

**Local Development, Big Firms and Social Capital** (nr.380)

Marco Bellandi

Dipartimento di Scienze economiche, Università degli Studi di Firenze.

Address: Facoltà di Economia, Via Curtatone 1, 50123 Firenze, Italy,

Tel. +39-0552710-413, Fax. +39-0552710-424

[marco.bellandi@cce.unifi.it](mailto:marco.bellandi@cce.unifi.it), <http://www.cce.unifi.it/dse/mbelland.htm>

*Abstract:* Working on various streams of literature concerning multinational and regional development, a classification of potential linkages between big firms and local economies will be proposed. Then, building on a model of a strong local economy, that is the industrial district, a framework will be sketched in which different combinations of linkages are put in relation with different pools and degrees of strength of social capital and other local factors. The main thesis is that reciprocal positive linkages are more probable where and when the local (social) capital is neither too weak nor too strong. Some final remarks will concern the debate on policies fostering the developmental role of multinational in local economies.

*1. Introduction: Two engines of industrial development*

According to a recent statement by G. Becattini (1998), the Italian economic growth in the last decades has been pulled by ‘two types of industrial engine’, each one with its own logic. They are the big firms and the industrial districts characterised by clusters of small-specialised firms<sup>1</sup>. Since recently, the relations between the two engines have not been the object of deep investigation. According to the mainstream, there is just one engine of growth, that is big efficient firms; and small firms’ vitality is either the manifestation of interstitial life, or the result of strategies of production subcontracting controlled by big firms.

A starting point of the literature on Italian industrial districts, since the end of the Seventies, was precisely the rejection of the standard interpretation. This well explains the focus on cases and models in which district small firms are clearly separated from the activities of big firms, while embedded in a local context allowing a rich reproduction of social capital, entrepreneurial attitudes, focussed industrial competencies.

An important exception to such focus is the investigation on the phases of birth of industrial districts. Here, a positive if transitory role of units of big firms, either in-

ternal or external, has been traditionally acknowledged (Brusco, 1986). More recently, many investigations have been showing an increasing intersection between locations of units of big firms and well-developed Italian industrial districts. The two types of phenomena represent a natural field of empirical evidence and tests for the framework which we will try to develop in this paper, concerning linkages between big firms and local economies.

Making reference to models and cases of strong local economies not dominated by big firms, the paper tries to enlarge on the results of the literature and thinking devoted to the possibility of a developmental role of the investments of big (external) firms in local economies. Generally, in such literature, the local economy is either a strong one in which headquarters and strategic divisions of innovative big firms are rooted, or a weak one with some set of local small traditional firms and the possible location of branch plants or subcontracting relations by big firms.

## *2. A typology of linkages*

In what follows the expression 'big firm' is used in order to indicate an economic entity (single legal entities, or networks with a strategic centre) characterised by an internal managerial organisation and by local units (branch plants, offices, controlled companies) in two (or more) not contiguous local systems. 'Local firms' have units only within one cluster of contiguous local systems. Just to make easier the reading, we will refer indifferently to one local system and to the regional cluster including it.<sup>2</sup> 'Trading entrepreneurs' are those who run companies with inter or translocal units of activity, but without an internal managerial structure.

Big firms enlarge the connections between the different local systems in which they are located. They are an important means by which productive knowledge is transferred and complex translocal productive processes are realised. Trading entrepreneurs may accomplish the same function, usually with different results (Casson 1997).

Let us try to define the set of possible economic linkages between one big firm and the local firms of one local system (Young *et al.* 1994, Florio 1996, Zanfei 2000). A first distinction regards the geographical overlapping: does the big firm have locations within the local system, or not? A second distinction concerns the economic nature of the linkage: complementary or substitutive. Other related discriminations concern the mechanisms of relation (markets, vertical control, trust), the objects of the linkage

(products, services, knowledge), the location of big firm's units (headquarters, plants, R&D laboratories).

The combination of these distinctions generate a large chart of possible economic linkages (not drawn here), from which a set of seemingly more important combinations (between one big firm and one local system) are extracted.

The big firm has no unit located within the local system, it does not exchange goods with the local firms, it does not compete against the products of the local firms, but it is a competitor on some resource markets: for example, markets for financial assets. An extension is the competition for public policies (fiscal, business, labour, international trade laws and regulations, etc.). A similar combination, but with an opposite economic sign, is defined by complementary linkages on some resource markets. As when the large demand of machinery and standardised intermediate products by the big firm stimulates the development of specialised suppliers who, by means of innovation, possibly extend their offers to the local firms.

