

# FAMILY MATTERS: CHALLENGES FACING ITALY'S SMEs AND INDUSTRIAL DISTRICTS

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## Introduction

Italy's recovery from World War II spanned many years of limited economic activity. Not until the early 1960s did large-scale industrialization, "il miracolo economico" ("Overview of Italy"), begin across each of Italy's three industrial zones. The northwest (NW) region was the clear leader, beginning large-scale productions immediately after the war. Until the 1960s, the northeast (NE) and the south were dependent on small businesses and agriculture, which did not generate profits comparable with the NW's. In the mid-1960s, however, the latent power of small businesses was made clear, especially in the NE's Veneto region, as functional networks among these businesses formed. (Rullani, May 20, 2002)

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These networks date to the early 1400s, when aristocrats of the Serennissima Republica di Venezia controlled the Veneto. Originally, groups of families worked together to support the inland summer villas of the rich Venetians. Over time, these family support networks developed into the towns and cities that today mark the Italian countryside. (Cappellari; Golin; Veneto History Timeline) In the 1960s the Veneto region revitalized this collaborative model for modern business, avoiding increased competition for resources and market shares, and instead organizing around complementary and supplementary goals. The resulting "industrial districts" or "municipalities focused on one type of industry" (Rullani, May 20, 2002) enabled the NE, in particular the Veneto region, to achieve its current status as an economic powerhouse, the "locomotor of Italy." (Marini)

For 40 years many family-owned businesses of the Veneto have been integral parts of the industrial districts. These districts have made the Veneto the most productive and high-

est exporting of all Italian regions (15% to 20% of all production and 19.5% of total Italian exports in 2001). (Rullani, May 20, 2002) In addition, the Veneto has the lowest regional unemployment at approximately 3%, compared with overall southern Italian unemployment of 19.3% in 2001. (Rullani, May 2002) Furthermore, the Veneto is one of the most productive regions in all of Europe. In 1999 its GNP index score was 121, 18% higher than the Italian index score and 21% higher than that of the EU. Economically, the Veneto region is matched by only two similarly networked regions: Bayern, Scotland (GNP, 123) and Baden-Wurttemberg, Germany (GNP, 120). (Rullani, May 20, 2002)

Despite their vitality, small to medium-sized enterprises (SMEs)<sup>2</sup> throughout Italy, including most family-owned businesses, are facing serious challenges to their continued success. (Marini; Rullani, May 2002; Berger and Locke) Italy's economy relies heavily on industrial districts, leaving many to ask if their model of business (closely networked small businesses) can or should be preserved. My proposition is 1) SMEs should be protected and encouraged to grow, but 2) SMEs and the industrial districts need assistance to face impending challenges. Bolstering individual families' abilities to face these threats will not effect lasting change. A critical examination of the entire family business situation is needed.

In this article I first highlight the challenges these businesses face. Second, I elaborate on the potential consequences of failure of these businesses. Finally, I present recommendations to stimulate thought about aiding family businesses in overcoming the challenges.

## Challenges to Survival

Analysis of the current economic and cultural situation in Italy suggests five major challenge areas that small businesses and government can effectively address if they begin to strategize now.

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<sup>2</sup>"Family business" is not well defined in the literature and much overlap in research exists. My conclusions include research based on SMEs, family-owned enterprises and family-operated businesses.

## Generational and Demographic Issues

The foremost challenge is the lack of interest younger Italians have in working for family businesses. Increasingly, these individuals are studying for advanced university degrees and receiving specialized training, leading to their seeking employment outside existing family businesses. This decrease in worker supply, combined with one of the lowest national birthrates in the industrialized world (in 2000, 9.3 births per 1000 people or an average of approximately one child per mother; see article by Shuler in this issue) and a comparatively high death rate (9.9 deaths per 1000 people), leaves businesses struggling to find sufficient labor. (ISTAT, "Italy in Figures")

