The Outsourcing "Prince":
Models of Supply Chain Governance in the Italian Automobile Districts

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1. Theoretical Approaches to Outsourcing

In Italy, the social consequences of the economic phenomenon now generally known as outsourcing have long been viewed negatively. Take, for example, the debate in the 1970s among economists and sociologists on productive decentralization, which was seen essentially as an anti-union employer strategy in response to the great strike wave of the *autunno caldo,* or "hot autumn"; or the widespread protests against the Fordist organization of labor in big firms (Negrelli, 2000a). But in a country largely dominated by small enterprise and family capitalism, political institutions have also been very concerned with the social regulation of relationships between small and large firms. Most recently, in connection with the latest crisis at Fiat Auto, Labor Minister Roberto Maroni, a promoter of outsourcing reform, explicitly proposed extending social "shock absorbers" to small firms in the automotive components sector affected by decreasing demand from large enterprises.[1] This proposal was advanced with a certain polemical edge, underlining the fact that in the past only big firms had access to such provisions.[2]

These proposals, negotiations, agreements, and statements, often in direct conflict with each other, mask – perhaps not just in Italy – a much more important issue: *does outsourcing represent a threat or an opportunity for firms, workers, and unions?*

This article will advance the hypothesis that the economic and social risks for the different individual and collective actors are lower when outsourcing is the subject of innovative forms of negotiated regulation. This is what happened, for example, in Italian industrial districts (Trigilia, 1986; Beccattini, 1987; Bagnasco, 1999); and it is also true of the automobile supply chain in some other national cases studied in the comparative literature (Sako, 1998; Eiro, 2000; Whitford and

Zeitlin, this issue; Negrelli, 2002a; Enrietti, Follis, Whitford, 2002). In all these cases, in fact, the goals of the different interests represented have been combined in a more equitable manner for all the social actors involved; and both negotiated regulation and economic success have been the product of network forms of organization – substantially different from the pure forms of market and hierarchy. Sociological analysis has pointed to the diffusion, prevalence, and functionality of the network form as empirical indicators that challenge the traditional economic interpretation of organizations (Granovetter, 1985). But this literature has also warned against placing too much emphasis on the networks' functionality and has drawn attention to problems arising from their governance (Podolny and Page, 1998), such as those which emerge from the comparative analysis of outsourcing processes in the Italian automotive regions of Piedmont and Basilicata presented below.

Sociological reflection on outsourcing takes one of two major positions: there are those who interpret this phenomenon as a resurgence of market forces, epitomized by Bonazzi's (2001) image of 'the market inside the factory'; and those who interpret it as a new and irreversible trend towards "specialization", an extension of the Durkheimian social division of labor (Whitford and Zeitlin, this issue). In the sociology of work and industrial relations, this debate goes back to the literature on productive decentralization as a managerial response to the workers' struggles of the late 1960s in Italy and Europe (Crouch and Pizzorno, 1977), as well as to the literature on 'flexibility', which was often divided both between supporters and skeptics of its irreversibility, and between those who saw it as a constraint or as an opportunity for workers and unions (Regini, 1988).

Empirical evidence in support of both hypotheses is widely available. Most important are the results of comparative research on contracts and worker safety; on the effects of labor flexibility on work conditions and trade union rights (European Foundation, 2000; 2002); on the re-organization of component manufacture between upper-tier firms, where unions are more prevalent, and those in the lower tiers, where the risks for workers are greater (Eiro, 2000). There is also a

large literature on industrial relations and human resource management in small and medium-sized firms. These studies show that although "small is not always beautiful," neither are small firms always "black holes" (Guest, 1995; Bordogna and Pedersini, 2001). In any case, it is restrictive to limit oneself to such general observations without taking note of the relative presence or absence of forms of harmonization and social regulation, such as whether or not the firm belongs to an industrial group, a productive district, an outsourcing network, etc. For example, the deferment to collective bargaining for the application and management of labor flexibility in firms, as provided for by Italian law since the 1980s, has reduced the risks of the "precariousness trap" evident in countries with more limited social regulation (European Foundation, 2000; 2002; Negrelli, 2000b).

In order to evaluate properly the causes and impact of outsourcing, one needs to observe how it is affected by negotiated regulation. As in the case of the rules on labor flexibility, the effects of outsourcing on labor conditions depend on the extent and type of social regulation, which is also an important indicator the balance of forces between social actors.

Social regulation can intervene at different levels and in various forms: the transnational level (through the consultation and information processes of the European Works Councils); the national level (with the possible support of the legislation, as in Italy and other cases: Eiro, 2000); collective bargaining (at the level of the trade union confederation, the sector, the firm, or the district); or through agreements with local or informal consortia. Regulation at the macro level is important but is not very effective if not accompanied by micro-level regulation, especially when national legislation seems to give employers greater discretion or is otherwise not very "regulatory"[3].

