ValueFacturing SMEs

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EXCERPTS FROM THE VALUEFACTURING SMEs REPORT (LITERATURE REVIEW, §§ 1-4)

1. Introduction to the concept of Global Value Chains in the manufacturing sector

The development of a globalized economy – together with the transformations of production related to technological innovation and the knowledge economy – is producing the restructuring of industrial geography (Raymond et al., 2014). In this context, there has been – since the 1990s – the concurrent fragmentation and internationalization of firms, which, in order to compete in the increasingly global market, give rise to global value chains, also referred to as 'global production networks' or 'global supply chains'. The characteristic of global value chains is that they are made up of links that "consist of a varied system of operations, transactions and relationships established between enterprises located in different parts of the world, with the aim of producing a good through the transformation of raw material into intermediate inputs, modules, semi-finished products and, ultimately, finished products ready for the global market" (Brino, 2019, own translation).
Global value chains are a significant phenomenon: according to the 2020 World Development Report, about half of global trade takes place within global value chains (World Bank, 2020), and some see an unstoppable decline of the "vertically integrated firm" (Kano et al., 2020). Typically, the chain features a lead firm – based in a wealthier country – which coordinates the other firms as well as performs the nonroutine activities that require creativity and high skills (e.g., to analyze data), while firms based in developing countries specialize in labor-intensive tasks characterized by repetitiveness (Lewandowski et al., 2023). Although its positive sides in terms of opportunities for innovation and development, the risk that global value chains may generate violations of decent work principles, especially in the marginal and peripheral hubs on which competitive pressure is unloaded, appears to be concrete (ILO, 2016). This is a risk voiced by all major international bodies, and the Resolution passed at the 105th session of the ILO International Labour Conference expressly recognized "failures at all levels within global supply chains" (ILO Resolution concerning decent work in global supply chains, 2016).
These preliminary considerations are true in the context of the manufacturing sectors, in which companies, in order to cope with an increasing level of competition in their local, regional or national markets and the shortening of the life cycle of products and services, feel the need to reduce production costs and, at the same time, to seek new markets to which they can export their products or services. It is the possibility of exporting their products in connection with a global market that has been an opportunity for many companies in the manufacturing sector, especially SMEs, not to be ousted from an economy increasingly marked by innovative and knowledge-centered production processes (Raymond et al., 2014). This explains the reasons why manufacturing firms are among the most

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likely to operate in global value chains, both as producers and buyers of goods and services (Li et al., 2019). On this point, it should also be pointed out that a distinction must be made between global value chains in which the producer dominates (producer-driven GVC), and others in which the production process is dominated by the buyer (buyer-driven GVC): the first, typically capital intensive, are developed in technologically advanced sectors, such as the automotive and new technology sectors, in which the leading firm produces some key components and proceeds to assemble the finished product, delegating the packaging of other semi-finished products to further links in the chain; the second, characterized by the prevalence in the production process of the labor factor, are typical of the market for textiles, toys and household products in which the leading firm is the owner of a famous brand or a large distributor who, in order to cut costs, concentrates production in countries with particularly low labor standards (Boscati, Sartori, 2023).

For these reasons, in an increasingly globalized market, there exist evident opportunities and risks that manufacturing firms can see in global supply chains and in entering the global market in countries where labor costs are lower. On the one hand, opening up to the global market makes it possible for firms to envision opportunities for growth and innovation (in both products and processes) related to exporting their products and services (Golovko, Valentini, 2011). On the other hand, there is a real risk that the use of global value chains takes place solely from the perspective of reducing production costs and, specifically, labor costs (Lewandowski et al., 2023), with the consequence that, while global value chains can contribute to job creation in developing countries, even allowing them to specialize in certain segments of production by virtue of specific competitive advantages (Kuzmisin, Kuzmisinova, 2016), they can also contribute to the growth of violations of fundamental workers' rights (Micheli, 2023).

