INTERNATIONALISATION OF ITALIAN SHOEMAKING DISTRICTS: SOME EMPIRICAL EVIDENCE FROM THE MARCHE REGION[1]

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1. Introduction

The Italian shoemaking sector represents an important part of the national manufacturing industry and has contributed to make Italian products famous all over the word. One peculiar structural characteristic of this sector is the strong concentration of its companies in certain districts of the country located in few regions (Gregori, 2005). In particular, the regions Marche, Tuscany and Veneto lead the sector in terms of density of both companies and employees (69.6% and 66.5% of the total, respectively).

The Marche region contains a shoemaking area known as the Fermano-Maceratese district (shared among the provinces of Ascoli-Piceno, Fermo and Macerata) that is considered as one of the most important districts in Italy. Its importance is twofold. On one hand, it is an economic and social point of reference at both local, regional and national level, since it is home to 90% of shoe manufacturers in the Marche region and comprises about 4200 companies which employ more than 40,000 people. On the other hand, it truly represents the typical Italian manufacturing district made up of a myriad of small enterprises which relate to each other by balancing cooperation and competition (Brusco, 1991). From an historical point of view, this shoemaking district developed in the first decades of the 1900s with early forms of division of labour and local decentralisation of production processes[2] and it has survived both the serious traumas of the 1930's

[1] The article is a result of collective reflections and analysis, but § 1 and 2.1 are written by Ciambotti; § 2.2, 4.2 and 5 by Aureli; § 3 and 4.1 by Salvatori.

[2] The Fermano-Maceratese shoemaking district has its roots in the first decades of the nineteenth century, favoured by the presence of many master shoemakers which had their workshops in the urban centres of that area and contributed to the transformation of the local economy from an agricultural to an industrial base, with the family at the centre. However, its actual formation dates back to the 1920's when market development forced the artisans of the district to equip themselves with new mechanised technology and to reorganise the production process

and the Second World War. Thanks to the division of the production cycle, firms' specialization and the recur to family resources, the district has always been able to maximize cost-efficiency while remaining flexible and to respond to unexpected slow-downs or rebounds in product demand (ARMAL, 2002). Similarly, the district has also survived the significant drop in consumption that occurred in the sector at the end of the last century, when globalisation began to generate strong international competition, the arrival of new Asiatic players and significant changes in consumer behaviour. At that time, the companies of the district reacted by searching for new markets, investing in sales policies, distribution channels and brand-affirmation in order to regain market share. Moreover, researchers suggested they respond to competitive challenges by reconstructing relationships with third-party companies and by delocalising some production processes to foreign countries in order to improve product characteristics and reduce production costs (Gregori, 2005).

Practical responses of district companies, however, do not seem so univocal and clear. Considering that globalisation and asiatic competition is even more intense today, we question whether this industry is really pursuing the strategic paths of international development suggested by researchers and professionals. Initial observations reveal that only some medium-sized companies have demonstrated an ability to grow by implementing delocalisation strategies, while many other small companies operating in the middle-lower segments of the market are still significantly suffering this structural crisis (Cerruti, Musso, 2004; TrendMarche, 2007).

As many shoemaking companies are facing the cross-roads between life or death, we believe it is important to understand how the sector is addressing this protracted negative economic conjuncture. Are district companies pursuing strategies that internationalise sales and decentralise production to foreign countries as suggested by the Italian literature on the shoemaking industry? Are district companies reacting in the same manner or are they following different strategic paths, e.g. because of the existence of specific limitations? After a review of the relevant literature regarding Italian districts in general and the connotations specific to the shoemaking districts, we will try to respond to these questions by verifying through empirical analysis if shoemaking companies are following internationalisation strategies or not. It is important to note that our study does not consider the district as a whole, but rather analyses the business of a plurality of district companies in order to avoid the assumption of a collective answer on the part of the district. For this reason, we preferred the

by promoting the creation of small decentralised workshops specialised in the various phases of production, including activities collateral to the core processes of shoemaking such as dying, box-making and shoe-nail fabrication (Anselmi, 1989; Amatori, 1985; Gregori, 1996; Brusco, Paba 1997; Moroni, 2005).

administration of a questionnaire to a sample of shoemaking companies rather than conducting an analysis on the basis of macroeconomic data. In this way we may better understand the behaviour adopted by the various types of companies present in the district and their potential for developments as well as limits. Finally, we will present the results emerging from the empirical analysis that will allow us to test the base hypothesis and consider the main strategic implications of the results.

2. Review of the literature and theoretical background

2.1. Literature on Italian districts

Since the 1970's, the Italian district model has been the object of numerous national and international studies, particularly following Giacomo Becattini's innovative re-elaboration of Alfred Marshall's economic thought (Becattini 1979, 2000). As Becattini found the emergence in the real economy of new business systems that did not appear to be transitory but rather formed solid economic development processes based on the small and medium enterprise, he proposed using Marshall's model to describe a new form of production organisation based on the active presence in a defined territory of a community of subjects and a population of companies that share common knowledge, personal motivations and collective values.

