



EMCC case studies

Textiles and clothing sector: Valle del Liri cluster, Italy

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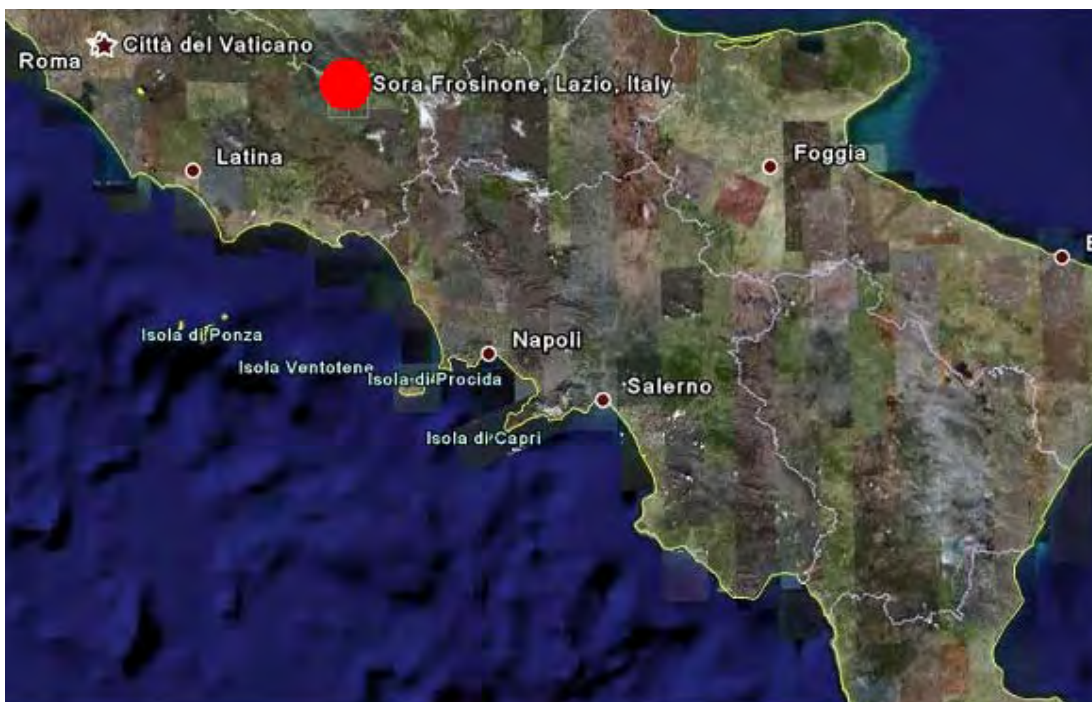


The Italian textiles and clothing sector plays a major role in the national economy. However, companies in the sector face increasing international competition. In the Liri Valley clothing district, for example, the effects of globalisation have resulted in company closures. Many of the existing enterprises are small-scale manufacturing companies working as subcontractors for large retailers and brands, which have the power to exert downward pressure on prices. The companies have responded to these challenges in a variety of ways, by establishing their own high-quality brands and entering national and regional niche markets, and/or providing fast and flexible manufacturing services to clients. Other strategic options include the offshoring of manufacturing tasks to countries in northern Africa and eastern Europe. While the region appears to be experiencing employment growth, the demand for unskilled workers in particular is declining, thereby implying a need for training. Strong business networks and innovation, combined with traditional skills, are important factors in developing the cluster.

Introduction

In the 1990s, the Italian industrial model was known worldwide as a successful example of endogenous development based on small and medium-sized enterprises (SMEs) strongly rooted in their communities (Bianchi, Miller and Bertini, 1997). However, in recent years the model has come under considerable pressure due to increasing competition in global markets. This study describes and analyses the development and restructuring of the clothing district in the Liri Valley (Valle del Liri) and city of Sora in the province of Frosinone, part of the Lazio region, southeast of Rome (see map in Figure 1). The study focuses on the strategies adopted by companies in the district to meet the current and expected future challenges.

Figure 1: Location of Valle del Liri/Sora district



Source: Google Earth, 2007

Italy has a long and proud history of providing high-quality clothing to customers around the world, and many of the world's high-quality brands, such as Gucci, Armani and Versace, originate in Italy. Today, the Italian textiles and clothing sector plays a prominent role in the national economy with more than 80,000 companies, about 900,000 employees – 550,000 of whom are women – a turnover of €70 billion, and a profit of €15 billion in relation to export and import.

