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THE FIRM AND TERRITORY

AN ORGANIZATIONAL PERSPECTIVE

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Introduction: The organizational perspective and its importance in characterizing the relationship between the firm and the territory

This introduction outlines the aims of the study, focusing on the advantages of the organizational perspective in relation to the existing literature. It examines the gaps in the literature in terms of the relationship between firms and the territory, and then outlines the theoretical framework and its added value. Finally, this chapter lists the key research questions, showing how they are addressed in the remaining chapters of the book.

The relationship between the firm and the territory is the focus of the present study. This is not a new research topic. On the contrary, there is an extensive literature that considers this relationship to be key to understanding a series of economic processes that resist the logic of globalization, opposing large-scale standardization, while highlighting and promoting distinctive features and capabilities at territorial level. In various ways, clusters, industrial districts and the concept of ecosystems account for local economic dimensions capable of standing up against the standardization of the world of business. However, the concept outlined here focuses on the territory in a different way, less commonly used in management studies and more closely related to a branch of geographical studies in which the territory is characterized in terms of its autonomy rather than simply in terms of the diversity of its geographical location compared to other geographical locations.

The concept of the territory under consideration here is a unit of analysis that is independent from firms since it is made up of a network of relationships. It is a series of economic and socio-cultural relationships, including those with firms or individual firms. This concept places the territory at the centre of the discussion, considering it as an intelligent container, an accumulator (Malmberg et al., 1996) of resources, particularly knowledge, endowed with a wealth of specific resources (Capello, 2019). The territory comes prior to but does not exist solely due to the presence of firms and actors legitimizing it. Rather, it is the outcome of cocreation over time due to the interaction between natural and human resources, relating to the ways in which resources are exploited, tensions and conflicts are managed, and people coexist. The territory is thus a relational space (Lussault, 2007) rather than simply a context (Baccarani et al, 2019),

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and its development is dependent on established communities (Simone & Barile, 2016; Simone et al., 2015). Territorial actions consist of heterogeneous processes (natural, social, technical and economic), in the same way as the actors are heterogeneous. Each process contains the territory and at the same time is contained in the territory.

This framework allows for an innovative interpretation of the relationship between the firm and the territory. The relationship is bidirectional: it can be broken down into the actions of individual agents, but it does not always produce virtuous outcomes. The environment influences decisions, strategies and the behaviour of firms, and vice versa. Firms have the ability to influence the territory, either directly by shaping local behaviour or indirectly as a result of its actions at territorial level. The implications are not always positive. Due to the characteristics it possesses, the link between the firm and the territory can result in a virtuous process but also pave the way for wrongdoing. Territorial characteristics may give rise to "competitive advantages" that are neutral in terms of their contingent use. In addition, since the dimension investigated is consists of relationships, the firm can be taken as the main unit of analysis, emphasizing the micro features, while analysing the firm within a network, emphasizing the meso features.

What is the significance of the organizational approach in this investigation?

This approach is primarily motivated by two factors. The first concerns the way relations are shaped, based on organizational dimensions: the firm uses the resources available to cultivate and manage such relations. In this study, the key dimensions in which the firm cultivates relations and is rooted in the territory are power, structure and culture. Firms exercise power or may be subject to the power of territorial actors. The local culture influences the firm, while the corporate culture can have an impact on the territory. In addition, the firm cultivates relations through its own structure, which may be modified to meet the needs of the territory. The second factor includes the organizational framework in an analysis of the relations. It provides not only an understanding of the organizational dimension but also of the circumstances under which this dimension can be adapted. Essentially, an attempt is made to explain the "what" and the "why", using the resources available to the organization.

Arguably, studies prior to this analysis have tended to investigate the features that characterize the firm, mostly those with a positive impact on the territory. Many studies have examined the positive implications, and the means required for these positive impacts to be enhanced and made permanent. This includes issues such as local development, sustainability and so on. The approach we propose allows us to bring these perspectives together by establishing a more active contact between firms and the territory. It enables us to examine firms by focusing on the micro and meso dimensions, as well as the implications within and beyond the firm. Arguments drawn from the theoretical frameworks of the organizational literature are used to support this approach.

