ITALIAN INDUSTRIAL DISTRICTS: INFLUENCE OF THE GOVERNANCE ON PERFORMANCE AND FINANCIAL DISTRESS OF FIRMS. AN EXPLORATIVE STUDY

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Abstract

The aim of the paper is to offer evidence about the influence of the governance quality of industrial districts (IDs) on performance and financial distress risks of firms belonging to IDs. By adopting a qualitative approach, the analysis was applied to 20 case studies of Italian IDs belonging to the Fashion and Mechanical industries (included within the National Observatory of Italian Districts). The investigation suggests that in the districts characterized by good governance and cooperative strategies the firms achieve better performances and improve their competitiveness. These conditions may facilitate the firms belonging to such districts in terms of lower borrowing costs, greater availability of credit, lower risk of financial distress and, therefore, fewer bankruptcies. Therefore, the study suggests that the district governance should be included as a further qualitative strategic variable in district firms' financial distress prediction models and in the rating attribution processes by the banking system (or by specialized rating agencies).

Keywords: Industrial Districts, Governance, Economic and Financial Performance, Financial Distress, SMEs

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Although the research is the result of the joint work of the authors, they have individually devoted specific attention to the following sections: Patrizia Pastore 2, 3 and 4; Silvia Tommaso 5, 6, 7.

1 Introduction

The objective of the research is to verify the existence of a relation between quality of industrial districts (IDs) governance, economic-financial performance and financial distress risks of firms belonging to IDs.

The industrial district is essentially identified as a geographical concentration of interconnected small-medium manufacturing enterprises, highly specialized in different stages of the value chain, generally characterized by an intense interdependence of their production cycles and strongly integrated with the local socio-economic environment of the host area (Becattini, 1990, 2000; Ricciardi, 2006, 2010a,b).

Generally in a district independent SMEs operate, they are integrated into an informal and long-term network of cooperative relations (Ricciardi, 2013). These SMEs locally interact with each other in various ways (production orders are shared; services are realized in partnership; knowledge is reciprocally exchanged and technological innovation is developed together), because they are complementary and functionally related. They create collective aggregate dynamics among individuals, firms and service organizations that contribute to the evolution of the district as a whole (Lane, 2002; Lombardi, 2003; Squazzoni and Boero, 2004, p.102).

Recent developments show that this cooperation takes place according to more structured forms of organization and collective management decision-making; it is realized through the implementation of coordinated and integrated shared policies, based on the joint commitment, active and participated in the territory of the plurality of actors, public and private, involved, sharing responsibilities, mechanisms of distribution of costs and benefits resulting from the decisions taken.

Adopting a systemic perspective of the analysis (Freeman, 1984; Golinelli, 2005), in this paper it is assumed that the model and the quality of IDs governance has a significant impact on the financial performance and the risk of financial distress of companies located there. Evidently, the districts have different performance and, therefore, different risks, but in the light of the literature and empirical evidence, the districts are characterized by effective governance mechanisms which have shown greater resilience during the years of economic and financial crisis, which was confirmed by a minor reduction in the number of enterprises and the number of employees.

Taking into account what has been previously mentioned, the objective of the study is to test the following research hypotheses:

Hypothesis 1: In the industrial districts with organisms and governance tools effective in their operation and characterized by cooperative strategies the localized firms achieve, on average, higher economic and financial results than firms belonging to other districts.

Hypothesis 2: The competitive advantages of IDs structures (agglomeration economies, better access to specialized resources, complementarities among firms, sharing of knowledge, cost competitiveness, high levels of flexibility, profitability and productivity, positive spillovers which concern the diffusion of information, knowledge and innovations) and the cohesive web of relationships and cooperation between all district agents (collective governance) determine a 'district effect' that rewards firms belonging to the industrial district in terms of: income results and competitiveness, greater availability of credit, lower borrowing costs and lower risk of financial distress.

The results of the study suggest that the district's governance affect the district firms performance and, if they are present even closer and more concentrated credit relationships, it can reduce the risk of incurring default or financial distress because of the more intensive and effective monitoring by lenders (which lowers the probability of financial distress). Therefore, the study suggests that the district governance should be included as a further qualitative strategic variable in district firms' financial distress prediction models and in the rating attribution processes by the banking system (or by specialized rating agencies).

However, the study is work in progress, and the present work merely intends to illustrate the conceptual steps that are needed to approach the problem in order to define a framework that will be validated through the implementation of a more accurate method of governance measuring and, above all, developing a District SMEs financial distress predictive model providing for the joint use of economic and financial ratios and variables related to the district governance.

Regarding the structure of this contribution, it is organized as follows. After the introduction, the second paragraph briefly describes the recent districts' transformations during the changes in the years of crisis. The third paragraph presents a brief review of the literature concerning district governance and SMEs financial distress predictive models. The fourth paragraph, after presenting the characteristics of district governance, proposes a set of qualitative variables that are believed to enable the assessment of its quality (effectiveness). The fifth and sixth paragraph describe the survey methodology and comment on the results of the exploratory study on IDs governance models adopted in a sample of twenty districts in the fields of Fashion and Mechanics and performance obtained before and during the crisis. Finally, the conclusions illustrate the practical implications of the research and, due to its exploratory nature, we suggest future research developments.

2. The evolution of industrial districts in the years of crisis

The significant industrial districts' contribution to the development and competitiveness of the Italian economy for several years is a fact, proven on the one hand by the implementation of specific national industrial policies while, on the other hand, numerous studies and research both of economic and political nature (among others, Becattini 2000; Brusco 1982; Porter 1990; Dei Ottati 2009; Hart 2009; Piore 2009) have pointed out the competitive advantages of this particular form of productive activities and organization that the world studies and tries to imitate (Aharonson *et al*., 2007; Hirschman, 1958; Krugman, 1991; Marshall, 1920; Rosenthal and Strange, 2003, 2004).

Furthermore, theoretical and empirical analysis on the efficiency gains generated by industrial districts associated, with the competitive advantages of IDs structure, performance differentials significantly higher in favor of firms belonging to IDs than their non-district counterparts of comparable size in the same industry. This superior performance was defined "district effect" (Signorini, 2000; Foresti, Guelpa e Trenti 2009; De Blasio, Omiccioli and Signorini, 2009) resulting in a lower interest rates on loans: this feature proves that district firms are valued less risky by the banking system compared to non-district ones (Nova 2001; Capuano 2003; Ricciardi 2006; 2010c).

This phenomenon is not dependent on geographical location or the sectors to which they belong (in the same sectors and in neighboring areas coexist, in fact, growing districts and districts in difficulty) but to the strategic choices made in the field. These help to explain the growing gap in economic performance within and among the districts observed already before 2008 (Foresti *et al.*, 2008; Osservatorio Nazionale dei distretti italiani, 2012)[12] and which is accentuated by the impact of the crisis: it was observed, in fact, markedly different performances of the districts within the same industry and between the firms belonging to the same district (Foresti *et al.*, 2008; Guelpa, 2013).

In this regard, the districts that show better performances are characterized by common phenomena: strong propensity to invest in innovation, product and process; qualification, differentiation and repositioning of products offered (Solinas, 2006), supported by investment in the brand; focusing the core competence on specific activities and/or phases with higher added value (planning and design, R&D, dedicated sales networks, etc.) and contextual less centrality of functions related to the production and manufacture; progressive strengthening of larger companies within the district systems (Belussi and Sammarra, 2010); recomposition of corporate structures towards more structured models such as business groups (Cainelli and Iacobucci, 2007), the most appropriate to deal with an increasingly complex and extended market; high autonomy of subcontracting firms, capable of reducing the dependence by the leader through customer diversification outside the district; ability to attract external management; efficient governance due to public or private institutions responsible for coordinating and promoting joint projects and initiatives, synergies with universities and research centers (Garofoli, 2006; Tommaso, 2009; Ricciardi, 2011a).

District firms that have undertaken these strategies have achieved better performances, both in the pre-crisis period of 2008-2009 and in the course of the recession (Cutrini *et al*., 2013, p.6): in the last three years, the analysis of financial statements show that district firms have returned to being more efficient than their counterparts located in other areas of the country (Guelpa, 2013, p.213). Where this has not occurred, although with different intensity, dynamics and structural recessive quotas and competitive pressures exerted by emerging countries on the typically district productions (Paniccia, 2002, p.36; Bellandi *et al*., 2011) seem to have "slowed down" districts, weakening the financial conditions of firms and the so-called district effect (Di Giacinto *et al.*, 2012) and, in general, reducing the specific advantages of localization (Bentivogli *et al*., 2013). In this respect, it was detected that in the districts in crisis there was: lack of attention to changes in demand; non-innovative products; limited skills in financial management; excessive dependence on a single customer; lower level of cooperation (Ricciardi, 2010a).

However, the district model has profoundly changed. In particular, the model of horizontal governance (*symmetrical*), based on a plurality of SMEs linked to each other in an informal way and whose relations are dictated by direct contact between entrepreneurs and the needs of the same production process (Iuzzolino and Micucci, 2010) is becoming more hierarchical (*asymmetrical*), with the statement of leader firms (Carminucci and Casucci, 1997), which coordinate and guide the collective dynamics of district development and have turned the systemic connections in dependency relationships (Belussi *et al.*, 2005; Boschma e Lambooy, 2002; Cainelli and Zoboli, 2004). For the leader firms, the need to adjust their relationships inside and outside the district more efficiently induced the transition from informal relationships in organized forms of cooperation formalized through the signing of contracts and alliances encoded on the legal floor (AIP, 2008, p.405).

In addition, the phenomenon that characterizes with greater intensity the most recent IDs evolution in Italy concerns, in particular, the intensification of the process of creation of small-firm networks (Ricciardi 2003) and a progressive and increasingly accentuated extension on an international scale of supply networks originally built on a local basis (Camuffo and Grandinetti, 2011; Bellandi *et al.*, 2011; Pastore 2010). Consequently, the districts have redefined their boundaries, changing from self-contained locally to interconnected with global production chains, which are often referral centers (De Propris *et al*., 2008; Ricciardi, 2013).

Therefore, an extensive district network model that involves not only firms but also districts

[12] Budget data confirm the consistent dispersion of performance between districts in the same area of specialization and between firms located in the same districts. If we consider the percentage change in sales between 2008 and 2011, between the districts specialized in the production of footwear and textiles and clothing, for example, it is observed that the clothing and footwear along with the Neapolitan leather products and leather Santa Croce (Pisa) and the Sportsystem of Montebelluna (Treviso) have recorded increases of over 10%, while the textile and clothing industry of Corato, Brescia and Como showed decreases greater than 10%. At the level of individual firms, if we analyze the operating margins in 2011 as a percentage of turnover, there was a significant difference between the best firms and worse ones: between micro enterprises better operating margins have averaged 14.4% of the turnover against a -6.25% of the worst ones. In the case of firms located in the same districts, the dispersion of performance also stems from the different role within the supply chain. In this respect, leader firms and "first tier" providers (specialized) were able to offer exclusive products and custom, which guaranteed high profitability and a satisfactory order book, especially at the international level; vice versa, micro-enterprises, "suppliers of productive capacity" (locked and trailed) were penalized by the lower orders of the leader firms, who have internalized the previously outsourced production (Ricciardi, 2013).

operating in different sectors and territories looms up: the district systems, that is, have become open and widespread, which began to network with each other (Pastore, 2009). The most immediate consequence is that the competitive strategies that develop continue to rest on the external resources of the single firm but always less internal to the district.

Nevertheless, the central role of local territory for the development of industrial districts is not exhausted. Rather it was renewed.

The local territory's importance is confirmed by the fact that the firms belonging to IDs, even when placed in more complex systems and larger markets (ultra-sectoral and trans-national networks), they remain connected to their territory as a venue for trust relations between the entrepreneurs and manufacturing and managerial skills available.

These benefits of district agglomeration and the supportive social capital also catalyze the interest of multinational corporations that decide to establish here their subsidiaries or acquire existing firms (Andersson *et al.*, 2002; Camuffo and Grandinetti, 2006, p.52) to increase their competitive advantage in their operational sector.