The Italian case can be used to test whether the social regulation of outsourcing has been effective, either in the auto components sector (as with the collective agreements in the areas of Melfi , Brescia, and Turin examined in greater detail below) or in the aforementioned industrial districts characterized by small innovative firms, consortial agreements, and widespread trust. Only

in those areas where regulation has been negotiated formally or informally at the micro level have outsourcing processes favored patterns of "productive specialization" comparable to those found in other countries.[4] In these cases the various public and private interests represented have together managed to achieve important objectives, : successfully combining incentives to productivity, quality and flexibility; strategic management of human resources; cooperative systems of labor relations, etc. In these cases, too, integrated socio-economic models or systems have been "constructed," avoiding solutions based on cost reduction, the pursuit of short-term gains, union strategies of "distributive bargaining", and thus the "low road" of low wages and training standards.

Naturally, social regulation at the micro level can be strongly influenced by the different territorial characteristics of the economic and industrial culture. Despite common trends such as innovation, cooperation, and integration resulting from economic pressures and technological and organizational changes, there is still considerable variation at the local level. This clearly emerges from the examples considered in this article, based on a study of "supply-chain governance" in the automotive sector, as it has developed in two different Italian regions, characterized by different types of local economic development: one in a 'greenfield' area (Basilicata) and one in a 'brownfield' area (Piedmont).[5]

2. Outsourcing and Innovation

The Japanese models of 'lean production' and 'just-in-time' logistics that have been adopted by large Western automobile firms, including FIAT Auto in Italy, seem to have influenced not only patterns of technological and organizational innovation in small and medium-sized component suppliers but also their industrial relations and human resource management systems. On the one hand, we see in these supplier firms a progressive application of more or less advanced practices typical of lean production, such as just-in-time logistics, non-hierarchical structures, teamworking, continuous improvement, etc. On the other, just as in the larger firms, we see the growth of union participation and joint committees alongside innovative management strategies of individual

involvement, incentive pay, training, and human resource development.

In light of such trends, one could argue that in Italy and many other European countries, the dominant tendency is towards 'harmonization' between the technological and organizational changes induced by 'lean production' on the one hand and social systems of industrial relations and human resource management on the other. This contrasts with the hypothesis proposed by other researchers on the new tendency towards 'competition' that could instead be induced by the same economic changes in the social sphere (Womack et al., 1990). In particular, experiences with outsourcing in the United States show that even if these are not implemented with an explicit anti-union purpose, they tend, in any case, to exploit 'regime competition' in industrial relations, i.e. the possible savings on labor and wage costs, and/or the externalization of activities previously covered by collective bargaining – seen in the sharp decline of worker representation in the traditionally highly unionized automotive sector (Whitford and Zeitlin, this issue; Kochan et al., 1997).

In the two Italian regions analyzed here, there is a partial verification of the hypothesis of 'harmonization' not only of technological and organizational innovation, but also of industrial relations and of human resource management across the big firms of the automotive sector and the smaller ones of the components sector. This analysis covers both a 'greenfield' setting, where the traditions of industrial relations and union activity are absent, and a 'brownfield' setting, which includes the 'historic' plants of the automobile and component supply sector. The article focuses particularly on Piedmont, as an ideal-typical case of entrenched industrial and unionist culture, and Basilicata, which represents an ideal-typical 'greenfield' case, where FIAT has created *ex novo* the "integrated factory" of Melfi.

Our approach is different from that of other studies, which place less emphasis on the influence of the territorial context on social and economic innovation in the auto and components sector, apart from claiming that the new lean production systems can be more successful in 'greenfield' settings. Thus a number of studies, starting with Womack, Jones e Roos (1990), link

lean production to individual participation, effectively ruling out a meaningful role for union participation and representation. It should be noted that subsequent investigations reached different conclusions either concerning the supposed relationship between 'greenfield' sites and lean production (Negrelli, 2000a) or the predicted decline of collective participation and representation (Kochan et al., 1997).

The comparative analysis presented here tends to support these more recent findings and to disprove some of the hypotheses of the initial studies. In particular, although the key elements of 'lean production' tend to be introduced more rapidly and completely in 'greenfield' settings, both in the case of large assemblers and small component manufacturers (as in Basilicata), they are also spreading, albeit more gradually and 'prudently', to small and medium-size supplier firms in 'brownfield' settings like Piedmont. And just as the new elements of individual participation and union representation were adopted in the smaller component firms in Basilicata, after first being introduced at the FIAT Melfi plant, they have also spread increasingly to small component firms in Piedmont, though the process has been more difficult and complex.[6]

