

CLUSTER AND BUSINESS NETWORK TWG
STUDY VISIT – VENETO REGION
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INTRODUCTION

Veneto Region has always been establishing its competitiveness on an economic system structured on networks of businesses (clusters). Such dynamic and distributed model has created high quality products and a strong relational intensity among customers and suppliers. Such network model has allowed small and medium companies of our region to go beyond the size barrier exploiting aggregation logics.

The sustainability of this model is based on three factors, such as:

- the **physical/geographical contiguity**: implying transaction-cost reductions and the possibility to realize economies of scale;
- the **productive specialization**: of businesses favouring mutual learning and incremental innovation;
- the **social capital**: the workforce's high specialization and competence (mainly regarding a tacit know-how), the fast information diffusion inside local circles (local community, family, school, etc);
- the **plurality of actors** playing as coordinators of domestic activity and promotion to the outside.

Yet, at the moment, this model is in crisis: many companies in order to be able to keep their competitiveness in the present globalised scenario, decided to move their productive plants to countries with low cost workforce and, even though they kept some productive units in the original cluster or supply chain, they re-created their own value-chain in the countries where they settled.

The result was a partial break-up of the Veneto network model, with a consequent impoverishment of local productive fabric, and the urging necessity to identify alternative and advanced models for the organization of network of businesses in the region.

CLUSTERS IN VENETO

The Veneto region's industrial districts exhibit a number of specific characteristics.

Firstly, the **local institutions** have played a very important role in promoting entrepreneurial development and in supporting enterprise dynamics through networks of relationships with a strong local presence. Unlike in other areas, the Veneto region has not experienced a strong centrally-imposed top-down trend. By contrast, the growth of SME systems has tended to emerge in a **bottom-up** fashion in close connection with the urban and social variety of the various local situations.

As previously mentioned, In recent years, especially since the turn of the millennium, the economic and social situation has been radically transformed, not only at an international level.

The Veneto has seen a slowdown in the trend towards entrepreneurship, with repercussions for the vitality of the production system and for the possibility of maintaining networks of enterprises (districts) centred prevalently on the regional area. Many small firms have undertaken growth programmes with a view to becoming medium-sized enterprises or consolidating international relationships (acquisitions, shareholdings on the part of foreign groups).

These dynamics are interrelated with the issue of the change of generations that is affecting the Veneto like other regions of Italy and which requires a renewal of skills at a local level in the face of growing immigration and processes of internationalisation (both political and economic).

One of the main challenges that the Veneto is facing today is the process of tertiarisation of the economy, in other words a growing share of value attributed to services.

The Veneto region – and north-eastern Italy in general – has reached a situation of maturity. In the 1970s per capita income increased to a level between 4% and 10% above the national average. This was the period of greatest expansion of industrial districts and specialisation of production. From the mid 1980s to 1995, per capita income was 20% higher than the national average (driven by exports with a contribution from currency devaluation). The second half of the 1990s marked the beginning of the period of stabilisation, followed in recent years by the crisis of a model that has contributed to generating widespread affluence and wealth.

Today the Veneto is suffering above all from negative externalities (e.g. traffic congestion, inadequate infrastructures compared to the diffusion of enterprises, etc.), making it necessary to rethink the development model. This is opening the way to a new opportunity scenario relating to material and immaterial services, the use of knowledge and the valorisation of human resources in an economy of the immaterial which should have much lower impacts in terms of consumption of resources and environmental sustainability than at present.

THE SUPPORTING POLICIES

In Italy, policies facilitating clusters largely correspond to the industrial district development policies. As a system for organising economic activity, industrial districts have made a significant contribution to the development and competitiveness of the Italian economy.

Since the early 1990s, the body of legislation approved at a national level aimed to decentralise to a regional level the decisions regarding action to support industrial districts, recognising from the outset the territorial specificity of the districts and the need to delineate industrial policies capable of meeting specific local requirements. From this perspective, the regional government would have a better knowledge of the economic trends and potential of the regional area and would therefore be capable of distributing resources more efficiently.