From his work several different research streams have been developed which can be summarised as follows:

- affirmation of the importance of industrial districts in the economic history of Italy (Frigeni, Tousijn, 1976; Garofoli, 1983; Gandolfi, 1988; Brusco, 1989; Marchini, 1995; Corò, Rullani, 1998; Corò, 2001; Mistri 2006);
- deeper study of the organisational network of production and flexible specialisation in response to structural changes in competition (Piore, Sabel, 1984; Amin, 1989);
- consideration of the district as an efficient organisational form for the creation and economic utilisation of knowledge through both local interaction between producers and communication with external contexts (Feldman, 1994; Pilotti, 1999; Micelli, Di Maria, 2000; De Toni, Grandinetti, 2001; Lane 2002; Rullani, 2004; Cerruti, Musso, 2004; Chiarvesio, Di Maria, 2006);
- analysis of the paths of change in the districts through a deeper evaluation of the behaviour of individual companies in the district, attempting to close or reduce the gap between theoretical thought regarding the districts and that which happens in the real economy (Varaldo, Ferrucci 1993 and 1997; Guerrieri *et al.*, 2001; Paniccia, 2002; Belussi *et al.*, 2003; Sabel, 2004; Giuliani *et al.*, 2005; Biggiero, 2006; Corò, Grandinetti 2006; Corò, Micelli 2006; Sammarra, Belussi, 2006).

2.2. Hypothesis development

Within the last group of research, there are several studies devoted to the concrete analysis of Italian shoemaking districts, predominantly focusing on the investigation of effects caused by the processes of globalisation occurring over the last twenty years and the recent entry of new Asiatic players which compete on costs (Varaldo, 1988; Gregori, 1996, 2005). The major conclusion emerging from these studies is that today competitiveness and development of Italian companies strictly depend on an adequate level of internationalisation of sales and international decentralisation of production.

If we look at the drop in sector sales recorded since 2000, and we consider that the internal market has always been limited with respect to the value of production, it seems reasonable to assume that the long-term survival of Italian companies depends on both the ability to compete at an international level and above all the ability to enter emerging markets, particularly in developing and newly industrialised countries where demand is particularly dynamic.

At the same time, recourse to foreign suppliers for production processes and finished products (and not merely for raw materials) seems to be increasingly important to the efficiency and maintenance of district companies' competitive advantage – which has been historically based on cost containment. Globalisation almost necessarily implies vertical disintegration of production process at the international level. In the shoemaking sector, this is demonstrated by the increasing number of companies of the North-East of Italy that have initiated policies of delocalisation to Eastern Europe in order to reduce production costs (particularly in Romania, Bulgaria and Turkey) (Gregori, 2005).

Through foreign direct investment in areas associated with unskilled labour or other forms of cooperative production, these companies seem able to reduce the cost of labour and better serve new local markets (Corò, Grandinetti, 1999; Gregori, 2005).

We have to consider, however, that Italian districts have historically developed as self-contained local production systems where production processes are spread among firms located within the district (Brusco, Paba, 1997; Berger, Locke, 2000). Many district firms, therefore, are not familiar with foreign markets. The creation of international value chains of production suggested by some researchers (Corò, Grandinetti, 2001) appears rather extraneous to the traditional model of Italian manufacturing district. Moreover, internationalisation strategies do not always seem feasible for companies, particularly for smaller companies, since they require significant financial resources as well as internal skills and knowledge for operating at the global level.

Mainstream theories on company internationalisation indicates that there is a clear positive correlation between the size of the company and its ability to open up to international markets, as small businesses are not equipped with the resources necessary for undertaking this path (Miesenbock, 1988; Bonaccorsi, 1992; Zucchella, 2001). Furthermore, if small companies operate in international markets, their lack of resources implies the adoption of less complex configurations compared to large companies. Specifically, small businesses tend toward forms of internationalisation that have a low degree of involvement, such as indirect exports through a sales intermediary, while they seem to ignore the possibility of expanding the supply chain internationally or delocalising some phases of production (Paoloni *et al.*, 2005). Thus, it is not a given that all shoemaking companies are effectively able to follow these two primary strategic paths suggested by the literature.

One possible explanation of small firms' behaviour is provided by the theory of transaction costs developed by Coase (1937) and made famous by Williamson (1985, 1987), which suggests that "access to the market is not free"[3]. According to these authors, recourse to external distributors, suppliers or other firms implies *ex ante* transaction costs which may be expressed in terms of time or money employed in the search for a partner capable of respecting production parameters of effectiveness and efficiency, acquisition of information on goods and prices, the stipulation of contracts, etc. As well, there are *ex post* transaction costs related to contract management, quality control of goods and services, malfunctions that involve indemnities on the contract, judicial arbitration or civil cases, etc., which are all necessary to avoid the risk of totally losing control of externalised activities performed by the other parties.

Given the nature of these costs, it is plausible to assume that when external partners are located abroad, transactions costs can be very high. On the contrary, when firms are located in the same production district, transaction costs can be very low thanks to existing trust relationships. As a consequence, it is probable that only larger companies are able to sustain the transaction costs involved in process externalisation to foreign partners. Moreover, only these companies do not risk losing control over their production: their elevated demand can guarantee that the contracting company will always be able to influence the supplier.

[3] Other explanations provided by the literature concern subjective factors related to entrepreneur's attitudes toward internationalisation (Lautanen, 2000) and structural characteristics of the local context (Caroli, 2000; Maccarini *et al.*, 2003).

Specifically, we may hypothesise that:

H_1: *the internationalisation of sales is a strategic path correlated to the size of the company*

H_2: *the externalisation of production phases at an international scale is possible only for large companies*

H_3: *smaller companies that cannot pursue internationalisation tend to identify alternative strategies to survive*

If these hypothesis prove to be correct, we may conclude that the characteristics of smaller companies are not compatible with processes of development based on internationalisation of sales and production delocalisation abroad. In other words, they do not possess the resources required for implementing these strategies individually.

