

Territorial capital as a company intangible

Exploratory evidence from ten Italian multinational corporations

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Abstract

Purpose – The purpose of this paper is twofold. First, to explore to what extent being located in a territory is value-relevant for a company. Second, to understand if a company is aware of, and how it can sustain, the territorial tangible and intangible assets present in the economic area in which it is located.

Design/methodology/approach – The study presents an empirical multiple case-study, investigating ten mid-/large-sized Italian companies in manufacturing sectors.

Findings – The results indicate that the sampled manufacturing companies are intertwined with the environment in which they are embedded, both in their home country and in host ones. The domestic territorial capital has provided, and still provides, enterprises with workers endowed with the necessary technical skills that they can have great difficulty in finding in other places. In turn, companies support territorial capital generation through their activities.

Research limitations/implications – To increase the generalisability of the results, future research should expand the sample and examine firms based in different countries and sectors.

Practical implications – Implications for policy makers: developing effective initiatives to support and guide a sustainable territorial capital growth. Implications for managers and investors: improving managerial and investors' decisions by disclosing a complete picture of the enterprise, also outside the firm boundaries.

Originality/value – The study contributes to intangibles/intellectual capital literature by shedding light on the importance of including territorial capital in a company's report to improve the definition of the firm's value. Accounting of the territorial capital would increase the awareness of the socio-economic environment value in which companies are located and its use.

Keywords Multinational companies, Intangible assets, Territorial capital

Paper type Research paper

1. Introduction

Increasingly since 1966, the concept of an organisation as an “open system” has dominated organisational scholars' debate through the establishment of the so-called theories of organisations and environments (Katz and Kahn, 1966; Thompson, 1967; Pfeffer and Salancik, 1978; Carroll and Hannan, 2000; Scott, 2002). According to this school of thought, a company can be seen as a complex structure of elements and activities embedded in and dependent on its surrounding environments (Shafritz *et al.*, 2011). The resource endowment of a territory consists of that bundle of different factors that has been defined as territorial capital: a set of localised externalities, production activities, traditions, skills, know-hows, proximity relationships, rules, and cultural elements and values which attribute sense and meaning to local practices and structures and define local identities. They acquire an economic value whenever they either can be transformed into marketable products – goods, services and assets – or foster the internal capability to exploit local potentials (Camagni, 2008, p. 32; see also: Industrial Commons by Pisano and Shih, 2012).



Recently, a growing body of studies (e.g. Pisano and Shih, 2012; Berger, 2013) has stressed how an enterprise's performance is closely related to the context in which it operates and exchanges strategic resources. Following this stream of research, the local resources endowment is crucial for the definition of a company's success. Indeed, according to this view, "cities [and, in general, territories] are not just a collection of individuals but complex, interrelated environments that foster the generation of new ideas and new ways of doing business" (Moretti, 2012, p. 15). As Moretti (2012) claims, social interactions among people embedded in the same environment enable the generation of learning opportunities that in turn enhance innovation and productivity. Drawing on these works, the authors of the present research argue that the bundle of resources present in a territory can be considered a production factor which is part of companies' intangible assets.

Over time, an increase in the interdependence between companies and their external environment has been observed. The external environment itself has become more complex. This is mainly due to the multiplication of specialisation and division of labour among organisational entities, which has made enterprises less self-contained (Pfeffer and Salancik, 1978, p. 43). In the last decades, the global reorganisation of production activities, mainly driven by multinational firms' offshoring strategies, has distanced enterprises in advanced economies from their domestic territorial capital. This phenomenon, which has mostly affected manufacturing activities, has had direct effects on the resource endowment of areas involved in global production networks. In particular, the shift of production activities from high-income countries towards low-labour cost economies has led to the impoverishment of industrialised nations' strategic manufacturing heritage, jeopardising the future performance of the companies located in those areas (Pisano and Shih, 2012; Berger, 2013). This has led to reflection not only on how to capture the value of the endowment of the place where companies are located, but also on the economic sustainability of the territorial capital, i.e. how to regenerate local assets at the same pace, at least, at which they are depleted.

Despite the pivotal role attributed to the territorial dimension for companies' competitiveness from management and economics literature, especially in evolutionary theory of innovation and technological change (Morgan, 2004), previous research on intangibles has marginally accounted for the different environments in which a company is located and their sustainable economic growth.