However, there is a need for an equipped territory that can meet the demand for new collectives and specialized infrastructure services consistent with the competitive advantage of the district and its firms. This renovated environment must support this developmental stage by developing and making accessible and shared resources, expertise and specialized services in the areas most critical to the competitiveness of the new districts: design, technology, research and development, logistics, finance, communication and marketing, internationalization (Cooke, 2002; Moran and Ghosal, 1996; Tsai and Ghosal, 1998; Bonaccorsi and Granelli 2005; Osservatorio Nazionale dei distretti italiani *Annual Reports* on *www.osservatoriodistretti.org*, Cutrini *et al.*, 2013, p.5; Camuffo and Grandinetti, 2011).

The (long-term) trend described, while not altering the hallmarks, changes the district (Grandinetti, 2010) and the "*context of relations of power and structures of decision-making*" (Storper and Harrison, 1991; Malmberg and Maskell, 2002) between firms and local institutions (public institutions, banks, universities, etc.) and it requires "*the exercise of a collective strategic capacity, difficult to express and exercise in a context of increasing divergence of strategies and individual goals and in a general context of crisis*" (Bellandi *et al.*, 2011).

In this respect, in a consistent manner with the analysis of scenarios and possible trajectories of development, the ongoing changes also involve the governance formulas of the numerous relationships that in the 'new' districts must to be defined, implemented and monitored (Tommaso, 2009).

Governance is needed which should be able to interpret but also anticipate the needs of IDs firms and offer concrete solutions to improve their competitiveness. This evolution requires the identification of organisms to be entrusted with the strategic leadership of the district as well as specific instruments that regulate its management (Pastore, 2009) in order to ensure an "institutional strengthening" to the strategies of the firms belonging to IDs (David, 1994; Nelson, 1998; You and Wilkinson 1994). In this regard, it is increasingly necessary to improve the interaction between companies, local authorities and other public entities.

The impact of the crisis on industrial districts: the results of the 2011 financial statements

According to data from the National Observatory of Italian Districts[13], the impact of the crisis has resulted in significant effects on the number and on the staff of district firms: the latter, according to ISTAT data, in 2010 compared to 2009 decreased by 2.1% (-4476 enterprises) while employment decreased by 4.3% (-64 thousand-employees) in manufacturing enterprises decreased by 3.9% (-4,789) and the employees of 4.7% (-58 thousand)[14].

The financial statements show the best performance of revenue growth in the period 2010/2011 of district firms compared to non-district ones. After the collapse of 2009, the turnover of the IDs firms has recorded an increase of 9.7% in 2010 and 5.2% in 2011, compared to respectively 7.7% and 4.3% of other firms. The best performance was determined by the greater propensity of the districts to exports: they have been awarded in a period of weak domestic demand and of greater growth of the international one[15].

[13] The National Observatory of Italian Districts, established in 2009 in collaboration with influential partners (Banca d'Italia, Censis, Cna, Confartigianato, Confindustria, Federazione dei Distretti Italiani, Fondazione Edison, Banca Intesa Sanpaolo, Istat, Symbola e Unioncamere), is the official database of the Italian Districts and aims to periodically update and monitor data about districts and study phenomena that characterizes their evolution and transformation.

[14] In terms of size, to suffer a greater decline in relative terms were medium and large firms, decreased by 6.2% (-201 enterprises) and 7.9% (-22) with a total job loss of 25 thousand employees; the smaller firms fell by 1.7% (those up to 9 employees) and 4.1% (with 10 to 49 employees) with a total reduction of approximately 37 thousand employees (Ricciardi, 2013).

[15] District firms have a higher propensity to export or to invest abroad: 41% of district firms export compared to 30% of the firms located in non-district areas while 8.9% of district firms investing abroad compared with 7.1% of those in non-district areas (34 investee firms abroad every 100

If the budget analysis focuses on the distance to the pre-crisis levels, it can be seen that the districts average turnover of 2011 has not returned to the levels of 2008 (-5.5%), only the food industry is well above the values reached in 2008, with an increase of 9.4%, while firms in the fashion districts have recovered what was lost in 2009. All other areas of districts' specialization are distant since 2008, with very high peaks in the areas that produce furniture (-16.7%), construction materials (-13.3%), mechanical (-7.8%). However, even with regard to the distance to the pre-crisis levels, the districts show a greater ability to recover the fees in comparison to non-district areas (-5.5% vs. - 6.9%).

Worsens, but not excessively, the profitability, with net operating margins as a percentage of sales still to 4.3% in 2011, less than 5% in 2008; as regards to the main ratios of profitability, ROI (Return On Invested Capital) equal to 4.8% increases slightly compared to 2010 (4.6%), but it is far from the figure for 2008 (6.1%), while the ROE (Return On Equity) of 2.9% decreases both compared to 2010 (3.2%) than to 2008 (3.8%).

Compared to 2008, the reduction in turnover and profitability ratios was recorded at all levels of various firms. However, especially the smaller firms suffer, as well as being the most distant from the levels of profitability in 2008 (ROI decreased by 1.43%) they have a very high leverage, characterized by excessive exposure to short-term bank debt, generally more onerous. In the presence of reduced profitability and the corresponding increase in interest rates of debt, these firms are likely to operate with a negative financial leverage, which in itself could affect all recovery efforts put in place in recent years. The situation is further exacerbated by the management of working capital, which highlights a missing in the collection of receivables and payment terms to customers than those negotiated with suppliers[16].

The employment data confirm the economic trend: 31% of firms have reduced the number of employees (25.6% in 2011, 28% in 2010) compared to a 12.8% that reported an increase of jobs (19% and 12% respectively in 2011 and 2010). In this respect, the use of social welfare has intensified in 2012: firms that have used the ordinary CIG increased from 28.7% in 2011 to 34.7%.

The forecasts for 2013 are cautious: 27.5% of firms expect an increase in sales (20.2% decrease); 25.8% an increase in production (19.6% decrease); 18.8% an increase in profitability (22.3% decrease); more than half of the firms expect stability in almost all the parameters that were considered.

3. Governance, Performance and District firm default risk: a brief literature review

The Governance of Industrial Districts

The term governance, more and more widely used, is still ambiguous and blurred, lending itself to multiple interpretations and uses with different meanings (Rhodes, 1996; Kjær, 2004; Kooiman, 2000; Hindess, 2001). The most popular and widely shared meaning refers to the ability of public administration to manage and direct network, involving all actors of civil society in political decision-making processes. In such cases, "*governance is a particularly appropriate term because it suggests that within the complex frameworks of contemporary societies even public policies are formulated through the direct participation of various public and private players who negotiate and reach agreements in order to ensure implementation*" (Bagnasco, 2009, p.216)[17].

Within the districts, thanks to inter-firm collaboration, networking and relationships of interdependence, reciprocity and trust, transparency and sharing information between a plurality of diverse actors, "*opportunistic behaviour is reduced and transactions are efficiently governed through a 'communitarian market'* (Dei Ottati, 1991, pp.57-68) *....Moreover, semi-automatic cooperation facilitates the set up of voluntary organizations and formal institutions (such as industry associations or consortia) which can put in place deliberate forms of cooperation, that in turn enables small and medium-sizes firms to overcome their limits, for instance, with respect to reaching the necessary scale to produce essential goods, including collective infrastructures, professional training and technology transfer*" (Dei Ottati, 2009, pp. 206-207).

Researchers (Normann, 1979; Colombo e Dubini, 1988; Visconti, 2002; Porter, 2007) have used the concepts of meta-managing actors and those of strategic centers, social architects, catalysts, facilitators, pivot, etc. to indicate the entities that assume the role of agent of the economic development and innovation processes within industrial districts (Garofoli, 1991, pp.123-124;

district enterprises, 25 enterprises of the non-district) (Intesa Sanpaolo, 2012, p.11).

[16] Based on the research of Unioncamere (2012) more than half of the firms belonging to districts (51%) reported a decline in revenue in 2012 (26% in 2011, 19.3% in 2010) while only 25.7% managed to increase sales (40% in 2011, 34.3% in 2010). Therefore, after many years the balance between firms with turnover increasing and those with a decrease in turnover is reversed and becomes negative.

[17] In the literature, depending on the context, the objectives of the analysis and the application area, there are several terms for the new forms of governance, to name a few: *private governance* (Cashore, 2002), *heterarchic governance* (Jessop, 1998), *democratic governance* (Kjær, 2004), *multi-level governance* (Marks, 1993), *networked governance* (Jordan e Schout, 2006), *meta-governance* (Jessop, 2002), *participatory governance* (Shannon, 2006; Secco *et al.*, 2010).

Invernizzi, 1993; Visconti, 1996): their fundamental task is to combine the different interests and to ensure a unified strategic direction to the district (Bagnasco, 2009)[18].

In this respect, governance is a means to achieve at the level of the local context, the coordination of activities that normally characterize the structured organizations in an integrated manner (Garofoli 1991; Invernizzi 1993; Visconti 1996). A government body dedicated also ensures the focus on the specific activities of the district, a greater coordination of initiatives of common interest and facilitates the creation of partnerships between subjects. The effectiveness of district governance, then, is influenced by the strength of the relationship among the various stakeholders of the district (Eisingerich *et al.*, 2010). The latter is a function of frequency, intensity and stability of the interactions as well as the level of trust between the actors of the district (Antia and Frazier, 2001; Granovetter, 1973; Rindfleisch and Moorman, 2001; Uzzi, 1996, 1997). According to the Theory of Network (Granovetter, 1985; Burt, 1992, 2000; Gilsing, 2005; Belderbos *et al.*, 2012).), the links between stakeholders in the district "*are much stronger if durable, with frequent interactions and inspired by reciprocity and confidentiality*" (Mele *et al.*, 2008, p.88). Conversely, the links are weak when the parties rarely interact, have a shorter history of interaction, and lack of confidentiality (Staber, 2001, p.545).

At the moment, along a continuum whose extremes are represented by "few and weak links" and "many and strong ties" between the actors (Mele *et al.*, 2008, p.89), it is possible to identify two basic patterns of governance in the context of districts: one with symmetrical power between district firms (*horizontal governance model*) and one where power is asymmetrical (*vertical governance model*), i.e. where there is a hierarchy between agents. In the *horizontal governance model* (absence of hierarchy) governance is obtained through spontaneous relationships and a set of localized formal and informal institutions, public and private, that regulate what constitutes an acceptable business behavior in the area. In the *vertical governance model*, the power in the district is distributed asymmetrically (i.e. in the case of hierarchy): there are organisms and instruments of direction and coordination of relationships between the parties that aim to increase the joint fitness of themselves and the entire district; such relationships are planned and guided by a specific *District Committee* or by a leader firm, with superior influence, who assumes the functions of coordination through a system of contracts and ensures the strategic control of the aggregate (Storper and Harrison, 1991; Golinelli, 2005; Kerstin, 2007, pp.82-83; Mele *et al.*, 2008, p.94).

International experience has noted that, where they have developed context conditions capable of effectively integrating the actors inside, the districts have produced economic growth of the territories concerned by far higher than the average of the country of membership (McKinsey, 2003).

The prediction of default of district firms

Starting from the studies on the prediction of default of medium and/or large enterprises (Altman, 1968; Altman, 1993; Blum, 1974), more recent studies (Saurina and Trucharte, 2004; Pompe and Bilderbeek, 2005; Carter and Van Auken, 2006; Altman and Sabato, 2007; Behr and Guttler, 2007; Altman *et al.*, 2010; Ciampi and Gordini, 2008; 2009; 2013; Vallini *et al.*, 2008, 2009) have highlighted the need to develop predictive models of default that take into account the specific structural, strategic and managerial characters of smaller firms[19].

Furthermore, according to a previous study (Pastore and Tommaso, 2012), recent research (Ciampi and Gordini, 2013) has confirmed that the qualitative variables relating to the settlement of the territory, and even more those regarding the firm-territory relationship, as well as explaining the competitiveness of individual firms, improve the effectiveness of the models predictors of default of the small firms.

Therefore, to increase the predictive accuracy of predictive models of firms' default, accounting information should be integrated with qualitative variables related to the context of reference (territory, firm-territory relationship, district governance).

