutually exclusive, but rather as co-existing and supportive of each other. For instance, interpersonal relations can form the basis for inter-organisational co-ordination, which in turn, supports (and is supported by) inter-systemic communication, with all forms of heterarchical governance being underpinned by trust, mutual understanding and the stabilisation of expectations (\textit{ibid} 37). The strength of such relationships is a measure of the ‘structural embeddness’ of the network (Granovetter, 1992) which are supported by social mechanisms to maintain some form of social order. These social mechanisms can include collective sanctions where participants maybe ostracised by others if they engage in opportunism or breach accepted norms and/or reputation effects where reliability and commitment among participants is rewarded. In uncertain environments, such mechanisms can provide stability by safeguarding network relationships and exchanges between firms, while over time the reciprocity of such ties can lead to the emergence of a ‘macroculture’ of shared visions and values, with clearly defined standards of behaviour (Jones et. al, 1997).

Perhaps the clearest example of heterarchy within a ‘network of mutual dependence’ is Beccattini’s (1990) model of the Italian industrial district. The

\textsuperscript{8} For an analysis of the differences between negotiation and deliberation in governance processes see Sacchetti and Sugden (2007b).
distinctive feature of the Italian district is that of a localised and yet fragmented production system, where there is a wide availability of buyers and suppliers and an efficient skilled labour market, supported by a set of publicly funded research and social institutions, including shared habits and behavioural rules. The districts’ competitive advantage was based upon the repeated interaction, joint actions and reciprocal relationships between firms. The transparency, fluidity and adaptability of such exchanges has been seen as providing all firms involved in the production process with the flexibility to deal with both changing output demands and varying product mixes, often at short notice (De Propris, 2001). Furthermore, the repeated interaction between firms - with its knowledge and information exchanges – has been regarded as the source of new (collective) learning opportunities and spin-off ideas for the districts’ ongoing development (Maillet, 1995).

Of course an over-emphasis upon co-operation and consensus building within districts can occasionally impede the emergence of creative tensions and constrain crisis-resolution. This can be particularly problematic in times of economic turbulence, where quick and immediate solutions maybe required (Jessop, 1998). Resolving such dilemmas is not easy, and will depend upon the nature of the dyad between firms, the extent of their mutual interdependence and their joint commitment and determination in reaching solutions that are not taken to the benefit of dominant interests despite the impact on others.

3.0 Evolution, economic governance and the development path of districts

The economic governance structure within a district reflects the composition of its firms and the dyadic nature of its inter-firm relations. These are not stationary but will evolve over time as firms enter/exit the district and there are changes in the nature of (and control of) technology. These changes will, in turn, affect a district’s development path. A scenario which is now typical of many traditional industrial districts (see also Section 4) is illustrated in Swann’s (1998) cluster life cycle model. According to Swann, a district’s dynamism (and growth) begins to tail off once congestion costs and the
increased competition between firms (in both input and output markets) within a district begin to outweigh the benefits of agglomeration. In such cases, entry levels begin to stabilise and then eventually fall. As the district matures, there is consolidation as weaker firms exit or are taken over by larger rival firms. At this point the district begins to resemble the ‘networks of direction’ model as economic power and strategic decision-making become more concentrated within the leading firms.

A particular issue here relates to the concentration of technology within the leading firms, which acts not only as an entry barrier, but also affects the nature of technological change and the degree to which knowledge spillovers occur within the district. In the first instance, Nelson (1998: 325-326) argues that innovation is likely to shift predominantly in favour of developing process technology, which depends upon firm size and away from pursuing product innovations, which relies upon the number of competing firms. On the one hand, lower average costs through improvements in production processes can improve the leading firms’ competitiveness and thus prolong the life of a district. On the other, the lack of product development and diversity might hamper the district’s ability to tap into new markets and cater for changing consumer demands. Secondly, it is argued that the concentration of technology among a few large firms is unlikely to generate significant spillovers to attract new firm entry (Swann, 1998: 54). The failure to attract sufficient new entrants then adversely affects the district’s dynamism while the control of technology among a few firms can also lead to over-specialisation and ‘lock in’ within the district (see Section 2). Furthermore, as such technology matures and the benefits of agglomeration diminish further, leading firms may begin to relocate or sub-contract part of their production chain to low-wage areas thus exacerbating decline.

For Swann (1998), such an outcome is not inevitable and revival is possible if mature districts can attract sufficient new entrants into new (possibly related) industries to compensate for the exit (and also decline) of mature incumbents. This is likely to occur when there is convergence between old and new technologies within the district. Swann and Prevezer (1996), for instance, find
that in UK and US computing clusters, there are strong cross-sectoral links, whereby the established hardware sectors acted as a stimulus for new entry by software firms, able to exploit existing technologies in hardware. Where old technologies can be adapted to meet new demands or where synergies exist with new technologies, then this becomes attractive to new entrants and the district’s life-cycle can be extended. New entry, of course, will again alter the composition and diversity of firms within the district and may again lead to a more diffuse governance structure and a different development path.