Main exports are to the 15 EU Member States before enlargement of the European Union in 2004 and 2007 (46%), other European countries (23%), North America (12%) and the Far East (11%).¹

The Italian textiles and clothing sector is characterised by a variety of regional production systems with differing organisational structures and a wide range of specialisations. For instance, the clothing sector in the northern Emilia Romagna region specialises in knitwear, while companies in the northeastern Veneto region specialise in sportswear. The characteristics of each production system reflect the social and cultural traditions and history of the specific area.

Small companies with up to 49 employees are particularly dominant in textiles production, representing 85.2% of total employment in the sector, compared with 61.9% in the manufacturing sector as a whole. About 73% of workers in the clothing sector belong to small companies with up to 49 employees.

The textiles and clothing sector in Italy has benefited from a strong international brand, but is increasingly exposed to international competition, forcing companies in the sector to restructure and rethink their strategies. Globalisation does not necessarily constitute a threat to Italian or European companies. In fact, companies in the sector have shown an ability to improve the competitiveness of their products and to increase sales on foreign markets. This underlines the strength of a sector which has, on several occasions, been declared dead.

About the cluster

The Valle del Liri clothing district, situated on the banks of the River Liri, consists of 20 municipalities in the province of Frosinone in central Italy. The manufacturing sector accounts for 13% of total economic activity in the province and employs 42,785 people. Engineering, food production, manufacture of wood products, and textiles are the main sectors of economic development.²

Industrial districts

A cornerstone in Italy's industrial development policies has been the concept of industrial districts. The industrial district is an early conceptualisation of today's clusters, and this report will use the two concepts interchangeably. The regional government has recognised the Valle del Liri clothing district as an industrial district, according to national and regional regulations.

¹ This study is primarily based on: an information note prepared by Antonio Franceschini, National Secretary of **CNA Federmoda**, the Fashion Federation of the National Confederation of Crafts and Small and Medium-Sized Enterprises (*Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa*, **CNA**); and interviews carried out in September 2007 with Mr Franceschini and four company managers in the Frosinone province.

² Region of Lazio website, <http://www.regione.lazio.it/web2/contents/eng/argomento.php?vms=5&id=14>

Textbox 1: Regulatory instruments to support and strengthen clusters

The successful development of SME-based high-quality industries in Italy in the 1980s was associated with the concentration of companies in particular sectors and localities. Such clusters were able to establish a strong position in world markets in relation to a number of traditional products – such as shoes, leather handbags, knitwear, furniture, tiles, musical instruments and food processing – and also in the industries which supply machinery to these areas of manufacturing. Perhaps most importantly, such clusters seemed to have the capacity to innovate regarding their production.

Law No. 317 of 1991 on intervention for the innovation and development of SMEs remains one of the main legal frameworks in Italy for fostering enterprise. The objective of the law is ‘to promote development, innovation and competitiveness of small firms’, intervening not only by supporting company investment, but also through the creation of framework conditions favourable to competitive growth. This included the establishment of regional development agencies and measures to facilitate the development of a strong relationship between the banking system and SMEs.

A key feature of the law is the concept of industrial districts. Law No. 317/91 establishes the legal recognition of such districts and defines them as ‘territorial local areas characterised by a large concentration of small and medium-sized enterprise’. The law gives power to the regions to identify the districts, according to fixed criteria set by the government.

Government laws in Italy provide for the financing of innovative projects involving more than one company, on the basis of a ‘programme contract’ stipulated by business consortia and regional governments. Legislation also provides for the formation and financing of local business support systems for SMEs.

Source: *Bianchi, Miller and Bertini, 1997; Institute for Industrial Promotion, 2001; Arizzio, 2005*

Overall, four officially recognised industrial districts and six local production systems are based in the Lazio region.³

Characteristics of the cluster

The textiles and clothing sector in Frosinone is dominated by SMEs – almost 200 clothing companies are based in the province, with an average of 10 employees per company (Dunford, 2003). Exports represent only a small part of the total turnover: 20% of €130 million in 2003.