As a result, the research questions seek to address these issues. First, under what conditions does the firm engage in activities with territorial implications and why? Second, what organizational dimensions does the firm use? Third, are the outcomes of this activity positive or negative? Fourth, is mutual influence possible? In other words, how does the territory influence business decisions through a network of agents?

Issues such as sustainability, territorial identity and resilience may be examined in the same way as issues such as corruption and illegal land use by firms. The argument that this analysis wishes to put forward is straightforward, but hopefully worthy of further consideration. Due to the distinct capabilities of the relation between the firm and the territory, opportunities and threats are a matter of speculation. Understanding the causes, mechanisms and effects gives rise to the need to determine appropriate measures in this field. The defence against aggressive globalization processes, the recognition of the value of the capacities of the territory and the firm that increase their chances of survival, is of paramount importance. There is a potential for negative action within this relationship that can be turned into something that is beneficial, efficient and stable. This is the distinction that needs to be the focus of our research.

1 Key features of the relationship between the firm and the territory

1.1 The territory as a spatial system of relations

This study provides an in-depth examination of the relationship between the firm and the territory. Clearly, this relationship has been the subject of previous studies. The number of papers on this topic has increased exponentially in recent years (Zimmermann, 2001; Gonçalves et al., 2011; Baccarani et al., 2019).

The innovative aspect of this study is the idea that this relationship should be examined in depth based on two specific concepts, the first of which entails an idea that is not highly developed in relation to the territory. This is a concept imported from economic geography (Maskell, 2001; Sternberg, 2021; Nicotra et al., 2018), close to the notion of entrepreneurial ecosystems (Cavallo et al., 2019; Stam & Van de Ven, 2021), but with its own specific characteristics. The fundamental idea is that the confines of the territory are determined by a set of relations consisting of connections to the firm for various reasons, not necessarily legitimate, that may be formal or informal, with the firm either subject to or exerting influence. This leads on to a consideration of the second innovative aspect of this study. Although interpersonal relations are the key elements of these reflections, the organizational approach may be used as a theoretical perspective to examine the circumstances in which the firm relies on a series of relations to develop a strong territorial identity. It will be argued that there is a need to understand the organizational aspects that are exploited for the construction of territorial relations, and to characterize them in a theoretical framework.

As a result, it is essential to take the territory as a conceptual starting point. In this study, it is described as a particular form of entrepreneurial ecosystem, of which it replicates many characteristics while being characterized by a series of further features, some of which need to be the focus of an analytical study.

Both of these aspects share the notion of complexity that can be expressed in terms of the interaction among heterogeneous actors operating within a given environment, and at the same time, between these actors and the environment (Sassi et al., 2019; Cochrane, 2018). Based on this idea,

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the system is complex because it is both human and natural, with implications for the processes and models of investigation (Ostrom, 2009; Preiser et al., 2018).

Looking more specifically at entrepreneurial ecosystems, they are considered as a series of characteristics, for the most part positive, together with a series of actors, for the most part promoting development, supporting firms in their specific environments.

Moreover, in many cases, the unit of analysis is not the individual firm but rather a network of firms that taken together are capable of benefitting from the advantages offered by a specific geographic area in terms of growth and innovation (Spigel, 2017; O'Connor et al., 2018).

Local cultural orientations, social networks, human capital, economic policies and higher education institutions contribute to environments that are conducive to innovation, sustainability and resilience on the part of firms, depending on the cases considered (Acs et al., 2014; Feldman et al., 2005). More specifically, ecosystems are often characterized by the presence of family firms, a diversified economy, the strong presence of company infrastructures, the availability of investment capital, a widespread entrepreneurial culture along with policies conducive to the setting up of companies at local level (Kuckertz, 2019).

