Learning from Successful Small and Medium Firms in the South of Italy

by

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Abstract

This thesis questions literature approaches regarding Southern Italian development, and suggests a different way of thinking about the issues of i) culture, ii) organizational development, iii) social prerequisites for development. This study of successful small and medium-sized firms in the garment sector in a small city in the South of Italy, found that:

i) There is no culturalist or historical functionalist argument that can explain or address the causes of underdevelopment of some regions compared with other ones, or the lack of industrial development paths. Culture impacts the way people interact at various levels, the way they link themselves in community relations over time, but elements considered negative at first sight have a certain ambivalence and can transform themselves into a positive one over time.

ii) In the small town in the South of Italy an organizational process of development occurred. Over time, through an economic, punctuated process, these small and medium-sized firms managed to organize successfully the assets, mainly types of knowledge, already present in the environment. However, in this process, there has been no organizational prerequisite, such as the division of labor, which has made the firms more competitive or better off in the market. The organizational developmental process has been successful for the presence of four key elements: 1) the local presence of suppliers; 2) semi-skilled knowledge in sewing provided by traditions; 3) the presence of distribution channels and their evolution over time; and finally, tied to the presence of the first three elements, 4) a quick, flexible decentralized production process, the subcontracting, which allowed the firms to be ready and prompt in answering the shifts in the market.

iii) There is no economic prerequisite for development, nor is there a social prerequisite. All the phenomena I will describe took place not in a well-developed civil society, but in a difficult social environment, contrary from what some strands of literature about industrial development argue. However, the success of these firms is leading the entrepreneurs to change their own self-perception and to recognize themselves in new, better off social categories, with a strong desire for improving their social and economic conditions.

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Forty years ago Banfield (1958) wrote that the South of Italy, the so-called Mezzogiorno, which is one of the poorest parts of the country, and more generally of Europe, will never develop, or at least, it will take very long time before a slight socio-economic development will occur. Banfield adopts network structures to figure out the causes of Southern underdevelopment. He addresses as the main reason for its underdevelopment the "amoral familism" common in the Southern society. By this, he means that the only organization of which people feel part, is the family. Its members are focused on their mutual interest, which is a material and short-run advantage. "One who follows the rule is without morality only in relation to persons outside the family, one who has no family is of course an "amoral individualist" (Banfield, 1958:85). This totalitarian concept of family prevents single individuals from acting rationally in their self-interest and impedes economic development. Clearly for the author the "amoral familism" is not a normal state of culture. He acknowledges that it is difficult to understand the way the “amoral familism” impacts the society, and therefore he proposes to look at the moral basis of the society. Otherwise, he argues that it is impossible to figure out the inextricable relations of cause and effect among all social and economic elements. This way, the change of the underdeveloped society depends upon the presence of an "outside group with the desire and ability to bring change about." Finally, Banfield closes on a very pessimistic note: "the lack of resources" of the South "gives it a comparative disadvantage which no amount of cooperation can overcome" (Banfield, 1958: 165). And even "under the best of circumstances, it will be a very long time before" a slight improvement in the conditions will occur.

After forty years, other authors still share Banfield’s culturalist argument, looking at the details of
the nationwide situation and at the social and economic dichotomy between the South and the North. The Southern region has an unemployment rate\(^1\) of about 20% in a total population of about 20 million inhabitants, and a per capita GDP that is 60% of the per capita GDP in Northern Italy. The North is considered to be eager, well-developed, rich in social capital\(^2\), and civic -- in other words, a good example of a socio-economic growth pattern to imitate and to export. The South, however, is considered "lazy, untrustful" and uncivic. These authors - among whom one of the most famous is Putnam - give similar explanations to express their deep pessimism and the same cheerless result: all the attempts made to reduce the gap between the two parts of Italy will hardly succeed because of the current social composition of the South of Italy and its history. Putnam expresses a historical functionalist argument or at least an historical determinism. He looks at the last ten centuries of Italian history and at the institutions set up around the 1200s in Italy to show how "the feudal authority" empowerment by the traditional elite in the South, and instead, "the political power" diffusion in the "North beyond the traditional elite" (Putnam, 1992: 125), conditioned historical evolutions which occurred over time. For him, the historical roots of the society, which are reinforced over time, explain the current gap between the two parts of the country. "In the North, feudal bonds of personal dependence were weakened; in the South, they were strengthened. In the North, the people were citizens; in the South they were subjects" (Putnam, 1992:130). This is the key point to understanding the underdevelopment and the lack of "civicness" of the South. To Putnam, the historical evolutions led to different geometric compositions of Italian societies. He adopts the concept of horizontal and vertical networks. Horizontal networks such as those that exist mainly in the North, clearly are supposed to drive sustaining prosperity because they bring together agents of equivalent status and power. The

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\(^1\) Data from the Official Italian Surveys made by the Italian Institute of Statistics and of data banks Finance and Management company and Databank.

\(^2\) There is no agreement in literature about the definition of social capital. To Putnam it is constituted "by norms of
vertical ones, which are more common in the South, link unequal agents in asymmetric relations of hierarchy and dependence. Networks of civic engagement like cooperatives, and sports clubs, very common in the North, represent intense horizontal interactions and, thanks to their structure, they foster robust norms of reciprocity, facilitate communication, and improve the flow of information about the trustworthiness of individuals (Putnam, 1992:171-181). When the local or regional governments and the market can dialogue with a well-developed civic society, they perform efficiently. But when they do not have this partner, they achieve poor results. In particular, these networks of civic engagement contribute to economic prosperity and are reinforced by it. The importance of this "social capital" (to inhibit opportunism, cheating and shirking), increases as economic development proceeds.

It seems that all these big thinkers -- beyond their historical misperceptions\(^3\) -- never really went deep into the spirit of the South or really understood its essence. These strands of literature in different ways provide a static picture of very dynamic interactions, trying to categorize elements that change continuously, or they reduce the explanations of important and complex phenomena to a small number of elements such as the family structure. They tend to focus on the negative aspects of these elements, ignoring the positive.

Other strands of the literature, indeed more optimistically, consider the Mezzogiorno as a homogeneous area in which the entrepreneurial artisan traditions have been destroyed by the long-lasting and expensive top-down public intervention by the central Government since the 1950s (I will return to this point later), which produced few notable successes, and by the competition of the Northern firms. According to these authors the top-down strategy of regional development

\(^3\)There is a wonderful article written by the historian Salvatore Lupo (1993a, Meridiana) who answers Putnam, showing his historical mistakes.
produced perverse effects: the strategy did not meet the needs coming from the bottom and did not allow the growth of an autonomous and self-sustaining process of economic development, but of one completely dependent on governmental support.

Indeed, for one of these authors, Trigilia (1992), low levels of public intervention at central and regional levels, is one of the central characteristics of the few interesting cases of local dynamism in the South of Italy. For this author, the most developed parts in the Mezzogiorno share four common characteristics: 1) low levels of population growth, 2) low crime rates, 3) a strong tradition of self-employment in both the countryside and in small towns, and 4) a low level of public intervention in the local economy. This way, even Trigilia locks himself in a kind of deterministic argument and in binary and predetermined categories about the path followed by social and economic development. The more developed and autonomous local civil societies reduce the desire for state intervention, thus avoiding its perverse effects, and facilitate self-sustaining economic development and an easier dialogue with the market. If the prerequisite of a local civil society is missing, the result is a vicious circle: while local desire for state intervention is high, it becomes a hindrance for growth and produces mainly diffused corruption, which spread across into society and impede a developed dialogue with the market.

**MY ARGUMENT IN BRIEF**

Certainly, the development of Southern Italy is a big issue, in fact, it has been targeted as one of the major priorities of European policies. Before categorizing it hopelessly in such a clear-cut way as Banfield and Putnam do, or looking at the Mezzogiorno as a monolithic economic block with few different gems, it would be very useful to look at the examples of alternative patterns of economic growth present in the Southern environment. Indeed, this is the approach of other strands of literature: some authors, Locke, Meldolesi and Baculo, look at the increasing differences in the Mezzogiorno, and at the cases of successful economic growth with a micro-analysis approach,
which avoids adopting any prefixed socio-economic model. They analyze the cases of industrial activity, mainly in labor-intensive industries, such as garment and shoe manufacturing, and the way it has occurred in recent years, leading to a certain level of endogeneous growth and wealth. These authors look at “the way different local socio-political networks shape the strategic choices of economic actors in divergent ways” (Locke, 1994:6) to explain possible paths of development and growth.

These examples of industrial development, which are understudied,\(^4\) certainly deserve more attention for at least five reasons: (i) they look similar to the successful industrial patterns of growth that have occurred in the Third Italy. This way, they show how the underdevelopment of the South is not irreversible or fatal, and more importantly, how any historical root cannot impede a positive evolution of the current situation. There is no historical cultural, social or economic distinction. This has very often been addressed as the real cause of the discrepancy between the North and the South, which can impede conjunction of these two parts of the country. (ii) Many of these cases of successful endogeneous growth, do not come from communities with already well-developed civil societies. On the contrary, they involve parts of the region with high levels of population growth, high crime rates, and a difficult management of the local municipality, just the features that define a complete underdeveloped society, for some authors really difficult to change. (iii) Again, in these areas, over time, the transformation of traditional footloose capital, meant as knowledge and traditions of some economic activities spread into the local environment, into a successfully organized local economy occurred. This organizational process of development has been positively and negatively impacted by the much denigrated public intervention. And these influences have worked directly and indirectly, not in the strict clear-cut way described by some of

\(^4\) It is almost impossible to give an exact number of these cases for two reasons: 1) most of them have never been studied and 2) they involve mainly economic activities underground.
the authors mentioned above. (iv) There is no single path or model that can explain these organizational processes of development occurring mainly in labor-intensive industries, with low financial and technological entry barriers. However, they present very interesting similarities, such as in the start-up phase of the manufacturing process and in the adoption of flexible production processes.

(v) Finally, these examples can provide clues for the adoption of well-targeted developmental policies by the different governments.

**THE CASE**

The case I report in this study is one of the above-mentioned examples of industrial productivity in the South of Italy, and concerns a small town, in the province of Naples, called San Giuseppe Vesuviano. This is an important commercial center in the garment and textile sector in the Mezzogiorno, where, although the commercial sector dominates the city's economic structure, the manufacturing activities grew-up and complemented the intermediary ones.

San Giuseppe is a town of 14square kilometers inhabited, according to official data, by 26,336 citizens, and it is situated in a region characterized mainly by high population growth, high crime rate, and high unemployment. Coherently, the town has an official unemployment rate of almost 20%. According to Italian newspapers and magazines (Panorama-6/25/1998), the real unemployment rate of the town should be 2%-3%. The official indicator fails to include the underground economic activities and workers not legally declared. In addition, there are eight bank branches in the region with a concentration of twice the Italian one and private bank deposits (almost $ 500 million) are as high as twice the already high Italian average (around $ 300 million). This indicator fails to say something about the distribution of wealth, but it shows the presence of a

5 The town is currently called San Giuseppe and I will use this name.
consistent richness in the town. This becomes an even more important indicator of economic wealth considering that Italian people have a very high savings rate\(^7\) and usually the savings are deposited into banks.