The big firm has no unit within the local system, it does not exchange goods with the local firms, but it does compete directly against their products, that is on the same markets; or indirectly in the use of the budget of the same set of families. An opposite economic sign results when products are complementary in consumption, or when the development of the big firm (of a very big firm, or of a set of big firms) has positive income effects on the markets for the products of the local system.

The big firm has no unit within the local system but it exchanges goods with the local firms. Here the first distinction is between the cases in which the big firm plays as customer, and those where it plays as supplier. It is then important to distinguish the cases in which the local firms are dependent suppliers, or customers dependent on the monopolistic supplies of the big firm, from the various cases in which the economic relation is less asymmetrical.

When the big firm has units (plants, offices, etc.) within the local system, the economic relations defined by the three sets of combinations above tend to strengthen (as for example with competition on local labour markets). The same distinctions apply here again. But, the closer knitting implies that a couple of aspects gain a particular importance: the linkages with local institutions, and the exchanges of productive knowledge. The consideration of these two aspects generates two other important classes of combinations. The first one defines - let me call it - the located but non-embedded big firm. It is a case of low involvement of the big firm within the local system where it has

some productive or administrative units, but where it is not actively interfering with local institutions nor is actively exchanging knowledge on productive, organisational, and market matters. Of course this class includes different cases: the economic role of the big firm within the local system may vary, from the dominant to the marginal.

The last class of combinations defines precisely the embedded big firm, which has some productive or administrative units in the local system, where it is actively contributing to local institutions and actively exchanging knowledge on productive, organisational and market matters (Grabher 1993, Dicken *et al.* 1994). Here too, there are important differences. The definition of the role and degree of embeddedness goes together with various aspects. The big firm may have origin within the same local system, or have an external origin. The local system may be weak or strong. In the second case, the location of the big firm may be one of the sources from which local productive activities and firms have grown up, or the location may be the effect of the attractive power of the strong pre-existing set of local activities and firms.

In what follows we focus on the embedded big firm, while other combinations will be picked up when necessary for accommodating important variations on theme. The main task is to define some general propositions on conditions and effects of local embeddedness of big firms. We maintain that non-generic propositions are more easily defined if we take, as a vantage point, the case in which the big firm locates in a strong local system where an autonomous logic of development based on local firms is not casually rooted. This point takes us back to the second engine of industrial development, the industrial district.

### *3. Social capital and local factor in the industrial district*

External economies of scale and scope are at the core of the model of the industrial district<sup>3</sup>. They are partly external to single specialised firms, but largely internal to the district, and in particular to clusters of specialised firms embedded in it. The technological source of such economies is represented by sets of complementary human and technical specialised capital, whose productive use can be partitioned among different specialised plants and firms<sup>4</sup>.

The exchange among specialised producers can be hindered by all sorts of transaction costs. A specific and fundamental source of transaction costs in the case of external economies of scale and scope is represented by the necessity of a joint supply of

specific public goods. For example, the specialisation of productive units increases the necessity of technical and communication standards. The convergence towards a common and correct design is a complex public good. The regulation by pure market transactions (among the agents of the cluster) of a public good is subject to failures resulting from the difficulties of bargaining the individual price for participating to large coalitions. Other difficulties may be associated to this fundamental one, in various ways: problems of definition of property rights, imperfection of information, and asset specificity. In this sense external economies of scale and scope are externalities.

The supply of such standards by national public agencies is usually an inefficient solution, too: the cluster presents very focused needs, whose understanding demands a contextual knowledge. A possibly more efficient solution lies in the definition of standards as the result of collective action by cluster agents (for example Business Associations, Quality Consortia, etc.), and in their local diffusion as market rules.

Other types of specific public goods, and some specific club goods<sup>5</sup> as well, have a similar connection with the organisation of the local division of labour, and present similar problems and solutions (Oughton and Whittam 1997). In case of success, potential economies of scale and scope are realised as economies partially external to the single firm, but internal to the cluster with its endowment of public (and quasi public) goods.

The experience of contemporary industrial districts seems to suggest that the supply of such goods is not only and simply the explicit result of purposeful decision-making by collective agents. The collective result can be supported by the fundamental structure of the socio-economic relations characterising the area. In this case the unit of analysis is not properly the cluster of specialised firms, but a local system with particular characteristics where the cluster is centred. The focused public goods are local public goods (Goglio 1999).

