gift-giving, reciprocity and trust

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Gift-giving, Reciprocity and the Creation of Trust

Abstract

This paper examines the role that gift giving plays in supplier-buyer relations, specifically, the role of gift giving and the creation of inter-organisational trust. Repeated inter-organisational exchanges in a mature industrial district are analysed using Mauss' theoretical framework of gift-giving, receiving and counter-giving. Actors in embedded network relationships frequently exchange gifts and favours as part of commercial exchanges. This gift giving is a fundamental part of the exchange relationship. Gift giving is found to be instrumental in creating and maintaining relationships, defining group and individual identity and resolving conflicts, thus contributing to the creation of trust between partners. Mauss' theory of gift giving elaborates how this practise creates the conditions for reciprocity and induces trust. The originality of our findings lies in the fact that despite the dominant ideology of the purely altruistic gift, field research demonstrates that gifts do play a role in modern economic exchanges and that this ancient deeply rooted social custom should not be simply relegated to families, close friends and Christmas, but contributes to explaining the first step of trust and trust creation in repeated exchanges.

Keywords: gift-giving, reciprocity, trust, clusters, industrial districts, inter-organisation exchanges.

I. **Introduction**

In many areas of academic research such as economics, organization theory and strategy, trust is considered a vital element of inter-firm relationships. Trust between exchange partners reduces transaction costs, increases future investment possibilities and facilitates the transfer of information (Sako, 1998, Li, 2012). Adler, (2001) argues that trusting relationships between agents (within and between organizations) will become more important as neither markets nor hierarchies are good at generating or transferring knowledge when compared to network structures such as those found in industrial districts (Bradach and Eccles, 1989, Jack and Anderson, 2002). The presence of trust between firms is a source of competitive advantage (Barney and Hansen, 1994). Trust may even be considered an 'economic primitive' i.e., a fundamental, underlying aspect of all exchanges (Berg, Dickhaut and McCabe, 1995).

Trust contains a fundamental paradox: it is a mechanism used to reduce social uncertainty and yet it contains, in itself, uncertainty; for we may never be sure ex ante that our trust is well founded (Lewis and Weigert, 1985). The amount of knowledge necessary for trust is somewhere between total knowledge and total ignorance (Simmel, 1964 in McAllister, 1995) and it is the 'bracketing' of this unknowable, and acting upon it, which is, in fact, the act of trusting (Möllering, 2006).

If there is consensus to the importance of trust, there are many aspects of trust which are not fully understood and worthy of ongoing research (see Bachmann, 2011 for a discussion). In this paper I will examine the paradox of explaining the first step in trusting as highlighted by Möllering (2006) and propose gift-giving as a possible answer to this problem. Having argued that gift-giving is fundamental to 'the first step' in trust, I will then examine the role of gift-giving in ongoing relationships and negotiations between agents in the context of interdependent exchange relationships.

Möllering breaks down trust antecedents into three parts. Reason (essentially calculation based on information), routines (the existence of institutions which guide and govern our behaviour making others' behaviour more predictable therefore more trustworthy) and finally, the common sense approach that trust builds slowly through repeated exchanges (reflexivity). And yet as Möllering notes, each of these three sources of trust cannot in themselves explain the leap of faith that is trust. In this paper I propose incorporating Mauss' (1095:1990) theory of the gift and Gouldner's (1960) theory of reciprocity in order to throw light on what we may call the hitherto unexplained first step of trust. I support and illustrate my assertions through field work conducted in a French industrial district in the south-east of France; the Arve Valley bar-turning cluster. Research illustrates that in these manufacturing networks, managers use gifts (or favours) in order to form social bonds and generate the conditions of reciprocity so that receiving firms will feel obliged to supply a counter-gift (work, knowledge etc.) in the future, for as Gouldner (1960, 161), quoting Cicero, notes, 'all men distrust one forgetful of a benefit'.

The aim of this paper is to illustrate that despite the ideology of the altruistic gift which relegates them to purely personal, non-commercial contexts such as families and Christmas, gifts are part of modern exchanges, and play an important role in negotiations, contributing to the creation of relational governance and trust between partners. They are not pre-industrial relics of archaic exchange systems (Elder-Vaas, 2015).

The paper is structured as follows. In section 1, we shall examine social exchange theory and reciprocity in repeated exchanges. Gift-giving itself and its links to reciprocity are explained and analysed in section 2, while section 3 discusses the theoretical difficulty of explaining the first step of trust and how trust is developed through giving gifts. Methodology and field work are explained in section 4 and results are discussed in section 5.

1. Social exchange theory, reciprocity and trust

Social exchange theory (SET) posits that many exchanges carry more meaning, more implications and more connotations than straightforward 'textbook' economic transactions of instantaneous exchanges between anonymous agents (Emerson, 1976, Cropanzano and Mitchell, 2005). SET anchors the economic in the social (cf. Granovetter, 1985, 1992, 2005).