The district specialises mainly in the production of outdoor clothing in the women’s medium to medium-fine quality market segment. The clothing cluster also includes companies producing machines and accessories, and enterprises producing knitwear items. Companies in the services sector are also present. For example, in 2003 the Lazio Textile Company was founded with the aim of supplying specialised services primarily to enterprises in the Valle del Liri clothing district.

³ Invest in Lazio website, <http://www.investinlazio.it/eng/lazio/distretti.php>

Companies in the district mainly work as subcontractors for retailers or large brands. The district's enterprises fall into two main categories: companies with a complete production cycle, including cutting, manufacturing and pressing; and those with a partial production cycle, comprising only manufacturing. The latter consist of very small companies with fewer than 10 workers.⁴

Detailed statistical data on the economic development of the clothing sector in the Frosinone province are not available. However, Eurostat provides sectoral data for economic development in the Lazio region and in Italy as a whole. According to the data, Italy has experienced a decline in the number of companies and number of employees in the clothing sector. Looking at sectoral developments in the Lazio region, the figures indicate that the corresponding decline in the number of companies and employees has been less significant (see table).

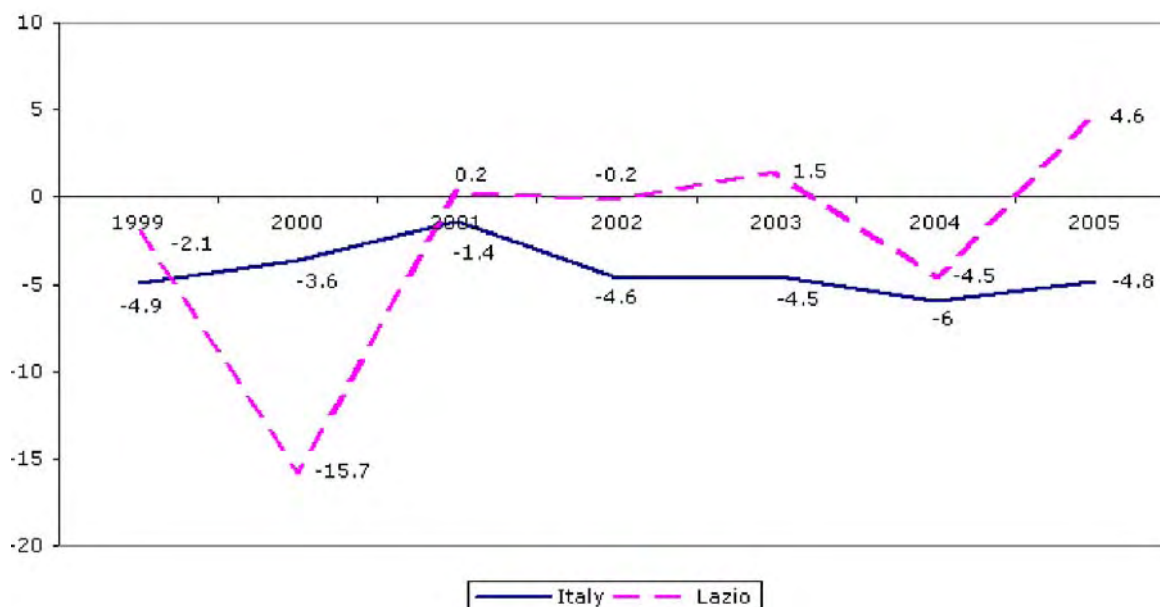
Table 1: Number of companies and employees in clothing sector

Companies	1999	2000	2001	2002	2003	2004	2005	% change 1999-2005
Italy	51,454	51,241	49,188	47,936	43,518	42,505	39,265	-23.7
Lazio	2,369	2,389	2,301	2,104	2,010	1,816	1,937	-18.2
Employees	1999	2000	2001	2002	2003	2004	2005	% change 1999-2005
Italy	320,003	308,377	303,957	298,988	277,047	260,445	247,911	-22.5
Lazio	8,724	7,351	7,364	6,724	6,823	6,515	6,813	-21.9

Source: Eurostat, data based on the General industrial classification of economic activities within the European Communities (Nomenclature générale des activités économiques dans les Communautés européennes, NACE) code DB 18 Manufacture of wearing apparel; dressing and dyeing of fur.

