

COMMUNAL VALUES: SHAPING THE WAY OF DOING BUSINESS IN INDUSTRIAL DISTRICTS

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Abstract - Communal values, arising from belonging to the same group, create a deep belief in intellectual abilities, initiative, trust, strong will, dedication to work, flexibility, creativity, solidarity, reciprocity, moral obligation, duty toward community, organisational capacity, and acceptance of risk. These supportive community values are found in industrial districts. In the ideal industrial district model, the individual firm does not see survival and success in terms of a fight with rivals - rather the emphasis is on collective growth. District success means individual success. The same social and cultural relations within communal groups enable industries to develop economies of scale, efficiency, creativity and flexible specialisation. In Sinos and Paranhana Valley, industrial clusters in Brazil, relations between enterprises are grounded in social and cultural relations, building up trust and co-operative attitudes which are shared by the community. In these manufacturing complexes, there is a high degree of trust. To help each other is the rule, not the exception, and information and organisation are shared. Social cohesion is extremely positive for industrial districts. Social embeddedness reduces the opportunistic behaviour common in ordinary markets. This paper analyses the role of communal values in shaping the way of doing business in industrial districts; trust and confidence building, the link between social and economic change, social embeddedness, and community participation and governance. Examples of industrial districts in Brazil and Italy stress the relationship between community values and economic performance.

Key words: communal values, social embeddedness, industrial districts, economic performance.

Resumo - Pertencer a um mesmo grupo induz ao estabelecimento de valores comunais compartilhados, valores esses que fortalecem as crenças do indivíduo em suas habilidades intelectuais, assim como fortalecem a existência de diversos valores morais como a confiança entre os membros da comunidade, a iniciativa, a determinação, a dedicação ao trabalho, a flexibilidade, a criatividade, a solidariedade, a reciprocidade, a capacidade organizacional, e a aceitação de riscos. Nos distritos industriais são encontrados esses valores comunais. No modelo ideal dos distritos industriais, uma empresa em particular não vê o sucesso e a sobrevivência de longo prazo em uma perspectiva de luta competitiva com suas rivais - isto porque a ênfase é no crescimento coletivo, de tal forma que o sucesso do distrito é confundido com o sucesso individual de cada empresa em particular. As relações sociais e culturais da comunidade permitem que as empresas do distrito desenvolvam economias de escala, eficiência, criatividade e especialização flexível. Nos clusters industriais do Vale do Rio Sinos e do Vale do Paranhana, na região sul do Brasil, as relações entre empresas se estabelecem a partir das relações sociais e culturais, o que leva à existência de confiança e atitudes cooperativas compartilhadas com a comunidade. Um alto grau de confiança é encontrado nesses complexos industriais calçadistas, de tal forma que ajudar os outros é uma regra de comportamento e não uma exceção, e onde a informação e a organização são compartilhadas. A coesão social é extremamente positiva para os distritos industriais, e o enraizamento social reduz os comportamentos oportunistas existentes nos mercados convencionais. Tendo em vista as considerações aqui estabelecidas, esse artigo analisa o papel dos valores comunais como constituidores da forma das relações dos negócios nos distritos industriais. Esse artigo também analisa a questão da construção da confiança, da relação entre a mudança social e a mudança econômica, do enraizamento social, da participação comunitária e da governância. Finalmente,

para enfatizar a relação entre os valores comunais e o desempenho econômico, são discutidos alguns casos de distritos industriais da Terceira Itália e do Brasil.

Palavras-Chave: valores comunais, enraizamento social, distritos industriais, desempenho econômico.

INTRODUCTION

Communal values, arising from belonging to the same group, create a deep belief in intellectual abilities, initiative, trust, strong will, dedication to work, flexibility, creativity, solidarity, reciprocity, moral obligation, duty toward community, organisational capacity, and acceptance of risk.

Social capital is constituted by the characteristics of social organisation such as: trust, rules and systems that contributes to increase the efficiency of society, that can create co-ordinated actions. So, the cultural characteristics of a community make part of the social capital, because informal relationship and trust makes easier for the community to perform joint action that leads to a profit for the whole community. Social clubs, neighbourhood associations, cultural entities, can promote development as they help to build strong ties between the individuals of the community, making them to be willing to collaborate, to participate.

Professor Robert D. Putnan, political scientist of Harvard in his book published in 1993 – Making Democracy Work - Civic Traditions in Modern Italy - points out that northern and central Italy which has a strong democratic feeling and where the social relationships are very intensive since the Middle

Ages, created an environment for participation, collaboration and association, that are responsible for the Economic Miracle of the Third Italy.

Social capital, is the most necessary component to achieve sustainability, one can only take good care of the environment if one has a strong feeling of belonging, and a strong feeling that particular geographical area will be as well the place where his or her children will grow up and live on.

As said by Francis Fukuyama (1995, p.11) for democracy to work properly it is necessary that capitalism coexists with certain pre-modern cultural habits that ensure their proper functioning such as: reciprocity, moral obligation, duty toward community and trust which are based in habit rather than the rational calculation that is needed for the success of modern society.

Fukuyama (1995, p. 41) goes further stating that the word culture itself suggests that the more highly developed ethical rules by which people live, are nurtured through repetition, tradition, and example. These rules may serve economically rational ends, but they are transmitted from one generation to another as a guarantee postulated by economists: that human beings never behave as purely selfish utility maximizers, they also pursue other values which are related to solidarity and recognition of a group.

Domenico De Masi who organised a book on the rationality and emotion of the creative groups of Europe from 1850 to 1950 (1989, pp. 19-20) stressed that to belong to the same group creates a deep believe in the development of intellectual abilities and in the rigorous preparation of the individuals for work, spirit of initiative, trust, strong will, hard dedication to work, flexibility,

orientation to creative work, multiplicity of interests, competitive attitude in the confront with other groups, solidarity with the colleges of the same group, certainty in own ideas, organisational capacity, disposition to take risks, a strong pursue of aesthetics of human activity, and for the values, dignity and supremacy of arts and science above any other expression.

Exactly this social capital brings trust, co-operative attitudes that make possible collaboration, exchange of information, reducing the sources of conflict. They start to understand that collective interest is like the individual interest, so individual survival depends on collective survival.

