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## The Region of Lecco Industrial System 2015 Foresight Brief 056

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### Background

Funded by Regione Lombardia and implemented in collaboration with Technocora, this initiative takes up where the EU funded FoMoFo project left off in 2002. The title 'FoMoFo' is a reference to the Four Motors of Europe, a group of highly developed regions that drive European industrial production. Along with Baden-Württemberg in Germany, Catalunya in Spain and the Rhône-Alpes region of France, the Italian region of Lombardy counts as one of the four motors. This article reports on an initiative that builds upon the FoMoFo foresight pilot to develop a deep understanding of the future for industrial production in the Lecco region of Lombardy.

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### Lecco – Between Globalization and Entrepreneurship

The first experiments with foresight in the early 1990s were national in scope and focused on themes of technological innovation. Since then the foresight approach in terms of its theoretical formulations and operating practices, has gradually diversified and been enriched. In a move from a national focus to a regional focus, it is routinely applied to the needs of the region at sub-national level, and as in the case of the FoMoFo pilot, it may be supra-national in dimension. In terms of subject matter it tends to go beyond technical-scientific topics to address broader economic and social issues such as mobility, population ageing, crime and immigration.

The regional government of Lombardy has been a pioneer in experimenting with foresight. It has commissioned an exercise that focuses on the question of the internationalisation of businesses in the Lecco area, particularly for the case of Small and Medium sized Enterprise. This issue is explored in the

context of the long-term evolution of the various components and aspects of Lecco society.

The basic motivation of this initiative lies in the fact that the entrepreneurial fabric of Lecco will internationalise in a variety of different ways. This will mean changes to the location of their activities, choices for the geographical destination for their products and services, changes in their relations with local economic partners. These changes will have a range of different impacts on the economy of the province. The determinants of such change lie at various territorial levels – Europe, Italy and Lombardy as well as Lecco itself.

It is clear that factors and processes such as demographic trends, migration, labour market regulations, the structure and rules of international trade, innovations in manufacturing, design and company management technologies, particularly in the ICT field, skills required by the technological and organisational processes of manufacturing, and standards related to the protection of the environment, conspire to establish the context for change, will significantly influence the way Lecco-based businesses are structured and organised



through the territory, and will have an impact on their process of internationalisation.

One has however to bear in mind that the internationalisation of the provincial economy embraces not just local firms but all firms with a local presence. Foreign operators whose decisions regarding their activities located in the Lecco area are conditioned to a great extent by their global strategies and these will have an impact on the local framework as well.

The effect of these factors and of the changes they produce in the economic, social, cultural and institutional field is not uniform, deterministic or certain. It depends also on actions to

be taken by local social forces, both public and private, to achieve specific goals and strategies. It is therefore necessary to formulate strict hypotheses regarding the scenarios that may emerge for the institutional, economic and social systems of the province of Lecco, on the basis of which businesses will embark on the process of internationalisation. Even if the actual implementation of these scenarios, depends largely on the decisions and actions of forces from outside the province, understanding the possible alternative trajectories will enable the Lecco Provincial Council to define its own strategies and to interact proactively with other local and national governmental bodies, taking decisions jointly, coordinating and integrating the actions of all.

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## The Overall Foresight Process

In operational terms this exercise was tackled in three main stages:

### Stage I: Pre-Foresight

In this case the term pre-foresight refers to the operational programming of the exercise. The main steps were as follows:

- Identification of the stakeholders to involve
- Specification of the crucial factors and processes on which to concentrate the perspective analysis
- Selection of the Foresight methodologies to use
- Identification of the experts to involve
- Collection of basic documentation

### Stage II: Foresight

This refers to the analysis of future options and mainly consisted in the building of alternative scenarios for the future of business in the Lecco area.

### Stage III: Post-Foresight

The most important element for the region is to use the results of the foresight exercise as an input for the formulation of policy. It is important to include these steps in the overall planning of the foresight exercise to ensure a good link between the execution of foresight and the eventual exploitation of foresight in policy making processes.

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## Assessing the Structure of the Manufacturing System

First of all, a preliminary systematic analysis was carried out based on existing literature on the subject including scientific publications, economic magazines, daily papers, other texts and reports. This made the creation of a picture of the current structure of the manufacturing industry in the Lecco area and its level of internationalisation possible.

Secondly, it was possible to identify an initial group of drivers. A preliminary list of drivers was discussed at an interactive workshop with the experts. The list was extended and modified on the basis of their suggestions. Drivers characterised as being both highly relevant and uncertain provided the basis for the development of scenarios for the internationalisation of SMEs in the Lecco area. The following basic drivers were selected:

- The composition of the industrial system of the Lecco area in terms of the share of large enterprise and emerging sectors

- The regional infrastructure in terms of roads and railways linking the local area with other Italian regions and with foreign countries.

By combining the extreme configurations outlined for these basic drivers, the project team obtained four scenarios for the socio-economic system of the province of Lecco.

- **Scenario A** assumed a significant evolution of both regional infrastructure and the system for local industrial production
- **Scenario B** assumed the perpetuation of the current composition of the industrial system based on the prevalence of small and medium sized enterprise with a low level of integration, and the upgrading only to regional infrastructure
- **Scenario C** assumed the perpetuation of the current model and state for both the industrial system and the infrastructure system
- **Scenario D** assumed the evolution of the local industrial system and the maintenance of the infrastructural one

Within the four scenarios, it was possible to define articulated, consistent pictures of the other drivers for the macro-areas of Science & Technology, the structure of the industrial system in Lecco, individual and social values, population and the labour market, and therefore to identify the main characteristics of the internationalisation of manufacturing SMEs in the Lecco area.