Drawing from the reflection on contemporary industrial districts, a general definition of the progressive features of such inner local structure does include: i) the attitude towards reciprocal trust in economic exchanges, ii) the social prestige attached to economic entrepreneurship, innovation and participation on the job, iii) the fabric of complementary competencies. They are factors of local development, or shortly local factors (Bellandi 1996, Dardi 1997).

Concerning their genesis and reproduction, these factors are the aggregate outcome of consistent actions by private and public agents, in terms of trust giving and

keeping, entrepreneurship, learning. Consistency implies constraints to the economic freedom of agents, and therefore opportunity costs, possibly relevant. The expected returns are twofold. Firstly, such investments give to the single agent the access to a pool of specific public goods necessary to the realisation of external economies<sup>6</sup>. Secondly, as a joint result, the consistent actions contribute to the aggregate local factor<sup>7</sup>.

Similar conditions have been associated by some authors to the concept of social capital<sup>8</sup>. We retain in the text (but not in the title) the ‘local factor’ term, because ‘social capital’ is often associated both to a too limited notion and a too large one. According to the first, the principal return of this capital is the support to trust relations limiting the transaction costs connected to non-aligned individual incentives: but this is just one side of the problem<sup>9</sup>. According to the second, social capital needs not to be local, which of course is true but out of this paper’s reach.

Concerning the supportive action of local factors on local public goods, it could be suggested that the first feature of the local factor (i) tends to constrain the strength of free riding on collective goods; the second feature (ii), while helping a vibrant demography of firms, gives a stronger penalisation against passive and traditionalist public agencies; the third feature (iii) helps the focussing of local public opinion on the collective needs of the economic core of the community, and limits by this the fragmentation of local policy

#### *4. Embeddedness and the strength of the local factor*

The meaning of embeddedness for a local firm within an industrial district is easy enough to outline<sup>10</sup>. The firm (and firstly its boss) should have a capital of local relations comprising: a) control of specialised productive knowledge consistent with the district fabric of competencies; b) a consistent curriculum of pretty fair business behaviour with local partners; c) a positive attitude towards comparing and trying, especially with local partners, new ideas on related business. As argued before, the returns are represented mainly by the access to focused local public goods, and consequently by the realisation of external economies of scale and scope.

A non-embedded firm has not an easy access to the same benefits, for a couple of reasons: firstly, because its internal characteristics make difficult the incorporation of the benefits (as when the district standards on intermediate goods are differing from the firm’s internal ones); secondly, because the embedded firms are not ready to exchange

(for example, if the risk of behavioural mismatch is thought too high). A high enough loss corresponds to an impossibility to take advantage of the district external economies.

A last preliminary definition concerns the strength of the local factor, which in the next section will be related to barriers to local external economies. A strong local factor has at least two properties: effectiveness and sustainability. According to the first, the local factor supports effectively (i.e. with higher degrees of efficiency and certainty of results) the production and distribution of local public goods apt to the governance of external economies of scale and scope for the local system. According to the second, the characteristics of the local factor give incentive to the investment decisions necessary for its reproduction, within a set of possible external conditions. In more operative terms, we can think of internal and external conditions, which make for a more or less strong local factor. Unluckily we have not yet a general theory on the matter. Here, we only put forward a few working hypotheses, keeping again the industrial district as a point of reference.

Effectiveness is increased by a higher degree of cohesion between (and within) the components of the local factor, and by a certain degree of similarity of social conditions within the community tied to it. For example, regarding the first requisite, attitudes towards individual entrepreneurship should not be so strong that the space for trust and for collective entrepreneurship is foreclosed, and vice versa. The multiplicity of competencies should not be so rich as to fragment decisively the demand of local public goods; nor so weak that cognitive interaction or the emergence of systemic competencies supporting collective entrepreneurship are hindered. The second requisite is connected to the 'distributive' characteristics of the local factor. The access to the benefits of local public goods should be perceived as equally open within the community of investors, and this demands a limit to economic differences or low barriers to social mobility. But, if the limit to economic differences is kept too low by communitarian values, then the fear of increasing inequality may block the constitution of new local public goods when they open opportunities for new lines of business (instead of only supporting the working of the old ones).

Sustainability needs effectiveness, because investments without returns are not confirmed. Of course, the investment decision is influenced also by other factors, as the time horizon of local agents. For example, a strong preference for quick returns seems to be an obstacle to a smooth process of reproduction. Vice versa, too much patience may hinder the capacity to evaluate economic dangers and opportunity costs.