This wealth is the result of a dynamic and punctuated process of economic development that occurred over time: the local economy went through a historical sequence of different economic activities, in the garment and textile sector, and their intertwining with one another made the town acquire a kind of comparative advantage in manufacturing toward other parts of the region. In San Giuseppe there has been a kind of logical evolution in the clothing industry, from a short artisan manufacturing phase to a current industrialized manufacturing one, all through a long-lasting and important commercial period.

These manufacturing activities are a defining feature of the local productive system. San Giuseppe is a case of vertical integration, in which, after the short artisan manufacturing phase, the commercial activities dominated, and the manufacturing ones grew up in a secondary process, to then become the dominant activities. However, the pattern of vertical integration, did not bring large numbers of entrepreneurial firms to give way to large, integrated enterprises. Here, small and medium-sized firms integrated vertically their activities.

The evolution from commercial to manufacturing activities and the relative constituency of small and medium manufacturing firms occurred successfully for the presence of two key factors: local suppliers of raw materials, such as textiles, and diffused, locally existing distribution channels, that allowed easy access to the selling over time. These two elements, dialoguing with a particular

\(^6\) I will use indifferently the terms of commercial and intermediary activities.

\(^7\) The Italian personal savings rate, calculated as a share of disposable income, is the highest among the Big Seven countries (US, Canada, France, Italy, Japan, United Kingdom, and West Germany).
network structure in which people link themselves (family meant in an extensive way), provided semi-skilled workers, led to: 1) the organization of the manufacturing knowledge spread into the environment, and fostered over time by social and economic traditions; 2) the adoption of a flexible and decentralized production process that was able to answer the shifts in demand and the changing market conditions; and made 3) these organizational examples of manufacturing of small and medium-sized firms spread into the local environment, through an imitative process, easily replicable and accessible for whoever was interested in them.

I will report how and under which conditions these evolutions occurred from the beginning of the 1980s up to the current situation. To this purpose, last summer, I conducted around 70 interviews in San Giuseppe. I met entrepreneurs and wholesalers, and then, workers, civil servants, fiscal advisors, and bankers. I collected and will use public data by the Official Italian Surveys made by the Italian Institute of Statistics and private ones by the data banks Finance and Management s.r.l., Databank and Ancitel.

The thesis is structured with an introduction followed by three chapters. In the first chapter I will describe the diffusion of the manufacturing activities with its peculiar production process. In the second one, I will document the evolutions of the manufacturing process, and its impact on the current situation. Finally, in the third chapter, I will draw my conclusions.
CHAPTER I:

The diffusion of the manufacturing activities in the town

1.1 THE TOWN: SAN GIUSEPPE

The municipality of San Giuseppe lies on the eastern foothills of the famous Vesuvio Volcano, and for a visitor, the first striking feature of the town is its inextricable physical intertwining with the nearby towns. The geographic boundaries are completely blurred by the on-going house building activity, which have eliminated clear-cut distinctions among towns. They are geographically a unique, compact block, which is becoming fairly homogeneous from an economical standpoint. The main streets, which cross San Giuseppe horizontally and vertically, extend and cross the nearby towns. This geographic feature is different from what the literature describes in the garment and textile industrial districts of the Third Italy, where the towns are distinctly separated among themselves.

Walking through the main streets of San Giuseppe, the picture that emerges is one of an important commercial center due to the presence of many textile and clothing wholesalers’ shops. The impression is one of an environment, which is not easy to live in for the overcongested area and the inadequacy of some infrastructures, such as large roads, but it is dominated by a big, dynamic market. Every day, the shops display their items on the sidewalks. It is a continuous colorful display of clothes, textiles, underwear and shoes. Virtually every house turns its first floor into a well-organized shop. All the new ones were built with the specific function of a commercial or manufacturing activity. The narrow streets are filled with advertising and billboards. In addition, since the past twenty years, every Sunday the town hosts a local market of travelling traders.
coming from the entire region\textsuperscript{8}.

The commercial activities in the garment and textile sector grew-up spontaneously over the 1950s. They have been predominant in San Giuseppe since the 1920s, but they were mainly related to agricultural products, made in the surrounding towns, since San Giuseppe, did not have strong agricultural traditions. In San Giuseppe, in the 1920s, in addition to the commercial activities, there were also a few family textile industries, whose production process was mainly at an artisan level. This small manufacturing reality disappeared for two causes: the introduction of more sophisticated machines in the textile cycle in other manufacturing environments, which crowded out the San Giuseppe artisan production, and World War II, during which the artisan looms were completely destroyed.

At the beginning of the 1950s, the picture that emerged was one of a poor, but alive town. The dominant economic activity was the travelling commercial one. Many people became travelling traders because the local economy did not offer any economic living source, which they found instead, looking around. They used to go to the nearby markets of Naples and Pugliano with the \textit{bardinella}, the typical shoulder-bag, to buy clothes, textiles and underwear to sell in other nearby regional markets. Over time, growing the success of their business, these wholesalers built professional relationships with other intermediaries, agents and retail sellers. As a result of their successful and expanding business, over the 1960s-1970s, some travelling traders felt the necessity of having bigger storage and of opening small wholesaler shops of their own in San Giuseppe. They invested their own personal savings. Spontaneously, through these stores, a more systematic and planned wholesaler activity in garments and textiles started and took root in the town.

\textsuperscript{8}The two immediate shortcomings of this environment are the polluting traffic -- slow and chaotic because it is fueled by the coming of regional and extraregional buyers -- and by an overcrowded urban concentration. The urban density is more than 7 times the Italian average, which is a good living standard -- in terms of ratio between inhabitants and territory.
result of this slow process was the diffusion into the environment of a “knowledge” in terms of markets, of products and of how to start up a profitable commercial activity. It is worth saying that in the local and regional markets targeted by these traders, the buyers were not only poor people with a low income and limited resources, on the contrary, these markets were not cheap and were very popular with those of high income. On average, though, the customers were middle-income people that tended to buy easily, looking for good items among big variety. The products sold were usually middle quality, but among them, it was easy to find excellent and sophisticated items or false ones that were excellent imitations of originals⁹, made in other parts of the region. The high quality items and the copies were usually considered “coquette-products” because they were useful to attract the richest clients and some of them could come from stolen stocks. It is worth remembering that these activities could overlap partially with many illegal ones too. The big problem of this region is the mafia, but it is unclear to what extent or in which boundaries it impacted and keeps doing so. I cannot say which parts of the activities present in San Giuseppe are linked to this kind of illegal phenomenon and how they are influenced by it. Over the 1970s, this environment started to change because the manufacturing activities developed, as I am going to describe below.

1.2 THE ORIGIN OF MANUFACTURING ACTIVITIES

The official data of the Italian Survey of 1981, confirm the picture of San Giuseppe, at the end of the 1970s, mainly as a commercial center, with wholesalers and travelling traders, mainly men, that used to sell textiles and clothes in local and regional markets, and in a very few cases, in some

⁹ In this part of the region, the market for the false items –not only clothes- is very profitable.
extra-regional ones too.

**San Giuseppe's picture**

<table>
<thead>
<tr>
<th>Table 1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Population</strong></td>
</tr>
<tr>
<td><strong>Professionally active people</strong></td>
</tr>
<tr>
<td><strong>of which the main voices are:</strong></td>
</tr>
<tr>
<td>Wholesalers and Travelling Traders in garment and textile</td>
</tr>
<tr>
<td>Entrepreneurs</td>
</tr>
<tr>
<td>of which in textile and garment sector</td>
</tr>
<tr>
<td>Self-employed Workers</td>
</tr>
<tr>
<td>Unemployed (only first job)</td>
</tr>
<tr>
<td><strong>Professionally non active people</strong></td>
</tr>
<tr>
<td><strong>of which the main voices are:</strong></td>
</tr>
<tr>
<td>Housewives</td>
</tr>
<tr>
<td>Students</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td><strong>By Education</strong></td>
</tr>
<tr>
<td>Illiterates</td>
</tr>
<tr>
<td>Without any degree</td>
</tr>
<tr>
<td>Primary education</td>
</tr>
<tr>
<td>High School Diploma</td>
</tr>
<tr>
<td>Bachelor</td>
</tr>
</tbody>
</table>

Sources: ISTAT and Finanza e Gestione s.r.l.

Some of these wholesalers and travelling traders also had their own stores in the town, fixedly and officially set up, while others opened informal stores, not legally declared, in their houses, without any visible sign.

These formal and informal stores have been very important for the start up of manufacturing activities, because they constituted local suppliers of raw materials, easily accessible.
Over the 1970s, the manufacturing took root in the region in complementing the commercial activities. Their diffusion would have a big boost mainly over the 1980s. However, hints of an early presence of manufacturing were visible in the official data.

According to the Survey, overall, the entrepreneurs were around 300, a third of them in the textile and garment sector. This datum underestimated the real values. It included only the "professional" entrepreneurs, those officially recognized who went through all the bureaucratic processes. The Survey did not reflect the abundance of informal manufacturing entrepreneurs. From the interviews, I got the idea that the official numbers were very partial, and difficult to interpret correctly because they hid the informal processes. For instance, many manufacturing entrepreneurs declared their activity under a generic voice such as self-employment, which included 1400 in the Survey of the 1981. This voice represented a very broad category, convenient to use by an informal entrepreneur, especially when the activity was not set up with large capital. This way, it was possible to avoid all the formal requirements that the fiscal legislation provides for firms and indeed, to pay fewer taxes. In addition, the rough -- including only people looking for a first job and mainly men -- unemployment rate was around 8%, but it did not include many people that officially seemed unemployed but in reality worked on their own.

Summing up, the official data lacked a detailed sense of the phenomena occurring over time, for two reasons: 1) the high degree of informality of the phenomena and 2) the broadness of some categories which should include them. This way, the early presence of the manufacturing activities was almost invisible in the official Survey of the 1981.

In contrast with this economic vitality, another feature from the Survey of the 1981, showed a

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10 The Italian commercial legislation, even if very supportive of firms in terms of incentives and so on, has formal requirements quite stringent, which vary according to the size of the firms, and are necessary to fix the tax percentages
culturally not well-advanced town. Almost 25% of the population was composed of illiterates or people without any schooling degree, but more striking yet, more than half of the population had only a primary school education, and few had high school degrees or Bachelor’s degree. Many women were housewives, with low education.

These data are useful because they give an idea of the general composition of the society, but more importantly because they show how the town had a traditional and simple culture when the diffusion of the manufacturing activities started. These activities grew up spontaneously, without specific inputs, such as the opening of a school, specific training courses and so on. They did not come out from either a well-developed civil society, which could work as a prerequisite for their development and facilitate their origin as some literature argues. Over time, these people learnt from travelling traders to become entrepreneurs as good practitioners by dealing with agents, and representatives, and going to external markets, according to the changing environmental conditions without the support of any managerial professional knowledge.

To understand how the evolution toward the manufacturing activities occurred, it is important to look at the strong concept of family rooted in the spirit of the South, in contrast to Banfield’s portrayal. Family means not only parents plus children but in an extensive way, a web including uncles, aunts, cousins, relatives and close friends. These people, especially in the past, used to live very close to each other, sharing the daily and main aspects of their life. The internal ties among family’s people are very strong. When a new relationship with external elements starts, such as with a new neighbor or with a new acquired relative, the ties tend to be a little bit exclusionary, but differently from what Banfield writes, they become very inclusive when over time, a good degree of informal trust is reached. The formal associations that Putnam counts and describes as proof of civicness in the North of Italy, are present in the South with this informal structure. No official and

to apply in any single case.
numeric indicator will ever be able to give a measure of their presence.