Essentially, ecosystems represent a powerful conceptual construct that can accommodate a range of perspectives, all of which are linked to the idea that these systems, properly understood and exploited, can provide an important competitive advantage for firms. However, there is a limit in this framework that is closely linked to the idea of the ecosystem. The system as a whole exists only from a strictly entrepreneurial point of view, carrying out the economic function of maximizing the performance of the firm (section 1.2) that is thus not only active but also positive. Firms benefit from ecosystems, and this benefit is perfectly legal (Motoyama & Watkins, 2014). The opposite is not necessarily the case, and as a result studies that take into account the capacity of the firm to influence factors beyond the confines of the firm are limited in number, and tend to consider just one aspect of the ecosystem, usually the cultural aspect. Moreover, since the function of the ecosystem, broadly speaking, is to maximize the potential of the firm, it may be taken for granted that the ecosystem is capable of making best use of the positive features of the undertaking (Acs et al., 2017).

In itself, the ecosystem is conceptually not suitable for characterizing negative behaviour on the part of the enterprise of a type that is illegal. The territory, as intended in the present study, is not necessarily a virtuous support platform. It is the reality in which the firm is rooted, by means of a series of local relations, reflecting a common vision, a shared history and a specific culture (Golinelli, 2013).

On the basis of this approach, the territorial system is not just a support network. Rather, it has various dimensions by which the firm is influenced and in turn exerts influence, with the undertaking taking positive actions or alternatively taking advantage of its territorial connections to engage in illegal practices.

More needs to be said on this point. It is well known that the attempts to define and delimit the environment in which firms operate, including the geographical and physical space, cannot be limited to the ecosystem, and even less to the territory. Rather, it is necessary to take account of the concept of clusters, while emphasizing the specific dynamics that can be internal to the cluster or function separately, based on the notion of proximity. The two concepts overlap, though separating them out makes it possible not just to identify the distance between them but also the differences between the ecosystem and the territory.

Clusters (Porter, 1998; Delgado et al., 2010) and proximity (Knoben & Oerlemans, 2006; Zimmermann, 2001) are environmental dimensions that in a historical perspective precede the conceptualization of the entrepreneurial ecosystem, while sharing with that concept the following assumptions. Certain driving factors that contribute to the competitive advantage of the firm exist beyond its confines, but within a specific space that for the sake of simplicity may be said to coincide with the administrative confines of the territory (Governa & Salone, 2004).

Institutions, both formal and informal (Casson et al., 2010; North, 1990), and local cultures are usually deemed to be factors favouring cooperation between firms, and instrumental to the normalization of business practices.

Moreover, networks within given areas are conducive to the sharing of knowledge among firms and local actors, such as higher education institutions (Owen-Smith & Powell, 2004), that contribute to a significant extent to the competitive advantage of the firm. In short, the added value for the firm is supported by the resources present in a given geographic rather than being confined to the resources within the firm (Asheim et al., 2011; Porter, 2000).

However, the exact role of firms and how they benefit from these externalities gives rise to the need to distinguish between three concepts. First of all, with regard to clusters, as noted later, the key advantage consists of economies of localization, in which firms benefit from a shared geographic location, thus reducing transport costs and sharing infrastructure costs, or economies of agglomeration, deriving from the opportunity to share the continuous flow of knowledge and the normalization of certain routines and types of know-how (Malmberg & Maskell, 2002). Second, factors of proximity, in particular, geographic proximity, act as drivers, facilitating the exchange of tangible and intangible assets. In third place, entrepreneurial ecosystems are characterized in a similar way by this type of governance of relations and the lack of a well-defined hierarchy or formalized methods of application that hinder the informal interaction between actors (Bell et al., 2009; Pitelis, 2012).

At the same time, there are clear differences from clusters. Ecosystems are not necessarily limited to networks of firms. With regard to networks, in any case, entrepreneurs belonging to a given ecosystem have a greater chance of sharing basic technologies as well as a customer base and market. In many cases due to the fact that ecosystems assign a central role to shared knowledge and technology, they involve various actors, including networks of investors, consultants, mentors and public-sector stakeholders, and thus include higher education institutions, public actors and last but not least the local community. These various stakeholders do not simply provide support for the network, but they themselves become an active part of it. The specific advantage of ecosystems is linked to specific resources that belong to the territory and as a result the space does not act simply as a boundary beyond which the economies of location are no longer effective but it acts as a determinant of the specific features (Audretsch et al., 2019).