In terms of the growth rate in employment, considerable fluctuations arise. However, the overall impression is that the Lazio region has experienced positive developments in terms of job growth, while the clothing sector in Italy as a whole has experienced negative growth (Figure 2).

Figure 2: Employment growth rate in clothing sector (%)



Note: Data for 2002 are based on own calculations.

Source: Eurostat, data based on NACE code DB 18 Manufacture of wearing apparel; dressing and dyeing of fur.

Despite some overall positive developments in the district, many of the local companies are struggling to stay in business, and company managers are concerned about the future of their companies and the industrial district. Responding to the competitive pressure from foreign enterprise and downward pressure on prices, some of the companies in the district have tried new business models, moved up the value chain and entered niche markets, but the results of these strategies have yet to be seen.

Cluster organisation

The cluster is a highly informal network in which many of the company owners and managers know each other well and also cooperate, for instance when the manufacturing capacity of a local company is insufficient to meet the specific demand for services. No formal cluster organisation exists; nonetheless, a range of regional and national actors are involved in the development of the textiles and clothing sector in the Frosinone province. This includes the National Confederation of Crafts and Small and Medium-Sized Enterprises (*Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa*, CNA); indeed, the confederation is the main non-governmental actor in the cluster. Specific activities of CNA include organising various training courses and events for companies in the district.

Textbox 2: CNA

The National Confederation of Crafts and Small and Medium-Sized Enterprises (*Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa*, CNA) was created in 1946, and represents the interests of Italian enterprise and more specifically of crafts and SMEs and other related associations. Its fashion federation, CNA Federmoda, represents enterprises involved in the manufacture of textiles, clothing and shoes, and has approximately 25,000 members. About 8,000 people work in 1,152 CNA offices. They not only provide services, information and advice to companies but are also directly involved in the development of the sector.

For instance, SMEs often lack marketing and distribution capacity in markets outside Europe, and CNA is therefore currently involved in an export consortium consisting of 10–15 Italian SMEs. The consortium aims to provide a common platform for their products in emerging markets, particularly in eastern Europe. Specific activities include establishing a permanent show room and shop for the companies' products in key markets.

CNA is represented at both national and European level, for example in the European Economic and Social Committee (EESC).

Source: CNA website and interview with the National Secretary of CNA Federmoda, Antonio Franceschini

Challenges and initiatives

Among the key challenges for companies in the district is to gain access to knowledge and relevant services. This includes support for research and development (R&D) activities, support for adopting new business models – for example, exploiting sourcing opportunities or new technologies such as information and communication technologies (ICT) – and gaining knowledge of and insight into potential niche markets. Currently, a service system exists for companies in the district, but – according to one of the four company managers interviewed for this study – there is no match between demand and supply of services.

One of the company managers in the district states that no sense of strategic direction emerges among the companies in the cluster. The managers and company owners lack local leadership and strategic advice on how to develop their businesses. For many of the companies, such leadership and advice is vital for their decision to continue or close down

production. According to one company manager, the development of a sense of strategic direction for the district is also hampered by a lack of dialogue between private actors and public authorities in the region.

The company managers also point to a need to strengthen the network between companies. Currently, no network culture exists in the district and companies are sometimes unwilling to share information, because they want to maintain their competitive advantage in respect of other companies in the cluster. However, the companies cooperate on an ad hoc basis – for instance, by sharing orders when their own production capacity is insufficient to meet a request for services.

In terms of specific needs, the local companies should have a common platform in order to inform potential clients about the range of services that the companies in the district offer. Another issue is the lack of a common database of clients. Such a database could help companies to develop relations with potential customers and to avoid those who are unable to pay for the services that they have requested. The company managers emphasise that it is important that initiatives for the development of the district are industry-based rather than led by public authorities in order to avoid excessive bureaucracy.

Main trends and drivers of change

Overall, the companies in the Italian clothing sector can be grouped into two categories:

- medium to large-sized companies selling high-fashion labels (the ‘luxury sector’);
- SMEs with low-profile labels or working as subcontractors for other clothing companies or retailers.

These two groups of companies have faced a range of challenges, but have used different strategic approaches and recorded varying performance levels. In general, the medium to large high-fashion companies that have the ability to control product distribution have been doing much better than SMEs which either sell low-profile brands or are working as subcontractors. This trend is an illustration of different company responses to a range of changes, and of their varying capability to manage new challenges.