The founding of the FIAT SATA plant in Melfi created a new local context for auto component suppliers. Or more precisely, it created a "double context." In an area characterized by a combination of a "traditional peasant legacy" and the effects of modernization, resulting less from the development of the local economy than from the "diffusion of imitative [cultural] models" (Svimez, 1993), even the hoped-for propulsive effect on southern entrepreneurial activity occurred only to a very limited extent (Pichierri, 1994). A first context involves 22 first-tier suppliers located in the 'park' around FIAT SATA following a 'just-in-time' logic, who are thus more appendages of the 'integrated factory' than distinct productive entities belonging to the surrounding territory. These are generally northern Italian initiatives or subsidiaries of multinational groups that followed FIAT to the 'greenfield' site. The second context lies outside the 'integrated factory' and the SATA district, and is itself fragmented into at least three groups: a few new firms formed by a still weak

local entrepreneurial class; existing small and medium-size enterprises of the South that had long worked as subcontractors to FIAT plants; and newly transferred suppliers from the North. There is thus a double segmentation of the supplier firms in Basilicata, first between those firms in the just-in-time 'park' in Melfi and those outside that zone; and second between the external firms in the upper tiers of the supply chain and the smaller ones which work as subcontractors to the others and are therefore particularly vulnerable to fluctuations in orders. The dualism of the local context of component supply in Basilicata is one of the most salient effects of the creation of the 'integrated factory' in the 'greenfield' of Melfi. This outcome contrasts starkly with the high expectation of new productive activities that was supposed to result from the subsidized investments in the area. But these consequences could have been foreseen by observing the gradual consolidation of a 'para-Japanese model' at the Melfi FIAT plant, involving not only the factory itself but also the surrounding territory (cf. the interview with engineer Franco Uberto, in Bonazzi, 1993: 175-84).

Such a model would not have been possible in Piedmont, where nearly half of all auto component firms are concentrated, responsible for 40% of the sector's employees and more than one-third of its turnover (data from the Turin Chamber of Commerce, 1998). The strong industrial and union traditions of these areas are typical of the entire local 'brownfield' environment and have prevented the creation of a real dualism in the local component supply context. There is no segmentation between suppliers inside and outside a 'park', and the hierarchy of component firms in the region is limited to the quasi-'natural' differentiation among the various tiers of the supply chain. The solidity of the auto component sector in Piedmont is also demonstrated by other qualitative and quantitative observations. For instance, in recent years the region has exported more components than complete vehicles. Furthermore, these firms work in every sector of auto components, including styling, design, and product development; production of equipment, dies, and tooling; the creation of models and prototypes; test centers, research, and other innovative activities. Finally, even though these firms are concentrated mostly in the Turin area, they are present in nearly every province of Piedmont and often specialize in particular subsectors.

The structural differences between the two local supplier contexts of Piedmont and Basilicata also seem to lie at the root of different approaches to innovation on the part of company management. In the South, a logic of innovation in work organization alongside technological innovation seems to be more common. In the Melfi district, the requirements of 'lean' production which extend outwards from the integrated factory to the small and medium-sized supplier firms, push the latter to introduce innovative organizational strategies such as raising quality and cutting waste through increased individual worker participation and incentives, involvement of employees in preventative maintenance and continuous improvement, reduction of hierarchical layers, intensive training, job rotation, task enrichment and other flexible work practices (Pulignano, 2002; 1999). However, the decentralization of decision making in work organization is selective, as in the integrated factory. Non-autonomous work groups are formed, but technical personnel are not directly integrated into the teams, remaining attached instead to staff bodies or to the departmental hierarchy.

Outside the Melfi supplier park, among the three groups of small and medium-sized firms mentioned above, we find similar tendencies of work organization though with partially differing strategies. In the micro-firms created ex-novo by local entrepreneurs, where tasks of low technological intensity prevail and the operations are often manual and performed mostly by female labor, the strategy of flexibility is based above all on innovative forms of work organization, polyvalence, and training of workers on new specialized machinery, alongside more traditional methods like overtime to meet unexpected fluctuations in demand. In the traditional, mostly medium-sized supplier firms of the South, restructuring and industrial adjustment in response to globalization of markets has resulted in both a modernization of equipment through the introduction of more complex and flexible technologies, and the adoption of new forms of work organization such as teams, the reconfiguration of supervisory roles, and/or an increased involvement and incentivization of employees. Also in the small supplier firms transplanted from the North, mostly producing semi-finished goods at the second level of the chain, innovative practices of work

organization and flexibility predominate, are accompanied, in some cases, by the use of robotics (particularly in the welding process).