Through the family channels, the main private and professional relations are developed and fueled, characterized by trust, cooperation and generosity. For instance, in San Giuseppe, it was very common to find a travelling trader who started to work with his family members:

“I started my activity when I was very young, helping my uncle who was a travelling trader of clothes....I did not want to study, so I preferred to work.....”

(A manufacturing entrepreneur)

“My mother came from a family of shoe traders and my father was a leather trader. I learnt my activity working in my family.........”

(Another manufacturing entrepreneur)

In some way, it is possible to speak of family relations as "personal-private-professional" relations. These are the main networks from which the manufacturing activities started to grow in the small town of San Giuseppe. Many of the entrepreneurs I interviewed began to run their manufacturing business, from simple traders, with a very close relative as a partner, taking advantage of the expertise of someone else in the family, who could sew and make simple products. This way, they could produce save on labor costs, produce some items very cheaply, and consequently have a high return on them. Family members usually did not receive a real salary for their work through mainly sharing the final profits.

“I was a clothes’ travelling trader.....At the end of the 1970s my brother in law and I started the manufacturing activity in the family: my sister and my mother cut and sewed the first items...Over time we enlarged this very profitable activity and we learnt how to manage it and how to improve the items made.... Now we have many employees, even out of the town... and we export....”

(The manufacturing entrepreneur of one of the biggest firms)

“My brother is the official entrepreneur and I am a public worker, but I spend my time off in ‘our’ firm, helping to manage the business.....”

(A manufacturing entrepreneur)

Basically, these people started to work on two tracks: they produced some items on their own and
they sold these inexpensive home made items along with the goods of other producers. As some literature argues, the manufacturing firms started by building on the dense networks of social and professional relationships that existed in their immediate extended families. This occurred also because the local environment facilitated the creation of this type of firms, for its richness in commercial "knowledge". And finally, the formation of a family type of manufacturing firm and collective learning spread across locally through an imitative process.

The idea of some of San Giuseppe travelling traders was to start up the garment manufacturing activity in the family, taking advantage of three “assets” already present: (i) a local tradition of sewing, (ii) the knowledge provided by the local economic environment about the market, and (iii) the presence of local suppliers of textiles. 1) The very traditional cultural model of the South, generally accepted and transmitted, implied that a woman could sew and embroider at least the basic items, such as trousers and skirts, at home. Women, through a very strong but not externally visible presence, were supposed to have a central role in taking care of the family and of the house, in addition to public work too. So among the tasks considered necessary and transmitted by repetition and by imitation to younger women, there was this ability to sew and embroider in general, not at a highly skilled level but at a generic one. There has been no formal training at all; these capabilities were seen as necessary but not as work.

“Women were trained to sew and embroider at home....”

(A subcontractor)

This domestic ability to sew, which almost ubiquitous, transformed into manufacturing activity for the presence of two other assets, the local knowledge about the market and the presence of local suppliers of textiles. 2) Contextually, the local environment provided a very good generic knowledge of the textile and garment sector, of the market, and also of access to buyers, providing good examples of successful commercial activity that could be easily imitated. In addition, over the 1970s, these traders were facing an expanding clothing market, which pushed many people to
follow the successful examples. The crisis of these years, due to elements such as the oil’s shocks, shifted a larger amount of people, looking for good-quality and cheap clothes,11 from the shops to the informal markets, where these traders mainly used to sell their items, making still more profitable their activity. 3) Finally, the other asset which has been determinant in the development of the manufacturing activity was the local presence of clothes and textile wholesalers. These were the travelling traders who set up formally and informally their commercial activity and the wholesalers who were the heirs of the first intermediaries and who kept their activity, over time, by family traditions. Access to raw materials gave to traders interested in manufacturing the chance to be flexible in a market, with the advantage of having low inventories without investing in them much liquidity. This way, the access to the raw materials has been one strong condition for the adoption of a quick production process.

All these three exogenous assets (the knowledge provided by the local environment about the market and by tradition about sewing, and the presence of local suppliers of textiles), mixed together and framed in the concept of family, led to setting up of the manufacturing activities and to acquire a first competitive advantage.

"The first products I made were very cheap and indeed competitive....
I bought locally the raw materials, my mother cut and sewed the models
and I sold them.... My success started this way...."

(A manufacturing entrepreneur)

San Giuseppe entrepreneurs adopted as a production process in the start up phase a simple “quick fashion”12 of manufacturing. They chose a simple process, which featured a quick production cycle (4-5 days) and the complete interaction between production and distribution to bring products to

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11 The demand for this type of good if the market is not completely saturated, does not suffer of big shifts even in crisis’ periods.

12 The "quick fashion" (pronto moda) became quite popular in Italy as an alternative to the planning production process during the 1970s. It uses mainly a decentralized production and it was the response to changes in the tastes of the clients, and to the need of firms to lower their inventories.
the market and sold as soon as made. There was no designing of the samples. The quick fashion follows the most successful trends for a defined market and tries to imitate them without any attempt to impose new styles. The lack of professional ability in cutting and sewing led at the beginning to a product usually of middle-low quality.

The manufacturing process started with single familiar products. The first homemade items usually were men’s ties and women’s cigarette-trousers (simple trousers, large on the sides and tighter at the ankles) or very simple skirts which did not require a specific sewing expertise. The number of cuts and finishments was reduced to the minimum. There were no more than 2 or 3 styles for an item and if they met the desires of the final consumers, then many more were produced with small variants in terms of textile and colors.

“I started to make men’s ties, and then I shifted to women’s clothes....Now we (one of my friend and I ) produce only items for women....”

(A manufacturing entrepreneur)

To begin the activity, small amounts of capital investments were necessary. These investments were made using private and personal savings. As Piore points out, in the garment industry when the product quality is low, little equipment is needed (a sewing machine, which is not an expensive item), and basically the equipment is not specialized: the same instrument is used to produce all garments (Piore 1990).

The distribution of the tasks, in line with the dominant cultural models, was usually the following: women sewed the products at home and men were in charge of the selling phase, looking for new and better distributive channels through which to sell their products. But it is wrong to think in terms of a very strict division of labor. It was instead a quite fluid one that became very important to how the styles were made. The models indeed were decided by the family members, looking at the successful ones in stylish shops, in magazines, or worn by people in the street.

“At the beginning we got inspirations for our models in the shops.....or in the fashion magazines.....”

(A manufacturing entrepreneur)
The first items made in San Giuseppe were the result of two distinct forces. On one hand, production of complex styles was constrained by limited knowledge and poor equipment; on the other hand, the producers tended to imitate the most fashionable and complex items. They transmitted fashion content -- the message usually diffused through the design --, which was quite low, mainly through colors and textiles, rather than through the style.

Over time, the local manufacturing activity proved to be very profitable. The producers got to know more people working in the sector, broadened their distribution channels through their friends, and expanded their activities. From direct market selling, they got to know and started to sell mainly to intermediaries, agents, retailers or other market sellers. They did not choose only retailers as partners for two reasons: (i) the intermediaries’ role was common in Italy and it was easy to get to know them. The intermediary was a typical figure in the distributive channels, facilitating the access also to markets outside the local and regional ones. (ii) The fear of not being paid on time by the retailers, pushed these producers to look for very reliable clients, and mostly for agents and the other intermediaries that were instead a kind of guarantee for the payments. Beyond this simple fear, which someone can argue is common to everyone who runs a business, it is worth to remember that the garment production requires small fixed capital and is based mainly on the working capital for which it is important to have disposal of fresh cash to invest at certain points, as the need arises. Over time, the most successful entrepreneurs looked for new and better distributive channels outside of the local and regional market.

In the 1980s-1990s this manufacturing activity was very successful and increased enormously.

1.3 THE DIFFUSION OF THE MANUFACTURING ACTIVITIES

The firms set up in the way described above had very blurred boundaries. They featured a high
degree of informality and no formal organization at all. They reflected "how the boundaries between firms and society were blurring" (Sabel, 1993: 25). These firms came from the ideal and political conceptions people had of themselves, of their families and of their friends. The firms were shaped by the people's environment and by their habits. Their beginning and their evolutions contrasted with what Banfield writes: "in a society of amoral familists, organization (i.e. deliberately concerted action) will be very difficult to achieve and maintain" (Banfield, 1958:89).

However, the start up phase is a key point in understanding the evolutions that occurred in the firm structures over time.

During the 1980s-1990s the manufacturing activity was very hectic and quite successful.

The successful tendency of this decade is partially captured by the comparison between the public data of the Italian Survey of the 1981 and 1991.

**Professional Activity**

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Survey 1981</th>
<th>Survey 1991</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Active Population</strong></td>
<td>8735</td>
<td>10464</td>
<td>+20</td>
</tr>
<tr>
<td><strong>Entrepreneurs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which</td>
<td>323</td>
<td>708</td>
<td>+119</td>
</tr>
<tr>
<td><strong>Textile and Garment firms</strong></td>
<td>152</td>
<td>306</td>
<td>+101</td>
</tr>
<tr>
<td><strong>Self-employed Workers</strong></td>
<td>1440</td>
<td>1998</td>
<td>+39</td>
</tr>
<tr>
<td><strong>Wholesalers and Trav. Traders in garment and textile</strong></td>
<td>970</td>
<td>1027</td>
<td>+6</td>
</tr>
</tbody>
</table>

Sources: ISTAT and Finanza e Gestione s.r.l.

The number of manufacturing entrepreneurs increased enormously, mainly in the garment and textile sector. There was also an increase in the number of workers self-employed to testify this trend toward the starting up of a business on their own. These data once more are partial because
they fail to consider all the informality and the underground aspects of this economy. But as rough indicators they can give the idea of the trends occurred in manufacturing, especially if compared with the increase of wholesalers and travelling traders.

In addition to the simple quantitative increase in manufacturing, it is possible to say that the ongoing dialogue between the producers, the other sellers and the final clients, made the entrepreneurs choose the niches in the market in which they could most easily sell their products. Through this dialogue, the cognitive dimension of the entrepreneurs increased and they adopted a kind of natural selection among the products. The entrepreneur’s expertise in terms of manufacturing and the selling phases further developed, making their focus more specifically on the more profitable products. The entrepreneurs realized that women’s and children’s clothes were very profitable with very high returns, and which were the good and stable niches in the expanding market, not only in terms of more profitable products, such as more elegant clothes for ceremonies than casual ones, but also of better clients.

"During the 1980s, we realized that we were mainly competitive with women’s clothes...
also very profitable...so we shifted our production completely on this type of items.....
To this extent we increased the production and tried to improve the quality too........"

(A manufacturing entrepreneur)

Increase of production capacity and slight improvement of the quality was not a simple or immediate process. At the beginning of the 1980s, the better partners and the profitability of the activity made two problems to be solved: to improve the quality and to increase the quantities of the items. The limited knowledge in the family and among friends was not enough to fulfil the requests, even if more sophisticated equipment was adopted. Therefore, the entrepreneurs started to look for people with a greater sewing expertise out of town in the nearby Neapolitan centers such as Grumo Nevano, Nola, and in a few cases, outside of the region too, as in Puglia, where there were quite famous traditions of sewing.

"We looked for more expert people out of San Giuseppe. This way, we could spread our
orders, increasing the quantity, and most important, employ more expert tailors and sewers, that could guarantee us a better quality.....”