Hence, the following research questions emerge as interesting and relevant, yet under-studied, issues:

RQs To what extent is being located in a territory value-relevant for a company? To what extent do multinational companies sustainably use – from an economic point of view – the territorial assets present in the different economic areas in which they are located?

In order to answer these questions, the present research empirically investigates these issues by adopting a multiple case-study, conducted on ten multinational manufacturing companies located in Italy.

The paper is organised as follows. The following section reviews the prior literature on the relationship between the territorial dimension and a company's performance. The third section describes the research design and method utilised, along with the presentation of the case studies. The fourth section presents the findings of the empirical investigation. Lastly, conclusions are drawn, as well as theoretical and policy implications.

2. Theoretical framework

2.1 *Company intangibles and territorial capital*

In its *Territorial Outlook* (OECD, 2001), the OECD claims that each area is endowed with a specific capital, defined as “territorial capital”, which is distinct from that of other socio-economic environments and determined by many factors that several theories have tried to capture. Indeed, this topic has been investigated by different approaches, including the economics of industrial districts (Becattini, 1990; Porter, 1990; Corò and Micelli, 2011); researches on proximity and untraded interdependencies (Gilly and Torre, 2000; Storper, 1995); studies on national innovation systems (Freeman, 1987; Lundvall, 1992); and the ecosystem construct (Moore, 1996; Adner, 2006; Adner and Kapoor, 2010).

As Camagni (2008) states, territorial capital emerges as a new, fruitful concept embracing a wide variety of territorial assets of different natures (both tangible and intangible, as well as private, public or mixed) and different origins (physically produced, (un)intentionally produced by social interactions, and provided by nature). The degree of heterogeneity among the assets that form territorial capital is extremely high, as these factors might include “the area’s geographical location, size, factor of production endowment, climate, traditions, natural resources, quality of life or the agglomeration economies provided by its cities, [...] understandings, customs and informal rules that enable economic actors to work together under conditions of uncertainty, or the solidarity, mutual assistance and co-opting of ideas that often develop in clusters of small and medium-sized enterprises working in the same sector (social capital)” (OECD, 2001, p. 15). In summary, territorial capital can be seen as that “something in the air” (Marshall, 1890) expression of those localisation economies that Marshall defined as a “pool of skilled labour, specialised intermediate inputs, knowledge spill-over, and a supportive industrial atmosphere” (Morgan, 2004, p. 16).

These factors, acting as Marshallian externalities, contribute to supporting innovation and increasing the efficiency of localised firms. Studies of the evolutionary theory of innovation and technological change (Morgan, 2004) – and more generally, in management and economics – have attributed the pivotal role played by territory endowment to the success of the companies located in that area. According to this literature, a company’s success is affected by the entire ecosystem surrounding it (Moretti, 2012). Through its public and private education institutions, the territory moulds workers located in the company’s area as well as attracting/distancing specific types of workers. Indeed, as Pisano and Shih (2012, p. 23) state, there is a close connection between the competitiveness of companies and the competitiveness of workers located in the company’s area. If a worker is not endowed with appropriate skills (education and training), then the enterprise’s competitive power will be threatened. Conversely, dense concentrations of highly skilled workers in geographically localised clusters trigger virtuous processes of economic growth (Moretti, 2012).

The interdependence between companies and their external environment has increased over time. This phenomenon is mainly driven by the multiplication of specialisation and the division of labour among organisational entities, which has made enterprises less and less self-contained (Pfeffer and Salancik, 1978, p. 43). As exhibited by the advanced OECD countries, territories in these high-income economies show very different sectorial patterns of technological and trade specialisation (Morgan, 2004). Being specialised seems to provide a greater advantage than choosing the “right” field (Archibugi and Michie, 1997). Indeed, high levels of specialisation increase the likelihood for a country, and consequently for local companies, to reach a predominant position in sectors in which they have developed-specific managerial, technological and organisational know-hows (Morgan, 2004).

This leads to the importance of investigating the link between territorial capital and companies' competitiveness by capturing the extent to which being located in a territory is value-relevant for a company in order to, as a future research direction, quantitatively account for territorial capital as a proper asset in companies' balance sheets.

2.2 Territorial capital as an intangible

According to the definition provided by IAS 38, an intangible asset is an identifiable non-monetary asset without physical substance. An asset is a resource that is controlled by the entity as a result of past events (e.g. purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected. Thus, the three critical attributes of an intangible asset are: identifiability, control (power to obtain benefits from the asset) and future economic benefits (such as revenues or reduced future costs)[1].

