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Social Mechanisms of Economic Interaction: The Role of Social Capital in Territorial Development

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This paper draws on the presentation I prepared for discussion at the Joint Princeton-Northwestern Junior Scholars’ Workshop ‘Embedded enterprise in Comparative Perspective’, 11-14 April 2002, Princeton (Usa). I thank the municipality of Rovereto (TN) and the Board of the Comprensorio della Vallegarina (TN) for the help provided in collecting information and data on the Vallegarina district, and Prof. Chiesi –coordinator of the Trento research group on ‘Social Capital and Local Development’ for the opportunity to use these data.
Introduction

In the last decade there has been increasing attention from international and national organizations to co-ordinate development projects which are more attentive to the role played by social factors in processes of economic transformations (Oecd, 2001; Wold Bank, 2001). Social capital, in particular, has become a key issue in contemporary social inquiries and community empowerment projects for economic development; this is despite the fact that a wide range of scholars from economists to sociologists are still debating its dimensions and content (Portes, 1998; Woolcock, 1998; Chiesi, 1999; Ostrom, 2001; Pizzorno, 2001).

Though partially based on previous research activity, this paper had a spring from my involvement in Trento Research Group on ‘Social Capital and Economic Performance at the Local Level’ and is aimed at applying such perspective to the case of the Italian industrial districts, and specifically to the formation on human capital inside this specific organizational context. The prevalent tendency in economic sociology has been to read the development of industrial districts in some areas of Italy (§1) as the positive outcome of interactions between cultural and institutional relations (social capital) and contingent economic factors (e.g. crisis of the fordist system, growth of international trade). This interpretative perspective is partially embodied by Robert Putnam’s research on institutional path dependency between economic development, social capital and civicness in Italy (Putnam, 1993). Putnam dealt from a very different perspective with the same phenomena that Italian economic sociologists, geographers and economists analyzed empirically by means of the ‘districts experience’. Leaving apart the national and international debate that arose from Putnam’s
work (Portes, 1998; Bagnasco, 1994; Cartocci, 2000; Ballarino, 2002), an important outcome of his work has been to stimulate discussion about the role played by specific forms of social relations (community bonds) in establishing positive feedback and trustful expectations about the collective use of individual and family social capital (Pizzorno, 2001; Piselli, 1999). As some scholars underline (Bagnasco, 1999), Italian industrial districts studies can in fact be viewed with an heuristic purpose as ‘teaching cases’ (§ 2) as they dealt with social structural and institutional aspects that contemporary social capital research is addressing. Moreover, they highlighted issues such as the role of informal relationships inside market transitions and the problem of the level of analysis (e. g. micro to meso and macro level as the shift from local to regional and international level) in territorial development.

My proposal is to describe the experience of the districts through a specific social mechanism of economic interaction: the notion of ‘economic learning’ which C. Sabel (1994) originally introduced as a sociologist’s tool to analyze internal coherence of industrialization processes in different countries and correlated opportunities to generate positive effects in terms of social outcomes (coordination and cooperation for generating and reproducing public goods). Following this path of inquiry, in the second part of the paper I highlight contents and forms of specific economic practices within a firms’ district (Vallelagarina) of the North East of Italy (§ 3).1 In

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1 Since a large research project dealing with entrepreneurs’ social capital is to be realized in the following months inside this specific territorial context, this paper performs also the purpose of addressing specific ‘working hypothesis’ that will be refined during fieldwork. A detailed description of the overall research is available at the Dept. of Sociology and Social Reseach of the University of Trento: [http://www.soc.unitn.it/dsrs/](http://www.soc.unitn.it/dsrs/)
particular, I analyze how small and medium sized firms located in Vallelagarina look for prospective employees, how they create their human capital, and finally how they plan future strategies for dealing with negative interaction problems (§4). Economic learning being the most favorable output of such interaction processes, change in entrepreneurs’ relational social capital and correlated practices traditionally used by firms for hiring specialized employees (e.g. poaching, contacts with technical schools and personal contacts) has been matched with institutional activities to promote local development. In the final observations, I try to point at the role of social capital in activating small entrepreneurs reactions to problematic situation in human capital creation, and favored the establishment of positive institutional proceedings for the reconciliation of collective and individual objectives in economic progress.
1. Social mechanism of economic development and the study of the Italian Industrial Districts

During the late seventies the rapid expansion of the manufacturing industry in the Center and North regions attracted the attention of economists and industrial policy makers (Brusco and Sabel, 1981; Brusco, 1986; Piore and Sabel, 1984). In particular, Italian sociologists and economists were intrigued by social effects of industrial development in the northern and central regions of Italy, the so called ‘Terza Italia’ (Bagnasco, 1977) or the Third Italy2 and investigated its forms and internal structure and organization. This new productive system, defined in the literature as the Italian Industrial District System, was based on a vast number of small and highly specialized firms, an equally vast number of craftsmen's activities and relatively few medium size firms that held the position of market leaders. Economists recognized this industrial system as something peculiar, not related with the classic historical stages of industrialization in Western countries (Guenzi, 1997).

This was firstly, because the structure of the economy (sectors representation, rate of growth and dimensions) was different from common patterns of industrial development, and secondly because the organization of production and the relationships between the firms were also based on social norms and common cultural values (Becattini, 1990b). Moreover, it was extremely difficult to understand the firms' characteristics using general statistical and socio-economic indicators only (Sapelli, 1998). Dimensions

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2 The naming comes from the simple reasoning that the first Italy was ideally represented by the industrialized regions of the north east (Piedmont, Lombardy and Liguria) while the second Italy consisted of the underdeveloped South.
of the firms tended to be very small, their rate of rising and decay was extremely rapid and everything from production organization to the inter-relationships of their activities tending to be embedded in informal practices.

In order to depict how the economic system had been caught up in the social structure of this area, one had to look more closely at the relationships between the industrial system and the socio-geographical environment, and select those aspects which sustained that specific form of organization. In particular, scholars noticed that the small firms system established “a 'social environment' of its own where the inclinations and the relationships between people, inside and outside the production system, during work as well as during social activities, were characterized by a specific tone and distinctive features” (Becattini and Bianchi, 1987). Economists define these new forms of industrial settlements as *industrial districts*, following the concept elaborated by A. Marshall (Bellandi, 1987; Becattini, 1989).

During the eighties, several empirical studies dealing with the Italian industrial districts were carried out separately by researchers from different disciplines (economists, sociologists and human geographers). Most of these studies range over different disciplinary fields but all emphasize the role of specific factors in activating social and economic processes, to introduce this “process of discovery” I suggest using three interpretative perspectives as three different (but not conflicting) explanations of economic development. The choice to highlight three threads of the discourse on Italian industrial districts is linked with the type of social mechanisms that original empirical studies emphasized and the level of analysis they privileged (international/national level, regional or local level). As I will discuss further in detail these two aspects (§ 2), this paragraph summarizes the main results of those studies and its is aimed at underlining those
specific socio-economic factors which might constitute a common base for
the interpretation of the case described in the third and fourth sections of the
paper.

1.1 The economists’ thread

The perspective of the economists investigating the origins of the system of small firms has been progressively refined over time and has come
to define the object of its inquiry as a separate and specific form of industry
organization. In the early stages, the emphasis was on the idea that the
growth of small firms was brought about by the attempt of larger firms to
circumvent the restrictions posed by unions, by devolving parts of the
productive process through smaller firms (Becattini and Bianchi, 1987). To
reduce labor costs and to re-establish the flexibility of the labor force,
large/medium sized firms had developed a network of subcontractors, either
small firms or artisans, who were able to fit into the firm's production
schemes and meet tight delivery deadlines.