With specific reference to the districts, the web of relationships that develop within them and the characteristics of their governance, bring out localization advantages including its financial implications. In particular, several studies (Signorini, 2000; Fabiani *et al.*, 2000; Bonaccorsi and Gobbi 2001; Foresti *et al.*, 2009, Cutrini *et al.*, 2013, p.6; Guelpa, 2013, p.213) have shown that firms belonging to the districts, respect to the non districts,

[18] In this regard, Colombo and Dubini (1988) have assigned to the meta-managers the following three main roles: the *social architect*, that acts as a planner for the whole district and that is in charge of the analysis and integration of various demands emerging from different actors; the *sponsor*, that is in charge of legitimization and sponsorship of local development; the *coordinator*, that is in charge of translating the collective strategies in actual plans and monitoring their achievement. Alberti (2002, p.93) identifies, however, the distinctive characteristics of the district committee in his role as metamanager in the industrial districts: "*the attributes characterizing district committees will be: legitimacy, power, presence of knowledge, use of knowledge, cohesiveness*".

[19] Instead, "*almost all of the studies involving process modeling and predicting corporate default bases its results on the use of data collected from samples of medium and/or large firms, implicitly assuming that these models may have predictive value for businesses of all sizes*" (Ciampi and Gordini, 2013, pp.55-56).

showed better performance and, given the same environment and competitive positioning (company size, specialization, geographical area), benefit from more exclusive credit relationships in terms of lower borrowing costs, greater availability of credit, less probability of credit rationing and fewer bankruptcies.

That is, the firms belonging to the districts are valued less risky by the banking system compared to non-district ones due, first of all, to the financial and economic benefits related to the structure and organization of districts (reduction of financial needs, both for the component of the working capital and fixed; economies of scale; overall reduction in operating costs; lower incidence of fixed costs making the cost structure more flexible, with positive reflections on operational risk and, subsequently, on the firm's value). In this regard, it was observed that, in regions where there are no localized districts, interest rates on loans are higher. Particularly, if it overlaps the mapping of Italian industrial districts reported by Istat (based on 2001 Census) with the map of the interest rates of the Italian provinces, a coincidence should be noted between the lower interest rates on loans and the provinces where districts are located (Nova, 2001; Capuano, 2003; Unioncamere and Tagliacarne, 2006, Ricciardi, 2006, 2010).

Secondly, these benefits are associated with the presence of informational advantages that, by reducing the problems of information asymmetry in the credit market, allows banks to evaluate more easily the reliability and risk of the firms and the quality of projects to be financed. These informational advantages can also reduce the risk of credit rationing and raise, on equal terms, the level of leverage of the district firms (Foresti *et al.*, 2008, pp.564-567).

The dynamic trend of credit and, particularly, of the funding in the district areas supports this hypothesis[20]. In Italian industrial districts, historically characterized by dynamic positive interactions between firms and local environment, relational and geographical proximity relationships were established between banks and firms, which helped to cushion the information opacity that raises the information and transaction costs (Calderini and Ughetto, 2009, p.483).

In this regard, from the theoretical models of the economics of information, which have in the work of Stiglitz and Weiss (1981) and Myers and Majluf (1984) the primary reference, has developed a body of literature that has studied whether and how the relationship lending and spatial proximity can reduce information asymmetries between banks and firms, facilitating access to credit for the latter (Berger and Udell, 2002; Petersen and Rajan 1994), reducing the likelihood that the debtor firms incur in situations of financial distress and liquidation in the event of distress, as predicted by the literature on relationship banking (Carmignani and Omiccioli, 2007). See Table 1.

For the Italian context, the issue of geographical proximity between financial intermediaries and firms has been examined by several researchers in a logic of credit localism (Angelini *et al.*, 1998; Cesarini *et al.*, 1997) and in that of the districts (Becattini, 1990; Signorini, 2000; Finaldi Russo and Rossi 2001; Alessandrini *et al.*, 2008).

According to the first approach, geographical proximity and close bank-firm relationships allow banks to acquire qualitative information over the years, mostly through informal channels on the borrowers (Boyd and De Nicolò, 2005) that, supplemented by information from local community (peer monitoring), favor the emergence of reputation mechanisms capable of sustaining cooperative equilibria (Berger e Udell, 1995; Calderini and Ughetto, 2009, p.483).

The continuous flow of information on the borrower’s commercial and financial relationships not only allow the banks a better assessment of the borrowers but also improve the bank’s monitoring ability on credit positions opened and, in the case of the debtor’s difficulties, on the efficacy of credits recovery (Gehrig, 1998; Almazan, 2002).

With reference to the second approach, Becattini (1990) is the first to emphasize the role of banks in the industrial districts: the bank assumes the role of the privileged interlocutor for the mobilization of savings of the community at the service of local activities (Calderini and Ughetto, 2009, p.472).

The spatial proximity with the firms allows the banks to easily collect information (thereby reducing the risk of adverse selection) and constant monitoring, with limited costs, debtors limiting behaviors of moral hazard (Finaldi Russo and Rossi (2001).

Bonaccorsi and Gobbi (2001), using Italian data, show that the branch density is positively correlated with the availability of credit to firms (and to a greater extent for small firms), while it is negatively associated with the share of loans in default. Cocozza (2000), points out that the more the firm-bank links are tight, there is a smaller probability of credit rationing.

In those circumstances, it seems fair to assume that the district ability to be a system, also thanks to an efficient governance, is rewarding in terms of risk with respect to both territorial system reference even for the firms that constitute it.

Consequently, we believe that the prediction of financial distresses or bankruptcies of firms located in the districts (also in the process of rating assignment) cannot be separated from the evaluation of territorial,

[20]In this regard, in fact, a study conducted by Banca Intesa, in April-June 2006, compared with an annual increase of credit to manufacturing Italian, observed that the trend growth of loans (gross non-performing loans) to the sector manufacturing in the district provinces was more pronounced than the rest of Italy, coming in at 3.6%, up from 2.5% at the end of the first quarter of 2006.

relational and governance component of the districts themselves.

In this regard, as noted in a previous study (Pastore and Tommaso, 2012), the overall performance achieved by the district firms are affected by the characteristics of individual firms and the specific competitive position of the district but also by the implementation of coordinated and integrated shared policies and joint commitment, active and participated of the actors in the district on the territory.

Table1. Major theoretical and empirical contributions of competition in the banking, credit relationships and the financial distress risk of the firms

Bank competition and firm default risk		Lending relationships and firm default risk	
Study	**Main finding**	**Study**	**Main finding**
Boyd and De Nicolò (2005)	Lower competition leads banks to charge higher loan rates to earn rents. This increases borrower bankruptcy risk as riskier investment policies are chosen	Bannier (2007), Carletti (2004), Diamond (1984)	Concentrated lending relationships lower monitoring costs and enhance bank screening and monitoring. This provides firms with an incentive to signal willingness to abstain from strategic default.
Allen and Gale (2000), Hellmann *et al.* (2000), Keeley (1990), repullo (2003)	As the number of banks becomes arbitrarily large, the optimal risk of failure reaches a maximum	Foglia *et al.* (1998)	The stronger monitoring of borrowers arising from lending relationship concentration encourages firms to have more solid balance sheets, leading to lower firm default
Boyd *et al.* (2006)	Positive relationship between competition and bank stability	Bolton and Scharfstein (1996)	Concentrated lending relationships facilitate debt renegotiation, at least for low credit quality firms.
Kosela and Stenbacka (2000)	By lowering interest rates, greater competition increases the likelihood that borrowers are able to remain solvent and repay their loans	Bris and Welch (2005), Gertner and Scharfstein (1991), Morris and Shin (2004)	Lending relationship concentration mitigates the potential coordination failure that can arise among dispersed creditors when borrowers default
De Nicolò and Loukoianova (2007)	The positive relationship between bank concentration and bank risk of failure is strongest when state-owned banks have sizeable market shares	Brunner and Krahner (2008)	In a multiple creditors environment, the formation of small bank pools increases the likelihood of success when coping with distressed corporate borrowers
Martinez-Miera and Repullo (2007)	The risk-shifting effect identified by Boyd and De Nicolò (2005) tends to dominate in monopolistic markets, while the margin effect predicted in works as Allen and Gale (2000) prevails in competitive markets	Bolton and Scharfstein (1996), Carmignani and Omiccioli (2007), Dewatripont and Maskin (1995)	Multiple lending relationships reduce opportunistic behaviour or excessive risk-taking. This decreases the ex-ante probability of financial distress
Jiménez *et al.* (2007)	Negative relationship between bank competition and firm default risk	Hubert and Schäfer (2002), Jiménez and Saurina (2004), Von Thadden (1992)	Multiple lending relationships can prevent the hold-up problem since by borrowing from several banks, firms can try to induce competition among lenders
Petersen and Rajan (1995)	Monopolistic banks might subsidize firms when (young or) distressed to extract rents from eventually successful ones. A plausible implication of the analysis is that firm default risk should be higher when bank competition is higher	Detragiache *et al.* (2000), Elsas *et al.* (2004), Guiso and Minetti (2004)	Multiple but asymmetric lending relationships insure firms against liquidity risks. These can occur when banks adopt tighter credit lines to deal with liquidity problems

Source: Agostino *et al*., 2012, pp.912-913.

4. The quality of district governance: an interpretative model

As part of our scientific collaboration with the *National Observatory of the Italian Districts* (NOID), a mapping of the governance system adopted in the (101) industrial districts that are included in NOID was carried out. This work allowed us to point out the key dimensions useful to qualify the district governance model.

The survey was conducted through processing qualitative information cards submitted (via email) to referents and/or opinion leaders in each district for their verification and approval. Drawing on business and economic literature on industrial districts, such information cards were articulated as follows: master of the district; strengths and weaknesses of the district; degree of cooperation and coordination among district firms in production cycles and investments in innovation, marketing, internationalization; governance and institutional cooperation; evolving forms of governance; existence of structures and instruments of governance of the district; effectiveness of actions taken.

The results of the survey show the presence of dedicated organisms, institutions and public and private entities vocated to the district governance, whose key tasks are to combine the different interests, ensure a unified strategic direction to the district, translating collective strategies in development of operational plans and monitor their implementation and results (Pastore and Tommaso, 2012). Agglomeration externalities and their supporting governance form are argued to increase the competitiveness of the district and its agents compared to isolated organizations with the same characteristics. In particular, the districts "virtuous" are characterized by the development, application and implementation of coordinated and integrated common policies according to a model of participatory and active governance that, in addition to firms, involve:

i. *District Committee* (or another legitimate local player, usually an institutional actor), that is the formal body in charge of the governance of the district and represents it. This Committee perform the functions of policy and strategic planning of activities (both individual and collective ones) within districts[21] through the drafting, approval and implementation of *Development Plans of District* and their economies[22];
ii. local governmental offices (Regions, Provinces, Chamber of Commerce, etc.);
iii. local banks and other financial institutions;
iv. different types of service centres that play a strategic role in providing special services to the area of specialization of the district;
v. universities, research centers and technology transfer centers;
vi. associations and consortia (which include micro and small-medium sized firms, public and other private entities) that, in some cases, assume the functions ascribed to the District Committees;
vii. Foundations and Observatories, that represent centers of aggregation for the interests of the district.

From time to time, in different ways depending on the context, these organisms have contributed to the appearance of the district and to strengthen its identity and also to the creation of collective goods and services in response to the specific needs of firma and territory. The diversity, emerging from the mapping conducted on the structures and means arranged to ensure the governance and support the process of development of the district systems, are sometimes significant and, in most cases, depend on the stage of the life cycle of the district[23].

Generally, when governance is effective, these organizations promote actions aimed to produce collective goods (Ostrom, 1990; Hess and Ostrom, 2006) and skilled services (Cutrini *et al.*, 2013, p.5; Camuffo and Grandinetti, 2011) and manage them system-wide, with particular reference to: infrastructure services, logistics facilities, banking and financial services, support labs for R&D, collective brands both district and product, entrepreneurial and professional training, etc. (North, 1990; David, 1994; Nelson, 1998; You and Wilkinson, 1994).

According to Hess and Ostrom (2006), common goods produced collectively require strong collective action, constructive cooperation (Marshall, 1927) and strong mechanisms for self-government, as well as a high level of social capital on the part of stakeholders, which brings them to do things for each other (norms of reciprocity: Putman, 2000).

The survey on the field revealed:

- Districts in which there are absent structures and governance tools;
- Districts in which, even in the presence of structures and instruments of governance, there is a lack of effectiveness of their activities;
- Districts where there are structures and instruments of governance but, given their state of operation, it would be desirable to have a more effective formulation and implementation of a district strategy and shared collective actions in support of the territory;
- Districts where there are structures and instruments of governance able to provide effective responses to the needs of firms and to promote joint initiatives by stimulating cooperative behaviors amongst all the agents in the district based on cooperation, partnership and consultation.