Prior studies (Lev, 2004) show that companies need to produce, and at least partially disclose to the market, better information on their investments in intangibles and the benefits that are derived from those investments. Taking into account intangibles helps managers to make decisions and allows investors to evaluate the company and its performance more carefully. Providing the market with this information enables investors to have a more accurate picture of the firm and, consequently, leads to a lower cost of capital.

Nowadays, economists, managers and investors have acknowledged the importance of intangibles as value and growth creators (Marr *et al.*, 2003; Lev and Daum, 2004), but the traditional accounting-based system does not allow adequate capture of the value of a firm's intangible assets and their impact on its performance. Proper disclosure of intangible assets in the corporate reporting and internal management systems would provide a more complete picture of the company, reducing volatility of stock prices due to a misallocation of resources in capital markets (e.g. Hand and Lev, 2003).

The evaluation of the performance of the total value creation system of a company is based on consideration of its production factors, assets, processes and procedures all together (Lev and Daum, 2004, p. 7), including the socio-economic environment in which it is located. The firm's territorial engagement would provide managers and investors with a holistically finer view of the company's value and its capacity to generate future income and growth.

2.3 Companies' territorial engagement

Drawing on the aforementioned definitions of territorial capital, the authors argue that five elements could be considered as building blocks:

- (1) the workforce pool (e.g. Berger, 2013; Moretti, 2012);
- (2) the relationship between the company and its supplier network as well as that between the company and its final user network (e.g. Pisano and Shih, 2009; Porter, 1990);
- (3) education and training systems, including research centres (e.g. Patel and Pavitt, 1994);
- (4) the public and private institutional milieu, defined by attendance and influence of political bodies, business associations, industrial relations, but also cultural heritage (e.g. Corò and Dalla Torre, 2015); and
- (5) the financial system and its capacity to provide the company with capital (e.g. OECD, 2001).

This bundle of resources represents a collective good arising from a “spontaneous, unorganised action of a multitude of local actors, private and public” (Camagni, 2008, p. 42). It creates either positive or negative externalities to its local community according to the attractiveness of the territory. This attractiveness can be driven by different dynamics of agglomeration: first, a plentiful labour force in which there is a wide pool of skilled workers in a specific field; second, the presence of specialised service providers; and third, knowledge spillovers (Moretti, 2012, p. 124). The specialisation of a territory is a “cumulative, path-dependent process” developed by an increasing accumulation of competencies and capabilities over time and a reduced availability of natural endowments (Morgan, 2004, p. 14).

The companies located in the territory can engage with the local resources, combining the territorial assets in different ways and according to different intensities. The use of these assets by companies, as with physical capital ones, generates a process of accumulation-impairment. To undertake such a process, companies have to incur costs, “except for cases in which socialised processes taking place inside the territorial context are responsible for the cumulative creation and value of an immaterial asset” (Camagni, 2008, p. 42).

These processes of accumulation-impairment have been affected by the fact that companies are increasingly embedded in different territories. Driven crucially by multinational firms’ offshoring strategies, several industries have been the object of an intense global reorganisation of production activities. One germane consequence of the reshaping of economic activity is the worldwide fragmentation of production processes. Companies located in high-income countries have mainly devoted their efforts to presiding over high value-added upstream and downstream activities whilst offshoring low value-added operations to low-labour cost economies. This phenomenon has had direct effects on the territorial capital, affecting the suppliers’ network and local labour markets.

The location of low value-added activities in emerging market economies impacts on the skill endowment of these countries. Upgrading strategies activated by some of the low labour cost economies are eroding the location advantage of European countries, by increasing the pool of skilled workers (both in traditional and in technology-intensive industries). This leads to the risk that high value-added activities will also be moved out of Europe. “Skilled jobs are no longer safe from being sent offshore” (OECD, 2007, p. 7). Indeed, a wide range of jobs in rich economies (such as European countries) is potentially offshorable, which means that “its nature – that is, what must be done and where – allows the work to be moved overseas in principle, even if that movement has not actually occurred” (Blinder and Krueger, 2013, p. S99). The offshorability – defined as the ability to perform the work from abroad (Blinder and Krueger, 2013, p. S97) – of many jobs in Europe raises important policy issues on the dangers of lost know-how (Pisano and Shih, 2012; Berger, 2013) and on how European companies can benefit from the internationalisation of economic activity.