As for the first issue, it should be highlighted that manufacturing firms, through participation in global value chains, have demonstrated the ability – due to the possibility of exploiting local skills combined with new production processes placed in connection with the development of a network organization on an international scale – to create new knowledge useful for fostering innovation (Bettiol et al., 2022). From this point of view, the interaction between local production skills and innovative practices can enable all enterprises embedded in global value chains to implement new knowledge, which is also useful in order to assume a more relevant position within the same global value chain. It has been observed that SMEs that invest in innovative practices aimed at containing costs and maintaining high standards of price and quality (including through the implementation of circular economy models; Suchek et al., 2023) enjoy a natural advantage in the context of GVCs, being able to carve out relevant spaces because they are difficult to replace (Juergensen et al., 2020). In addition, the introduction of new and more advanced production technologies through investments made by companies in northern countries often result in higher wages for skilled workers. There, there are positive effects on manufacturing firms from inclusion in global value chains (Belussi et al., 2018).

As for the second aspect, it is not possible to deny that, through global value chains, the risk appears tangible that companies implement strategies focused on shifting from hierarchical organizations to business networks based on the outsourcing of all non-core business activities, the separation of intellectual labor from manual labor, and the use of labor subcontracting with the main purpose of reducing labor costs and workers' collective rights (Anner et al., 2021). These risks are evident in some productions specific to the manufacturing sector, such as those related to textiles, with significant levels of outsourcing of labor-intensive and low-specialization production segments to countries where labor costs are lower (Borsato, Volpe, 2022). Thus, there is a risk that the use of global value chains does not allow any innovation in the most marginal countries, but, on the contrary, leads to frequent labor law violations. In fact, in order to respond to a volume of orders of varying sizes in the shortest possible time, it has been observed that suppliers massively resort to temporary labor schemes, overtime, informal labor and subcontracting, even in violation of the most basic rules of worker protection, especially health and safety (Anner, 2020). It is significant in occupational health and safety some of the main risks associated with global value chains have also been identified by international organizations (EU-OSHA, 2024).

It is essential to understand how global value chains can represent an opportunity for development and innovation for businesses, in particular for SMEs, which due to structural limitations (see §2) are often forced to the margins of chains, without diminishing standards of protection for workers. From this point of view, the approach to be adopted is aimed at demonstrating that social dialogue and collective bargaining can help (see §3) govern global value chains by ensuring respect for the dignity of the working person. Through the engagement of the social partners, joint governance can be developed that makes it possible to implement growth processes for SMEs placed at various levels of global value chains by focusing on innovation and quality of work.

2. *Exploration of factors that can foster/hinder SMEs participation in Global Value Chains*

As stated, the participation of SMEs in global value chains is not always easy due to certain characteristics of this type of enterprise and intrinsically related to firm size. SMEs, despite representing the majority of global enterprises – to the extent that according to the World Bank "SMEs (...) represent about 90 % of businesses and more than 50 % of employment worldwide" (World Bank, 2021) – and despite being defined as "the backbone of the European economy" (European Commission, 2022) – have not fully developed a suitable toolkit to enable them to participate in the global market (WTO, 2019). According to international institutions, this circumstance is due to SMEs' lack of understanding of global value chains, coupled with difficulties in identifying their competitive strengths, managing their intellectual assets, and developing certain professional skills and competencies needed to compete in the global marketplace (De Backer, Pilat, 2008).

In its communication COM(2020) 103/final, it is the EC itself that stressed the need to include SMEs in value chains, while highlighting the risk for them to be