According to SET, modern economic life is coded and framed by the deep structures of cultural life, including, for example, gift-giving, altruism and norms and rules of reciprocity (Mauss, 1950:1990, Becker, 1976, Gouldner 1960). As exchanges or negotiations are repeated over time they involve the concurrent transacting of both economic goods and social goods such as personal obligation, gratitude and trust. The result being outcomes that include both contractual and relational bonding. A central premise of SET is that 'parties enter into and maintain relationships with the expectation that doing so will be rewarding', (Lambe, Wittman and Spekman, 2001, 4). Equally, many researchers have found that relational control of exchanges is often an effective form of governance (Dwyer, Schurr and Oh, 1987, Lambe et al. 2001).

Central to my discussion of gift-giving and trust in negotiations is the notion of reciprocity. Reciprocity exists as a basic element of human behaviour. Trust extended to an unknown counterpart is based on the expectation of this reciprocity (Gouldner, 1960, Arrow, 1974, Berg, Dickhaut and McCabe, 1995). SET literature outlines three reciprocity rules; reciprocity as interdependent exchanges, reciprocity as a folk belief and reciprocity as a norm and individual orientation. Lack of space precludes a detailed analysis of each, but this paper, like most management research, focuses on expectations of reciprocity in exchanges between interdependent firms exchanging repeatedly over time. Reciprocity as a folk belief stems from Mauss' (1950:1990) and Malinkowski's (1932) early work on primitive societies, and, as I will discuss below, this stream has led to the exclusion of the gift in modern economic analysis. Reciprocity as a norm is closely linked to folk belief, but includes a normative element of ought to, while individual orientation (possibly based on cultural attributes) is a mediating variable in an agent's disposition to reciprocate or not, (Cropanzano and Mitchell, 2005).

According to Liouakis and Reuer (2015), trust building behaviours depend on initial perceptions that a partner will reciprocate any benefits (including gifts), while in a process perspective, firms will analyse previous behaviour in order to predict when self-interested behaviour may occur. Zunk (2015) found that firms remembered past manifestations of benevolence and that assistance (a gift if not invoiced) in economically difficult times lead to feelings of gratitude on behalf of the receiving firm. As such, gift giving is an expression of benevolence; an indicator of trustworthiness (Mayer, Davis and Schoorman, 1995, Schoorman, Mayer and Davis, 2007).

Indeed SET assumes that repeated interactions will lead to the creation of trust (Blau, 1964, Kong, Dirk and Ferrin, 2014, Cropanzano and Mitchell, 2005), although many researchers would consider this to be not necessarily the case (Grayson and Ambler, 1999). In summary, SET casts a wider net in helping us to analyse exchanges and is a promising framework to integrate negotiations, trust and the role of gift-giving.

The gift exists in commercial exchanges (see Sako, 1988, Dyer and Chu, 2000, 2003, Uzzi, 1997) and cannot be relegated to a purely altruistic form of behaviour and therefore excluded from all exchange relationships (Ferrary, 2003). For example, in the Japanese automobile industry, Toyota has gained a reputation as a trustworthy partner because of its emphasis on long term relationships with suppliers and its reluctance to take advantage of partners' vulnerability. Toyota frequently uses gifts (transfers of technical and managerial skills) to cement its relationships with suppliers and persuade them of their integrity (Dyer and Chu, 2000, 2003, Mayer, Davis and Schoorman, 1995). Dore (1983) traces this modern Japanese business practice to traditional pre-capitalist arrangements including treating business relationships as personal relationships and the pattern of mid-summer and year-end gift giving which symbolises mutual obligations.

2. **The impossibility of trust**

The sources of inter-organisational trust are difficult to trace. As mentioned in the introduction, we can find three theoretical approaches to this question, reason, routine and reflexivity (Möllering, 2006, Lane, 1998). Firstly, in rational choice theories, trust is reduced to a calculation of a) the perceived trustworthiness of the trustee, and b) the net gain or loss to the trustor if the trust offered is honoured or not (Coleman, 1990). The central heuristic of this model is that trustors will rationally trust if they perceive the trustee's trustworthiness to be high enough to yield a net expected gain (Möllering, 2006). This approach is criticized by Lane (1998, 6). 'The model assumes an individual who is simultaneously highly prescient and aware of the limits of her rationality, who is able to completely divorce economic from social ties……this under socialised view, however finds limited acceptance among economic sociologists, and even among many economists'. Another criticism we could make of rational choice models is that they fail to explain how A trusts B when A has no information about B's trustworthiness or if A does not have any mutually known intermediaries who could vouch for B's trustworthiness? A is obliged to search for other reasons to trust. I shall propose gift giving as the key to understanding 'the first step in a game without history' (Lane, 1998, 6).