Lastly, and more on the point of the paper, the deep involvement of non-strictly local agents (trading entrepreneurs, big firms) in a local factor, which contributes to its strength during normal periods, has ambiguous effects in periods of high challenge. They are carriers of systemic competencies for change, and the higher degree of openness makes easier to compare and find external solutions. But the contribution can bring about a (more or less extensive) substitution of corporate mechanisms (and other non local resources) for the local factor, as well (Bellandi 1996).

##### *5. On conditions and effects of the local embeddedness of big firms*

We get now into the main issue: the embeddedness of a big firm in a local system, taking the industrial district as a model of local system. Is it possible, given the preliminary definitions in previous sections, to think of an “embedded big firm”? The big firm has a translocal corporate identity, which does not necessarily exclude the co-existence with different local identities. But, a potential conflict is evident, which we try to investigate by comparing two ideal types of big firms (Salais and Storper 1992, Young *et al.* 1994, Tavares and Pearce 1998).

The first one is the leader of a mass production system, in which the economies of scale are tied to the preservation of consistent conditions between market uniformity and technological standardisation. This complex constraint brings about systemic problems of co-ordination and incentive. The uniformity of market and the standardisation of technologies reduce the costs of an internal governance solution. The large integrated firm consequently takes advantage of large internal economies of scale. What would it be the return of an investment in a local factor by the large integrated firm? Scarce, if any, when the investment is addressed to gaining a cheap access to the proper benefits of a strong local factor. The more important reason behind this prevision is perhaps that such firm cannot accept, for its production system, more than one set of standards, that is its own set. Furthermore, the very hierarchic nature of the large integrated firm makes difficult the constitution of contractual relations with local firms on the even plain that is requested for trust and interacting entrepreneurship.

However, a special if not progressive reason for investing in a local factor can be defined within this context: which is trying to take away some ‘useful’ resource connected to the local factor, and incorporating them under the command structure of the

firm. A widespread and successful strategy on these lines may cause the destruction of the local factor itself. We do not investigate here on the possibility<sup>11</sup>.

The second ideal type of big firm is tied to flexible production systems. Here, economies of scale in specialised activities like R&D, marketing, standardised intermediate products, do not transfer directly in economies of mass production of final products, because of strong preferences for differentiation of quality in any single market reached by the production system. But, within the production system, the same core of specialised activities may supply a set of different complementary activities, producing different goods for a pool of markets. In this way, the economies of scale are defined at the core level, and they transfer potentially to a set of different lines of business, in terms of reduced unitary cost for the core services and products. Therefore, considering the aggregate set of lines of business, the production system has potential economies of scope.

The necessity to adapt the output of the specialised core activity to the needs of the different complementary activities produces a loss of the economies generated by the core activity itself. That depends both from technical reasons (duplication of fixed costs for adapters, etc.) and from organisational ones (the dissimilarities of productive knowledge characterising the different activities).

The variety of markets imposes relatively heavy costs for a pure hierarchic governance solution. An alternative solution, which is possibly consistent with a high degree of realisation of economies of scale in the core activities, is represented by the big network firm. It has the form of a federation of teams of production, with a strategic centre which: i) controls directly the core specialised activities; ii) sets general technical standards; iii) sets rules of exchange between teams, rules of exit, entry and mobility of employees within and between teams; iv) gives financial coverage against heavy risks, for example for innovative businesses run by teams. The reduction of the loss of core economies is achieved through a selection of the lines of business: though different regarding their output, they should display nonetheless a certain degree of similarity, both in terms of input demanded to the core and productive knowledge<sup>12</sup>.

Thus, the question is again: What would be the return of an investment in a local factor by a big network firm? A clue to a positive answer is given by the difficulty of accommodating an increasing level of variety demanded by markets - when this is the trend. If it is not possible to escape from such markets, a solution is to make alliances with other business organisations in order to share fixed costs and productive knowl-

edge. The alliances focus either on core activities or on complementary activities. Alliance with other big network firms is a possibility. Embeddedness within a strong local system, for example within a successful industrial district, is another possibility (Vaccà 1996).

This identifies, at last, a proper ratio of local embeddedness for big network firms. Where they look for district specialised contribution, both in terms of intermediate products and knowledge input - as, for example, learning in the use of intermediate products of the firm, or collaboration by teams of workers extolling particular skills and attitudes, etc.. That is, they look for district external economies. The realisation of such economies brings about a lower level of internal integration of lines of business, and a higher capacity to differentiate outputs. But, as discussed above, the idiosyncrasies of the local factor have to be considered. The big firm can try to overcome the barrier by investing in a local unit that presents many characteristics of an embedded local firm. The localised unit should have competencies consistent with the district fabric, and boast local moral and entrepreneurial attitudes.