In conclusion, the effect of offshoring on the labour markets of developed countries is twofold: first, the requirement of new skills, linked to the functions (old and new) kept in the home country; and second, the displacement of jobs towards host locations. At first, this displacement mainly concerned low-skilled jobs, but it is now increasingly affecting skilled jobs. With regard to long term competitiveness, both effects could be harmful. On the one hand, they could represent a danger in terms of innovation capability. On the other, they act as a bottleneck if the local labour market is not producing proper skills (skill shortage). In the latter case, the danger is that even new,

highly skilled jobs are sourced from developing countries. In general, it is possible to highlight that there is some interdependence between these two effects, since jobs are located where the right skills are (net of the wage differential).

The extent to which companies participate in these processes of accumulation-impairment of the territorial capitals in which they are embedded is crucial to understanding the growth sustainability of the resources present in the territories themselves. In the following section, the authors will empirically explore – by using a qualitative research method – which are the territorial assets that multinational companies consider most valuable for boosting their competitiveness in the long run. Furthermore, they will investigate which uses of territorial capital made by firms seem to lead to the sustainable (re)generation of the territorial capital itself.

3. Methods

3.1 Case study method and research setting

The aims of the present research are first to shed light on how important it is – for a comprehensive definition of a company's value – to be located in an area endowed of specific territorial assets; and second, to provide insight into which actions undertaken by multinational companies might enable the regeneration of critical territorial assets in the areas in which they are embedded. This requires investigation of the territorial endowment, as well as how and where a firm acquires the resources necessary to undertake its activities. Therefore, building on Yin's (2003) work, the authors adopt a multiple case-study approach, as it represents a suitable research method given the exploratory nature of the analysis (Hartley, 1994; Silvi and Cuganesan, 2006). The in-depth investigation implied in this method allows researchers to acquire a finer understanding of the specific phenomenon under analysis (Eisenhardt, 1989; Yin, 2003). Moreover, according to previous work (Hoskisson *et al.*, 1999), the use of large data samples and secondary data are not adequate to study intangible resources (Peng, 2011, p. 26). Conversely, a multiple case-study allows researchers to compare a set of cases and provide grounded evidence on whether the findings are idiosyncratic to a single case or generalisable, as they are consistently replicated in several cases (Eisenhardt, 1989; Eisenhardt and Graebner, 2007; Giuliani, 2013). Hence, it was decided to examine enterprises that differ in: sectors to which they belong, size, technologies they use, business strategies, and, consequently, ways of creating value (Giuliani, 2013).

This explorative multiple case-study has been conducted on ten mid-/large-sized manufacturing companies established in Northeast Italy. The firms have been selected on the basis of the following five a priori criteria, defined to identify a sample suitable to answer the authors' research questions:

- (1) The selected firms operate in industries that are the object of intense cross-border fragmentation, since that leads companies to be embedded in different socio-economic contexts.
- (2) They belong to the manufacturing industry, which still accounts for a major part of innovation effort, as well as widely contributing to the overall productivity and real income growth of advanced economies (i.e. European Commission, 2013; Berger, 2013). In Europe, for instance, this industry produces 15.1 per cent of the EU 27 GDP (2013) and each additional manufacturing job is found to be able to create 0.5-2 jobs in other sectors within the European Union (Rueda-Cantuche *et al.*, 2012).

- (3) Firms have to be based in Italy and, more specifically, in the northeast of the country. The rationale for this choice is twofold: on the one hand, Italy is a country with a long and renowned worldwide tradition in manufacturing; on the other hand, keeping the industrial location constant (Navas-Alemán, 2011) enables the authors to control for legal, cultural and socio-economic frameworks.
- (4) They have to operate in sectors in which Italy, and more specifically the North-Eastern part of the country, traditionally holds a competitive advantage; that is, technology-intensive and medium-tech industries (e.g. high quality mechanical engineering, automation, pharmaceuticals) and traditional manufacturing ones (e.g. textiles and apparel).
- (5) The selected firms are multinational companies, as they are – by definition – multi-located, which means they choose territories where to develop their value chain. Hence, these companies have tools available to evaluate where to perform their activities and how to undertake strategies of integrated production. The possibility of selecting locations in which to carry out their activities increases the relevance of the territorial assets present in a given place. Furthermore, multinational companies make use of greater “instruments” to account for the surrounding environment and their actions have a larger impact on the reproduction of the territorial assets compared to small-/medium sized enterprises.

