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italian district-based firms:  
Theoretical modelling and empirical  
evidence

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**INTERNATIONALISATION STRATEGIES IN  
ITALIAN DISTRICT-BASED FIRMS:  
THEORETICAL MODELING AND EMPIRICAL EVIDENCE**

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## INTRODUCTION

The internationalisation pattern of district firms in the last decades can be viewed -as envisaged by traditional theory- in terms of exploitation of both firm and territorial advantage to expand into foreign markets. Rapid and intense internationalisation processes represent a means for cluster-based firms to exploit the advantages of being located in a cluster and the resulting positive externalities (skilled and specialized labour, specialized services, access to a sort of “collective international knowledge”, easy access to information on the internationalisation strategies of main local competitors) on a larger scale.

The contribution of district firms to export flows has increased rapidly throughout the last twenty years in different countries (Putnam, 1993; Ffowcs, Williams, 1997), but it has reached an impressive level in nations like Italy where the density of districts and similar territorial networks is high and dated: in fact, almost two thirds of Italian exports stem from districts (Fortis, 1998).

The Italian case also highlights the role of the local system in the “international since the beginning” attitude of firms. In fact, most “born global” Italian firms are located in industrial districts (Zucchella, Maccarini, 1999). Similar empirical evidence is reported by Sopas (2001) in Portugal and Brown & Bell (2001) in New Zealand.

The relevance of location-specific factors in the born global firms phenomenon is evident also in the case of high tech districts (Saxenian, 1994; Torrison, 1998), where it is possible to observe a geographic concentration of businesses involved in advanced technologies and related services.

Moreover, information technologies may provide an innovative and powerful tool for establishing and enforcing connections (information, explicit knowledge, etc.) between distant locations, thus permitting the creation of networks among different districts (Ganzaroli, 2002).

The above considerations not only provide strong arguments to support the role of local systems in firms’ internationalisation, but they also indicate the district in itself as an emerging research subject in the international business agenda. In fact, the district or local cluster may represent not only a “facilitating environment”, but also a subject capable of its own collective internationalisation process. In these recent years local systems have shown their ability to transfer their structure to foreign markets, thus generating similar local systems in foreign countries, in a sort of district spin-off or district internationalisation (Majocchi, 2000).

These factors outline the relevance of geographic co-location and district formation for the fast and intense internationalisation processes of the players involved. More recently, the capacity of geographic co-location in itself in determining such effects seems to have weakened in favour of more firm- or business -specific factors. In particular, there is empirical evidence about the role of a deep niche orientation on export intensity performance and on early and fast internationalisation processes (Zucchella, Maccarini, 1999; Zucchella, 2001 e 2002). Many firms belonging to districts evidence a global niche orientation, thus it may be appropriate to try to separate the effect of business-specific factors from the effect of location-specific ones, in order to understand -if possible- the effective role of geographic co-location on internationalisation patterns.

The purpose of this paper is to verify the relevance of both business-specific factors (niche orientation in particular) and location-specific ones (location in a district) on a set of international performance measures (export intensity, geographic scope, time, adoption of alternative foreign market entry modes). The results are grounded on an empirical survey conducted on a sample of 271 international firms and aim at contributing to a better understanding of the actual main drivers of international performance, with particular emphasis on the comparison between business-specific and location-specific ones.

## LITERATURE REVIEW AND RESEARCH HYPOTHESES

In internationalisation processes SMEs have traditionally been considered as minor players, due to financial and managerial constraints (Jarillo, 1989; Golinelli, 1992; Oviatt and McDougall, 1994; Lorenzoni, 1990). Notwithstanding these obstacles to geographic diversification, SMEs have revealed a high and growing propensity to internationalize not only via exports but also along the various avenues of this multidimensional path.

Some studies have demonstrated that a firm's size and export intensity -as measured by the ratio of exports to sales- are not correlated (Bonaccorsi, 1992; Calof 1994; Zucchella, 2001). This shows that, inside the world of SMEs, the smallest firms are not necessarily prevented from being strong exporters.

In particular, some contributions have been devoted to the emerging case of niche firms that, although small in size, appeared to be leaders in their market segment on a global scale (Bonaccorsi, 1992; Calof, 1994; Gomes Casseres, 1997; Kohn, 1997; Malaksedh and Nahavandi, 1985; Simon, 1986).

Deep niche small firms, innovative new ventures and cluster- or district- based firms provide strong arguments evidencing that size and strong international commitment are not necessarily correlated. These cases also materialize the concept of the "international from the beginning" or "instant international" firm (Larimo, 2001; Litvak, 1990; Oviatt, McDougall, 1994; Hordes, Clancy, Baddaley, 1995; Preece, Miles, Baetz, 1998; Sopas, 2001). These firms seem to challenge the traditional theory of internationalisation as a gradual and sequential process (Johanson and Vahlne, 1977).

The time dimension in the internationalisation process of firms has known a growing relevance as a research subject only recently, in particular in the last decade.