Concurrently, because most industrial district SMEs began operations in the late 1950s and early 1960s, the original entrepreneurs, acting as patriarchs and company heads, are reaching the age at which business leadership roles must soon transition to the younger generation. Although all family trees increase in complexity over time, the challenges of such a transition increase exponentially when the complexity of family is interwoven into the fabric of the society. The difficulties of implementing a successful leadership transition within an Italian family could lead to the ruin of even the most successful business. Addressing these issues requires more than a one-size-fits-all approach. (Lansberg)

## Large Competitors

The economic power of large national and multinational firms often overwhelms smaller enterprises. This has not yet happened to most Italian SMEs and industrial districts because they typically target niche markets (e.g., fine clothing, leather goods, shoes or jewelry). Increasingly, however, large corporations, offering mass customization and low customer prices, are entering these niches. In the past, the social entrepreneurship of the Veneto's industrial districts has given smaller businesses the advantage in terms of creativity and reputation for quality workmanship, but if either of these characteristics were to diminish, large-

er firms could gain the upper hand. (Rullani, October 2002) What remains to be seen is if these characteristics are sufficient to allow industrial districts to compete in the highly differentiated and fast-changing marketplaces of the future or if additional mass production and communication competencies are required.

### **Inadequate Infrastructure**

On a more systemic level a major challenge facing Italy, especially in the NE, is an infrastructure designed in the 1960s. Clogged roads connect the Veneto to neighboring Central and Eastern European Countries (CECs), rich in resources that Italian businesses need (especially labor). Unfortunately, the aged infrastructure further hinders already slow and archaic truck-based shipping systems and supply chains (see article by Tate in this issue). If not addressed, this sagging infrastructure will impede industrial districts and individual businesses wishing to delocalize. (Marini; Migliorini)

### **Globalization**

A fourth challenge to Italy's SMEs arises from the combined effects of the changing demographics and the increased competition from larger businesses. To deal with labor shortages and pressure from large firms, SMEs may need to look beyond Italy. This in turn creates new challenges, largely related to overcoming the fear of unknown risks in operating elsewhere. (Rullani, May 20, 2002) This fear is powerful enough to prevent SME owners from taking necessary risks to save their businesses.

Globalization demands that businesses move beyond the comfort zone of an entirely local and directly personal supply chain. There is doubt that Italy's SMEs can maintain their industrial district-based competitive advantages if district members split and delocalize to separate areas. (Berger and Locke) Industrial districts currently function well because of their links to Italy's social resources that may not be available elsewhere. (Streeck, cited in Berger and Locke)

An even more basic challenge also is posed by globalization: "going global" is expensive. The ability of Italy's SMEs to significantly mod-

ify their *modus operandi* is limited by their resources. The question remains: Can SMEs that pride themselves on their cooperative approach to business and product development successfully compete in increasingly global markets?

### **EU Pressures**

Italy's membership in the EU has raised many challenges for Italy's businesses. Specifically, new EU-wide policies are not always easily accommodated by Italy's SMEs, which lack sufficient resources for capital intensive policy implementations. This is especially the case with guidelines for business practice issues (such as required upgrades in occupational safety measures and new standardization and quality benchmarking procedures). Unfortunately, meeting these requirements is not optional.

### **Consequences of Failure**

Italy cannot afford to lose its SMEs. If no plan of action is devised, Italy will feel the pervasive consequences of such a loss economically and socio-emotionally.

### **Economic Effects**

SMEs are the cornerstones of most economies. They are prevalent, productive and unique in purpose and functioning, playing a critical role in the development of new jobs and new ideas. ("Enterprises...") The prevalence of "group businesses" in Italy (ISTAT, "2001 Annual Report") is considerable: they employ more than 3.7 million Italians in their approximately 105,000 group companies. These groups most often are headed by single families and operate with fewer than 20 employees. The total number of Italian SMEs<sup>3</sup> approaches 3.8 million, compared with 3000 large enterprises.<sup>4</sup> (ISTAT, "2001 Annual Report") The productivity of these SMEs is visible in the specialized trade sector (e.g., clothing, jewelry, furniture and footwear), in which 90,000 small

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<sup>3</sup>Defined in this report as having one to nine employees.