(A manufacturing entrepreneur)

This is different from what the literature describes that occurred in the other industrial districts in which “technical skill and competence are widely diffused locally...and the region is the locus of production” (Saxenian, 1990: 91). In San Giuseppe the producers looked for the skills they needed out of the local environment. The firm, with a very peculiar structure, was the locus of production, creating in the environment, examples of production that spread across it through an imitative process. This shows once more how there is no historical, deterministic argument, which can be addressed as the cause of underdevelopment. In San Giuseppe the manufacturing activity was set up in an environment that did not provide high competence, but only semi-skilled workers -- women working at home -- and an easy and prompt access to the supplies of raw materials and to the selling phase. All the production phases were externalized out of the social networks in which they started. The common idea in San Giuseppe was to keep producing internally and locally the more simple items (for example skirts, trousers and shirts) and to give the more complex (for example, the so-called capispalla, which includes coats and jackets) to the experts outside, out of the town. This way, the need to increase the products in terms of quantity, was also met, even if it is worth to remember that at this stage, we are not speaking in terms of big volumes, but of increasing in a small-scale operation.

The option the entrepreneurs perceived as best, consistently with what the literature describes that occurred in the industrial districts, was the adoption of a decentralized production: subcontracting. It clearly had many advantages, in addition to the satisfying the need to improve quality, which was not possible locally, and to increase quantities of items produced, without formalizing a bigger firm’s organization. This way, the entrepreneurs avoided facing the business and financial risks of the new activities directly and suddenly; otherwise, they would have set up a more planned activity.
with more capital expenditure. Again, they could save in terms of labor costs and produce very quickly items at very low prices. Most of these manufacturing activities were not at all legal or only partially declared legal and this allowed a huge labor cost saving. The garment sector being a labor-intensive industry, the labor costs, along with those of raw materials, are the most substantial. In addition, the Italian legislation in terms of labor is very strict and to better protect the workers, it requires employers to respect a minimum salary and to pay high taxes on the legal workers, so they acquire the right to have a public pension when they retire. The cost per worker is indeed higher than in other countries: "by the 1990s, among the Big Seven Countries, Italian hourly labor costs were second only to German rates" (Locke, 1995: 16). So, through subcontracting, the San Giuseppe entrepreneurs could reduce the labor costs enormously, being very competitive in the market.

“Through subcontracting I can be very competitive in the market.....otherwise to keep my turn-over of business I should hire many workers (around 80) through a single organization, which is too expensive to me.....”

(A manufacturing entrepreneur)

This high competitiveness of the items in terms of reducing costs and quickness of production, was also the result of another advantage provided by the subcontracting system: the internal flexibility of the system allowed the producers to respond to shifts in the market and in the clients’ tastes very easily.

“We made all the items without any anticipation relatively to our cycle of selling....
Deciding the models according to the trends in the market.......”

(A manufacturing entrepreneur)

The central point is that these entrepreneurs, maybe unconsciously, did not focus on any economy of scale or on big volumes, but on maximum flexibility. This flexibility was determined once more by the local presence of textile wholesalers that allowed promptness in buying raw materials and speed in responding to the very volatile demand, avoiding purchases on anticipation and
inventories that required big storage spaces.

This way, the “organic inter-dependency” among firms, in terms of sharing the use of the same expensive capital equipment, that some literature recognizes as a typical feature of the industrial districts to achieve economies of scale is not present in San Giuseppe. Or better, at least in this stage, the inter-dependency is present in a different way, as relation between suppliers, firms and distributive channels, than simply among firms. By this, it does not mean that there are not relations among firms, they cooperate and collaborate with a strong degree of informality (I will turn to this point later).

However, it is interesting to note how the diffusion of the manufacturing activity occurred without substantial changes in the production process. The process adopted was still the quick fashion, even if it became a little bit longer, requiring 7-8 days for the manufacturing of the items. The flexibility also produced another effect: the need to better coordinate all the production process and to control the quality of the items, especially of the ones produced out of the firm. The coordination problem was solved without the adoption of any hierarchical structure, in two different ways. In fact, the result of all these evolutions was the adoption of two production processes and the birth, at the beginning of the 1980s, of a kind of productive dichotomy which increased enormously and it is bringing different results in the current situation, which I am going to describe below.
CHAPTER II:

The dichotomy of the production process and its impact on the current situation

2.1 THE LOCAL ENVIRONMENT DURING THE 1980s

During the 1980s, a kind of dichotomy arose in the production process, influenced by the following four external factors. First, the 1980s were characterized after the early economic crisis by an economic boom and, indeed, an increase in consumption, especially in the second half of the decade. The expenditures in garment and textile were more than 7%-8% per total private consumption,\(^\text{13}\) which increased over the decade.

Second, from the 1950s to the 1990s, many different types of high public expenditures in the South were made, by the central Government, called the extraordinary intervention (l'intervento straordinario) to help its development. Its impact on the Mezzogiorno is a debated topic. Many strands of the literature argue that it was unsuccessful in achieving its developmental goal because it inspired a top-down strategy that did not match the needs of the bottom. Again, most of the facilities for the firms, which could be in the form of easy funds in setting up plans and buying new equipment, had as its main recipients the big firms and did not really help the small and medium-sized firms present in the South. Essentially, San Giuseppe firms did not benefit from it. Other strands of the literature argue instead that the overall funds and the facilities received by small and medium firms in the South were far lower than the ones received by the small and

\(^{13}\) Data from "Relazione Generale sulla situazione economica del Paese ed elaborazioni Rapporti Economici e Internazionali" di MODA INDUSTRIA.
medium firms present in the North which were supported by very efficient regional and municipal administrations. Looking at textile and garment sector small and medium firms data, these firms received small amounts (in a range of 2% - 4%) of the resources available for the whole South. This value is even lower when compared with the funds and the facilities received by the Center-North small and medium firms through the ordinary public intervention.

From all this, it seems even more, that San Giuseppe’s did not take advantage of the facilities planned for the South. This is an open-ended point for two reasons: 1) the official data are at the provincial level and they have never been broken down at the municipal level. This way, these data are quite meaningless because they refer to a province, a big territory, which includes many different environments; 2) a detailed, empirical study about the official values and the real impact of the *intervento straordinario* has never been done. The studies available present two great limits. First, they do not consider that the extraordinary laws were such a huge and complex core of policies that it is really difficult to think about them and the sectors they referred to, as a whole. Second, they do not consider how easy it was, in this mechanism, to have access to funds and facilities for whoever ran a business.

“…someway all the firms managed to have access to funds and facilities… which were many… at the formal rigor of the laws did not correspond the same rigor in their applications or in their control….”

(A fiscal advisor)

Probably, San Giuseppe entrepreneurs were limited at the beginning, in their access to these funds because of the high degree of informality of the manufacturing process, but this is a point for which I do not have any empirical check.

However, the *intervento straordinario* provided good opportunities to push the production in San Giuseppe *indirectly*, in other forms. The building of infrastructure really impacted this reality. Specifically, a commercial center for wholesalers of everything except food, was built in 1986 near San Giuseppe. Many intermediaries set up their own activity in this center called CIS, which was
one of biggest in Europe. The commercial center has an extension of 1 million squared kilometers, more than half of which assigned for all the commercial activities. The center has deeply affected the San Giuseppe commercial activity in many different ways. Many wholesalers left their shops, moving out of town and opening new shops in the CIS. This way, they kept focusing mainly on the commercial activity. The shopkeepers could then make a comparison of their business with other ones and contact new distributive channels. Ironically, even if the CIS has been very successful -- the earnings of 1996 has been more or less 8 thousands billions of liras, with an increase of 7% compared with the earnings of the previous year -- over time, it has shown itself to be a constraint on the people who used to sell there (I will return to this point later). Clearly, it has been also important in terms of advertising. The CIS having more than 20 thousands clients per day, the knowledge of these people's business spread across and out of the region too, mainly in other Southern regions.

Third, at the beginning of the 1980s in Campania\textsuperscript{14} there were two major earthquakes that destroyed some parts of the region. The Government supplied many funds\textsuperscript{15} for rebuilding. In many cases, as emerged through my interviews, these funds were shifted by the recipients, to industrial purposes, such as the modernizing of some plants, or the buying of better equipment. This way the manufacturing activity had a strong push, with the supply of liquid assets. One of the features of San Giuseppe's economic environment, indeed, is the almost total indifference of the banks to the presence of these firms. Usually, the criteria adopted by the banks for giving credits and loans are to apply good rates to the firms already successful and to adopt very high rates for the smaller ones and those at an early stage. This is partly consistent with what some strands of the literature describe that occurs in the industrial districts: "small enterprises rely overwhelmingly on

\textsuperscript{14} This is the name of the region in which San Giuseppe is.
savings of the owner or his/her family” (Schmitz and Musyck, 1994:890)." But differently from what the same strands of literature describe, in San Giuseppe, at this stage, there has been no “local bank.....very closely linked with local entrepreneurs (and often with other local social and political lobbies) and deeply involved in local life, which it knows in detail, and to which it gives direction to a considerable extent.” (Becattini: 1990, as quoted by Schmitz and Musyck: 1994:891). The explanation of this is that the entrepreneurs, at this phase of growth, did not perceive yet as a compelling need the establishing of a local financial actor to gain access to loans for investment and working capital, as a whole group and not in a fragmented, individualistic way. Again, at this stage, the relationships among all the actors were mainly shaped by a high degree of informality and there were no common perceptions among the different actors of their roles that could inspire another type of dialogue.

Fourth, from the 1980s to the 1990s, the municipality, according to the entrepreneurs, the municipality, has been completely deaf to their needs. They complained about a lack of support, in terms of local infrastructure or as intermediary with the regional and central government.

“The local administrations have not been really interested in our problems and how to solve them….and the public employees do not care about us....”

(A manufacturing entrepreneur)

Some municipal administrations have also been dissolved many times de facto by the administrative authority\textsuperscript{16} for different reasons. One time it was because of incapability of the municipality to approve the annual balance sheet and also because of mafioso connections. This situation brought a kind of paralysis of the local politics and of the ordinary administrative activity

\textsuperscript{15} I do not have official data on the value of the funds provided for rebuilding San Giuseppe.

\textsuperscript{16} This means the presence of a kind inspector super partes with the simplest ordinary tasks. For the others it is important to wait for the next election. De facto it means a kind of paralysis of the local administration.
too. By this, it means that often the entrepreneurs did not have a local political partner with whom to dialogue, ready to accept their requests. The result has been that these people got, in a very proactive way, all the chances they had to improve and to enlarge their business, even spontaneously in the lack of legal rules. For example, the lack of a regulatory building and developmental plan led some entrepreneurs to build, in a few cases, their industrial plants in a completely illegal way. Only few of them were legally declared as industrial buildings or had the legal authorization from the municipality. Many owners are still waiting for the legal recognition by the local bureaucracy. As some newspaper’s articles pointed out in San Giuseppe the rate of illegal construction waiting for legal status is one of the highest in Italy.

Given this framework, these entrepreneurs created a manufacturing system that at the beginning of the 1980s had as main characteristics: 1) products of middle, middle-low quality; and 2) a very broad almost completely illegal, subcontracting system.