Overall, the empirical evidence shows that districts with a properly structured governance and in which there is at least one representative structure and coordination (District Committee) and/or a management body (specialized service centers, foundations, etc.), can more effectively plan the development and ensure stability to the district. The districts thus characterized can improve their adaptability to external shocks (Uzzi, 1996) and thereby the ability to survival of their firms (Kerstin, 2007, p.74), improve their reputation, attract consensus, trust of new potential investors and new sources of funding, create greater wealth and, therefore, they improve the overall performance (Owen-Smith e Powell, 2004; Bresnahan *et al.*, 2001).

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[21] The District Committees comprise several public and private participants: firms, with specific representation of smaller ones; local development agencies; territorial and economic institutions: Regions; Provinces; Municipalities; Chambers of Commerce; universities and research centers, national and local; local banks and other financial institutions; trade unions and business associations; promotional bodies in the area, who identify the criticality and needs to be answered.

[22] In general, the strategic development plan of the district contains the analysis of the competitive dynamics and the strengths and weaknesses of the district; identifies the objectives of consolidation, development, revitalization of entrepreneurship; defines the priorities for project funding; identifies the individuals involved in the implementation of interventions; determines the timing of actions and allocate financial resources.

[23] There are, also, cases of districts (such as typically in Emilia Romagna) which have no explicit institutional bodies (District Committees) or special tools (strategic plans of development) for their governance. However, they have implemented governance systems advanced, based on mutual cooperation amongst agents and participative behaviors of an institutionalized nature and ensured by private organizations (business associations, i.e. Confindustria Ceramica for the ceramic district of Sassuolo; or research centers, i.e. the Research Center and International School Shoe in the shoe district of San Mauro Pascoli) or other public entities that actively participate in the management of the districts, governing their processes.

The evaluation of the district governance

In this study, the definition and application of the methodology for assessing the quality of governance of the districts have been developed in two distinct phases of work, both based on qualitative research methods (Silverman, 2008) and the use of case studies (Yin, 2009).

In the first phase the literature on industrial districts in order to examine and compare the proposed definitions of governance and to identify the key dimensions of good governance have been studied in depth. In the second phase, a set of possible key variables (proposed in Table 2) selected drawing on business and economic literature was developed, with different perspectives, which has deepened the relationships between district governance and competitiveness of the firms. The literature review has observed the many common traits that define a good governance, affecting the performance and, therefore, the probability of default of companies: openness, transparency, access to information, efficiency, legitimacy and implementation of laws, participation, accountability, coordination, equity, capacity, competence, consistency, environmental and social sustainability (European Commission, 2001, 2010; Kaufmann and Kraay, 2008; Kaufmann *et al.*, 2009; Kjaer, 2004; OECD, 2008; Franceschetti *et al.*, 2012).

This set of key variables, although not exhaustive nor definitive indicators being under development, includes the dimensions in which we decomposed the concept of good governance: efficiency, effectiveness, competitiveness, participation and responsibility (see Table 2). These dimensions allow us to appreciate the intensity of social interactions diffused in the district, the degree of involvement of the actors, the flow of information exchange, reciprocity and trust, the representativeness of stakeholders in decision-making processes and other important aspects of governance. These variables were compared to the practices of the district in terms of:

- presence of governance structures;
- presence of instruments of governance;
- participation and involvement of the several agents and their adherence to Strategic Development District Plans;
- effectiveness of actions taken, taking into account procedures, resources, institutions and actors that determine how decisions are taken and implemented within the district.

Table 2. The set of variables to assess the quality of governance District

Key Dimensions	Variables influencing the attractiveness of the district	Major theoretical and empirical contributions
Governance	- Presence of formal governance bodies (District Committee and similar) - Presence of voluntary organizations and formal institutions (i.e. industry associations, consortia, etc.) - Presence of leader companies or key players - Adoption of strategic governance tools (strategic developing Plans) and adherence to them by the local actors - Vertical governance model (hierarchical districts) - Horizontal governance model (symmetrical districts)	Alberti (2002); Bettiol *et al.* (2011); Camuffo and Grandinetti (2006, 2011); Carminucci and Casucci (1997); Colombo and Dubini (1988); Cresta (2008); Dei Ottati (1991, 2002, 2009); Di Berardino and Mauro (2011); Garofoli (1991); Gilsing (2005); Golinelli (2005); Invernizzi (1993); Loasby (1998); Kaufmann *et al.* (2009); Mele *et al.* (2008); Mistri (1998); Normann (1979); Porter (2007); Squazzoni and Boero (2004); Visconti (1996, 2002).
Participation	Characteristics of the partnership: - Presence of leading companies, key players and / or other district organizations dynamic and competitive - Presence of ties with competitor, Suppliers/Buyers, others (Universities, government agencies, consultants, etc.) - Frequency, intensity and stability of the interactions as well as the level of trust between the actors of the district - Participation of the public sector in determining the general will (and not only obtaining means and technology) - Collaboration between local firms aimed at the development of new products / processes - Research collaborations with universities and affiliations in science and technology regional parks, etc. - Creation and management of networks for the exchange of information and collective learning. Representativeness: - Inclusive approach: active involvement of all stakeholders throughout the process (individuals and groups, private and public, minorities) from conception to realization, from the results of impact assessment). - Regularity of participation in the process at every stage, level of commitment, correct perception of the whole process. - Empowerment (more equitable distribution of power) - Provision of mechanisms for managing conflicts, real or latent (prevention / resolution - Creation and maintenance of trust in institutions, trust and reciprocity in the final results in subsequent years Transparency: - Governance and management of joint activities carried out according to clear and accessible rules - Transparent rules and decisions relating to governance and management processes for all agents (internal and external to the district) - Available information, clear and updated on the decisions, activities, results and resources - Financial transparency and disclosure - Feedback to inquiries, complaints and appeals	Becattini (1979, 1989, 1990, 2000); Cooke and Kothari, 2001; European Commission, (2001); Fritsch and Newig (2009); Giupponi and Sgobbi (2007); Glaeser et al. (1992); Kjær, 2004; Macnaghten and Jacobs (1997);
	- Availability of infrastructural structures and facilities - Structure of the industry (production activities carried out locally)	Baccarani e Golinelli (1993); Becattini (1979, 1989, 1990); Brusco (1982); Krugman (1991a, 1991b, 1995); Marshall (1920, 1927); Piore e Sabel (1984); Porter (1990, 1998); Varaldo (2006); Varaldo e Ferrucci (1996)
	- Spatial diffusion and competitiveness of banks and other financial institutions	Alessandrini *et al.*, (2008); Baffigi *et al.* (2000); Jimenez *et al.* (2007); Liberti and Mian (2006); Lugaresi and Rotondi (2007); Pagnini (2000); Rotondi (2005); Russo

		and Rossi (1999); Signorini (2000); Ughetto (2006)
Competitiveness	- Social capital and trust (intensity of relationships based on trust between the actors) - Culture (History, traditions, disseminated and shared knowledge) - Skills and experience of the actors - System of established and shared values - System of rooted and shared resources and expertise; quality of human resources	Baccarani and Golinelli (1993); Becattini (1979, 1989, 1990, 2000); Belussi and Pilotti (2008); Brusco (1982, 1999); Camagni (1991); Capello (2002); Coleman (1988, 1990); Cooke (2002); Dei Ottati (1994, 2003); Denicolai *et al.*, (2010); Dyer and Singh (1998); Foss (1996); Gargiulo and Benassi (2000); Golinelli (2002); Grandinetti and Tabacco (2003); Granovetter (1985); Gulati *et al.* (2000); Leiponen and Byma (2009); Lorenz (1992); Lundvall (1992); Malecki (1995, 2000); Maskell and Malmberg (2007); Mustilli *et al.*, (2011); Nahapiet and Ghoshal (1998); Nooteboom (2004); Piore and Sabel (1984); Putman (1993, 1995); Tsai and Ghoshal (1998); Uzzi (1996, 1997); Varaldo (2006); Varaldo and Ferrucci (1996)
	- Innovation (The district context favors / restricts innovation processes) - Internationalization (The district context favors / restricts the process of internationalization)	Acs *et al.* (2002); Ahuja (2000); Asheim and Coenen (2005); Asheim and Gertler (2005); Asheim and Isaksen (2002); Autio (1998); Becattini and Rullani (1993); Belussi *et al.*, (2003); Boschma (2005); Braczyck and Cooke (1998); Breschi and Malerba (2005); Camuffo and Grandinetti (2006); Chiarvesio and Micelli (2007); Cooke (2002); Cooke and Morgan (1998); Lundvall (1992); Mustilli *et al.*, (2011); Porter (1998); Robertson *et al.* (2009); Santoni and Zanni (2011); Varaldo (2006)
	- Contribution of local institutions (local authorities, universities, research centers, associations, etc.). to entrepreneurial development of the district area - Business contribution to sustainable economic, social and / or cultural environment	Asheim and Isaksen (2002); Baccarani and Golinelli (2011); Bozeman (2000); Camuffo and Grandinetti (2006); Cooke and Morgan (1998); Galaskiewicz (1985); Lundvall (1992); McEvily and Zaheer (1999); Mele (2011); Molina-Morales and Martinez-Fernández (2003); Schillaci *et al.* (2009)
	- Quality of life	Putnam (2003); Quintavalle (2012)
Effectiveness	- Ability to plan joint actions (perhaps formalized in Development strategic Plans) and to achieve the desired objectives - Quality of project design, development and implementation of collective initiatives - Inclusion of experts in the decision-making process - Ability to generate positive impacts - Satisfaction of the stated objectives (with the means and inputs that may be required) - How much are the results actually used - Collaborative participation in joint initiatives - Ability and willingness to transfer the experience, skills and knowledge of stakeholders - Institutional arrangements, behavioral patterns and consequent actions	Corò and Micelli (2006, 2007); Corò and Rullani (1998); European Commission (2001, 2004); Golinelli (2010); Golinelli et al. (2002); Molina-Morales and Martinez-Fernandez (2003); Moran and Ghoshal S. (1996), Mustilli et al. (2011)
Efficiency	- Ability to achieve planned results through activities based on a careful use of available resources - Degree of achievement of the objectives and the extent to which problems are solved over the costs - Good use of money, but also time (deadlines) and "energies" - Quantity, quality and timelines of the results obtained Vs. Costs - Risk management: ability to adapt to changes in the environment - Relationships / coordination / collaboration between the actors (equal effects on transaction costs).	
Responsibility	- Clear roles and rules in decision-making and implementation process - Accepted and shared responsibility between actors - Communication of results (dissemination of information and update: reporting) - Operations control and monitoring - Monitoring and evaluating performance	Braczyk and Cooke (1998);); Kajer (2004); Kaufmann *et al.* (2009); Jepson (2005); Jessop (1998, 2002); Sandeep (2002)

Source: Adapted from Ciampi and Gordini, 2013; Secco *et al*., 2010

Crossing the governance models emerging from the survey with the key variables that define good governance, it was possible to classify the following ideal-typical district models (Ricciardi, 2010, 2012; Kerstin, 2007; Squazzoni and Boero, 2004):

- **advanced districts** (coordinated and strategically guided): characterized by the many links and frequent interactions between the actors involved, whose interests and objectives are perfectly aligned; they have structures and tools for effective governance; intense cooperation between firms and social environment favors the presence of a circuit of knowledge; leader firms that induce virtuous behaviors of all other agents of the district;
- **cooperative districts**: characterized by deliberate forms of coordination, through collective action promoted and guided by an institutional body (district committee) and/or by leader firms; there are explicit forms of cooperation and interaction amongst agents and deliberate procedures and collective actions are put in place. The governance structure of the district assumes a hierarchical connotation and the links between actors become more numerous and powerful;
- **vulnerable districts**: characterized by low density of ties and coordinated by voluntary organizations and formal institutions (such as foundations, associations, consortia). Within the districts the agents implement “semi-automatic” forms of cooperation (Dei Ottati, 2009), spontaneous nature and unplanned, to produce essential goods and services such as, for example, public infrastructures, vocational training, access to credit, etc.
- **uncooperative districts**: characterized by lack of governance bodies, very limited and weak links between actors in the district, great instability of inter-firm relations (strong competition between firms), which are governed by contracts, high costs of co-ordination, high volatility and instability of the “aggregated profits”. The system is a kind of “market-like structure”, as though it were a simple localized aggregation of firms (Squazzoni e Boero, 2002). Between the enterprises system, the research system, local authorities, the financial system it is possible to notice: cognitive distance; divergence in interests and objectives pursued; absence of interaction; each subject, so individualistic, work to gain the best performance but it does not develop cooperation strategies.

