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DOI:

[10.1080/08985620802462058](https://doi.org/10.1080/08985620802462058)

Document Version

Publisher's PDF, also known as Version of record

Citation for published version (Harvard):

De Propris, L & Sugden, R 2008, 'Editorial: The governance of cross-locality networks as a determinant of local economic development', *Entrepreneurship & Regional Development*, vol. 20, no. 6.
<https://doi.org/10.1080/08985620802462058>

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Entrepreneurship & Regional Development: An International Journal

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/tepn20>

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Version of record first published: 20 Nov 2008.

To cite this article: (2008): Editorial: The governance of cross-locality networks as a determinant of local economic development, *Entrepreneurship & Regional Development: An International Journal*, 20:6, 489-492

To link to this article: <http://dx.doi.org/10.1080/08985620802462058>

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Editorial: The governance of cross-locality networks as a determinant of local economic development

1. Context and subject matter

European economic success in a ‘globalised’ and ‘new’ economy has become increasingly linked with the capacity of particular localities to achieve ‘competitiveness’, and this viewpoint has coincided with growing awareness of the potential for cross-locality networks of enterprises and other economic actors as loci for such competitiveness.

Whilst, for example, literature analysing networks of small and medium sized enterprises¹ has focussed on the knowledge and expertise that is embedded in a local set of production and social interactions,² it has nevertheless recognised that successful networks cannot be closed entities. A crucial factor for their sustainable development is openness – in terms of knowledge and information exchange, innovation co-operation, and production linkages – to competencies and resources that are absent locally. Once this is recognised, it points towards researching various forms of cross-locality networking, including international networking. For example, arguments have been made for so-called ‘multinational webs’ of small and medium-sized enterprises (Sugden 1997, Cowling and Sugden 1999, Simmie and Sennett 1999). These webs would be underpinned by linkages between firms in different localities in different nations, and might enable individual localities to be ‘competitive’ hubs in a network of global production activities that serves all interested parties.

Cross-locality and international linkages are also a central concern in the economic literature on networks that has focussed on the activities of large and especially transnational corporations. It is argued, for example, that such firms can catalyse the competitiveness of localities through investments that stimulate the incorporation of local ‘clusters’ into transnational networks (Ruigrok and Van Tulder 1995, Malecki 1997). However, one view is that the typical transnational is centred on a headquarters, and branches out production activities in localities across various countries according to the specific advantages that those localities offer (including, for example, cheap labour or low corporate tax). In this case, any perceived ‘competitiveness’ emerges through the top-down expansion of transnationals’ activities beyond and above localities’ needs, placing the latter on economic development trajectories that may be neither desirable nor sustainable.

Accordingly, it is possible to conceptualise and observe diverse forms of network, with correspondingly varied linkages and impacts. However, this diversity has spawned considerable confusion within the academic and policy literatures, and has

constrained understanding of the relevance of networks for local economic development.

To make sense of this confusion and overcome the constraint, it has been hypothesised that the significant economic difference across various forms of network is their respective modes of governance (conceptualised in terms of strategic choice: Sacchetti and Sugden 2003). On the one hand, for example, hierarchical governance is associated with hub-and-spoke networks (Markusen 1996), where processes of strategic decision-making are centred on a leading firm that controls the production activities of all others. On the other hand are networks of mutually dependent firms, whose relationships are based on cooperation and integration. Here, there is a symmetrical shaping of strategic direction based upon shared responsibilities. Between these extremes one can also find intermediate forms of network governance.

2. Contributions

It is from this context and with this subject matter in mind that papers were invited for this special issue, so as to deepen analysis of aspects of the governance of cross-locality networks as a determinant of local economic development.

The issue begins with a contribution by Lisa De Propris, Stefano Menghinello and Roger Sugden. They provide a more detailed introduction to crucial conceptual matters and present new empirical evidence. Their focus is on the internationalisation of local production systems, especially on embeddedness versus openness, and on the governance of international networking. A significant feature of the paper is its empirical analysis of the international outsourcing of Italian industrial districts.

Discussion of the Italian experience also features elsewhere in the issue, and particularly in the contribution by Marco Bellandi and Annalisa Caloffi. They review the role of public goods in local development, notably in industrial districts, and look at the challenge to Italian districts from China. This leads to an analysis of so-called trans-local and cluster-to-cluster strategies, and the role of public goods therein. It is argued that the governance of specific public goods displays special problems, the solutions to which remain unclear. Nevertheless, the paper seeks to identify requisites for the successful realisation of cluster-to-cluster strategies, and to do so in a dynamic context.