Thus, if management strategies of innovation generally prevail in the supplier firms of Basilicata, we must underline that there is variation by firm size and sector. The bigger the firm and the higher the value-added, the more these practices of organizational innovation involve structural changes in the production cycle, using more sophisticated and flexible equipment, which given their greater vulnerability to conflicts or disaffection, demand greater participation from the workers in the context of a 'strategic' management of human resources (see below). Though innovative work organizational practices combine easily with lean production in the greenfield of Melfi and Basilicata, these practices have diffused with greater difficulty in the brownfield supplier context of Piedmont. Here innovation – the diffusion of lean production from the integrated factory to the supplier firms – seems to be characterized by a management strategy that generally looks to new technological solutions more than to changing organizational practices (though the latter have also increased significantly relative to previous periods). These strategies seem to be the consequence of important processes of autonomization and specialization that have characterized the whole automotive components sector in the region, driven by Fiat's own evolving strategies toward first and second tier suppliers. But they are also influenced by adaptation to a local context of industrial relations that makes it hard to use the same innovative strategies of work organization found in the South (as will be argued below).

In Piedmont, small- and mid-size automotive suppliers (below 1000 workers) tend to be less dependent on Fiat than in Basilicata, due to the search for alternative market outlets, increasing competitiveness, productivity, and sometimes personnel reductions (Enrietti, 1997; Enrietti et al., 2002). Particularly relevant in this regard are the growth of patent filing by these firms, as well as their increasing 'technological capabilities – themselves direct consequences in many cases of the change in production from simple components to systems and modules. Other empirical research

tends to confirm the prevalence of this strategic orientation toward technological investments in the innovative practices of small and medium-sized auto supplier firms in Piedmont (Marchetti, 2002).

3. Outsourcing and Industrial Relations

Nearly all component supplier firms inside and outside the Melfi district share the 'greenfield' character of industrial relations in the Fiat SATA plant. In both the integrated factory and the rest of the component supply sector, trade unions and industrial relations systems were created *ex novo*. Harmonization between the new industrial relations in the SATA plant and that of the component supplier firms has been quite explicitly guided from above. These Industrial relations are 'new' not only because the SATA plant is a separate company, formally free from existing Fiat contractual obligations, but also because they have been harmonized with the technological/organizational requirements of lean production (Negrelli, 2000a). The most important and innovative elements of the SATA collective agreement of 11 June 1993 underline this orientation: working time is on three shifts with rolling rest periods and night work also for women; group work with rotation of tasks in the 'elementary technological units' (UTE); greater variability of wages thanks to 'competitiveness bonuses'; union participation through the institution of several joint advisory committees.

But the strongest evidence of the harmonization of industrial relations between SATA and the supplier firms of the district is the collective agreement of the Auto Components Consortium of the South (*Consorzio Auto Componentistica del Mezzogiorno*, ACM) of 28 July, 1994. Through this agreement, Fiat achieved an important goal of industrial relations *governance,* in the form of a certain territorial uniformity of contractual conditions concerning working time, wages, and union rights across the entire Melfi just-in-time system. Any adaptation made by specific supplier firms is limited to small margins of flexibility inside a very well defined frame.

The unification and the harmonization of collective bargaining at the territorial level was

confirmed and reinforced by the ACM agreement of 25 May 1998. This extended the SATA agreement of 18 March 1998 to local suppliers with particular emphasis on the regulation of joint committees and union involvement, due to the potential vulnerability of the just-in-time system to social disruptions. One of the main goals of this strategy is to combine individual and collective union participation, which many studies have shown to be necessary for lean production in Western plants (Sako, 1998) – further refuting the arguments of Womack and other scholars (1990), albeit with many problems and contradictions (Negrelli, 2000a). Among the major goals of this territorial dimension of the collective agreement should be noted the reconciliation of firms' needs for industrial relations governance with union demands for equal protection of workers in the integrated factory and its suppliers.

The limits of this governance structure are both internal and external. Internally, the complex internal participation machinery, though aimed at increasing the institutionalization of participation by worker representatives in the life of the firm, does not always meet expectations of joint resolution of emerging social problems. The structure provides for three levels of representative participation: the Interfirm Committee, which involves the local union organizations, the workplace union representatives (RSU), and managements of firms in the consortium; the Integrated Factory Committee, focused mainly on general problems of worker safety; interventions at the level of the individual firm by the Committee for the Environment and Prevention of Industrial Accidents, charged with the task of information and consultation on prevention of workplace risks. In the absence strong negotiating traditions, these structures and participatory institutions are often used as substitutes for collective bargaining and thus risk not achieving their original goal of *supporting* – not replacing – bargaining activity. The joint committees thus risk becoming empty institutional, bureaucratic, and formal participation mechanisms, which reduce rather than reinforce the perception of collective protection and therefore workers' trust.

Outside the district, these contradictions are even more evident because even the

representative participation institutions become scarcer. There, often the only rules that matter are those stipulated by the national collective agreement for the sector. Due to the smaller size of firms, one rarely finds the firm-level negotiations envisaged by the 1993 Ciampi Protocol on the structure of collective bargaining. Still, there have been some recent innovative trends, perhaps due to a delayed effect of the aforementioned harmonization in the Melfi district. In some firms, for instance, bargaining over - performance-based pay (*premio di risultato)* is becoming more common; and firm-level negotiations, when they happen, tend to spread to other issues such as working time, grading, and skills, with a certain approximation to the contractual standards prevailing in their larger customers. At times one can also find cases of rights to information, though the practice of joint advisory committees is almost entirely absent. In general, in the supplier firms outside the Melfi district, there are tensions between the managerial style of imitating the mechanism of representative participation – ever more widely diffused among their customers at the SATA plant and its first-tier suppliers – and the traditional logic of the personal and paternalistic relationships between the small entrepreneur and his employees.