As a consequence the smaller businesses of the Fermano-Maceratese shoemaking district risk disappearing in the near future unless they are able to identify alternative ways of reaching strategically functional dimensions (for example, by merging or stipulating agreements with other local businesses) or manage to define new business formulas with which they can recover market share and follow a path of development. When this occurs, we will presumably witness a variety of strategic responses which differentiate small district firms.

3. Methodology

We found sampling to be the most effective method for identifying strategic solutions adopted by companies operating in the district over the past few years. We used a semi-structured questionnaire subdivided into different parts aimed at acquiring general knowledge about the company, information concerning business strategies (e.g. internationalisation of sales, production externalisation, critical factors of success) and relations with clients and suppliers both located inside and outside the district.

The questionnaire was administered to a random sample of 360 companies extracted from registers held at the Chamber of Commerce of the Provinces of Macerata and Ascoli Piceno.

The decision to perform the analysis on the basis of the province is justified given the high percentage weight of the district companies with respect to the total number of shoemakers in the two provinces (the two provinces account for 93% of the total number of sector businesses and employs 92% of the sector's labour force; Armal, 2002, p. 8). Furthermore, we preferred to analyse the provincial level so as to avoid problems related to incomplete and conflicting data series regarding the district found in the various bibliographical and statistical sources[4].

In order to analyse businesses of various dimensions and organisational complexities while preserving the representativeness of the total population, companies have been sorted by legal status[5]. In particular, the sample is composed as follows: 50 joint-stock companies (14%), 123 partnerships (34%), 187 single-owner companies (52%), which perfectly correspond to the percentage distribution of district firms provided by the Rosselli Foundation (2000, p. 67).

The empirical research unfortunately faced little cooperation from the companies in its operational phase. At first we sent the questionnaire by e-mail, fax or post, but we then found it necessary to telephone the companies and/or visit the companies in person. Despite these efforts, only 58 or the 360 companies contacted actually filled out the questionnaire (a response rate of 16%). The most common factors leading to this reluctance to cooperate are: lack of understanding how research (and universities) can contribute to business management, unwillingness to communicate information held to be sensitive in nature (such as sales figures or number of employees) and reluctance toward inter-company comparison.

Single-owner companies - which usually correspond to micro-businesses - demonstrated a scarce propensity to respond, while most of the firms that replied to the questionnaire are partnerships. For this reason, the 58 firms interviewed cannot be judged as entirely representative of the total population and our conclusions mainly refer to those shoemaking companies that have the same characteristics as the firms of our sample: small joint-stock companies, usually operated as family businesses.

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[4] This solution avoids the obstacle of divergent information regarding the composition of the district in terms of municipalities and has allowed us to access a reliable and updated data base (we selected active companies, not simply registered companies) that reflects the real population, above and beyond the questionable concept of "local systems" that forms the basis by which ISTAT (Istituto Nazionale di Statistica) identifies Italian industrial districts.

[5] Concerning the stratification of the sample, the unreliable nature of the data on the number of employees and the incomplete on sales figures (some information is given on a voluntary basis while other information is available only for companies required to deposit financial statements) has lead us to consider the legal status as the only parameter (a good indicator in any case) with which to distinguish larger and more structured firms (usually in the form of joint stock companies) from smaller and less structured or artisanal businesses (mainly operating in the form of partnership or sole proprietorship).

4. Findings

4.1. General characteristics of the sample

The companies in the sample are primarily independent, small joint-stock companies (73%). The average number of employees is 24.6 and average revenues equal about 4.5 million euro. Partners are usually members of the owning family (in 86% of the cases) and the role of CEO or general director is always filled by one of the owners (100%). These companies are strongly tied to the figure of the entrepreneur or the owning partners, who directly supervise many of the operative activities such as production (in 74% of the cases), sales (48%) and purchasing (43%). Delegation is rare and in only a few cases do companies recur to external professional managers.

In addition to this, the companies in our sample are rather heterogeneous. If we distinguish the companies on the basis of the type of client they reach, we find the sample to be perfectly symmetrically composed of:

- end-user companies (29 units), which sell the finished product on the market (directly to consumers, through shops or sales companies);
- non end-user companies (29 units), which perform single operations (i.e. leather treatment) or produce components, parts or finished products for other companies and are normally identified as third parties or subcontractors.

In other words, the sample is made up of true and proper shoemakers (end-user companies) and phase companies, also commonly called auxiliary companies (non end-user companies), whose activities are carried out primarily on order from another company and do not have any contacts with the market nor with trade since their clients are other production companies. An important characteristic which distinguishes the companies in the sample is internationalisation, either upstream or downstream of the production process. Only 8 of the 58 companies do not report any form of foreign expansion. For many of them internationalisation was a response to critical challenges faced over the past 5 years such as: the increased cost of raw materials and labour (reported by 67% of firms)[7], stagnation and limits of the national market (in 59% of the cases) and the pressure of Asian competition (47%).

Moreover, it is interesting to note that in 71% of the cases companies report long-term relationships with their business clients, but these relations rarely assume the form of partnerships (only 15 firms cite some structured forms of strategic cooperation). They are almost always simple business transactions (63%). Relationships with suppliers are similar

[7] It is important to remember that the direct labour factor represents 70% or the cost of the final product such that delocalisation may lead to cost savings of up to 50% in this area.

in nature. Whether end-user companies or auxiliary companies, most of these relationships are mid-to-long term and are almost never structured as partnerships (with the exception of 4 cases) but are managed as simple business transactions.