Anne Lorentzen takes up one of the recurring themes of the issue in particular depth: the extent to which the source of competitiveness is to be found in the innovative interplay among *local* actors and institutions. Her analysis of the space and scale of knowledge networks for innovation, incorporates a critical review of territorialised innovation theories. Her conclusion is that they rest on simplistic perceptions of embeddedness and space, and on functional notions of proximity which treat the firm as a black box. Her analysis stresses that recent network theory and empirical results point to firms finding knowledge sources on different spatial scales; global networks or distant knowledge sources are argued to be especially beneficial to innovation. As a consequence, she advocates an alteration in the current political focus on local and regional innovation networks.

The contribution from Klaus Semlinger considers another issue at the forefront of new understanding: the interplay between cooperation and competition in network processes. With Italian experience providing contextual evidence, he argues that mere

co-location is not a root to competitiveness, rather it must be supplemented by intentional cooperation. Moreover, he reasons that whilst regional collaboration should arguably take place in cooperative networks of trusted partners, a difficulty is that it is quite unlikely that the most advanced knowledge is always at hand nearby in a well-established network of well-acquainted insiders. As a result, regional networks have to open up to collaboration with strangers. He sees a dilemma associated with conflicting governance structures and attempts to offer hints for planning advanced, that is, hybrid networks.

The remaining papers in the issue have a strong focus on empirical evidence. Bernadette Andreosso-O'Callaghan and Helena Lenihan examine firm-level data from the Shannon region of Ireland. Rooting their argument in the network theory of disciplines such as applied mathematics, they distinguish between material and non-material linkages, and between linkages that are local, regional, national and international. Amongst their findings, they conclude that both material and non-material linkages (defined as the exchange of information and knowledge) are more likely to involve partner firms located outside of the Shannon region in Ireland; in the case of material linkages, partnerships with firms outside of Ireland are especially significant. Such evidence is seen to be at odds with the much argued advantage of geographical proximity as an explanation for successful networks.

José Luis Hervás-Oliver and José Albors-Garrigós study the role of multinational enterprise affiliates in certain clusters, specifically considering the possibility of affiliates that operate in different clusters being a means for cross-cluster knowledge exchange. Their empirical investigation is based on firm-level interviews in the ceramic tile industry in Castellon, Spain. They include Castellon firms with affiliates in Emilia Romagna, Italy, and Emilian firms located in Castellon. In line with analysis and comment in other contributions to the issue, the authors conclude that external ties exist, matter and affect clusters. More particularly, their case evidence suggests that knowledge is transferred between clusters by affiliates. Therefore, they argue that the attraction of foreign direct investment through affiliates that complement local collective learning should be vital in the policy-makers' agenda.

Acknowledgements

The idea for this *Special Issue* was born out of proceedings at the ESF SCSS Exploratory Workshop on The Governance of Networks as a Determinant of Local Economic Development (held in San Sebastian, Spain, November 2005; jointly convened by Roger Sugden and Mari Jose Aranguren). Material featuring in each of the papers, except that by José Luis Hervás-Oliver and José Albors-Garrigós, was presented and discussed at the workshop. We would like to acknowledge the input of all the workshop participants, without whom this special issue would not have been possible. The participants included Bengt Johannisson, to whom we would also like to express particular thanks for suggesting a special issue and for facilitating its publication. They also include Mari Jose Aranguren, Cristina Iturrioz and James R. Wilson, who are editing a complimentary set of revised papers from the Workshop in a forthcoming volume, *Networks, Governance and Economic Development: Bridging Disciplinary Frontiers* (Edward Elgar). We would like to thank them for their liaison with us in the preparation of this special issue.

Notes

1. The argument that networks of small and medium-sized enterprises can catalyse the competitiveness of localities has been strengthened by an extensive academic literature on Italian industrial districts, innovative *milieux* in France and agglomerations in Portugal, Norway and the US (see, for example: Camagni 1991, Saxenian 1994, Porter 1998, Beccatini *et al.* 2003). Such experiences have been associated with beneficial impacts on, for instance, employment, income, productivity and export-performance.
2. On local embeddedness, considerable stress has been placed on the glue of geographical proximity (*inter alia* De Propris 2001, Cook 2002, Boschma 2005).

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