

Power in Industrial Districts

Lessons from the Italian
Experience

Plan of presentation

- Debates over Italian industrial districts
- Role of power in explaining institutional change
- Application: packaging machinery district in Bologna
- Conclusions

Debates on Italian industrial districts

- Traditional take (Brusco, Becattini etc)
 - Clusters of small firms (Center, NE Italy) in one sector of production (or closely related sectors)
 - Intense collaboration between firms
 - Trust (resulting from community institutions)
 - Highly successful in economic terms

More recent debates

- Some initial enthusiasm has been tempered (no more efforts to find industrial districts “everywhere”)
- Debate within Italy – how are industrial districts changing?
- Some argue that industrial districts are giving way to individual firms
 - *Azendialistas* – advocate either market based or leader firm approach
- Others maintain that they are still collective enterprises
 - Should be studied, and treated in policy terms – at the level of the district, not the firm.

Capturing change

- Disagreements are about how best to capture change
- Clear that industrial districts are changing
 - but we don't have very good theories to tell us how and why
- Much of debate has been simplistic
 - either trying to show how industrial districts are dying, or are continuing to prosper
- Not a fruitful debate

Alternative approach to change

- Borrows from rational choice (but *not* traditional economic/neo-classical variety thereof)
- Seeks to focus on institutional change
- Argues that institutions are the by-product of distributional struggles
- And that actors' relative power thus plays an important role.

Simple Battle of the Sexes Game

		Player 2	
		Movies	Ballet
Player 1	Movies	2,1	0,0
	Ballet	0,0	1,2

Battle of the Sexes Game

(with asymmetric breakdown values)

		Player 2		Breakdown Values ↓
		Movies	Ballet	
Player 1	Movies	2, 1	0, -5	
	Ballet	0, -5	1, 2	

↑
Breakdown Values

breakdown values and institutional change

- Breakdown values determine bargaining strength
 - Best understood as the options available to an actor in the case that agreement isn't reached
- *Informal institutions* – emerge from a multitude of bargaining situations
- Instantiate social expectations
- Will reflect the relative bargaining strengths of different actors
- Outcomes preferred by more powerful actors will dominate

Arguments of theory

- (a) Actors' bargaining strengths will be a function of the options available to them in the case of breakdown
- (b) outcomes preferred by more powerful actors will tend to predominate in bargaining situations
- (c) informal institutions will instantiate expectations emerging from a multitude of bargaining situations (and thus will reflect power differences)

Predictions of theory

- (1) Where there are no substantial asymmetries of power, informal institutions will reflect this; the benefits of cooperation will be relatively evenly distributed
- (2) Where there are substantial asymmetries of power, informal institutions will be associated with an asymmetric distribution of the benefits of cooperation; powerful actors will do better.

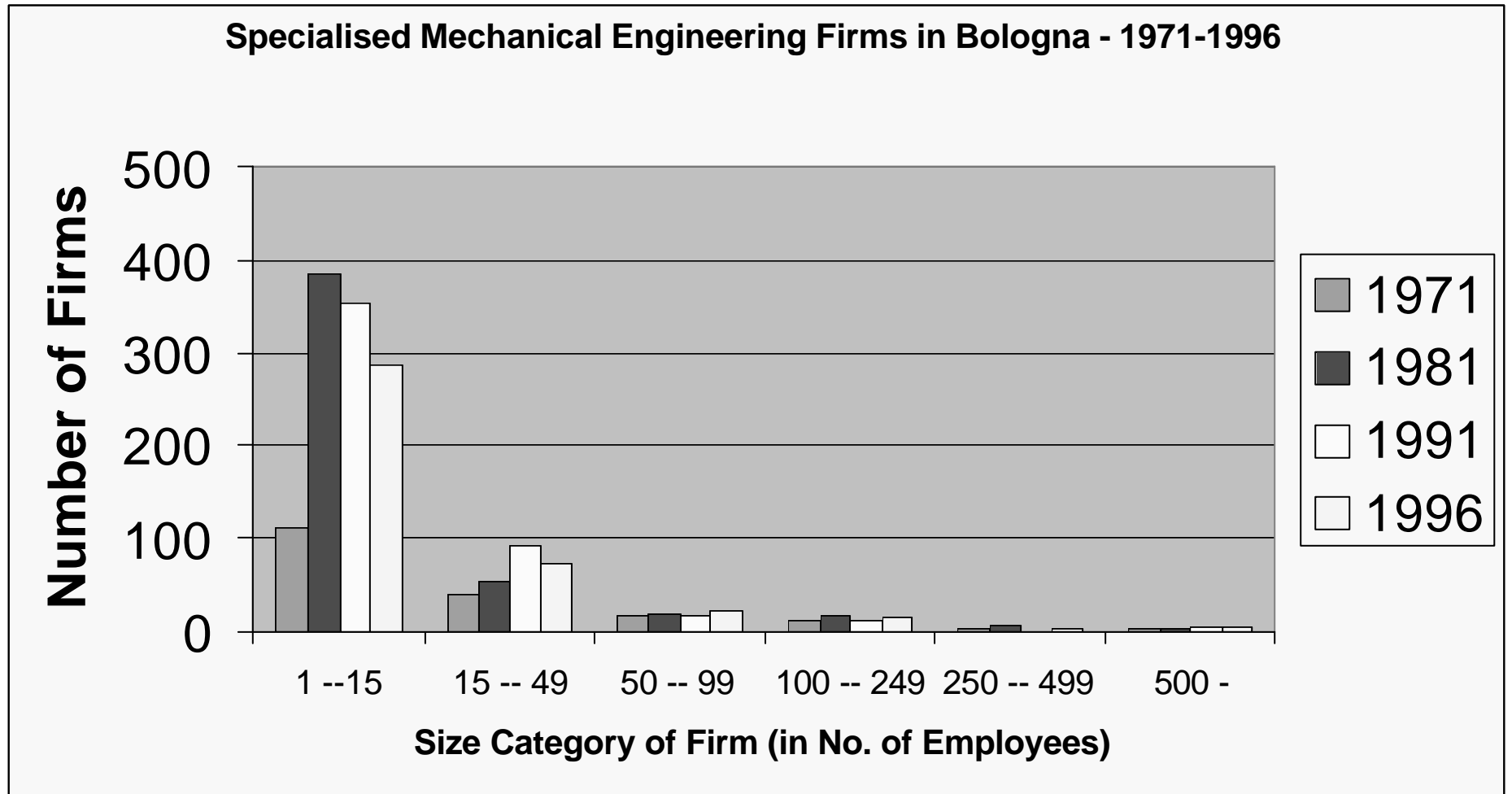
How does this help explain change in industrial districts

