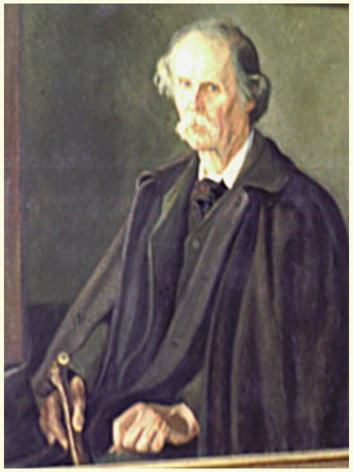
INDUSTRIAL DISTRICTS

Can localism & regionalism survive & thrive in a global economy?

In 19th century, English economist Alfred Marshall noted an "industrial atmosphere" within geographic concentrations of skilled workers:



"In districts in which manufactures have long been domiciled, a habit of responsibility, of carefulness and promptitude in handling expensive machinery and materials becomes the common property of all …The mysteries of industry become no mysteries; but are as it were in the air, and children learn many of them unconsciously."

Alfred Marshall. 1890. *Principles of Economics*

Families play central role in socializing the share values & work practices that nurture small local enterprises across many generations.

INDUSTRIAL DISTRICT: a socio-territorial entity characterized by the presence of both a community of people & a population of firms in one naturally and historically bound region.

Giacomo Becattini. 1990. "The Marshallian District as a Socioeconomic Notion."

Small-Firm Networks

ID is one type of small-firm network (SFN) of cooperating and competing small-medium enterprises (SME) in a geographic area.

"The firms are usually very small – say 10 people. They interact with one another, sharing information, equipment, personnel, and orders even as they compete with one another. They are supplied by a smaller number of business service firms … and financial service firms."

Charles Perrow. 1992. "Small-Firm Networks."

►SMEs mostly light manufacture consumer goods: ceramics, clothing, cutlery, food, furniture, leather goods, shoes, small machinery, toys, utensils

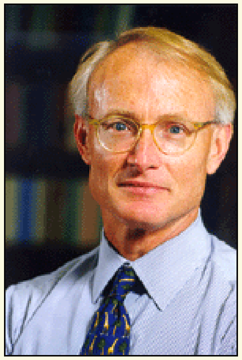
►SMEs use flexible-specialization (artisanal crafts) for customized, small-batch production runs

►Personal trust & reputation are critical to maintain long-term relations, avoid deceitful double-dealings

Classic SFNs located in IDs of Southern Germany & Third Italy

Clustering for Competitiveness

Michael Porter identified the competitive cluster as a geographic location with sufficient resources and competences to give its businesses a sustainable competitive advantage over other places.



Cluster: "geographical concentration of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (e.g., universities, standard agencies, trade associations) in a particular field that compete and also cooperate."

Techno Clusters - high technology-oriented, well adapted to the knowledge economy, typically including universities & research centers

Historic Know-How Clusters - based on more traditional industrial activities that maintain knowledge advantage over decades or centuries

A cluster can achieve competitive advantages by:

- increasing the productivity of companies in the cluster
- driving innovations in the industry or sector
- attracting & stimulating new businesses to the

TC Industrial Districts & Clusters?

Identify Twin Cities industries that could become IDs & clusters, giving Minnesota competitive advantages in the global economy

Historically, what traditional small & medium enterprises were strong in the Twin Cities area?

Which industries are no longer competitive? On cutting edge of global technological innovations?

How could larger institutions – U of MN, *Fortune* 500 firms – help to foster TC industrial districts?

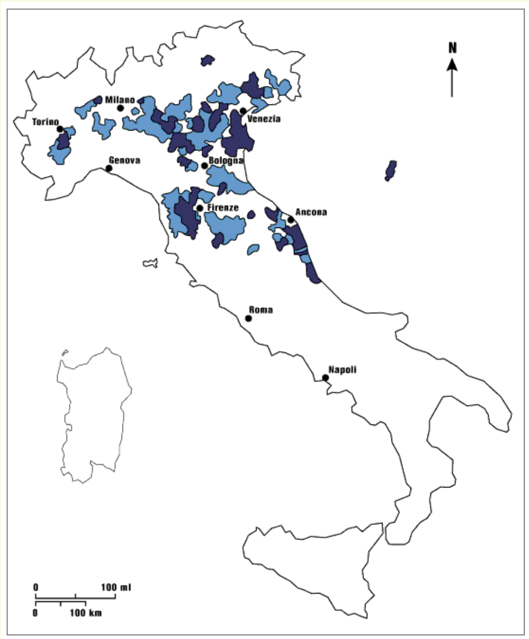
What public policies could attract new firms & promote the formation of competitive clusters?