In Sinos and Paranhana Valley, industrial clusters of the State of Rio Grande do Sul, in the south region of Brazil, the relations of the enterprises in a net of production are based in the social and cultural relations: religion, ethics, education, history and politics relations that forms the base of the local community, which builds up a system of values, trust and co-operative attitudes shared by the community of these districts. Social and cultural relations makes possible the existence of economic externalities, economies of scale, efficiency, agglomeration economies, innovative capacity, decentralised industrial creativity, creating the endogenous development in the local and regional level, and flexible specialisation (Galvão, 1999, p. 39).

In those two shoe manufacturing complexes of the south region of Brazil it is clear that local culture is measured by a high degree of trust in the community. To help each other is the rule between the enterprises, not the exception. Information, knowledge, organisation are constantly shared. This shows that social cohesion is extremely positive for the good performance of the localised

industrial district, the social embeddedness in this region reduces the opportunistic behaviour that is common in the occasional market relations.

These supportive community values are found in industrial districts. In the ideal industrial district model, the individual firm does not see survival and success in terms of a fight with rivals - rather the emphasis is on collective growth. District success means individual success. The same social and cultural relations within communal groups enable industries to develop economies of scale, efficiency, creativity and flexible specialisation.

This paper analyses the role of communal values in shaping the way of doing business in industrial districts; trust and confidence building, the link between social and economic change, social embeddedness, and community participation and governance. It also presents examples of industrial districts in Brazil and Italy with the purpose of stressing the relationship between community values and economic performance.

In this sense the paper analyses the mode of production of the industrial districts, followed by a brief presentation of classical example of the Third Italy, two cases of Brazilian industrial districts are presented after the Italian example. Then, the paper moves on to analyse the aspects of social capital, social embeddedness, trust and co-operation. At this point, the paper discusses aspects of transaction costs, innovation, and labour advantages in the industrial district. The next step is to discuss some issues on opportunistic behaviour in society and, particularly, in the industrial districts. Finally, community participation and the role of institutions in building confidence is presented, followed by some conclusions.

INDUSTRIAL DISTRICT – SOME CONCEPTS

Becattini (1990, p.38) defined the industrial district as “a socio-territorial entity which is characterized by the active presence of both a community of people and a population of firms in one naturally and historically bounded area. In the district, unlike in other environments, such as manufacturing towns, community and firms tend to merge”.

For Pyke and Sengenberger (1992, p.17) the industrial districts can be an organisation that allows to overcome problems of production, what is called the “resource gap”, joint procurement, development, utilisation and financing of the needed resources, as a consequence better economies of scale and scope will be reached.

Co-operation is based on formal and informal relations, supported by trust between the members of the community, because of a perception of a common identity, and similar cultural roots. Also, face to face relationships tends to increase friendship in a way that confidence will be the norm not the exception in the district.

Pyke and Sengenberger (1992, p.17) emphasised that co-operation in the district will take place through the division of the whole production process, what was called vertical disintegration by other authors.

Economic relations are embedded in the social relations in such a way that it is difficult to separate business and community spheres. The economic activities will be greatly shaped by community norms and expectations.

Short-term economic gains will not be the aim of the district, rather, the

objectives of the district will be oriented towards long run development.

Each district must be distinguishable in a way that the commodities produced there will have special characteristics “there must be something behind the unifying symbol (e.g. the ceramic tiles of Sassuolo) which is truly relevant for choice” (Becattini, 1990, p.44).

Technological progress in the industrial district is a natural process helped by shared risks and capital, because in the district the production is divided by many small firms, each one been responsible for only a part of the bulk of production, thus the needed amount of capital will not be very high, and because of co-operation the entrepreneur will be supported in case of failure, and there will be always a chance to participate again in the business.

THE CASE OF THE ‘THIRD ITALY’

The classic cases of Italy has provided the most compelling evidence for the role of co-operation.

Several technological paradigms have emerged as central to development thinking since the 80’s. Some of these hinged upon the role of traditional technologies, others dealt with the so-called appropriate technologies and others still were concerned with the impact of the rapidly expanding spectrum of new technologies. But, the case of Italy has provided the most compelling evidence for the development thinking in the period above mentioned, and the key factor to explain the so called Italian Miracle (Il Sorpasso) is co-operation.

Italy has reached a much better position between the developed economies after the decades of the 70’s and 80’s and she reached the fourth place in terms

of gross national output, leaving Britain and France behind. This fast rate of growth was not associated with a shift from small to large firms, on the contrary, the share of small firms in this period increased from 31 to 34 percent from 1972 to 1980, and investment also increased faster in the small firms than in the large firms (Best, 1990, p.204)

In Italy one can distinguish between three Italies which are: the impoverished South, including the islands of Sicily and Sardinia; the industrial triangle formed by Milan, Genoa, and Turin in the North; and what is labelled the Terza Italia, or “Third Italy”, in between, constituting the central regions of Emilia-Romagna, Tuscany, Umbria, and the Marche, and, to the northeast, Veneto, Friuli, and Trentino. The Third Italy has some unique characteristics that differentiate it from the two traditional Italies (Fukuyama, 1992, p. 100).

The region of Italy called the “Third Italy” is based on groups of small firms, which have a strategy of continuous innovation, employ flexible production methods, and integrate planning and doing in work. The best example of such an Italian region - which had the fastest rate of growth in Italy - is Emilia-Romagna. This region has become one of the highest per capita income regions in Italy.

In Modena, which is the manufacturing centre of Emilia-Romagna, per capita income increased from seventeenth place in Italy in 1970 to second place in 1979, this growth happened in association with the increase of small firms. The most known manufactures in this region are: racing cars, ceramics, textiles and clothing. Metalworking and machine making are the largest manufactures, followed by ceramics, textiles and clothing. The sort of development which

occurred in the Third Italy, based mainly on small-firms is quite different from the managerial hierarchies of Big Business; it is based, among other factors, on the action of the industrial districts as collective entrepreneurs.

In the Industrial Districts self-help is a common feature, where members of the family-enterprise or their most trusted employees were induced and helped to establish their own businesses in such a way that they will form a socially-integrated system with a sort of complementarity within their productive chain. This form of co-operation almost eliminates external dependence.

The firms work in a so integrated way that an employee can start his own firm after having learnt a specific skill, with the guidance and help of the firm where he was working. In the future, if he wants to, he can close his firm and continue working with his former boss; furthermore, he will not lose in any way the social status, which he acquired.