<sup>4</sup>Defined as having more than 250 employees.

businesses alone, apart from Italy's other, equally productive SMEs, generate \$80 billion dollars in annual sales. ("The Discreet Charm...")

Perhaps more importantly, SMEs serve a unique purpose as stimulators of economic development. ("Enterprises...") Italy's SMEs operate at the vanguard of the newly industrialized CECs. Taking advantage of previously unutilized resources, at the same time they promote economic development in these regions. Within Italy, SMEs are sources of economic vitality because of their commitment to adaptable and flexible relationships as industrial district members. These close relationships allow industrial districts to divide labor effectively among district SMEs (Berger and Locke), permitting quick adaptation to ever-changing customer demands. Such adaptability reduces wasted resources that larger organizations must expend when making major process changes.

The unique organization and functioning of Italy's industrial districts place them in a powerful position. Larger firms cannot replicate the combination of strengths exhibited by Italy's SMEs, lacking the "glue" that holds the districts together. This glue is the trust among Italy's small business owners and employees, as well as between industrial districts and their communities. Relationships built on this trust allow district SMEs to engage in intelligent risk-taking, or "experimental" business, because of the long-standing belief that entire districts can learn from all outcomes, whether positive or negative. (Rullani, May 20, 2002) Although characteristic of Italy's industrial districts, this sharing of failures as well as successes is uncommon between larger organizations that desire to protect and profit from proprietary knowledge. Unfortunately, experimentation and sharing may be insufficient to keep the industrial districts competing successfully. If SMEs and districts are forced to expand or are outdone by larger organizations, current district practices may be exchanged for more profit-driven motivations, threatening the efficacy of the Veneto model.

### **Socio-emotional Issues**

The functioning of Italy's SMEs also has an impact on the social and emotional qualities

of Italian life. According to Rullani (October 2002), in Italy today "the typical firm is not only a family-owned one, but a personal firm," functioning through interactions among persons (i.e., individuals plus the social capital they embody). Because the Italian culture is so interpersonal, failures of family businesses often speak to failures in relationships among persons. Not all consequences of losing SMEs are as immediately visible as measurable economic losses.

One hidden consequence is connected to the autonomy that family business owners have exercised since the 1960s, a result of the minimal presence and power of government to act locally on behalf of associated industries, unions or churches. (Marini) Many of the central characteristics of the Veneto model exist in this autonomous work *culture*. SME owners have developed a powerful sense of pride from their autonomous successes over the years, and this pride now hinders them from finding new leadership for their businesses. A patriarch-owner's pride carries over to each of his company's products, influencing the efficiency with which they are produced and the standards against which they are measured, and this integration of the individual with his business is not easily transcended. (Rullani, May 20, 2002) Ideally, the difficulties inherent in transitioning leadership can be eased if control is passed from the original entrepreneur to a younger family member. Obviously, this strategy depends on a sufficient presence of a younger generation.

The increasingly small base of young Italians, the major societal challenges and a changing leadership have combined to create an environment in which business can no longer proceed as usual. External assistance is needed to cope with these challenges and some loss in autonomy is to be expected. Depending on the degree to which this autonomy is reduced, northeastern Italians also are likely to lose a certain amount of pride in their work, economy and country. Loss of pride could damage a society that continues to reflect old-world ideals in customized, finely made goods. With southern Italy already struggling economically (illustrated by that region's 19.3% unemployment rate), Italy cannot afford to lose its effective businesses in the north, especially

because of socio-emotional issues that could be handled with the help of government and other organizations.

Without careful strategizing, loss of autonomy and pride could challenge individuals' sense of "Italian identity." This could threaten the success of the Veneto model, which, according to the CEO of Banca Popolare di Vicenza (one of the most influential organizations supporting the continued existence of family-owned SMEs and industrial districts in the Veneto), draws its power from four characteristics of its people: "determination, flexibility, creativity, and schooling." (Seretti) All these characteristics are linked to feelings of personal worth that Italians develop through their familial and interpersonal interactions in the home, community and workplace.