The institutional approach to trust (routine for Möllering, 2006) avoids the 'impossibility of calculativeness' by assuming that, 'the complexities of social organisation are so great that some assumptions of how people behave are necessary before we can start to calculate', (Humphrey, 1998, 218). Shared meanings, routines, roles and rules induce trust by making life less complex and more predictable, (Lane and Bachmann, 1996, drawing on the works of Luhmann). Institutions contribute to trusting behaviour because they enable actors to share a world in common with others and rely on it (Möllering, 2006). Trust comes from a shared vision of the future. One of gift giving's functions is to induce reciprocity and therefore creating positive expectations about an exchange partner's future behaviour, thus facilitating trust (Mauss, 1950:1990, Gouldner, 1960).

Thirdly, trust can be constructed by actors through repeated, open and communicative exchanges. If managed correctly, the process then becomes a self-fulfilling upward spiral of trust creation because trust begets trust as social exchange theory suggests (Kong, Dirks and Ferrin, 2014). The process based approach to trust gives a large place to the agency of the actors concerned. Actors are not just passive entities bound by institutions or making trust decisions according to calculations or behavioural norms. They are active in creating trust through interaction and communication. Actors never fully control the process, as exchange partners remain necessarily opaque, but through 'signals, communication, interaction and interpretation' (Möllering, 2006, p.79), they may create trust in a continuous learning process. Gift giving during exchanges and negotiations communicates benevolence and a willingness to form social bonds (Blau, 1964). As noted above, gift-giving will be proposed as a way of explaining the first step to trust and field research detailed below underlines its role in 'rounding out the angles' in negotiations and contributing to maintaining relationships.

Each of these three approaches has clear limitations and each can only go so far in explaining the creation of trust. The rational choice model runs repeatedly into paradoxes that require 'fixing' by adding on elements to rational choice or game theory models. Even taking into account the 'shadow of the future', where agents know that future exchanges will be influenced by their behaviour in the current round of exchanges (Axelrod, 1984), the backward induction argument (where opportunistic agents will cheat on the penultimate exchange, but if this is their strategy and the trustor knows it, then every exchange becomes the last but one and nobody trusts) makes it difficult to envisage agents taking the first step to trust, (Hollis, 2006). An institutional explanation suggests that people often trust through habit, by taking it for granted. Institutionalist approaches do not eliminate agency which remains the central feature of trust. Perhaps a more process orientated approach would help us to understand the creation of trust. It is, after all, common knowledge that trust is built up slowly through ongoing interactions. It may grow and prosper if both parties make efforts and display their ability, benevolence and integrity (Mayer et al., 1995). Actors, however, are assumed to build on a first step towards trust, but we have difficulty comprehending how and why actors 'just do it'. The first step to trusting remains as elusive as ever. In this paper I propose gift-giving as the first step of trust creation.

3. The gift

The seminal works of Mauss and Malinowski were based on anthropological work done in 'primitive' societies. Many other ethnologists and anthropologists have since followed in their footsteps by examining gift-giving in different pre-industrial and 'archaic' societies. This has allowed theorists to relegate gift giving to pre-modern societies through the ideology of the purely altruistic gift. Gifts are considered part of archaic or primitive social systems. Indeed the title of Mauss' original work suggested as much[1]. The sharp division between altruism and egoism has placed gift giving outside modern economic thought. Gifts are not throwbacks to pre-industrial society but gift giving and the reciprocity it engenders continue to play fundamental roles in social and economic life.

Mauss' concept of the 'total social fact' comprises 3 concepts (Adloff, 2006, 426);

1) Gift exchange encompasses all aspects of social life: politics, religion, economic law, morality etc.,
2) Gift exchange permeates the entire society and, most importantly in our investigation,
3) It can be found in all societies both modern and archaic.

The gift is an invitation to a partnership (Sherry, 1983) and performs four functions; communication, social exchange, economic exchange and socialisation. Each function reflects on the other (Belk, 1979). Mauss' (1950:1990) theory of the gift is based on a three step process of gift-giving, receiving and counter-giving;

- The receiving actor can accept or reject the gift. Rejection symbolises refusal to enter into a relationship while accepting implies openness to the proposed relationship.
- Counter giving means the relationship is maintained. One gives something different. This new gift permits an evaluation of the perception the other has of oneself.
- The value of the gift is not imposed but the exchange involves the donor personally.