Afterwards, the various aspects of the development of the industrial system of Lecco SMEs in the scenarios were outlined, considering in particular its competitiveness at an international level. As an example, here is reported a brief description of the results achieved for the first scenario, under the hypothesis of the high development of the local infrastructure system and the persistence of the current composition of the local industrial system, largely based on SMEs in traditional sectors.

## The Evolution of the Lecco Industrial System

In the Lecco area local authorities provide effective support to businesses accessing European and non-European markets in terms of:

- Economic diplomacy,
- Development of infrastructural transport and communications networks,
- Support for innovation and R&D, and
- Protection of Italian products.

Territorial marketing and effective promotion of the 'Italy System' helps to provide greater visibility and greater acceptance of Italian products in high tech sectors.

In many cases however support policies and opportunities to expand into international markets are not exploited by Lecco businesses. Exploiting such opportunities often comes down to expanding a direct presence in outlet markets, with a local presence and direct control of the final activities in the value chain, in other words, distribution and service to customers in the pre-sale, sale and after-sale stages. For example, in the field of instrumental goods and in 'business to business' sectors in general, direct control of the end markets requires participation in the design stage and therefore in the customisation of products as well as in the provision of after-sales service.

An alternative to opening company sales branches is to form partnerships and integrate with foreign businesses. First of all this requires the identification of reliable partners, capable of offering a level of service high enough to maintain the integrity of the offer, particularly in higher market brackets. On the other hand this often requires the company to forego higher profit margins. In the absence of direct relations with the final customer, the Lecco-based company risks losing expertise in terms of its capacity to grasp the customer's requirements and customise its offer, as well as possible upstream integration of foreign partners that could emerge as new competitors.

Therefore companies that successfully grow in size and achieve complementary integration in a network organisation, create the conditions necessary to pursue international strategies that are more sensible and more sustainable in the long

term, repositioning themselves strategically in higher market brackets, and differentiate their offer from the low quality, low cost outputs of competitors in newly industrialised countries, in particular in China.

To this end the modernisation of the telematic and transport infrastructure within the territory of the province, as well as the creation of large trans-European networks paves the way for more effective, efficient coordination of various business activities, in particular of logistics and distribution.

However, few small businesses in the Lecco area pursue such strategies of internationalisation. Especially if they are not already part of a network organisation. This is because they are severely hindered by their short-term approach, the lack of resources available to take advantage of new market niches and limited control over their distribution channels. The internationalisation initiatives of these businesses are of limited significance, because of the numbers involved and the nature of the strategies adopted with a sporadic, fluctuating approach. These initiatives are directed above all at the option of relocating activities with the greatest environmental impact and/or the largest manpower requirements to Eastern Europe or Asia. This is done with a view to reducing the cost of manufacturing factors and processes, effectively producing goods in these countries simply for resale in traditional markets.

Although important for the medium to high market brackets, containing the cost of manufacturing factors alone is not sufficient to overcome fierce international competition, especially competition from emerging countries, which enjoy an unequalled cost advantage with respect to Europeans.

Companies that focus only on reducing costs will experience great difficulty in the year ahead. This is true especially in the case of standardised products that are easily imitated or replaced.

Companies that ignore opportunities of growth and expansion into international markets, but implement advanced strategies based on innovation and the upgrading of products, may still manage to defend and consolidate their position. They may also maintain their share of the traditional markets. Customer loyalty can be maintained by the application of ICT. This is all the more important for companies that do not have branches outside their territory of origin and which are therefore unable to have direct contact with their foreign customers.

## Guidelines for Policy-makers

Scenarios based on the hypothesis of the high prevalence of small and medium enterprises operating in traditional sectors and the lack of development of road and railways infrastructure represent one extreme in the evolution of the current situation.

Scenarios based on the hypothesis of deep restructuring of the Lecco industrial system, in terms of both composition of businesses and basic sectors provide preferred long-term visions for the region.

Instead of outlining for each of these scenarios the most effective policies and strategies for the main local stakeholders, the project team considered it more useful to determine strategies and plans that different stakeholders should pursue in order to

avoid decline represented by the first extreme scenario, and in order to move towards the preferred outcome.

On this basis suggestions for policies and strategies were designed, presented and disseminated as outputs among the main local stakeholders of the project. In most cases these are local governmental bodies and local enterprises

At this stage, it is too early to evaluate the real impact of the project on the policies of stakeholders. Nevertheless long after the project was finished the foresight team received requests for further explanations as well as invitations to meetings with large local stakeholder participation. In this way the foresight team knows that the foresight exercise has served as a real input to policy and has been taken into account in local policy processes.

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## Sources

[www.fondazioneroselli.it](http://www.fondazioneroselli.it)

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**About the EFMN:** Policy Professionals dealing with RTD, Innovation and Economic Development increasingly recognize a need to base decisions on broadly based participative processes of deliberation and consultation with stakeholders. One of the most important tools they apply is FORESIGHT. The EFMN or European Foresight Monitoring Network supports policy professionals by monitoring and analyzing Foresight activities in the European Union, its neighbours and the world. The EFMN helps those involved in policy development to stay up to date on current practice in Foresight. It helps them to tap into a network of know-how and experience on issues related to the day to day design, management and execution of Foresight and Foresight related processes.