Although representative of the "softer" side of the economic challenges, these overarching socio-emotional issues — loss of autonomy, loss of pride and changing identity — are crucial and cannot be discounted. The industrial districts have succeeded largely because of certain qualities of the people of the Veneto. The determination and ingenuity of NE Italians have extended the sense of family to business relationships, fostering experimentation, open interdependence and strong communication as essential qualities for good business. Changes to these norms place much of the country's critical social capital at risk.

This is cause for concern, as there is an increasing belief that "social capital of the right sort boosts economic efficiency, so that if our networks of reciprocity deepen, we all benefit, and if they atrophy, we all pay dearly." (Putnam, p. 325) It is because of their reliance on social capital that Italy's family-owned SMEs and industrial districts are distinct from seemingly similar networks in Germany and Japan. (Berger and Locke) Although Italy's social capital currently is better suited to the development and maintenance of SMEs over other, larger forms of business, this social resource is an endangered competitive advantage for the industrial districts. Likewise, loss of SMEs in the NE regions of the country could create conditions that would prohibit the development of social capital in the future.

## **Recommendations for Addressing These Challenges**

Steps can be taken to ensure the future of the Veneto model. Critical to SMEs' success is the correct combination of local support institutions and strong networks linking district firms horizontally and vertically. (Rullani, May 20, 2002; Berger and Locke) I believe such strengths can be further developed with strategies targeting the five challenges in the following ways.

### **Connect University to Industry and Industry to University**

To counteract the effects of a disinterested generation, young Italians need to be persuaded that family businesses can offer interesting and flexible jobs. Businesses must creatively modify existing organizational structures to meet the needs of a generation pressured to desire instant gratification and high salaries. With assistance in redefining "family business," SMEs can take advantage of their situation. The skills of technologically advanced university graduates can be utilized to improve SMEs' functioning, maximizing efficiency while minimizing the number of employees required for operation. This solution is especially appealing considering that SMEs with strong, technologically sophisticated central management cores within Italy could more easily delocalize production activities to other countries, potentially slowing the flood of immigrants into Italy.

There is one hindrance: this plan requires changing the existing Italian education system. Currently the standard university curriculum does not include extensive practical business training (De Gasperis) and few students see the relevance of continuing family business work. Although Italy's education system for children is increasingly strong (see article by Rheinauer in this issue), universities often prepare graduates for work that is unavailable within the country. Although a few regional technical training programs do exist ("Industrial Policies..."), a better option for advanced instruction is collaborative education integrating universities with industries. Collaboration

is natural for northeastern Italians and transferring this to a formal learning environment should be feasible. Such linkages would allow Italy to more actively maintain and develop its critical social capital.

### **Focus on Family**

Italy's family businesses are successful because they function as extensions of the family. If Italian families break down, it is conceivable that these businesses and industrial districts will fail. Beyond strategies focused on preserving economic institutions (the SMEs and industrial districts), attention must also be paid to the continued stability of the familial institution. This attention can come from many sources including government, the Vatican or the industrial districts themselves. Ideally these influential bodies can work together to ensure continued sustainable development across Italy.

### **Make Use of Foreign Labor**

Another option for Italy's SMEs to obtain labor is better use of a segment of the population that is currently growing: immigrants. In the NE especially, immigrants from neighboring CECs and African countries commonly fill the labor void. Already, approximately 2.5% of the total Italian population is foreign born. (ISTAT, "Italy in Figures") If trends continue (as is suggested by ISTAT's reported increase of 15.3% in the influx of immigrants to Italy between 2000 and 2001), Italy's once ethnically homogeneous society increasingly will feel the effects of diversity. (Marini) This changing ethnic mix will strain Italian society in ways not yet fully identified (increasing the drain on funds for education, health, housing, the weakening pension system [see article by Bond in this issue] and so forth). Clearly this potential solution to the labor shortage presents its own set of challenges, but Italian businesses may not have many other choices.