In spite of the various actions undertaken by the Italian regions for implementation of industrial policies at a district level, the Italian district systems have seen a fall in competitiveness in recent years, which can only partially be explained by economic factors. In this connection, various parties have postulated that the model of incremental innovation proposed by the traditional industrial districts constitutes a point of criticality in a context of global broadening of competition. Some of the completed experiences do not envisage a geographically restrictive definition of districts in order not to break up the system of supply chains that forms the pillar of the regional industrial structure.

While the process of transferring policies facilitating industrial districts to the Regions has proved correct in its basic concept (i.e. that the Regions would be more effective than the State in determining the development policies of the districts), it has also exhibited severe limitations. According to the report produced by COTEC Foundation on behalf of the Ministry for Innovation and Technology (COTEC 2005): "... particularly in the initial stage of the transfer process, there was not sufficient strategic clarity regarding the operational management of the districts. The absence of an effective model of governance was only occasionally offset by activities undertaken at the level of individual regions. The lack of governance was sometimes accompanied by a consequent lack of strategy. The small and medium-sized enterprises were the primary target of financing, while intra-district collaborations with the world of institutions, research and finance played a lesser role. In this perspective, the context vision was limited to the infrastructures and traditional services to enterprises.

In particular the regions were not provided with the tools required to conduct initiatives geared to promotion of competitiveness through research and development and networking within the district. To a large extent, the local industrial development model established for the districts appears to be entirely detached from the sector of public and academic research present in the local area.

Lastly, there is a tendency to neglect the role of large enterprises in driving, coordinating and orienting the sub-contracting activities of smaller companies, which in the majority of cases are the mainstay of the districts themselves."

These initiatives have therefore until now had little effectiveness on the development of clusters and networks that are strongly geared towards innovation and competitiveness and which only in the most recent experiences of technological districts have assumed a role of collaboration between enterprises and research facilities as an element capable of generating new forms of competitiveness.

THE POLICIES OF THE VENETO REGIONAL GOVERNMENT

The regional **law no. 8 of 4 April 2003** modified with **law no. 5/2006** marked a turning point in the concept of industrial district, emphasising the fact that a "production district" may derive not only from a historical legacy but also from an explicit project carried through by local players and the enterprises in an area, whatever its size.

Analogously to the European scenario, policies play an active role in the formation of clusters, even in innovative sectors not connected to traditional Italian products (e.g. logistics, cold chain, etc.). The above-mentioned law allows for targeted funding of territorial projects in which a critical mass of entrepreneurial entities are involved.

Within the framework of reorganisation and review of the initiatives to support enterprises, with particular reference to the district level, in 2003 the Veneto regional government approved a law identifying production districts according to new modalities.

Unlike the preceding legislation which defined industrial districts according to specific criteria of productive specialisation (index of territorial specialisation), the regional law promotes a new concept of district, **not related solely to consolidated manufacturing specialisations** (historical concept of district) **but offering new opportunities for creating or supporting industrial districts as an expression of the natural vocation of specific areas** (district as project).

The Veneto regional government, "in accordance with the fundamental state principles pertaining to scientific and technological research and support for innovation for production sectors and pursuant to art. 36 of law 317/1999, intends to promote actions supporting the development of the local production system. Within the framework of the more general action of supporting production system development, the above-mentioned regional law regulates the criteria for identification and procedures for recognition of production districts and the methods of implementation of local development initiatives."

According to the law, "the Production District stems from the ability of the system of enterprises and local institutions to develop a strategic planning capability that is expressed in a District Development Agreement in accordance with current regional legislative and programmatic tools." (subsection 2, art. 2 of Regional Law).

In particular, the district agreement must highlight the key strengths and criticalities of the production district and the action programme (including financial details).

Above all, there has been a substantial transformation of the district characteristics, which are **no longer necessarily linked to spatial agglomeration** and exhibit forms of linkage between enterprises within a broader supply chain rationale.