5. Governance, financial and economic performances and firms' default risk prediction in the districts: an empirical analysis

Methodological Approach

To verify the existence of a relationship between financial and economic performances and quality of governance in the districts (Hypothesis H1), an exploratory study was conducted on a sample of 20 districts of mechanical and fashion industries, belonging to the 101 districts of the National Observatory of Italian Districts. The choice to test the hypotheses of research in these two areas has been carried out taking into account the importance that they have in the industrial districts: mechanical and fashion districts represent respectively 37.6% and 25.7% of the 101 districts of NOID.

The sample is selected on the basis of availability of:

- information on the internal mechanisms of governance;
- financial statement data for the years 2008-2011.

In particular, the information used to assess the quality of governance was derived from multiple sources. Firstly, information on system of governance is taken from a qualitative survey conducted by the authors on behalf of the National Observatory of Italian Districts: the survey was conducted on the (101) districts and the findings, after being validated by representatives and/or opinion leaders of each district, were transferred to special forms and then published on the website of the Observatory. Such information was completed with the *Strategic Development Plans* of the districts, when avaible, and the studies realized by UniCredit and the Federation of Italian Districts on the Fashion and Mechanical districts (Federazione dei Distretti Italiani and Unicredit Corporate Banking, 2009, 2010). Table 3 shows synthetic data, that was processed taking into account 5 items (Cresta, 2008; Pastore, 2009):

- presence of governance structures especially created and responsible for coordinating the district activities;
- presence of other parties and elements of governance to support the activities and strategies of the district;
- existence of instruments of governance;
- collaboration among firms and between firms and third parties also promoted by the structures of governance;
- effectiveness of actions taken.

Depending on the 5 items, the 20 districts of the sample were classified as *advanced* (fully developed), *cooperative*, *vulnerable* and *uncooperative* (Table 3).

Table 3. The governance in the 20 districts of the sample

Districts	Items	Description	Classification
MECHANICS			
Condizionamento e refrigerazione industriale di Padova	Governance structures	Consortium Distretto Veneto Refricold Scarl	Advanced
	Other parties and elements of governance	Service centres	
	Governance instruments	Development Plan	
	Partnership and inter-firm networks	High level of cooperation due to several leader firms and the coordinating structure that promote joint projectile initiatives. Good cooperation between firms and research centres and universities, often encouraged by coordinating body	
	Effectiveness of actions	Bodies and instruments of the district governance effective in their operation and promotion of common projectile initiatives aimed to raise the competitiveness of enterprises in the district	
Metalli Lecchese	Governance structures	District committee	Cooperative
	Other parties and elements of governance	Service centres	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	Presence of inter-firm networks consolidated and with strong interdependence among firms in production cycles. Cooperation between firms and university	
	Effectiveness of actions	Governance structure with good credibility and ability to promote an active debate among local firms. However, the development of coordinated strategies at the level of the district could be realized only with the sacrifice of the entrepreneurial individualism that characterizes the territorial firms.	
Termomeccanica VenetoClima	Governance structures	Association of firms	Cooperative
	Other parties and elements of governance	Service centres	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	Good ability of the coordinating entity of the district to activate forms of cooperation among firms and other players. Cooperation between firms and research centres and universities, sometimes encouraged by coordinating body	
	Effectiveness of actions	Governance structure with ability to represent formally the district and to create opportunities for dialogue and collaboration among firms, but not to the point of setting the strategic guidelines for the district.	
Meccatronica di Vicenza	Governance structures	Representative of Development plan	Cooperative
	Other parties and elements of governance	Service centres	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	Good cooperation, characterized by a wide network of SMEs that collaborate with leader enterprises in strongly interdependent production cycles.	
	Effectiveness of actions	Governance structure (representative of development plan) able to represent the district and monitor the phenomena of cooperation among enterprises, but in order to create conditions for the effective coordination, it is necessary to implement or refine the mode of communication between coordinating body and firms, not yet fully involved in the activities of the district	
Componentistica e termoelettrmecca	Governance structures	Agency for the development of the district	Vulnerable
	Other parties and elements of governance	Service centres	

nica friulana	Governance instruments	Development plan	
	Partnership and inter-firm networks	Modest levels of cooperation: there are some leader firms that use a network of stable local suppliers, with a moderate degree of interdependence in the productive cycles.	
	Effectiveness of actions	Governance structure with a good ability to promote the comparison between firms, but unable to direct the firms' strategic choices towards lines of common interest.	
Meccatronica del barese	Governance structures	District committee	Vulnerable
	Other parties and elements of governance	-	
	Governance instruments	Regional strategic plan	
	Partnership and inter-firm networks	Weak links between actors in the district. A group of leader enterprises relies on a stable network of local sub-contracting, with an effective interdependence in production cycles. Orientation to the development of common projects	
	Effectiveness of actions	District recently founded, in which the governance structure, while not having full capacity for strategic guidance, has a good ability to represent and to activate, but only in some cases, forms of business cooperation. Occasional and uncoordinated are the relationships with universities and research centres	
Coltello di Maniago	Governance structures	Agency for the development of the district	Vulnerable
	Other parties and elements of governance	Service centres	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	There are some leader firms that use a network of local traditional suppliers, with a good degree of interdependence in production cycles.	
	Effectiveness of actions	Coordinating structure of the district able to formally represent the district and, in a more limited form, to promote cooperation between companies and third parties.	
Ferro delle Valli bresciane	Governance structures	-	Uncooperative
	Other parties and elements of governance	Not significant support by institutions and service centres	
	Governance instruments	-	
	Partnership and inter-firm networks	Presence of several leader firms that use consolidated inter-firms networks. However, cooperation is in fact realized in an individualistic way, in the absence of a subject capable of orienting in a systematic way.	
	Effectiveness of actions	There is no entity dedicated to the coordination of cooperative initiatives between firms and third parties. The phenomena of collaboration are occasional and spontaneous and there is no strategy for the district.	
Rubinetteria e valvolame di S. Maurizio d'Opaglio/Armena	Governance structures	District committee	Uncooperative
	Other parties and elements of governance	Service centres	
	Governance instruments	Provincial development plan	
	Partnership and inter-firm networks	Low inclination in the business cooperation and the sharing of investment	
	Effectiveness of actions	Low effectiveness of the activity by the District Committee that is not able to solve the criticality of the district (inadequate infrastructure, difficulties in access to credit, lack of qualified employees). Inadequate capacity to plan development projects and joint actions. Absence of a specific policy for industrial districts and lack of involvement of public institutions on issues district	
Inox di Conegliano Veneto	Governance structures	Representative of Development plan	Uncooperative
	Other parties and elements of governance	Service centres	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	Lack of cooperation among enterprises and lack of involvement of the public sector at the district level	
	Effectiveness of actions	Low effectiveness of the actions taken by the governance structure of the district. Difficulty in responding to the needs of enterprises and in relating with public institutions.	
FASHION			
Prodotti in pelle e cuoio di Santa Croce sull'Arno	Governance structures	Province (Provincia di Pisa)	Advanced
	Other parties and elements of governance	Service centres and consortia (mixed public and private)	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	High propensity to cooperation among firms and strong cohesion between firms and public entities at the district level. Good cooperation between firms and research centres and universities, often encouraged by governance structure.	
	Effectiveness of actions	Structures and instruments of the district governance effective in their functioning and promoting common lines of action (actions that impact positively on the development of the sector and of the socio-economic local system). Good coordination of actions and projects; centralized management of each tanning issue (production, promotion, environmental impact).	
Abbigliamento Verona ProntoModa	Governance structures	Consortium (Consorzio della Moda della Provincia di Verona)	Cooperative
	Other parties and elements of governance	Service centres	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	Leader enterprises of the district supported by an established network of local suppliers. However, a strong component of entrepreneurial individualism often limits the realization and success of common projects.	
	Effectiveness of actions	The Consortium identifies strategic actions to be developed for the benefit of firms in the district. The activity goes beyond the simple formal representation, but not to the point of setting the strategic guidelines for the district.	
Tessile-Abbigliamento di Biella e Vercelli	Governance structures	District committee	Cooperative
	Other parties and elements of governance	Service centres	
	Governance instruments	-	
	Partnership and inter-firm networks	High degree of cooperation: leader firms have stable and cooperative relationships with an established network of local suppliers to ensure high quality product standards.	
	Effectiveness of actions	The governance of the district is formally entrusted to the District Committee, articulated in its various components (employers, local authorities, trade unions, associations) that make it a body of consultation and representation more than a decision-making body. There is no real strategy of the district.	
Calzaturiero di Fermo	Governance structures	District committee	Vulnerable
	Other parties and elements of governance	Service centres	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	The district shows an intermediate degree of cooperation that results from the combined action of two opposite phenomena. On the one hand, leader enterprises operating in the area are supported by a stable network of local suppliers, reaching a high degree of interdependence of the production cycles. On the other hand, the individualistic entrepreneurship limits the implementation of joint	

		initiatives, which should particularly benefit SMEs in the district.	
	Effectiveness of actions	The governance body carries out the essential functions of programming, direction and control of district policies but its activity does not affect significantly on the strategies and competitiveness of the district	
Occhialeria di Belluno	Governance structures	-	Vulnerable
	Other parties and elements of governance	Service centres	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	High level of cooperation due to consolidated links between leader firms and local suppliers.	
	Effectiveness of actions	The cooperative spirit, however, does not translate into effective projects and cooperative initiatives because of individualistic entrepreneurship of Belluno and weakness of district governance. An institution to coordinate the activities in the district has not been officially created. The service centres formally represent the District. This model of organization did not allow the district to have an effective governance and a district strategy.	
Orafo di Valenza Po	Governance structures	District committee	Vulnerable
	Other parties and elements of governance	Service centres	
	Governance instruments	-	
	Partnership and inter-firm networks	Good degree of cooperation. Even in the presence of consolidated interdependence in production cycles, there is a strong component of individualism by the local entrepreneurs that limits the ability to work as a consortium to achieve objectives of common interest.	
	Effectiveness of actions	The individualism that characterizes the local firms did not allow the District Committee to adopt forms of governance that make it possible to go beyond the simple external representation.	
Sportsystem di Montebelluna	Governance structures	Foundation Association of firms	Vulnerabile
	Other parties and elements of governance	Service centres	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	Modest cooperation relationship and interdependence between leader firms and local suppliers.	
	Effectiveness of actions	The governance structure has difficulties to promote an effective district strategy, while playing a good effort in terms of promotion and representation of the Sportsystem. The difficulties concerning the governance of the district result from the strong individualism of leader firms and from the high level of competition that exists among them. That limits the possibilities to develop cooperative projects.	
Distretto del Tessile-Abbigliamento di Prato	Governance structures	-	Uncooperative
	Other parties and elements of governance	Service centres Local business associations	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	Low level of cooperation	
	Effectiveness of actions	There is no official body in charge of governing and coordinating the activities of the textile district. The local business associations (Industrial Union, CNA, Chamber of Commerce), working in their respective fields, promote specific activities on behalf of its members, but they are unable to realize integrated projects at the district level and to express a common strategy.	
Tessile-Abbigliamento di Corato	Governance structures	District committee	Uncooperative
	Other parties and elements of governance	-	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	Informal cooperation among firms	
	Effectiveness of actions	The recent foundation of the district does not reflect a real sharing of objectives and development strategic plans by local firms.	
Orafo-Argentiero di Vicenza	Governance structures	Consortium (Consorzio Distretto Orafo Argentiero di Vicenza)	Uncooperative
	Other parties and elements of governance	Service centres	
	Governance instruments	Development plan	
	Partnership and inter-firm networks	Modest levels of cooperation. Instability and opportunism of the relationship between leader firms and suppliers	
	Effectiveness of actions	There are many stakeholders (industry associations, chamber of commerce, local authorities, local political system) that, in the absence of a strong leadership, have difficulties to take the necessary coordination actions. The governance bodies show difficulties in implementation of common policies and projects.	