### 2.2 THE TWO TYPES OF PRODUCTION PROCESS

All the entrepreneurs started from an intermediary activity (wholesaling and travel trading), but beyond their specific personal entrepreneurial qualities and specific opportunities, those more successful in the commercial activity or those who saw it as the more profitable, focused mainly on it, giving to the manufacturing process a marginal role. However, others saw the manufacturing activity as more successful and they shifted their focus to it. Basically occurred what Piore describes in the following way: "what is really going on is more like the children’s game where everybody sits in a circle and the first person whispers a message to the person on the right who then repeats it to the one on her right and so on until it finally gets back to the originator. The final message may have very little in common with the first but the one is nonetheless derivative of the
other. People in the industry seem to believe that what is going on is just like the children’s game; they are actually doing nothing but copying each other and the variation which emerges is truly accidental" (Piore, 1997). In this case, through the imitative process, some entrepreneurs focused mainly on the manufacturing activity, others on the commercial one. However, this distinction has not been precise at all and the boundaries are not clear-cut, because it is very common to find a producer who is still a wholesaler, not only of the items produced by himself. But overall, the distinction fits the reality and it is important because impacts not only the manufacturing process but also the social environment. However, in both cases, the manufacturing process is a subcontracting one, but when the original commercial activity is still dominant and is set up as the main one, there is a total externalization of the manufacturing process.

When manufacturing is the main activity, the problems of better coordinating the manufacturing process and of quality control have been solved by setting up a more formal organization and internalizing some parts of the process. The scheme of production which has shown itself to be better suited to fulfilling all the different needs is the following: the firms with the following features, choose the design, buy the raw materials and cut samples, leaving all other phases to the subcontractors.

### 2.2.1 THE FIRMS

Adopting the definition fixed by the European Community Laws\textsuperscript{17}, these firms are all medium and small size. Their earnings are on average in a range of a few thousands of dollars to a maximum of 8-10 millions of dollars and the number of employees range from 2-3 employees for the smaller

\textsuperscript{17} According to this definition a firm can be considered small if it has up to 50 employees, medium, 250; to 5 millions of ECU, a medium 27 millions of ECU. In both cases more than 25% of its equity must not be controlled by big firms.
firms, to an upper bound, for the biggest ones, of 10-20 employees legally declared on the books. The real workers are usually many more and it is also very common that the workers are not paid the declared salaries. The size of the firms is important because it impacts the kind of suppliers they have -- the bigger firms have an easier access to external markets such as to Prato --, the items they make, the adoption of a more sophisticated equipment in the manufacturing process, and access to more external subcontractors and to better loans conditions.

In both medium and small-sized firms, the production process follows more or less the same scheme, with some variants.

2.2.2 THE FIRST TYPE OF PRODUCTION PROCESS: MANUFACTURING

Starting from the first phase, which is to choose a style, the logic adopted develops as follows. Usually, the entrepreneur, with the designer,\(^{18}\) or with a member of the family, quickly decides the styles to make by looking at the magazines, at the shops, at the clothes worn in the streets by particular kinds of people, or speaking directly with the final sellers. The smaller firms produce only some items -- not all make the capispalla -- while the bigger firms make all products, with many variants in textiles too. All these products have a low fashion content. They are the so-called basics, by this it means that these items are quite consistent over time and with a low value per unit. However, the circumstances and the evolutions occurred -- the founding of expansionary and stable niches in the market, the improvement of the products quality, and the increase in their quantities -- led the bigger firms to adopt also the planned production together with the quick one for middle quality niches.

"During the second half of the 1980s I started the planned production too, for some items....

I increased and differentiated the types of items made by my firm....and with some of my new

\(^{18}\) I use the term "designer" for the Italian modellista. He is different from a stylist because he has more tasks to develop than drawing the design, but requires a good expertise in cutting and sewing.
clients I started to think about specific items with a larger time horizon.....I changed partially my production...........

(The manufacturing entrepreneur of one of the biggest firm)

The classical planned production implies some organizational changes and a more complex buying phase: for example, in the case of a good capospalla, the buying phase, which is the most complex phase, can be developed over a maximum of 5 or 6 months of anticipation. This is called buying of textiles in the "dark", because the final items have not yet been tested in the market. In San Giuseppe the bigger firms adopt a method in-between the two productions. So, over time, the bigger firms shifted the buying of raw materials to the external market of Prato (Northern Italy) for two reasons: (i) the variety of the quality of textiles is higher in Prato and clearly it means that the quality of the final products will also be higher. (ii) Prato’s market is cheaper. However, it does not mean that all the materials are bought in the “dark” in Prato. The entrepreneurs satisfy new sudden needs as reorders or a sudden idea of new items, required by clients, by using the quick production process -- on average, 8-10 days for the most complicated item -- and by going easily to the local market, obtaining advantages such as delays in payment. The smaller firms on the other hand do not have the organizational or financial strength, or in some cases, simply do not want to go to the market of Prato. They tend to buy all the materials in the local market. The advantages of buying locally can be delays in payments for the raw materials, which allow them to match, as much as possible, the deadlines for payments they have to make to the suppliers and payments they have to receive from the buyers. This way they can increase the size of their business, playing on the working capital and investing liquidity, without involving concrete cash out flows.

"After deciding on the model and the quantities with the clients, I buy locally the raw materials as needs arise and avoiding wastes of time....... I can pay later on...usually, I know personally the textiles’ sellers and we have very good personal relations....

(A manufacturing entrepreneur of a small firm)

After deciding on the model and buying the materials, the samples are cut. The cutting phase over
time has been the object of an increasing specialization: the degree of expertise required for cutting is higher than the one for the other phases. The person in charge of the cutting phase both in the smaller and larger firms is usually an expert designer. This evolution is clear if we look at how the cutting phase evolved in the larger firms. If, in the smaller ones, the cutting is still left up to artisan capability, supported with very poor equipment, such as one made of cardboard, in bigger firms the designer artfully cuts the sample. But in this process he also has the support of more sophisticated equipment such as the plotter, which reduces the cutting time and the scrap materials, and it allows the subcontractors to be very precise in the cutting phase. Using the plotter requires a certain kind of specialization, indeed the worker in charge of it, is required to have a specific expertise.

The other phases are then subcontracted to external workers, called "faconisti".

2.2.3 THE SUBCONTRACTORS AND HOME WORKERS

The criterion adopted is still to subcontract the simple items to local workers and the more complicated ones to external workers, according to their degree of expertise. There are different types of subcontractors, each (or a couple) in charge of making some specific items according to the different degree of expertise they have. The relations with the producers are featured by very high trust, by mutual understanding and by a quality control that is on average quite rare. The subcontractors have a deep tacit knowledge, developed over time through long-lasting professional relationships, about what they are doing, why they are changing over time and how to solve the problems they face. They are perfectly conscious that the evolution of their work is linked to a change and to an increasing sophistication in the desires of the final clients (the final sellers) and they try to fulfill all the gaps to be adequate to the new requirements. In this tension, the grade of informal collaboration among them is fairly high. For instance, often, the subcontractors have to buy new equipment to make more sophisticated finishes or embroider, in order to meet new
requests of the producers. In some cases, the firms also support the subcontractors with money when the latter need to buy new equipment. But this process is not so straightforward.

“I had to buy new machines to satisfy the needs of the final French buyers who wanted a precise loop of 1.8 cm…”

(A subcontractor of skirts and trousers)

There is no real guarantee that the final product will be the one really desired, and that the investment will be a good one and not to turn itself in a waste of money. So, before taking a step like this, the subcontractors look for someone who is already more advanced in the production process and can allow them, as a personal favor, to verify practically the result the producers want. These knowledge exchanges are quite informal and can grow spontaneously again from friendship ties or they can be directed by the entrepreneurs that usually pay attention to this phase of the production process. Indeed, the manufacturing firms regard the subcontractors as part of their internal structure. To this extent, to avoid instability in terms of work relationships and breaks in the production chain, they tend to always give the subcontractors work orders, even if little real work needs to be done. The subcontracting system does not stop at the first layer. After receiving the materials, the first subcontractor cuts all the materials and distributes them to home workers for sewing and ironing.

“I give to home workers the raw materials and the accessories…I have back the clothes already ironed, then, we package them…”

(A subcontractor)

Even the subcontractors work at home: they use some parts of their houses, such as the basement, or of their apartments, such as some rooms, as working places. Their activity is completely invisible externally.

The subcontractors have a very small number of employees usually not legally declared and they tend to specialize in some phases of the production process (such as cutting and packaging) in their structure. The number of employees can also vary in certain periods when, for example, a sudden
increase in production is required.

“...in the busiest periods we are around 10 people, my husband and I, plus 6 or 7 women, mostly friends of mine, who help us....they are mainly paid daily....all of us work in the basement of my house...”

(A subcontractor)

The home workers are mainly women who supplement the family budget with this work while adhering to traditional women’s roles: “staying home”, cooking, taking care of children. These workers have a lower knowledge dimension compared with the one of the subcontractors, of what they are doing and why they are changing their tasks over time. This is due to the production structure per se; they follow simple directions and they are given all the necessary materials to make a specific job. This way, they do not have any particular productive problem to solve and they are cut off from the dialogue with the other parts involved, not questioning their identity.

This final part of the system is completely underground and all the fixed subcontractors are paid at piece-rates, which is forbidden by Italian legislation.

The clothes go back to the manufacturing firms ready to be sold to the buyers. The firms at this point, especially the bigger, look like big depositories for the items made.

In this structure the workers are easily manageable because there are no unions and the links are mainly shaped by personal relations. Both subcontractors and home workers do not feel any need of and do not have any perception of themselves as being part of any formal organization. They feel part of strong and comprehensive informal networks and consistently with what the literature describes that occurred in the Third Italy, at this stage, they do not have any desire yet of starting-up the manufacturing activity by their own.

2.2.4 QUALITY CONTROL

About the quality control the designer is theoretically in charge of it, but practically, it does not
work this way.

“I do not have any quality control by the buyer...he tells me what he wants to, through very specific orders...then we see how I can make it...”

(A subcontractor)

There is strong trust among the parties involved, but also something else, deep knowledge of the reciprocal needs, coming out from the long practice of working together, which bring the subcontractors to try to satisfy all the specifications of the buyers. The whole structure of manufacturing and subcontracting has always been very ready to answer to new requests coming from the market, learning how to satisfy the new needs and to adapt to them without discrepancies. And considering that no formal quality control occurs, as Sabel points out: "learning and monitoring is reduced to the point of imperceptibility. Production in a system of collaborative manufacturing is both a means of learning how to make things better and a way of learning how to select and monitor partners." The terms of the dialogue between the parties are key in the monitoring process: the informal channels of dialogue and the mutual understanding are fueled informally, making things work the best way. In this situation clearly, the boundaries are once more mixed and there is no clear-cut distinction between the internal and the external parts of the firm." Activity inside the organization can move outside and vice versa" (Sabel, 1993:42), according to the changes occurred in the market -- such as shifts in the tastes of the clients, a requested better quality of the items made, the opening of new markets or of new niches, a moving by suppliers -- or according to changes occurred in the local environment -- such as new infrastructures for the production process as the opening of a manufacturing center and so on --.

“Over time, we learnt together with our subcontractors how to improve our models and their quality...”