Another important aspect to discuss is the support given by the Confederazione Nazionale dell'Artigianato (CNA) to small firms. The CNA which is "largely a creation of the communist and socialist parties in Italy" (Best, 1990, p.209), is a kind of trade association and governmental agency, that offers services to help small firms like: accounting; financial; and establishing co-operatives' services; CNA also gives assistance in the creation of business service centres and in the development of property facilities. The relationship between the firms and CNA is not a hierarchical one, information flows either from CNA to the members, and from them to CNA.

In Modena the municipality gave support to a series of initiatives (like buying land and selling to artisans, establishing a credit co-operative and a marketing consortia) with the purpose of facing unemployment with the aim of establishing an industrial park of Modena.

Besides there was the Centro Informazione Tessile dell'Emilia-Romagna - CITER - which was founded in 1980, an organisation with the aim to provide information on fashion, technology (collective use of microelectronics) and marketing to small and medium size firms, even tracking of competitors' developments around the world.

Third Italy has shown that development can come in a different form –be based in a sort of economic development which is deeply embedded in social life. The so called “Italian model” is by no means a new phenomenon, rather it is rutted in history, deeply embedded in the family and community values, and had inherited the artistic, technical and commercial abilities that would flourish in the industrial districts of the Third Italy. Italy's amazingly lively economy relies for its strength and vitality essentially on living tradition of skills in art and crafts and a hardworking population.

SOME BRAZILIAN INDUSTRIAL DISTRICTS

The industrial shoe manufacturing complex of the Sinos Valley in the State of Rio Grande do Sul, in the south region of Brazil, can be considered an authentic industrial district because, it is an agglomeration of small and medium enterprises, producing mainly one product, in a specific geographical area, with an intense flow of information, high institutional density, the presence of

suppliers of parts and inputs, and high social and family values. The Sinos Valley industrial district can be comparable to the Italian industrial districts (Galvão, 1999, p. 37).

The Paranhana Valley, another industrial shoe manufacturing complex of the State of Rio Grande do Sul, presented rates of increase in GNP higher than the ones of the State of Rio Grande do Sul, in the 80's and 90's. In this valley, as in the Sinos Valley, above mentioned, the relations of the enterprises in a net of production are based in the social and cultural relations: religion, ethnics, education, history and politics, relations that forms the base of the local community, which builds up a system of values, trust and co-operative attitudes shared by the community of these districts. Social and cultural relations make possible the existence of economic externalities, economies of scale, efficiency, agglomeration economies, innovative capacity, decentralised industrial creativity, creating the endogenous development in the local and regional level, and flexible specialisation (Galvão, 1999, p. 39).

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In a field work research performed in the Paranhana Valley, above mentioned, in 1997, it was clear, through the analysis of the results, that there is a high level

of horizontal co-operation between firms, mainly by loan of machines and tools, and by frequent mutual visits to share information of all sorts (Galvão,1999, p. 30). The intense cohesion of the local population might be explained by the German or Italian origin of the population, or it might be explained by the common integration that can be found in a group of immigrants trying to survive in a foreign land, like stated by Bazan and Schmitz(1998) for the town of Dois Irmãos, also in the south of Brazil

The small town of Santa Cruz do Capibaribe, in the state of Pernambuco, in Brazilian Northeast, has conquered a good position among other towns, with a considerable growth over the 80's and 90's, due to the growth of the textiles industry. According to the local mayor, 6,000 of very small or backyard factories employ about 30,000 workers. In 1989, 90% of the 40,000 inhabitants had at least one sowing machine in their homes. High production is a consequence. The main product are jeans that are marketed in Sulanca, a street market in the small town of Caruaru. Once a week the local population sell their products to people from other states of the Northeast like Bahia, Maranhão, Piauí and Paraíba, as well as from the states of Goiás, Pará, São Paulo, Rio de Janeiro and Minas Gerais. Very few people are unemployed in this area, and, as a result of the higher income, many complementary activities have been developed in Santa Cruz do Capibaribe - the ones that are needed by the process of production and the ones that are established in order to attend the needs of the local population (Galvão, 1995, p.26).

Similar process occurred in the nearer town of Toritama, where the inhabitants work in their own homes producing clothes and shoes. In this town 30,000

sewing women working in 2,000 small factories produce over 500,000 units of jeans monthly. The city received many improvements, houses were rebuilt, streets paved, commercial and industrial establishments redecorated (Galvão, 1995, p.26).

The town of Monte Sião in the state of Minas Gerais was until the mid 70's an agricultural area, this small town had a substantial increase in population, in mid 80's it had more than 3,000 inhabitants, known as the capital of "tricot", a sort of needle work made with the help of some simple machines. Monte Sião, with more than 400 small factories and more than 300 shops, is known as a very prosperous region of Minas Gerais (Galvão, 1995, p.26).

The excellent economic features found in the three locations above mentioned, Santa Cruz do Capibaribe, Toritama and Monte Sião, certainly are a result of the cohesion of the local population, their co-operation networks. If the social embeddedness was not present, they would have not been able to overcome previous problems with agriculture and employment, they would have not found ways of overcoming problems in finding markets for their new products.

SOCIAL CAPITAL

The concept of capital, traditionally, is embodied by land, factories, tools, and machines. Human capital is created by knowledge, by giving human beings skills and capabilities that make them able to act in new ways. What James Coleman has called "social capital" is the ability of people to work together for common purposes in groups and organisations. Social capital is people's ability

to associate with each other in order to facilitate action. In this way social capital is critical not only to economic life but to social existence. We should quote Bazan and Schmitz(1997, p.6) here: “Physical capital is wholly tangible, being embodied in observable material form; human capital is less tangible, being embodied in the skills and knowledge acquired by an individual; social capital is even less tangible, for it is embodied in the relations among persons”.

On the other hand, the ability to associate depends on the degree to which communities share norms and values. Here is the time to start discussing Fukuyama’s seminal work on trust, because, as he says, “out of such shared values comes trust, and trust has a large and measurable economic value”(Fukuyama, 1992, p. 10).

Fukuyama (1992, p. 26) emphasised that social capital can only be acquired through sociability, never by individuals acting on their own, and sociability is much harder to acquire than other forms of human capital, because it is based on cultural characteristics , which are harder to modify or destroy.

