

# Q&A OAW Interview

## Emilia Romagna's Success: A Model for Ohio Manufacturing?

**Matt Hancock**, Project Director at the Center for Labor and Community Research

The last issue of *Owners at Work* published an extended article on the employee-owned sector in the Emilia Romagna region around Bologna in Northern Italy. In this interview, we ask Emilia Romagna expert Matt Hancock to place the employee-owned sector – about 4000 firms in this region with 4 million people – in the context of the region's very successful economic development policy which focuses on small businesses, particularly small manufacturing businesses. Our question: what can be replicated in Northeast Ohio?

**OAW:** Emilia Romagna is characterized by very small businesses, yet is highly competitive in GDP, exports, and patents within the European Union. How is this possible?

**Matt Hancock:** There are 300,000 firms in this region with only 4 million people, one of the largest concentrations of small firms in the industrial world. Of those firms, 99% of them have less than 250 employees. The average manufacturing firm in Emilia Romagna has only 10 employees. Only 1% of firms have 250 or more employees.

The big firms use a flexible manufacturing network model to produce the majority of their product. Ducati is a good example. Ducati makes motorcycles. But 90% of the motorcycle is made outside of Ducati by its network of sub-suppliers. So there is a lot of value being produced before the motorcycle gets assembled by Ducati.

This model developed as a response to the market for the development of an economy that was based on micro and small enterprises. None of these small enterprises would be able to compete alone, but they could when groups of firms work together.

The development of flexible manufacturing networks was aided by regional policy, which tended to concentrate businesses in a particular area and to provide a lot of support to business development, initially in terms of infrastructure and loans, later in terms of business development services, and today in terms of more advanced things like marketing and research and development, which encourage groups of firms to get together and meet their needs collectively.

*I read that the model is changing...*

Emilia Romagna's flexible manufacturing networks are now moving from an informal arrangement to something more formalized. There are two models.

In the first model, a lead firm emerges and coordinates the network. That's one of the firms that used to be small but has gotten a little bit bigger and maybe has 250 to 500 employees. It is now beginning to assemble the final product. A customer from Germany or China or the United States, instead of going to one of the small firms that is a component manufacturer, now

goes directly to one of the larger firms that is actually producing the final product. There are now a small number of larger firms emerging at the interface between the market and this network of suppliers. This means you are getting increased vertical integration, more formal relationships, experience of real co-design and co-production, rather than an informal network.

The second model that is emerging is a "virtual firm" where the smaller firms set up their own virtual company, almost like a second tier co-op. In effect, they create their own customer that then will interface with the market for them. This allows them to bid on jobs collectively. The most advanced of these "virtual firms" is a company called Dico Service. Dico is made up of 17 small firms that are in a formal network. They have their own brand. They do about \$17 million in sales a year and that is expanding. They have customers in Rochester, NY, Germany, and throughout Italy. They simply created their firm to represent their network.

*Why do you think this works so well?*

In production it works because you have people who are technically very competent: They know how to work machinery but also have theoretical backgrounds that allow them to become a designer of components. They've been through technical schools that stress both. They have the skills needed to run a business and they have a genuine passion for producing quality products. Another key is that they are overwhelmingly geared toward export, not just out of their region but throughout Europe. They are producing for the Chinese market, they are producing for the Brazilian market, they are producing in Eastern Europe for markets there. There is a real demand for the products that they are making. Everyone is so specialized that there is enough work to go around.

One of the trends is that the small firms that used to have only two or three employees are now getting bigger. The average firm now has 10 employees. They are beginning to introduce more sophisticated management techniques but everyone that I have spoken with in the flexible manufacturing network says that the keys are flexibility and specialization. If a new division or specialization develops within a firm and they get beyond three or four employees, they spin them off into a new company.

*What role does public policy play in all this?*

A decisive one. It starts from things as simple but fundamen-

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tal as making sure that the infrastructure in the region is the best that it could possibly be. That means roads and public transportation to get people to work comfortably and effectively.

After World War II, public policy made it possible for people with no money but with a lot of skills to become business owners. Cities used eminent domain to take over unused land and used public money to develop it and the kind of infrastructure that industry requires. They would then sell it at cost, below market prices, to small business owners and co-ops.