In your analysis, consider these (and other) industries:

Agricultural Equipment	Arts and Leisure
Education	Financial Services
Food Processing	Information Technology
Medical Devices	Metals and Metalworking
Printing and Publishing	Professional Services

La Terza Italia

Industrial districts of the “Third Italy” are located primarily in Northeast (Veneto, Friuli) and Central Italy (Emilia-Romagna, Tuscany, Marches)



These historical regions evolved from local ethnic communal cultures of trust & cooperation among firms and between bosses & workers

Contrast to poorer Southern Italy & Sicily’s noncooperative “amoral familism” culture

Extensive social capital ties support a “local custom of reciprocal cooperation … the real axis of social culture of the district” (Dei Ottai 1994)

Institutional structures & politics underpin Third Italy’s IDs:

- ► Governments, laws give regulatory exemptions, low taxes, loan guarantees
- ► Public research institutes & service centers offer customized business services
- ► Voluntary self-help associations & producer cooperatives foster innovations

IDs & the 'New' Italian Econ Geography

Fabio Sforzi describes how competitive advantage depends less on large firm size "than on how production is organized locally and interacts with the social and productive environment in which it takes place."

"A system of values and norms – dominated by a spirit of initiative and largely reflected in the principal aspects of life, like work, consumption, saving, attitudes to uncertainty – produces a cultural environment favourable to economic enterprise, influencing industrial relations and the activities local government and administration." (Sforzi 2002:442)

Local territory, not firm or industry, is the key economic unit of analysis:

- Technical division of labor plus local external & internal "scale economies"
- High & variable demand for nonstandard goods (upscale / luxury)
- Global competitive advantages in org'l intelligence, talent, innovation, ….
- Local society dominated by small entrepreneurs & extended families
- Such local economies very difficult to "transport from place to place"

Are Italian IDs becoming less competitive in the global economy?

Things Fall Apart

Can Italy’s IDs survive under fierce global competition?

- “Unfair” poaching of workers inflates wages and erodes community trust
- Mergers concentrate markets into fewer and larger firms
- Powerful *gruppi* dominate, with leader-firms as “bridges” to small orgs
- Reduced interaction, loss of collective learning & memory in IDs

Italy’s highly successful luxury-fashion industry is now threatened because firms are increasingly relocating their factories from *Terza Italia* to the low-wage labor markets of E. Europe, China, North Africa.

Benetton Group’s flexible-specialized production facility of 1,500 workers is networked to 200 SME subcontractors (with 30-50 workers each) totaling about 10,000 workers. Over 5,000 franchise stores in 120 nations employ another 70,000. Benetton is less a family firm than a MNC, resembling big automobile manufacturers like Toyota & GM that dominate over their many small suppliers.

Organizational Learning

Italian industrial district success depended partly on how well their networks fostered continuous **organizational learning** by workers & firms

Organizational learning differs from personal learning (i.e., individuals obtain human capital via education, training, and work experience).

OL tranforms information into valuable org'l knowledge that increases its adaptive capacities

Org'l learning involves changes in <u>collective action</u> processes, including:

❖ Org'l routines (org "genes"): creating rules & regulations, practices & procedures, behavioral patterns, strategies, technologies. Routines can originate from in-house innovations or from imitation of successful orgs

❖ Memory storage & retrieval: records, professional codes, corporate narratives, "myths and ceremonies" recalling past org'l glory days

❖ Socialization: transmit existing collective knowledge to newcomers (individual learning), using formal training courses & informal advising

Discussion: Best Learning Practices?

Class discussion: What are the basic differences between individual learning & organizational learning?

Assign half of discussion groups to develop variety of reasons or evidence in support of one learning hypothesis:

(A) The best way for an organization to acquire new knowledge is for its employees to take instruction in classroom settings and to study individually.

(B) Organizational learning is best achieved through collective activities, such as group discussions and role-playing simulations.

Class reconvenes and debates each side’s arguments!

Whom Do You Trust?

What do we mean by a personal trust relation?

