

HIGH ROAD TO WORK ORGANISATION

CASE STUDY

The Chair-Manufacturing District of Manzano (Manzano, Udine, Italy)



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Abstract

The chair-manufacturing district of Manzano, located in the Friuli-Venezia Giulia Region in the Northeast of Italy, is the subject of this case. The interest in the chair-manufacturing industry is justified by its importance to the local and regional economies. The analysis focuses on the evolution of the district since its origins and on the most recent structural changes that have occurred as a consequence of the radical shift in its competitive context.

HI-RES Case Study: The chair-manufacturing district of Manzano

Sector

Nace Code , wooden chair manufacturing

Key Words

Industrial district, quality and niche production

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1. Background Information

The importance of the Manzano chair-manufacturing district is due to its significant contribution to the total industrial sales revenue in the Friuli-Venezia Giulia Region and to the economy of Udine Province, where most of the chair-manufacturing firms are located. More than 1000 firms specialised in the production of wooden chairs or in processing the components of the final product are concentrated within the small area. Together, these firms produce more than 30 million chairs a year, with total sales of over US\$ 1.3 billion, and the district employs nearly 9000 people (15000, if those employed in the entire supply chain of activities are considered). The area accounts for over 80% of the chair production in Italy, 50% of the chair production in the EU and 30% of the world's chair production. Approximately 90% of the chairs manufactured in the district are exported to foreign markets. Nearly two-thirds of the firms in the chair-manufacturing system (64%) are craft firms, accounting for 30% of total employment.

The area formed by the villages of Manzano, S. Giovanni al Natisone and Corno di Rosazzo, *the Chair Triangle*, is the heart of the chair-manufacturing district, accounting for 63% of employment and 67% of the productive capacity of the entire chair-manufacturing system.

The surrounding area, to which manufacturing has spread over the years, contains related intermediate activities and supplies the manpower required by the industries.

The history of the chair-manufacturing industry began in 1880, thanks to the arrival of the first chair-makers from the area of Mariano, a village left under Austrian rule after the definition of the new Italian national border. In Manzano, chair makers found circumstances favourable to continuing their activity such as easy access to the Italian market, good transport, hydroelectric power, raw materials and an abundance of low-priced manpower willing to move from agriculture to industry.

The end of the Second World War marks the first structural change in the district, where the development of small craft firms, run by ex-farmers attracted by the expectation of high profits, was stronger than that of industrial enterprises. In fact, during the post-War period, which was characterised by a steady growth in demand, large firms suffered from stiff competition from local craft firms, which enjoyed lower capital, labour and tax costs. With demand trends reflecting the evolution of consumer tastes towards more "fashionable" items, production shifted from standardised production to small batch production, and firms reacted accordingly, beginning a process of vertical disintegration, which was feasible because of the technical divisibility of the production process. The typical pattern of development of an industrial district, in which a functional aggregation of several small firms creates economies of scale beyond the single firm at the territorial level started to take place.

2. Drivers for Change

The competitiveness of the Manzano firms lies in the factors of growth typical of the Italian local productive system. The dense web of informal relationships, regulated by a particular mixture of "competition and co-operation", constitutes the business environment typical of the industrial district. According to the district model, because of the frequency of interactions, the management of the manufacturing process allows for a greater reduction of transaction costs, in turn lowering co-ordination costs. Firms rely on particular dynamics and synergies within the district that comprise their competitive advantage: economies of specialisation allowing a reduction of fixed costs; the development of economies of learning; the introduction of technological innovation; the creation of skilled labour resources, encouraging the accumulation of skills within the area; and the availability of collective services.

In the industrial district of Manzano the role of services is particularly important, as several co-ordinating institutions were created due to the initiative of local policy makers and firms. The following institutions were established in order to support the development of the district:

- a centre for technological research related to wood and furnitures: CATAS, Centro ricerca-sviluppo e laboratorio prove settore legno-arredo;
- a professional training school: Istituto Professionale di Stato per l'Industria e l'Artigianato (IPSIA);
- a credit system serving the needs of chair-manufacturing firms: in fact, nearly 90% of the investments of the *Cassa Rurale di Manzano* are in the chair-manufacturing branch;
- various export associations: The first export associations were the Gruppo Esportatori Sedie del Friuli (*Gessef*), followed by the *Conseg*, Consorzio dei produttori di sedie;
- A marketing organisation: PROMOSEDIA, founded by the Chamber of Commerce and leading furniture firms to promote chair sales in Italy and abroad and to identify new markets, has also been very important in promoting the development of the district.

Thanks to these factors, stimulated by increasing demand, the chair-manufacturing district has steadily grown. The number of craft firms set up by ex-workers has increased and many firms have expanded their production capacity, moving from a craft to an industrial scale.

The chair industry has continued to expand also as a result of the reconstruction that began after the 1976 earthquake. The reconstruction activities following this event, which affected much of the Province of Udine, have acted as a powerful catalyst to the area's industrial growth. In fact, the availability of easy loans and subsidies, provided by public sources to encourage the area's economic recovery, has stimulated investment in fixed capital, plants, infrastructure, facilities, and equipment, , thus accelerating the modernisation of the industrial structure. Growth continued until the early 1980s, which marked a period of profound crisis for the chair-manufacturing industry. In fact the period between 1982 and 1984 was the low point for local industry, representing a time when profound structural and strategic changes, also linked to the factors of strength and competitiveness, took place.