[1] Mauss, M, (1924), '*Essai sur le Don ; Forme Archaique de l'Exchange*'

While virtually any resource, tangible or intangible can be transformed into a gift (Sherry, 1983, Ferrary 2003), Mauss distinguishes two types. A soliciting gift where the receiver is incited to accept and make a counter gift in order to enter into a process of creating social links (e.g. flowers or chocolates from a suitor), and locking gifts designed to make a partner cross over an irreversible barrier (an engagement ring for example). The modern definition of the gift is 'free, in the sense of being one way', 'what we abandon to someone without receiving anything in return' (Godbout, 2004, 6). We should note however that the Maussian concept of the gift maintains that there is no such thing as a free gift and that all gifts demand a counter-gift; otherwise the receiver will always be indebted to the giver. The more intense the relationship, the more the exchange will take place via the gift, the more the exchange will be distanced from a strict logic of market equivalence (Godbout, 2004). The social bond created by gift giving may serve a variety of purposes and agents may have different objectives in mind when giving, but we give, receive or refuse strategically (Sherry, 1983). It can be boundary defining (denoting in-groups versus out-groups), as shown by Uzzi's (1997, 47) example quoting a manager mentioning that he would make gifts to suppliers (in terms of according delays or helping with investments) but 'never to a stranger'. The lapse between gift and counter gift is trust inducing in the sense that the norm of reciprocity 'obliges' the receiver to take action to remove their 'debt'.

The ideology of the altruistic gift

Gift giving has been largely excluded from the analysis of modern capitalism (Bourdieu, 1997, Chanial, 2008, Elder-Vaas, 2015). Gifts are perceived as throwbacks to pre-industrial, pre-market epochs. Neo-liberal economics, based on rational utilitarian maximisers, has no place for gift giving and has relegated this ancient and deeply rooted social custom either to the family and private realm, or dismisses it through the ideology of the purely altruistic gift. 'Once the radical disjuncture between the logic of egoism and the logic of altruism has been established, the gift becomes unthinkable for modern thinkers' (Adloff, 2006, 416). Parry (1985, 458) notes that 'the ideology of a disinterested gift emerges in parallel with an ideology of a purely interested exchange'.

Ferrary's 2003 study of venture capitalists in the Silicon Valley cluster focuses on the circulation of information (technical and reputational) amongst valley actors. Ferrary's analysis is grounded in the fact that there is no market for information through either convention (a journalist does not pay a CEO for information, nor does one make a friend or acquaintance pay for one's opinion of

the reputation of a third party) or by law (an engineer is held to silence by his employer and cannot sell his knowledge whilst still an employee). Therefore, for Ferrary, information exchanges as gifts co-exist in parallel with other commercial exchanges in the district.
However, Darr (2003, quoted in Dolfsma, van der Eijk and Jolink, 2009) and Carrier (1991) both maintain that gift exchange and market exchange are inextricably intertwined in contemporary markets. Field research presented below demonstrates that gifts and markets are part of the same transaction processes. Using the gift as an analytical lens allows us an alternative regard on the creation of trust in on-going negotiations.

Gift giving and reciprocity

On the surface, the gift indicates the refusal of egotistical calculation; it is generous and free of obligation. But simultaneously, it is never entirely void of the logic of exchange and related constraints and costs (Bourdieu, 1997). The relationship between giver and receiver is never simple because 'the hand that receives is always below the hand that gives'[2]. The act of giving places the receiver in a position of obligation. Central to Mauss' work on the gift is the idea that the gift demands a counter-gift in order to release the receiver from their obligations. As the counter-gift cannot be identical to the initial gift (what would be the point?), the initial giver must respond with another gift and so on and so on. The open endedness of the Maussian process goes beyond simple economic give and take (Chanial, 2008). If there is a message to be taken from Mauss's (1950: 1990) work, it is that no gift is based on purely altruistic motives. Reciprocating the gift releases the receiver from the obligation created and, at the same time creates (or maintains) a social bond (Mauss, 1950: 1990). The purpose of gift-giving is 'to indebt the other party into giving favours in the future' (Sako, 1998, 101). Falk and Fischbacher (2006) note that there is a strong positive and negative reciprocity according to first mover's actions, that is to say that generous or benevolent actions in the first instance incite similar actions from the exchange partner.

[2] Guinean proverb

Summary and research question

The gift is not a 'left-over' from ancient times. It fulfils the following social roles. Gifts create and maintain social bonds. These bonds are not an end in themselves. They are created and used for many different purposes, including the exchange and appropriation of economic, symbolic and social benefits (Cheal, 1988, Weinbrun, 2006). Gifts demonstrate the intentions of the partner in the exchange (Camerer, 1988). As such, they show benevolence which is an important element in perceiving/demonstrating trustworthiness (Mayer et al., 1995). Gift giving demands reciprocity. Refusing a gift signals the desire not to enter into a relationship, while refusal to reciprocate signals an inherent untrustworthiness because this refusal is a signal that there may not be future exchanges. In the same vein, refusal to reciprocate may indicate a lack of integrity, the third of Mayer et al.'s (1995) triumvirate of trust signals.