A successful mimesis gives access to the local public goods which support the governance of district external economies. However a fruitful investment also requires that the localised unit be able to hold the connection with the core strategic activity of the big network firm. This demands some adaptation of local public goods. For example, parts of the local technical standards and quality certification procedures should host the new brand of competencies of the localised unit, and take a more codified structure which helps the transfer within the translocal structure of the big firm. Then, a successful embeddedness implies that the localised unit not only adapts to the district, but also that it would be able, in time, to modify at least part of the local public goods of the district. It is an expensive and uncertain process.

Of course, a big firm usually has easy access to large financial assets and to high strategic competencies, which make easier to take a long run perspective on investment in local differences and culture. Conversely, financial assets and strategic capacities may be used for winning short run Stock Exchange games. So, the bent towards investment in local factors depends on the type of corporate culture internal to the big firm (Young *et al.* 1994, Florio 1996). It also depends on the strength of the local factor. Building on the previous discussion, it seems plausible to consider here a couple of tentative propositions:

- a) The stronger the local factor, the heavier the investments which a big network firm should sustain for gaining a fruitful access to its benefits, and the less immediate the reaping of the same benefits. The idea here is that high internal consistency, similarity, virtuous logic of reproduction (requisites of strength) imply very peculiar and specific characteristics for the investment in a local factor. Then, it needs a lot of sunk resources. Furthermore, the pool of focused public goods results from robust local institutional processes that take time to be influenced, so as to adapt to the big firm needs. If the proposition holds, embeddedness of big network firms in a district with a strong local factor is within the reach of the only ones with a corporate orientation towards real decentralisation, cultural diversity and patient strategic investment. They may be pretty rare.
- b) The weaker the local factor, the more uncertain the possibility that the district has the capacity to produce the well-bred local external economies that the would-be embedded big network firm could be looking for. However, it is also possible to imagine a strategy of investment in a weak (or weakened) local factor whose purpose is not the access to a proper production of local external economies, but the gain (or recovery, for example in the case of locally grown big firm) of a dominating market position on a localised set of specialised suppliers and skilled workers.

The local effects of investment in local factor by a big firm are of two contradictory types. The first one is the positive effect of a successful proper embeddedness: it enriches the local factor with competencies and codified knowledge not easily produced by local private and public organisations, and not always introduced by trading entrepreneurs<sup>13</sup>. The second one is the negative effect on the productivity and the reproduction of the local factor implied by the asymmetry of economic and market power of the big firm with respect to individual local firms. We have argued that this asymmetry matters especially when the local factor is weak or weakened. The gain (or recovery) of a dominating position by the big firms tends to produce a relatively stable local equilibrium with a weak or dispersed local factor.

Conversely, could we say something more on the dynamics of local take off processes whose core is a local factor of the district-type, when the starting point is precisely the presence of a dominating big network firm? Different empirical conditions have to be considered, as we will see in the next section. But a couple of mildly general statements may be proposed. Firstly, the nature of the big network firm is not necessar-

ily in contradiction with the preservation, the diffusion, and even the support of components and nuclei of a local factor. Secondly, the occasional weakening of the grip of locally dominating big network firms may open windows of opportunity for the strengthening of a then secondary local factor and the take off of a district-like process of development.

#### *6. Big firms and local take-off, some cases*

In this section, we propose some empirical applications of the framework drawn above. We begin precisely with the relations between big firms and local take-off, making some reference to cases of constitution of contemporary Italian industrial districts, when they have resulted from the metamorphosis of an industrial area where units of one or a few big firms had a central role.

For example, according to an in-depth investigation on the surging period of the industrial district of Carpi (Solinas, 1994), the location in the area of a couple of big branch plants by Magneti Marelli (a producer of electric mechanical parts, instruments and machinery) in the forties has brought there new competencies. They have helped, during the fifties and the sixties, together with heavy reduction of employment by Magneti Marelli, the development of a mechanical engineering cluster, characterised by many specialised local firms. Comparing the two plants, the more conducive to spin-offs has been not the one in which mass production products and Taylorist methods were prevalent. It has been instead the one in which batch production, rotation of working experiences, diffusion of manufacturing and trade competencies among workers, and a relatively large autonomy on the job by experienced workers, were demanded. Besides, mechanical engineering processes were quite easily broken into different specialised ones, run by (partially) independent specialised firms of small size. Where the technological de-composition is weaker or impossible, as for example in many chemical processes, spin-offs are more difficult (Florio 1996).