The issues raised here hold a particular resonance with the challenges currently facing traditional industrial districts, in particular those relating to the saturation of their traditional markets, the growth in low-cost international competition and moves by leading district firms towards global outsourcing strategies which undermine the district’s ability to retain and also attract firms (see Section 4). One response to these challenges is that districts should avoid ‘low road competition’ and instead focus upon the ‘high road to development’ through technological upgrading and higher value added activities (Pyke and Sengenberger, 1992; Kaplinsky and Readman, 2001). However, while exploring the possible synergies between old and new technologies offers opportunities for industrial renewal, identifying where these synergies may arise within districts is problematic and can invoke the rather old and staid policy debate on industrial targeting and ‘picking winners’ (Pitelis, 1994). It is perhaps useful in this regard to recognise that cross-sectoral links are more likely to arise in districts which have a more diversified (and flexible) technological base (Swann, 1998).

In widening the technological base, ‘networks of mutual dependence’ may therefore hold a particular appeal. It can be argued that the ability of firms to participate in strategic decision-making processes is linked to the development of competences at both the firm and local level and that wider participation in the production process may in turn encourage knowledge creation and

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*A related issue here is for the district to overcome any inherent ‘conservatism’, inertia or resistance to change within incumbent firms which can lead to missed opportunities for revival (Nelson, 1998, Winter, 2005).*
diffusion. In this vein, Sacchetti and Sugden (2008) suggest that within and across a network, a commitment to creating and using knowledge and the coordination of this process can differ significantly according to the network’s governance structure. For instance, in the absence of hierarchy, a network of mutual dependence is more likely to have an interest in developing shared bodies of knowledge that enable each and every actor to participate in joint production activities on equal terms. On the contrary a network of direction, based upon unequal relations, may have little interest in sharing such knowledge. Indeed, its core organisation might prefer such knowledge to remain hidden since it strengthens its hold over its strategic options and capabilities, particularly in relation to technological change.

For example, consider again the case of Italian industrial districts, some of which it is argued have been moving towards a ‘leadership’ model in which technology transfers from the lead firm to its suppliers. Some observers have viewed this as a desirable trend because, it is argued, the leader can stimulate modernisation across the district, taking it towards new competencies and higher competitiveness (Lazerson and Lorenzoni, 1999; Brioschi et al, 2002; Guerrieri and Pietrobelli, 2004). However, more caution might be required. A leader model - a network of direction – would significantly bring the strategic function of deciding what knowledge has to be created and who should access and use it more in the decision-making sphere of a core firm, whose role and therefore objective is to determine network strategy. Were it to do so, there is nothing in the model that would require the decision-making leader to (continue to) take account of the wider, public interest (such as (re)development) within the district (Sacchetti and Sugden, 2008).

4.0 Economic Governance and development in two mature industrial districts

There are signs in some European policy circles that economic governance is becoming a more significant issue, particularly in old traditional industrial districts which, faced with the challenges posed by globalisation and industrial restructuring, have been evolving towards the ‘networks of direction’ model.
For instance in the case of the North Staffordshire ceramics district a report by the West Midlands Regional Development Agency (North Staffordshire Taskforce (2003, Section 2.9)) observed that ‘whilst funding constraints will always arise, a key issue to address is that of governance, both within the private and public sectors… This issue is pivotal to an understanding of both the problems and opportunities of North Staffordshire’. In the textile industry, prior to the abolition of trade restrictions in 2005, governance issues had begun to underpin European Union directives, suggesting the desirability for SMEs to build network linkages, joint ventures, cooperative agreements, or undergo mergers as a way to promote the sector’s competitiveness, as well as the social responsibility of business with respect, for instance, to environmental and labour issues (See European Commission Directive, 1997, and COM, 2003).

With this in mind, we now consider the implications of changes in economic governance for the development paths of i) the North Staffordshire ceramics district and ii) the Prato textile/clothing district. This comparison flanks the recent evolution of a real industrial district as described originally by Marshall (the potteries) with a ‘Marshallian’ one (textiles), as theorised by Becattini (1990). Although current policy suggestions seem to encourage further concentration within districts, these two case studies offer a perspective on different trajectories and strategic choices in the organisation of production. In Prato, strategic decision making still appears to be diffused across the district, but in North Staffordshire, a few larger firms have captured the district’s governance. While our case studies predominantly draw upon secondary data and also the existing literature, this is supplemented with some qualitative observations from a small pilot study carried out during the latter half of 2007 and in early 2008. In the case of North Staffordshire, interviews were conducted with representatives from the British Ceramics Confederation (based in the district), while managing directors/operations managers of district firms were also invited to express their opinions on the issues of governance and development within the district. Although only a few comments were received, they tended to confirm some of the feelings for these issues in the district as reported in the literature and we include some
appropriate comments to provide a flavour to our case evidence. In the case of Prato, qualitative insights come from interviews with directors in either research or economic development areas inside two of the major business associations located within the district: Confartigianato_Prato, mostly representing small craft firms, and Unione Industriale Pratese, typically representing medium and large firms. Discussion addressed issues of governance within the district, mainly with respect to the presence and role of large firms and group formation, as well as perspectives on future directions development possibilities.

4.1 The North Staffordshire Ceramics District

4.1.1 Background

The North Staffordshire ceramics district is one of the UK’s oldest industrial districts, with commercial production dating back to at least the late 17th century. Since then, the district has acquired an international reputation in the design and manufacture of high quality ceramics with some firms (and famous brands), such as Aynsley (established 1775), Minton (1793), Wedgwood (1759) and Spode (1780), having a long history and association with the region. Indeed, ceramics shaped the industrial heritage, the landscape and the social fabric of the North Staffordshire region, while it also provided long-standing employment for generations of the local population (Whipp, 1990).