In the following the focus will be on the characteristics of clusters and proximities, and on those of ecosystems, and finally the discussion will turn to the notion of territories, highlighting the differences.

1.1.1 Clusters: Characteristics and functions

The most common conceptualization of clusters is provided by Porter (1990). In his view, the key dynamic that identifies clusters is competition, based on the well-known model of the competitive diamond, originally developed to understand the interaction between factors that influence the competitiveness or productivity of firms, industries or countries (Porter, 1990). It is well known that this model originally identified the competiveness of nations as depending on four factors:

1 *The endowment of factors*: The position of a country in relation to the factors of production, or basic factors (natural resources, climate, geographical location and demographic aspects) and advanced factors (communications, skilled labour, research, technology, education).
2 *The conditions of demand*: For example, strong domestic demand giving rise to sophisticated and demanding customers, which stimulates an improvement in the quality and the manufacture of products that are then highly valued by international consumers, thus maintaining a competitive advantage.
3 *Structure and competitio*n: The conditions that regulate the way in which firms and internal competition are created, organized and managed, considering the decisive role of internal competition in leading innovation and stimulating the sector.
4 *Correlated and supporting industries*: In the sense of groups (clusters) of industries that facilitate the efficient coordination of production and favour innovation, thus stimulating growth.

As defined by Porter, clusters depend on competition as the driver of development, and this is a dynamic process, as growing firms give rise to increasing demand in correlated sectors and services.

Moreover, according to Porter, competition between firms that are part of a cluster forces firms to innovate. The transition from general to local clusters is the result. The greater the geographical concentration of firms, the more the interaction between the factors constituting the competitive diamond tends to increase.

One aspect of competitive advantage is the location of the firm, considering the narrow confines within which it can manage the interaction with other firms. Cooperation between complementary and specialized firms on the one hand, and the institutions on the other, takes the form of support measures that the territorial government adopts for the development of clusters, such as access to funding, support for knowledge processes and technology transfer. All these factors may interact with each other within a restricted and clearly defined area, where the coordination of a territorial government can promote networking and thus favour cooperation between the actors providing the necessary support. The most significant dimension becomes that of geographic proximity, since a crucial role is recognized for the action of institutions whose scope of intervention is linked to the extension of the territory under management.

As a result, the location of the firm is not important in an absolute sense (in the spatial sense), but rather it is important for firms to be located in close proximity to other firms to favour interaction and collaboration. On the basis of these elements, Porter provides a systematic definition of regional clusters: an informal method of cooperation and interaction between firms belonging to the same sector also involving other firms in the supply chain, government and scientific institutions and other bodies in the same region.

1.1.1.1 Clusters vs. industrial districts

The framing of clusters has been investigated in depth by various authors, and this study examines the conceptual proximity of clusters and Marshall's industrial districts since they are extremely similar notions. As noted earlier, Porter (1990) argues that there is a significant overlap in meaning between the two concepts, indicating a common process: the tendency for businesses to concentrate in geographical terms with a view to gaining certain competitive and operational advantages. To identify the main differences between the concept of clusters and that of industrial districts, highlighting the originality of Porter's theoretical construct, reference may be made to recent studies of clusters, such as the study by the OECD (1996), which integrates Porter's model with the role of institutions engaging in the production of knowledge and technology transfer, that are connected to clusters in the most important phases of the value chain.

In short, the conceptual differences between clusters and industrial districts highlight the fact that districts are clusters of a particular kind, based on geographical proximity concentrated in a limited territory, in which the local community and public interventions in the economy play a substantial role, or at the very least, a role that is more substantial than in clusters. Industrial districts are thus socio-territorial entities characterized by the active presence, in a limited territorial area, determined by natural and historical factors, of a community and a population of industrial firms (Porter & Ketels, 2009). In districts, unlike the case of clusters, communities and firms are interdependent. The fact that the predominant activity is industrial differentiates districts from a generic "economic region". One of the fundamental elements is the concept of "industrial atmosphere": when in a limited geographical area, a significant number of individuals are engaged in the same occupations, trade secrets can no longer be described as such, and a certain level of know-how is developed in an innate manner, "almost by a process of breathing in". In the view of Becattini (1987), one of the leading Italian scholars of industrial districts, that which strongly links firms together in these settings is "a complex and inextricable network of economies and external diseconomies (negative externalities), connections and cost economies, historical and cultural elements, that provide the context for interfirm relations and those that are purely of a personal nature". Business and professional relations are intertwined with social relations of an informal type, thus facilitating the dissemination of knowledge among the actors.