subject to unfair trade practices, due to the asymmetries of power that characterize the contractual relations between them and large corporate clients. It is often this imbalance of power that risks hindering the economic and social sustainability (especially with regard to working conditions) of SMEs and jeopardizing their participation in the global market. This imbalance of power can also be exacerbated by the fact that SMEs (especially in manufacturing) in global value chains are often entrusted with segments of production with low value added and, therefore, connoted by high levels of replaceability, placing them in a highly subordinate position to the commissioning firms (Suchek et al., 2023).
This peculiar difficulty that SMEs face in the global market is compounded by the problems posed by recent and contemporary major labor transformations. SMEs are struggling against the digital transition, the governance of which is essential to participate in GVCs (Stefanelli, 2021) especially in the manufacturing sector, contributing to the development of Transition 4.0 (Suchek et al., 2023). This aspect has been repeatedly emphasized to highlight that the “digitalisation of SMEs is crucial in building inclusive and resilient economies and societies. Ensuring the uptake of digital technologies by all SMEs and entrepreneurs is central to fully unlocking the potential of the digital revolution at large” (OECD, 2021). In this sense, the involvement of SMEs in GVCs could be facilitated by the increasing digitization of business activities through new technologies, which accelerate the development of new business models and reduce geographic barriers to economic transactions (Poitiers et al. for the European Parliament, 2020). However, it was noted how “many SMEs risk missing the benefits digitalisation can offer. At the firm level, digital gaps are strongly associated with gaps in productivity, scaling up, innovation and growth. These gaps contribute to inequalities among firms, and, in turn, people and places, with concerns that the benefits of digitalisation could accrue mainly to early adopters” (OECD, 2021). Arguably, SMEs’ struggle to participate in the digital transition is due to “a range of factors and barriers, including SME lack of information and awareness, skills gaps, insufficient capital or missing complementary assets such as technology itself or organisational practices (OECD, 2019). Smaller businesses often face more difficulties in adapting to changing regulatory frameworks, dealing with digital security and privacy issues or simply accessing quality digital infrastructure” (OECD 2021).
Among the factors that undermine participation of SMEs in GVCs, the difficulty for SMEs to access sources of financing has also been pointed out. This is a difficulty related to the small size of the company, since it has been noted that it affects SMEs more than large enterprises. Not only that, it was also pointed out that: “banks in developing economies – compared to those in developed economies – tend to be less exposed to SMEs, and to charge them higher interest rates and fees (...). This has been largely due to three factors: (i) informational asymmetries related to SMEs that create risks, e.g. banks are mostly unable to gauge the creditworthiness of SMEs and thus ask for higher charges and collateral requirements; (ii) low revenue per client; and (iii) the need for local presence, and thus for a large branch network, which may not necessarily be optimal from a cost perspective, especially in a developing country setting” (Stein et al., 2013).

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Emphasis should also be given to those who relate profitability and liquidity problems to the size and ownership structure peculiar to SMEs, which make it particularly complex for smaller companies to invest in innovation and adapt to new transitions in the economy while ensuring sustainability. From this point of view, it has been pointed out that, compared to large enterprises, it is much more complex for SMEs to invest in health and safety and business process management systems that comply with certifications attesting to compliance with the highest standards of worker protection (EU-OSHA, 2024). Moreover, problems with profitability and liquidity make smaller firms “particularly vulnerable to external shocks”, as has also been stressed in connection with the recent crisis due to Covid-19 (Juergensen et al., 2020). SMEs, even though they may be marked by greater flexibility, have more difficulty in mitigating the effects of production disruption caused by limited availability of resources (Bak et al., 2020). The pandemic has highlighted how the quest for cost containment through the use of cheap labor and just-in-time production models is especially damaging to SMEs participating in GVCs. In recent years, it has been highlighted that changes are needed in global value chains “in terms of reshoring, supplier diversification, stock management and embracing proximity, which brings new opportunities for European specialist-supplier SMEs and industrial stand-alone SMEs” (Juergensen et al., 2020).

Another factor that undermines the possibility of SMEs to participate in GVCs is the lack of skills, both hard and soft, developed by the workers employed by smaller firms, which instead could enable SMEs to achieve self-sufficiency in the global market (Lunati, 2008). From this point of view, workers’ skills influence the ability of firms to innovate, adapt to market changes, provide high-quality products and services, and meet the needs of global customers (OECD, 2023). Workers with advanced skills can contribute to more efficient production processes, better resource management, and greater problem-solving capabilities in international settings. However, the few resources available to SMEs make access to training for workers much more complex than for workers employed by larger firms.