This interpretation was considered to be convincing because it
connected the development of small manufacturers in some circumscribed
areas of the Italian territory to situational phenomena, such as the rise of
industrial conflicts and political protest in the sixties, and to international
phenomena, such as the trend toward recession in all western economies that
occurred in the same period (Sabel, 1989). Therefore, when economists set
out to investigate empirically industrial development in these areas they
looked quite exclusively at the organization of production, which was at the
core of the small firms’ system, and at the role played by external factors in
boosting the performance of small firms.
First, researchers discovered that the organization of production by small firms in the Third Italy was characterized by a high rate of variability with reference to both the type of good produced and to the quantity of production. Small firms characterized by flexible production, as this type of organization was named, were able to adjust their production very quickly to the demands of their buyers and to advance the market without increasing the costs of production and in particular labor costs (Becattini et al, 1990). Moreover, the nature of the market niche for the commodities was such that it permitted, or more precisely required, small-scale production. Goods were of medium-high quality, often trading with a brand name or a 'Made in Italy' label and conjured up various images of style or craftsmanship. Small firms did not standardize production of goods and their production was tailored to the requests of the buyer (seasonal variations for example) or adjusted on the basis of fashion trends. Since demand for the product was not dependent on its price but rather on its quality, the competitiveness of the firms was only partially determined by their ability to minimize unit costs (Antonelli, 1988). Small firms could thus compete in the market with large firms, as well as exploit large-scale economies by emphasizing quality and the customization of their products.

This initial analysis of the system of small firms was later complicated by further studies that revealed a much more complex pattern, highlighting

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3 Financial factors and, in particular, factors linked to trends in the export trade played a remarkable role in the success of the system of small firms, as the under-valuation of the Italian currency throughout the seventies attracted an increasing number of clients from abroad (notably West European countries and the USA). Furthermore, the geographic position of some areas of the Third Italy (such as the North-eastern regions) was ideal for trading with the central and northern regions of Europe. Germany, in particular, became one of the major destinations for Italian traditional goods (textiles, clothes, shoes) during the eighties.
the role played by sociological and regional aspects in the whole process of economic development. Scholars noticed that the relationship between firms could not be wholly explained by the phenomenon of productive decentralization which was limited to some portions of the Third Italy (Brusco, 1989). Furthermore, even during the eighties, while the Italian lira was recovering value, small firms preserved their position in export markets and attracted new clients thanks to their ability to meet demand for quality goods and highly refined production.

More specifically, empirical studies of different industrial districts in the Third Italy (Tuscany, Emilia, Veneto) showed that the system of small firms was not simply an organizational form which was purposely designed to enhance the production system of certain kinds of goods (Becattini, 1994). Relationships between firms often fostered increased specialization and division of labor among small firms and were rooted in economies of scale, external to the single units of production, but internal to the same portion of the territory where they were located. In particular, firms districts are also viewed as a typical case of the effectiveness of network organization in the economy (Grabher, 1993) and scholars applying the notion of embeddedness to Italian Industrial Districts showed the structural similarity of different forms of economic organizations from informal production activities, to the rise of new industries (Bellandi, 1989) and the establishment of alliances and innovation patterns among firms (Kogut et al, 1993). Further researches concentrate on those dimensions which are expected to be more effective in improving small and medium firms’ capacity to respond to global market demands, foster innovation and guarantee continuity to the experience of the districts.
1.2 Sociologist’s thread

The second path of inquiry was brought about by economic sociologists who interpreted industrial districts them as a specific system of social integration rooted in cultural values, common languages and behavioral logic (e.g. a strong work ethic, the propensity for risk-taking and for entrepreneurial innovation). The influence of these variables, strictly indigenous to the territory in the development of small firms’ economy, was the subject of several empirical studies which analyzed the continuous growth of the Third Italy during the seventies and eighties (Bagnasco, 1977). Bagnasco and Trigilia (1984), in particular, designed an extensive research program supported by several case studies in Tuscany and Veneto. Their purpose was to identify the socio-cultural, as well as the historical factors, which could have fostered economic development in these areas and shaped the internal organization of production of the small-medium sized manufacturing firms.

Firstly, in an analysis of the historical features of the Third Italy, they found an association between the diffusion of the mezzadria (crop-sharing) system and the spread of small and autonomous entrepreneurship in the post-war period (Bagnasco, 1982). As a starting hypothesis, it was suggested that the post-war transformation from an agriculturally based social organization to an industrial one could have been catalyzed in Third Italy by the presence of a relatively ample rural class, the members of which were able and successful in emancipating themselves from tradition and in acting purposely for the fulfillment of their direct individual interests. The source of profit was sought in the manufacturing sector which seemed promising both in terms of long term profit and use of easily accessible local resources.
(such as the availability of social skills from the previous activities of craftsmen and the traditional presence of mediators with experience in long-distance trade). From the point of view of the social structure, it was indeed a huge change. In less than a generation the rural class transformed themselves into artisans, factory workers and employees, acquiring entrepreneurial skills and a facility of the market economy without loosing their relationship with the traditional agricultural world.

The social variable, which played a major role in the process of industrialization, was the *traditional family* as the supporter of emancipation from the rural economy and the supplier of a low-cost flexible labor force (Bamford, 1987). The family network provided cultural and material resources for the development of small entrepreneurship (e.g. the startup capital, business contacts) and motivated the choice of an independent and self-sustaining activity. The bond between relatives was also the basis for the expansion of the firm, which grew as a new generation joined the family business, and improved its core activity generation after generation. Finally, the family was a supplier of labor: women and the young were involved in the business and represented a flexible and low cost workforce to call upon in periods of sudden and temporary rises in product demand (Musotti, 2000). Therefore, one can say that the small firms system was rooted both in the family and in the market as these forms of social organization complemented each other and provided resources and incentives to evolve and develop the business. Inside the family both these aspects were also driven by social values such as the taste for stylish and innovative products and the drive for social recognition.

Furthermore, the small firm, as well as being rooted in the family, was grounded in the *local community* and this fact has cultural and political, as
well as organizational and economic, implications (Bagnasco, 1982). Community relationships are mostly based on traditions. This means that social change, either at the level of the family or at the level of the orientation of culture and values, could be disruptive and, therefore, it had to be 'managed' from a long term perspective and with practical wisdom. Secondly, to be effective community relationships needed a certain level of decentralization in the decision making processes.

The activity of major political parties in the local arena was thus directed primarily at defending, reproducing and strengthening their respective influence over the society, marking the ideological conflict that characterized Italian politics all through the sixties and seventies (Trigilia, 1986a). Specifically, results from studies showed how the two main political parties of the Third Italy, the Communists and the Christian Democrats "favored a localized regulation of the small firm economy through their influence on industrial relations and the activity of local governments. On these bases a social compromise was reached which brought about a high level of economic flexibility" (Trigilia, 1986:18). In order to 'regulate' the economy, politicians and special interest representatives controlled and coordinated the local institutions. They used administrative resources to consolidate the local political identity and to sustain the development of industrial districts (Trigilia, 1986b).

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4 Two case studies on the political features of two different small firm areas: Prato, in Tuscany and Bassano, in Veneto were carried out by Bagnasco and Trigilia to analyze the characteristics of the communist (Prato) and the Christian democrats (Bassano) political subcultures. The aim was to reveal how two policy aspects, which were related to the degree of localism of Italian political culture, had contributed to industry structuring in these areas (Bagnasco and Trigilia, 1984).