The beneficiaries are **districts, metadistricts and supply chain** or sector aggregations. They consist of enterprises operating in the regional area; local bodies; autonomous functional entities; trade associations envisaged by the regional conciliation forum; public and private authorities and associations, consortia, foundations, special firms, semi-public companies and cooperatives operating in the field of promotion, innovation and research for the purpose of developing the production system; public and private institutions recognised and operating in the field of education and professional training.

These parties firstly share a **district development agreement** that defines the strategies and plans of action considered necessary for the development of the district over a three-year period. This is followed on the part of the Regional government by the procedure for recognition of the district, after which the allocation of resources for the organisation of projects that concretely implement the district development agreement is governed by specific tenders.

Law 8/2003 served as an important innovation laboratory for regional policies. It introduced for the first time a series of values and operational practices that activate strategic aggregation mechanisms, facilitate bottom-up collaboration between local development promoters and foster the mobilisation and concentration of resources on common development projects.

Since 2003 until now 43 productive clusters have been created, involving 8000 companies and 200.000 employees.

At the same time the volume of appropriated and allocated budget amounts to 70 million Euros. Both data highlight a decisive progress of the project domain: Research and Development, Technology Transfer, Prototypes" where the number of projects has increased from 16 in 2003 up to 70 in 2006.

This number is equal to 48% of the presented projects for an allocated budget of 49 million Euros. The other relevant project domain concerns "Information technology to improve communications among different productive sites".

This measure will probably absorb 50% of the appropriated budget for the year 2006: 9 million Euros.

LAW SYNTHETIC FEATURES

SOURCE:

Regional law 16 March 2006 # 5 "Regulations governing vertically integrated company clusters, productive clusters, and industrial development and local productive measures"
(bur n. 27/2006) Amendments to Regional Law 4 April 2003 # 8 "regulations governing productive clusters and local industrial policy measures"

CLUSTER DEFINITION:

The **Productive Cluster** is the expression of enterprises system and local institutions' capacities. His aim is developing a network of strategic projects expressed as a "Pact" which aims at developing the Cluster, in compliance with legal instruments and regional programs in force.

The **Metadistretto**, or productive milieu, is a productive cluster that in addition to the features indicated, constitutes an extensive vertically or horizontally integrated production system within the regional territory, and a strategic instrument for the regional economy.

The **Sector or Vertically Integrated Agglomeration** expresses the capacity of a set of companies to develop a shared strategic plan. The agglomeration requires a shared plan among a number of not fewer than 10 companies belonging to the same vertically integrated or productive sector.

REQUIREMENT:

PRODUCTIVE CLUSTER

In order that a local productive system may be considered a cluster it must:

a) comprise a number of local production companies operating within a specific vertically integrated system, also including integrated specialisations, of no less than one hundred and with a workforce of no less than one thousand.

The data recorded in the latest census conducted by the national institute of statistics (ISTAT) to classify economic activities, or other sources recognised by the chambers of commerce, industry, handicrafts and agriculture, shall attest to the relevance or otherwise of the foregoing production systems in terms of both indicators.

b) have a high level of production and service integration within the production system, as documented by a supply-line organisational analysis;

c) able to express a capacity for innovation, as proven by a description of the originality of its products and processes, the presence of leading companies in single sectors, the number of patents filed by the companies as well as the presence of specific training institutes or documentary centres on the local culture specific to the product and type of work;

d) include institutional bodies with specific expertise whose operations sustain the local economy.

METADISTRETTO

The indicator of relevance whereby a productive system may be deemed eligible to be considered a production milieu entails the presence of no less than two hundred and fifty local companies and a workforce of no less than five thousand, including integrated specialisation systems, in a specific vertically-integrated industry as well as satisfying the indicators stated under letters b), c) and d) of Productive Cluster.

SUMMARY TABLE:

| TYPES | NUMBER OF LOCAL PRODUCTION COMPANIES | WORKFORCE |
|--|--|----------------------------|
| PRODUCTIVE CLUSTER | no less than one hundred | no less than one thousand |
| METADISTRETTO | no less than two hundred and fifty local companies | no less than five thousand |
| SECTOR OR VERTICALLY INTEGRATED AGGLOMERATION | not fewer than 10 companies belonging to the same vertically integrated or productive sector | |

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