In Piedmont, by contrast, real bargaining activity is much more widespread relative to the aforementioned formal mechanisms of participation, though the latter have been diffusing recently. Even if disaggregated data are not available concerning the many agreements signed in the auto components sector, analysis of the decentralized agreements in the broader metalworking sector shows a high propensity to formal bargaining. According to the Fiom (1998), for instance, between mid-1994 and mid-1997, 494 agreements were signed in the metalworking sector, 83 of them new, and 63% of them in firms with less than 100 employees. This high degree of 'negotiated participation' has also been accompanied by a sharp reduction in industrial conflict. This decentralized bargaining contains many innovative features. All of the agreements regulate wage increases, and 69% of them introduce or renew performance-based pay. One in three agreements regulates working time, while the other issues given special attention are the following: the environment (in particular the application of law 626 concerning worker safety), skills, union and

information rights, social benefits, and cafeterias. Issues particularly important for new production systems like training and work organization are less commonly negotiated. One reason for this may be the difficulty of negotiating issues that demand joint examination and deeper discussion than those that are more traditionally the subject of plant-level supplementary agreements. As we have seen, in the auto supplier network of the South, those issues, when negotiated jointly by the social actors and not unilaterally imposed by the firm, are by their very nature the object of consultation and co-management in joint committees, albeit within the limits discussed above.

In relation to Piedmontese auto components suppliers, one should stress the innovative trends that emerged from interviews and analysis of their most recent plant-level agreements. Those regarding outsourcing are particularly noteworthy, as are those providing for the creation of European Works Councils, site delegates, and territorial observatories. The latter make possible territorial union representation for small automotive suppliers concentrated in a particular area or district, which due to their size would not otherwise be able to elect any delegates. Such union agreements, while apparently differing from what we have seen in southern Italy, nonetheless also seek to harmonize the rules and industrial relations systems in small component firms with those traditionally prevalent in the large auto assemblers and their main suppliers.

4. Outsourcing, Workers' Participation, and Human Resource Management

The movement toward negotiated participation and, more recently and to a lesser degree, toward new instruments of 'representative participation' in small and medium-sized Piedmontese auto suppliers, has certainly contributed to circumscribing employer strategies of human resource management and direct communication with the workforce. Our case studies and comparative survey allow for more detailed assessments of this phenomenon (Marchetti, 2002; Negrelli, 2002b).

The 'greenfield' context of Melfi and Basilicata is very different. There, from the very beginning a strict relationship between just-in-time lean production and specific human resource

management "levers" was established. As Pulignano (2002; 1997) points out, these lean systems require that each supplier firm have systems for the immediate rectification of technical or production problems, with substantial interventions in order to reduce any waste. Guaranteeing this structural flexibility in the face of product and process variations and continual fluctuations in the purchaser's demands requires broad 'transversal' rather than rigidly 'sectoral' competences. The establishment of work teams, based on rotation of tasks and competence rather than job-based activities, is the most effective response to these demands because they combine functional and productive-process capabilities. Such teams further encourage individual as well as social and relational responsibilities, push participatory and problem-solving activities, and allow for productive goals to be established by the entire group.

The group work prevalent in the small and medium-sized auto suppler firms of Basilicata, widely recognized as the most common tool of human resource management in lean production, is often introduced in manner that is neither antagonistic to nor competitive with collective industrial relations and\or forms of representative participation. In smaller firms, especially those outside of the Melfi district, this tool blends with or is superimposed on the 'community', based on personal involvement and direct trusting relationships between the small entrepreneur and 'his' employees. In these firms, informal relationships dominate, as compared with formal instruments of human resources management such as work teams, performance evaluations, professional training, and performance-based reward system. So, whereas the tendencies at work may appear similar to those in the Melfi district, informality remains the defining characteristic of these firms' approach to personnel management.

As with industrial relations and technological-organizational change, the fundamental variables in explaining innovative strategies of human resource management are the size of the firm, its position in the supply chain, and thus the type of relationship between contractors and suppliers. Even in slightly larger plants, we often find the same limits outlined above in the case of

'lean' production factories. The employees responsible for responding to critical problems of material shortage, machine breakdowns, or variation in production schedules tend to be technical staff – maintenance workers, process technicians, and sub-unit heads – rather than direct production workers.