This is probably attributable to a dominant theoretical framework based on the hypothesis that internationalisation is a gradual process, requiring time and characterised by subsequent gradual steps. Incrementalism and sequentaility have dominated international business literature ever since Vernon's pioneering contribution. Adopting another perspective, the Uppsala internationalisation model (Johanson and Vahlne, 1977) proposes, consistently with small firms' resource constraints and risk aversion, a stage model to international expansion. Overcoming these constraints is possible only with time (experience accumulation) and growth in size (thus enlarging managerial skills, and access to knowledge and financial resources). More recently, the growing number of firms following another path, not consistent with such theoretical framework, has led different authors to investigate their behaviour (McKinsey & Co., 1993; Zucchella, Maccarini 1999). These contributions focused on the niche orientation as a relevant driver in determining a serial internationalisation process (Zucchella, 2001) as opposed to the traditional sequential one. A serial process involves:

- a simultaneous growth in different world markets;
- not necessarily starting from the nearest markets, in terms both of geographic and psychic distance (Johanson and Vahlne, 1977 e 1990)
- such a simultaneous global orientation characterises the firms since its beginning.

Considering the issue of geographic co-location, as one of the possible relevant drivers of a serial internationalisation path, literature reports a very strong linkage exists between the clustering of economic activities and the international performance of firms belonging to such clusters. The phenomenon has known a recent development in literature, demonstrating a growing interest of different authors about the matter (Brown, Bell 2001; Porter, 1990; Enright, 1998; Storper, 1992).

Inter-firm local networks, a "territorial information system", the social capital existing, all represent the ground on which a sort of "collective international thinking" has grown (Brusco, 1989; Brusco, Garofoli, 1991, Paba, 1997; Pyke, Becattini, Sengenberger, 1991; Varaldo, Ferrucci, 1997; Bursi, 1989).

Easy and immediate access to information -vital for international expansion- is due to a complex blend of imitative behaviours, high frequency of spin-offs, organisation of international trade fairs based in the district territory or lower cost participation to foreign events, and other actions carried out by institutions that mediate and intermediate between the firms and the markets, like enterprises' associations, shared service centres and export consortia (Becattini, 2000a; Becattini, 2000b; Corò, Rullani, 1998; DATAR, 2001; Viesti, 2000).

The expected consequences for district firms' internationalisation are threefold:

- A higher export intensity and broader geographic scope in comparison to non district firms;
- An international orientation from the beginning of the entrepreneurial activity ("born exporting");
- A higher propensity to experience forms of internationalisation other than export, such as alliances, joint ventures, and FDIs.

District firms are characterised by a predominantly small and even very small (the so-called micro) size frequently coupled with a relevant export activity.

Notwithstanding limited financial and managerial resources, cluster SMEs have traditionally taken advantage either of their local competitors' former employers' experience, or more generally of the overall knowledge capital available in the local cluster, selecting foreign markets with high growth potential for their products from the beginning of the business activity. Later on positive performances encourage entrepreneurs to increase their international commitment, in terms of export intensity and geographic scope.

It is thus possible to observe a continuous interaction between collective and individual learning processes, which feeds the international knowledge capital of the cluster.

The international commitment of cluster-based firms is experiencing a growing emphasis also in the third dimension previously mentioned, represented by non-export internationalisation modes, like alliances, JVs and FDIs. In this case also, belonging to a cluster may provide an advantage to small firms, in terms of access both to information and to services provided by district meta-organisers.

Some studies have emphasized the role of alliances and network strategies for the geographic expansion of SMEs (Urban, Vendemini, 1992; Beamish, 1999): networking represents another strategic option that makes compatible the small size and its resources constraints with a broad international base. Moreover, it challenges the concept itself of firm size by weakening the firm boundaries (Velo, 1997). Traditionally, district firms have privileged short networks, i.e. the territorial network of relationships that is the essence of district structure and a key driver of territorial advantage. The shift from short to long networks represents one of the main challenges to district survival and renewal in the next decade. Some recent studies have revealed that long networks established by some cluster-based firms may lead to an internationalisation of the cluster itself (Majocchi, 2000), due to the previously mentioned blend of imitation, action of meta-organisers, and so on, that is the roots of collective thinking and acting of district firms. On the other hand, while we begin observing some collective movement of the district model towards foreign markets, we also find out some emerging strategies of district firms that establish their own international structure or network independently. Such individual responses to global competition challenge the traditional isomorphic perspective in the internationalisation of district firms.

The above mentioned new phenomena (i.e. district internationalisation via FDIs and alliances, emerging long networks and international value chains and differentiated individual strategic responses) all suggest that the nature and structure of traditional districts is changing deeply and their firms' internationalisation strategy faces new challenges and is seeking new interpretations.

The reviewed literature provides strong arguments in favour of the district as a natural environment for developing an early and intense international activity, even for very small firms. On the other hand we reported another literature stream providing strong arguments in favour of the niche orientation as a driver of a relevant "international or global from the beginning" attitude. The two literature streams have never dialogued properly, maybe because the first one is rooted in a view of the territory as dominant strategic issue for firms, whereas the other one is mainly focused on

business-specific and entrepreneurial issues. In this research we aim at integrating the two perspectives, which are not mutually exclusive but, on the contrary, could be complementary. Furthermore the Nordic literature on firms' internationalisation outlines (although from a different perspective) a conjoint relevance of entrepreneurial and business specific issues together with territory specific ones and local environment embeddness (Hedlund, 1986).