Despite this apparent acquaintance and reciprocal trust that govern client-supplier long-term relationships, the companies interviewed do not seem to really cooperate with each others. Little attention is paid to horizontal agreements and alliances. Yet cooperation between companies would be very useful, since they report problems linked to their small dimension (72% of cases) and other difficulties that could be easily overcome through cooperation such as creating export groups to reach overseas markets or building a consortium to access credit (41% of the companies report having difficulties in obtain financing, while 38% of them deplore problems in competing in new countries). The will to "network" does not even present itself as a future possibility. Only 16% of the companies reported aggregation among their possible strategic initiative to develop over the next three years.

4.2. Actual internationalisation of district companies

Internationalisation of sales

From the data analysis, we see that both end-user and non end-user companies are internationalised (Table 1). End-user companies, however, sell their production abroad more often (97% of them has one foreign client at least), while the main clients of the auxiliary companies continue to be the Fermano-Maceratese shoemakers or other Italian shoemaking districts. This suggests that end-user companies are more attentive to the problems of international competition and initiate policies of internationalisation of sales earlier than other companies in the production chain, probably thanks to their direct contact with the market. Auxiliary companies that have created a foreign client base are few, but their interesting amount of sales to non-European countries suggests that they may become suppliers to big international brands when specialisation reaches high levels.

Tab 1 - Level of internationalisation

INTERNATIONALISATION OF SALES	*n. companies*	*Companies with foreign clients*		*Of which, companies with non-European clients*	
Total companies	58	43	74%	30	52%
End-user companies	29	28	97%	22	76%
Non end-user companies	29	15	52%	8	28%

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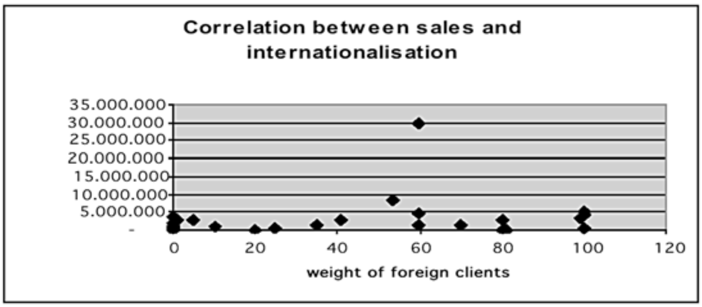
DISTRIBUTION OF CLIENTS (average weight of sales)	*In the district* (n.companies)		*In the rest of Italy* (n.companies)		*In Europe* (n.companies)		*Outside Europe* (n.companies)	
Total companies	(26)	47%	(45)	42%	(34)	28%	(30)	35%
End-user companies	(6)	7%	(23)	45%	(23)	32%	(22)	34%
Non end-user companies	(20)	59%	(22)	39%	(11)	19%	(8)	39%

In order to verify the existence of a link between the dimensions of shoemaking companies and internationalisation on the downstream markets, we calculated the index of statistical correlation between dimension (measured in terms of numbers of employees, sales figures, and total assets) and the weight of sales generated from European and non-European clients (Figure 1)[8].

Yet, this index does not allow us to confirm such a relationship. In fact, whether or not company size is calculated on the basis of volume of business or a different quantitative parameter, the correlation indices are always close to zero.

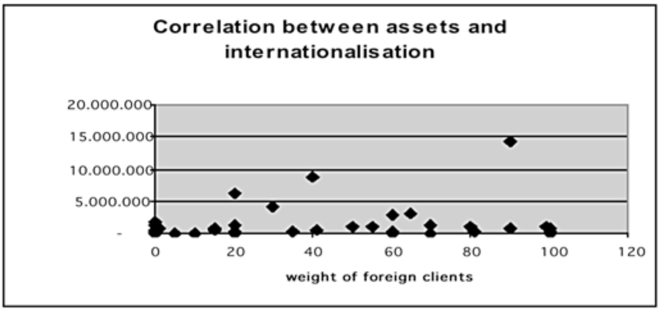
On the contrary, this indicates that even micro-businesses may reach significant levels of internationalisation, because either globalization has reduced transportation and communications cost or cooperative relations existing inside the district also sustain the development of internationalisation strategies among small firms traditionally bound to the local context. Belonging to a district can favour international development because it both allows smaller firms to obtain additional material and immaterial resources and it facilitates firms learning from other companies' international experiences -encouraging them to attempt a similar path on their own.

Fig. 1 - Relationship between dimension and internationalisation in downstream markets

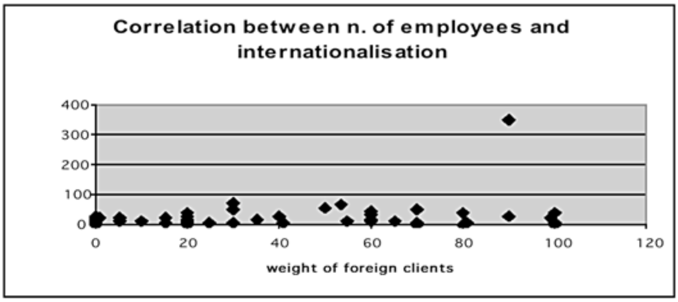


xy sample = 0,162
xy end-user = 0,077
xy non end-user = 0,381

[8] Here and in the following calculations of correlation indexes and means, we eliminated one company that disrupts the distribution due to its very large size.



xy = 0,046
xy end-user = -0,196
xy non end-user = 0,387



xy = 0,153
xy end-user = -0,126
xy non end-user = 0,215

The picture looks different if we measure the degree of internationalisation of companies according to the various types of entry mode our sample firms chose for operating in a foreign country. If we look at the average size of the few companies that undertake more involved paths to internationalisation (such as foreign direct investments) with an evident long-term time horizon, they are notably larger than the companies that restrict themselves to the exportation of their own products (Table 2).