Training is the most important and widely used human resource management tool to support work teams in small and medium-sized auto suppliers in Basilicata. Firms not only invest in the technical and professional training of their workers, but also promote the culture of the 'lean firm'. Here again we see strong trends toward harmonization between the large auto plant and its suppliers, at least in the most 'greenfield' areas of Basilicata. This trend is shown especially by the role played by the ACM Services Consortium and by ISVOR (Fiat's training arm) in planning the selection and training of employees for the supplier firms of the district along the same lines as those of the Fiat plant. In particular supplier firms, the final portion of the training was carried out directly in production alongside other employees, who had already been socialized into their work practices and culture.

In comparison with what we encountered in the small and medium-sized auto suppliers of Piedmont, the Basilicata firms seem to have gone further in developing human resource management practices. These are performance evaluations (even if limited to blue-collar workers and white-collar employees), based upon a recognition of professional competences for continual improvement, a consequently wider diffusion of performance-based pay, and both old and new tools for the regulation of career progression. In part, these tools seem compatible or complementary to collective industrial relations, but they have been used unilaterally, sidestepping trade union negotiations.[7]

5. Common Trends, Divergent Territorial Responses

The results of these comparative empirical studies of auto component manufacturing plants

in Piedmont and Basilicata show some common tendencies alongside marked points of difference between the two regions. The common tendencies include confirmation of the hypothesis that the lean production systems implemented by the large auto producers have strongly influenced the character of *social and economic innovation in small and medium sized supplier firms.* What differs across the two regions – and in the strongly dualistic and segmented case of Basilicata, within the region itself – are the suppliers' responses to this innovative stimulus. Suppliers in Piedmont have developed a capability for technological innovation, whereas those in Basilicata have developed a capability for organizational innovation, especially in relation to work organization. This confirms the findings of other studies that have shown, on the one hand, the lesser difficulty of realizing lean production *ex novo* in 'greenfield' environments (Womack et al., 1990; Bonazzi, 1993; Fortunato, 2000) and, on the other, the greater problems associated with the transformation of older plants (Bonazzi, 1993; Danford, 2000; Stephenson, 2000; Stewart et al., 2000; Negrelli, 2000a). These studies underline how technological innovation can contribute in the case of older factories to a reduction not only of physical strain but also of human intervention in production and thus the vulnerability of the new 'lean' systems to industrial conflict and union action. But questions remain unanswered with regard to the facilitation of active worker involvement and participation, which newer plants require more than traditional ones, and which the southern firms, at least in the Melfi district, appear to achieve more successfully.

A second important common tendency observed in the two regions concerns the search for a harmonization of systems of industrial relations and human resource management between auto supplier firms and their customers. The common objective is to generate uniformity or at least similarity of labor conditions, especially work schedules, work organization, variable pay, union rights and individual worker involvement across big auto assembly plants and in small and medium-sized supplier firms. The collective agreements of 1994 and 1998 reached by southern unions and the ACM Consortium provide the clearest example of this model of territorial governance of labor relations across the auto supplier network. The union agreements in Piedmont

move in the same direction concerning regulation of the outsourcing process, especially those that recognize site delegates and territorial observatories.

But behind these common tendencies, there are also divergences. On the one hand we see that in the Melfi district, the 'prince' imposing a territorial model of governance is the Fiat management, which insists on harmonizing labor relations across the entire 'just-in-time' process, working backward from the final assembly at SATA to the start of the cycle and including at least the first-tier suppliers. On the other hand, in Piemonte, the 'prince' of territorial governance is the union, which seeks to obtain equal protection rights for workers on the 'site', both within Fiat and the supplier firms of the surrounding district. Although the results of this process of harmonization may seem similar and, though in fact this process tends to reconcile management's needs for contractual uniformity and the unions' demands for equal protection, it is still important to understand which of these two actors dominates territorial governance of labor relations in auto supplier firms. In both cases, in fact, the 'prince' is very powerful and capable of strongly constraining the action of the other parties involved. One of the foundations, as is well known, of the new systems of 'lean production' is 'self-activation', the active involvement of all those that have an interest in the firm. This presupposes relations of equal dignity between actors (Ohno, 1978), often formalized by a common cafeteria, by similar uniforms, and by workers, office employees, and technicians working side by side. The presence of a 'prince' and associated methods of local governance can condition not only the behavior and strategies of other actors, but can also generate contradictions, as well as old and new forms of opportunism or at least a reduced sense of trust and consensus.

A third common tendency which emerges from our comparative research is the greater demand for both individual and collective participation expressed by auto supplier firms, similar to developments in 'lean production' firms elsewhere described in detail by other studies (Sako, 1998; Sivini, 1999; Barton, Delbridge, 2000). In all the firms of the auto supply networks of Piedmont

and Basilicata, we find a desire for greater collaboration between firms and unions, less conflict, and complementary development of tools for individual human resource management. But even in this common climate of participation, the responses of the firms in the two areas appear different. Thus we have seen that the stronger bargaining traditions and propensity of workers in Piedmontese auto supplier firms – a phenomenon which obviously helps to sustain the local governance of labor relations by the union 'prince'' – go together with a lesser use of joint committees and direct management of human resources. Vice versa, in the 'greenfield' areas of Basilicata, where there is less union bargaining power, individual worker participation, consultation, and involvement are more widely diffused, at least in the Melfi district and its immediate vicinity.