Social capital differs from other forms of human capital as it is created and transmitted through cultural mechanisms like religion, tradition, or history. Social capital can result from traditional social ties (kinship or ethnicity) and modern social ties (professional activity or political affiliation). (Bazan&Schmitz, 1997, p.6)

Putnam (1993) explains social capital by its proximity to other concepts such as trust, norms and networks. In fact, social capital is constituted by the cultural characteristics of a community like informal relationship, trust, rules

and systems that allows the community to perform joint action, improving the efficiency of society by facilitating co-ordinated actions. Cultural associations can promote the integration of the community, so that individual will be willing to collaborate, to participate.

Social capital is a public good, whereas conventional capital is a private good. This means that social capital must often be produced as a derivative of other social activities.

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The family is an important institution for the proper functioning of the industrial district because it helps to socialise individuals into the world of work; and teaches the custom of co-operation.

SOCIAL CAPITAL – TERESÓPOLIS E PETRÓPOLIS

Cappellin and Giuliani (2000, p.14) pointed out that economic rationality in capitalist system has not eliminated forces like the family as a constructor of the socialisation process, and the territory as the space of relations and specific social control. Those two authors also pointed out that for the economic rationality of the enterprise, culture has a very important paper to fulfil, because it is in the enterprise that the different groups interact, and this interaction is based on

values and interests that differ from agent to agent, in such a way that norms and rules have to be established in order to be able to pursue profits and keep the accumulation of capital.

Those two authors made interviews in the cities of Petrópolis and Teresópolis, in the state of Rio de Janeiro, Brazil, in order to study the process of transference of the enterprise from one generation to another. They found that, even after the second and third generation, the enterprise keeps the same name, produces the same products, even though the present generation has been trying to acquire more efficiency by studying at the university, by visiting fairs and expositions, and by making part of professional associations. In order to face modernisation they still use what is in their culture and combine with the modern facilities that are available to them. Cappellin and Giuliani found, in the results of their research, that enterprises aim higher profits, but their action may be influenced by motivations that are not strictly economic, they can be traditional, religious, symbolic, familiars, territorial, and even emotional, all cultural dimensions.

SOCIAL CAPITAL – DOIS IRMÃOS

Economic development in communities can be divided in stages which are related to social capital, which is enforced or weakened according to those stages.

In the early stages of economic development within a community there are many obstacles that are difficult to overcome in an individual manner, like the lack of financial capital, technical knowledge and other scarce resources. It is exactly because of the scarcity of those resources that there is room for the

emergence of the so called “social capital” in which the collective interest is prioritised in terms of individual interest.

Social capital seems to emerge in communities where there is a sense of community and social identity based on cultural, ethnic and religious ties. In the early stages of the community, social capital permits the emergence of variables such as trust, cooperation, solidarity.

In Dois Irmãos, a municipality of Rio Grande do Sul, a southern state of Brazil studied by Bazan & Schmitz (1997) in the early stage, social capital enabled the community to act as a whole and overcome obstacles like the ones listed before. In this sense, “mutual help actions were primarily carried out as a strategy for self-protection and survival (...) cooperation and reciprocity became social norms”, and where “a number of local barriers to industrial development were overcome by co-operation between entrepreneurs” (Bazan&Schmitz, 1997, p.14).

In Dois Irmãos, social capital, that generated trust and social norms, permitted the creation of partnerships which enabled the pooling of resources like financial and entrepreneurial resources which were considered as barriers to achieve economic development. Another phenomenon observed in Dois Irmãos was that social capital became more institutionalized with the economic development.

In the second stage of economic development did not occur the same positive correlation with social capital as before. This happened because the economic development of the community crossed its borders. The obstacles to economic development could now be defeated not only with members of the community

but also with the help of outsiders. “Who did not share the same values, were not linked to the same social networks, and who were not aware of the local rules, such as reciprocity, that regulated economic transactions between local manufacturers (Bazan&Schmitz, 1997, p.23). In this sense, the deterioration of social capital occurred, causing the minimisation of variables like reciprocity and trust. In the second stage “economic growth had the effect of weakening, rather than enhancing, the social ties and cultural and entrepreneurial identity that had previously formed the bases of social capital in Dois Irmãos” (Bazan&Schmitz, 1997, p.23).

The rules of the local market, in the second stage were set by export agents who did not follow the local corporate identity. “There was less need of horizontal co-operation and the export agents had become the key players” (Bazan&Schmitz, 1997, p.24). The stock of social capital in the community as a whole suffered a great depreciation in this stage. “The sheer speed of growth meant that conflicts which arose could not await joint solutions” (Bazan&Schmitz, 1997, p.24). As a result the sense of community decreased immensely.

On the second stage the deterioration of social capital changed the relation based on co-operation to conflict between workers and entrepreneurs. Immigrant workers were hired and this increased the deterioration of social capital and its basis, like co-operation and reciprocity.

When Dois Irmãos faced a crises due to the international markets, which were demanding more quality in the exported products, social capital was rebuilt

in that community. Social capital permitted the community to overcome the new challenges set by international markets, leading economic growth to it.

SOCIAL EMBEDDEDNESS

All forms of economic activity will require the social collaboration of human beings. In the words of Fukuyama (1992, p. 66) “The workplace draws people out of their private lives and connects them to a wider social world. That connectedness is not just a means to the end of earning but an important end of human life itself. A fundamental human desire for recognition.” As Fukuyama argued in *The End of History and the Last Man*, every human being seeks to have his or her dignity recognized by other human beings. Indeed, he goes further stating that this need for recognition is the chief motors of the entire human historical process, so that beyond subsistence levels, economic activity is frequently undertaken for the sake of recognition rather than merely as a means of satisfying natural material needs. Economic activity represents a crucial part of social life and is knit together by a wide variety of norms, rules, moral obligations, and other habits that shape society, economic actors support one another because they believe that they form a community based on mutual trust. Economic life is deeply embedded in social life, so it must be understood as part of customs, morals, and habits of the society, the culture in general.

People are embedded in a variety of social groups - families, neighbourhoods, networks, businesses, churches, and nations - against whose interests they have to balance their own. Solidarity, loyalties, and dislikes shape the nature of

economic activity. In other words, social behaviour coexists with utility-maximizing behaviour (Fukuyama, 1992, p. 21).