5 Local governments intervened both directly by supporting economic development (such as creating marketing consortia for the local small firms or establishing a
Finally, another aspect which is to be considered relevant in describing the social background of the small firms system is the so-called *informal economy*, meaning those economic transactions which parallel the market and are usually part of socio-cultural practices. In fact, the development of the small firms in the Third Italy is partly linked to forms of informal economy though not completely dependent on them (Bagnasco, 1982). Although all small firms and workshops are registered at the local Chamber of Commerce, some of them and above all the smallest ones, cheated on their fiscal registers and on welfare contribution payments in order to reduce their fixed costs and be competitive in the market. Usually, the firms involved in such illegal practices do not lie at the border of the system but use them as a means to survive a temporary recession or the more hard and risky start-up period. Moreover, the declared taxable salary which goes to the worker is often integrated with non-declared money and the employer frequently assists and financially supports the more skilful and enterprising among his employees in undertaking the same business as an autonomous activity (Weiss, 1987). This mix of illegal and informal economic practices indeed favors the largest firms, which can organize a vast system of small subcontractors, as it reduces their labor force costs and enables them to remain more competitive in international markets. The low prices, higher rates of productivity and product quality, which regulate the exchange relations between the smallest firms, also contribute to raising the performance of the whole system, thus generating a virtuous circle (Contini, 1990).

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professional training center), and indirectly via social policies that were aimed at reducing the impact of industrial modernization on the local communities (such as public mediation of industrial conflicts).
Taking account of all these factors and interactions, the economic sociologist’s interpretation was to depict the emergence of an industrial setting in these areas as a spontaneous process of social construction of the market economy (Bagnasco, 1982). Where previously authoritative and reciprocal mechanisms of regulation of the economy had prevailed, there now stood a complex system of autonomous economic activities competing on the basis of cost, price and quality. Moreover, the contradictory reality which research into the Third Italy disclosed, was that, in those specific settings, market mechanisms depended on a complex net of social and institutional relations which had to stay informal and out of institutional control in order to let the market work autonomously and successfully (Bagnasco, 1999).

1.3 Territory focused thread

Finally, the third and less acknowledged research perspective on the Italian districts has been the one carried out by geographers and experts in territorial and urban planning. Most of these studies investigated the peculiar form of the development of the districts after municipalities and regional governments launched environmental and infrastructure development projects. They first looked at the relationship among the urban centers, the manufacture settlements and the countryside, as well as at the fading boundaries between these different socio-ecological environments (Dematteis, 1989).

Firstly, due to social-geographical patterns, it appeared that in the Third Italy there had been no separation, so to speak, of the industrial society and the traditional agrarian culture, because they merged with one another and
grew synchronously. This was true for social patterns as well as those of habitat. Analyzing the maps, with reference to indicators such as the rate of location of industrial sites, the rate of employees' presence and the rate of urbanization, the first feature to catch the eye is the absence of strict boundaries between the countryside and the towns, between residential and productive areas (either manufacturing or agricultural). Human geographers defined this phenomenon as a *process of urbanization* of the countryside and research has analyzed its progressive stages with reference to the demographic and economic transformations dating from Italy's unification (Dematteis, 1989; De Bernardi, 1991).

Specifically, researchers noticed that industrial districts tended to arise spontaneously around old artisans' centers or in the neighborhood of large plants and professional training schools. Following this, grew a network of side activities linked to the firms, such as technical services, marketing and commercial consultants and financial and trade centers. As a consequence of geographical limitations and opportunistic settlements, artisans' workshops, small firms and residential areas are thus often present in the same place. This area tends to be in the close suburbs of a town because the evolution of these different forms of development took place simultaneously during the decades in question and found reciprocal resources from one another (Dematteis, 1989).

These features apply in general to the Third Italy, but regional varieties are frequent. Some traits specific to the North-easter regions, in particular, have been identified by F. Indovina (1988), who investigated the role of the firms as agents of *socio-geographic organization* in the settling structure of the Veneto. Indovina found evidence of a common form of spatial organization in the territory of Veneto, where a multicentre model of
settlement developed, based on the presence of the 'diffused town' (Indovina, 1999). The patterns of evolution of the manufacturing industry in this area appear to be strictly related to the social resources immediately in use. The quick and easy availability of such resources (transportation, local administration offices, cultural and social forums, schools and training centers) in the past constituted an incentive for craftsmen and small entrepreneurs to innovate and expand their activity.

The main consequence is that firms tend to have a high rate of cultural and structural embeddedness within social and local policy setting and to develop opportunistically using local resources and institutions. The 'diffused town' is, therefore, at the same time a product and condition of the small-medium sized firms local systems that benefited from the intense network of infrastructures flourishing around the ancient urban centers. Since more ‘expensive’ and long term oriented resources are problematic to create and to develop, firms tend to settle in the vicinity of urban centers and take advantage of their infrastructures. At the same time, cultural affinity with the local context reduces ‘transaction costs’ and favors the establishment of an industrial tradition that prevents delocalization of economic activities and stimulates local institutions to carry out social innovation, from the administrative as well as from the cultural side.
2. Social capital and economic practices: some observations on the ‘districts experience’

Results from the study of the Italian Industrial Districts have been interpreted initially as an example of the renaissance of the regional economies in contemporary economic development (Sengenberger et al., 1990; Perulli, 1998; Sabel, 1989). This interpretation has been recently expanded (Belfanti and Maccabelli, 1999) and some scholars view the ‘district model’ as an historical phase, and a contingent social and economic creation, whose survival and success in the future will depend by districts’ capacity to sustain global competition and to transform their internal organization of labour (Nuti, 1999).

Specifically, reinterpreting the overall experience of the Italian districts, the economic sociologist A. Bagnasco has recently addressed two subjects of enquiry for future exploration. First, he said it is important to determine the conditions under which those ‘virtuous’ social mechanisms activate themselves, and then to comprehend the role played by institutions in favoring some mechanisms and shunning others (Bagnasco, 1999). If the first issue needs to identify the social basis of the districts and to explain why they only arose in specific parts of the national territory, the second path of inquiry mostly concerns investigating the interactions that took place among different types of actors, driven by different motivations and operational logic. According to this interpretation, the clustering of economic activities in local districts in Italy could thus be seen both as a means of investigating the social context of economic development, and of selecting and observing how specific social mechanisms (those that favored the diffusion of successful economic practices) operate (Bagnasco, 1999).
Specifically, while analyzing change in economic practices and correlated social processes, contemporary analysis of district areas may consent to introduce and test hypothesis on social capital functioning and to assist the investigation of its inner creation and reproduction mechanisms.

Differences between the two paths of enquiry introduced by Bagnasco, also refer to the level social capital mechanisms focus on. The main purpose of the second theoretical issue is, in fact, to highlight interference problems (why did districts not arise from some areas that also showed homogeneity of production and a good level of social integration?) and to specify the frame of reference where the chosen actors (e.g. small and medium sized entrepreneurs) find themselves able to make decisions, test their expectations and elaborate strategies to contrast or accomplish institutional and normative constraints (which in some cases might have been developed intentionally to prevent their actions). As I have summarized in the previous pages, scholars who investigated the districts detected specific factors (from the structure of the Italian labor market, to the past presence of artisan workshops to the diffusion of a civic culture) that triggered the spread of small firms. They also highlighted the role of a specific work ideology and common culture that sustained individual and family aspiration to reach economic wellbeing and favored the achievement of collective agreements (e.g. labour cost, use of territorial resources).

Nevertheless, while the economists’ perspective reasonably interpret the presence of the Italian districts in terms of economic advantage flourishing from externalities control (cost reduction, a smaller amount of transactions, ease of information flow), the territorial perspective showed that contrary to that interpretation, externalities were not reduced at all (Becattini, 2000). They had simply shifted to a higher level, transforming
enterprise related problems (flexible labor, availability of infrastructures and specialized workers, use of natural resources) into local community ones\(^6\), and posed problems of institutional governance. So what about possible negative interaction processes between the purposive action of the firms and the social structure of the local communities?\(^7\)

The sociologists’ perspective captured the ‘externalities alchemy’, but tended to read it as a condition for change from a traditional society to a modern and market oriented one. This interpretation implicitly reinforced the belief that a specific social structure (the one which made possible the ‘district experience’) was renewable through time and reproducible in other regions or countries. Social mechanisms, which guarantee the basis, as well as the drive for entrepreneurship were seen as totally spontaneous, generated by unintentional selection processes where institutional interference was kept at a distance. Negative interaction problems therefore attracted less relevance in the first studies, and have been analyzed more deeply in the subsequent studies dealing with coordination problems, pool resources and collective dilemma management (Parri, 1997; Fullin, 1999).