Comparing developments in the two regions, we find common tendencies of technological and organizational innovation, territorial harmonization of industrial relations, and worker participation at the individual and collective level. Divergent responses are found instead in the development of capabilities for technological and organizational innovation; models of territorial governance dominated by unions or managers; and the 'bargained' vs. 'consultative' nature of participation. These common trends illustrate the strategies that representatives of both labor and capital have pursued in trying to secure the advantages offered by lean production even in small and mid-sized supplier firms. The divergent responses signal conversely that significant barriers remain to the full implementation of these strategies in the two regions.

6. Conclusion: Networks, Princes, and Competition

This study has shown that a territorial 'prince' can facilitate harmonization between technological/organizational innovation on the one hand and social systems of industrial relations and human resource management on the other through institutionalized governance of the supplier network, a role played by Fiat management in Melfi and by the union in Piedmont. Producers, suppliers, unions, workers, public and private actors involved in the outsourcing process have adapted their respective strategies to a politics of harmonization imposed by the collective actor

with greatest bargaining power (Elster, 1989: 74). This finding encourages a network analysis that does not stop at identification of formal ties but can also assess the type of ties between the individual and collective actors involved (Piselli, 2001), as in previous research on small firms and industrial districts in the 'red' (Socialist/Communist) and 'white' (Catholic/Northern League) regions of the 'Third Italy', and on the successes and limitations of territorial pacts (Trigilia, 1986; Bagnasco, 1999; Giaccone, 2002; Cersosimo, 2000; Negrelli, 2002a).

This analysis can help us to answer the question posed at the beginning: whether the ongoing process of outsourcing in Italy represents a threat or an opportunity for workers, unions, firms, and the economic system as a whole. We have already mentioned the view prevalent in the early 1970s that the widespread decentralization of production in Italy and Europe was a direct response to the explosion of workers' struggles in large factories at the end of the preceding decade. According to some, the current crisis of Fiat Auto may be a result of excessive outsourcing, one that has irreversibly reduced management competencies in core activities, resulting in a lack of imagination in developing new models and a loss of competitiveness not only in European and international markets, but also within Italy itself.[8].

The results of this study support the hypothesis that social and economic risks can be reduced and/or controlled if outsourcing is subjected to innovative forms of negotiated regulation between individual and collective actors. This is confirmed by what has happened in Piedmont, also by the case of Fiat-Iveco in Brescia (currently the most successful plant in the Fiat group: Marchetti, 2000), where collective bargaining has ensured the protection of the workers affected by outsourcing through an extension of union representation to the territory and to the small supplier firms. Hence it seems possible that more intense consultation among the various actors about outsourcing, including managerial objectives and not just union rights, could have reduced or perhaps avoided the risks to the firms and the negative social effects of the current Fiat crisis. But this response is related to a second important question posed at the outset: how can we explain the

divergent business responses to outsourcing, either toward economic and social harmonization, as in Italian firms (and a good part of continental Europe), or toward competition between economic and social systems, as seems more widespread in the United States. In Italy and in Europe, models of negotiated regulation prevail, but in the United States and other countries, firms seem to be more responsive to the effects of both competition and the labor-cost savings that can be obtained by externalizing services and production to non-union firms (Keefe, Batt, 1997; Katz, Darbishire, 2000; Kochan et al., 1997). And yet, even in the United States outsourcing may be coordinated by a network of collective actors, public and private, that help to mediate among the various interests involved (Whitford et al., 2000; Helper et al., 2000; Whitford and Zeitlin, this issue). Since the 1980s, in fact, the competitive success of economies based on the network model, such as those of Japan and other Asian countries, inspired important changes in American legal regulation, encouraging the spread of cooperation among US firms (Podolny and Page, 1998: 58).

The most natural way of explaining this divergence, often found in the social sciences literature, makes implicit or explicit reference to the different models of capitalism found in Anglo-Saxon and continental European countries (Albert, 1991; Dahrendorf, 1995; Womack et al., 1990; Berger, Dore, 1996; Fajertag, Pochet, 2000; Hall, Soskice, 2001). Dahrendorf speaks explicitly of divergent "national constellations" based on whether the landscape is predominantly competitive (American capitalism) or socially cohesive (Rhenish-Japanese capitalism). Some studies, however, have started to doubt whether this response is satisfactory and hits the mark. The intermediate forms of coordination identified by Soskice, along with criticisms of inability of these static models to explain a continually evolving environment (Regini, 2000), point to the limitations of these traditional explanations.