While culture is a process continuously constructed and reconstructed during interaction. It shapes the members of society and is shaped by them, modernization implies that economic sphere is separated from social sphere, economic transactions are defined by rational calculations of individual gain, rather than by social or kinship relations. In premarket societies, economic behavior was heavily embedded in social life, but became much more autonomous with modernization. Granovetter(1985, p.487) should be cited here: “Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations”.

Trust, which is critical to economic life, arose historically out of religious habit rather than rational calculation. Max Weber’ in *The Protestant Ethic and the Spirit of Capitalism* showed that the early Puritans developed certain virtues like honesty and thrift that were extremely helpful to the accumulation of capital.

Another important aspect of embeddedness is repeated exchange over a period of time that tends to encourage reciprocity. Social networks facilitate the resolution of dilemmas of collective action. As Putnan (1993,p.172) stated “Trust is generated and malfeasance discouraged when agreements are “embedded” within a larger structure of personal relations and social networks.”

CO-OPERATION BETWEEN FIRMS

Knorringa&Meyer-Stamer (1998, p.94) emphasised that co-operation arrangements on the firm level are based on mutual trust and that the agreements are self-enforcing because there is always the risk that by eroding trust through opportunistic behaviour the firm could be dropped out of the network.

Avoiding co-operation may be perfectly rational behaviour. Knorringa and Meyer-Stamer (1998, p.95) have found four main reasons why entrepreneurs may choose to act individually: first, rivalry, in this case the entrepreneurs would prefer not to communicate to avoid uncovering business secrets; second, macroeconomic framework is unstable changing constantly, and this is a situation which may discourage inter-firm co-operation; third, co-operation can reduce transaction costs, but it also creates them, costs involved in the co-ordination of the network and in resolving the conflicts that co-operation itself can create; and fourth, firms vertically integrated tend to stick to themselves, and when attempts to co-operate fails because of predatory behaviour, isolation and low trust is the natural response.

Knorringa&Meyer-Stamer (1998, p.94) working on the concept of co-operation stated that co-operation certainly results in increasing returns, by the increase of the stock of social capital, thus improving the conditions for more co-operation. They also stressed that in the case of non-co-operation, failed co-operation strengthens the notion that co-operation is impossible, in a way that no further efforts will be made to stimulate co-operation. And they conclude that “Co-operation and non-co-operation are thus path-dependent”.

Nevertheless, co-operation between firms is crucial since innovation is a cumulative process, which involves “learning- by-doing, -using, and -interacting, and often yields increasing returns” (Knorringa&Meyer-Stamer, 1998, p.94). Those two authors stressed the importance of learning-by-interacting. The most frequent type of innovation, the incremental innovation, is a process of continuous improvements. The alternative to inter-firm co-operation in innovation, would be the firm performing their own research effort and learning processes, but in this case higher opportunity costs would be incurred as firms could replicate or repeat dead-end tracks. In this sense learning from the experience of other firms will be the way to avoid such costs, and this is only possible through co-operation (Knorringa&Meyer-Stamer, 1998, p.94). They also stated that co-operation between firms typically involves three features which can be analytically distinguished, namely: information exchange, joint learning, and collective action. Knorringa and Meyer-Stamer (1999, p.94) also point out that the agreement between various actors – firms, researchers, and others – on a given technological trajectory can create the preconditions for increasing returns for the producers and returns users.

The importance of trust in economic life has been recognized since John Stuart Mill explained the differences in productivity between regions and countries and stressed trust as one of the main factors (Humphrey&Schmitz 1996,p.1), and “The advantage of mankind of being able to trust one another penetrates into every crevice and cranny of human life: the economical is perhaps the smallest part of it, yet even this is incalculable” (Mill 1900: 68, apud Humphrey&Schmitz, 1996).

Acting according to principles of trust does not imply that people cease to act in self-interest; rather, it means a specific, broader understanding of self-interest which includes the welfare of others, and one's own welfare in the future.

The greater the level of trust within a community, the greater the likelihood of cooperation. And cooperation itself breeds trust.

CO-OPERATION AND MUTUAL INSURANCE

Solidarity is a form of mutual insurance. Someone receives assistance and will in return give assistance in the future. There is no need to give back something equivalent.

Fafchamps quoting Evans-Pritchard emphasised that it is scarcity not sufficiency that makes people generous, when social conditions are such that individual survival is extremely uncertain, informal solidarity mechanisms, a sort of mutual insurance, tend to emerge naturally, and in this case reciprocity is necessary for an effective insurance mechanism. When people interact over a long period of time co-operation is a normal result. Co-operation is rewarded and opportunistic behaviour can be penalised in future. People that misbehave can be punished afterward by not being assisted when in need. Fafchamps should be quoted here: "The mutual insurance agreement becomes self-enforcing: it is based on voluntary participation, not on coercion" (1992, p.149).

Lack of privacy that can occur when people are living close together makes it hard to hide something from your neighbour or relatives, and vice versa, as a consequence it allows solidarity links to develop faster and stronger.

Most fundamental to the civic community is the social ability to collaborate for shared interests. The social contract that sustains collaboration in the civic community is not legal but moral. The sanction for violating it is not penal, but exclusion from the network of solidarity and co-operation (Putnan,1993,p.183).

As Putnan pointed out, failure to co-operate is not a signal of ignorance or irrationality. He addresses to games theorists who studied this subject under a variety of guises (Putnan,1993,p.163):

In *the tragedy of the commons*, no herder can limit grazing by anyone else's flock. If he limits his own use of the common meadow, he alone loses. Yet unlimited grazing destroys the common resource on which the livelihood of all depends.

A public good is used by everyone, regardless of whether he contributes to its provision. Under ordinary circumstances, therefore, no one has an incentive to contribute to providing the public good, and too little is produced, causing all to suffer.

In the *logic of collective action*, every worker would benefit if all struck simultaneously, but whoever raises the strike banner risk betrayal by a well-rewarded scab, so everyone waits, hoping to benefit from someone else's foolhardiness (Putnan,1993,p.164).

In *the prisoner's dilemma*, a pair of accomplices is held incommunicado, and each is told that if he alone implicates his partner, he will escape scot free, but if he remains silent, while his partner confesses, he will be punished especially severely. If both remained silent, both would be let off lightly, but

unable to co-ordinate their stories, each is better off squealing *no matter what the other does* (Putnan,1993,p.164).