3. Characteristics and Process of Change

The traditional model of development pursued by firms — a *product-oriented strategy* based on price, production flexibility and technical quality of the product — seemed to be no longer adequate to cope with the increasing complexity of the competitive context. In fact, during the early 1980s, a new competitive framework began to emerge, affecting Manzano's enterprises in particular. The following represent some of the elements behind the the crisis affecting the development of the traditional model:

- reduced demand in European as well as international markets;
- high domestic inflation and increased cost of raw materials and labour: this became particularly serious because of Italy's participation in the EMS which made a policy of competitive devaluation unsustainable;
- globalisation of the market and increasing competition from Eastern European countries, which enjoyed lower labour and raw material costs that can constitute up to 75% of the total cost of a chair. Greater competition was also experienced from large integrated American and European groups, which are able to control final markets to a significant degree.

Both large and small firms were affected by greater competitive pressures and responded to these negative trends in different ways.

Some of the largest firms began restructuring processes based mainly on building up new distribution channels. In fact, in recent years many firms have developed independent commercial and distributive functions, allowing them to avoid having their earnings controlled by intermediaries. In addition, they have initiated manufacturing strategies based upon diversifying as well as improving the quality of products.. Through the production and commercialisation of diversified, high-quality products sold under their own brands, these firms have partially succeeded in repositioning themselves in the new competitive context. Larger firms have also been able to survive the crisis, retaining only the most critical phases of the production cycle, including assembly and quality control, design, research, financing and marketing, while outsourcing non-strategic phases. These firms are now able to supply even the more demanding niches of the market.

Micro and craft firms also have proved to be resistant, thanks to their flexible organisation, offsetting the negative trends experienced by various small and medium-sized industrial firms. Yet this ability to resist negative trends has involved the decentralisation of several intermediate phases, and consequently the survival of many smaller firms can be explained by the substantial increase in subcontracting.

The trend toward outsourcing also took on an international scale, in which the internationalisation of production refers to the outsourcing of simple and low value-added phases of manufacturing directly to countries providing raw materials (for example, Eastern Europe) or the outsourcing of the assembly processes directly to the outlet markets (for example, USA or Germany). Wider forms of internationalisation have yet to be implemented. Firm growth and evolution inside the district therefore were stimulated by the creation and strengthening of a strong network of relationships between larger and smaller units and as a result of reorganisation and rationalisation of the production processes rather than a consequence of firm dimensional expansion.

4. Obstacles to Change

The obstacles to change include such elements as small firm size, resistance to and fear of change, lack of a clear and structured business plan for single firms as well as networks, and the extremely slow pace of structural changes in the district.

Examples of stable inter-firm co-operation within the chair-manufacturing area are still limited to production rationalisation. Mergers and acquisitions or simple *de facto* changes in management control very often do not represent a real evolution towards more structured groups of firms. Only recently have some firms developed more structured forms of inter-firm relationships to allow more rigorous and coordinated business planning within the district. The chair-manufacturing district seems to have had difficulties in adapting to organisational changes because of a lack of leadership within the district. The impact of coordinated business strategies on the structural evolution of the chair-manufacturing district is still limited and restricted to reorganisation of production processes. The advantages of globalisation— i.e. the possibility to co-operate with various international agents, centres of production of knowledge, skills and information —still remain largely unexplored. In general, firms are still tied to the local network of subcontractors, which represent a known quantity of experience and knowledge that is preferred to the lower labour costs that can be gained from cooperation with unknown foreign partners. Factors such as concerns about social and political instability in foreign countries and fears regarding transfer of knowledge to potential competitors constitute two of the most important obstacles to co-operation with firms from other districts.

5. Risk Analysis

A high level of internal competition, linked to the significant increase in the number of firms with limited dimensions in the district, has further reduced the companies' profit margins, which were already eroded by a general increase in costs and by the increasing bargaining power of large retailers. Very difficult conditions for small firms in raising funds have led to a higher incidence of auto-financing and increased the risk of bankruptcy.

6. Benefits of Change

A cautious approach to the globalisation of production (i.e. an international division of labour consisting of a fragmentation of production processes between different countries) has several positive aspects to be considered. Such an approach helps maintain a clear product-oriented strategy and in particular a strategy based on strong quality and diversification of production.

In fact, firms situated within a particular local system of production benefit from specific competitive advantages not transferable to another local production system. These specific advantages are due to firms' convergence within a milieu and to the exchange of products, services and resources within the production chain. Firms, local institutions and service structures establish a variety of relations and diffuse knowledge and information between themselves. Thus, networking favours increased productivity and improves the competitiveness of local production systems.

Conclusions

The analysis of a typical Italian local system of production highlights the importance of some key factors affecting firm settlement within a specific area. Such elements of strength together with other factors have evolved over time with the development of the district and constitute the main elements of competitive advantage. The district's firms are competitive in world markets and export a very high percentage of their production thanks to the co-operation between firms and between firms and local institutions inside the district.

However, these factors of strength, when combined with the small dimension of single units and a traditional entrepreneurial mentality, have also contributed to the slowing of organisational change and especially limiting the forms of internationalisation of production which require firms to operate outside of their usual milieu.

In an attempt to avoid cost-based competition, the main elements of the strategy pursued by the chair-manufacturing district of Manzano appear to be product diversification, an emphasis on quality and a focus on niche production. .

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