An economic definition that sufficiently encompasses industrial districts must therefore take account not just of the local characteristics listed earlier (territory, community, firms) but also this stable network of interactions and other elements. In more detail, in industrial districts physical proximity counts a great deal, as it facilitates the exchange of information and goods, and the presence of strong socially recognized institutions, giving rise to external economies and favour local firms. On the other hand, a cluster of firms consists of a geographical concentration of companies operating in the same supply chain, more than in the same industrial sector, with strong commercial links with each other. This is often a network of subcontractors working with one or more general contractors and a number of small firms acting as suppliers. Relations between firms in a cluster are usually less complex than between firms in an industrial district, and the physical proximity, although necessary, is less accentuated, to the benefit of long supply chains in a system of global collaboration, also across territories that are geographically distant from each other. The globalization of supply chains can thus be more easily related to the concept of clusters, compared to the traditional concept of industrial districts, historically linked to local "industrial roots".

1.1.1.2 The notion of proximity

Proximity is a key concept in relation to clusters and can be considered in isolation. The idea of examining characteristics and effects separately is useful for understanding whether the benefits that are mainly correlated to elements of vicinity or shared characteristics also apply to spatial dimensions other than clusters and districts, above all in relation to the notion of territory adopted in this study. Basically, while the territory and prior to that the ecosystem is not a cluster, it has in common with the cluster certain elements that are common to clearly defined areas within which economic activities take place.

Proximity is thus a dynamic that needs to be examined because in defining a method of interaction, it carries out, at the same time, a definition of the confines of the area under examination: there is an environmental dimension that terminates where the advantages of proximity reach their limits. A definition of this kind is of greater value than the definition commonly used of an administrative nature, and for the purposes of this study, it plays a more important role. Above all the definition most commonly adopted, and closer to concepts such as areas, confines and vicinity, is the geographic one (Knoben & Oerlemans, 2006).

The reduction of geographic distance gives rise to numerous advantages that are obvious, since every type of material cost relating to transport is reduced. In the same way, physical proximity between individuals improves cooperation, facilitating face-to-face interaction, that is the most efficient way to reduce transaction costs (Bouba-Olga & Ferru, 2012).

The role of geographic factors as part of the process of agglomeration has been analysed by many scholars over a long period of time. Many geo-economic studies concentrate on the advantages of the immediate circulation of information in urbanization processes (Pred, 1966), in particular, the strand of research dealing with the role played by interpersonal contacts in the creation of localized processes of interaction (Utterback, 1974). By way of example, reference may be made to the work of Lucas (1988) examining the reasons why businesses are concentrated in Chicago or Manhattan, although those urban centres are more expensive, and at times inconvenient, although less expensive areas are available everywhere. The reason is simple: businesses want to operate close to each other. Proximity is considered to be a reduction in distance and as a result it is associated with advantages such as visibility, immediacy, and greater clarity about what the business makes available. The concept of geographic proximity rapidly evolved beyond the mere idea of localization/agglomeration, with greater emphasis now placed on a more complex dynamic, aimed at characterizing systems, but also at the structures and organizational processes underlying the systems. It has been shown that localized systems of production are not simply the result of a concentration of firms initially attracted by favourable factors, such as primary resources. Rather, it is the entire development that is constructed on the basis of territorial proximity, including human capital and highly skilled employees (Torre & Portafoglio, 2014).

Geographic proximity is thus a far more complex concept than implied by a simple definition in bidirectional terms. In fact, it consists of horizontal