Putnan showed those four situations to understand that co-operation would have a better result where every party would be better off. But if a mutual commitment can not be made, each one has an incentive to defect and become a “free rider”. And this author concludes that “these models are extremely useful for explaining how perfectly rational individuals can produce, under some circumstances, outcomes that are not ‘rational’ when viewed from the perspective of all those involved”. (Putnan,1993,p.164).

This means that it is necessary to believe that one is trusted by the others as much as is necessary to trust others.

Co-operation should be easier when players engage in indefinitely repeated games, in such a way that a defector will be punished in the future. Co-operation will occur much easier if the number of players are limited and the information about past behaviour of agents is abundant.

Putnan (1993, p.168) states that spontaneous co-operation is facilitated by social capital and he provides an illustration of this principle: the informal savings often called *rotating credit association*, which is a group who agree to make regular contributions to a fund, each of the members might contribute a monthly sum, and each month a different member would receive the monthly amount. That member will continue making regular contributions, and will only receive again when all the members had a turn at receiving the monthly

amount. This system is a combination of sociability with small-scale capital formation.

TRANSACTION COSTS

Transaction costs are positively correlated to opportunism, uncertainty, and ambiguity. When a community inherited a substantial stock of social capital in the form of norms of reciprocity and networks of civic engagement, voluntary co-operation will occur, and this is the case in industrial districts (Putnan, 1993, p. 167).

Rules and regulations are needed when distrust prevails in a society, in this way co-operation will be enforced by agreed upon norms sometimes by coercive means. The legal apparatus substitutes trust, and entails what economists call “transaction costs”. In the words of Fukuyama “Widespread distrust in a society, in other words, imposes a kind of tax on all forms of economic activity, a tax that high-trust societies do not have to pay (1992, p. 27). Communities like the industrial districts do not require extensive contract and legal regulation of their relations because mutual trust is a common feature. Disputes will be dealt with in a costless way, there will be no need for complicated contracts or bureaucratic authorities.

Information is necessary for every economic exchange, and specific information on possible alternatives are crucial, to get those information is a costly and time-consuming process, but as Fukuyama stated, can be short-circuited by custom and habit (Fukuyama, 1992, p. 36).

With co-operation, production costs can be lowered, each firm will take advantage because of the overall size of the industrial district. Interdependence in the district does not concern only complementary firms, rather it is a general phenomenon, because the productivity of a single firms depends on joint action, each firm will benefit from external economies like economies of scale, co-ordination, or skill.

When a transaction is uncertain or ambiguous due to interdependence or to innovation they will have an implicit cost as further information will be needed. In an industrial district the cost will be lower because the needed information will be available and well known for all the members of the community.

Opportunism which is an effort to individual gains through a lack of honesty in transactions, occur through information manipulation (distorted or incomplete information). Opportunism is a serious obstacle to economic efficiency, it reduces its effectiveness and increases transaction costs, on the other hand, co-operation, extended to economic relations, can prevent people from behaving opportunistically.

Gabi Dei Ottati (1991, p.59) found that the reasons for asymmetry in economic transactions are three fold:

- information - is a costly and time-consuming process;
- substitutability - it is hard and/or expensive to find a valid substitute for a specific transaction;
- specific investments – there are costs for the acquisition of knowledge, equipment, or whatever else is necessary for a given transaction.

One has merely to bear in mind that the less symmetrical the relations between parties are, the greater the benefit that the one who has contributed less to the specific investment will enjoy by behaving opportunistically (DeiOttati, 1991, p.59).

Asymmetry is not present in the industrial district because information flows freely through the district; the small size of the firms will cause relations to be of interdependence rather than of dominance-dependence.

Transaction-specific expenses can be distributed among the contracting parties. Precisely because the production process is split up in the industrial district and investments are spread among the agents, the costs of acquiring knowledge or equipment will be divided between the firms.

The problem of substitutability is lessened in the industrial district, as agents live and work nearby, it is easier to find another transaction to substitute the one available before.

INNOVATION

The process of innovation in an industrial district encourages innovation in two ways. Vertical disintegration, or the division of the production process, makes new ideas produce results when combined with others. On the other hand, as the process of production and innovation are distributed among a large number of firms, a stimulus to co-operation helps to foster change, because it allows the process of innovation to be split among the firms in the district.

Competition promotes efficiency and change, in the industrial district, because it is reinforced by co-operation, which helps to keep it dynamic, because

it reduces the risks for those who start their own firms, or who decide to invest in new machinery and new products. Decisions which are taken within a framework of mutual co-operation, in the hope that, should things not work out well, not all would be lost. A person can always go back to be an employee, or continue to produce for other firms, or for subcontractors, rather than work on his own. Thus, co-operation favours a process of continuous change, which is essential for the success of the industrial district (DeiOttati, 1991, p.56).

Thanks to co-operation, the failure of a firm or of an innovation is not considered a definitive failure, but can be tried again, later on, when either circumstances have changed, or the agent has gained greater experience.

Uncertainty is not so harmful in the industrial district, as investments are distributed among firms, the splitting up of the economic process into a large number of small firms causes the distribution of investments. Thus, the risk is minimized.

The adaptation to the evolution of markets and technology in industrial district is faster since single units are technically efficient and small, they can easily multiply and be reconverted, because (1) only a few elementary phases of the productive process need to be changed; (2) only a small proportion of capital goods needs to be renewed and chances for using them elsewhere are numerous; and (3) workers will usually adapt to innovation in both process and product. All this characteristics makes the reconversion of single units easier, whenever return prospects change (DeiOttati, 1991, p.61).

Co-operation that is typical of interpersonal relationships in the district, makes innovation to be distributed among firms and individuals, allowing them to contribute in terms of knowledge, experience, and initiative, to this process. Dei Ottati has labelled this process as “collective innovation” (1991, p.64). Trust between firms creates dynamism in the economy by removing the inertia that can make the firms to be afraid of taking risks. Further more, flexibility and capacity to innovate reduce the costs of uncertainty because it stimulates changes by continuous efforts to improve techniques.

It is very important to understand the fact that in an industrial district members of a community live with the perspective of remaining there as they have roots there, and because is there that they plan to spend their future life; as a consequence, they can accept transactions even if they are unprofitable to them in the short run, because they feel confident of righting the balance later on.