Contemporary theoretical re-definition of the Italian Districts, where externalities definitely played a relevant role in the growth and territorial expansion of small firms, can instead become an opportunity for highlighting changes in economic practices due to negative interaction problems between economic and social interests. Firms and local institutions (e.g. municipalities and regional government) which promoted a district’s

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\(^6\) To use a simple expression: club goods changed into common pool resources whenever their ‘goodness’ was at risk.

\(^7\) In other terms: how was it possible to have some externalities shifted to a higher level and not generate co-ordination and trust problems?
specific forms of production organization, had in fact to face coordination problems and resource conflicts in the last decade, that arose from changes in the market and in the economic and social structure of the community (Arrighetti e Serravalli, 1999). All these factors stimulated entrepreneurs and institutional action to discuss previous patterns of behavior and in particular coordination towards collective goals such as the implementation of norms and common production standards, the realization of infrastructure and services (marketing, training, access to public funds).

In particular, to reframe the recent experience of the Italian districts on the basis of the collective output they generate and the forms of integration they rely on for integrating social and economic sphere, I suggest using the concept of ‘economic learning’ described by C. Sabel (1994). The term of economic learning itself is quite extensive, as it is used to mean ‘acquiring the knowledge to make and to do the things valued in the market’ (Sabel, 1994:137), while this concept has been interpreted as a social scientist’s tool for observing the role played by institutions in locally based forms of economic development, and understanding the origins of specific economic practices fostering coordination and cooperation. Further details about its content and main characteristics of economic learning are to be inferred by means of the case of the Japanese industry, which Sabel analyzed in detail.

Cooperation, innovation and change in the organizational structure of the enterprises in Japan, Sabel affirms, are made possible thanks to the presence of a ‘culture of trust’, but are also related to specific interaction expectations and to the presence of institutional monitoring of the side effects of a firm’s behavior. At the basis of the Japanese system is the
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deliberate capacity to negotiate and to codetermine goals among firms (large and small ones), as well as among associations of different kinds which belong to the same community (state), with the purpose of acquiring a successful ‘guidance’ of the economy. These aspects, however, constitute more than specific characteristics of the Japanese system, and can be found in other social contexts. The deliberate application of cooperative principles is, in fact, based on the belief that the sphere of social activities includes the economy, and therefore can be modified and harmonized by means of institutional intervention.

In particular, Sabel identifies the management and the social definition of externalities of production as the source of economic development mechanisms, and the inner condition at the basis of economic learning. Understanding how different levels and forms of economic learning emerged in specific national and regional experiences could thus help comparative analysis, whilst interpreting enterprise presence and structure as an outcome of territorial specificity may limit the identification of cross-national tendencies. Furthermore, the analysis of practical experiences of economic learning may suggest an interpretation of economic development as the outcome of interaction effects among cultural mechanisms (trust, civicness, work ethic) and economic and structural ones. Changes in economic practices are explained by and correlated to the resolution of collective problems, the control and reduction of negative externalities and any general enhancement of community social capital.

In the second part of this paper, by means of a case of economic learning inside to a district area, I highlight the role of entrepreneurs’ social capital in fostering districts’ development. In particular, I analyze how entrepreneurs’ change in economic practices and preferences dealing with
human capital formation positively interacted with institutional proceeding (§4). Since the term of economic practices might be quite vague I concentrate on a specific issue: the recruitment process for prospective employees in a small industrial district, Valletagarina, located in the Autonomous Region of Trentino, in North East Italy (§41). Observations rely on fieldwork material that I collected at small and medium sized firms in Valletagarina in the last years. In particular, I summarize results from three case studies which involved, as well as the firms’ representatives, local institutions in charge of labor market monitoring, training and local governance. As an introduction to the Valletagarina district, I describe also the main characteristics of the larger territorial context where it is located (§3). This information delineates the background of the economic and labor market structure of the North East regions of Italy, and describes the main characteristics of the structural embeddedness of firms in local community economic life.

8 The studies were initially performed in 1998/2000 with several visits and interviews with firms representatives, local administrators and public informants (trade unionists, consultants and other relevant sources of information). I performed personally two of the case studies (medium sized enterprises) as part of my PhD research using enterprise related training as example of positive externalities. Reliability and accuracy of fieldwork material had been triangulated with institutional data, newspaper reports and previous social investigations of Valletagarina and Trentino’s territorial patterns of economic and social development. The third case has been performed as a preliminary background for social capital survey among Italian small entrepreneurs.
3. Patterns of local development in the North East of Italy and the Vallelagarina district

When Italian economic sociologists analyzed the main characteristics of the small firms economy in terms of social, geographical and political features, they identified two homogenous areas of small firms development: the Centre regions, and the North-east regions. While the economy of the Centre regions is quite well known internationally (Brusco and Righi, 1989), less attention has been given to the investigations dealing with the North-east economy, which expanded during the eighties and reached its peak in the nineties (Anastasia and Coro, 1993). This large territory⁹, composed by the regions of Veneto, Friuli Venezia Giulia and Trentino is characterized by the presence of some specific traits, which relate to the structure of the industry, the structure of the labour market, and the dimensions and the specialization of the productive system. Joint consideration of them conveys a general picture of this area of the Italian territory and of the operative logic working within its districts (Unioncamere, 1996).

First of all, in the North East the proportion of traditional manufacturing industry (e.g. textiles, clothes and footwear, leather and leather goods and wooden furniture) is above the national average: a recent survey (Anastasia e Corò, 1996) distinguishes at least ten different homogenous production areas, each one relating to a specific sector, or even

⁹ The North-eastern part of Italy is organized into three different regions, Veneto, Friuli Venezia Giulia and Trentino Alto-Adige; the three regions constitute an homogenous area, usually defined as Triveneto from the ancient roman province of "Terzae Venetia et Histria", and show common aspects of the territory and landscape as well as similar traits of economic development and political structure.
a single good, as well as the technical services that it requires.\textsuperscript{10} A recent classification (Cannari and Signorini, 2000) extended the original notion of districts, based on local transportation and labour mobility (Sforzi, 1991), to those areas which show certain socio-economic features (such as homogeneity and integration of production, firms dimensions, interfirm relations). Therefore, some areas of the Triveneto, as in the case of Vallelagarina district, are now commonly defined as districts, together with those recognized by means of the old classification.

Taking into account the \textit{structure of industry} in the North-East, three main type of firms can be distinguished in the manufacturing sector, each one characterized by specific productive assets: the very small and small firm (from 5 to less than 100 employees), the medium sized firm (from 100 to less than 500 employees) and the large firm (more than 500 employees). First, the very small and small firm, is considered the inner core of the economic development in the North-eastern region and its sectors of activity can vary a lot from furniture to engineering. Its production system is usually tailored for highly specialized small goods and services but it is also able to adapt to customized requests from clients and contractors. The medium manufacturing firms, on the contrary tend to concentrate on specific sectors of activity such as textiles and clothing or small household appliances. Their production system in these sub-sectors is usually centered on quick response to market demands (just-in-time production system) and, as a consequence, 

\textsuperscript{10} Researchers identified six specialized sub groupings of manufacturing in the Triveneto area (Anastasia and Corò, 1996). By number of employees the largest three are: the small mechanics and engineering group (which includes also the jewelry and spectacle-frame industry), the fashion group (from textiles to footwear), and finally the furniture group (which includes the pottery and glass industry). Other relevant
medium firms shows a high level of propensity to de-centralize part of their production and to develop a net of small subcontractors. Finally, in the North-East regions the large firm is diffused in few industrial sectors, mainly chemical and petrochemical or the electric appliance and mechanical sector. Its economic importance, however, has diminished in the last ten years as a consequence of the re-structuring processes and of market negative trends.\textsuperscript{11} Large firms, furthermore, distinguish themselves because their owners are usually nationally based companies or international corporations, and tend to have less relations with the territorial assets and community life.