On the basis of these arguments it is possible to draw the following research hypotheses:

***H1. Export intensity ratios are higher in niche firms and location in a district improves further such performance***

***H2. Geographic scope is broader in niche firms and location in a district improves further a global orientation***

***H3. Early exporters and born global ones are more frequent in niche firms and location in a district improves further such attitude***

***H4. The adoption of alternative foreign market entry modes, other than export, is more relevant in niche firms and location in a district improves further such attitude***

## RESEARCH DESIGN AND CONCEPTS OPERATIONALISATION

This paper is based on an empirical survey carried out in Lombardy (Italy), involving 874 small and medium sized firms belonging to the Chamber of Commerce of Pavia Exporters Database.

A questionnaire was put on the web site of the Chamber of Commerce of Pavia, on a dedicated web page, accessible only using a password which was sent to several firms by e-mail. The effective respondents were 271, with a return rate of 31%. The sample is representative of the Italian population of exporting firms, both in terms of size (with small scale largely prevailing) and industries. In particular, the main industries are mechanics and steel products (18%), machinery (14%), shoes and leather products (13%), food and beverages (9%) textiles and clothes (6%), then followed by many other industries with decreasing shares.

From the 271 firms two sub-groupings were extracted, consisting of 24 enterprises each. These represented respectively: 24 niche firms specialized in (leather and shoes) machinery production and located in an industrial district<sup>2</sup> (Vigevano) and 24 niche firms specialized in (other) machinery

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<sup>2</sup> The District is of major importance for the territory. By virtue of Lombardy regulations (Law 317/91 and the following Annexes, Ministerial Decree of 21/04/1993, Regional Laws 7/93 and 01/2000), this is the only District identified in the Province. The group of communities belonging to it has been defined quite clearly, namely: Borgo San Siro, Cassolnovo, Cilavegna, Gambolò, Garlasco; Gravellona Lomellina, Parona and, of course, Vigevano. The population in the late 1999 reached 92,362 (59486 only in Vigevano), distributed on 270 km<sup>2</sup>, with the density of 342,1 inhabitants/km<sup>2</sup>.

The cluster of Vigevano, one of the oldest in Lombardy, known for its expertise in the production of shoes, accounts for over 16% of the leather industry in Lombardy, but the district is also famous for its numerous firms specialized in the production of shoemaking machinery.

Taking into consideration the data referring to the mechanical and shoemaking, leather works and tanning sectors, we see that the number of local operating units has grown from 1,092 in 1981 to 722 registered in late 1999. However, it should be pointed out that the performance of the mechanics divisions has diverted from that of the divisions located forward from the die from the top, i.e. within the same observation period, between 1981 and 1999, the first have seen an increase in operating units from 250 to 286, whereas businesses of other divisions dropped from 842 to 436 units.

Initially established as an agglomeration of shoemakers, using machines purchased largely abroad, the district has suffered two major coercions in the last two decades: by the market (general trend towards sport shoes) and by competitive prices in the field of lower quality production, with the emerging of new producers elsewhere in the country and by other countries (primarily East European countries and Asia). The district's reaction was to focus their efforts on the production of high quality goods and machinery divisions, conquering leading international positions.

production and located outside the district in the rest of the province. Semi-structured interviews were carried out on these latter 48 firms in order to understand better their strategic focus and the key drivers of their internationalisation path.

The questionnaire included general information about the firm (revenue, number of employees, location, age, industry, detailed product description) and a number of specific questions about its international activity (export and imports, non-equity agreements, joint ventures and FDIs, countries and products involved, year of beginning). The questionnaire's structure and the elaboration of its results have been based on the operationalisation of certain key issues, which appeared to be relevant for the purpose of this research:

- export intensity is measured (according to existing literature) as export/sales ratio;
- geographic scope is expressed according to two main approaches. One approach requires firms to specify export to sales ratios both for EU and extra-EU countries, in order to separate the European market from the rest of the world. The other looks at the four principal destination countries to which firms export.
- The early internationalisation (time factor) was considered another relevant research subject and for this reason the age of the firm was compared with the beginning year of foreign sales. In particular, born global firms were defined as those ones, which started selling abroad within 3 years from their birth, on the basis of the literature review about such topic.
- Finally other foreign market entry modes -alternatives to export- were considered, such as foreign branches, foreign equity shareholdings, non-equity agreements and joint ventures.

According to these parameters, we analysed both the general sample of 271 firms and the two sub-groupings of niche firms (district and non-district based). While the definition of district based firms simply reflects the boundaries of the district area as defined by the regional regulation, some problems stem from operationalising the concept of niche firm. In order to identify them, the detailed product and target customer description was adopted following a case by case screening. This was further integrated by the semi-structured interviews in order to verify the effective niche orientation of the 48 firms studied. It is possible that among the 271 firms of the sample more niche firms exist than the reported ones, but the research wanted to compare similar niche activities and thus focused on machinery production in particular.