Today, ceramics remains the region’s largest industrial employer directly accounting for approximately half of all manufacturing jobs in the locality (Source: Stoke on Trent City Council 2007). The district also remains the nucleus of the UK ceramics industry, with the headquarters of the main industry bodies - the British Ceramic Confederation (BCC) and the Ceramic and Allied Trade Union (CATU) - and various ceramic research centres being based in the region.

10 The other main industry bodies whose headquarters are in North Staffordshire are the Association for Ceramic Training and Development, the British Ceramic Plant and Machinery Manufacturer’s Association, CERAM Research and the Ceramic Industry Forum.
4.1.2 Economic governance within the district

For a long period in its history, the district was propagated with family owned firms (and family brands) and very much resembled a traditional Marshallian industrial district. During the 1960s, the district’s industrial structure began to change as a period of rationalisation resulted in a series of mergers and acquisitions and led to many family firms being amalgamated and/or taken over by larger ceramic companies. While the rise in industrial concentration occurred across all of the industry’s major sub-sectors (electrical ware, the tile sector, sanitary ware and table and giftware) it was most marked in the traditionally ‘competitive’ and for North Staffordshire, strategically important table and giftware sector. For instance, in 1963, the leading five firms accounted for 32% of the UK table and giftware market but by 1970, a significantly more concentrated structure had emerged with three firms supplying two-thirds of the market (see Gay and Smyth, 1974). The recent takeover of Royal Doulton by Waterford Wedgwood in 2005 means that over 70% of the UK market is now controlled by one group (Keynote, 2007). And while the district still retains a significant small firm ceramics base, such enterprises are largely peripheral with little impact on the overall market (or upon employment levels) – indeed many commentators have long described such firms as being little more than ‘survivalists’, employing strategies that merely enable them to ‘keep their heads above water’ (Rowley, 1998).

Since the early 1970s, the district has evolved towards a more hierarchical mode of economic governance with the fortunes and corporate strategies - on investment, employment and output - of the larger firms having a major impact upon the ‘shape’ and ‘direction’ of the district. A related issue is that during the 1970s and 1980s, the district’s larger ceramics firms began to move further away from their local roots by obtaining public listings, effectively transferring strategic decision-making processes from local businessmen to more distant city and institutional shareholders. Since the late-1990s, many of

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11 The table and giftware sector accounts for 35% of industry output and 62% of total industry employment and 84% of all ceramics workers in the North Staffordshire travel to work area (Ecotec, 1999).
the larger ceramics firms in the district have been acquired by foreign owners. The concentration of strategic decision making among the corporate hierarchies of a few core firms has been particularly significant for the district’s development.

A particular concern in this respect and put forward by Padley and Pugh (2000) is that since the mid 1970s there has been a re-focusing of strategic (corporate) objectives within the larger ceramics firms towards one of satisfying the short-term profitability demands of external institutional shareholders, which has often been at the expense of long term investment and capacity building within the district. According to Padley and Pugh, the district’s larger ceramics firms have tended to be too eager to divest during cyclical downturns (often cutting back on more innovative areas of business operations) in order to improve their short run return on capital to satisfy institutional shareholders. It is claimed this has hastened decline at the district level, since in subsequent upturns the district has had insufficient (domestic) capacity to meet rising demand, leaving a void that has often been filled by foreign imports and more recently by UK firms using global outsourcing (see below). Padley and Pugh compare this situation with an earlier period in the district’s history, where they suggest that independent and family owned firms often undertook a longer-term perspective of the cycle and invested accordingly, which enabled them to take advantage of subsequent upturns.

Similar sentiments are also expressed within the district:

*For the last thirty years or so, the (UK) ceramics industry has been too corporate in its focus and increasingly distant from its local roots. This has hardly been a success – some of the big firms are now in trouble, while the district’s development has largely been ignored. The most successful time of our industry was when there was independent family ownership (e.g Spode, Doulton, Johnson etc). Maybe there is a lesson there for the industry’s future development?’* (Managing Director, Small Tableware Company).

Concerns have also been expressed about the impact of the transfer of strategic decision-making powers outside the district:

*Most of the larger UK ceramic companies are now owned by parent companies outside the UK. As such they have different agendas for their UK manufacturing operations and these are not always in line*
with the long term interests of the district’ (Operations Manager, Sanitary Ware Manufacturer).

4.1.3 Impact of Globalisation and Global Outsourcing

As in other European industrial districts in recent years, the main challenge to the North Staffordshire district has come from globalisation and competition from the low wage economies of East Asia. Initially, the main impact of this international competition was upon the high volume, low value added part of the table and giftware market (Day et al. (2000: 10-11)), although in recent years foreign competition has begun to penetrate the more lucrative, medium to upper end of the market. UK manufacturers have seen foreign competition impinge upon both their traditional export markets (predominantly in North America and Japan) and crucially their own share of the UK market. Indeed since the late 1990s, the UK’s traditional trade surplus in the table and giftware market has been in continual decline. From a surplus of £216.3 million in 1996, it entered into deficit for the first time in 2004, with a £467.4 million deficit being recorded in 2005 (Keynote, 2003, 2007).