Faced with an ideology hostile to the very idea that gift-giving may play a role in inter-organisational relationships and the creation of trust, our first research question is simple. Do actors in industrial districts give gifts? What forms do these gifts take? What role does gift giving play in inter-organizational relationships in industrial districts? Our second question is; how does gift giving influence the construction of characteristic and process-based trust creation?

4. Methodology

The Arve Valley industrial district is characterised by a large number (over 400) of small (88% employ less than 50 employees) family owned '*décolleteurs*' or Bar-turners[3]. (Barabel, Huault and Meier, 2007). The firms are geographically concentrated in a 10 by 15 km valley around the small town of Cluses, situated approximately 45 km from Geneva. Each firm is highly specialised in terms of what kind of metal is worked (steel, stainless steel, copper etc.) and in their production output. They are highly interdependent and constitute loose, fluid production networks where contractors may inverse roles, becoming by turns clients of their own subcontractors according to work flows, spare capacity and specific competencies etc., in a production model labelled flexible specialisation. Pieces and components may undergo several different operations and pass through several production stages in different district firms.

[3] Bar-turners use computer controlled lathes to produce a large variety of components from metal bars. They were originally screw and bolt manufacturers (Barabel et al., 2007).

In total, 23 in-depth interviews were conducted, each lasting approximately one hour to an hour and a half, with the owner managers of small bar-turning firms. 19 of the firms were family-owned, some of which were in their 3rd or 4th generation of owners. The smallest firm employed 2 workers, the largest had 46 employees. Only owner managers were interviewed. Open-ended questions were designed to provoke discussion about inter-firm relationships (with both district and non-district firms), conflict resolution, selecting new suppliers and subcontractors, etc. There seemed little point in asking owners about ‘gifts’ made and received as this would probably be interpreted as naïve behaviour. (The interview guide is joined in appendices 1).
Interviews were transcribed and then manually coded using themes such as cooperation, tolerance, norms and values, interdependence, social and/or organisational proximity, identity, sources of information, stocks, clients, and evidence of trust/distrust. The final findings represent a total of approximately 8 pages of tables and grids which reveal how gifts were used to create bonds and trust and to ‘round out edges’ in repeated negotiations, as will be discussed below.

1. **Research results**

Difficult to define precisely, a gift is something that is neither solicited nor demanded. A gift is not reciprocated immediately; the desired and expected counter gift is deferred and its nature is not specified (otherwise this would be an exchange, a swap or a bribe). The contract is uncertain and informal (Ferrary, 2003). We have chosen the following examples of gift giving which will be discussed in the following section.

Example 1. Subcontracting out work among peers.

It is possible to argue that giving work to a subcontractor does not qualify as a gift. If one’s company cannot do a particular operation then one is obliged to find a partner who can. This is not a gift but a straightforward commercial transaction.

The situation is different in a mature industrial district because bar-turning firms in the district are extremely homogenous. They use the same machines (numerically operated lathes) and the same techniques (often learnt at the same technical colleges). 90% of the firms have fewer than 50 employees and they have very similar costs. As bar-turners do not manufacture their own products, there no space for product differentiation. As such, many firms are interchangeable and a large number of them could make the same piece for the same price. Managers in the Arve Valley industrial district can choose among literally dozens of qualified companies within a relatively small geographic area. It is difficult to obtain lower prices from suppliers or local sub-contractors because managers know the costs and therefore the margins of other firms. Why then should a manager choose one firm over another?

The manager chooses the company with which they wish to create a relationship. The gift of work is a boundary defining strategy; inviting a colleague/competitor into one's inner circle, (Cherry, 1983). It is an invitation to begin a relationship. The manager who gives work to another firm expects the job to done correctly (reputations in networks are important) but also will expect reciprocity in the future. The choice of partner depends not only on technical competence but also what the other firm can give in return at an undefined moment in the future such as more work in return or technical assistance. The offer of work is the first step to creating a trusting working relationship where small firms in the district band together in fluid production networks, strengthening the competitive advantage of each firm and creating and maintaining knowledge conduits. As Manager 6 noted 'we are on equal footing, we need each other'. Manager 12 said, 'it's a win-win situation with sub-contractors', while Manager 18 underlined the importance of helping each other out and Manager 8 said 'we make efforts for friends'.

What is striking and typical of sub-contracting relationships in districts is the cooperative spirit amongst protagonists ('there's enough work for everybody, even in this recession' according to Manager 6). Other bar-turners are not considered competitors (Manager 2). There is very little discussion concerning prices and little pressure put on subcontractors' margins because the firms in the district have very similar cost structures, everyone knows their hourly rates, the amortization costs and running costs etc., plus the time expected to make the a particular piece. As such, industrial districts can be assimilated to highly transparent community markets (Maskell, Lorenzen, 2004, Storper, 2005). Subcontractors cannot 'give a price too high or too low, it would be noticed rapidly' (Managers 6, 11, 14, 17). There is a 'right' price that everyone knows. Pressuring a subcontractor to offer a price below what is acceptable occurs but is not common, except in the context of an outside customer demanding lower prices from their supplier (i.e. the contractor).