It is thus possible to develop a comparative empirical research with control groups, with the aim to identify:

- what are the main drivers which explain the international performance of the firm,
- among these drivers, the importance of a firm's location in a cluster (location-specific factor), compared with the effect of positioning in a deep niche business (business-specific factor).

Table 1 evidences the firms' demography distinguishing the figures of the overall sample from the two sub-groupings identified. Firms belonging to the district appear relatively older, thus reflecting a history of the district itself and a certain decline in its vitality in the last decade in particular. Non-district based niche producers appear younger, even though the number of firms involved cannot be considered statistically significant.

Table 2 and 3 show the sample and the sub-groupings distribution according to size parameters. With the above mentioned limitations, it seems that district based firms evidence a smaller size than the overall sample, thus confirming that the district could be a favourable environment for very small firms, enabling them to operate on an international scale. This issue will be further developed in the following paragraphs.



Table 1. The year of birth of the surveyed firms

	Overall sample			Niche machinery producers 48 firms			Niche machinery producers District - based			Niche machinery producers Non district - based		
	N°	%	% cumulative	N°	%	% cumulative	N°	%	% cumulative	N°	%	% cumulative
Before '50s	16	5,90	5,90	4	8,33	8,33	3	12,50	12,50	1	4,17	4,17
During '50s	14	5,17	11,07	5	10,42	18,75	1	4,17	16,67	4	16,67	20,83
During '60s	31	11,44	22,51	6	12,50	31,25	5	20,83	37,50	1	4,17	25,00
During '70s	72	26,57	49,08	14	29,17	60,42	7	29,17	66,67	7	29,17	54,17
During '80s	77	28,41	77,49	9	18,75	79,17	5	20,83	87,50	4	16,67	70,83
During '90s and up to 2002	61	22,51	100,00	10	20,83	100,00	3	12,50	100,00	7	29,17	100,00
<b>Total n. of firms</b>	<b>271</b>	<b>100,00</b>		<b>48</b>	<b>100,00</b>		<b>24</b>	<b>100,00</b>		<b>24</b>	<b>100,00</b>	

Table 2- The distribution of the firms by size parameters (number of employees)

	Overall sample				Niche machinery producers 48 firms			Niche machinery producers District - based			Niche machinery producers Non district - based		
	N°	%	%*	% cumulative *	N°	%	% cumulative	N°	%	% cumulative	N°	%	% cumulative
0 employees	4	1,48	1,60	1,60	0	-	-	0	-	-	0	-	-
1 employee	9	3,32	3,60	5,20	2	4,17	4,17	1	4,17	4,17	1	4,17	4,17
From 2 to 5	47	17,34	18,80	24,00	6	12,50	16,67	5	20,83	25,00	1	4,17	8,33
From 6 to 9	45	16,61	18,00	42,00	13	27,08	43,75	6	25,00	50,00	7	29,17	37,50
From 10 to 15	42	15,50	16,80	58,80	5	10,42	54,17	1	4,17	54,17	4	16,67	54,17
From 16 to 19	18	6,64	7,20	66,00	9	18,75	72,92	5	20,83	75,00	4	16,67	70,83
From 20 to 29	29	10,70	11,60	77,60	5	10,42	83,33	3	12,50	87,50	2	8,33	79,17
From 30 to 39	11	4,06	4,40	82,00	1	2,08	85,42	0	-	87,50	1	4,17	83,33
From 40 to 49	6	2,21	2,40	84,40	0	-	85,42	0	-	87,50	0	-	83,33
From 50 to 99	19	7,01	7,60	92,00	4	8,33	93,75	2	8,33	95,83	2	8,33	91,67
From 100 to 199	11	4,06	4,40	96,40	3	6,25	100,00	1	4,17	100,00	2	8,33	100,00
From 200 to 249	4	1,48	1,60	98,00	0	-		0	-		0	-	
Beyond 250	5	1,85	2,00	100,00	0	-		0	-		0	-	
Not declared	21	7,75			0	-		0	-		0	-	
<b>Total n. of firms</b>	<b>271</b>	<b>100,00</b>			<b>48</b>	<b>100,00</b>		<b>24</b>	<b>100,00</b>		<b>24</b>	<b>100,00</b>	

\* Percentages calculated from those firms that declared their number of employees (250 firms).