The response of the larger ceramic manufacturers has been to pursue a strategy of global outsourcing, utilising their own production facilities in the Far East. The impact of these strategic decisions – combined with greater foreign competition – has led to the closure of a number of factories and significant job losses within the district. An indication of the decline in employment is given by the dwindling membership of the ceramics trade union (Unity) which fell from approximately 21,800 to 7,200 between 1996 and 2006. There have been a number of high profile cases, most notably Waterford Wedgwood’s decision to close two of its North Staffordshire factories, with a loss of over 1,000 jobs, and the complete transfer of the production of its Johnson Brothers brand to China (Staffordshire Evening

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12 Data obtained from Unity (previously known as CATU) and the Annual Return for Trade Unions, lodged with the Certification Office for Trade Unions and Employer Associations. The data is a useful indicator of the decline in employment since union density in ceramics is approximately 100% (Carroll et al., 2002).
Sentinel, 4/6/2003) and (preceding its merger with the Wedgwood group) the closure of Royal Doulton’s last factory in North Staffordshire with production being transferred to facilities in Indonesia (Staffordshire Evening Sentinel, 26/3/2004). Moreover, many established smaller district firms have found it difficult to remain cost-competitive in the global market and have subsequently left the industry\(^\text{13}\).

The growing uncertainties concerning employment have in turn contributed to a gradual erosion of the district’s skills base. Industry surveys have consistently reported that displaced (skilled) workers are often reluctant to remain in (or return to) the ceramics industry (see Ceramic Innovations (2003: 16)), which has become regarded as having a ‘poor image, soured by one of insecure and unpredictable employment and a sense of pessimism’ (Keynote, 2003: 17). Initially some firms adopted a policy to only outsource work to other firms within the district so as to protect the skills base. However, tightening (labour) cost pressures have meant that global outsourcing has become more attractive and such (horizontal) collaborative arrangements have been in decline (see also Carroll et.al 2002). For the district the growing skills shortage is a serious problem since it raises the region’s average costs and reduces the overall competitiveness of the remaining firms, thus limiting the opportunities for long term development.

One of the district’s inherent strengths is its long standing reputation for ceramics products, with the Staffordshire trademark remaining a valuable marketing tool. However, there are concerns this trademark is being devalued by the practice of ‘back-stamping’, whereby some larger district firms have been producing their wares overseas and placing ‘A Made in Staffordshire/England’ transfer on the finished product at their North Staffordshire factory:

‘The good name of UK ceramics is being eroded by UK manufacturers outsourcing production and not identifying the country of production. Moreover, it makes it increasingly difficult for

\(^{13}\) For instance, between 2001 and 2006, the number of registered table and giftware firms fell by approximately 40% (Keynote, 2007).
those of us manufacturing solely in the UK to compete on a level playing field’ (Managing Director, Small Giftware manufacturer).

The legalities of back-stamping are often complicated and controversial (Carroll et. al 2002) and have yet to be resolved. Proposals for a Mark of Origin ‘back-stamp’ to be applied where products are originally ‘fired’ so as provide consumers with greater information and ensure ‘fairer’ international competition (and reduce counterfeits) are currently under consideration at the European Commission.

4.1.4 Recent Policy Initiatives

In response to the challenges facing the North Staffordshire district, there have been calls for district firms to adopt a more co-operative approach to business, with a greater degree of inter-firm networking and collaboration, particularly in innovation and joint marketing activities and also to form closer links with higher education and research institutions. It has also been recognised that to meet the challenge of international competition, firms need to continually focus upon improving design, while being more proactive in seeking new markets.

There has been some progress. The ‘Hothouse’ project is a publicly funded ceramic shape and pattern design centre, equipped with the latest 3D printing and prototype technology, along with CAD and CAM tools. It is a centre of excellence which enables users to bring new designs to the market more quickly and is intended to serve the whole district, with all firms being able to take advantage of the centre’s facilities (for a set fee) and expertise, without incurring the high sunk costs associated with investing in specific technologies. Such initiatives can facilitate mutual learning and cross-fertilisation of ideas (Morosini, 2003)\(^{14}\). In terms of other networking opportunities, the district has continued to promote a series of trade fairs, most notably the annual Stoke Ceramics Festival. However, suggestions for the

\(^{14}\) As always there is the public goods issue of ‘access’ to such facilities, and there is always a danger that larger firms might ‘crowd out’ smaller firms, as in the case of the Japanese Public Testing and Research Centres (see Ruigrok & Tate, 1996).
establishment of a co-operative forecasting, marketing and distribution service to serve the whole district (see Ecotec Report, 1999) have not been pursued. This is somewhat disappointing since smaller firms in the district often lack the expertise or resources to market and sell products on an international level. Yet, collectively there are significant scale economies that can be obtained in such activities, which could benefit the whole district (Brusco, 1982).

In order to promote new district start-ups, the new Millennium saw funding from the North Staffordshire Regeneration Zone channelled into establishing a small number of enterprise units exclusively for small art and design entrepreneurs. The aim has been to modernise the ceramics district through the promotion of a design ethos, small business start ups and the nurturing of a creative industries network. The units are based around historically renowned sites for design such as the Burslem School of Art and the Roslyn Works, in Longton. However, while some of the units have been taken up by graduates in art and ceramic design (and also some displaced designers from the larger ceramics manufacturers), on the whole the occupancy rate of these units has been low, with some units now being let to businesses outside the creative industries (see Jayne 2004). The envisaged network of small scale designers and producers has not yet materialised. Indeed overall, the district has failed to attract significant levels of new entrants to compensate for the exit of existing firms or been able to attract new firms in related sectors in order to extend its’ life cycle (see discussion in Section 3 and Swann, 1998). However, some remaining firms have begun to diversify their operations promoting the use of ceramics products in industry, such as roof tiles, X-ray equipment and thermal imaging devices, which may offer future profitable opportunities.