Each individual act in a system of reciprocity is *usually* characterized by a combination of what one might call short-term altruism and long-term self-interest: I help you out now in the expectation that you will help me out in the future. Reciprocity is made up of a series of acts, each of which is short-run altruistic (benefiting others at a cost to the altruist) but which together *typically* make every participant better off (Putnan,1993,p.172).

Another important point was pointed out by Knorringa&Meyer-Stamer (1998, p.94), which is the increasing returns to scale can occur due to a large number of firms and researchers improving the same technology.

LABOUR ADVANTAGES IN THE DISTRICT

In the industrial districts social mobility between the lower and the higher job positions is very high, due to the proximity between dependent worker and manager or entrepreneur, and more, the perception of such opportunities increases co-operative attitudes which will result in more dynamism and innovation for the district. In this case as stated by Pyke and Sengenberger (1992, p. 21) “sharply defined manual and mental distinctions tend to break down”. Those two authors emphasised that it is possible that exactly this increased social mobility could be responsible for the economic dynamism that occurred in areas and regions of Europe outside the traditional industrial heartlands in recent past.

In industrial district there is the advantage of a pool of local labour and expertise highly qualified for all the processes of production, Marshall (1988) in his study of localisation of industry highlighted that the existence of these pool of labourers is one of the advantages in the localised industry. The expertise will pass from father to son, and from colleague to colleague, forming a cultural heritage in the area.

Becattini (1990, p. 41) pointed out that for social and economic activity of the district to merge it is necessary that the main activity be broad enough to provided job opportunities to all the population: the young, the mature, the elderly, men and women.

Becattini (1990, p. 41) also pointed out that the industrial district provides the possibility for everyone to find the job position that best fit his aspirations

and abilities because information flows easily so that one can search incessantly for types of activity and work allocations best suited to the abilities of each person, in this way, a continuous process of reallocation occurs. Every person can select between home-based work, part-time and waged work, to self-employment and entrepreneurship Furthermore, in the words of Becattini: “...anyone who does not find work, or who contents himself with something known to be below that he can do, is the target of social stigma. Consequently, moves from one activity to another, however frequent, are not perceived in a socially negative way” (Becattini,1990, p.41).

Exactly this possibility of continuous reallocation of human resources will guarantee higher productivity and competitiveness in the district, and what is important is that this improvement is a result of intangible (like the pair hope-dissatisfaction) rather than technical progress. The continuous contact among workers with different skills, will make them to be more prepared to changes in production, with wider abilities and qualifications they can be easily reallocated, and this reallocation are a common characteristic of the flexibility of the production process of the district. Within each firm, members learn to co-operate and to co-ordinate their activities by reciprocal adaptation (DeiOttati, 1991, p.66).

The term “industrial atmosphere” first used by Marshall (1988, p. 226) to designate the form that the skills are transmitted in the industrial district, because, as he said “the secrets of the industry are in the air”, the specialisation will become a “public good” as it will not be acquired through formal education, it

will be acquired by normal relationships of daily life, every person in the district will acquire knowledge by “face to face” relationships.

On the other hand, for the firm it will be easier to evaluate the qualifications of each worker considering the firm is deeply embedded in the community, besides information for the firms will come at a very low cost and with hardly any effort, not only because of the fact that the firms is well integrated in the community, but, proximity will do the rest. In this case, the firms of the district will be in advantage compared to larger firms, even considering its sophisticated information structures (Becattini,1990, p.42).

The most sought-after workers find their ability and experience better acknowledged and appreciated in the district than elsewhere, and thus tend to concentrate and remain in it (Becattini,1990,p.42).

Becattini (1990,p.42) presented another category of agent, typical of the industrial districts, which he labelled “pure entrepreneurs”, this agent follows the events on the world market and continuously improves his own knowledge of the district and he translates the historical capabilities of the district into products that can be sold in that market. And for this category of agent Becattini avert to the special danger cosmopolitisation that can occur due to the progressive tendency towards a loss of the “roots”.

The large base of home-workers and part-time workers has a double function in the district: providing a source of a supplementary income for the families, and absorbing external fluctuations minimising the effects of the cycle, and

this is reached because individuals and families can always work more or less intensively.

DeiOttati (1991, p.66) has shown that work performance is highly ambiguous and uncertain, due to continuous change, and she addresses us to the control problem, stating that the most efficient form of control seems to be direct control, and in her words: “the small size of a firm helps to determine agreed-upon fair rewards, and thus encourages efficient performance”.

OPPORTUNISTIC BEHAVIOUR

Fukuyama (1992, p. 40) emphasised that human beings are fundamentally selfish and that they pursue their selfish interests in a rational way. But, on the other hand, he states that they also have a moral side in which they feel obligations to others. All cultures seek to constrain the raw selfishness of human nature through the establishment of unwritten moral rules in such a way that formal or informal education will have the aim of making people follow their society's moral rules by simple habituation and repetition.

Gabi Dei Ottati (1991, p.61) analysed opportunistic behaviour in industrial districts, and stated that this behaviour can be discouraged if economic relations are expected to be more or less permanent, people continue to live and work there, in this way contracts will be informal, as a consequence it is easy to discover opportunistic behaviour and retaliatory behaviour can occur. Two considerations must be done: first, positions of advantage can be transitory, and, second, in the district information have a very high transparency. Consequently, economic and moral sanctions can be very onerous. This author

discussed the sanctions that opportunistic behaviour can induce, and they can be of two kinds: internal sanctions, such as feelings of guilt or a sense of morality; and external sanctions, such as the threat of ostracism from a community as punishment for non co-operative behaviour.

To complete the picture, we should discuss the problem of hierarchies. As Fukuyama (1992, p.25) said “not all people within a community can be relied upon to live by tacit ethical rules alone. A small number may be actively asocial, seeking to undermine or exploit the group through fraud or simple mischievousness. A much larger number will tend to be free riders, willing to benefit from membership in the group while contributing as little as possible to the common cause”, and his conclusion is that hierarchies are necessary, rules and sanctions can play the specific role of coercion.

But, as stated above, human beings can act in a co-operative form not only due to sanctions but through inherent altruism. Yes, human beings are selfish but at the same time they are altruistic. They see themselves as part of the group and perform tasks that are on the benefit of the group. It is a sort of spiritual satisfaction, in a way it is still maximisation of utility, but certainly not the rational utility usually referred to by economists.