The relevance of this dimensional diversification in the North East regions has been explained previously with the reference to flexible specialization\textsuperscript{12}: some interpretations, however, tend to link this form of
groups are also the food sector, the paper and publishing sector and finally the plastic and small chemical sectors.

\textsuperscript{11} Despite the large number of employees, large firms' relationships with the territory have been highly controversial. Many of them, and in particular those run by state owned companies, were established in the fifties as effect of the industrialization of North Italy and dedicated to production with national importance (oil refineries). In the last twenty years, however, side effects of the activity of these firms (pollution and health and safety problems) gave rise to a much public protest. Analysis of these environmental conflicts is not developed in the literature, and only those cases which have been resolved successfully have been reviewed, mainly from the perspective of policy oriented studies (Dente, 1992).

\textsuperscript{12} An important condition of the favorable economic performance of the firms in North-east Italy is productivity. According to Anastasia and Corò (1996) in the period between 1970 and 1995 the gross regional product in the manufacturing sector of Veneto and Trentino doubled (which means a growth rate of 200%) while the national average growth rate for the same period has been of 75%. The main production is for foreign trade and the regional propensity to export is another specific feature of this area. This tendency has been explained by the type of production, the geographic position of the area and the presence, particularly in eighties, of favorable currency exchange rates and of a positive trend in the West European economy, but cultural factors such as traditional relations with foreign traders and cultural affiliation have a role too.
development to the presence of a strong individual propensity to become entrepreneurs, and to start up a company as an artisan or with a reduced personnel (less than three employees). Results from a recent national panel survey report that in the North East regions individual social mobility tends to be higher than intergenerational mobility: in particular the passage from working class positions to petite bourgeoisie positions (small/medium entrepreneurs and artisans) is extremely relevant and constitutes an important feature of the class dynamic in these regions (Schizzerotto et al, 1997).

The economic success of the small firms systems in the North-eastern regions is also reflected by the conditions of the local labour market which shows a comparatively high employment rate (Casavola et al, 2000). Since the seventies employment rates have remained consistently above the national average and have grown principally in small and very small plants of the more traditional manufacturing sectors that employ over two thirds of the whole industrial sector. On the other hand, unemployment has been quite stable in the last ten years with an average rate of 7 % while some areas of the Triveneto, such as the Autonomous Province of Trento, are considered to have reached full-employment for the male population. Self-

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13 The activity rate for Northeast Italy (Triveneto regions) in 1998 was 44,2% (total average) while the national average for the same year was 41,9%; the percentage of people employed in the manufacturing sector for Triveneto was over 35% on average (the figure for Veneto is even over 40%) while the national average was 32,5%. Also for women the rate of employment tends to be above the national average (31%) with the female employment rate for Triveneto at slightly above 33% with a peak in Trentino Alto Adige of 35%.

14 In Trentino, for example, the industrialized area of the Adige Valley in 2000 had a male unemployment rate of 2.8%, the Norht East regions scored 2.4% while the national average was four times higher, with a male unemployment rate of 8.6% (Speziali, 2001).
employment and support services for industry also tend to be high: the first one in particular has grown throughout the eighties with a rate of increase over 50% between 1981 and 1991 in some Veneto provinces (Anastasia and Corò, 1996).

3.1 The case of the Vallagarina district

In conclusion, industrial districts in the North East regions are characterized by the incidence of dimensional disparities between firms, the presence of very low unemployment rates combining with high propensity to self-employment and finally the high individual propensity to entrepreneurship. These aspects, combined with the changes in social structure that Italian society underwent in the last twenty years (Diamanti, 1998) act as a propellant on coordination and planning issues internal to the districts, and in particular on occupational patterns. In order to investigate further these aspects and the changes in human capital formation and work mobility due to economic entrepreneurs’ reaction to recent economic and social pressures, I selected a small industrial district inside Trentino region, the Vallelagarina mechanical district, and concentrate my analysis on the specific socio economic features of this small territorial context.

15 Data from a national panel survey carried out 1997 shows that the number of individual occupational events (as an indicator of work mobility) has been growing in the last decade and that this tendency tend to be notably higher in the North Eastern Regions (Schizzerotto et al, 1997). Trentino’s performance is in some senses remarkable as it tends to score better on several indicators of labor market quality: the average number of occupational events is in fact higher than the national average (3 to 2), while the number of months for job seeking is among the lowest in Italy (22.7 average months in Trentino compared to 43.4 months of the rest of Italy) and the rate
The Vallelagarina district, located in the Autonomous Province of Trento, fits well with the descriptions that scholars gave of the ‘spontaneous’ rise of the Italian firms district. Small and medium firms in Vallelagarina cluster around a main center, the historical town of Rovereto, the economic prosperity of which traces back to the Venetian Republic and the Austro-Hungarian Empire, where it belonged until the First World War. A large majority of the firms in the area are specialized in advanced metalworking and produce high quality mechanical parts and customized machine tools. Their privileged market is abroad (Germany and France) but they also produce for medium sized firms located in other Italian districts. The district is composed of different sized firms from very small artisans shops to large manufacturing firms, and different types of production are represented, from chemical transformation to automated technology builders (for detailed description see Folloni, 2000).

The Vallelagarina production expertise, however, is rather curious as it did not originate from a previous specialization in the mechanical sectors. Before 1915 Rovereto was one of the main textile industry centers of the Austro-Hungarian Empire (the silk industry) and a lively setting for many of irregular work is also extremely low (7.9% of all occupational events compared to 14.2% of the rest of Italy).

16 Inside the small firms are frequently found all the aspects of the metalworking process (forging, molding, and chemical and other refinement treatments of the metals).

17 The last National Industry Census (1996) reported a total of 326 firms belonging to mechanical and metal work sector and located in the larger district area (Rovereto and Riva del Garda SLL- local labour sistems). More recent and accurate fonts (Regional Archive for Artisans and Chamber of Commerce Registry), however, suggest that these data are significantly underestimating the extension of entrepreneurs activities in Vallelagarina. Though reduced on the bases of sector and dimensional homogeneity the total number of small-medium sized firms (more than 3 three and up to 60 employees) registered in public archives in 2001 sum up to a total of 250 companies inside the only Rovereto SLL.
artisan activities (paper, leather, tobacco), but after the destruction of the war and the political reunion under the Italian state (1918), its economic value seemed lost for a long period (Leonardi, 1986). The Vallelagarina area was partially redeveloped by fascist economic policy (1934 to 1943), which located medium sized chemical firms, paper and energy plants in Rovereto. After the Second World War, the area was partially industrialized and partially left to agricultural activities and in the subsequent years large and medium enterprises, mostly owned by foreign and national business groups moved their activities to the neighborhood of Rovereto, attracted by low prices of land and the quality of labour.\(^{18}\)

The Vallelagarina district was born, so to say, non intentionally nor did it have any traceable specific root in the past. Its presence was so discrete that it evolved unadvertised by national and regional institutions. The fact that most of these firms belong to the same productive specialization, in fact, has only been reported officially in the seventies when the newborn regional government (1971) developed a plan for industrial development in Trentino. The most influential rationale of the period was that small firms could not provide enough income and employment for the local population; the regional economic policy, in an attempt to boost the industrialization of the territory and to revert emigration trends, thus privileged middle and large sized enterprises over small firms and single entrepreneurs. Despite this, the Vallelagarina small and medium mechanical firms have been able to resist economic shocks from the sixties to the present and to evolve in response to market constraints and demands, showing good stability of economic performance (Betta, 1993).