Tab. 2 - Relationship between dimension and internationalisation of sales

FORMS OF INTERNATIONALISATION				
	n. of companies	Average firm dimension (2007)		
		sales	employees	assets
Export	39	3.947.671	20	918.744
Partnership	3	8.100.000	62	1.050.000
Sales branches	4	8.258.687	29	2.797.416
Production units (IDE)	5	11.925.994	37	4.550.346

Internationalisation toward upstream markets

We find somewhat different results when looking at international purchase and suppliers' localisation among district firms (Table 3). In fact, less than half of the firms sampled have contacts with foreign suppliers. Moreover, auxiliary companies demonstrate a bit more recourse to international suppliers than end-user companies (the average weight of purchases concluded with non-European suppliers amounts to 44%). Presumably, many of them are searching abroad for cost containment and flexibility because their middle position in the value chain does not allow them to influence price and sales conditions.

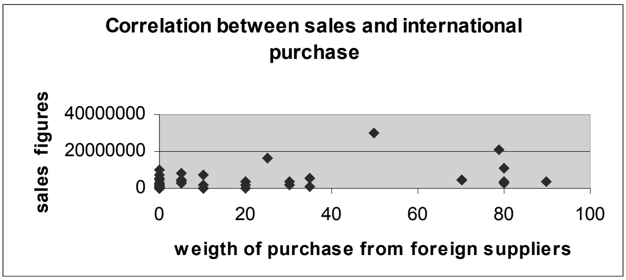
Tab. 3 - Upstream internationalisation

INTERNATIONALISATION OF PURCHASE	*n. companies*	*Companies with foreign suppliers*		*Of which, companies with non-European suppliers*	
Total companies	58	25	43%	19	33%
End-user companies	29	11	38%	9	31%
Non end-user companies	29	14	48%	10	34%

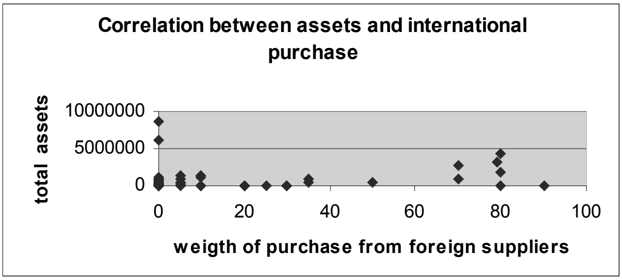
DISTRIBUTION OF SUPPLIERS (average weight of purchase)	*In the district* (n.companies) %		*In the rest of Italy* (n.companies) %		*In Europe* (n.companies) %		*Outside Europe* (n.companies) %	
Total companies	(44)	64%	(42)	41%	(17)	15%	(19)	33%
End-user companies	(24)	69%	(20)	37%	(6)	7%	(9)	21%
Non end-user companies	(20)	57%	(22)	44%	(11)	19%	(10)	44%

In terms of the correlation between company dimension and the weight of international purchases, we notice that there is a slight positive association between the two variables (Figure 2). Specifically, this emerges for end-user firms, while auxiliary firms access foreign suppliers independently of their size. Again, this means that smaller firms are also able to work with foreign suppliers.

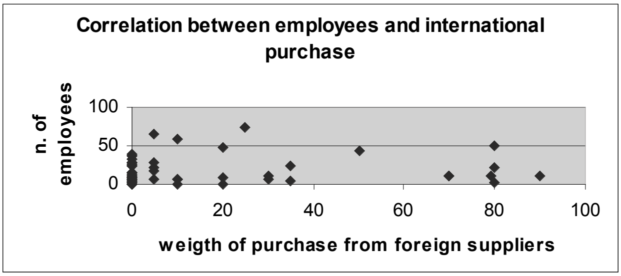
Fig. 2 - Relationship between dimension and international supply



xy sample = 0,442
xy end-user = 0,710
xy non end-user = 0,455



xy = 0,339
xy end-user = 0,768
xy non end-user = 0,049



xy = 0,552
xy end-user = 0,463
xy non end-user = -0,106

However, it is not given that firm's degree of involvement in foreign supply markets is the same for all companies since delegating the production processes to a foreign partner is much more complicated than simply acquiring accessories or raw materials. For this reason, we distinguished companies on the basis of relevance to manufacturing activities or the good that the contracting company externalises to its suppliers.

In this way we identified:

- companies that limit themselves to assembly or packaging and sale of the final product produced by suppliers (type A companies that are strongly externalised),
- companies that delegate single production phases or partial-production to their suppliers (type B and C companies),
- companies that prefer to acquire only raw materials and/or accessories from their suppliers, performing all phases of the production process internally (vertically integrated type D companies).

These represent different modes of production organisation, which should imply increasing transaction costs as externalisation - and especially international externalisation – increases, so they should be positively linked with firm's dimension.