(The manufacturing entrepreneur of one of the leading firms)

This synergistic process of learning and monitoring is not present in the second case, where the manufacturing activity is still marginal compared with the intermediary one, affecting the production process and the quality of goods.
2.2.5 THE SECOND TYPE OF PRODUCTION PROCESS: THE WHOLESALING-MANUFACTURING

In this case, the producers have a predominant interest in the intermediary activity, so they subcontract with small local producers the whole production process, from the design to packaging. They usually give the subcontractors an indication of what they want to, and in some cases, they can provide them also with the textiles, mainly when they sell them too.

The subcontractors are in charge of the whole production process, so they are more independent of the buyers than in the first case. Compared with the latter, these producers adopt the quick production process and tend to subcontract less out of their structure. They have a kind of craft production still developed in the family and among friends. Their production process is a step behind the other one (where manufacturing activity is dominant), in terms of formalization, and it produces usually items of lower quality, but it is also very flexible. Even in this case theoretically, the quality control should be made by an employee of the wholesaler, who should be informally in the control of the entire production process, but in reality it does not work this way. Even in this case there is trust and mutual understanding of the needs of the parts involved. Finally, even in this situation the workers are not legally declared.

It is important to say that to find reliable official data about the two methods of organizing production is very difficult.

However, it is interesting to note how events such as opening of the CIS increased this dichotomy of the two production processes, by impacting particularly the final market the entrepreneurs are working in. In both cases, over time, the clients have been mainly regional retailers and intermediaries such as agents focused on external markets. But the opening of the CIS, pushed the wholesalers to move to set up their sales there, making them the natural suppliers of clothes in
markets (such as the Southern one), featuring a high presence of intermediaries, the so-called long
distribution channel. Instead, when the manufacturing activity is predominant, the entrepreneurs
have not set up fixedly the selling phase but rather enlarged their clients through personal contacts,
fairs, agents and intermediaries, listening to the desires and the transformations of the latter more
carefully. This point is important because the entrepreneurs mainly focused on the manufacturing
activity, had, in this way, the chances to contact more advanced and developed markets, in terms
of distributive channels, such as the Northern Italian ones.
This situation, with the macro and micro environmental changes occurred in the 1990s, led to
further evolutions in the production process, but most important in the perception entrepreneurs
had of themselves.

2.3 THE EVENTS OCCURRED IN THE 1990s

Complex events of the 1990s produced immediately both positive and negative effects. Indirect
effects were also visible after some time. In San Giuseppe, some events negatively effected the
manufacturing, other positively; however it is difficult to distinguish these effects in a clear-cut
way and to identify a well-defined causality. All the following events produced deep social and
economic transformations. First, the severe recession of the 1990s cut drastically the consumption
of middle-income people. "Looking at aggregate level-data, the economic situation of the
Mezzogiorno has clearly deteriorated over the course of 1990s..... In 1992 Italy had to face a
recession and a reduction of public expenditure which particularly affected the Southern economy
and the official unemployment rate shifted from 19.7 to 21.7 per cent". (Locke and Trigilia, 1998)
Secondly, in 1992, as a result of this recession, the Bank of Italy was forced to devalue Italian currency, facilitating exports; the price of Italian products, therefore, became very competitive abroad. In fact, Italy has been the only developed country to have in 1991 a percentage of exports in the textile and garment sector (8.8%) almost equal to that at the beginning of the 1980s (9%). This result is important because it occurred in an environment featured by an increasing competitiveness with the developing countries. The latter can offer very competitive products, which are characterized mainly by fairly good quality and very low labor costs.

Third, the Italian garment and textile sector for middle-quality products, suffered due to two changes that occurred in the domestic market. That is, in addition to the reduction in consumption due to the recession, the domestic market first achieved a peak of internal saturation: private consumption in textile and garment decreased around 4% in 1993. Later, a complete twist in the distribution channels occurred, in line with what was happening in other European Countries. For middle quality products, the traditional seller was the retailer in the so-called long channel, which in the 1990s started to disappear due to the department stores sales and to decreasing of the intermediaries’ role, the so-called short channel. The main reason for this transformation was the need to reduce costs to increase competitiveness in an always more competitive environment, and to be closer to final clients in a very volatile market, making it easier to grasp new trends and to satisfy new desires quickly. The successful way to achieve these goals was perceived as reducing the distribution costs, which implied the disappearance of intermediaries in selling and the diffusion of the short channel.

Fourth, in 1991 the Italian Government shut down the Cassa per il Mezzogiorno Agency, which

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19 Another devaluation of the currency will occur in 1995, which will have positive effects on the exports too.
was in charge of the Intervento Straordinario -- the core of public policies designed to help the South, as already mentioned above and considered unsuccessful in achieving this goal --, and transformed the extraordinary laws into ordinary ones. At this point, the Mezzogiorno was no longer the target of specific policies. On the other hand, from 1991 on, some special laws were approved, such as the "law 317", drawn specifically to provide financial support for the small and medium firms, for industrial districts and for consortia. Even if from then on the same policies were designed for all the country, special facilities were adopted for the poorest areas, even those belonging to richer parts, in line with the European laws. Indeed, this has been the result of two huge pushes: (i) the change in the perception of the legislators of the small and medium size firms and (ii) the effective start of the European Countries Community.

(i) The incapability of the big firms to bring the expected economic growth and employment, and the failure of the more traditional economic policies, on one hand, and the success of the industrial districts and a dense presence of vital small and medium firms in the national socio-economic context, on the other, pushed the legislators to look at small and medium firms in a new way: as a key way to achieve growth and employment. The role of the legislators changed from a defensive and supportive one to a proactive one. If before the small and medium sized firms were somehow protected and supported, especially because they were considered the remainders of a significant artisan tradition, then, they became the objects of policies targeted to help their growth and diffusion. This change occurred also because the Italian legislation had to become more uniform with European laws, in line with the effective start of the European Countries Community and of the related market. The Italian laws incorporated some programs and principles typical of the European legislation for small and medium sized firms. The European laws over this decade, have become very supportive of small and medium firms, which are clustered in industrial districts all

Data by Federtessile.
over Europe, constituting 99% of the existing firms and 66% of total European employment. The support both at a European and national level did not end up only in the formulation of new policies and principles. Over the 1990s there has been the adoption of mechanisms, such as the ones to distribute European Funds and so on, that focus on the ability to create cooperation between the different private and public local actors and the different layers of government. The inspiring idea is to try to help a further development of these potentially successful realities or of the already successful ones, through building a dialogue that should satisfy the needs thought as more important by the actors involved. It is a kind of a mixed approach between bottom-up and top-down strategy, a so-called "negotiated planning", that should facilitate economic development and growth at the different social layers.

However, it is interesting to note how, over time, the goals of the European policies toward small and medium firms have become always broader and more complete, providing support for these firms, which span from the start up phase to the administrative and legal context, involving the financial support and including simple consultant services. In addition to these legislative measures, the starting of the European Community Market in 1992 produced another positive outcome. Europe became a unique market in which the access to sell and to buy products in foreign countries was much easier than in the past for the citizens, without any tariff or barrier and avoiding slow bureaucratic processes through customs.

Finally, two other important events occurred. First, the cultural model always in motion led slowly to a more modern idea of women’s roles. Women became over time more cultured and changed their own perceptions. In San Giuseppe, the result has been that they did not to see themselves anymore as “hidden” workers, but as workers with a new dignity who contributed to the family budget. They have been acquiring visibility, beyond a desire for major independence, thanks to
which many of them prefer to go to work and to make the same tasks at the subcontractors’ places. Then, their degree of schooling increased enormously since the beginning of the 1980s, pushing to look for better and new jobs.

“.... now women go to school, are more independent, want a better job....”

(An entrepreneur)

Second, the immigration of Chinese people, in San Giuseppe, which started over the 1980s and became very substantial in the 1990s. This is an anomaly: the presence of Chinese immigrants is unusual in this part of the region, which hosts instead, mainly African and Eastern Europe immigrants. Indeed, this is not the first coming of immigrants to San Giuseppe: before there has been one by the Polish. But differently from the latter, the Chinese are characterized by a strong sense of community which led them to set up very close communities in which a strong division of labor exists (in terms of personal duties too such as shopping, cooking and so on). However, this immigration is not completely illegal. Nearby Prato there is a numerous and strong community of Chinese people, so when the San Giuseppe entrepreneurs went to that market and made their activity known, some Chinese decided to move to the South to set up their own communities. Clearly, only some of them have regular permits and most of them are completely illegal.

In the manufacturing process they are the natural competitors of the local subcontractors. However, three things struck me during my field researches: 1) I was not successful in trying to interview any of the Chinese, but walking in San Giuseppe and the nearby towns, I saw many of them, as a constant presence. Certainly the number believed about them (almost 1,500 according to some newspapers, others say around 700) underestimates the phenomenon. 2) No entrepreneur has ever admitted working with them. On the contrary, all of them denied this reality, but from other interviews, it seemed that this is not true. 3) Last summer, Italian people heard a lot about Chinese from TV news and magazines because many of them were arrested as illegal and for their bad working conditions. This intervention by the police was motivated by anonymous and well-focused denunciations. I read this as the way adopted by some of their competitors to eliminate
them. Indeed, from the interviews I got the idea that they are very fast in manufacturing and very low paid, even if the quality of their products is slightly lower than the average, because of the strong closeness of their organizations, which does not allow any kind of informal dialogue with the producers.

2.4 CHANGES IN THE PRODUCTION PROCESS

Given the context featured by all these elements, the first result was that San Giuseppe entrepreneurs and wholesalers saw a decrease in their sales and earnings and a complete transformation in their final clients and markets. It is interesting to note how this transformation in the distributive channels increased once again the dichotomy in the manufacturing process.

2.4.1 CHANGES IN THE MANUFACTURING PROCESS

The firms mainly focused on the manufacturing activity and more advanced in terms of products and partners, on average the medium ones, went completely with the trend. Over the 1980s some of these firms had already started to have as new clients the national department stores, especially in extra-regional markets. At first sight this seems perfectly coherent with what some strands of the literature (Gereffi) argue that usually happens in a buyer-driven commodity chain. This means that in labor-intensive consumer goods industries such as garments, large retailers, brandname marketers and trading companies play a pivotal role in setting up decentralized production networks in exporting countries. This process ends up clearly with the large firms de facto taking over the small and medium ones, because they decide in which direction to develop. But this is not occurring in San Giuseppe. These entrepreneurs have a strong desire for independence and for looking for new partners. They are hungry to expand their activity to new and more profitable
markets, in contrast with the reduction in possibilities of expansion and in earnings that occurred in the domestic market. In line with this idea, many of them over the 1980s, already started to look timidly and sporadically at foreign markets, setting up the first contacts through agents, fairs, and representatives and exporting small quantities of items. According to magazines and to the interviews I made, some of these entrepreneurs already export successfully abroad, to North Europe, to South America and to the Middle East (Panorama 6/25/98).

There is little official data supporting this trend, at the municipal level. The provincial data have never been broken down at the municipal level. Furthermore, in some cases the entrepreneurs export through their partners or intermediaries, making even more difficult to evaluate the real export phenomenon. However, even abroad the final target of these entrepreneurs has been the department stores chains for middle quality products. On one hand, these partners and, more generally the foreign markets, have showed to be very open toward the kind of products made in San Giuseppe, which offer the following advantages: they are made (i) very quickly and (ii) at a relatively low price -- made mainly possible by the low labor costs --, and (iii) they allow the selling of the "made in Italy" label, which is commonly perceived as good quality and stylish clothes. On the other hand, they made the entrepreneurs face again two problems: a need to increase consistently the quantities of the items produced and to improve their quality from a middle rank to a middle-to high one.