Table 3- The distribution of the firms by size parameters (total sales)

	Overall sample				Niche machinery producers 48 firms			Niche machinery producers District - based			Niche machinery producers Non district - based		
	N°	%	%*	% cumulative *	N°	%	% cumulative	N°	%	% cumulative	N°	%	% cumulative
From 0 to 500.000 €	33	12,18	13,75	13,75	6	12,50	12,50	4	16,67	16,67	2	8,33	8,33
From 500.000 to 2.500.000 €	90	33,21	37,50	51,25	22	45,83	58,33	14	58,33	75,00	8	33,33	41,67
From 2.500.000 to 7.000.000 €	62	22,88	25,83	77,08	11	22,92	81,25	1	4,17	79,17	10	41,67	83,33
From 7.000.000 to 20.000.000 €	25	9,23	10,42	87,50	5	10,42	91,67	4	16,67	95,83	1	4,17	87,50
From 20.000.000 to 40.000.000 €	16	5,90	6,67	94,17	2	4,17	95,83	0	-	95,83	2	8,33	95,83
From 40.000.000 to 100.000.000 €	6	2,21	2,50	96,67	1	2,08	97,92	1	4,17	100,00	0	-	95,83
Beyond 100.000.000 €	8	2,95	3,33	100,00	1	2,08	100,00	0	-		1	4,17	100,00
Not declared	31	11,44			0	-		0	-		0	-	
<b>Total n. of firms</b>	<b>271</b>	<b>100,00</b>			<b>48</b>	<b>17,71</b>		<b>24</b>	<b>100,00</b>		<b>24</b>	<b>100,00</b>	

\* Percentages calculated from those firms that declared their total number of sales (240 firms).

## RESEARCH FINDINGS

This paper aims at verifying the relevance of both business-specific factors (niche orientation in particular) and location-specific ones (location in a district) on firms' internationalisation and its performance as expressed by:

- export to sales ratios,
- geographic scope,
- "international from the beginning" attitude
- frequency of other forms of internationalisation (IDE, joint-ventures, non-equity agreements).

If we consider the first internationalisation strategy performance indicator, we could expect that:

### ***H1. Export intensity ratios are higher in niche firms and location in a district improves further such performance***

This hypothesis is grounded on the idea that operating within a narrowly defined market niche leads to an international market horizon in order to break even, since the domestic one -at a small niche level- does not permit adequate sales volumes to be reached. All over the world, niche firms share some fundamental similarities: they possess unique assets, focus on narrow global market segments, are strongly customer-orientated, the entrepreneur's vision and competencies are of a crucial importance. Ultimately, being a strong exporter does not seem to be an option but a necessity for a niche firm. They are pushed into globalisation by global customers and prohibitively small national/regional market segments. They can sustain their immediate global reach thanks to entrepreneurial vision and competencies, and, for district based firm, thanks to positive externalities and a collective international knowledge base.

Table 4 evidences that niche firms have a higher export intensity as measured by the export to sales ratios, for any range of the ratio we consider. The difference between niche firms located in the district and those located outside is much less relevant and the comparison between the two sub-groupings is not conclusive. District based firms show a higher average export intensity than other niche firms, but the latter seem more represented in the highest export intensity range (above 60%), even though the number of firms involved is not sufficiently significant to draw definitive conclusions.

Table 4- Export intensity analysis

Export/sales ratios	Overall sample			Niche machinery producers 48 firms		Niche machinery producers District - based		Niche machinery producers Non district - based	
	N°	% cumulative	% ** cumulative	N°	% cumulative	N°	% cumulative	N°	% cumulative
> 0% *	271	100,00		48	100,00	24	100,00	24	100,00
> 1%	220	81,18	100,00	48	100,00	24	100,00	24	100,00
> 10%	150	55,35	68,18	41	85,42	21	87,50	20	83,33
> 20%	120	44,28	54,55	35	72,92	19	79,17	16	66,67
> 30%	84	31,00	38,18	26	54,17	16	66,67	10	41,67
> 40%	68	25,09	30,91	19	39,58	10	41,67	9	37,50
> 50%	68	25,09	30,91	19	39,58	10	41,67	9	37,50
> 60%	44	16,24	20,00	12	25,00	5	20,83	7	29,17
> 70%	29	10,70	13,18	8	16,67	3	12,50	5	20,83
> 80%	7	2,58	3,18	3	6,25	2	8,33	1	4,17
> 90%	2	0,74		1	2,08	0	-	1	4,17

\* In this cluster are included 51 non machinery-producing firms that either did not declare their quota of EU exports or did not declare their quota of extra-EU exports, or declared neither.

\*\* Percentages calculated from those firms that declared their quota of EU and extra-EU exports (220 firms).

As the only data to work with referred to export/invoicing percentages, divided into those obtained within and outside the EU, an indication of cumulative percentages is used

## H2. Geographic scope is broader in niche firms and location in a district improves further a global orientation

Geographic scope was operationalised according to two perspectives: a macro-regional one, dividing EU versus non-EU exports, and a more traditional country-based one, asking the firms to list the principal four destination countries to which they export. The first measure helps to distinguish European from global players (Zucchella, Maccarini, 1999). The former are international according to a geographic parameter ("foreign" countries reached) but much less so according to an economic perspective, due to the high market integration reached in the EU area.