- Argument: in many industrial districts, we're moving from a situation in which there were no substantial asymmetries of power, to one in which there are increasing asymmetries
- Subcontractors are increasingly less powerful than final firms.
- And are losing out in the new dispensation as informal institutions change

Packaging machinery in Bologna

- Important example of industrial districts and Emilian model – packaging machinery in Bologna.
- 61% of Italian packaging machinery industry concentrated in E-R; mostly around Bologna
- Had its origins post-WW II

Changes in firm ecology over time



Structure of packaging machinery cluster

- Small number of “final” firms, bring product to market
- Take orders for specialized machinery from end customers
- Draw up plans for machine, and delegate production of components to 100's of smaller firms
- Then assembles final product and brings it to market
- Requires v. considerable trust and cooperation between final firm and subcontractors

Cooperation

- Production relies on cooperation between final firm and a myriad of smaller subcontractors.
- This cooperation not rooted in formal contracts – but in a set of informal local rules regarding fair and unfair behaviour
- Where did these rules come from?

Historical evidence

- Capecchi and others – point to existence of strong local community.
- Also document massive expansion of packaging machinery industry in 1950's-1980's
- More than enough business for everyone – easy for firms to establish themselves in new lines

Implications for power relations

- Power relations between final firms and subcontractors were relatively symmetric
- Final firms could choose among many subcontractors
- Subcontractors could also choose among many final firms – no need to become dependent

Consequences of power relations

- Symmetry in power relations helped reinforce informal institutions which mandated relatively even distribution of gains of cooperation
- Subcontractors could provide extra (unmonitored) effort, knowing that it would be rewarded by final firms
- Final firms did not need to fear hold-up problems
- Long term *non-hierarchical* relationships

Changing situation

- However, packaging cluster changing remarkably in recent years
- Consequence of changes on final markets
- Customers for packaging machinery require many machines for a packaging line
- But increasingly these customers want to deal only with one firm for all their needs

Changes in industrial structure

- Larger final firms are buying smaller final firms, in order to offer complete range of machines (and sometimes to buffer different markets)
- Thus, much more limited range of final firms for subcontractors to bargain with

Knock-on consequences for power relations

- Final firms still have many potential partners (subcontractors) while subcontractors have far fewer than they used to.
- Affects break-down values
 - “It is obvious that the big firm has the ability to play around, because there are too many [subcontractors] today for the needs of the market. If one makes a contract on the market, supply is greater than demand.”

Changes in cooperation

- Results – emergence of more hierarchical relationships between final firms and subcontractors
- “Christmas Tree” structure – with final firms at apex, larger subcontractors in permanent relationships immediately below, and small subcontractors at bottom.

Changes in power and distribution

- Increased hierarchy goes together with much less even share of benefits of cooperation.
- Smaller firms are supposed to provide additional cooperation – without traditional rewards (price premium, guaranteed work over the longer term)

Large firm attitude

- “We ask for a lot of flexibility from our suppliers! That is the main concern they have normally. They don’t like to be treated in that way ... But on the other side, for them we are very important. So they just complain.”

Results

- Changes in power relations (breakdown values) in packaging machinery district
 - Previous dispensation – relatively symmetrical bargaining power between final firms and subcontractors
 - Current situation – final firms have considerably greater bargaining power

Consequences

- Changes in power relations seem to be leading to changes in informal rules governing cooperation
- Old rules no longer apply in the same way
- More hierarchical and exploitative relations between final firms and subcontractors

Conclusions

- Suggests that micropolitics of change are important
- Offers one account of how these micropolitics may work (changes in power relations)
- Provides a future comparative research agenda (will differences in changes in power relations across contexts have explanatory value).