\(^{18}\) In the regional panorama, Rovereto was in fact one of the first towns to have a
Finally, together with the whole Trentino region, Vallegarina district area, tend to score high rates for most of the commonly adopted national indicators of social capital, such as individual affiliation to associations, civicness and generalized trust, as well as in terms of institutional performance (Simoni, 1997; Carocci, 2000; Ballarino, 2001). The presence of such aspects and the previously mentioned structural and contingent aspects, favored thus the establishment of mechanisms promoting economic learning in Vallegarina district via positive interactions between small and medium enterprises belonging to Vallegarina district and local level based institutions (municipality). Specifically, the next paragraph describes how economic learning occurred in the area of work relations and a positive response to the modification of traditional patterns in human capital formation. By means of ethnographic descriptions, I highlight also the role played also by social capital in fostering the creation and reproduction of human capital inside the district, and its larger role in favoring the adoption of new economic practices and enhancing economic learning.

specialized professional school, subsidized by the municipality
4. **Creation and mobility of human capital in Vallelagarina district area**

A distinctive feature of the district atmosphere has been the belief that ‘producing does not just involve the process of input and output according to certain technical requirements, but involves also reproducing the material, human and immaterial basis of production processes’ (Rullani and Becatini, 1993). On one side the district area distinguish themselves as being open societies, that accept new economic activities and new forms of organization; on the other hand they are also closed systems, as they lay down social sanctions for those member that openly overlook rules and discard local institutions (Maccabelli, 1999). The cultural climate tolerates and integrates business failure and entrepreneurs can rely on a limited amount of help from their colleagues; but at the same time the system is inflexible with those who do not make use of ‘common sense wisdom’ in their business (Nuti, 1999). Pure market relationships, in particular, are to be banned as they threaten those elements of social solidarity which bind together firstly the entrepreneurs’ group and secondly, the local community.

This is true especially for work relations and in particular for those aspects which are linked with *human capital formation* and specialized workers’ recruitment strategies. To improve understanding of how economic practices are established and diffused among enterprises in Vallelagarina, I choose thus to analyse this aspect as a typical dilemma of district social organization which involve directly entrepreneurs’ relational social capital.

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19 A more analytic analyses of the cases is contained in the dissertation (Odella, 2001). I preferred to adopt this narrative form in order to introduce social practices which are distant from conventional descriptions of firms’ behavior on the labour market.
In particular, since some problems in the provisioning of labour have recently been registered in this area, whilst investigating Vallelagarina, I choose to concentrate on the practices adopted by Vallelagarina small and medium firms for recruiting specialized metal workers. Recalling the main features of North East patterns of economic development I considered the position of a large and a medium sized firms and the one of a small firm, involved in different stages and aspects of production in the metalwork sector. This imply that, despite their structural differences, the three firms rely on a common set of technical knowledge and share the same territorial setting, with correlated issues of infrastructure use, availability of resources and labour. As I describe later, as a consequence of contingent factor the firms (and the overall Vallelagarina district) found themselves involved in competition processes and had to face new problems related not only with internal features (such as the reorganization of the personnel policy and recruitment strategy) but with interfirm relations and finally ‘business ethics’.

The emphasis on this last aspect can be better understood if we recall the notions of the ‘social construction of the market’ which Italian economic sociologists first adapted to the district experience, and analyze its implications for human capital formation and mobility. Firstly, since market based relationships can be potentially disruptive for the internal equilibrium and the 'social climate’ of the district, competitive firms’ recruitment strategies, and in particular poaching, tend to be judged negatively. Labour mobility is thus not prevented, nor directly sanctioned, but tends to happen according to tacit ‘group rules’ (the entrepreneur’s ones, usually, tough workers collective agreements might have a relevant role) and is usually viewed in terms of its social benefit (as a sign for example of the good
practical training that a worker has received from the previous employee), and not in terms of an individual asset (thought the salary might increase a lot after moving).

If we look at the systemic effect of labour mobility and at the ultimate outcomes on the social environment of the district this reasoning has a sense. If a young worker with professional technical education moves to another firms, he has more chance to learn and improve his expertise\textsuperscript{20}, so that in a few years time he might be able to start up a new enterprise and eventually work for his previous employer. The aim of mobility is thus to improve a shared learning (a specific form of it) inside the district, not individual social mobility. This is the reason why too many occupational changes tend to be considered negatively, as they may convey the idea that the worker was not able to adapt to assigned tasks or to retain enough practical expertise from the previous position.

There are obviously variations in this pattern in accordance with the firms’ dimensions, types of production, ownership (local or nationally based business group), and the style of management that a company adopts. Changes are also determined by contingent aspects, such as the specific ‘phase’ which that industry field is undergoing. Reference to the analysis of Perulli (1990) helps in visualizing these variations as a common theoretical structure. His study described three different forms of coordination which can be found in territorially based economic development and refers to three traditional conflict issues in capital/labour relationship studies (training, wage setting and industrial relations).
Table 1. Forms of territorial coordination in three traditional area of labour/capital conflict.

<table>
<thead>
<tr>
<th></th>
<th>SKILL FORMATION</th>
<th>WAGE ARRANGEMENT</th>
<th>INDUSTRIAL RELATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAPITAL-CAPITAL</td>
<td>Poaching</td>
<td>Job evaluation</td>
<td>Neo Taylorism</td>
</tr>
<tr>
<td>CAPITAL-LABOUR</td>
<td>Internal training</td>
<td>Efficiency wage bargaining</td>
<td>Human relations</td>
</tr>
<tr>
<td></td>
<td>(firms)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LABOUR-LABOUR</td>
<td>Public training</td>
<td>Solidaristic wage setting</td>
<td>Codetermination</td>
</tr>
<tr>
<td></td>
<td>financed by the state</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>and the industry</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From Perulli (1990).

The first one, capital by capital cooperation represents forms of coordination (mostly based on competition) that arise between firms located in the same area; the second form, capital by labour relies on the mediation role of trade unions, and finally the third form of cooperation is based on workers’ groups trust and mutual support relations. The effects of these three forms of cooperation are rather different as they assume a different way of conceiving private benefits and public goods. In this paper I am only discussing the issue of training, but the other two aspects are also linked with human capital creation and occupational mobility, and constitute important elements of the social organization of labour inside district areas.

Human capital is actually created in Vallelagarina mostly by means of public funded education: several technical schools in Rovereto and in the

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20 Workers and entrepreneurs in the high quality mechanical industry are for the majority man, therefore I adopt systematically the masculine pronoun.
other small towns in the vicinity are settled in the area and their activity is deeply rooted in the local industry. Exchange programs between the schools and the firms take place during the whole year, and teachers of related topics are frequently asked to select those students which show higher competence and willingness in technical training. As for firms’ internal training the situation has improved much in the last decade when the application of the European structural funds (which are now available to enterprise based training) increased the number of hours dedicated to the preparation of workers and the opportunities of contacts between firms and prospective employees (Betta, 1993).

Nevertheless, the most effective form is still on the job training, especially if based on a previous technical public education which gives the young worker both intellectual skills\(^\text{21}\) as well as practical understanding of the production process and of his role in it. These patterns are based on mutual respect of tacit agreements among entrepreneurs, such as the rule of not hiring a worker before having ‘called back’ his previous or current employee, to check both the recruit’s willingness to change and his previous work conditions (tax declared salary, tasks, organizational position). This behavior resulted in the practice of structuring workers’ careers according to collective standards, and to prevent wage rises as a consequence of occupational mobility. There are also reasons related to the investment that the firm paid indirectly to the employee in terms of on the job training, contacts with clients and contractors and, more generally the firm’s public image as a stable working environment. Since the social capital of the firm

\(^{21}\) Computer aided machines are commonly in use, English and German are useful in order to read manuals, to keep up to date with innovations and to relate with traders and manufactures of specialized tools.
was contributing to the creation of specialized human capital, the district’s social norms tend to reduce the risk that this process is exploited both by workers and single entrepreneurs.