Comparing intra- and extra-EU exports for the surveyed firms, it seems that niche firms are generally more globally oriented than the other ones, but this is especially true if we consider niche firms located inside the industrial district. The substantial difference between district and non district based firms, can be attributed to two factors. Firstly the type of machinery produced in Vigevano (destined for shoe production) is addressed mainly to developing countries where this industry is increasingly concentrated. Also contributing are the positive externalities represented by the collective knowledge capital of the cluster. The latter factor enables even very small or young firms to access more easily information on distant markets, via leading firms' imitation or shared internationalisation service centres.

Table 5– EU versus extra EU exports

	Overall sample			Niche machinery producers 48 firms		Niche machinery producers District - based		Niche machinery producers Non district - based	
	N°	%	% **	N°	%	N°	%	N°	%
Export EU > export extra EU	76	28,04	34,55	12	25,00	4	16,67	8	33,33
Export EU = export extra EU	87	32,10	39,55	14	29,17	7	29,17	7	29,17
Export EU < export extra EU	57	21,03	25,91	22	45,83	13	54,17	9	37,50
Not declared *	51	18,82	23,18	0	-	0	-	0	-
<b>Total n. of firms</b>	<b>271</b>	<b>100,00</b>		<b>48</b>	<b>100,00%</b>	<b>24</b>	<b>100,00</b>	<b>24</b>	<b>100,00</b>

\* In this cluster are included 51 non machinery-producing firms that either did not declare their quota of EU exports or did not declare their quota of extra-EU exports, or declared neither.

\*\* Percentages calculated from those firms that declared their quota of EU and extra EU exports (220 firms).

Table 6– The main geographic area where exports are realised

	Overall sample		Niche machinery producers 48 firms		Niche machinery producers District - based		Niche machinery producers Non district - based	
	N°	%	N°	%	N°	%	N°	%
European Union	109	40,22	14	29,17	6	25,00	8	33,33
Central / Eastern Europe	13	4,80	3	6,25	0	-	3	12,50
Others European Countries	6	2,21	0	-	0	-	0	-
Africa	6	2,21	0	-	0	-	0	-
North America	11	4,06	3	6,25	1	4,17	2	8,33
Central and South America	14	5,17	7	14,58	4	16,67	3	12,50
Middle Eastern Countries	4	1,48	0	-	0	-	0	-
Central Asia	1	0,37	0	-	0	-	0	-
Eastern Asia	15	5,54	4	8,33	2	8,33	2	8,33
Oceania	1	0,37	0	-	0	-	0	-
Rest of the World	19	7,01	17	35,42	11	45,83	6	25,00
Not declared *	72	26,57	0	-	0	-	0	-
<b>Total n. of firms</b>	<b>271</b>	<b>100,00</b>	<b>48</b>	<b>100,00</b>	<b>24</b>	<b>100,00</b>	<b>24</b>	<b>100,00</b>

Table 6 shows the main geographic area indicated by firms, while table 7 evidences the main four areas declared.

Niche firms confirm a stronger extra-EU orientation and are capable of reaching distant and diversified markets. Niche firms located in a district show a higher propensity to operate in the biggest developing markets like China and Brazil.

One of the most interesting issues is represented by those firms which have declared that they operate worldwide, without specifying the countries involved. In this category niche firms are more represented and district based niche firms even more so. The latter have shown in different surveys a strong customer orientation (McKinsey, 1993; Zucchella, Maccarini, 1999) rather than a country orientation. Small scale, flexibility and deep niche positioning are all factors explaining this attitude. Being primarily customer oriented involves a reduced focus on countries and the niche firms confirm in the semi-structured interviews made that they don't think off markets but instead of a "global customer wherever he may be located".

Table 7– The four main geographic areas where exports are realised

	Overall sample		Niche machinery producers 48 firms		Niche machinery producers District - based		Niche machinery producers Non district - based	
	N°	%	N°	%	N°	%	N°	%
European Union	165	60,89	35	72,92	18	75,00	17	70,83
Central / Eastern Europe	63	23,25	21	43,75	11	45,83	10	41,67
Others European Countries	45	16,61	16	33,33	8	33,33	8	33,33
Africa	51	18,82	21	43,75	9	37,50	12	50,00
North America	55	20,30	20	41,67	10	41,67	10	41,67
Central and South America	54	19,93	25	52,08	15	62,50	10	41,67
Middle Eastern Countries	42	15,50	15	31,25	8	33,33	7	29,17
Central Asia	28	10,33	14	29,17	8	33,33	6	25,00
Eastern Asia	67	24,72	24	50,00	14	58,33	10	41,67
Oceania	31	11,44	16	33,33	10	41,67	6	25,00

**H3. Early exporters and born global ones are more frequent in niche firms and location in a district improves further such attitude**

The emerging phenomenon of born global firms has been reported with growing emphasis since the early 1990s (Litvak, 1990; The Economist, 1993; Holstein, 1992; McKinsey & Co, 1993; Oviatt & McDougall, 1994; Hordes, Clancy & Baddaley, 1995; Madsen, Rasmussen, Servais, 1999). Throughout the 1990s alternative denominations were proposed, e.g. instant international firms, international newly born ventures, and so on. Different denominations have sometimes corresponded to different concepts of born global firms. According to the different authors, born global firms may be either infant firm that have started internationalising in their early years (not necessarily since inception), or newly-born ventures that have assumed an international scale since inception.