When a district bar-turner gives work to a colleague there are in fact two gifts taking place. The first, as discussed above, is a soliciting gift (Mauss 1950:1990) which creates the relationship. The second gift is that of a 'decent' or 'living' margin accorded to a colleague (i.e. not considered a competitor, as mentioned above) who is similar to the contractor. Most clients are external to the district. A bar-turner who shares an order with another will also share the margins (generally a 10/30% split, 10% to the firm who has the outside client and only handles the administrative activities for this part of the total order). The margin (i.e. money) is thus obtained from outside the district and re-distributed inside the district through each firm's manufacturing networks. The work is accepted if the prices and conditions are 'decent' and 'respectable'. In terms of counter gift, the initial firm expects reciprocity in the form of work being sent their way in the future. The gift of giving work begins the relationship and sets up the context for the counter gift.

Example 2. Knowledge transfer.

Proximity literature (Gertler, 2003) assumes that tacit knowledge transfer is easier between agents with similar cultures, mental frameworks etc. This second example is similar to Ferrary's (2003) discussion of information transfer in Silicon Valley.

In the networked relations between local bar-turners there were frequent exchanges of information thanks in part to geographic proximity (Managers 12 and 15). This example occurs where a bar-turner (Manager 13) transferred tacit knowledge about a particular operation when the subcontractor was experiencing difficulties. In this industry, bar-turners are sub-contractors. They do not have their own products or brands. Their survival lies, in a large part, on their mastery of their craft, in their tacit skills. Transferring tacit knowledge without asking for specific reciprocity (payment, sharing of information etc.) constitutes a gift. A gift that binds the receiving party to giver. The firm giving the information retained power over the receiving firm and knew that they could one day 'call in the favour'.

The gift of knowledge to the subcontractor obliged the smaller firm to 'play the game', i.e. to make the pieces to the required quality, (no opportunistic short cuts) and respect delivery delays because reputation effects are strong inside networks.

Example 3. Conflict resolution.

It would be naïve to picture industrial districts as conflict free production networks where cooperation reigns supreme and conflict is entirely absent and this example perhaps illustrates the best the role of gift-giving in repeated negotiations. Managers seem to avoid conflict and prone long term relationships thanks to a local norm of preferring voice (openness) over exit. In discussions with managers I have frequently seen subcontracting firms 'round out the angles' during a dispute about sharing the cost of a 'mistake' (Manager 6 admitted that he may be too lenient). The 'problem' (often a question of substandard quality of a piece) was frequently deliberately interpreted as a mistake rather than as opportunistic behaviour (for example, 'the workers, not the bosses make the mistakes', Manager 8). This was done in order for the relationship to continue. 'We do it in such a way as to make sure that the person (subcontractor) doesn't lose too much money'. 'The goal is not to get rich from the supplier…the working relationship goes on' (Manager 7). This being a clear example of the gift in negotiating a manufacturing problem because the receiving firm was clearly expected to behave better next time round. Take the case of an error which was admitted by the local subcontractor (after discussion), to which a cost was mutually agreed. The contractor (in the right and in a position of power) agreed to split costs 60%:40%. The gift to the supplier amounted to approximately 200 to 300 Euros. Manager 7 explained his logic when dealing with a problem concerning the quality of a piece coming from a (local) sub-contractor and destined for an 'outside' client, 'sometimes it's not my fault, but I accept to pay part (of the repairs), because I privilege the long term relationship', 'I pay part (of the costs), so as not to put (the supplier) in difficulties, I know how to share'.

4. Discussion : The role of the gift in repeated exchanges

4a. Gift giving as an invitation to form a relationship and define in group and out group boundaries

In example N°1 above, we can see how the gift of work fulfils 2 roles. It begins the exchange with a signal of benevolence (the gift of a margin), inviting an honest and trustworthy response. It signals the invitation to a relationship (Belk, 1979). Secondly, the gift (the work itself and more importantly a 'living' margin) defines who we are (bar-turners exercising a particular craft in accordance to particular rules and norms) as opposed to others (outside clients, purchasers, automobile companies etc.). The gift of a 'living' margin here is money extracted from external firms and distributed among the district 'clan'. Managers in industrial districts frequently assimilate their firms' interests' to the district's interests (Dei Ottati, 1991). Work coming in from clients outside the district seems to belong to the district rather than any one firm as example 1 above shows (an extreme example perhaps but common enough in district literature and indicative of the community mentality found in many industrial districts, see Mathews and Stokes, 2013). Repeated interactions, exchanges and transactions generate a micro social order where over time participants feel a sense of network cohesion. Positive feelings are directed towards the other actors and the overarching network (Lawler, Thye and Yoon, 2008, Cropanzano and Mitchell, 2005). Gifts contribute to this feeling of belonging because ‘accepting a gift is (in part) accepting an identity, refusing a gift is to refuse a definition of oneself….Gifts are one of the ways with which others transmit a message of the image they have of us’ (Schwartz, 1967, quoted in Godbout, 2004, 17). Gifts define individuals and strengthen their identities (you and I are bar-turners and we share certain values and norms).