With reference to this, our data demonstrate that the degree of externalisation is positively linked to firm's sales, number of employees and assets (in fact, type A companies are larger than type D vertically integrated companies) as well as to controls (and their associated costs presumably).

In details, we can see that controls increase with the amount of activities delegated to suppliers: companies of type A, B and C report having more control over suppliers than type D vertically integrated companies (Table 4).

Tab. 4 - Relationship between externalisation and company size

Type of companies	n. companies	Average firm dimenstion (2007)			Control over suppliers	No control
		Employees	Sales	Assets		
type A	14	46	7.020.561	1.531.112	57%	43%
type B & C	33	19	3.595.100	1.359.838	64%	33%
type D	11	13	1.361.070	271.585	18%	82%
TOTAL	58	24,6	4.503.077	1.218.333	46%	53%

Nevertheless, we cannot state that international externalisation necessarily implies a larger company's structure and more controls. Focusing on firms that use foreign suppliers, we note that there is no evident linkage between a company's size and the level of externalisation (the correlation persists only for companies that do not have international suppliers). Recourse to international externalisation is correlated only to a firm's sales. Moreover, there are some firms (see type A companies) that perform fewer controls when they collaborate with foreign suppliers than in the case of local client-supplier relationships (Table 5).

Tab. 5. Relationship between company size and international externalisation of production activities

	n. of companies	Weight of foreign suppliers	Companies that control suppliers	Average firm dimension (2007)		
				Employees	Sales	Assets
TYPE A						
with foreign suppliers	4 29%	36%	50%	38	9.207.528	557.000
without foreign suppliers	10 71%	-	60%	49	6.364.471	1.725.935
TYPE B & C						
with foreign suppliers	18 55%	36%	67%	20	4.696.443	1.306.704
without foreign suppliers	15 45%	-	60%	18	2.273.489	1.417.059
TYPE D						
with foreign suppliers	3 27%	28%	33%	24	3.502.000	179.084
without foreign suppliers	8 73%	-	13%	8	749.375	327.085

Alternative strategies to internationalisation

The same analysis also allows us to reveal the existence of some companies that have reached significant sales levels without recurring to foreign suppliers (see the 10 firms of A type presented in Table 5). If we take a deeper look at these 10 firms, they have a high level of investment and a greater average amount of employees although they have delegated many production processes to local suppliers. As they do not need machinery or equipment to produce goods, they are probably more interested in investing in immaterial resources and employ personnel in functions other than manufacturing. Moreover, these firms are not obsessed by pursuing costs reduction connected to international delocalization. This is also confirmed by the fact that these companies reported greater sensitivity to critical success factors other than cost containment such as quality, services, image and time.

Actually, respondents to the questionnaire reported many other strategies besides internationalisation implemented in the last few years. 48% of respondents decided to enter new market segments, 28% have begun to develop new products (mainly end-user companies), 38% have undergone company restructuring (mainly auxiliary companies), while 34% have pursued product and process innovation. These strategies can be seen as alternatives to internationalisation only in the case of the 8 firms that do not report any form of internationalisation, while they are usually implemented simultaneously with internationalisation toward upstream or downstream markets and are independent of company size. It is not true, therefore, that smaller companies are more motivated to identifying alternative strategies because they cannot pursue internationalisation. Nor are they more prone to cooperation agreements and the creation of structured partnership with other companies (as stated, horizontal alliances are rare and the sampled firms do not report any formal agreement of strategic cooperation).

Considering that internationalisation is not the only widespread response and firms demonstrate a plurality of strategic initiatives, we have tried to understand if this type of internationalisation is really associated with firms' success or not. Specifically, we have analysed the characteristics of companies that have been able to grow in the last three years (companies who recorded growth in sales revenue between 2005 and 2007), distinguishing end-users from auxiliary companies.

That internationalisation of sales appears to be insufficient to guarantee a firm's growth, although its widespread presence indicates that this strategy is necessary for a firm's survival (Table 6). With reference to firms' recourse to international suppliers, the choice of using foreign suppliers significantly differentiates growing end-user companies from companies in stable situations or in recession, while this relationship is not confirmed in the case of auxiliary companies. Internationalisation *per se* is not capable of explaining why certain companies are successful and others are not.

Table 6. Comparison between growth companies and stable companies

COMPANIES	number	Externalisation A	Externalisation B&C	Externalisation D	Weighted average
GROWING End-user	17	8 - 47%	7 - 41%	2 - 12%	
	Sales	5.761.512	3.519.497	3.000.000	4.513.445
	Employees	33	21	17	26
	Assets	534.288	483.614	153.000	468.5645
	Asset turnover	11	7	20	10
	Foreign suppliers	25%	57%	100%	47%
	Foreign clients	100%	100%	100%	100%
GROWING Auxiliaries	19	3 - 16%	11 - 58%	5 - 26%	
	Sales	2.078.667	3.826.056	1.155.326	2.847.329
	Employees	8	13	10	11
	Assets	115.252	898.771	354.986	631.956
	Asset turnover	18	4	3	6,2
	Foreign suppliers	33%	64%	20%	47%
	Foreign clients	0%	73%	40%	54%
STABLE End-user	7	1 - 14%	6 - 86%	0 - 0%	
	Sales	1.557.234	1.261.972	-	1.304.152
	Employees	16	17	-	17
	Assets	295.785	472.735	-	447.457
	Asset turnover	5	3	-	3
	Foreign suppliers	0%	0%	-	0%
	Foreign clients	100%	100%	-	100%
STABLE Auxiliaries	10	1 - 10%	7 - 70%	2 - 20%	
	Sales	143.480	4.264.484	1.511.500	3.301.787
	Employees	3	24	6	18
	Assets	126.079	3.030.297	123.000	2.158.416
	Asset turnover	1	1	12	3,6
	Foreign suppliers	0%	71%	0%	50%
	Foreign clients	0%	57%	50%	50%
n.r.	5				
Total	58				

Table 6 indicates that growing end-user companies are usually characterized by a flexible structure and are at the head of an international multi-located value chain (88% of them). They externalize many production processes (8 out of 17 companies belong to type A) both to foreign and local suppliers and are able to realize high volumes of sales with limited capital investment compared to stable end-user companies. On average, end-user growth companies are also larger than stable companies, although still in the category of small firms.