For this reason, one of the challenges for the fruitful participation of SMEs in GVCs rests with the ability to train their workers, since this might help SMEs to respond to the challenges posed by globalization (Tian et al., 2022).

Despite those difficulties, the active inclusion of SMEs in global value chains is a commitment to the development of the global and continental economy. This perspective emerges as fundamental within the economic and trade policies applied by supranational institutions, which identify as a key area of intervention the increase in internationalization, growth and innovation of SMEs (OECD, 2008). Moreover, this objective is as crucial as the benefits that SMEs could gain from economies of scale and specialization, if they learned how to operate within global networks and value chains. Stable access to GVCs could enable SMEs to optimize their resources, increase their competitiveness, and pursue more effective diversification strategies. In addition to affecting SMEs, these benefits could have positive effects for the growth of the entire economy, especially in the continental context, where, as noted, SMEs play a central role (Eurofound, 2018).

What we aim to highlight in the following is the role that social actors can play in facilitating participation of SMEs in GVCs, devising strategies to overcome the difficulties referred to above. SMEs throughout Europe face difficulties in being included in collective bargaining and social dialogue, due to both structural and associational barriers (e.g., small size, low presence of employee representation, etc.), which make it complex for employers' and employees' representations to come together (there exist important differences between medium-sized enterprises, where bargaining tends to be widespread, and microenterprises, where bargaining plays a residual role; ILO, 2018). The next section analyzes the role that social actors can play in the governance of GVCs, with a focus on policies that can be implemented to ensure the participation of SMEs in global chains.

3. *Theoretical framework regarding the role of social dialogue and collective bargaining in the governance of Global Value Chains*

Workers' freedom to organise and collectively bargain over working conditions have historically been regarded as fundamental rights both by international treaties and by the main sources of national and EU law. Despite this, the above-mentioned freedom appears to be constantly challenged in the context of GVCs (Morris et al., 2021). In an increasingly globalized market, relocations to nations in which trade union freedoms and rights are not guaranteed and in which the trade union movement is not rooted are problematic, since there are frequent violations of workers' rights, and the codes of conduct of the leading firms (to which we will return shortly), alone, is not sufficient to ensure workers' rights (Micheli, 2023). Concurrently, there is evidence that, in contexts where industrial relations are present, there are better working conditions and more widespread compliance with codes of conduct (Kuruvilla et al., 2021). For this reason, it seems clear that the involvement of workers and their representatives can be an appropriate tool to foster the participation of companies in GVCs and to ensure compliance with minimum standards of worker protection and dignity of labor (Micheli, 2023).
Regarding the tools that enable the protection of working conditions in GVCs, it is necessary to distinguish between social dialogue, defined as "all types of negotiation, consultation or information sharing among representatives of governments, employers and workers, or between those of employers and workers, on issues of common interest relating to economic and social policy" (ILO, 2003), and codes of conduct adopted as part of human rights due diligence procedures. On this point, it has been noted that "both instruments take their starting point from a shared assessment of economic reality, which recognizes the power of firms in the top position in value chains and intends to use it to condition the behavior of suppliers and subcontractors" (Micheli, 2023, own translation). Thus, while both aim to protect the fundamental rights in international conventions and constitutional charters, social dialogue and collective bargaining arise from the will and action of the social partners and are developed through negotiation, while due diligence procedures, although established as voluntary, are now increasingly imposed by public authorities, even though they leave the company with the power to unilaterally determine its own actions (Micheli, 2023).

