

# Chapter 13

## The Rise, Decline, and Regeneration of Industrial Districts: Enhanced HRM, SMEs, and Location

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### ABSTRACT

*Who does what, and how, is central to Human Resource Management (HRM). Where people do it has been central to theories of location and the clustering of firms in industrial districts. Yet there has been little synergy boundary spanning between HRM and location theories. This chapter seeks to redress this in relation to the rise and decline of industrial districts of small and medium firms and to draw implications for their potential regeneration. It relates this to cost-based models of locational and competitive advantage, theories of flexible specialisation, the “triple helix” concept of enterprise-university-government relations, and the challenges both for entrepreneurs and for policy makers in an era in which industrial districts are no longer only local but already have “gone global.” In forwarding the concept of “enhanced HRM,” the chapter advocates that public policies for SMEs should encourage surfacing tacit knowledge in new product innovation, achieving kaizen style continuous improvement, stretching core competences, profiling and extending latent abilities and implicit skills, and boundary spanning to synergise research with new high-tech start ups. While critical both of Michael Porter’s dismissal of tacit knowledge and kaizen, and of European research and regional policies, the chapter gives examples of success in such policies and how “enhanced HRM” can draw from them to regenerate industrial districts.*

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## INTRODUCTION

There have been a range of analyses of location and competitiveness, including regional and urban studies, theories of networking, theories of innovation and 'new economic geography' (e.g. Krugman, 1995), but fewer in terms of human resource management rather than local and regional development policies. There is a wide literature on the role of tacit knowledge in competitiveness but only some on its role in successful small and medium firms (SMEs) in industrial districts. This chapter seeks to address such issues from a Schumpeterian perspective on product and process innovation. It is critical of the local 'cluster analysis' of Michael Porter (1980, 1990, 1998) and contrasts it with the more dynamic analysis of local and global polarisation of François Perroux (1955, 1961, 1964, 1965) which was influenced by Schumpeter's (1949) concept of 'creative destruction' as well as parallel dynamics in the circular and cumulative causation of growing and declining areas in Gunnar Myrdal (1957).

Drawing on Streek (1989) it analyses the concept of flexible specialisation and the claims for this of Piore and Sabel (1984) and Beccatini (1978, 1986, 1990, 2003) for a new production paradigm in the industrial districts of the 'Third Italy'. It recognises the importance of flexible specialisation for some industrial districts of small and medium firms, yet also evidences that by failing to match high levels of process innovation by product innovation many of the districts in the 'Third Italy' already were in decline by the time that Piore and Sabel and Beccatini claimed to have derived a new production paradigm from them. It also illustrates cases of 'reverse globalisation' such as how regeneration of a declining Italian industrial district which at its height accounted for a quarter of Italian textile and clothing exports - Prato - has seen the development a 'parallel' district through immigration of Chinese entrepreneurs.

The chapter also shows that the industrial district model of Piore and Sabel and Beccatini

assumes a micro foundation of small and medium enterprise within a framework of imperfect competition. In qualifying this in a global context, it distinguishes micro local economic systems such as small firm industrial districts from meso intermediate regions in the global economy, such as Southern Europe or South East Asia (Amoroso, 1996, 1998; Gallina, 2003; Papadaskalopoulos *et al.*, 2005; Roth, 2007; Scott & Garofoli, (2007)). It also differentiates micro from large meso firms and how the latter influence both micro and global outcomes. It further distinguishes between very small firms of less than 10 employees and medium sized firms, recognising that the former may have little scope for HRM, whereas enhancing it may be imperative for those that Eurostat definitions deem micro, of up 250 employees.

It illustrates the difference between spontaneous creation of SME industrial districts and government creation of industrial processing and export zones in Asia, and especially China. It claims that effective responses by micro firms to globalisation need 'innovation trajectories' in a manner closer to Schumpeter's (1949) concept of product and process clusters than only to Porter's (1980) local clusters. It shows that there has been an acceleration and compression of the new and growth phases of a product cycle and that multinational corporations may rapidly locate the growth phase anywhere in the global economy. Whereas the innovative new phase of such a cycle still may be in mature economies and SME high tech start-ups may have an advantage at this phase since bigger business may be 'locked into' (Witt, 1997) and 'path dependent' (Deeg, 2005) on its own larger scale and longer term research and development programmes.

In forwarding the concept of 'enhanced HRM' the chapter advocates that local and regional agencies should be directly concerned with (1) surfacing tacit knowledge in new product innovation (Ichijo & Nonaka, 2007); (2) achieving *kaizen* style continuous improvement in process innovation (Colenso, 2000); (3) 'stretching' core

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