The construction of a group identity shifts the exchange from the impersonal and calculus based to the personal and affect level (Lawler et al., 2008). It creates the emotional bond that facilitates trust (Lewis and Weigirt, 1985) and reassures trustors that partners are part of the same community and adhere to group rules and codes, i.e., that they play the game according to the same rules and will be less likely to break the rules and behave opportunistically. This is characteristic based trust (Zucker, 1986). It reassures the trustor that the first step (in trusting ‘blindly’) is a small and almost inconsequential risk.

4b. Gift giving in starting and maintaining the relationship

Giving knowledge to a subcontractor (example 2) is a substantial gift particularly when it may permit the subcontractor in question to become a competitor in the future. The contracting firm seems to be taking an inconsiderate risk in this example. From our discussions it seemed clear that the giver had very strong expectations of reciprocity from the sub-contractor even though they were aware that ‘some don’t play the game’. This gift could be assimilated to a locking gift as described above. The goal is to draw the subcontractor into the relationship with a substantial gift which forces the partner to stay loyal to the relationship. Breaking the bond (i.e. not returning the gift in the form of quality and delay) would have serious consequences in terms of reputation in district networks. In effect, the bigger the gift, the larger the debt, the stronger the obligation to return the favour. How could one trust a firm that refused to respond to such initial generosity?

Gift-giving and counter giving is necessarily always delayed (Bourdieu, 1972). It involves a trust inducing time lapse. Initially, it is an open-ended investment that demands reciprocity and this expectation of reciprocity makes future actions more predictable, thus trust inducing. It is the first step on the path to process-based inter-personal trust creation (Zucker, 1986, Möllering, 2006). The gift is but a moment in a relationship structured by reciprocity. Because the donor does not demand immediate compensation, the timing and nature of the counter gift is left to the discretion of the receiver. Again, gift giving signals a shift from calculus based trust to relational trust (Klapwijk and van Lange, 2009). But the delay between giving and counter-giving induces an element of suspense and uncertainty. Gifts are ‘credit slips’ (Coleman, 1990, Ferrary, 2003). They are favours to be called upon in the future, and as such trust inducing because of the strength of the norm of reciprocity in locally based network where reputational effects are strong.

Gifts convey meaning in the socialisation process that transforms individuals ‘from egocentric actors with little sense of obligations to others…into members of a community with a commitment to the common good’ (Adler and Kwon, 2002, 26).

Gift giving and the counter gift, a never ending game of exchanges, allows actors to escape the crippling backward induction argument and paves the way for Arrow’s shadow of the future. In order for trust to be built, agents must refer to this structural property of reciprocity to create the corresponding expectations of continued exchanges (Sydow, 1998). The feedback process and information processing (trust proposed/trust denied), contribute to virtuous or vicious circles of trust creation or trust destruction.

4c. Conflict management

In the conflicts and negotiations described in example 3 above, agents made allowances for others’ behaviours in order to continue trusting their exchange partners. A problem of quality, for example, will be interpreted at the beginning as a simple error. But agents are not stupid and do not naively discount opportunism forever; ‘once is rare, twice is ok, but three times is bad faith’. Uzzi (1997) also noted actors’ capacity to interpret partners’ actions in a positive light until proof of opportunism was available. The gift is a signal of good intentions (Camerer, 1988), especially the gift of not exploiting the vulnerability of a partner who has made a costly mistake. The gift signals the intention of continuing the relationship, despite the hiccup of an error. If there are opportunistic agents in the population of possible partners an honest agent will use a gift in order to signal trustworthiness.

Game strategists have studied trust and opportunism in great detail. The prisoner’s dilemma is a classic trust game where a rational decision taken by an individual (not trusting the other criminal) leads to a suboptimal result for both players (they both receive a higher prison sentence than if they had trusted the other). In order to solve this social dilemma, Axelrod (1984) devised a competition inviting scholars to propose a strategy that would provide the highest payoff and win against all other strategies in the computer tournament. The winner was a simple ‘tit for tat’ strategy where an actor starts by cooperating and then does whatever the other has done in the previous round. This simple and elegant strategy has the advantage of allowing actors to learn from their partner’s behaviour and adjust their strategy accordingly. Tit for tat strategy works best in games where numbers are small and reputational effects are strong (Carmicheal and MaCleod, 1997) as is the case in industrial districts.