Exceptions are the two vertically integrated end-user companies that access foreign suppliers for raw materials and accessories while preferring to carry out most of the production process internally. As company assets are very limited, these two firms have probably found an interesting market niche which appreciates a product with a high degree of artisanal work. Moreover, it is possible that the high quality of the product requires such careful supervision that delocalization would be counterproductive because of the costs involved in developing solid partnerships or new controlled plants abroad.

At the same time, Table 6 highlights that there are also many auxiliary companies which have been able to grow in the last few years. They are usually smaller than growing end-user companies, although characterized by a higher level of investments (results refer to 84% of them). Indeed, these firms have a lower asset turnover index probably attributable to the type of core-activities performed. Leather cutting, sole and heel molding as well as partial production are all manufacturing activities that require large investments in fixed assets that do not significantly add value to the product.

Three exceptions are auxiliary companies that sell their production only to local shoemakers. In fact, these are high externalized firms (although serving other production companies) that do not need machinery and other equipment. Their significant volume of sales is probably due to the fact that they have delegated low value-added processes to other subcontractors, preferring to concentrate their resources on other strategic activities of greater value added such as research and development, communication and client relationship building.

5. Discussion and Conclusions

The results of the research show that almost all small and medium-sized firms of the Fermano-Maceratese shoemaking district, either end-users or auxiliary companies, are internationalised to some extent and are able to work with foreign clients and suppliers. In particular, internationalisation of sales is a near imperative for all companies, while internationalisation to upstream markets is a bit less widespread. In any case, the issue for this district's firms is less likely to be whether or not to enter a foreign market, but rather how it should be done.

The international dynamism of the companies studied leads us to conclude that this shoemaking district has lost its historically closed or *captive* quality in which only some big end-user companies enjoy economic relationships with clients located outside the district. Currently, there are many active auxiliary companies that sell their components or manufactured products to international clients. Many of them have probably reached a level of production specialisation that renders them autonomous from their traditional contractors within the district and allows them to develop economic relationships with national and international operators. Often big international luxury brands in the fashion industry subcontract the production of shoes to the district's firms because of their knowledge and production skills.

At the same time, the production chain is no longer located completely within the district and the quota of overseas shoe production has increased in comparison with volumes recorded by previous studies. Almost half of the auxiliary and end-user companies have began to access foreign suppliers to reduce costs and better serve foreign markets.

In particular, sub-contractors utilise foreign suppliers a little bit more than end-user companies, while the latter are more active in selling their final products abroad. This indicates that end-user companies consider it more useful to preside over international downstream markets and leave the onus of finding cost reduction opportunities up to the district's local suppliers, which are forced toward partial decentralisation of their own activities. In any case, it is not unusual that end-user companies themselves access international suppliers. They can externalise activities to both local and foreign papers such that the district has assumed the form of a multilocation chain.

On one hand, this district openness is a positive index of the ability of its companies to respond adequately to the new challenges of globalisation. On the other hand, it also represents a threat to the economic and social development of the local territory as production delocalisation increases.

In fact, delocalisation implies a drop in local employment. Consequently, political and research institutions must ask themselves if delocalisation and the connected reduction of production costs represent the best instrument for promoting competitive advantage or if there are other strategies that can lead to effective economic performance.

Another important aspect that this study highlights is diversity in internationalisation strategies, so that it is not possible to identify a single solution for all district companies. Many of these differences are explained by the type of company, either end-user or auxiliary, while the size of the company seems to be less influential.

Different levels of internationalisation are not explained by limitations due to a firm's size, nor by the centrality of the entrepreneurial figure as almost all companies of the sample are characterized by strong direct control of the owner - also at the operational level. Perhaps there are other subjective factors that can better explain a firm's tendency to internationalisation (e.g. entrepreneur's personal experiences) as well as exogenous factors linked to the district's production context (e.g. the availability of infrastructures).

As already affirmed by other researchers, however, smaller companies differ from larger companies in that they avoid complex forms of internationalisation in downstream markets that require a significant output of resources. Moreover, smaller companies tend to delegate a more limited amount of production activities to foreign suppliers compared to larger firms. Presumably, small volumes of sales are not sufficient to justify the costs associated with the international externalisation of a company's upstream production processes. So smaller companies are usually more vertically integrated.

Since we have demonstrated that size does not represent a limitation for pursuing internationalisation, we can deduce that smaller firms are not necessarily forced to search for alternative strategies to international development. Data indicate that there are firms of all dimensions that purse product differentiation, diversification and improvement of company efficiency and efficacy through internal re-organisation. This demonstrates that other strategies besides internationalisation are perceived as important and are implemented. Indeed the path of internationalisation is not always a guarantee of growth and success.