The following subheadings summarise the main trends and drivers of change affecting companies in the Valle del Liri clothing district.

Product diversification and increasing demand for high-quality products

In general, companies in the Italian clothing industry have positioned themselves in the middle and high-quality markets on the basis of high-quality materials, skilled craft and unique design. Company investment in the product design and development phases has brought about a significant expansion of the range of high-quality products offered. At the same time, the demand for high-quality products has increased, making it profitable to focus on this market segment. In fact, companies which have implemented strategies aiming to shift the competitive front onto variables such as quality, innovation and product diversification rather than cost have tended to achieve excellent results in foreign markets. This development has been underlined by the establishment of the prestigious *Made in Italy* and *Italian Style* trademarks.

The increased number of business models and greater variety of products has fundamentally affected subcontractors in Valle del Liri, by changing the demand which these companies are facing. The market for small lots of high-quality products is currently growing, and this development is to the benefit of the local companies which are not able to compete with foreign clothing companies on price.

Succession problems and skills depreciation

Many of the companies in Italy are family-owned. A key challenge for these enterprises is that young people are often not interested in taking over their parents' business. Therefore, the companies either have to find potential buyers – among existing staff or externally – to take over the business or close down.

Currently, many young entrepreneurs are eager to enter the textiles and clothing sector. In general, these young people are more market-oriented than the older and more product-oriented generations of company owners. As a result, the companies are becoming more focused on new business opportunities, but this focus on management comes at a price: the young people tend not to be interested in craft, and this means that the skills in the sector are slowly depreciating. Skills and experience are simply not being passed on to the younger generations and this could have a negative impact on the quality of the products in the long run.

Value chain developments and distribution systems

A key trend in the value chain of the Italian clothing sector has been the growth of clothing retailers through mergers and acquisitions. This concentration of business in the retail sector has not significantly changed the structure of regional production systems, which are still dominated by small and medium-sized manufacturers, but it has enabled retailers to increase their control over the value chain and put pressure on prices.

Large clothing companies with strong brands have been able to avoid such price pressures by setting up their own global distribution system, consisting of a network of own-label and franchising stores or entering exclusive business agreements with independent stores. However, SMEs with low-profile brands are often not in a position to set up their own national or international distribution networks and must thus rely on the distribution network of retailers.

Companies solely working as subcontractors for retailers or large clothing companies are in an even more difficult situation as they have no bargaining power. Therefore, companies in the sector try to stay competitive and win contracts with retailers and large brands by reducing costs. Meanwhile, the large brands are making a profit. A company owner in Valle del Liri mentioned that he produced women's shorts for an international fashion house at a cost of €12. These shorts were subsequently sold for approximately €1,800.

In Valle del Liri, a range of companies working as subcontractors have decided to launch their own labels to be sold in Italy. The companies' strategy aims to explore potential niches in the national and regional markets – for example, bridal wear or clothes designed for older women – and sell them in their own local stores, thereby making it possible for the companies to bypass retailers and increase their profit margins. Such a strategy has implications for the skills needs of these companies, as they need to be able to monitor markets and identify potential niches.

Building and protecting the brand

The close cooperation between Italian clothing companies and their subsuppliers has resulted in the establishment of the *Made in Italy and Italian Style* trademarks. A key element of these hallmarks is that the manufacturing of products is located in Italy and based on high-quality materials and craft. In other words, the specific location of manufacturing activities becomes a part of the product's brand and perceived value by end-consumers. This gives the subcontractors located in Valle del Liri a competitive advantage compared with clothing manufacturers in other countries. However, two trends pose a threat to Italian clothing companies and manufacturers in this regard: the establishment of Chinese workshops in Italy and copy-products.

Recent years have witnessed the setting up of Chinese workshops specialising in the most intensive work phases of clothing manufacture, such as sewing and ironing. Among the large immigrant population from China, many have set up factories mainly employing workers from their own country. The presence of Chinese workshops in Italy has enabled

clothing companies to keep manufacturing activities in the region, so that the companies do not risk undermining the credibility of the *Made in Italy* brand, while at the same time increasing their competitiveness, since the workshops are capable of operating at low cost and with swift delivery times. However, these workshops have increased the competitive pressure on Italian subcontractors. Furthermore, problems seem to arise in the Chinese workshops with regard to wages, working conditions and illegally employed workers. According to CNA, these workshops need to be monitored and their organisation of work needs to be more visible, to ensure a level playing field and decent working conditions for workers in the sector.