It is this freedom that businesses enjoy in selecting the rights to be protected within codes of conduct, leading many to consider that, while codes can improve individual working conditions, they have only “a limited impact on the promotion of union rights such as freedom of association and the right to bargain collectively” (Lévesque et al., 2018).
Despite these differences, due diligence procedures and social dialogue appear to be strongly connected, as they can be mutually reinforcing. The OECD identifies actions to support collective bargaining and social dialogue among the examples of actions to be deployed within codes of conduct (OECD, 2018), and many scholars note that the development of codes of conduct in the absence of strong industrial relations are bound to fail to have significant effects (Holdcroft, 2015). The engagement of worker and business representatives is also crucial to strengthen instruments of a private-sector nature devised unilaterally by companies, which without the push and control of the social partners may be ineffective (Boscati, Sartori, 2023), to such an extent that the participation of social partners in the development of due diligence procedures “can make an important contribution to democratising the economy as well as to secure basic human rights standards for working life worldwide” (Zimmer, 2023).
In this context, it is noteworthy that representatives of workers and companies – who since the early years of the New Millennium had already begun to pose the problem of transnational trade union representation (Helfen, Fichter, 2013) and the conclusion of global agreements to govern the relocations implemented by multinational companies (Hadwiger, 2015) – had to devise new tools to ensure the protection of social dialogue and collective bargaining even in the current context, which is characterized by global value chains.
In global value chains, and in comparison with the first transnational agreements made for multinational enterprises, the protection of working conditions in enterprises that are in any case controlled by the multinational is not seen as relevant as in enterprises acting as suppliers only and governed by supply contracts.
In these cases, it is more complex to ensure compliance with minimum standards of protection in working conditions because, even in those few cases in which an enterprise in the chain has entered into collective agreements or adopted codes of conduct guaranteeing the dignity of labor, these do not extend to supplier enterprises. Therefore, save for agreements providing for the possibility of terminating the contractual supply relationship, the consequences of suppliers' failure to comply with the rights in the agreements or codes of conduct applied at the client firm are uncertain (Micheli, 2023).
So, a need arises for the social partners to prevent abuses that can occur in global supply chains, especially in the more peripheral segments of production. This commitment must necessarily be multi-layered, since, in order to be effective, it cannot only concern the provision at the supranational level of special contractual clauses aimed at guaranteeing minimum standards of protection in all segments of the value chain; the involvement of local actors to verify compliance with the same standards is necessary, especially with reference to the most peripheral segments of the chain (Fichter, McCallum, 2015). It has been pointed out that the engagement of social partners on a supranational scale “is a necessary but not a

sufficient condition for the respect of worker rights", because it must be accompanied by the actions that the parties are called upon to carry out at the local level (Lévesque et al., 2018).
The most suitable tool for ensuring shared governance of global value chains, while allowing for the involvement of workers and companies at both territorial and supranational levels is social dialogue, as the ILO has also recently confirmed in relation to the post-pandemic situation (ILO, 2020). The ILO considers social dialogue suitable for developing "tools for strengthening the Corporate Social Responsibility processes in supply chains, creating a bond of trust between the various stakeholders" (Spinelli, 2022). The EC also stressed the importance of building an effective transnational bargaining system, which "could support companies and sectors to handle challenges dealing with issues such as work organization, employment, working conditions, training". According to the EC, the development of transnational bargaining can "give the social partners a basis for increasing their capacity to act at transnational level. It will provide an innovative tool to adapt to changing circumstances, and provide cost-effective transnational responses" (EC, 2005).
With respect to the issues posed by GVCs, the development of social dialogue and collective bargaining could ensure better economic conditions for workers, fostering the use of supply chains that do not undermine the dignity of labor, and pushing companies to compete on cost rationalization based on efficiency, process innovation, skills, and quality improvement, rather than focusing on cost savings related to wages and working conditions (Hadwiger, 2015; On the role that social dialogue and social partners can play in developing the digital transition: Vogel, 2017). It has been suggested that the social partners should set as a primary objective, to be achieved through the use of social dialogue aimed at both commissioning and supplying companies, that of extending basic labor protection provisions to firms operating in global value chains as suppliers and subcontractors, which are often excluded from collective agreements. This would ensure, even in these contexts, wage growth and improved living conditions and reduce the power asymmetry that characterizes GVCs (Azarhoushang et al. 2015).
Finally, with regard to smaller firms, although there are no solid studies demonstrating the impact of the development of social dialogue on SMEs, it is international organizations that point out that, in contexts where social dialogue is more structured, working conditions are also better in relation to SMEs that open up to global markets, not only with reference to wages, but also with regard to the well-being of workers (ILO, 2018). In systems where industrial relations are established, it has been observed that, through certain tools developed by the social partners – such as the provision of supra-firm and territorial levels of bargaining – it is possible to deal with the difficulties of SMEs in entering into collective agreements (see the previous section). The goal of involving SMEs as much as possible in social dialogue remains relevant (Smallbone et al., 2005); progress on this point should not "overlook the problems, particularly as regards the inclusion of the position of SMEs and their employees by all the bodies where social dialogue takes place" (Voss, 2009).