Source: Our elaboration

Table 4. Performances in the 20 districts of the sample (period 2008-2011)

	Sales (Percentage change 2008-2011)	**ROI** (average 2008-2011)	**ROE** (average 2008-2011)	**Leverage*** (average 2008-2011)
MECHANICS				
Condizionamento e refrigerazione industriale di Padova	4.1	5.7	7.1	-
Metalli Lecchese	-11.7	6.0	4.8	43.3
Termomeccanica VenetoClima	-4.2	6.3	6.2	48.2
Meccatronica di Vicenza	-1.4	5.4	5.3	47.5
Componentistica e termoelettrmeccanica friulana	-7.1	5.2	4.5	52.7
Meccatronica del barese	-4.3	5.0	3.8	58.6
Coltello di Maniago	-6.8	4.9	3.1	53.9
Ferro delle Valli bresciane	-9.1	5.1	3.5	46.1
Rubinetteria e valvolame di S. Maurizio d'Opaglio/Armena	-12.5	6.3	4.4	48.1
Inox di Conegliano Veneto	-5.4	7.0	7.0	43.6
FASHION				
Prodotti in pelle e cuoio di Santa Croce sull'Arno	9.8	5.8	4.3	48.8
Abbigliamento Verona ProntoModa	-12.8	5.4	3.1	-
Tessile-Abbigliamento di Biella e Vercelli	6.2	3.6	0.6	47.7
Calzaturiero di Fermo	3.1	6.6	6.8	49.8
Occhialeria di Belluno	-4.5	6.5	5.7	-
Orafo di Valenza Po	-13.6	4.9	2.3	-
Sportsystem di Montebelluna	5.5	5.5	6.2	55.5
Tessile-Abbigliamento di Prato	2.2	4	2.1	51.3
Tessile-Abbigliamento di Corato	-15.3	3.9	1.6	-

Orafo-Argentiero di Vicenza	-9.9	4.1	0.7	57.0

* Financial Liabilities/(Financial Liabilities + Shareholders' equity)
Source: Our elaboration of Intesa Sanpaolo data

Table 5. Performances in the 20 districts of the sample (period 2010-2011)

	Sales (Percentage change 2010-2011)	ROI (average 2010-2011)	ROE (average 2010-2011)	Leverage* (average 2010-2011)
MECHANICS				
Condizionamento e refrigerazione industriale di Padova	7.8	5.0	6.8	-
Metalli Lecchese	8.5	6.0	5.0	44.4
Termomeccanica VenetoClima	4.0	6.1	5.4	43.5
Meccatronica di Vicenza	13.3	5.4	6.2	47.2
Componentistica e termoelettrmeccanica friulana	9.4	4.6	3.8	53.5
Meccatronica del barese	1.2	4.8	2.8	58.4
Coltello di Maniago	7.3	4.9	2.9	53.0
Ferro delle Valli bresciane	4.4	4.7	4.0	45.2
Rubinetteria e valvolame di S. Maurizio d'Opaglio/Armena	0.6	5.9	4.0	47.4
Inox di Conegliano Veneto	0.5	6.9	7.5	42.4
FASHION				
Prodotti in pelle e cuoio di Santa Croce sull'Arno	17.9	5.8	5.4	48.5
Abbigliamento Verona ProntoModa	-7.2	4.8	3.1	-
Tessile-Abbigliamento di Biella e Vercelli	11.9	4.5	2.3	48.3
Calzaturiero di Fermo	13.3	6.4	6.7	49.0
Occhialeria di Belluno	4.7	7.3	7.9	-
Orafo di Valenza Po	0.2	5	3.2	-
Sportsystem di Montebelluna	6.3	5.5	6.6	53.3
Tessile-Abbigliamento di Prato	6.5	4.2	3.0	51.5
Tessile-Abbigliamento di Corato	-0.1	3.3	1.4	-
Orafo-Argentiero di Vicenza	0.2	4.0	1.2	56.0

* Financial Liabilities/(Financial Liabilities + Shareholders' equity)
Source: Our elaboration of Intesa Sanpaolo data

With regard to economic and financial performances, the analysis was carried out using data that the Research Department of Intesa Sanpaolo collected on behalf of the National Observatory of the Italian Districts. In particular, for each district we considered median values of measures of:
- growth: sales change;
- profitability : Roi and Roe;
- financial management: leverage;

relating to the financial statements of a total of 4,978 firms in the period 2008-2011.

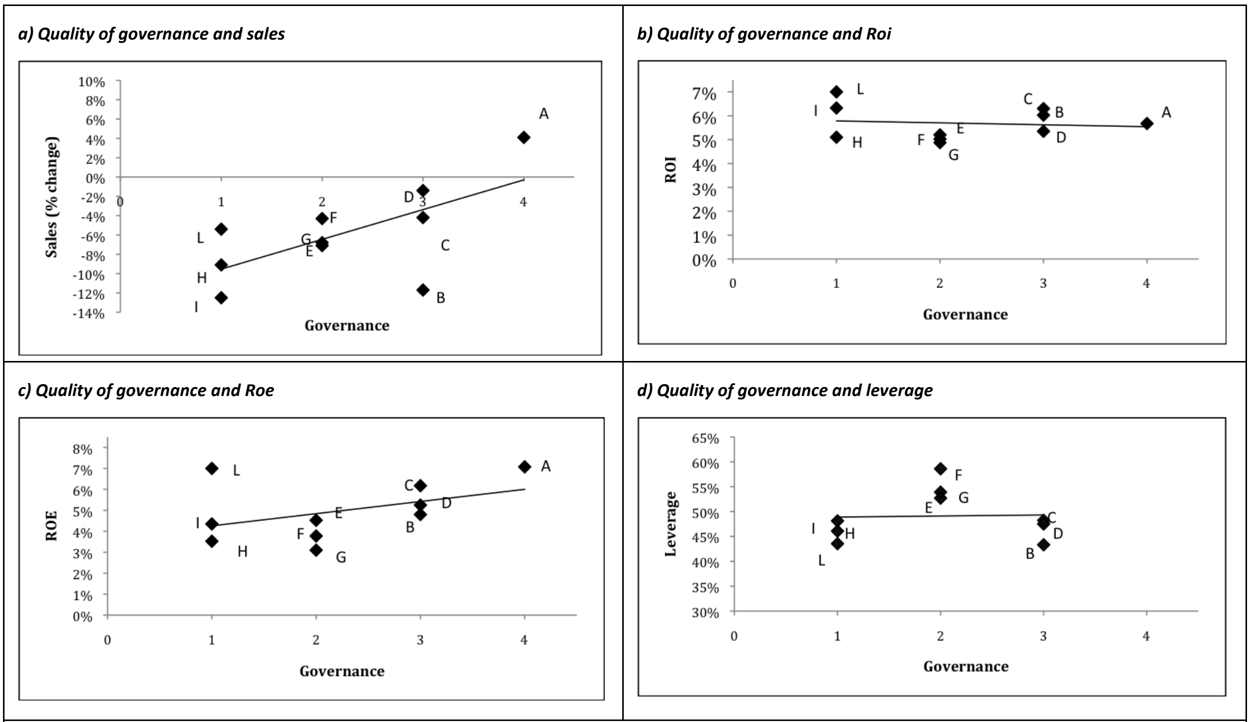
This data allowed us to investigate the relationship between governance and performance in the period 2008-2011, considering: 1) the sales change for the period 2008-2011; 2) the four-year average of the return on investment (ROI); 3) the four-year average of the return on equity (Roe); 4) the four-year average of the level of debt (leverage) [24]. The performance data are shown in Tables 4 and 5.

6. The results of the analysis

The following scatter diagrams (Figs. 1, 2, 3 and 4), drawn by industry and reference period (2008-2011 and 2010-2011), point out that districts with good governance achieve better economic and financial performances.

[24] The year 2010 is given as the year of reaction to the crisis because it sees the first signs of recovery. In 2011, is considered as a two-faced year because an early stage of recovery was followed by a deterioration of performances, the Italian districts have, however, registered a total sales growth of 5.5%, higher than the non-district ones (Osservatorio Nazionale dei Distretti Italiani, Reports, III, IV). Therefore, in order to take into account the possibility that the crisis has neutralized the influence of district governance on performances, the two-year average of Roe, Roi, leverage and the annual sales change for the period 2010-2011 were considered.

Figure 1. Relationship between *Quality of governance and Economic and Financial performances* in mechanical districts (period 2008-2011)

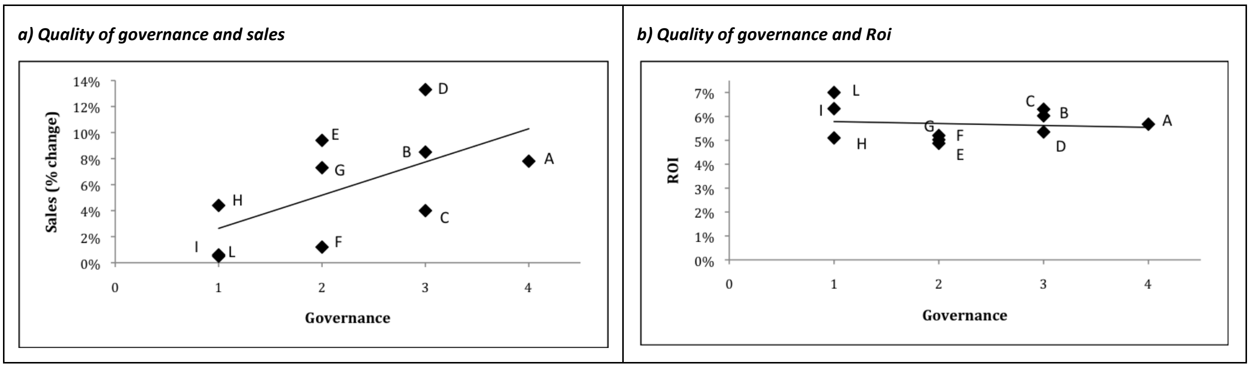


Districts
A Condizionamento e refrigerazione industriale di Padova
B Metalli Lecchese
C Termomeccanica VenetoClima
D Meccatronica di Vicenza
E Componentistica e termoelettrmeccanica friulana
F Meccatronica del barese
G Coltello di Maniago
H Ferro delle Valli bresciane
I Rubinetteria e valvolame di S. Maurizio d'Opaglio/Armena
L Inox di Conegliano Veneto

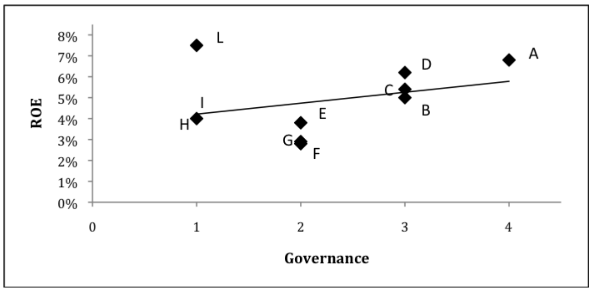
Quality of governance
1 Uncooperative
2 Vulnerable
3 Cooperative
4 Advanced

Source: Our elaboration

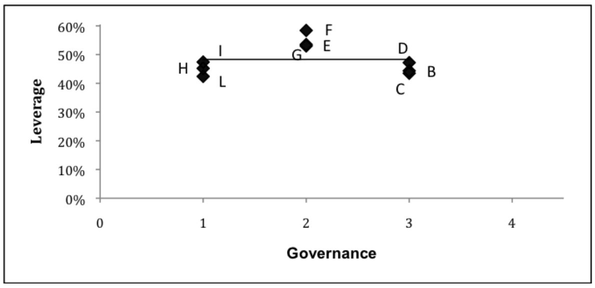
Figure 2. Relationship between Quality of governance and Economic and Financial performances in mechanical districts (period 2010-2011)



c) Quality of governance and Roe



d) Quality of governance and leverage

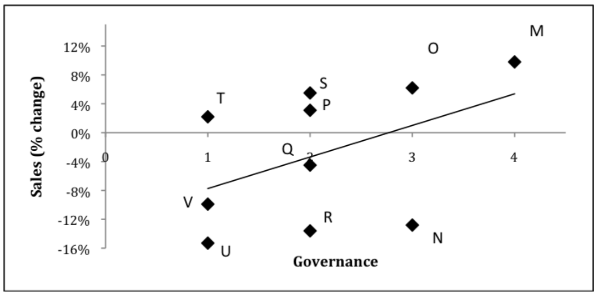


Districts	Quality of governance
A Condizionamento e refrigerazione industriale di Padova	1 Uncooperative
B Metalli Lecchese	2 Vulnerable
C Termomeccanica VenetoClima	3 Cooperative
D Meccatronica di Vicenza	4 Advanced
E Componentistica e termoelettrmeccanica friulana	
F Meccatronica del barese	
G Coltello di Maniago	
H Ferro delle Valli bresciane	
I Rubinetteria e valvolame di S. Maurizio d'Opaglio/Armena	
L Inox di Conegliano Veneto	