But the case of Carpi mechanical engineering industry also tell us a story of weakening dominance of the big firm and growing social support to the industry. It suggests that the diffusion of industrial competencies accumulated within the plants of the big firm and the possibility to apply them within small firms is not a sufficient condition for local development. Another in-depth case study gives us a clear representation of this interplay.

It is the case of the metamorphosis, during the fifties, of the textile area of Prato (Tuscany, near Florence) into a big textile industrial district (Dei Ottati 1994). At the beginning of the fifties, after the post war recovery, the industry and the economy of the area were dominated by the production of standardised wool fabrics, for national and international markets, largely realised within the control of a few vertically integrated companies. They were local firms, representing nonetheless a situation of local dominance by a few centralised organisations. At the margin of this cluster a traditional secondary system was operating, well embedded into the local society and based on small producers - mostly artisans with a certain degree of reciprocal specialisation - and small trading entrepreneurs. The secondary system was supplying small batch wool fabrics for regional and national markets.

During the fifties, a deep crisis on international markets hit the principal system. The vertically integrated companies began to dismiss workers and machinery. The contemporary rapid growth of demand in Western countries for ever more differentiated clothing, and the action of trading entrepreneurs, opened a window of opportunity for the growth of the secondary system. It started to absorb effectively the redundant local resources and to increase the range of its markets. The growth of the alternative system was supported not only by the rich reserves of entrepreneurial attitudes incorporated in it; not only by the experience of transactions based on trust relations; but also by the strength of local public and collective organisations. They preserved their 'own industry', in particular accommodating the constitution of new local markets for specialised intermediate wool products - as in the case of the early negotiation and definition of collective local fees for intermediate textile products and services. At the beginning of the sixties the alternative system becomes the principal one, and the new industrial district is borne.

This story makes clearer in what sense the crisis of the big firm is an opportunity for the local system. It is a difficult challenge, but a reaction can be supported by the components of a local factor, if they are already present in the local system, and in particular if some secondary nuclei of the local economy show a rudimentary but complete logic of interaction. The components and nuclei of the local factor give at first the fuel and framework for a reserve solution, but then, with an eventual success, they aggregate together and grow, becoming the new core of the community.

A third example gives us a richer perspective on the role and timing of the weakening of the grip of big firms on local industry and society. It is the case of the

constitution of a jewellery district centred in Arezzo (a city of Tuscany with, as usual, ancient traditions). The early story of the localised jewellery industry, in the fifties and sixties, is the story of a company growing quickly and becoming the biggest among the Italian jewellery companies (one of the biggest in the world, in terms of employees and output of gold products). In this period the jewellery industry had not a predominant role within the area centred in the city of Arezzo: a bigger role was kept by the clothing industry, with a set of by big firms' plants and a population of local firms mostly but not always dependent from the first. During the seventies the jewellery industry went on growing, and in the same period several small firms were set up, often as spin-offs of the leading company. Arezzo became one of the three industrial poles of the powerful Italian jewellery industry (the other two are in Veneto and Piedmont).

During the Eighties, the local clothing industry collapsed, while the localised jewellery industry was becoming more and more robust, both in terms of employees, multiplicity of specialised firms more or less independent from the strategies of the leading company, complementary local activities (engineering, chemicals, services, etc.), export propensities, local institutional and social support. At the beginning of the nineties it is possible to talk of a surging jewellery industrial district, whose principal industry has more than 1,200 firms and more than 9,000 employees. The big firm is still a leading presence, but now its role is more aptly defined in terms of an important contribution to some characteristics of the local factor, than as the engine of the growth of the local industry. Arezzo district is a "new entry" in the set of the industrial districts which feature, with their presence, large part of the manufacturing industry of Tuscany (Bellandi 1998).

Here, the window of opportunity is supplied by a growth of external markets for local production that exceeds the possibility of profitable local growth of the big firm. We can imagine that the big firm has, at the beginning of the process, a choice: between trying to keep at bay the independent local growth or, alternatively, allowing a more or less free denouement of independent businesses and relations. The second strategy may be more or less conscious ('poor dwarfs, they will not go too far'). But a purposeful choice by a far-sighted network company is not to be excluded, where the limits to internal growth are partially overcome by richer external relations allowed to grow. Conversely, an aggressive attitude to rent exploitation would prevent the understanding of such opportunities, and by the same token will enforce the preservation of vertical control with monopolistic (and monopsonistic) abuses.