In summary, recent trends have raised serious concerns about the long-term prospects for the North Staffordshire ceramics district, with long-standing regional ties and the social fabric of the region becoming particularly vulnerable (Carroll et al. (2002: 341)). Many smaller firms in the district have been left isolated as the larger firms have take advantage of global outsourcing, while declining employment levels have created greater uncertainty and have begun to erode the district’s skills base. Over the last
four decades, it appears the strategic interests of the larger ceramics firms and the corporate sector have taken precedence over the long-term development of the North Staffordshire district. It remains to be seen whether recent initiatives will be sufficient to reverse these trends.

### 4.2 The Prato textile district

The North Staffordshire case highlights the vulnerability of old traditional clusters to global forces when production activities become concentrated among a few large firms. There are also concerns that a similar situation is emerging in the Prato textile and clothing industrial district in Tuscany, one of Italy’s oldest and most celebrated ‘industrial districts’. But has the Prato district evolved in the same direction as North Staffordshire?

The region was originally famous for the manufacture of its high quality woollen fabrics, production traditionally taking place in small family owned firms and also within small ‘phase firms’ - firms specialised in one or two phases of the production process that gives rise to a complex and yet flexible system of ‘interconnected local phase markets’ mostly undertaking subcontracting activities. In addition, design and marketing activities have traditionally been undertaken in small ‘final’ firms. With regards to economic governance, the district has historically exercised a ‘collective voice’ in determining its development path, embracing many of the principles associated with the ‘networks of mutual dependence’ model as described in Section (2.2), (see Dei Ottati, 2003).

Recent statistics show that after 30 years of expansion (from 1950 to 1980), Prato has, in line with other European textile industries, undergone a long period of economic rationalisation. While Prato’s industrial re-structuring has been relatively less severe than its European neighbours, the region has,

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15 Since the early 1980s, other European textile and clothing regions, such as Nord Pas de Calais in France, Tilburg in the Netherlands, the North West of England and Baden-Württemberg in the South-West of Germany have also undergone significant industrial restructuring with resulting falls in employment levels. Indeed, throughout the EU, between 1980 and 1995, the decline in employment was 47% in textiles and 40% in clothing (Stengg,
nevertheless, experienced a significant decline in both textile employment and the number of firms operating within the district. Between 1991 and 2001 Prato’s employment in textiles continued to fall, losing 5.5% of its workers. The decrease has occurred in activities related to spinning (-5.4%) and mainly weaving (-30.7%), whilst textile finishing and ‘making-up’ have counterbalanced this decline with increases of 7% and 20% respectively. Previous analysis emphasised that changes in the upper phases may also be related to the opening up of district to phase firms located elsewhere within Italy, but also to increasing levels of imports of intermediate products manufactured where the cost of labour is lower (Dei Ottati, 1996). Over the last 25 years, reorganisation has in part reshaped the geography of production relationships and although subcontracting still occurs mainly within the district, final firms are increasingly contracting with phase firms located outside the district (ibid.).

The clothing sector has also undergone a major reduction both in terms of firms – with a decline of 41.7% between 1991 and 2001 - and employment, which fell by 32% over the same period. Changes in consumer demand for clothing has also had an impact upon the organisation of production, shortening the times for orders and production, and led to alternating phases of underutilisation of plants with periods of excessive strain on capacity.

Following these trends, questions have been raised as to whether the ‘district’ characteristics that have long underpinned Prato’s prosperity are now being eroded. Increasing globalisation and low-cost foreign competitors, who are able to compete with new designs and high quality products, have placed

2001: 3). Over the same period (1981-1996), Prato has experienced a more moderate 30% fall in both textiles and clothing (ISTAT, 2004).

16 ISTAT statistics refer to the province. The textile sector includes the following groups of activities: spinning (171), weaving (172), textile finishing (173), making-up (174), other textile industries (175).

17 According to the 2001 national industrial and services census (ISTAT, 2004), employees in the textile sector in the Prato province were 29,147. In 1991 the figure was 30,845.

18 ISTAT statistics refer to the province. The clothing sector includes the following groups of activities: manufacturing of knitted fabrics (176) and manufacturing of knitwear articles (177).

19 In textiles, the utilisation of plants in subcontracting firms has declined impressively as compared to the early ‘90s, falling to 69% in 2003, although since 2006 it has raised to 74% (CCIAA Prato and Unione Industriale Pratese, 2003 and 2008).
Prato’s textile industry under pressure. This pressure has intensified since 2005, with the ending of import quotas on textiles and clothing, which were introduced in 1974, under the WTO supervision. The response in Prato has been, in part, a move towards greater consolidation within the district, with the amalgamation of groups of firms and an ongoing rationalisation in employment. However, this process has been quite different from the situation in North Staffordshire.