In terms of copy-products, the Italian clothing companies are struggling with the inflow of products claiming to be *Made in Italy*. It is vital for the sector that authorities step up the fight against counterfeiting and that consumers are informed about the quality and origin of each product, so that they are able to make an informed choice when shopping.

Personalisation and custom-made items

Among the new trends that companies in the sector are facing is the growing demand for customised products. The production of one-offs is increasing and shops capable of offering unique products are capturing market share. This development increases the need for on-the-spot manufacturing of clothing and requires close dialogue between producers and consumers to be able to adjust products to individual preferences.

Restructuring and relocation

Relocation of activities is not a new feature in Italy. For instance, companies located in the Emilia Romagna region decentralised processing in the 1970s, moving it to areas with a greater availability of female workers and where labour costs were lower. At that time, the main destinations were other Italian regions such as the provinces of Mantua in the northern region of Lombardy and of Rovigo in Veneto. During the 1980s, companies in Emilia Romagna experimented with new relocation destinations, partially for reasons of costs but above all due to difficulties in recruiting qualified staff. Factories were relocated to areas mainly in central and southern Italy and, to a lesser extent, abroad. The trend of international relocation for production was mainly seen during the 1990s.

Relocation has followed different patterns among the regions. The rate of cross-border relocation in Emilia Romagna was not only significantly lower than the national average but also lower than the rates for other prominent regions in the textiles, clothing and footwear sector, such as the neighbouring Veneto. The Veneto region began relocation later than Emilia Romagna, but preferred eastern European countries, in some cases relocating almost all parts of the value chain to other countries.

The reasons for keeping production mainly in Italy are outlined below.

- It is costly to establish relations with foreign sub-suppliers compared with Italian sub-suppliers, and there is a risk that international relocation could reduce product quality and damage the brand.
- Production varies greatly throughout the year and generally comprises small series of production. This favours sub-suppliers which are located close to producers and markets.
- The establishment of Chinese workshops in Italy specialising in the most intensive phases of production, such as sewing and ironing, has enabled companies to reduce costs.

Many of the companies in the Valle del Liri district are very small, and the need for these companies to offshore parts of their production is therefore limited. However, outsourcing to low-cost countries is an option for large subcontractors or brands, and this has had a considerable negative impact on the SMEs in the Valle del Liri district, forcing many companies to shut down, restructure or change business strategy.

On the other hand, some companies in the district have managed to exploit outsourcing as a business opportunity. For example, a company in the district producing trousers and shirts for women has offshored manufacturing to Tunisia to reduce costs. When the enterprise decided to move production to Tunisia, the Italian company owner established a manufacturing unit in Tunisia and hired a local business manager to take care of the daily management of the production unit. The production unit in Tunisia has subsequently been taken over by the business manager and is now completely independent of the Italian company, but they continue to work together as partners. Today, the Italian company employs 18 people in Valle del Liri while some 280 employees work for the partner company in Tunisia.

The owner of the Italian enterprise identified language and cultural differences as the main challenges facing the company in relation to the offshoring of its manufacturing activities. When asked about alternative sourcing locations such as Romania, the company manager responded that Tunisia was closer to Italy and that Romania is experiencing significant labour shortages, as large numbers of Romanians are leaving the country. Moreover, the Tunisian government is investing substantially in the textiles sector and is focusing on textiles manufacturing. In fact, Tunisia is working hard to move up the value chain by improving the quality of products. As part of this strategy, companies in Tunisia are recruiting highly skilled people from the Italian textiles industry to work in Tunisia as consultants. This development in sourcing countries poses a real threat to Italian clothing manufacturers.

Training and skills

One of the plausible scenarios that CNA anticipates is an increase in the demand for exclusive, hand-crafted products. This will change skills demand from a marketing orientation – encompassing communication, image and distribution – to one of expertise, experience and ‘traditional’ or ‘old’ skills. For the textiles and clothing sector in Italy, this will serve as an important opportunity for growth for the high-quality market segment and in particular for small companies. Compared with other countries which have lost traditional skills due to the dismantling of the national production system, for example through extensive outsourcing of activities, the Italian system has managed to preserve the necessary skills and expertise. Moreover, handling such a transformation in market demand requires managing a large number of increasingly difficult and complex relationships, in particular the product–consumer relationship.