• What does this saying imply: “That person is very trustworthy”?

• How important is risk-taking for starting and continuing a trust relationship? What kinds of risks are too high?

• How can trust be created between two unacquainted people?

• How important for trust is honoring the reciprocity norm – repaying any favor done to you with a favor of equal value?

• When don’t we trust someone to: ...tell the truth …keep a promise …keep a secret …deliver the goods?

• What is betrayal of trust? What are its consequences?

• What can you do to overcome initial distrust? To mend a broken trust relation?

• Is trust always embedded in a specific dyadic relationship or can trust be generalized (e.g., a group’s reputation for trustworthiness)?

A Trust Exercise

How willing are you to trust your classmates?

This exercise involves building a trust relationship with other members of the class under conditions of uncertainty. The instructor will explain the specific procedures just before the activities begin.

After the exercise ends, we'll discuss reactions to your experiences, including issues of trust, comfort, anxiety, control, empowerment that may have occurred.

IMPORTANT: If you feel uncomfortable about participating, you are under no obligation. Just observe the exercise and discuss what you see.

Interorganizational Trust

In what ways does trust among organizations differ from personal trust?

In repeat business exchanges among firms (suppliers & customers), contracts may be more costly to negotiate and to enforce than relying on interorg’l trust.

In transaction cost theory, organizations are constantly tempted by opportunism (Williamson’s “self-interest seeking with guile”)

- Exchange partners could turn out to be incompetent or deceitful and fraudulent (How can you safeguard against Internet rip-offs?)
- But, impossibility to screen every option, write iron-clad contracts, buy insurance to cover all possible risks (Unavoidable moral hazards issues)
- Orgs desire the flexibility to adjust their contractual agreements if an unforeseen catastrophic event should occur (“Act of God”)

By building corporate trust into their long-term relations, orgs can cut risk of partners taking advantage & can reap benefits of cooperation.

Trust & Institutional Change

Model of institutional evolution, trust & cooperation (Farrell & Knight 2003)