Finally, what emerges from this analysis is that there is no single response of the district's firms to the challenges of globalisation. Globalisation does not always imply vertical disintegration of production process at the international level and it does not necessarily require firms to be large to survive and grow. Moreover, it is not true that only end-user companies that have direct contact with the final client can develop as previous research suggested.

In fact, the district appears to be populated by a variety of firms.

There are end-user companies identifiable by their growth rates and larger dimension which externalise large portions of production overseeing primarily the initial and final phases of the production cycle (e.g. planning, design, distribution and marketing). These companies instruct third party companies and represent the core of the district network. They can be classified as leading companies. Their success is due to a major focus on value added activities (while manufacturing processes are externalised) and recourse to foreign suppliers. Delocalisation here is beneficial, although we have to remember that this strategy could lead to reduced direct investments in assets and human resources and thus could threaten the long-term survival of these firms if they lose their capacity to differentiate and innovate. Moreover, these firms run the risk of becoming service companies rather than industrial companies.

Vertically integrated end-user companies are very few. The ones that persist are very small independent shoemakers who report very good performance despite their small size. These companies base their competitiveness on workforce expertise and direct control of product quality and will probably survive as long as they are able to preserve their market niche. Otherwise they risk being acquired by other companies.

Among growing companies, there are also qualified auxiliary companies that serve both local and foreign clients. Many local shoemakers access them because of their specialisation and the high degree of integration established with the contractor, facilitated by geographic proximity and relationship management that makes them preferable to foreign suppliers. At the same time, specialised skills also attract big multinationals in the fashion industry. The success of these auxiliary companies does not necessarily depend on recourse to foreign suppliers. In fact, there are both supply companies that search for cost reduction by delocalising some production activities as well as companies that delegate activities to local third-parties, stretching the production value chain.

The companies that actually suffer in this scenario are the small end-user companies that are not able to develop a significant volume of sales, nor access foreign suppliers. These companies are stable or in recession and find themselves in increasing danger as they are seriously exposed to bankruptcy or acquisition by other companies.

Difficulties are also reported by auxiliary companies that have maintained rigid structures and work primarily with local clients. Considering their level of investments, they probably still concentrate on following economies of scale, yet this type of company is the most likely to be replaced by foreign suppliers.

It is interesting to observe that within the district there are different cohabiting realities and it is not possible to identify a uniform model. This suggests that, to some extent, firms in the industrial district may be complementary to each other and probably have more synergies than often thought. Many of them (almost one third) , however, have not been able to grow in the last period and their survival is at risk if they do not change their competitive model.

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Abstract

Focusing on the Fermano-Maceratese shoemaking district as one of the most important industrial district in Italy, this study attempts to identify the strategic responses undertaken by district companies to face new competitive challenges derived from globalisation. Literature and professionals suggest that internationalisation on upstream and downstream markets is a necessary strategic path to pursue in order to preserve competitive advantages. However, it is not given that all district firms are able or willing to internationalise.

Drawing from transaction cost theory, the Authors hypothesize that internalisation is positively correlated to the size of company as this strategy entails the externalisation of production activities and the payment of significant transaction costs that only larger companies can afford. Thus, smaller firms should be pushed to identify alternative paths to survive in the long-term.

What emerges from the empirical analysis is that internalisation does not strictly depend on size. Company's involvement in international markets is mainly linked to the type of company either end-user or auxiliary. Moreover, the district appears as an heterogeneous scenario with firms of different dimensions that search for various responses to the new challenges besides internationalisation. Actually, internationalisation is not always a guarantee of success and growth.

Riassunto

Data l'importanza del settore calzaturiero in Italia e la sua particolare strutturazione, il presente lavoro analizza uno dei più significativi distretti italiani: quello del calzaturiero fermano-maceratese. Le attuali condizioni competitive minacciano l'esistenza delle imprese che lo compongono, la cui sopravvivenza sembra essere dettata, come si riscontra da un'analisi della letteratura, dall'intrapresa di percorsi di internazionalizzazione a valle e a monte. Lo scopo del lavoro è individuare le risposte poste in essere per fronteggiare le nuove sfide competitive e, in particolare, verificare se le imprese distrettuali stanno intraprendendo percorsi strategici di sviluppo internazionale omogenei.

A partire dalla teoria dei costi di transazione, gli Autori ipotizzano che l'internazionalizzazione sia un percorso strategico correlato alla dimensione delle aziende considerato che tale strategia implica l'esternalizzazione di alcune attività aziendali ed il sostenimento di elevati costi di transazione che solo le imprese più grandi sono in grado di affrontare. Pertanto le piccole imprese dovrebbero essere spinte ad identificare strategie alternative.

Dai risultati dell'indagine empirica emerge, invece, che la dimensione aziendale non limita la possibilità di internazionalizzazione delle imprese. La propensione internazionale sembra essere più spesso legata al tipo di imprese distrettuale, se terzista o impresa finale. In ogni caso, le risposte aziendali sono spesso eterogenee e lo studio indica che l'internazionalizzazione non costituisce di per sé garanzia di sopravvivenza e crescita: molte imprese, indipendentemente dalla loro dimensione, hanno posto contemporaneamente in essere anche strategie di differenziazione, diversificazione e riorganizzazione interna.

JEL Classification: F23; M16; L14; L25

Keywords (Parole chiave): industrial district, small, district firms, internationalisation (piccole imprese distrettuali, internalizzazione, distretti industriali.)

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