However, affirming the potential of social dialogue in the governance of GVCs is not the same as claiming that it can in itself be sufficient to guarantee all workers' rights in global value chains. It is possible to consider social dialogue as a “strategic compass”, which can be used to involve the social partners in the multilevel governance of a complex economic phenomenon such as GVCs in order to reconcile the different needs of companies and workers and ensure respect for labor dignity (Lévesque et al., 2018).
In what follows, therefore, some national cases are explored, selected on the basis of the origin of the project partner institutions. An analysis is developed that takes into account the position of the selected countries’ SMEs within the GVCs and the economic and institutional factors, starting with the industrial relations system, that affect the ability of the same SMEs to participate in the global market.

4. *Analysis of the positioning of Italian SMEs in Global Value Chains, peculiar characteristics of the production sector and industrial relations system (focus on IRs for value chains: e.g., district/industry bargaining, bargaining on quality work/training and impact on competitiveness and innovation etc.)*

Italy is a leading case among the countries where SMEs play an important role. Looking at the Italian business system, it is possible to observe that the debate on Corporate Social Responsibility within global value chains cannot be limited to large companies, but must involve SMEs as well, given that “it is already clear that the engagement of SMEs in responsible business conduct is crucial to world economies, considering that these enterprises help create employment opportunities, drive economic growth and a more equitable distribution of income in society” (Marchegiani, 2021, own translation).
SMEs in Italy – understood as those companies employing up to 249 employees – account for 99.9 percent of the total number of companies, and even considering manufacturing alone, this percentage does not change much, e.g. 99.61 percent (ISTAT data for 2022). Looking at workers, 76.71 percent of Italian workers are employed in SMEs, a percentage that, with reference to manufacturing, reduces to 75.46 percent (ISTAT data related to 2022). Considering those manufacturing firms employing up to 49 employees, these account for 96.94 percent of the total number of Italian manufacturing firms and employ 50.44 percent of the workers in the sector (ISTAT data for 2022). From these statistics, therefore, it is possible to observe how, both in general and with specific reference to the manufacturing sector, SMEs – especially enterprises with fewer than 50 employees – represent the most widespread business model in Italy. This aspect is also confirmed when considering the domestic legal system: under Art. 2083 of the Civil Code, small entrepreneurs should include only “those who carry out a professional activity organized mainly with their own labor and that of family members” (Marchegiani, 2021, own translation), leading one to infer that enterprises employing from a few workers up to 50 employees, considered ‘small’ according to the most widespread