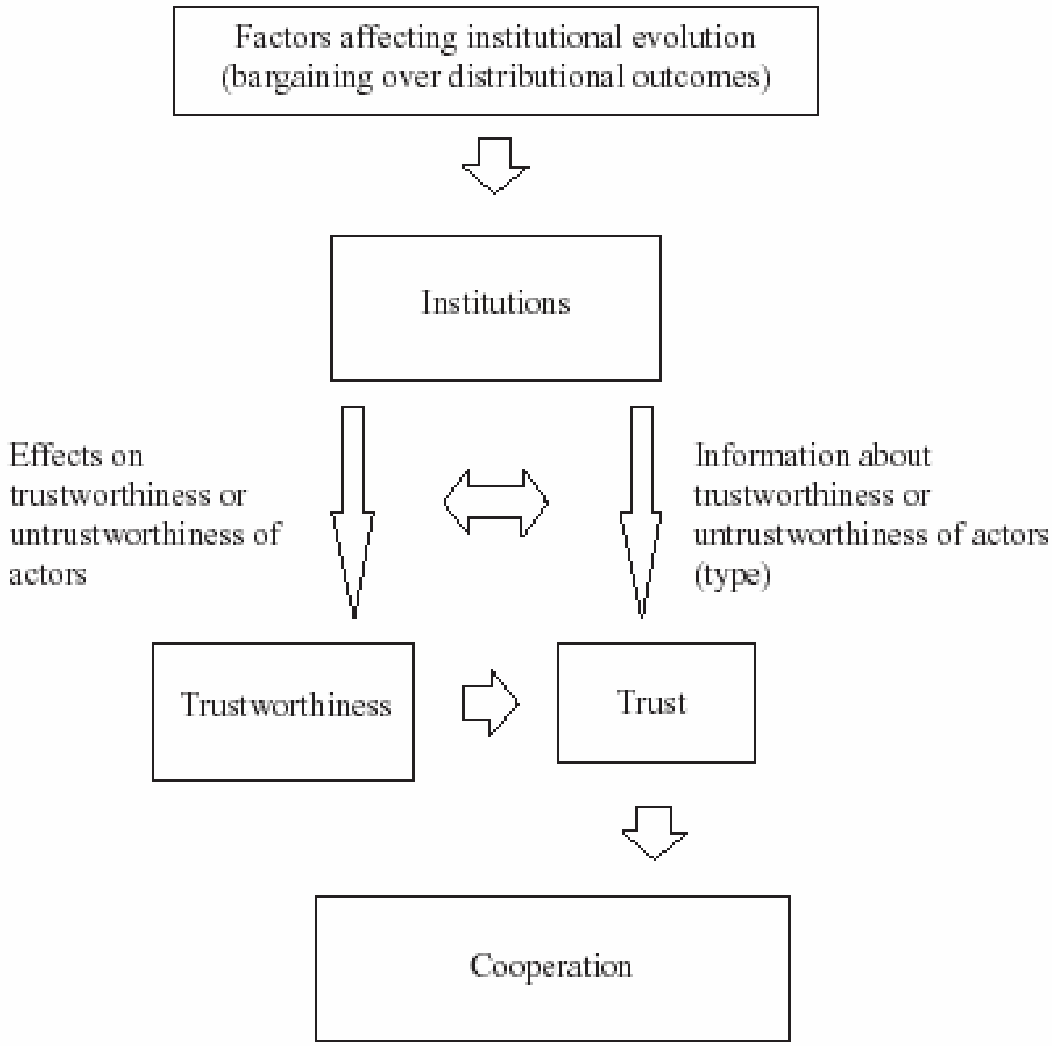


Figure 1. Factors affecting institutional evolution (bargaining over distributional outcomes).

Frank Knight defined **social institutions** as sets of rules that "(1) provide info about how people are expected to act in particular situations, (2) can be recognized…, and (3) structure strategic choices of actors…"

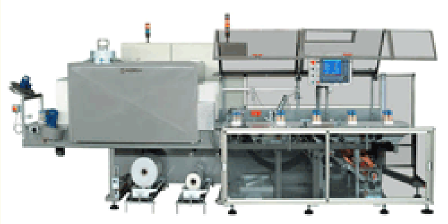
People will act trustworthy if they believe: (1) institutions will punish untrustworthy behaviors; or (2) instutitions "provide information about the compliance behavior of other actors … which allows me to be better informed as to the trustworthiness of potential cooperative partners." (545)

Any Way You Slice It … It's Still Bologna

Erosion of communal trust in Bologna's packaging machinery ID

ID was initially based on equality and shared risks between a final firm and its subcontractors. Cooperation was built on the reciprocity norm and personal relationships ("handshake is worth more than a piece of paper with writing on it.")

Now 4-5 dominant large "group firms" are writing formal contracts, whose arms-length relations "verge on exploitation" of some subcontractors.



"As the bargaining power of larger final firms has increased, …[they are] abandoning previously held informal norms and imposing increasingly hierarchical—and unequal—terms of exchange … These subcontractors are no longer able to trust large firms in the district to guarantee work over the long run as they traditionally did; instead, they must accept contractual terms that are highly unfavorable to them." (p. 558)

Organizational Reputation

Who steals my purse steals trash…

But he that filches from me my good name

Robs me of that which not enriches him,

And makes me poor indeed.

Shakespeare *Othello III, iii, 155*

Org'l reputation Public opinion about org's general trustworthiness – for quality, reliability, expertise, responsibility, community spirit, …

Org'l reputations can be created or destroy via networks:

- Third parties spread info testifying to corporate competency
- Malicious gossip spreads false & damaging information

Companies increasing rely on **trusted assessors** (e.g., notary publics) and **reputation agents** (paid professional advice-givers) to provide reliable reputational information to clientele who are unable to judge for themselves.

Critics' reputations for unbiased restaurant, travel, movie, record reviews

- Why do we <u>distrust</u> reviewers who "get comped" by the producers?
- Why greater trust when critics make *incognito* (anonymous) reviews?

Shorter Writing #6:

Farrell & Knight applied their model of institutional change to the case of the packaging machinery industrial district of Bologna.

> "Recent research findings suggest that IDs in Italy are seeing a general shift in their mode of internal organization. In particular, larger firms appear to be enjoying an ever-more dominant role in many, perhaps most, districts." (551)

Describe how this change from traditional institutions linking final firms and subcontractors (based on personal ties and equal risk-taking) to domination by larger "group firms" (which impose unfavorable terms on subcontractors) has affected community trust & cooperation in Italian IDs. Are the new institutions more likely to help or to hurt Italy's competitive advantages in the globalizing economy; why?