Occupational change is more frequent between sectors (such as from the chemical field or the service sector to the mechanical one), but specialized workers and those young showing the favorable characteristics (education, talent and willingness to learn) are contended among firms on the basis of salary. The reputation of the firm, the solidity of its business and the quality of its production, as well as the location of the firm and the opportunity to be trained personally by the owner (an artisan) or his strict collaborators have a role in workers’ decision making. This last requirement is particularly important considering the high local propensity to entrepreneurship.

Recalling Perulli’s scheme it is thus possible to view the system of skill formation in Valletlagarina as a sum of both capital/labor and labour/labour forms of territorial coordination. In particular, social practices which organized recruitment and training practices inside the district had their basis in local institutions provisions and in the internal traditional organization of labour of the small firms. Social practices also ‘protected’ firms’ investment in human capital as a public good, and guarantee its reproduction in the future, whilst at the same time reinforcing entrepreneurs’ reciprocal bonds. This form of producing human capital by means of social capital (Coleman, 1987) tends, in general, to be effective and in the past constituted a basis for the creation and development of the Valletlagarina

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22 Territorial mobility is extremely low in Trentino, and this fact results frequently in mismatches between demand and offers of work inside a very limited local area (20 km).
district. The system established a subordination of market driven decisions (such as the ones promoted by capital/capital forms of coordination) to collective decisions. Moreover, the system integrated social changes (e.g. the introduction of public funded professional education) inside the district social organization, modifying preferences of the firms.

There are obviously negative and unintended effects on the system, such as the limited capability to react to intervening events and the restraints posed on the individual. This is usually the case of major intervening events, such as the location of new activities inside the Vallelagarina district, or in the most severe cases the emergence of socio-economic factors damaging the previously described mechanisms of skill formation, such as a change in young people’s attitudes towards work and education. Together with a description of the creation of human capital in the Vallelagarina district, it is therefore important to analyse how firms recruit specialized workers (already trained, by public or private initiative) and, in particular, how they develop specific strategies to cope with problems they had not encountered before, such as a rise in competition for labour. In the episode I describe it was the expansion of a large enterprise in Vallelagarina that exposed the weakness of traditional methods of recruitment, and I focused on the strategies used by small and medium entrepreneurs to respond such a contingent event and how the subsequent institutional coordination of their strategies paved the way for economic learning.
4.1 Looking for employees in Vallegarina district as a case of economic learning

As I mentioned before, one of the main elements of the Vallegarina district organization is the relationship between workers and employees: since the dimensions of the firms tend to be small or very small, this relation is often based on personal aspects and is not limited to the professional sphere. The social organization of life in the district area favors the presence of ties between individuals, though not all of them are closed ones. The individual social capital of the entrepreneurs is thus a privileged resource for looking for prospective employees, as well as to monitor other firms’ strategies of recruitment. This is the case of small sized enterprises, which originate from a family business or from the activity of associates, but also holds for medium and large sized enterprises whose managers and directors are personally involved in the business and use their resources (personal contacts, trade mediators and institutional key figures) as sources of advice and information on the state of the local labour market (Betta, 1993).

Established strategies for recruiting (see table 4.1) in Vallegarina are a mixture of personal contact, traditional market oriented patterns and institutional provisions (which in Trentino, contrary to the national situation tend to be rather effective and well functioning). Obviously the dimensional feature of the firm and the type of production plays a role in defining the preferences among these methods. Another important element of this strategy is constituted by careers opportunities and professional contacts (see table).
Table 2. ‘Old’ and new recruitment strategies of Vallelagarina firms.

<table>
<thead>
<tr>
<th></th>
<th>OLD RECRUITMENT STRATEGIES</th>
<th>NEW RECRUITMENT STRATEGIES</th>
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<tbody>
<tr>
<td></td>
<td>Methods</td>
<td>Elements of Attraction</td>
</tr>
<tr>
<td><strong>SMALL MEDIUM FIRM</strong></td>
<td>Personal contacts</td>
<td>Internal resources</td>
</tr>
<tr>
<td></td>
<td>Newspaper advertisement</td>
<td>Public employment office</td>
</tr>
<tr>
<td><strong>MEDIUM FIRM</strong></td>
<td>Personal contacts</td>
<td>Newspaper advertisement</td>
</tr>
<tr>
<td></td>
<td>Work environment</td>
<td>Opportunities of career</td>
</tr>
<tr>
<td></td>
<td><strong>LARGE FIRM</strong></td>
<td>Newspaper advertisement</td>
</tr>
<tr>
<td></td>
<td>Job applications</td>
<td>Work environment</td>
</tr>
<tr>
<td></td>
<td>Opportunities of career</td>
<td>Opportunities of career</td>
</tr>
</tbody>
</table>

Specifically, these recruitment strategies have been applied for a long period until the middle of nineties, when then a sudden increase in competition among firms on the local labour market highlighted the presence of a typical ‘common pool resources’ management problem. The factor which caused change in the usual recruiting practices was the restructuring of a medium sized enterprise located in the municipality of Rovereto and its dimensional expansion from an average of 150 to 300 employees. This increase in the number of employees was initially managed by moving workers from another location, then trying to recruit workers on the local labour market.

The strategy was only partially successful as the availability of workers is limited in the region due to the low unemployment rates and, furthermore, it was not possible to fulfill those specialized positions which could
guarantee the high quality standards of production of the firm. Poaching seemed a opportune solution, and since the restructuring process had strict deadlines a relevant part of economic resources were devoted to this operation. Many workers were attracted by this opportunity to increase their wages and by the benefits that a larger company could offer. Younger workers, in particular, viewed it as a way of skipping the period of apprenticeship on the job and to be integrated in an organizational structure with a higher position than their previous work experience.

However, the sudden change in recruitment strategies had counter effects on the whole local setting and on the specific firm as well. Firstly, a number of small and medium sized firms (and some providers to the large firm) lost human resources they had invested in and lost the related opportunity to restructure their internal organization of production. Secondly, they were pushed to offer higher wages to key figures in production, and to develop for the first time a retainment policy (such as improving division of labour, increasing hours of training for skilled and unskilled workers, and opening internal career patterns for woman workers) in order to prevent further poaching of human resources. As no one could take direct action against the predatory practices of the larger firm, local entrepreneurs signaled these distressing effects to local labour market institutions, while presenting them as potential threats to the district activities. Pressure was exerted whenever possible on the large firms’ representatives: the ‘competitive’ recruitment policy was stopped when the firm started to hire unskilled workers and did not further raise salaries.

Nevertheless, the unprecedented event bears an effect on the social climate of the Vallelagarina district, whose members realized that old patterns of human capital creation had to change. Institutions also realized
that their support for new industrial settlements in the area might bear unintended negative effects and that it was necessary to take action to improve the firms’ capability to respond to changes. Since the established system of skill formation revealed its weakness, local institutions considered it important to improve information flows about the local labour market and to monitor more strictly changes in the patterns of skill formation.

The old traditional practices were still effective but they had to be coordinated with higher level provisions and updated according to upcoming transformations of district organization (production organization, personnel policy) and recent modification of territorial social structure. The municipality of Rovereto, in particular, organized a series of meetings and public events to discuss its professional educational policy and this provided opportunities for local entrepreneurs to express their needs and to solicit the regional government to tailor public training provisions for middle sized and small firms. The need for more training courses for senior and unskilled workers was also addressed to regional agencies promoters of work experiences, and those authorities in charge of organizing and designing public funded training courses (FSE) and to set up public employment offices. Local community was also involved in these initiatives, with activities dedicated to professional schools, considered as priority channels to get in touch with the new generation of workers, and to young entrepreneurs, in order to improve their organizational skills and capacity to innovate.