The results of the analysis of outsourcing in Basilicata and in Piedmont show that beyond national models, networks can be characterized not only by actors with differing bargaining and leadership power, but above all by differing 'capabilities' of exploiting network ties. If, as the

literature on networks has shown, the 'nodes' are the actors (firms, workers, unions, public and private agencies, etc.), the 'ties' are the 'goods', the resources or 'property' available to individual and collective actors. But as Sen (1985; 1999) has clearly demonstrated, it is not enough to possess resources to achieve economic development and success; one must also be able to convert resources (such as ties) into functions (such as capacity to govern the network). As we have seen, these capabilities were better utilized by FIAT in Melfi, where it was able to impose its own strategy of 'employer-led harmonization' in a context where the actors lacked equal bargaing power. In Piedmont, it was the union, which was able to use its bargaining power to impose its own strategy of 'union-led harmonization'. In each case, a harmonization between economic/organizational changes and social systems of industrial relations and human resource management was achieved, but of an entirely different character and tendency. In particular, the asymmetry of governance in 'princely' models limits the potential of network relationships that appear too hierarchical and driven from above rather than regulated horizontally, with negative effects that may explain in part the current crisis at Fiat Auto.

There now is general consensus on the definition of a network organization, characterized on one the one hand by a set of actors who have ongoing and repeated exchange relations (thereby distinguishing it from a pure market) and on the other hand by the absence of an organized authority that can legitimately regulate and resolve conflicts of interest among the actors (thereby distinguishing it from a pure hierarchy) (Podolny and Page, 1998: 59). This second element seems more weakly present in forms of network organizations governing outsourcing in Basilicata and Piedmont, though for opposite reasons.

This differentiated capability of actors to utilize the network and its ties can explain the variation in how the economic and social harmonization strategies in the two cases have played out. It also explains better than traditional models of capitalism why in some cases outsourcing strategies of harmonization take hold and in others we find strategies of competition between

economic and social systems. Testing this hypothesis in a context not limited to the territorial systems of just one country, as has been done here, but expanded to territorial systems in multiple countries, could prove extremely fruitful. For example, discovering the existence of competitive strategies in countries traditionally classified as models of 'organized' capitalism or harmonization strategies in models of 'market' capitalism would confirm the role of actors' abilities to exploit outsourcing networks in the shaping of social outcomes.

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[1] See the Minister's statement, "Esuberi, stessa tutela a Fiat e indotto", quoted in *Il Sole 24 Ore,* 21 May 2002

[2] Maroni himself belongs to the Northern League, a political party that seeks to represent the small entrepreneurs of northern Italy, often in opposition to the interests of "big capital".

[3] See examples in Eiro, 2000

[4] For a US example, see Whitford and Zeitlin, this issue.

[5] The research was conducted by a group of scholars under the EU's ADAPT program on behalf of the Center for Economic, Social, and Trade Union Studies (Cesos 2002). Its key points are synthesized and presented here. See the report itself for additional empirical data concerning the case studies and the survey results (Negrelli, 2002b).

6 The research was conducted on multiple levels of analysis using different methods. Above all, an attempt was made to reconstruct the local 'greenfield' setting of Basilicata and the 'brownfield'

setting of Piedmont for small and medium-sized auto components firms through an analysis of the available documentation and literature, as well as use of privileged confidential interviews with entrepreneurs and representatives of business organizations, firm and union executives, consultants, firm and territorial union representatives, workers (for a total of over 40 interviews in the South and slightly less in the North). These interviews were followed up with qualitative case studies involving firms of the first, second, and third tiers of the automotive supply chain (5 cases in Basilicata and 4 in Piedmont). Finally, a quantitative analysis was conducted based on a comparative survey involving 80 firms in Piedmont and 19 firms in the South. Unfortunately, the low participation of plant managers limited somewhat the results of the quantitative research in the South (the participation of at least 30 firms had been expected). Besides, the delocalization of southern firms extends beyond the regional boundaries of Basilicata (12 businesses in the province of Potenza), and includes firms in the provinces of Salerno (6) and Naples (1). Even the supply chains have only been partially reconstructed: wire harnesses, seats, dashboards and instrument panels, rubber trim. There is, however, a prevalence of firms that either have their legal seats in the Center-North or are locally owned and produce almost exclusively on commission. Regarding the limits of the research in the South, we must also underscore the great mistrust and reticence of business leaders in providing information about unions, conflicts and industrial relations. Notwithstanding these serious limitations, the results of the quantitative comparative study still appear significant, when taken together with the results of the qualitative analysis, for defining and verifying the hypotheses proposed above.

[7] For documentation and further exploration of these trends, see the comparative survey and case studies (Cesos, 2002; Negrelli, 2002b).

[8] I thank Giuseppe Bonazzi for having suggested to me this hypothesis that certainly deserves more attention and further study.