4.2.1 Prato’s changing economic governance

Although authors emphasise a tendency to group formation (Brioschi et al. 2002) or the desirability of leadership (Guerrieri and Pietrobelli, 2004) within districts, the industrial structure in Prato is rather distinguished, specifically with respect to the role of leader firms. While there are differences between the textile (where indeed a few medium-sized firms stand out) and the clothing sectors, it is acknowledged that:

“...the district in Prato is still characterised by a very high fragmentation in terms of ownership and in the textile sector even core firms producing fabrics or spun yarns do not reach very high levels of turnover (only a few exceeds 50 million euros).” (Team Director, Business Research Unit, Unione Industriale Pratese)

However, the question on what sort of governance changes underlie, or are most likely to underlie declining traditional sectors in Europe remains open. Whilst we could marry the view according to which Marshallian industrial districts’ qualities are responsible for the relative ability of districts to hold their ground in an enlarged competitive scenario, it should also be recognised that the structure of Italian industrial districts varies in important ways across regions. A national study undertaken by Brusco and Bigarelli (1995) in the first half of the 1990s on the clothing and knitwear sector emphasised differences in terms of both governance and strategies across regions.

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20 Since the mid-1980s, the number of textile firms registered within the Prato district has halved, while employment levels have fallen by a third (ISTAT, 2004 and Unione Industriale Pratese, 2007).
Veneto\textsuperscript{21} (in the North-East of Italy) and Tuscany (where Prato plays a major role with respect to clothing and textiles) were presented by the authors as opposite extremes. Veneto, in the North-East of the country, was characterised by large integrated firms, producing average to high quality products and distributed through franchising chains or independent retail shops. In contrast, Tuscany is populated by small non-integrated firms producing average to low quality garments that are then distributed by wholesale dealers and large distribution. Different from Veneto, where production is mainly planned, Tuscany’s production system was regarded as being built upon flexibility (ibid.).

This lack of an “explicit head” governing production is rooted in the recent history of the Prato district\textsuperscript{22}:

“to govern implies to manage the district, and the district never was managed. Rather, it was the sum of different, not to say opposite, strategies that gave direction. As vector sums, different strategies built up without a unified logic, but across diverse logics that emulation, less problematic markets, as well as the enormous confusion of that context made it look as if that there was a ‘single direction’, whilst there was, instead, a myriad of different directions.” (Team Director, Economic Development Unit, Confartigianato Prato)

In these respects, socially accepted patterns of behaviour, as well as the trustworthiness and the reputational credentials of actors have played an important role (see Piore and Sabel, 1984 amongst others) in framing the context within which a collective ‘spontaneous order’ could emerge. Whether this has been a realistic perspective or not, however, changes in market dynamics now seem to threaten the system’s ability to coordinate the myriad of different actors populating the district. Lazerson and Lorenzoni (2000) argued that at the end of the 1990s the restructuring of the district was not that spontaneous or alternatively coordinated by the public sector, but orchestrated

\textsuperscript{21} Veneto presents an interesting case also with respect to the eye-wear industry in Belluno, which is mainly dominated and led by one single firm. Camuffo (2003) has analysed how the leader firm structure has overcome the pre-existing local small firm based production.

\textsuperscript{22} In strike contrast, between 1800 and 1950 the district was dominated by one large and vertically integrated mill (Lorenzoni, 1979; Dei Ottati, 2003).
by “no more than 50 leading firms, which together accounted for no more than 25 percent of the total value of production” (ibid. p. 369) and which were in a position to organise production for 6,000 firms. As one of our interviewees points out while explaining the changing economic scene faced by smaller firms:

_“Today, the fact that we are facing an increasingly exiguous number of firms makes previously hidden logics manifest, reinforced also by the scantier number of job orders placed in the district and on which the attention of those who are left concentrate.”_ (Team Director, Economic Development Unit, Confartigianato Prato)

A reason why this occurred relates to the peculiarities of the textile and clothing sectors. The growth of larger firms has gone hand in hand with diversification into distribution, marketing, and other related activities that generate scale economies which are not related to manufacturing, and that still contribute substantially to the redefinition of the structural characteristics of firms. On this basis, the clothing sector as well has witnessed the emergence of a few more successful medium-sized firms and more are undergoing a process of transition. If on the one hand distribution and marketing are manufacturing-related activities in which a few growing firms specialise, on the other hand, specifically for the clothing sector, Prato’s reality is coupled by the fast growth of micro-firms, associated with the consistent presence of a Chinese community of entrepreneurs based upon cheap labour.

With a declared presence of 10,000 people (probably 30,000 in reality), the Chinese constitute 5% of the inhabitants of Prato (population 190,000 people). The number of firms owned by entrepreneurs of Chinese origin is growing. If we could count about 1500 firms (Ceccagno, 2003) at the turn of the Century, today they are 2400 (Corriere della Sera, 2007) Although these firms are mainly micro size subcontractors, there are cases of more structured small firms which have become prime contractors outsourcing their work not only to other Chinese firms but to other district firms outside their ethnic community (this is done for highly specialised craft work and design) (ibid.).
However, the presence of Chinese subcontracting firms is controversial. Indeed, it would be interesting to explore in more depth the sort of subcontracting operations that are evolving in the district, with respect, for instance, to (a) the use subcontractors of Chinese origins, who eventually operate under working conditions that might cross the borderlines of legality, and (b) global outsourcing to take advantage of lower production costs, a situation that is expected to continue with further technological advances in Asia and which will place even further pressure upon Prato’s district firms to compete on wage costs. The exploitation of ‘sweatshop conditions’, in particular, has raised concerns among the wider community of local producers and policy-makers that Prato’s wider ‘social’ interests are being compromised in favour of a popular but debated concept of ‘competitiveness’ (See Bristow, 2005). Moreover, the increased emphasis upon lowering labour costs – either within the district or through global outsourcing - would little to enrich the district’s ability to re-launch its activities into new diversified and higher value added product lines.