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economic taxonomies, could not be considered under Italian law, so the legislator understood this business model as the ordinary business model in Italy.
Concurrently, Italy is known to be a country marked by established industrial relations. Although the lack of disaggregated data by size class, it has been found that for more than 95 percent of labor relations the provisions of a national collective agreement apply (Spattini, Tiraboschi, 2022; more recently CNEL, 2023). This high coverage makes up – in the case of SMEs – for the lack of established decentralized bargaining: in smaller firms, due to the structural limitations already mentioned (§2), agreements concluded at the company level are rare, while, at least in wealthier areas, local bargaining is widespread (with reference to artisan firms, often considered as the model of Italian SMEs, see the various contributions in Loi, Nunin, 2018).
These preliminary findings are useful for examining the role of Italian SMEs in global value chains. It has been observed that subcontracting in Italy has undergone a "gradual but radical transformation" from being "an important, albeit not very visible, component of the growth of the country's manufacturing structure" to the current context in which companies that use subcontracting are called "to respond to the demanding challenges of globalization and to adapt to the new competitive environment, with an adequate development of technical, organizational and relational capabilities and an expansion of their market on an international and global scale" (Giunta, Scalera, 2011, own translation).
Because of their diffusion in the Italian economic fabric, therefore, Italian SMEs within global value chains are very active. Although later than other Western European countries, Italian SMEs have participated in the outsourcing and offshoring processes typical of global value chains. However, due to the peculiar characteristics of Italian manufacturing firms (and in particular their small average size), they "participate in value chains, which globalization has extended on a global scale, not only as buyers in factor markets (outsourcer) but also as suppliers, that is, in the role that typically the Italian medium and small enterprise had played in previous decades, in industrial districts or even outside them" (Giunta, Scalera, 2011).
It has been observed that Italian companies use GVCs mainly to outsource segments of the production process and, in particular, "the most frequent activity outsourced consists of operations usually characterized by a high incidence of human work realized by subcontractors (semi-finished products on behalf of the company); this kind of outsourcing is very often flanked by the production of semi-finished products. Of the companies, 45,4 % outsource specific components or finished products" (Chiarvesio et al., 2013). This is because Italian companies that resort to global value chains do so by following the producer-driven GVC model in which it is the producer (or subproducer) who takes a central role. These are companies that operate in capital intensive and technologically advanced sectors and are responsible for producing some key components and assembling the finished product, delegating the packaging of semi-finished products to other companies in the chain. Yet there are firms, especially in the textile sector, resorting to global value chains according to the buyer-driven model in order to outsource labor-intensive segments of production and save on labor costs.

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For the supply of products, Italian SMEs mainly turn to companies located within the European Union itself (in 60.5 percent of cases), while 37 percent of Italian SMEs have established relationships with companies in Eastern Europe and 46.2 percent with companies in the Far East (Chiarvesio et al., 2013). The fact that most firms have the EU domestic market as their reference can be explained by the fact that, even in the current processes of globalization of supplies, buyers maintain an interest in sourcing from nearby and specialized suppliers, thus contributing to the growth of a regional economy (Bettiol et al., 2022). Looking at manufacturing firms, differences emerge: for example, mechanical engineering firms predominantly turn to other firms in the European Union area, while textile firms offshore to Eastern Europe and Asia (Chiarvesio et al., 2013).
This difference also reflects a distinct strategic approach to value chains by Italian firms: while SMEs that have business relationships with North American firms or firms from other EU states adopted capital intensive production models and seek in their business partners quality and the ability to carry out product and process innovations by commissioning mostly specific product components, firms relocating certain segments of production to Asian or Eastern European countries are characterized by labor intensive production models and aim primarily to reduce production costs (with particular reference to labor-related costs, but also to costs related to the procurement of materials) by commissioning semi-finished or finished products from their suppliers (Chiarvesio et al., 2013).
Yet it is not possible to overlook the effects that global value chains have had on firms that previously filled the role of suppliers or subcontractors within local industrial districts and that, in recent years, faced competition on a global scale. After some initial difficulties, there has been an evolution of the typical sub-supplier business model, which has seen in global value chains an opportunity to expand its market, serving a larger number of customers (including on an international scale) and developing stable relationships aimed at participating in decisions relevant to production and proposing models and solutions for the problems of the client (Giunta, Scalera, 2011). Other firms, especially those operating in sectors, such as textiles, traditionally connoted by labor-intensive production and which historically played the role of subcontractors for other European firms, have experienced a drastic decline in exports, due to competition from firms in Eastern Europe and Asian countries. In these cases, even Italian SMEs, imitating offshoring strategies through GVCs, have outsourced more labor-intensive activities while retaining the management of more advanced activities (design, product development) locally (Bettiol et al., 2022).
In this context, much can be done by collective bargaining to govern the economic processes related to the spread of global value chains, especially in a country like Italy, where industrial relations are firmly rooted. Alongside national collective bargaining, the social partners can enhance the role played by territorial bargaining, stressing the peculiarities of industrial districts and reconciling competitiveness-related needs with those of labor quality.

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