The concept of born global firm adopted here requires that a firm is international either since its inception or within its first three years. It may be assumed that three years is a reasonable maximum time length to distinguish born global firms from all others because this would imply that internationalisation was a core issue in the entrepreneur's vision since the beginning.

The research on born global firms has already pointed out in these years the relevance of the niche orientation in explaining the phenomenon, but there is a scarcity of research about eventual connections with the co-location effect. Table 8 evidences that almost 50% of niche firms are international by the end of their first year of establishment, whereas the general sample provides a much lower figure. Niche firms located in the district have a higher percentage of born global firms than other niche firms, and reach the level of 75% if we consider firms which went international in their first three years. Such a figure outlines how much the traditional theory on internationalisation is challenged when dealing with niche firms, particularly if we focus on those firms located in districts. Export intensity ratios coupled with very early internationalisation clearly indicate that these firms are characterised by a serial growth path in foreign markets as opposed to the sequential one proposed by mainstream literature.

Table 8- The internationalisation precocity

	Overall sample		Niche machinery producers 48 firms		Niche machinery producers District - based		Niche machinery producers Non district - based	
	N°	% cumulative	N°	% cumulative	N°	% cumulative	N°	% cumulative
By 1 year since the inception	72	26,57	23	47,92	13	54,17	10	41,67
By 3 years since the inception	107	39,48	33	68,75	18	75,00	15	62,50
After 3 years since the inception	271	100,00	48	100,00	24	100,00	24	100,00

**H4. The adoption of alternative foreign market entry modes, other than exporting, is more relevant in niche firms and location in a district improves further such attitude**

In testing our 4th hypothesis, we found that only a limited percentage of firms adopt foreign market entry modes other than export. This result is consistent with other empirical findings on Italian SMEs (Zucchella, 2000). As a consequence it is difficult to generalise such findings because the number of observations is limited, even if we consider the general population of 271 firms, where 26 equity and non-equity agreements were found. The figures about FDIs are so limited (4 cases, randomly distributed in terms of industries and location) that we did not take them into consideration in Table 9. Notwithstanding these limitations, we can draw some interesting considerations regarding table 9, based in particular on the interviews with entrepreneurs.

It appears immediately that the absolute majority of commercial and distribution agreements stem from niche firms. Productive agreements (typically sub-contracting) are *not* adopted by the niche firms surveyed, but are more typical of the rest of the sample. The only two research agreements reported are carried out by niche firms, one located in the district and the other one outside it.

Table 9 – International equity and non-equity agreements

	Overall sample		Niche machinery producers 48 firms		Niche machinery producers District - based		Niche machinery producers Non district - based	
	N°	%	N°	%	N°	%	N°	%
Commercial agreements	14	5,17	10	20,83	6	25,00	4	16,67
Productive agreements	10	3,69	-	-	-	-	-	-
Research agreements	2	0,74	2	4,17	1	4,17	1	4,17
No agreement	245	90,41	36	75,00	17	70,83	19	79,17
<b>Total n. of firms</b>	<b>271</b>	<b>100,00</b>	<b>48</b>	<b>100,00</b>	<b>24</b>	<b>100,00</b>	<b>24</b>	<b>100,00</b>

The semi-structured interviews permitted us to outline better the issues leading to the agreements and the role of business- versus location-specific factors.

Commercial agreements typically characterise firms with high export to sales ratios and are considered by the firms involved as a complement to their export strategy. Commercial agreements aim at strengthening foreign sales in strategic markets for the firms and they seem to be coherent with the strong customer orientation of niche firms, and in particular they provide a good answer to the requirement of guaranteeing local assistance and spare parts for exported (and frequently customised) machinery. District based firms evidence a higher frequency of such agreements and a possible explanation arising from the interviews is represented by imitative behaviours on one side (follow the local competitor) and the local availability of specialised services (associations, consortia, consultants).

Niche orientation explains the lack of productive agreements among the 48 firms: the uniqueness of a firm's product is consistent with the decision to export what they produce in the home country, with limited or no production de-localisation, since the exclusive know-how behind the product makes the organizational and productive hubs of the firm coincide. Uniqueness is often the result of business competencies and creativity associated to "territorial competencies" (specialised workforce, services). Possessing unique assets involves two critical issues for the sustainability of a firm's competitive advantage, namely the constraints on the dissemination of such knowledge and its continuous improvement.

The first issue refers to the fact that the ability of niche firms to reproduce and move knowledge at nearly zero marginal cost is both beneficial and dangerous. In order to limit the appropriation of their respective unique knowledge by competitors they may either use patents and copyrights or rely on this knowledge imperfect imitability. Italian niche firms seem to base their protection strategy

mainly on the latter factor (Majocchi, Maccarini, Zucchella, 2002). Imperfect imitability may be due to a unique organisational history, socially complex knowledge or an ambiguous and casual relationship between knowledge and competitive advantage. Italian niche firms very frequently take advantage of the second of these factors, and in particular of the local system embeddedness that generates immobility of the knowledge involved in it.