The location of large plants of big external firms in economically depressed areas of South Italy in the last thirty years, for all the public subsidies poured in, have met heavy problems. Many of these plants are by now dismantled or reduced. Apparently their ‘weakening’ has not yet produced an outburst of local independent economic initiative (but for few cases). The deficiency of one or more of the necessary conditions for co-promoting local factors can be suspected. Within the immense literature on South Italy backwardness, some investigations support such view (Florio 1991, Trigilia 1992).

### *7. Italian industrial districts and location by big external firms*

A last point concerns the growing intersection between big firms and mature Italian industrial districts. The intersection is enlarged both from the inside of industrial districts (internationalisation), and the outside (investments by external multinational firms). The literature focussing on the first type of process is already extensive, and it could be used to substantiate the framework drawn in the previous sections (Brusco and Paba 1997, Corò and Rullani 1998). Here, we do not stop to discuss such cases. Instead, we conclude with some evidence on the second type of process.

A recent research<sup>14</sup> has identified the location of manufacturing (possibly together with non manufacturing) units of the main multinational (Italian and foreigner) in Italian local systems of small to medium sized enterprises (a proxy of industrial districts), here code-named PLS (for ‘productive local system’). At the end of year 1993, forty nine out of one hundred nine PLSs<sup>15</sup> include local entities (headquarters, subsidiaries, branch plants) of forty eight large multinationals groups (of which 13 have a foreign parent company). These entities are here coded-named MLE (for ‘multinational local entity’). Let us consider some other interesting results:

- a) The quota of PLSs including MLEs (on the regional total number of PLSs) is the highest in Lombardia and Veneto, followed by Emilia Romagna, Toscana, and Marche. It is worth noting that the five regions host large part of the Italian PLSs.
- b) Most part of manufacturing MLEs have a size, in terms of number of employees, which is similar (less than 99 employees) or not much larger (100-249 employees) than the size of the majority of units of the local manufacturing firms.
- c) Large part of the MLEs are located in PLSs with a primary specialisation in mechanical industries, or in those specialised in textile industries. The first type of PLS

shows the highest percentage of cases of MLEs (on the total of PLSs with similar primary specialisation), the highest number of different multinational groups hosted, the highest number and percentage of cases in which the activities of the MLE are seemingly connected to the primary specialisation of the PLS.

- d) Overall the cases of connected MLEs (i.e. whose activity appears to be connected to the primary specialisation of the hosting PLS) are mildly prevalent. The location choices of foreign multinationals are pretty similar to those of the Italian multinationals. Finally, there is some evidence that most part of multinational units have been located in the PLS (as identified in 1991) since the seventies and after, and only few have been operative there before the sixties.

Such results suggest some remarks in combination with the framework of the embedded big firm drawn in previous sections. Of course, the fact that a PLS is not necessarily a local system characterised by a strong local factor has to be considered. So, it is not possible, without in-depth investigations, to say if the presence of MLEs is explained by the attractive power of a successful local factor, or by the opportunities of preying chunks of rich industrial areas with weakened local factors.

In any case, the relation between openness to multinational investments and specialisation in mechanical engineering industries of a PLS is easily justified both by the relatively high intensity of codified knowledge and by the inner multiplicity of such activities. These characteristics tend to reduce the technological barriers to local embeddedness for big network firms.

The prevalence of MLEs in the same (or near) sectors, as those which have a primary role within the single PLSs, is also an index of a strategy of embeddedness. The same can be told of the mimetic size and of the concentration of such investments in the Italian regions where industrial districts have the strongest traditions.

### *8. Policies and the local developmental role of big firms*

There are two popular views on policy concerning investments of big firms in relatively weak regions: a) territorial marketing policies, especially for depressed areas, by which local investments from external big firms are given various types of incentives; b) state protection against the monopolistic power of multinationals crushing local communities (Cowling and Sugden 1990). These views receive a particular colour when

the problem of embeddedness is considered (Young *et al.* 1994, Florio 1996, Tavares and Pearce 1998).

Firstly, the problem of promoting local development is not resolved by a simple location of plants of big firms, and this not only because aggressive and cynic location strategies by multinationals have to be considered. Even 'white knights' fail if they do not have a right mix of industrial, organisational and cultural qualities. Conversely, even big firms with good qualities can play as predators.