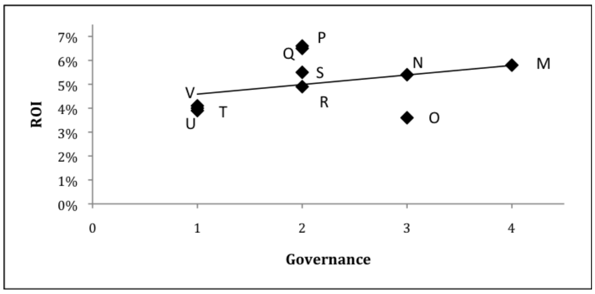
Source: Our elaboration

Figure 3. Relationship between Quality of governance and Economic and Financial performances in fashion districts (period 2008-2011)

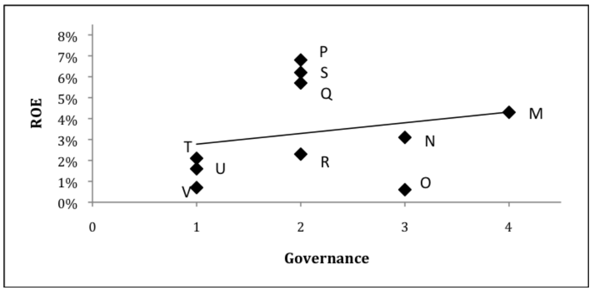
a) Quality of governance and sales



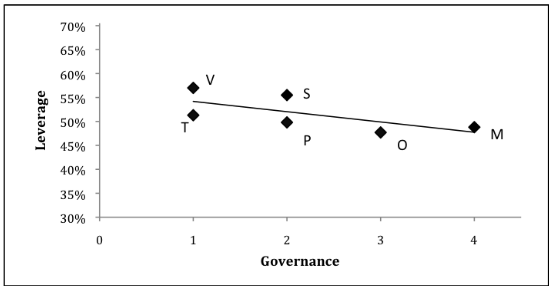
b) Quality of governance and Roi



c) Quality of governance and Roe



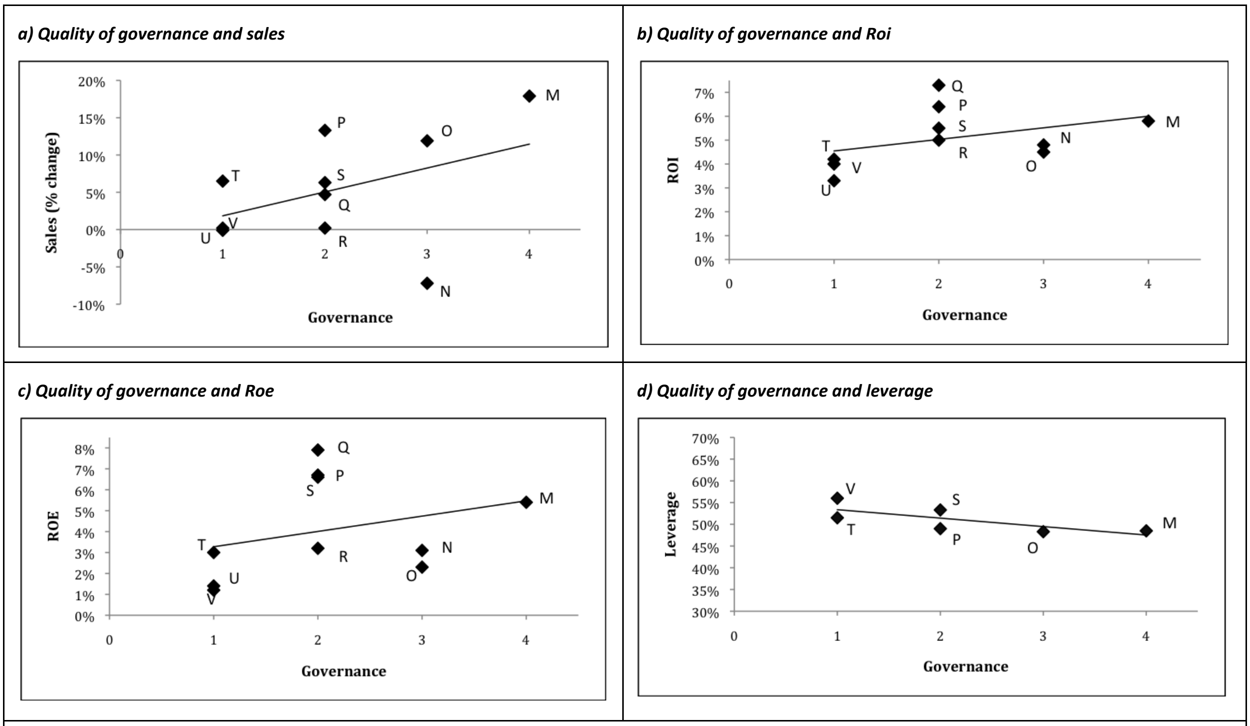
d) Quality of governance and leverage



Districts	Quality of governance
M Prodotti in pelle e cuoio di Santa Croce sull'Arno	1 Uncooperative
N Abbigliamento Verona Pronto Moda	2 Vulnerable
O Tessile-Abbigliamento di Biella e Vercelli	3 Cooperative
P Calzaturiero di Fermo	4 Advanced
Q Occhialeria di Belluno	
R Orafo di Valenza Po	
S Sportsystem di Montebelluna	
T Tessile-Abbigliamento di Prato	
U Tessile-Abbigliamento di Corato	
V Orafo-Argentiero di Vicenza	

Source: Our elaboration

Figure 4. Relationship between Quality of governance and Economic and Financial performances in fashion districts (period 2010-2011)



Districts	Quality of governance
M Prodotti in pelle e cuoio di Santa Croce sull'Arno	1 Uncooperative
N Abbigliamento Verona Pronto Moda	2 Vulnerable
O Tessile-Abbigliamento di Biella e Vercelli	3 Cooperative
P Calzaturiero di Fermo	4 Advanced
Q Occhialeria di Belluno	
R Orafo di Valenza Po	
S Sportsystem di Montebelluna	
T Tessile-Abbigliamento di Prato	
U Tessile-Abbigliamento di Corato	
V Orafo-Argentiero di Vicenza	

Source: Our elaboration

The findings show a relationship between the quality of governance and sales change (Figg.1a, 2a, 3a, 4a) both in the case of mechanical districts and in the case of fashion districts.

The best performances in terms of sales change are, with reference to the period 2008-2011 and the mechanical districts, in the district of *Condizionamento e refrigerazione industriale di Padova* (+4.1%) and, with reference to fashion districts, in the district of *Prodotti in pelle e cuoio di Santa Croce sull'Arno* (+9.8%). These are the districts where there is the best quality of governance: the institutions of governance have played and play a key role in accompanying the industrial development of the district both in terms of technical support and consultancy and in terms of strategic orientation.

High performance also is achieved by the cooperative district of *Tessile-abbigliamento di Biella e Vercelli* (+6.2%). Other cooperative districts *(Metalli lecchese, Termomeccanica VenetoClima, Abbigliamento Verona ProntoModa, Meccatronica di Vicenza)* appear to be exceptions because their sales have decreased during the period of the recent economic and financial crisis. However, it should be observed that in these districts, although classified as cooperative, we can see that the phenomena of entrepreneurial individualism does not allow the development of strategies fully coordinated at the district level.

With reference to the period 2010-2011, the highest changes in sales were recorded in the case of the mechanical districts, for the advanced district of *Condizionamento e refrigerazione industrale* (+7.8%) and for the cooperative districts of *Meccatronica di Vicenza* (+13.3%) and *Metalli lecchese* (+8.5 %). In the first there is a governance structure (the consortium *Distretto Veneto Refricold Scarl*) that actively contributes to the development of the district: it coordinates common projects and initiatives, offering specific products and services to the firms focused on production of refrigeration equipment, equipment for food refrigeration, refrigerators, refrigerated vans and civil and industrial air conditioning systems. In addition, there is an excellent level of cooperation both among enterprises (which often carry out common projects) and between firms and research centers. Good levels of cooperation and strategic capacity are found in the other two, which are often planned by the governance structure.

The performance is also good in the vulnerable district of *Componentistica e termoelettromeccanica friulana* (+9.4 %) which, however, does not regain pre-crisis levels.

The worst performances are achieved by the uncooperative districts of *Inox di Conegliano* (+0,5%) and *Rubinetteria e valvolame di San Maurizio d'Opaglio (+0,6%)*, in which there isn't a specific policy for the districts.

In the fashion system, in the period 2010-2011, the best performances are associated with the districts of *Prodotti in pelle e cuoio di Santa Croce sull'Arno* (advanced, +17.9%), *Tessile-abbigliamento di Biella e Vercelli* (cooperative, +11.9 %) and *Calzaturiero di Fermo* (+13.3 %). The last one, classified as vulnerable for the absence of a real governance structure and for the firms' strong sense of individualism which limits the adoption of joint initiatives, has gained pre-crisis levels (sales +3.1% in 2011 compared to 2008), but less than the other two districts (Santa Croce +9.8%; Biella and Vercelli +6.2%). The worst performance is associated to the districts of *Abbigliamento Verona ProntoModa*, which, even if characterized of good governance, may have been affected by the negative market trend: particularly, the family small firms belonging to the district show difficulties in the development of adequate marketing strategies to increase the opportunities of raising the level of sales. The sales remained almost constant in the districts *Orafo di Valenza Po*, *Orafo-Argentiero di Vicenza*, *Tessile-abbigliamento di Corato*. They are vulnerable or uncooperative districts: the absence of a strong leadership does not allow them to have the necessary coordination and governance structures that, though present, do not go beyond the simple representation on the outside.

Unlike the sales, it does not detect a significant relationship between governance and Roi (Figs. 1b, 2b, 3b, 4b). In terms of ROI, in fact, there was a concentration of performance (ROI included between 3.3 and 7.3) which does not allow to appreciate any connection with the characteristics of the mechanisms of the district governance.

There is, however, a positive relationship between return on equity and quality of governance: in the districts where there is a structured governance and the governance is effective in operation (*Condizionamento e refrigerazione industriale di Padova, Prodotti in pelle e cuoio di Santa Croce*) or good but to be strengthened (*Meccatronica di Vicenza, Metalli lecchese, Termomeccanica VenetoClima*), the firms get, in the period 2008-2011, a better return on equity. Some districts (*Inox di Conegliano*, *Occhialeria di Belluno*, *Sportsystem di Montebelluna*, *Calzature di Fermo*) appear to be exceptions. These districts, despite the presence of ineffective governance and modest levels of cooperation, achieve, however, a satisfactory Roe. In this regard, it should be emphasized that the positive results obtained from these districts are mainly attributed to the presence of large companies, which were affected less by the market crisis; however, the performances achieved by large firms does not translate into the growth of the districts of reference.

With reference to the period 2010-2011, there is a positive relationship between governance and Roe. In the case of mechanical districts, the best performances are for advanced district (*Condizionamento e refrigerazione industriale di Padova* 6.8%) and cooperative ones (*Termomeccanica VenetoClima* 5.4%; *Metalli lecchese* 5%; *Meccatronica di Vicenza* 6.2%). Once again, we can observe the good performance of the district of *Inox di Conegliano* (7.5%), due in large part to the leader firms of the district.