To keep Italy's SMEs staffed with the highest quality labor available, consideration should be given to more actively recruiting skilled individuals from abroad to carry on the traditions of the family business with minimal additional training — individuals from similar cultural

backgrounds who have a sense of heritage and are willing to work as "family members." For all hired foreigners, SMEs and industrial districts need to establish job-training programs to teach the skills and norms specific to industrial districts. More importantly, SMEs, districts and local governments should develop socialization programs to help integrate these workers into a society unsure of how to handle its changing demographics. Although incorporating immigrant workers into family business activities may present cultural challenges, these can be overcome if it is understood that long-term survival is at stake.

### **Take Baby Steps to Globalization**

Instead of encouraging immigration into Italy, Italian SMEs could focus on moving labor-intensive processes to neighboring countries where the risks are relatively few and labor is abundant and relatively inexpensive. There is much to be gained by shifting production to other countries. Labor-intensive work done where labor is plentiful helps those areas develop and frees up dwindling Italian labor to try something new. Although research on these issues is lacking, the advantages small firms stand to gain from internationalizing likely outweigh the disadvantages that accompany failure to perform on the global stage (Table 1). It is not easy, however, for SMEs to delocalize. Operating internationally requires a new level of openness through the entire process from production to consumption (Rullani, October 2002), forcing businesses to continuously evaluate and improve the efficiency of all production-related activities.

Even when delocalization is limited to neighboring countries, difficulties may arise (from, for instance, differences between countries in terms of social resources). Leveraging Italian districts' social capital will remain critical (Berger and Locke) and SMEs should be encouraged to utilize new technologies to supplement their traditional social resources in locations that are less family or community based. Any delocalizing business should expect an initial culture shock and period of adjustment in a new location. To ease this adjustment, owners and employees of trust-based Italian

**Table 1**  
**Both Sides of the Globalization Issue**

Globalization Offers Firms Opportunities to	Globalization Is an Obstacle for Small Businesses due to
<ul style="list-style-type: none"> <li>• Establish new exporting relationships</li> <li>• Increase sales in new foreign markets</li> <li>• Increase market share</li> <li>• Replace lagging demand</li> <li>• Strengthen presence in exporting markets</li> <li>• Reduce production costs</li> <li>• Overcome entry barriers</li> <li>• Acquire new technology</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of financial means</li> <li>• Lack of commercial organization</li> <li>• Lack of information</li> <li>• Low levels of international orientation</li> <li>• Lack of openness to agreements implying transfer of shares (mainly due to family ownership structure)</li> <li>• Lack of innovative capacity (tied to low R&amp;D spending and lack of stimulus from users)</li> </ul>

Source: Surveys from the Centro Furio Cicogna and the Mediocredito Centrale, cited in *Globalisation...*, p. 167.

businesses will “have to think of the world as [their] town.” (Rullani, May 20, 2002) In this way, SMEs can be encouraged to take globalization one step at a time. Attempting to expand beyond neighboring CECs, which already offer many of the necessary social resources for SME operation, is unnecessary and uneconomical at this time. (Rullani, May 20, 2002; Marini; Berger and Locke)

SMEs and industrial districts can learn a great deal about globalization from other businesses that already have made a transition. Ideally, entire districts would pool their resources to aid delocalizing member SMEs. Although this has not yet been demonstrated to any great extent, a few noteworthy delocalization trends are apparent:

- 1) Manufacturing moves to a neighboring country while central networking and management remains in Italy.
- 2) Northern businesses have had fewer cultural and political problems operating in neighboring countries than in southern regions of Italy. (Rullani, May 20, 2002)
- 3) “Monkey see, monkey do” seems to be the practice; if one district firm successfully moves abroad, other district members follow. This is so common that a specialized assistance office has been established in Vicenza (the heart of the Veneto) to aid businesses wish-

ing to follow others that have set up operations in Timisoara, Romania. (Berger and Locke, p. 96) Although the pressure to globalize is strong and the risks are high, the successful record of Italy’s SMEs in the surrounding CECs bodes well for future delocalization efforts. Unless the pressures of the international market decrease in the near future, Italy’s SMEs must face these globalization challenges. Their continued success as SMEs depends on the extent to which they can do so while remaining linked to each other, the social capital of the region they occupy and any new technologies that may aid them in their operations.