Current and future skills needs

In general, companies have good access to human resources in the district. However, it is difficult to recruit experienced and specialised workers. Furthermore, young people – particularly women – do not find the sector attractive and thus enter other sectors.

In addition, there is a lack of technological experience and competence in making quality improvements. This is very important for companies in the area, as such skills are vital for innovation and moving up the value chain.

Organisation of training

Company managers in the Valle del Liri district point to the need for a textiles school in the region to ensure that the local workforce upgrades its skills and that the experience is passed on to younger employees. This strategy also requires good teachers. One example is a school established as a joint venture between the high-fashion clothing company Brioni and small local manufacturers. The school provides training in knitting craft to ensure the high quality of products.

Innovation

Overall, it is possible to discern two paths to product innovation: one focusing on design and creativity, the other focusing on technological innovation through the use of generic technologies such as nanotechnology. Both paths aim to develop high-value-added products which can be sold at a relatively high price. A key challenge is to strengthen relations with designers and researchers.

Technological development in particular provides new opportunities for companies in the textiles and clothing sector. However, the relations between research institutions and companies in the sector need to be strengthened. According to CNA, the sector faces the following two challenges in terms of innovation:

- bridging the gap between SMEs and research institutions;
- targeting public R&D activities towards sector-specific challenges, so that companies in the sector are in a better position to exploit the innovation potential of new discoveries or knowledge.

Currently, the public funds for R&D in textiles are decreasing and a lack of sector-specific research institutions exists. In order to strengthen innovation in the sector, there is a need for more funding dedicated to sector-specific R&D and for sectoral research institutions in those regions with a high concentration of textiles and clothing companies.

Not all companies consider product innovation to be vital for the sector. According to a company owner in Valle del Liri, innovation is not the real driver in the textiles sector – costs are. In effect, efforts should be made to help cut costs and governments should ensure a level playing field in the global market so that companies in Europe are not disadvantaged by the tough regulation of the industrial sectors.

Conclusion

The textiles and clothing companies in the Frosinone province have been facing increasing international competition, resulting in the closure of companies in this cluster. Many of the existing enterprises are small-scale manufacturing companies working as subcontractors, so the end-market dominance of large retailers and brands has also contributed to the difficult situation of the enterprises by putting pressure on prices.

The companies have responded to these challenges in a variety of ways, for instance by establishing their own high-quality brands and entering national and regional niche markets, and/or providing fast and flexible manufacturing services to clients. Other strategic options include the offshoring of manufacturing tasks to countries in northern Africa and eastern Europe. The overall trend is that the demand in the region for unskilled workers in particular is decreasing, thereby implying a need to retrain employees who are facing redundancies.

SWOT analysis

The cluster's main strengths, weaknesses, opportunities and threats are outlined below.

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> • Expertise, creativity and technical experience in manufacturing • Workforce has not lost 'traditional' or 'old' skills • High-quality products and strong brand (<i>Made in Italy</i>) • Diverse range of products • Quick response time • Flexibility 	<ul style="list-style-type: none"> • SMEs need to focus on setting up partnerships with distributors and to increase presence in international markets • Lack of funding for R&D relevant to textiles and clothing sector • Lack of sector-specific research institutions • Chinese workshops in Italy putting pressure on manufacturers in their home market • No sense of strategic direction and weak business network • Infrastructure is not developed and location not optimal • Lack of competence for quality improvement and export 	<ul style="list-style-type: none"> • Demand for smaller lots and high quality rather than mass production • High-value-added products • New technologies • Niche production • Personalisation 	<ul style="list-style-type: none"> • Developments in the international economy have huge impact on demand for high-quality products • Competitive pressure • Foreign companies moving up the value chain • Imitation products • No one to take over the companies when owners retire • Buyer is price setter

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Antonio Franceschini, National Secretary of CNA Federmoda, September 2007

Four company managers of clothing companies in the Frosinone province, September 2007

Danish Technological Institute (DTI)