Some findings on the nature of linkages amongst firms that belong to district traditions have been more recently presented in Sacchetti (2008). In particular, this analysis shows that both the informality of relationships and other arrangements such as equity holdings coexist. As linkages are firm specific, each firm, given its relational abilities, can build multiple relationships characterised by more or less formality. The mix can vary over time, according to firms’ strategies (ibid.). As one interviewee points out:

“Obviously, one thing is the legal nature of the individual firm, another is the perspective offered when looking at ownership links (groups) and, last but not least, the industrial organisation and networking angle. With respect to the latter (the most qualitative aspect and, therefore, the most difficult to investigate) we observe a tendency towards enduring relationships and participation in strategy-making amongst final firms and phase firms (in critical phases such as, for example, textile finishing). This is inevitable within a framework – for those firms who compete from Italy – where what counts is creativity (including the related aspects of research and innovation), quality/reliability, reaction-time to market changes, etc. Not necessarily these sorts of more solid relationships are cemented by
The coexistence of formal and informal relationships requires different management and might be chosen, talking about informal linkages, to allow greater flexibility when, because of environmental uncertainty and complexity, relationships rely on socialisation rather than market or bureaucratic control (Palpacuer, 2000; Ouchi, 1980). However, the degree of informality/formality in relationships is by no means defined once and for all. Firms might choose to redefine their position with respect to partners, perhaps building on mutual trust as it emerges over time, on learning and on knowledge complementarities (Parrilli and Sacchetti, 2008). The evolution of relationships may either originate specific routines or – when relationships are centred on input customisation and idiosyncratic assets – the need to set up new contractual arrangements (e.g. through the creation of formal agreements or by exchanging proprietary assets). Highly specific assets require commitment and internal co-ordination, whilst competence complementarities in production may require external co-operation. Both alternatives (internal direction or external co-operation) – as Langlois (1998, p. 192) observes - imply some sunkness: one relates to the sunkness internal to the firm; the other refers to the degree of specialisation of activities with respect to others. The higher the level of external sunkness and commitment between the prime contractor and the subcontractor, the more we can expect equity ownership to become the governance mechanism to govern relationships. Dei Ottati (1996), for instance, pointed out the peculiar nature of group-like linkages in Tuscany’s industrial districts, where ties based on ownership are the culmination of enduring relationships that have been building up over time and serve the purpose of institutionalising linkages to support investment coordination and risk sharing. This, it was suggested, does not have to be necessarily interpreted as a trend towards an increased concentration or hierarchical control in the district, but rather as a form of ‘bilateral governance’, where equities represent a sort of guarantee to reciprocity amongst firms (ibid.), a requisite that is possibly reinforced by increasing market pressures.
4.2.1 The challenge for policy in Prato

In these respects, the nature of the relationships between prime contractors and subcontractors can define the governance of the district. Following the increasing tendency to import semi-finished goods and to outsource outside the district, the debate between the main economic actors has pointed to the difficulties of small enterprises: namely craftsmen who are mainly committed to subcontracting activities. Recurrently, researches undertaken in recent years by business associations have emphasised two distinguished sets of economic expectations: more positive for prime contractors, whilst revealing negative prospects for subcontracting firms (CCIAA Prato and Unione Industriale Pratese, 2005). Phrasing Prato’s reality in terms of the ‘two districts’ does not seem to relate as before to textile or clothing, but rather to the distinction between contractors and subcontractors, between those who retain the ability to design, market and distribute their products and those who do not. These capacities have been mainly developed by medium- to large-sized firms which may or may not choose to outsource to local producers. Conversely, crafts and small enterprises have been thinking of ‘imitating’ their larger colleagues by finding new orders and competences in marketing and distribution related areas by networking outside the district (La Nazione, 2005). Playing the devil’s advocate, it could be argued, indeed that in terms of the resilience of the entire local economic system, the ‘threat’ of looking for partners outside the district’s borders could bring to an unnecessary conflict between the ‘two districts’. As long as firms, whatever their size, are able to network with complementary organisations under specific governance conditions, outside linkages could become a source of strength rather than a threat to the district. Needless to say, whether smaller firms have this ability is a big ‘if’ and this is where we would call for collective action in ‘building them up’.

Consistently with the multiplicity and variety of linkages that firms can put in place, and the theoretical perspective presented in Section (2), we suggest that the nature and degree of dependence of subcontractors on core firms’ strategies can be considered a more complete indicator of the governance structure of production systems than legal ownership. Pyramidal forms of
governance can emerge with or without ownership concentration, as long as there is assimilation of strategic decision-making power by one actor over others. The high substitutability of specialised subcontractors with similar characteristics or the emergence of sweatshops, especially in clothing, could give more space to relationships based on direction.