### **Increase Governmental Involvement**

SMEs can face these challenges with more confidence if assisted by local and national government. In response to changing demographics, government can help businesses facing leadership transitions (Lansberg) by developing training and support programs to aid in the implementation of new leaders. Additionally, financial assistance to firms facing a leadership transition might encourage businesses to address this challenge earlier, rather than waiting until few options exist. Government subsidized training also can be provided for foreign-born labor, further reducing SMEs’ financial burden when attracting new skilled labor.

Government can offer assistance to SMEs locked in competition with larger companies by enacting legislation to prevent, or at least discourage, larger firms from entering the industrial districts' current niche markets. The greatest threat larger firms pose to SMEs results from the imbalance of resources available to the two forms of business. To even the playing field, government could encourage SMEs to become publicly traded companies, increasing their opportunities for external funding and reducing a primary advantage of larger companies. Although the advantages of staying private are many (more privacy, less threat of takeover, fewer changes to the directing body, less formality, lower expectations and reduced costs), the disadvantages may be more salient (lack of opportunity to improve marketability of shares, the financial position of the firm and the offering of incentives to employees; and missing out on potential increases in the value of the shares and on increased prestige). (Neubauer and Lank)

For SMEs that remain privately held, financial security can still be achieved if government encourages these businesses to take advantage of other external sources of funding (e.g., non-family investors) and link more closely within and between industrial districts to increase overall economic and material resources. Worldwide, SMEs have very positive records from the perspective of investors and economic planners. Although the situation Italian family businesses and industrial districts face is certainly different from that in the U.S. (less than 1% of Italian companies are listed on the Italian stock exchange), certain parallels still can be drawn about the effectiveness of family firms. The results of a U.S.-based study by the Pitcairn Investment Corporation identify family-owned firms (most of which begin or continue as SMEs) as among the best long-term investment options. This judgment is based on the high level of personal investment by family business owners and employees in the control and regulation of business functions. (Jungé)

In the U.S., for example, family-controlled companies are responsible for "78% of ...job creation, 60% of...employment, and 50% of...GDP." (Stein, p. 120) They make up approx-

imately one third of all FORTUNE 500 companies. (Stein) McConaughy has also found that such firms "have greater value, are operated more efficiently, and carry less debt than other firms." (cited in Stein) By publicizing similarly positive statistics representing Italy's family-owned businesses as strong investment options, the Italian government could reduce a portion of its financial support burden by attracting private investment from other sources.

Beyond simply increasing SMEs' financial resources, the Italian government may find that supporting its small businesses bears greater economic advantages than supporting larger, less efficient organizations. In other industrialized areas of the world an increasingly common trend is the division of larger firms into smaller units. Few Italian businesses have succeeded in transferring the flexibility, ingenuity, quality and personality of small firms to a larger-scale organizational structure.<sup>5</sup> More frequently, organizations recognize that large size hinders flexibility and adaptability and reorganize into multiple smaller entities. For example, appliance giant Zanussi's spin-off sub-companies formed the successful "Inox valley" region, and textile maker Marzotto allowed its workers to start their own, smaller firms, increasing the company's gains by use of a smart outsourcing strategy. (Rullani, May 20, 2002) In spite of its historical backwardness, Italy's industrial districts may now, with help, provide Italy access to global economic involvement.