"The representatives of a foreign department store were very interested in our items......
they have been struck by our quickness and by our flexibility, at a fairly low price.....
......but given the chance to have ‘made in Italy products’, they want a better quality....
......then, for them it is not convenient to come here to buy small quantities, such as
the quantity I can provide with my firm by itself........

(The entrepreneur of one of the leading firms and chairman of the consortium Napoli 2001)

The improvement in quality has being obtained through changes in the organizational structures. Biggest firms have hired a stylist as a consultant to give a touch of originality to their products.
Usually the buyers specify directly the kind of model they want from the producers, but the manufacturing process is never so straightforward. The desired model is discussed, as the object of dealings with the stylist present in the firms, including modifications to the original materials. When the firms are small, they usually do not have a stylist but a designer who can play the same role and performing other tasks as well.

Again, the bigger firms are looking for new, more expert designers to hire as tailors for cutting the models, in their internal structure. They are looking also for new and more expert subcontractors, once again outside the local territory, or they are pushing their already usual subcontractors to upgrade their quality through changes in their internal organization. The trend is that the subcontractors tend to internalize their production process and to aggregate the workers within their firms, reducing drastically the home workers. This is due to two reasons. First, to the change in women’s roles already described above. Second, the middle-high quality items can require some finishing which can be made better, internalizing the sewing phases, like adopting specific equipment that home workers do not have. Or again, some particular embroidering has to be made in between two stitching for which it is not worth to bring the items twice to the home workers.

“...when my buyer asked me to make a double pocket with special embroidering, which requires more complicated cutting and sewing phases, it became more convenient to buy the equipment and to make the items here, internally...otherwise I should have brought the materials twice to the home workers and this was worthless to me...”

(A subcontractor)

The entrepreneurs thought also to make a brand name, exclusively for manufacturing firms, that should guarantee and testify to good product quality, and that should avoid certain heterogeneity among products, avoiding quality gaps. To respond to these pushes and to increase the quantities produced too, the manufacturing firms established, this year, a consortium, called *Napoli 2001*.

The new quantities required are overall big volumes, but they include smaller lots of differentiated items, in terms of models and of model’s variants. The buyers require good quality and the chance
to find items, which can be easily substituted, in variable quantities, quickly. No firm by itself can satisfy all the orders.

### 2.4.2 CHANGES IN THE WHOLESALING-MANUFACTURING PROCESS

In contrast, the firms in which the wholesaler activity was the main one are somehow a step behind the manufacturing firms and more external to the occurring transformations such as the establishing of the consortium. The wholesalers suffered a backlash effect from the change in their partners, who locked themselves in more traditional and mainly Southern markets. Many of them set up their own activity in the CIS over the 1980s, as already described above, having as main clients retailers coming from the whole South. This way, these wholesalers had as clients a kind of distribution that in other parts of Italy was showing itself to be outdated, being substituted over time by the department stores. When at the beginning of the 1990s the twist in the distribution channels has been complete, together with the recession, many wholesalers suffered from a strong decrease in their sales. So, many of them left the CIS, to go back to the town of San Giuseppe. This way, cutting off the services provided by the commercial center, such as the rent for the store, it was possible to obtain a reduction in the final cost of the items. They reopened or improved the local stores.

“I left the CIS and reopened my store in San Giuseppe, to remain competitive….the rent in the CIS was too high…”

(A textile and garment wholesaler)

All these events pushed the wholesalers toward a lowering of their target in terms of clients and somehow toward lower markets. They were completely unprepared to follow the manufacturing firms in their trajectory and to try to switch their final clients.

The firms, indeed, which still operated in the CIS kept as partners the traditional retailers. Occasionally, they started to look at the foreign market, but in a different way: through the
structure of the CIS, in the persons of its chairman and its staff, which is trying to contact new markets, indiscriminately, for all the products sold in it. The markets contacted this way are however, a step behind in terms of their internal distributive structure, such as the Eastern ones, compared with the more developed countries.

However, this approach to foreign markets has not come directly from the internal views of the entrepreneurs or from something that they felt as only way to improve their activity. The eventual desire of exporting is being filtered by the commercial structure that pushes toward a certain dialogue among all the parties involved, instead of toward another kind of dialogue, maintaining the intermediaries far from the final clients and from the more direct demand. But clearly, this occurs because of the perception these people have of themselves. They feel traditional wholesalers with a set up activity in a commercial center, serve a specific market, with a quite high degree of autonomy of one from the other. They did not feel any strong push in starting an activity together to increase the quantities produced or to improve the quality.

Indeed, the wholesalers have not had any significant change in their organizational manufacturing structure nor in their subcontractors, except for the decrease in women working at home, due mainly to cultural factors, already mentioned above.

2.5 SOCIAL CHANGES IN THE LOCAL ENVIRONMENT

The organizational changes that occurred over time in the firms’ structure and in particular the establishing of the consortium do not take their roots in simple economic transformations, but in social ones too. Over the past decade, there have been already some attempts to build cooperative associations among entrepreneurs but they were not successful and the causes addressed as reasons of those failures have been heterogeneous. To say how successful the current consortium will be is
to speculate on future events, but certainly something new is occurring this time and it can be understood only by looking at the consortium start-up phase.

In the past, the informal cooperation among entrepreneurs has been very diffused, but mostly again, in the first, immediate networks in which these people recognized themselves, such as among friends or among people belonging to the same family or in the same political party. They exchanged news among themselves about their businesses, ran some of them together, helped each other but always at an informal level. Apparently, this could be due to various reasons, but the main one is the lack of recognition by the entrepreneurs of their social role. Until the last years, they kept feeling mainly as travelling traders, simply managing new, more profitable activities. Put another way, the self-perception about themselves and their roles was unchanged. This occurred also because they did not recognize their values, their interests and problems in the way in which national and local institutions, such as governmental, industrial, and union representatives, conducted over time the industrial debates in Italy. For instance, some of the main topics debated and most of the public attention were focused on how to replicate or to bring the successful Northern firms to the South, even if it implied sometimes imposing organizations of production that were not suited to that particular context and that could destroy the existing assets or knowledge. Or, another very often debated topic is how to reduce the cost of labor and to deal with the unions, but in San Giuseppe many workers are not legally declared and there are no local unions at all, so this problem has never been considered as an important one.

But now, due to the successes achieved in their activities, to their capability of dialoguing over time with different partners, and to the challenges coming from the new markets, the manufacturing entrepreneurs have realized two things. First, they recognized themselves, in their role, acquiring a new consciousness of their position. Second, they have felt abruptly, that they
were institutionally isolated or, put another way, that they had to change other people perceptions of themselves, to find the support they need in terms of financial and marketing services, to keep being successful.

To proceed in their affirmation, and to find an external audience, and public and private support, the entrepreneurs perceived, as only option, the need of a stronger feeling of solidarity among themselves. This means to build formally horizontal, trustful linkages among themselves, to build a their own, new institution, which can give a sense of their strength through their compactness. These are the true, deep pushes that are bringing as result the consortium: to satisfy the final clients in terms of quantity and quality can be one of the occasional reasons that can help the deeper ones to come out with a precise shape.

The consortium is an attempt to build an institution, which should allow the entrepreneurs to govern their own relationships and respond collectively to external threats.

It is also meaningful that the process, in San Giuseppe, has been started by the entrepreneur of one of the medium firms. The medium firms, more advanced in term of market and production, look for support from all the firms, independently of their size, while the smaller firms look at the bigger ones as good examples to imitate.

"Industrial representatives at national and regional level think only about the interests of large firms...and we provide employment for many more people...we feel no support from the institutions...up to now they did not look interested in us...our attempt is to bring their attention on us..."

(The chairman of the consortium and of one of the leading firms)

"...we do not have any other choice if we want to take advantage of all our knowledge and our local potentialities...together we can make a lot..."

(An entrepreneur)

"Some entrepreneurs are doing really a lot for the consortium and are trying to put many of us
together...there is no other way to go through if they want to succeed...”

(The wife of an entrepreneur, who works in a local bank)

This is perfectly consistent with what some literature describes: “the flexible specialization is a decentralized productive system in which the units of production are specialized and coordination is achieved through shifting patterns of collaboration and joint problem solving. In contrast with mass production, in which a central hierarchy coordinates the activities of the vertically integrated cooperation, producers in industrial districts rely on a variety of extra-firm institutions, relationships and practices to respond to changing markets and technologies” (Florida and Kenney, 1990). The consortium, indeed, which at the moment has almost two hundred members, has the following goals: 1) to establish a brand name to testify to homogeneous quality of the products made; 2) to help the firms to access directly external and more competitive markets, splitting eventually big orders among all the members; 3) to build, in Naples, a center for commercial services that should work as permanent place for bargaining and commercial exchanges especially with foreign partners; 4) to help to provide the services needed over time in terms of vocational training, technology centers to upgrade the products and to react more speedily to market changes; 5) but mostly, to make these entrepreneurs and their needs known at the national level, to facilitate their access to the services by the different public and private institutions.

The current results of all these transformations is an-going kind of reciprocal discovery between the national and local institutions and these people. In the last year many newspapers and magazines brought new attention to San Giuseppe as an example of endogenous development in the South, recognizing the entrepreneurs’ role and its importance. This is perfectly in line with what some strands of literature describe that occurred at a certain stage of the industrial districts, when the institutions played more of a role in later than earlier phases of growth, to have a real take-off. But differently from what the same literature argues San Giuseppe entrepreneurs seem to
have more success and support from the national institutions than from the local ones. When the first entrepreneurs looked for initial support and dialogue to the University and through it to other institutions up to the central Government, they found open and interested persons to dialogue with mainly at level of the central government. Currently this support seems to flow down to lower levels, involving directly the local institutions.

The overall process of building horizontal linkages in San Giuseppe, is not occurring in a linear or simple way. There are still many discrepancies in it, such as obstacles, for example, prejudices from some institutions, which consider San Giuseppe too full of criminality and *mafiose* connections to be considered as a good example of any Southern Italian development. Or again, leaving the consortium, made by some entrepreneurs that do not yet feel the sense of transformation.

“… I left the consortium… I do not believe into it much, it is too early, we will see what happens….”

(A manufacturing entrepreneur)

However, it is important to point out that San Giuseppe’s economic success is having spillover effects on six nearby towns (Ottaviano, Palma Campania, Poggiomarino, San Gennaro Vesuviano, Striano, Terzigno) that are trying to follow its example, and learning by it. Even in these other municipalities there were already some spread artisan traditions in sewing, mainly by women at home, at a semi-skilled level. But what is occurring now, is that these people are following the start-up path of San Giuseppe in organizing their manufacturing activities, in a very informal way. This is due to their geographical closeness with San Giuseppe, thanks to which they easily chose it as role model.