The second issue refers to knowledge base improvement, a necessary condition for the survival of any firm in a competitive environment. Possessing unique knowledge, though protected or imperfectly imitable, needs a continuously augmenting effort.

Two major sources of knowledge improvement are international exposure and customer orientation. Customer orientation is another powerful instrument to increase the knowledge base and augment its imperfect imitability. Niche firms have shown stronger customer orientation than other firms in different countries (McKinsey, 1993; Zucchella, Maccarini, 1999). Small scale, flexibility and deep niche positioning are all factors explaining this attitude. Moreover, it is strong customer orientation that pushes for continuous product and process innovation.

The latter concept seems to be confirmed by the two research agreements reported in the survey. The global niche approach does not in fact imply that there is any stable niche protected from competition. The dynamism of markets, the transversality of new technologies, and the recently acquired ability of large firms to respond with flexible strategies and penetrate the market at the niche level (also by acquiring small firms) create a continual challenge for small enterprises. In both cases the research agreement stems from the need to explore new technological opportunities with a foreign partner. The underlying need is to reach a better and faster product adaptation to foreign customer needs and to learn from the foreign context in order to improve their technology to local customers' needs and conditions. This knowledge is not destined to be utilised in the foreign market involved, but it can have important fall outs on the overall firm product strategy.

From the international agreements it is thus possible to argue that the adoption of these entry modes is typically not alternative but complementary to export flows and characterises firms starting from a relevant export to sales performance. This result seems consistent with a part of the Johanson-Vahlne (1977, 1990) model of firm internationalisation, as well as the frequently reported necessity to learn from foreign contexts (and not only to exploit the opportunities they offer), in order to improve international and domestic performance.

## CONCLUSIONS

The international landscape has become increasingly complex in the last two decades. New players have emerged in terms of firms, industries and territories, competition among enterprises and among territories has intensified and new strategic answers are necessary.

In the past, local systems and in particular industrial districts represented a relevant competitive factor for SMEs, thanks to their positive externalities and agglomeration economies. Recently, however, they no longer seem to represent sufficient condition for the international competitive advantage of firms. Complex and articulated markets demand articulated strategic answers and push enterprises to research “individual” answers, thus challenging isomorphic forces inside territories, favouring the mergence of dominant players, of pioneers and strategic innovators and giving more emphasis on entrepreneurial and managerial resources than on territorial ones.

On the other hand the *lonely international* firm is challenged by the requirement of a wider set of resources and of a more diversified (rich) and deeper knowledge base than the one available inside the firm to face the challenges of global competition. Establishing network relations both in local and foreign markets appears to be an important requisite of international performance.

The research presented in this paper aims at verifying whether the territory, and in particular the district, is still an important factor in promoting the international growth of its firms, comparing its role with one exercised by business specific factors, among which in particular niche orientation.

The empirical findings indicate that niche firms show a more intense, broader (in terms of countries) and earlier internationalisation than other firms. They also evidence a higher propensity to adopt entry modes other than export. Belonging to a district does not seem to provide a clear advantage measurable in terms of export intensity, i.e. the most traditional international performance indicator and the one usually adopted by empirical research on SMEs and districts. On the contrary the “district effect” is found if we consider alternative and less explored measures, such as geographic scope, precocity (as measured by the percentage of born global firms).

The geographic scope does not necessarily depend on the district effect but it may be a consequence of the product specialisation bias. One of the strongest outcomes is thus represented by the number of born global firms, which characterises niche firms in general as compared with the rest of the sample, but is higher for firms located inside the district. The reasons for this outcome could be twofold: on one side the frequency of spin offs inside districts gives rise to new ventures which can ground their knowledge on the previous experience of the founder in some other local firms, thus enabling internationalisation processes that are quicker and broader than traditional theory would suggest. A second reason could be connected with the above mentioned relevance of local availability of international knowledge base either of informal nature (direct observation and imitation of leading firms paths) or of formal one (specialised skills and services).

The considerations about the propensity to adopt a wider set of entry modes in foreign markets are grounded only on few cases, but the interviews made to the firms tend to confirm a district effect at this level as reported by local imitation phenomena and easier access to local specialised knowledge intensive services.

The research supports the criticism about the mainstream literature on internationalisation as a gradual and sequential process, as far as export activity is concerned. The existence of a serial internationalisation path is grounded on business- and location-specific factors, with the former more capable of explaining intensity and the latter exercising a stronger influence on precocity and geographic scope. The outcomes about the adoption of entry modes other than export reveal that Johanson-Vahlne model confirms its validity particularly in the relevance of learning from foreign market experience and building a progressive commitment in terms of alliances and international agreements. This trend evidences the strategy of the district’s key players, enforces the idea of a progressive verticalisation of many clusters, of their players strategic and organisational heteromorphism and the strengthening of long network connections and global value chains



complementing (or potentially competing with) the short territorial networks characterising the district.

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