In the 1970s and 1980s you had an economy that was competitive but it was mostly first generation owners who were technically very competent but who did not have the management skills for the global market. Individually they didn't have the ability to bring in new automation that the market was demanding. The service centers were born out of the dialogue between these businesses and the regional government. The service centers responded to what small businesses in the sector said they needed: quality control, quality certification, management, automation and R&D. Today the service centers put small businesses in a position to be able to deal with the universities and foreign markets more effectively.

*Do the service centers provide support for exports?*

Not generally. That's provided by the business associations instead.

*And the business associations are based on an industrial sector?*

No, they are based on business size, not sector. There are two small business associations in Emilia Romagna. The largest one is associated with the left wing political parties. The second largest one is associated with the Christian Democrats.

They work with a group of firms in a particular industrial cluster. They will use public money, for example, to take the textile producers to Eastern Europe or China to develop relationships with suppliers or clients there. Or they take a group of fashion designers from Emilia Romagna to important fashion shows around the world.

*Small businesses generally have trouble with raising capital. What is the story on this issue?*

Small businesses used to be essentially started with sweat equity. That's no longer feasible because buying a CNC machine is a lot more expensive than buying an old manual lathe. So more and more banks are stepping in to provide small business loans. The business associations, in cooperation with the regional govern-

ment, create loan guarantee consortiums to reduce the interest rates that small businesses are paying. A member of the CNA, which is the small business association, for example, gets a preferred interest rate with banks that are in the Network.

*And that is because the business association is providing the loan guarantee?*

Exactly. Your collateral is the faith and credit of the regional government and the business association you belong to.

The regional government also has a range of other policy tools. For example, if the regional government, in cooperation with labor and businesses, has identified certain priority areas for automation, you can apply for a grant to purchase a new piece of equipment because it is a collective competition good; it is not proprietary. There are all sorts of unique financing mechanisms that help small firms upgrade their equipment. Some of these are outright grants. Sometimes it is just reducing interest rates for loans on equipment.

*So what you are depicting here is a kind of regional industrial policy.*

Absolutely. The regional industrial policy is usually done on a 3-year plan. There is an annual conference on the economy. It's convened by the regional government which researches and develops a plan that is then discussed and debated with the "social partners": labor unions, business associations, agricultural co-ops.

*Let's talk about transferability. Northeast Ohio has a population the same size as Emilia Romagna. If our new Fund for Our Economic Future wanted to introduce some of Emilia Romagna's characteristics here, what do you see as most transferable?*

Focusing economic development policy on a sub-national—local or regional—level can be very effective.

What's striking about Emilia Romagna is that while they have done some amazing things in terms of industrial policy and, now, around innovation and linking high-tech advanced research with manufacturing, they have always had very limited resources. American state, city and county governments all have greater ability to raise revenue. They have much larger budgets, and they have control over the money that they are raising. In terms of resources, we are at a greater advantage.

The Emilia Romagna regional government doesn't pick winners. They don't say "This year we want to start the ceramics industry or a bio-tech industry in Emilia Romagna." Instead, research identified existing industrial clusters and they look at the needs of these clusters. How could policy increase the competitiveness of the cluster as a whole? There's regional cooperation with the business associations. Nothing was imposed on the cluster. It's a dialogue.

It's also important to look at the underlying structure that makes this successful.

It is the same as what you guys are

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*Hancock (far right) visits with members of the Zappettificio Muzzi Cooperative, an agricultural implement part producer. (From left) San Giorgi, Vice President for Legacoop Imola (the cooperative association), and Paolo Martelli, Carlo Zanardi and Andrea Belletti from Zappettificio.*

## Items in Brief

### Succession Planning Program Grows

doing here. The OEOC's Advisory Board brings together labor, business, government and members of the ESOP community. Getting these different social partners to sit around a table is fundamental, but then you need to build a common vision that the different social partners can all fine tune and advance.

What might come out of that? A service center might be appropriate, or maybe a loan guarantee consortium is important.