Secondly, a general countervailing solution, in terms of heavy regulation, has a defect in this context: the knowledge necessary to understand the differences of behaviour, the timing, etc., are not easily controlled from top-down, detached state agencies. While local authorities easily lack the power necessary to confront aggressive multinationals. Mixed solutions should be defined, for example: i) incentive schemes for targeting developmental subsidiaries, as penalties on short permanence of a MLE in a local system, or joint investments (both from local organisations and the big firm) on human capital formation (Zanfei, 2000); ii) 'guidelines for multinational enterprises' providing 'voluntary principles for responsible business conduct' (OECD, 2000); iii) multilevel 'monitoring' of the local effects of transnational private strategies (Bailey, Harte, and Sugden 1999), possibly with a local - transnational articulation of Competition public policies; iv) local embeddedment of branches of State agencies (Sweeney 1999).

The explicit combination of such results with some suggestions taken from the literature on industrial districts helps perhaps to make a point clearer. The developmental role of big firms is not a question of use and promotion of highly productive local economic resources within a logic of development which is fundamentally non local. It is instead a question of combination with a different logic, that is a logic of local development. Paths of local development can be based on small and medium sized firms, when they work in teams and are embedded in a local structure of social relations.

The supply of sets of local public goods has to complement the private offer of local specialised services to the manufacturing companies. When the inner social structure helps the supply of local public goods, and it is re-produced by the consistent economic behaviour of local (economic and political) agents, the same structure is a local factor of economic development or, as in the title, a local social capital.

This point does not modify the practical proposals defined by the advancements recalled just above. But it may help give them a possible systemic perspective, in which

the core parameter, both for judging transnational strategies and public policies, is precisely the space for the growth of such capital.

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<sup>1</sup> See also Becattini and Rullani 1996, Russo 1996, Amatori 1999.

<sup>2</sup> A local system is an area identified by the thickening of daily social and economic relations of a large set of people among production sites and residential and civic sites. In Italy an empirical approximation of the local system has been identified by means of statistical elaboration of Census data on daily commuting: See Sforzi 1996.

<sup>3</sup> The structural characteristics of a model of industrial district, the so-called Marshallian industrial district (Becattini, 1990) may be listed as follows: a) It is a local system. b) There, a principal cluster (or localised industry) of specialised firms and a local community of families and collective institutions overlap, in the sense that values, attitudes and investment decisions of the community are affected by the presence of the industry, and strategic industrial factors are embedded into the socio-economic relationships developing within the community. c) A large division of labour among specialised small units of production within the principal industry is organised (mainly) locally through specialised companies, most are most often local and small to medium sized.

<sup>4</sup> For example, as Alfred Marshall (1920, p. 225), writing on Nineteenth century industrial districts, pointed out.

<sup>5</sup> That is quasi public goods, with excludability. They are specific infrastructures, like collective industrial purifiers, etc.

<sup>6</sup> See on a related example Cohen and Levinthal (1989).

<sup>7</sup> The local public factors are non tradable goods, that is they are not easily transferable in and out of a territory, since they are constituted by a network of social and economic relations within a community of people (you may transfer single relations, not the network).

<sup>8</sup> See, for example, Bazan and Schmitz 1997, and Sweeney 1999.

<sup>9</sup> A different use of the terminology has been recently proposed by Trigilia (1999). We share with Trigilia the idea that such progressive features have an evolving and strategic nature, they are not a fixed attachment of a “lucky” network or region. A similar line of thinking is associated to the concept of ‘innovative milieu’ (Maillat 1996).

<sup>10</sup> We suppose here that local firms cannot be embedded in a local system different from that in which they are located. But, of course, not necessarily a local firm is an embedded one.

<sup>11</sup> See for example Florio (1996) on the possibility of drain of local entrepreneurial resources by a large local unit of an external big firm.

<sup>12</sup>). Here we will maintain that also the big network firm has usually a strong strategic and knowledge core (Varaldo 1997). But on ‘heterarchies’ see Vaccà (1996) and Tavares and Pearce (1998).

<sup>13</sup> For example, knowledge on specific application of new technologies, or skills for the management of complex marketing or infrastructural problems.

<sup>14</sup> Tessieri (2000), from which are extracted the data reported in the following paragraphs of the text. The data refer to the situation in 1993, as collected from the R&S directories (Mediobanca, Milan) on the 180 main economic firms (generally they have the form of groups of firms) operating in Italy. See also Coltorti (1990).

<sup>15</sup> The PLSs are identified on the basis of 1991 Census data: Istat 1997.

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