However, like all models, Axelrod’s tit for tat strategy is based on a certain number of assumed axioms, one of which is perfect communication. An axiom which sits badly with real life. Industrial districts may be ‘transparent markets’ (Maskell and Lorenzen, 2004), and district actors may be part of tight overlapping social and business networks which convey salient up to date information about potential partners and their reputations. They may possess similar codebooks and mental schema which permit fine grained communication, but again, this description represents an ideal type and should not be taken as reality. What happens when ‘negative noise’ (Klapwijk and van Lange, 2009) interferes with the communication process and partners behave less cooperatively than intended? If a partner is perceived to be behaving in an untrustworthy manner, then, according to the tit for tat strategy, the other partner would retaliate and therefore start a down spiral of distrust.

Two possible solutions have been advanced and both are open to examination using gift giving as an analytical lens. The idea of serial equity (Kollock ,1993), where actors believe that things will ‘balance out’ in the long run is nothing other than the ongoing process of gift-giving, receiving and counter giving. Kollock found that actors in trust games who relaxed their ‘accounting systems’, ‘dampened cycles of recrimination’ (ibid, 784). What Kollock calls ‘flexible accounting systems’, achieved the balance between vulnerability to exploitation and recrimination. In other words, actors who accepted the open endedness of the circulation of gifts avoided the pitfalls of negative noise in their ongoing exchanges. The second solution, generosity, is simple, but contradicts the paradigm of *homo œconomicus*. In tit for tat strategies, when one partner reduces cooperation, the other will follow suit, but generosity (i.e. gift-giving) by one player serves to communicate trust. Klapwijk and van Lange (2009, 100) find that generosity serves to improve the ‘overall mood… which may very well help people give others the benefit of the doubt’.

5 Conclusion

Gift giving and trusting share many similar qualities. They are both strongly anchored in agency: trust or not, give, receive and return or not are individual level dilemmas. Gift giving acts on the personal level, trust is an inherently personal level phenomena. Both gift giving and trusting are profoundly social phenomena. Gift giving reinforces social bonds and embeds the relationship in the affect. In terms of trust, this embedding process reinforces personal, micro, or one to one trust through creating identity, both individual and group. Being part of the same social group which obeys the same institutional framework facilitates trust because it limits social uncertainty and vulnerability (Zucker, 1986). Personal level governance mechanisms are more powerful than impersonal mechanisms (Granovetter, 1985).

The Maussian process described above is central to reciprocity (Levi-Straus, 1967) as most gifts are used as 'credit-slips' (Coleman, 1990, Ferrary, 2003); i.e. favours to be called upon in the future. As we have mentioned above, the gift demands a counter gift as we feel a debt towards those who have proffered the initial gift, even more so if the initial gift has a spontaneous and voluntary character (Parry, 1985). Gift-giving in repeated negotiations has the express objective of creating a debt that the receiver will attempt to alleviate, opening the door to repeated exchanges because the counter gift is never the same as the initial one. The weight of this debt and the obligation of repayment incurred is an attempt by the giver to control the partner and govern the exchanges through relational governance. This expectation of reciprocity varies in strength according to the different cultural, institutional and structural arrangements (Sydow, 1998). It is the second step on the path to process-based inter-personal trust creation (Zucker, 1986, Möllering, 2006). The diachronic nature of gift-giving and counter giving necessarily involves a trust inducing time lapse.

The gift of trust is the first step on the path of process based trust creation. To refuse a gift or refuse to reciprocate trust is to put oneself beyond the bounds of society, particularly in a close knit networked society such as an industrial district. Giving trust increases trust as it engenders reciprocity, so that when we trust others they become more likely to trust us (Luhmann, 1979). In a continuing game of negotiations, agents juggle commercial and economic goals with personal and social goals. Gifts provide the link between the two.

Appendice 1: Interview guide

Introduction. Outline reasons for interview. Thank manager for time spent.

- How long in industry, born in the valley, trained in the valley?
- Family firm? History of family firm? Other family members in industry?
- Children in industry? Children having difficulty finding work experience in other firms?
- Problems of ‘spying’ on other firms?
- If manager from outside… problems of integration, what problems, why these problems exist?

Relationships with other bar-turners and suppliers

- Sub-contracting arrangements. With how many other bar-turners? Mutual subcontracting? Who was latest entrant into network? How chosen? What problems have arisen, if any, what are they, how were they resolved? How are prices decided?
- Suppliers, problems, what types, which suppliers, how were they resolved?

Relationships with customers

- Problems, resolution etc. as above.
- Professional buyers, types of clients.
- Stocks, do you make stocks? With contract or not? How much of CA is tied up in stocks. Why? Deception and attitudes towards the question of stocks…

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