Beyond aiding SMEs that have demographic pressures and competition with larger businesses, governmental assistance is especially needed in facing the challenges of globalization and implementation of new EU policies. Proximate delocalization and eventual full-scale globalization is only realistic if the government commits to improving Italy's inad-

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<sup>5</sup>One exception is Gruppo Luxottica, for 41 years a multinational eyewear producer begun as a family business by Leonardo Del Vecchio. Over time, Luxottica formed its own trademark and the business grew. From family business to large-scale, international exporter, this former SME has maintained its focus on cooperation with the customer, focusing on customizability, quality and "the right price" in the production of its products. (Goldoni; Luxottica site visit)

equate infrastructure in ways that 1) encourage continued growth and economic success in all regions of Italy and 2) improve all modes of transportation (especially road and rail connections between regions and across Italy's borders). Once these improvements are made, government also can aid SMEs in adapting to changes brought on by their delocalization. Within Italy, new business sectors will need local and national government to provide or subsidize training and other forms of technical education, loans and protection in the international market as they become involved in international dealings.

Until recently, few national legislative acts have supported industrial districts, beyond limited efforts to aid small businesses with large equipment purchases and obtaining investments. Amazingly enough, without the "guidance" of other legislation, Italy's SMEs and industrial districts have developed their own methods of training, research and technologic innovation. Government must consider whether increased involvement on their part can improve SMEs' situation. If not, then continuing a hands-off relationship may be necessary. Unmet needs left by lack of government assistance in the past usually were fulfilled by local institutions devoted to encouraging the growth of regional SMEs (e.g., Banca Popolare di Vicenza supports new business development and aids in risk protection of exported goods, long-term financial planning and globalization assistance). (Seretti; "Industrial Policies...") Unfortunately, existing support mechanisms may be inadequate to help SMEs face all the major challenges.

## Conclusions

To reiterate my initial proposal: Italy's SMEs can and should be preserved, but assistance is needed. SMEs and the industrial districts they form are the building blocks of Italy's thriving NE economy and they should be protected and encouraged to further develop. Italy would be wise to heed the words of one of its many scholars: "[W]e can't have a future without the past." (Golin) Preservation of the driving economic forces in Italy will only be possible if SMEs and government accept their roles

as collaborative strategy makers. Although the work of industrial districts may change over time from production to management and service provision, there is no reason to believe SMEs must concentrate into larger entities. (Rullani, October 2002) Maintaining their small size and networked business methods are still valid options, especially if these businesses are supported.

As old and simple as it seems, the Veneto model of business — networked SMEs and industrial districts — is modern in its functioning. By decentralizing, outsourcing and streamlining operations to meet changing consumer and market demands, larger firms around the world are scrambling to realize the same efficiency and success that the industrial districts have had for the past 40 years.

Italy's SMEs now face challenges that require policy changes and strategy decisions. As discussed, this need presents a challenge for independent family business and SME owners who are likely to resist external help and pressures to change. To circumvent this resistance, business owners and strategy makers need to develop strategies together to ensure their viability and successful implementation.

Economically and socially the continued viability of its SMEs is in the best interest of Italy. In addressing the many challenges, it is also critical to pay attention to the stability and security of family businesses as effective tools for socialization and entrepreneurial development. Equally important is the welfare of the employees, the source of Italian SMEs' strength and abilities. As Luxottica founder Leonardo Del Vecchio said, "I don't need robots; I much prefer people who work with their brains...Italian workers are very flexible." (cited in Goldoni, p. 94) Flexible employees form flexible organizations — SMEs and industrial districts thrive on such flexibility.

Given time and support, it is most plausible to envision a new breed of industrial district composed of more expansive interpersonal networks of increasingly personal SMEs. After all, "[i]n Italy it is very difficult to implement impersonal organization[s] and bureaucratic structures." (Rullani, October 2002) Far from going the way of the family farm, industrial districts and their family- and otherwise-owned

SMEs most likely will be “transformed into multilocalized networks with a local system connected to many branches of the supply chain in other countries.” (Rullani, October 2002) The goal of internationalized industrial districts may be difficult to achieve, but their time has come.

Preservation of the Veneto model requires immediate action. Five of the most critical chal-

lenge areas are addressed in this article. Italy's sense of responsibility to its family businesses and industrial districts will be reflected by the speed with which strategies addressing these challenges are brought forth. What remains to be seen is whether the Italian government's response will be as efficient and adaptive as the businesses it is charged with protecting.

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