In terms of territorial outcomes, the ‘poaching’ episode thus had a great impact on the overall Vallelagarina community and focused the attention of the public on the problem of human capital formation inside the district. It is important to remark that the role of social capital in structuring new patterns
of human capital creation and diffusion, was extremely important, and, as in
the past, contributed to building networks of referents and foster
opportunities of economic development. Firstly, it resulted in a more open
diffusion and exchange of information and experiences, as
entrepreneurs’ social capital help in redefining the settling of the
Vallelagarina district. Public opinion and political referents, in particular,
played a relevant role in ‘presenting’ the issue of skills formation in
Vallelagarina as a problem which had to be addressed by regional
government proceedings. More visibility for the district led to opportunities
such as the expansion of economic activities (e.g. one of the region’s
Business Innovation Centers has been now located in Rovereto), and the
establishment of educational centers (some professional diploma courses
have been moved to Rovereto by the University of Trento).

In second stance, the new recruitment strategies of the firms after a first
phase of disruption, build up integrating also previous traditional patterns of
skill formation and did not result in a loosening of entrepreneurs’ social
capital inside the local community. Economic learning stimulated by the
perverse effects of competition, was in fact partially monitored by local
institutions and therefore easily expanded from the economic sphere
(worker/entrepreneur relation) to the social one (human capital creation and
the general social organization of the district) as Sabel had already
recommended (Sabel, 1994). Institutional proceedings contributed thus to
change entrepreneurs’ perceptions of their social function, and most of all to
instil them the idea that territorial coordination could be reached also by
means of a diversification of their individual recruitment and organizational
strategies (such as innovation in labour division, new training provisions and
cooperation with established institutional projects).
5. The role of social capital in territorial development: considerations on the Vallelagarina case

The investigation of the processes of economic transformations, and in particular industrialization, is among the most fascinating topics for a sociologist. The ‘founding fathers’ of the discipline provided lively examples of how economic conditions and social structure interact to generate purposive, as well as unintended effects, on social practices and forms of social organization. In particular, two main approaches to the study of industrialization can be traced in the sociological discipline (Walton, 1987). The first approach, which originated from Durkheim and was subsequently adopted by functionalist researchers, tends to emphasize the problem of social differentiation as a consequence of the spread of industrial activities. The second approach, originating from the Marxist tradition, concentrated on the issue of uneven development, observing co-occurrence of social and technological factors in determining economic and social transformations in the structure of a society.

These two approaches had a great relevance in shaping sociologists’ interpretations of economic development and effects, and orientated the focus of empirical studies onto specific factors, such as change in class structure, labor relations and organization of industry and other economic activities. However, according to Walton (1987), despite their theoretical differences, both had a tendency (and were mostly intended) to produce

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23 Consequences of industrialization and division of labour, which generally depicted future transformations as occasions for the deep transformation of individual as well as of collective experience particularly attracted the first sociologists, from Comte to Marx. Subsequent authors (Weber, Durkheim and especially Simmel) partially lost
prescriptive guidelines, selecting those factors of industrialization which had contributed to produce a successful outcome. As a consequence, they frequently failed to recognize that industrialization is a continuous process that shows traces of both continuity with previous productive traditions (and their specific forms of social organization), and of innovation with new value creation processes. This caveat is not out of place as most of the studies that analyzed the role of social capital in territorial development tend to emphasize the relevance of path dependencies (such as the presence of generalized trust and positive institutional performance) in structuring a society’s economic opportunities (Putnam, 1993; Paxton, 1996); while on the other hand other studies solicit the intentional creation of social capital as a means to overpass the restraints due to a closed social structure and the lack of innovation in governance proceedings (Baron, Field and Schuller, 2000; Trigilia, 2001).

As in the case of industrialization theories, it seems thus to be more useful to evaluate the role of social capital in accordance with the objectives of each scientific speculation (Bertolini, 2001) and to consider the intervening effect that every social context may result on social interaction mechanisms, and in particular on the diffusion of economic practices at the local level. The teaching case of the ‘process of discovery’ of the Italian industrial districts is exemplary of how diverse explanations of the spontaneous emergence of territorial social and economic development converged around a common set of factors, evoking a similar role of social capital in district areas past development. Specifically, its presence inside economic relations was commonly expected to bear positive effects in terms this enthusiasm for social change related to new forms of production, and became
of social coordination, reduced conflicts and a general improvement of systemic capacity to innovate practices and strategies. Analogously as a value process creations, the ‘good’ use of social capital constituted thus a solid base for economic learning and for the resolution of past collective dilemmas, but may not be enough for responding to more recent economic demands and social modification of districts’ internal social structure (Bagnasco, 1999).

In these brief conclusive notes, I thus would like to review my interpretation of the Vallegagarina case and, since these findings rely on qualitative data and could be sensitive to regional variations, I suggest read them as hints to stimulate further debate on the referred issues, rather than definitive results. Firstly, the experience of the Vallegagarina district points out the role that institutions had in activating coordination patterns and suggests that together with policy interventions other factors were influential too. The principal aspect is that local institutions intervention did more than ‘correcting’ problems concerning the availability of human resources: it improved coordination between small and medium firms. By means of structuring and legitimising new connections among economic and social spheres, institutions created opportunities of cultural and cognitive redefinition of collective resource problems, and the framework to coordinate new territorial strategies.

A similar observation about the relevance of reframing problems dealing with public goods has already been suggested by E. Ostrom, when describing a characteristic of successful experiences in common pool resources management. She notes that communication and exchange of

more critical about the role of the industry itself.
experiences among individual and groups of users improves decision making at the local level and reduces the need to rely on direct norm enforcement’s, so that ‘individuals in many field settings not only come to governments, but craft their own rules and enforce those rules without relying extensively on external authorities” (Ostrom, 1994: 320). A good application of social capital to collective resources conflicts, therefore, seems to be most of all linked to learning practices and communication that social groups and societies have the opportunity to experiment.

Secondly, the Vallelagarina district case directly points out the issue of the internal transformations of the districts and their capacity to activate self sustaining strategies for responding to changes in work and production organization. The case presented embodies so, in terms of visibility, coherence and stability, just those specific socio-economic patterns that, in the past favored the spontaneous emergence of the Italian districts, and nowadays are perceived to prevent their capacity to evolve.

Specifically, up to day the role of relational social capital in the development and functioning of the districts has been to provide both the structure where interactions take place (network of personal contacts, alliances), as well as the cognitive and cultural basis for their accomplishment (reputation, trust, tacit knowledge about the market). Results from Vallelagarina show however that the role of entrepreneur’s relational social capital in the development and functioning of such practices is declining and market driven strategies are partially eroding traditional social basis of the districts (such as human capital formation). An example is how small entrepreneurs’ social capital gradually reduced its effectiveness in front of market based rules set up by stronger competitors.
Concluding, the presence of social capital in itself does not guarantee a positive outcome or efficient solutions for collective problems, and local institutions competence in dealing with the availability of human resources is still very influential for small and medium firms’ prospects to survive and expand. However, while institutions and the values they sustain can effectively intervene to increase effective chances for territorial socio-economic development, the more subtle and cultural persistent attached meanings (e.g. the belief in the efficacy of traditional human capital formation processes) that specific economic practices have, structure and concentrate on a common goal the relational social capital of Italian small entrepreneurs, and as such may constitute another trait at the bases of economic learning. Variety in firms’ strategies and dimensions (as proxy of organizational heterogeneity), as the example show, can thus generate a nuisance as well as stimulate innovation in economic practices and constituting a possible success factors of the future ‘districts experience’.
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