COMMUNITY PARTICIPATION AND THE ROLE OF INSTITUTIONS

Kinship, ethnicity, political or religious affiliation, and collective agreement. It is commonly accepted that successful industrial districts cannot be reproduced elsewhere as they are culturally embedded. But it is possible to foster trust in

social relations, of course trust building is a process which takes a long time; however, it is wrong to deny the possibility of development of networks of civic which form the community's stock of social capital.

The market, the firm, the family, the church and the school, the local authorities, the political parties, the unions, and voluntary associations like religious and artistic bodies are some of the institutions responsible for the spread of the values of solidarity, and loyalties throughout the district, and support and transmit those values through generations. On the other hand, the family is the first institution to socialized the individuals into their culture in such a way that they can live in broader society.

Putnam compares the economic success and political traditions of Northern Italy with the failures of regions in Southern Italy, his thesis on differences in institutional performance in Italy where some Italian regions have had effective governments and prospered and others not, is that regions with social capital produce better democracy and better economic results. He concludes that the answer lies in civic traditions. In the successful regions communities have strong norms of reciprocity and dense networks of civic engagements, that will foster voluntary cooperation.

It is worth while to discuss the role of intermediate associations in different societies, and here we should borrow the structure used by Fukuyama (1992, p. 55) of low and high trust societies. United States, Japan, and Germany are societies with q high degree of trust between individuals, and this forms a solid basis for social capital, with the creation of a variety of voluntary social groups not based on kinship.

Many Latin Catholic countries like France, Spain, Italy, and a number of nations in Latin America, as well as socialist societies have weak intermediate associations, they can have strong families and a strong state, but relatively little in between (Fukuyama, 1992, p. 55).

In China Confucianism prevails and it is structured on the elevation of the importance of the family above other sorts of social ties, which implies in weakness in ties between individuals not related to one another. In this sense in China there is a relatively low degree of trust (Fukuyama, 1992, p. 56).

Voluntary associations are not strong in France due to the centralisation of political authority, monarchical or republican. In England, by contrast, people were not dependent on centralised authority which resulted in a society with strong social ties (Fukuyama, 1992, p. 56).

The same feature can be found in the Soviet state where there is virtually no social groups. “The ironic consequence of a doctrine designed to eliminate human selfishness was that people were made more selfish. It was a common observation, for example, that Soviet Jewish émigrés to Israel were much more materialistic and less public spirited than Jews who had come from bourgeois countries” (Fukuyama, 1992, p. 55).

Fukuyama found that Japan is a group-oriented rather than a state-oriented culture. “While most post-war Japanese respect the state, their primary emotional attachments - the loyalties that make them stay in the office until ten at night or miss weekends with their families - are to the private corporations, businesses, or universities that employ them” (Fukuyama, 1992, p. 54).

Granovetter (1985, p.486) has pointed out that “strong” interpersonal ties (like kinship and intimate friendship) are less important than “weak ties” (like acquaintanceship and shared membership in secondary associations) in sustaining community cohesion and collective action. “Weak ties are more likely to link members of different small groups than are strong ones, which tend to be concentrated within particular groups. Dense but segregated horizontal networks sustain cooperation within each group, but networks of civic engagement that cut across social cleavages nourish wider cooperation”.

Collective action can engender dilemmas from time to time, in this way, the performance of all social institutions will depend on the solution of the mentioned dilemmas. Putnam stated that a third-party enforcement was the solution offered by Hobes “If both parties concede to the Leviathan the power to enforce comity between them, their reward is the mutual confidence necessary to civil life. The state enables its subjects to do what they cannot do on their own – trust one another.” (Hobes ,1993,p.165).

Better government will be achieved through secondary associations, these associations will foster a culture of civic responsibility and high public expectations from government. Civic regions are replete with networks of civic engagement and reciprocity. These networks, for Putnam, constitute the social capital for good government: “Effective and responsive institutions depend, in the language of civic humanism, on republican virtues and practices. Tocqueville was right: Democratic government is strengthened, not weakened, when it faces a vigorous civil society” (Putnam 1993, p.182).

CONCLUSIONS

Social embeddedness seems to be an important characteristic of the success of industrial districts. Is it a necessary feature for collective efficiency and trust. Competition in the district is combined with a local custom of mutual co-operation, the reciprocal integration of competition and co-operation encourages people to try to find less expensive ways of producing their goods or services, and hence stimulates continuous change.

As regard as opportunistic behaviour in the industrial district; and considering the custom of co-operation, circumstances that make opportunism highly profitable in the industrial district are not frequent. And more, opportunism is discouraged without resource to expensive hierarchical control.

Mutual trust is a common feature in the industrial districts, as a consequence; the transaction costs are lower, as is minimum the legal apparatus needed. Disputes will be dealt with in a costless way, there will be no need for complicated contracts or bureaucratic authorities. We can than conclude with a quote by Dei Ottatti: “transactions, in the industrial district, are governed by a form that lies halfway between the market and the community, so it can be called the “community market” (1991, p.57).

The integrated way in which the industrial district operates, where the units are small and interdependent, makes personal contacts frequent inducing loyalty, esteem, and friendship. Exactly this interpersonal relationships in the district, makes innovation to be distributed among firms and individuals creating the dynamism in the economy by removing the inertia that can make the firms to

be afraid of taking risks. On the other hand, the costs of uncertainty is reduced because investments are distributed among firms, so the risk is minimised. This leads one to conclude that, widespread innovation, and continuous change will occur.

The case of the Third Italy and the Brazilian cases discussed above, support the argument that socio-cultural bonds facilitate trust and help explain competitiveness.

Social capital is constituted by the cultural characteristics of a community like informal relationship, trust, rules and systems that allows the community to perform joint action, improving the efficiency of society by facilitating coordinated actions. The two Brazilian cases presented of Dois Irmãos and Teresopolis and Petropolis confirm those arguments.

The ability to create certain institutions and run them effectively is itself culture bound, civic engagement enhances both democracy and economic performance. Horizontal networks of civic engagement help participants solve dilemmas of collective action, and foster institutional success in the broader community. The mutual insurance agreement becomes self-enforcing: it is based on voluntary participation, not on coercion.

It is accurate to say that the possibility of continuous reallocation of human resources will guarantee higher productivity and competitiveness in the district.

To summarize, an industrial organization which competes on the basis of collective efficiency like the industrial district, requires a high degree of trust

in such a way that the community values will shape the way in which business are performed.

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