With reference to the data of leverage, which for five (*Condizionamento e refrigerazione industriale di Padova, Occhialeria di Belluno, Abbigliamento Verona Pronto Moda, Orafo di Valenza Po, Tessile-abbigliamento di Corato*) of the twenty districts in the sample are not available, they indicate, with reference to the fashion system and for the period 2008-2011, good results for the advanced district of *Prodotti in pelle e cuoio di Santa Croce* and for the cooperative district of *Tessile-abbigliamento di Biella e Vercelli*. In the mechanical districts, lower debt levels are observed for the three cooperative districts (*Metalli lecchese, Termomeccanica Veneto Clima, Meccatronica di Vicenza*) and for the three uncooperative districts (*Ferro delle Valli bresciane, Inox di Conegliano, Rubinetteria di San Maurizio d'Opaglio*). Higher debt levels are observed for the fashion uncooperative districts (*Tessile-abbigliamento di Prato, Orafo-argentiero di Vicenza*) and for vulnerable districts of both sectors (*Sportsystem di Montebelluna, Calzaturiero di Fermo, Coltello di Maniago, Meccatronica del barese e Componentistica friulana*).

In brief, within their respective industries, the best performances are observed for the two *advanced* districts: *Prodotti in pelle e cuoio di Santa Croce sull'Arno* and *Condizionamento e refrigerazione industriale di Padova*. In these districts the spatial proximity translates into social proximity and the strong links among firms and between firms and third parties predispose cooperative behavior limiting the risk of opportunistic behavior: the actors of the same district tend to control each other and generate informational externalities (Cooke and Morgan, 1998; Malmberg and Maskell, 1997; You and Wilkinson, 1994), exchange of knowledge and other resources (Eisingerich *et al*., 2009; Mesquita , 2007; Kale *et al*., 2000, p . 233).

Finally, economic and financial performances grow with the existence of stable coordination mechanisms: *in the presence of coordinated governance models and strategically guided districts, they appear mature and integrated and the firms' performances improve*.

The results outlined above lead us to believe that *districts with a higher quality of governance* (advanced and cooperative), that achieve better performances both economic and financial, *are less exposed to the risk of financial distress* (Hypothesis H2).

In this respect, the data on debt levels suggest important reflections on the significance of the relationship between district firms and banks in preserving the firms from the credit crunch (De Mitri *et al*. 2010). As detected by Albareto and Finaldi Russo (2012, p.6), "*a high concentration of loans in the main bank produced, during the crisis, a lower probability of rationing. In these years the presence of "stronger" relationships has also influenced the selection by banks: the potential growth of the firms became significant in making easier the access to credit. This finding could reflect the breadth of information available to the intermediaries involved in firms financing and greater incentives to use them in the selection of customers*".

With reference to the districts, in line with the findings from the literature, a favorable social environment together with effective governance and a greater concentration of credit produce agglomeration externalities that can promote the adaptability of the districts to external shocks, improve the economic and financial structure of the firms and thus reduce the exposure to the insolvency risk (Kerstin, 2007, p.74).

However, also due to the localization of some districts in multiple provinces, the unavailability of data on the number of bankruptcies and conditions of access to credit at the level of individual districts (which is among the most obvious limits of the research) does not allow, as yet, to test the hypothesis H2. Therefore, in order to appreciate a relationship between the quality of governance of the districts and district capacity to face the market crisis, we have analyzed the absolute and percentage change in the number of firms and employees in the sample (Table 6).

Table 6. Firms and employees in the 20 districts of the sample (period 2007-2010)

	Firms 2007-2010 – Absolute change	Firms 2007-2010 – Percentage change	Employees 2007-2010 Absolute change	Employees 2007-2010 – Percentage change
MECHANICS				
Condizionamento e refrigerazione industriale di Padova	248	0,86%	-5.012	-3,53%
Metalli Lecchese	-211	-13,45%	-2174	-11,21%
Termomeccanica VenetoClima	37	0,98%	-441	-2,06%
Meccatronica di Vicenza	78	4,87%	-687	-2,50%
Componentistica e termoelettrmeccanica friulana	-240	-11,12%	-2160	-6,36%
Meccatronica del barese	-388	-0,91%	-13026	-8,09%
Coltello di Maniago	-132	-14,67%	-1828	-12,30%
Ferro delle Valli bresciane	-772	-15,18%	-7014	-11,19%
Rubinetteria e valvolame di S. Maurizio d'Opaglio/Armena	-283	-21,96%	-2827	-16,79%
Inox di Conegliano Veneto	nd	nd	nd	nd
FASHION				
Prodotti in pelle e cuoio di Santa Croce sull'Arno	-661	-10,44%	-5750	-13,64%
Abbigliamento Verona ProntoModa	*-343**	*-9,76%**	*-343**	*-9,76%**
Tessile-Abbigliamento di Biella e Vercelli	-225	-19,35%	-4781	-21,95%
Calzaturiero di Fermo	-518	-12,97%	-5588	-16,23%
Occhialeria di Belluno	-818	-20,99%	-7834	-17,33%
Orafo di Valenza Po	-201	-17,06%	-1522	-21,93%
Sportsystem di Montebelluna	-188	-14,11%	-1380	-8,37%
Tessile-Abbigliamento di Prato	-532	-14,19%	-3707	-17,14%
Tessile-Abbigliamento di Corato	-593	-3,92%	-2821	-5,54%
Orafo-Argentiero di Vicenza	-201	-9,23%	-3270	-22,98%

* Change 2008-2010

Source: Our elaboration of Unioncamere data

The analysis of the dynamics of employment and the number of firms in the districts in the years of crisis is interesting to test the resilience of the districts. For this purpose, the years of reference are those between 2007 and 2010, also considering that 2010 is the year just following that in which the Italian GDP decreased mainly in the recent times (-5.5% in real terms in 2009). Compared to 2007, the year before the crisis, all districts have reduced the number of firms and number of employees.

The decrease of number of employees is more alarming because it indicates the cessation of enterprises activities. A reduction in the number of employees smaller than the reduction in the number of firms indicate, however, that large companies in the area have absorbed at least partially human capital from the unsuccessful firms.

The data show a different trend in the two industries: stronger in the fashion districts than in the mechanical districts. In the mechanical districts, the employment trend is worse, than in the others, in the districts of *Metalli lecchese* (cooperative), *Rubinetteria di San Maurizio d'Opaglio* (vulnerable); *Ferro delle Valli bresciane* (uncooperative). In the fashion districts, higher reductions in the number of employees are observed for the district (uncooperative) *Orafo argentiero di Vicenza* (-22.98%), the district (vulnerable) *Orafo di Valenza Po* (-21.93%), the district (cooperative) *Tessile-abbigliamento di Biella e Vercelli* (-21.95%).

Ultimately, with reference to the economic difficulties, during the period of reference, only the districts of *Condizionamento e refrigerazione industriale* (advanced), *Termomeccanica VenetoClima* and *Meccatronica di Vicenza* (cooperative) have seen an increase in the number of firms respectively of 248 (+0.86%), 37 (+0.98 %) and 78 (+4.87) units.

In the other cases, district firms have suffered heavy repercussions, which led to a decline in the number of firms that fluctuates between -1% and -23%.

Wherever the implications in terms of employment were heavy with a decrease in the number of employees that does not exceed 4% in the case of districts of *Condizionamento e refrigerazione industriale*, *Termomeccanica VenetoClima*, *Meccatronica di Vicenza*; the decrease goes beyond 15% in the districts of *Rubinetteria e valvolame di S. Maurizio d'Opaglio, Tessile-Abbigliamento di Biella e Vercelli, Calzaturiero di Fermo, Occhialeria di Belluno, Orafo di Valenza Po, Tessile-abbigliamento di Prato, Orafo-argentiero di Vicenza.*

Definitively, in the *advanced districts* (coordinated and strategically guided) the adopted governance model is particularly effective in its functioning and efficient in terms of responses to the production system. We have observed the participation of local actors in the initiatives, creating context, economic, regulatory, organizational conditions for the development of the firms and making competitive the respective districts. Moreover, a greater capacity to achieve good performances (sales, Roe and leverage) is observed.

In the *cooperative districts*, characterized by explicit forms of cooperation and interaction among the actors of the district and where collective actions are promoted and guided by an institutional structure (district committee) and/or by a leader firm, generally positive performances are observed in terms of sales, Roe and leverage although lower than in advanced districts. In these districts, it should be pointed out the opportunity to enhance the governance model in the sense of a stronger and shared formulation and implementation of strategies and a better dialogue among the various districts actors, public and private.

The performances are generally worse in the *vulnerable districts* (with voluntary coordinating structures and characterized by low level of cooperation) and in those *uncooperative* (where the structures of governance are absent or ineffective in their operation) where, while taking into account the characteristics of each of them, the effectiveness of the actions is limited by difficulties related to the absence of coordination with local government in the planning and implementation of actions oriented to reduce the main problems of the districts (in particular, logistics infrastructures, environmental remediation and redevelopment, energy efficiency, real services in support of strategic functions, training of specialized human resources, etc.).

The crisis, on the one hand, has expelled many smaller firms in all districts considered in the analysis. On the other hand, it has created opportunities for those districts that have widened/stretched their web of relationships going well beyond the narrow boundaries of the district territory. In a period of market basically recessive, this phenomenon is more pronounced in the advanced and cooperative districts and it is associated with the internationalization of the production realized by larger firms and in a leadership position within the district (but they remain connected, strengthening it, to the territory of origin). In the other districts (vulnerable, uncooperative), even the most competitive firms that are able to take advantage of local opportunities and cope with the crisis, were unable to stimulate growth and employment in their districts, because of inefficient governance systems and lack of policies for territories development. Despite this heterogeneity, the distinctive character of the districts continues to reside in the ability to mix different roles and, at the same time, generate production and organizational processes characterized by a high degree of innovation. While in general difficulties, the most dynamic firms have strengthened knowledge, skills, design, marketing and distribution strategies.

Conclusion

Despite the limitations of the study (given the preliminary and partial analysis), the findings confirm the validity of the initial hypothesis: it is possible to define a relation between economic-financial performance achieved by the districts and the quality of their governance.

This relation is even more evident in the districts with a properly structured governance model, in which at least one legitimate structure of planning and coordination operates (and/or a management body) and where all economic and social actors (firms, entrepreneurs, institutions and local authorities, consortia, trade associations, specialized service centers, banks, universities, research centers and foundation) actively interact with one another and cooperate for goods and services.

The recent evolution shows that the success and dynamism of the districts are not simply the result of implicit norms and informal mechanisms, spontaneous relationships and 'semi-automatic' behaviors that are reproduced over time (Brusco 1999; Dei Ottati 2002), but, rather, they result from conscious strategies and policies, sustained by deliberate, explicit and shared governance actions between public and private subjects (Loasby 1998, Hess and Ostrom, 2006). The districts thus characterized, on the one hand, are able to more effectively plan their own development, to optimize resources and to ensure the stability of the whole system. While, on the other hand, they achieve better performances, gain and/or improve their reputation, achieve confidence of potential investors and can attract new financial sources.

Therefore, the study suggests that the district governance should be included as a further qualitative strategic variable in district firms' financial distress prediction models and in the rating attribution processes by the banking system.

Although the sample of 20 districts is not representative of all surveyed Italian districts and it, therefore, does not allow generalizations, the findings of this study lead us to believe that there is also a relation between district government mechanisms, economic and financial dynamics and the risk of financial distress of firms belongs to the districts (our second hypothesis).

This relation deserves further investigation by developing a more accurate measuring methodology of the district governance[25] and, above all, developing a firm financial distress prediction model which, starting from the studies related to the default prediction models of smaller firms, provide the joint use of economic and financial ratios and qualitative variables relating to the governance of the districts.

At the moment, it is believed that the study presented here may contribute to the scientific debate on industrial districts, since they seem more oriented to represent one of the peculiarities of the Italian economic system, albeit with different characteristics compared to the past.

The qualitative mapping of the district governance in Italy and proposed performance measures can draw useful information in order to: 1) implement effective systems of governance able to trigger processes to strengthen the points of excellence of the district and to remedy its weaknesses; 2) address appropriately interventions of economics policy and industrial development and to direct the management, public and private, towards optimal choices of funding and resource allocation; 3) increase the attractiveness of the territory for new firms and potential investors, also international and to encourage established firms to invest further; 4) contribute to realize a qualitative mapping of the territorial areas according to which banks can elaborate strategies of localization of branches or promote innovative financial tools.

[25] In this regard, a crucial point is the weighing and aggregation of the variables in one or more complex indices, which allow a synthetic evaluation of governance, a gap analysis, an inter-temporal comparison of the index relating to the same district and, with the right care, a comparison and ranking of different experiences. In this regard, an interesting application tool can be the Social Network Analysis (SNA) (Wasserman and Faust, 1994), already used in attempts to assess the extent of the share capital in a given territory.

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