The nearby entrepreneurs set up a kind of family manufacturing process, and usually go to San Giuseppe to buy the textiles for the production. But there are some relevant differences with the case described above. The biggest one is that these new entrepreneurs are not travelling traders or
they did not come by any previous commercial or manufacturing activity in the sector: they suffer from a lack of good distributive channels and of sedimented knowledge about the market. Indeed, the products made in these nearby towns are low quality compared with the average products present in San Giuseppe, and they are mainly directed toward the low end and very local markets. Clearly, the evolutions that will occur are a very open ended point, because these nearby towns together with San Giuseppe, are considered by regional and local authorities as a proto-industrial district, a unique block to legislative ends for small and medium firms, such as the ones fixed by the European Community and already described above.
CHAPTER III:

Conclusions

3.1 WHAT LESSONS CAN BE DRAWN?

San Giuseppe’s small and medium firms showed to be very successful over time in a volatile and heterogeneous market, adopting a very flexible decentralized structure: the quick fashion, subcontracting of some production’s phases. This way they have spread the costs and risks of developing new products across networks of specialist firms of all sizes. Thanks also to the local presence of suppliers these firms have been able over time, to answer promptly and quickly all the shifts in the demand that occurred in the market. They have reduced, consistently, their inventories to the necessary level, without immobilizing liquidity that could be usefully invested differently. In this process the firms have followed a path very similar to the one that occurred in the industrial districts in the Third Italy and indeed, they seem to constitute an industrial district at an early stage. This case raises at least five interesting points.

The first lesson that seems to me to emerge clearly is that there is no culturalist or historical functionalist argument that can explain or address the causes of underdevelopment of some regions compared with other ones, or the lack of industrial development paths, without locking itself into a very unproductive debate. San Giuseppe’s case shows clearly that culture, meant as the template people have in mind, is important in many different ways. Culture impacts the way people interact at various levels, the way they are parts of different networks, how their internal and external linkages change over time, and the type of firms they build. People tend to link themselves in community relations and to interact actively. During my field researches, I have not met an
atomized, "economicus" man who makes decisions according to a fixed rational model, with clear and forever defined ends and means in his mind. An atomized vision of the individuals does not fit San Giuseppe. On the contrary, the defined ends and means are the object of dynamic changes that can be understood only by considering which network structure the people belong to, and at the way they look at themselves. And elements considered negative at first sight, have always a certain positive ambivalence and can transform themselves into positive ones, over time, as it occurred in San Giuseppe. For instance, the strong family ties present in the South of Italy, so denigrated by Banfield, have inspired the birth and have framed the structure of particular types of firms. Again, the family, specifically women in their more traditional roles, has provided semi-skilled, informal workers, without whom the birth of manufacturing activity and the adoption of a particular production process tied to a very complex and volatile market, would have never occurred. In addition, these framework families in many cases have shown themselves to be flexible and ready to absorb and transform all external inputs they met. The shifts in the items made over time or their increasing in number, or again, the crisis of the 1990s and the changes in manufacturing process occurred successfully because came from a social structure open and ready to adequate itself over time successfully.

Second, every template is clearly always in motion because it is rooted in a very dynamic environment, which changes very easily and does not allow one to predict the direction toward which it is moving and the impacts it is going to produce. In San Giuseppe, what occurred is what Piore calls an increasing dialogue among all the parties in which all the actors feel deeply the necessity to renew themselves, not only to catch up industrially, but in a private, social sphere too. The reasons that are causing this phenomenon are various, but all the actors are trying to achieve their goals in a very dynamic environment that pushes them to look for new solutions, even
gambling a little bit. It means that the future evolutions of a current situation are unpredictable. Adopting clear-cut and binary categories to build or to explain a developmental argument is really worthless.

And this is the third important lesson that can be derived by San Giuseppe’s case. This case looks like the pre take-off process that Clifford Geertz describes in his book Peddlers and Princes. He points out how "what economy lacks is not elbow room but organization, not freedom but form." I found very suitable this organizational idea of development. And in this small city in the South of Italy, the organizational process has brought a certain endogenous economic growth.

It seems to me that these firms, through an economic, punctuated process, managed to organize their assets -- mainly different types of knowledge -- already present in the environment, and have been able to start successfully a dialogue with other actors such as the market and the different layers of government. Again, there is not a unique way to organize the assets.

Differently from Clifford Geertz who sees the division of labor as one of the prerequisites for development and endogeneous economic growth, this does not seem to have happened in San Giuseppe. Firms are adopting a further specialization extensively, mainly expanding their structure out of the one locally present in San Giuseppe, looking for more expert workers in the whole region, and in some cases, even internally, such as for the tailor’s tasks. There is no trade-off between specializing and integrating more tasks without a definite division among them. On the contrary, the firms are dealing with both these two aspects over time, according to the way problems and openings in the market appear, but not in an exclusionary way. The need for better coordination and control among the different productive phases, which arises over time, is solved differently, according to the current conditions as a result of conflicts and choices people make.

There is no organizational prerequisite that makes the firms more competitive or better off in the
market. The evolutions of the productive processes and organizational structures, as the trend of internalizing some productive phases, are the results of the purposeful way in which the entrepreneurs are dialoguing with each other and with external parties such as customers, suppliers and political power exponents. But, this redefinition of the organizational structures comes out also from an underlining cognitive transformation of the roles of all the parties involved. This very complex process is bringing as result, the establishing of new institutions, such as the consortium, and of new relations with the ones already present.

Again, this case presents, from my perspective, two other very important lessons. The organizational developmental process has been successful for the presence of four key elements into the environment. (i) The local presence of suppliers, which allows the entrepreneurs to have promptly all the raw materials, and (ii) the sewing knowledge or ability provided by the traditions, which suit perfectly and led to the adoption of (iii) the quick production process. This is in line with what most of the literature describes, but there is another element of which most of the literature does not speak and which played a very important role in San Giuseppe’s case: (iv) the distribution channels and their evolution. What is creating a discrepancy among the same entrepreneurs in San Giuseppe and the productive processes adopted, is the dialogue with different distribution channels. The possibility of manufacturing entrepreneurs to face more developed and advanced markets increased the distinction between manufacturing and trading activities. While the wholesalers are still framed in a distributive structure that over time is showing to be outdated, the manufacturing entrepreneurs through a dialogue with more advanced markets are not only changing their production process, but also the social categories in which they recognize themselves. The social changes occurring in the 1990s are coming from a different self-perception people have, which has being started by the dialogue with new and more advanced partners and from their requests.
Considering this view, the assumption framed in most of the literature about small and medium firms, of the importance of exports, which allows this type of firms to be real forces for development, acquires a new meaning. What is really important is the chance to face more developed and advanced markets, internally or abroad. It is the opportunity of dialoguing with better partners, of working in a more advanced environment that can push the firms to improve their production process and indeed, to represent a modern response to challenges such as unemployment or the improvement of living conditions.

Fifth, as much as there is no economic prerequisite for development, there is no social prerequisite either. All the trends I reported took place in an environment that is full of criminality and mafiose connections. As I have already mentioned in the introduction, this is completely different from what some strands of the literature argue: that an industrial development could more easily occur in parts of the South where a more developed civic society and low criminality rates were already present or where there has been less intervention by the government over time. These ideas are again ways of categorizing very dynamic environments and their unpredictable evolutions unproductively. They come out from the conception that over time people tend to recognize themselves always in the same categories and get used to the same habits, without real possibilities or desires of changes. Indeed, the truth is that San Giuseppe’s firms are successful in a very difficult social environment, in which they are requested to give continuous proof of their adaptability not only from an economic standpoint but from a social one too.

3.2 WHAT POLICIES TO ADOPT NOW?

Averitt argues that in the structure of enterprises in developed economies there is a dualism. "The
large firms control not only the price and quantity of their output but also the stability and uncertainty of demand and, through large reserves of internal funds, the capital required for production" (Berger and Piore, 1980:56). These firms constitute the sector called the **center**. The other sector, which Averitt terms the **periphery**, is composed of smaller competitive enterprises. "These firms are relatively small; they are so tightly constrained by the market that it determines their decisions about price, quantity, and capital investments. They are basically motivated by a desire to survive and earn a profit and have no independent interest in growth or in a share of the market, which in any case they are powerless to affect and unable to perceive as a whole" (Berger and Piore, 1980:56). The medium and small firms in San Giuseppe are the center. Certainly, they do not control the stability and uncertainty of demand, which is becoming objectively difficult for anybody, over time, because the market is increasingly more unstable and volatile. But San Giuseppe’s medium and small firms are not constrained by the market either: they are responding actively and strongly to the volatile environment. The response to these shifts in consumer’s tastes that the entrepreneurs in San Giuseppe perceive as winning key, as I have already described above, is the flexibility which is also the main characteristic of the production process.

Their goals and interests are to grow, not in a Smithian sense, in terms of size, but in terms of turnover. They want to acquire a growing share of the market, mainly the foreign one, trying to perceive it as a whole and they know that they can do it.

To keep going through this process these small and medium firms are trying to overcome most of the problems they are facing that derive from their institutional isolation.

This is consistent with one of the main points made in the industrial district’s literature: the "performance was achieved by taking the ‘high road’ to competitiveness. This means seeking to compete by innovating, that is, adopting new technologies, developing new or better products and reacting more speedily to market changes.... Institutions are seen as essential in steering
enterprises toward the high road" (Schmitz and Musyck, 1994: 891).

For Herrigel the success of "Baden-Wurttemberg firms is based on a system that socialises risk across a broad array of public and private institutions. Small firms do not have to bear the entire burden of: a) developing new technologies; b) finding new markets; c) training skilled engineers and workers; or d) raising capital. Many of the costs of specialization are shared by or embedded in a thick network of institutions" (Herrigel, as quoted by Schmitz and Musyck, 1994: 891).

Now San Giuseppe’s small and medium firms are at a turning point. They want and they are asking for this kind of institutional system. This is the challenge that the governmental and non-governmental institutions, at different levels, centralized or not, have to meet.

3.3 SOME UNRESOLVED QUESTIONS

In this case there are still many unresolved issues, but I would like to focus on one in particular.

One of the crucial questions about industrial districts is related to labor standards, working conditions, practices, and wages. All the information about this aspect is quite contradictory, being related however, to different environments, but more importantly, to different industrial sectors that require a different degree of specialization and competence. For some authors the "wages levels in industrial districts are generally underestimated, with local bargaining often pushing rates above nationally agreed standards" (Pyke and Sengenberger, 1990:7). For these authors: "the wages in small firms in industrial districts are comparable on average to what large firms pay, although the spread of earnings is much greater. In contrast, other authors have a "less optimistic view.....development might have occurred on the basis of cheap labor" (Pyke and Sengenberger, 1990:7). Finally other strands of literature see the small and medium firms per se as places in
which exploitative phenomena occur, because of their size.

In San Giuseppe’s case, clearly the great structure’s flexibility has been achieved through the mobility of workers. In some way, since this is a labor-intensive sector that does not require sophisticated skills, there is, theoretically, an easy turnover.

As I have already described, the subcontractors and home workers are paid at piece rate, and the degree of informality is very high and keeps blurring over time. The legal workers are not paid as much as it officially seems. Unions are also completely absent and no other organization is present. So to what extent does all the path of industrial development described in this study hide mainly exploitative phenomena? Or are all these transformations really producing a beneficial effect for the workers? And if not, what’s the alternative? On the other hand, it is clear that the Italian laws are sometime too restrictive, and do not achieve the goal they were set up for (e.g. to avoid workers’ exploitation with a minimum salary). So how to compromise among all the different needs? In the Italian industrial districts the workers have played a very important and active role in production upgrading. Will it work the same way in this case or will the dialogue stop mainly at a certain level, as has occurred up until now?
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