Another key thing about Emilia Romagna is the overwhelming degree of consensus around the long-term vision that ties economic development very explicitly to social development. That is a commitment to maintaining and expanding the manufacturing economy as the key to having a healthy service sector economy. This is a vision that is shared by all the social partners.

Finally, the government in every level of Emilia Romagna has been recognized as being one of the most, if not the most, efficient, honest and transparent governments in Italy. That makes doing business very easy. They have tried to cut through as much red tape as possible because that is a deterrent to starting a business or expanding a business.

*Matt Hancock is Project Director at the Center for Labor and Community Research in Chicago and holds a masters degree in cooperative economics from the University of Bologna, Italy. The full interview can be downloaded from <http://dept.kent.edu/oec/oeoclibrary/HancockInterviewMarch2006.htm>. A number of his articles on various aspects of the Emilia Romagna model are in the OEOC on-line library at <http://dept.kent.edu/oec/oeoclibrary/index.htm#Cooperatives>. OAW*

After more than 10 successful years in the Cleveland area, the OEOC, in partnership with the Greater Akron Chamber, rolled out the Akron-area Business Owner Succession Planning Program this past spring. The program attracted 22 small business owners and managers from 19 area companies. Twenty-three participants from 17 companies attended the Cleveland program, which is co-sponsored by the Greater Cleveland Partnerships Council on Smaller Enterprises (COSE).

The program is designed to provide owners and managers of small-to-medium-sized closely-held businesses with the information they need to start planning for succession, with the goal of anchoring businesses and jobs in their communities. Each session is taught by a recognized local and national professional in the field.

Too many otherwise healthy small businesses don't make it to the second and third generation due to incomplete or nonexistent succession planning," says program coordinator Chris Cooper. "We want to do what we can to change that, and we think these programs are a good place for business owners to start."

More information on both the Cleveland and Akron Business Succession Planning programs, including schedules of seminars for fall 2006, can be found at [www.kent.edu/oec/](http://www.kent.edu/oec/) spp or by calling Chris Cooper at 330-672-3028. OAW

### Ohio's Prefeasibility Study Grant Program

Is a plant in your area in danger of shutting down? Can anything be done to keep it open? If employee ownership offers an opportunity to keep the plant open, the Federal Workforce Investment Act provides funds for preliminary feasibility studies. The Ohio Department of Job & Family Services, which administers the Workforce Investment Act in Ohio, has contracted with the Ohio Employee Ownership Center at Kent State University to administer the Ohio prefeasibility study grants program.

Grants are available to buyout committees that are exploring employee ownership. The purpose of the study is to determine whether further feasibility work and a business plan are warranted. To be eligible for a grant, there has to be a clear threat of job loss or shutdown. There also needs to be a buyout committee to act on behalf of the employees as buyers, and the committee needs to raise some matching funds.

The size of the prefeasibility study grant is typically in the \$10,000-\$20,000 range, but larger grants are possible when there is particular justification. The application process is streamlined. For more information, contact the OEOC at 330-672-3028.

### The ESOP Association's 2006-2007 Employee Owner Retreats

**Chicago, IL**  
**August 10-12, 2006**

**Phoenix, AZ**  
**February 1-3 2007**

**St. Petersburg FL**  
**February 2007**

The Employee Owner Retreat is a three-day, off-site training seminar, where non-managerial employee owners learn from and interact with their peers from other ESOP companies. In small groups, structured exercises, and informal discussions, employee owners develop new skills and a new perspective on employee ownership at their respective companies. The program includes beginner classes on ESOPs and financial statements, a slightly more advanced financial class for those already familiar with basic financial vocabulary, and small team problem-solving.

#### Spanish Track Available

Recognizing that many ESOP participants speak Spanish as a first language, several parts of this program can be run in Spanish by our bilingual staff. Minimum of 10 participants per retreat required.

**Retreats staffed by the Ohio Employee Ownership Center at Kent State University**  
**For questions or more information call Karen Thomas/Bill McIntyre/Dan Bell, the OEOC, at 330-672-3028**  
**or Rosemary Clements, The ESOP Association, at 202-293-2971.**