Conversely, joint coordination of production choices, based on an intentional will of partners to collegially pursue specific objectives, requires sharing resources in terms of values and motivations, time, knowledge, and capital. Relationships based on real complementarities may create dependence as a result of specialisation and ‘external sunkness’. However, provided that the governance of the relationship allows for an effective ‘voice’ mechanism to address strategic choices and contingent problems, the reciprocal commitment is likely to favour participation in decision making rather than a hierarchical principal-agent relational dynamic (Sacchetti and Sugden, 2003).

In these respects, the ability to take – to some extent – strategic direction can be, in principle, associated with the ability of firms to set up proactive strategies rather than with size, although the two might be related. The main characteristic of the Prato district is still a decentralised system of production where, however, firms’ choices and opportunities might differ, depending on the governance of their network. The challenge for a district like Prato, where a multiplicity of prime contractors and subcontractors seem to endure, where network relationships increasingly span across localities and linkages may vary in the degree of formality and commitment, is to beware not only of the number and size of firms in the district, but of the essence of their relationships.

The evolution of the district seems to rely essentially on the interaction between firms, policy makers and intermediate actors. In Prato the role of industrialist and craft associations has always been central in supporting the activities of small and medium size enterprises providing services, representation at political level, and facilitating firms’ access to opportunities opened up by policy strategies. Over recent years, incentives have been put in
place to stimulate firms’ internationalisation and growth by means of mergers, acquisitions and alliances (through networks and consortia). Subcontracting firms have been targeted through the development of a data base that facilitates networking (for further details, see Regione Toscana, 2003).

Recent law proposals to support networking within industrial districts favour group formation and equity participation, in an attempt to inject more resources into the firms that populate the district. Very recent initiatives do not stem directly from public administration, but from one of the major banks in Tuscany (Monte dei Paschi di Siena) to provide resources and coordination within the district. With this project, which started in 2008, the bank provides strategic and financial support and, substantially, becomes a stakeholder in the district, providing funding but also voice in defining the district’s strategy. More specifically, the intention is to boost firms’ opportunities in diversifying both their market and their technological base, possibly allowing for a positive turn in the district’s life cycle, as theorised by Swann (1998) (see Section 3). Whether these actions will promote networks based on mutual dependence rather than direction might be too soon to say, but much will depend on the ability of firms and the public to engage within this new framework by maintaining their voice in the strategic choices regarding production.

5.0 Concluding comments

In this paper, we have highlighted the importance of economic governance for the development of industrial districts. The issue of governance matters in that those who control an industry or district’s strategic decisions effectively determine a region’s long term economic development path. Both our case studies exemplify successful districts of the past which have recently become vulnerable to competition from lower-cost producers, particularly those based in East Asia. In essence, the global market has played a major role in transmitting evolutionary change, generating important variations in the characteristics of the population of firms and the governance structure within traditional districts by inducing the exit of smaller producers and by re-shaping inter-firm relations. It appears that the ‘tradition of familialism’ long
associated with traditional (particularly Italian) industrial districts (Piore and Sabel, 1984: 228) is being replaced by more structured and hierarchical forms of economic governance.

In the case of North Staffordshire, the evolution of a more concentrated industrial structure, since the 1960s, appears to have contributed to the district’s gradual decline. The increasingly corporate and strategic interests of the larger ceramics firms have neglected the district’s longer term development, in particular in relation to new investment, capacity and the skills base. Unfortunately, recent policy initiatives – while commendable - to promote greater networking and small firm start-ups within the district may be too late and are unlikely to provide a significant impact in the face of globalisation. In Prato, where inter-firm relationships are more entrenched and have traditionally been governed along more heterarchical lines, the situation is more complex. While there has been greater consolidation and a growth of larger firms operating within (and outside) the district, there appears to lie, among the new and emerging myriad of inter-firm linkages, possibilities for some continuation of the ability of actors to exercise a ‘collective voice’ in strategic decision making processes. At the district level, such opportunities to widen participation might be useful in determining future development paths within the district, and in particular avoiding some of the problems faced in North Staffordshire.

Finally the evolution of global markets and local industrial structures, in particular where there has been a growth in large firms and group formation, seems to call for a parallel change in the institutions supporting industrial development. Indeed, as noted in Section (3), the development of new practices and activities, coexisting with changing traditional ones is a viable but demanding challenge and one which requires the co-evolution of technology, industrial structure, and supportive institutions (Nelson, 1998). It is beyond the scope of this paper to explore this issue in further detail, suffice to argue that the experience of our two case studies would suggest a careful approach in managing the diffusion of any new technologies and practices. Policy measures, whilst keeping an eye on governance structures in old
sectors, should focus upon the emergence of new firms in different sectors particularly those with links to traditional sectors, as well as the network of organisations surrounding their own emergence and evolution. Policy efforts in this direction would imply wider choices at the strategic decision-making level with respect to knowledge issues, such as what knowledge is to be created and by whom, who should benefit from this knowledge and how. Given the experiences in our two districts, that decision – we suggest – should not be an exclusive prerogative of large firms dominating the region. Rather, the role of institutions should be one of creating adequate conditions for the district – as a collective entity – to thrive. This would imply that potentially all firms (whether prime contractors or subcontractors, whether belonging to the traditional sector or to emerging ones) to be able to access and develop new opportunities, whilst keeping a role in shaping strategies. Institutions might therefore represent a meeting point between the private objectives and actions of firms and the future prosperity of the district.
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