To guarantee the anonymity of the ten companies investigated, they are listed under pseudonyms. Tables I and II show the demographics of the sample firms and their presence at the international level, respectively.

3.2 Data collection

In order to explain and share the research goals and methods with the sample firms, an preliminary meeting with company representatives took place before starting the data collection. Their willingness to volunteer for this research project was requested and protection of their privacy was guaranteed. The data collection was entirely carried out by the authors. It combines primary and secondary data gathered by formal semi-structured interviews and archival research, respectively. The quantitative secondary data collected from published company reports and financial reporting, as well as from company website, was complemented by qualitative data gathered by firm-based interviews. The authors asked company representatives to interview managers knowledgeable about the following topics: internationalisation processes followed by the company, the firm's skill endowment and its skill needs, and how the enterprise engages with the domestic and foreign environments in which it is embedded. Each in-depth face-to-face interview was conducted in Italian and lasted on average 1.5 hours. The authors recorded all the interviews and transcribed them verbatim.

The authors conducted the semi-structured interviews, devoting the first part of the meeting to recalling the aim of the project. Then, the interviewees were asked to illustrate the global reorganisation of production activities undertaken by the company, explaining what kind of business functions were performed by the enterprise and where they actually took place. At a later stage, the authors asked the interviewees to describe if and how the enterprises were engaged with the area in which they were embedded. For example, interviewees were posed questions such as the following:

- Could you describe the internationalisation process undertaken by the company; that is, how the firm has globally reorganised its production and sales activities?

Firm	Industry	Turnover (€mil) (2013)	No. employees (2013)	EBITDA to sales ratio Year 0	EBITDA to sales ratio Year 1	EBITDA to sales ratio Year 2
Alpha	Electric motors	≈300	2,200	15.39 ^a	4.42 ^a	10.47 ^a
Beta	Glass installation	41	650	6.97	8.93	5.08
Delta	Sportswear and protections	unconsolidated ≈83	175	7.16	7.08	5.67
Lambda	Pharmaceuticals	30.5	120	23.43	24.28	25.46
Mi	Motors and generators	68	576	11.10	12.92	7.66
Omega	Glass packaging and forming technology	> 285 (2014)	> 2100 (2014)	10.49	8.11	9.30
Phi	Apparatus and systems of power	286	> 1,850 (2014)	15.03	17.39	15.08
Sigma	Machines and system	260 (2014)	1,500 (2014)	6.55 ^b	5.57 ^b	4.27 ^b
Theta	Textiles	338.5	3,505	9.7	7.6 ^d	8.1
Zeta	Heating and electrical systems	unconsolidated ≈213	7,000	6.29 ^c	5.22 ^c	9.08 ^c

Notes: ^a Holding; ^b main plant; ^c main Italian plant; ^d data from company's annual report. The remainder is from the AIDA database

Source: AIDA database by Bureau van Dijk and companies' reports

Table I.
Demographics of the sample firms

- Could you illustrate where the different company's business functions[2] take place, whether within your organisation or by an outside supplier either in Italy or in a foreign country?
- Does the local labour market provide your company with the job profiles needed for taking part in the international market?
- How has your supplier network been changing over the last five years?
- Where (e.g. in which cities, metropolitan areas and clusters) does the local market provide your company with key suppliers?
- Where (e.g. in which cities, metropolitan areas and clusters) does your company source its key suppliers?
- How were your clients geographically distributed five years ago? How are your clients geographically distributed today?
- Has your company set up any partnerships with educational institutions/research centres? If so, where are they based?

4. Findings and discussion

4.1 The value-relevance of the territory

From the interviews it emerged that the territorial capital, where the companies were originally established (e.g. Alpha, Omega and Theta) or where they moved as a new entity and business focus decades ago (e.g. Lambda, Mi and Sigma), has positively impacted on firms' performance. These areas have provided all the investigated enterprises with the resources necessary to grow and become leaders at the global level.

Firm	Foreign production sites	Commercial presence	Breakdown of company's turnover or employees by regions/countries
Alpha	Brazil, China, Mexico, Romania, Slovakia	Worldwide distribution	Chinese subsidiary serves the Asian market; South American subsidiary serves the USA and Latin American market; European plants serve the EU, Turkish and Eastern European markets
Beta	Brazil, China, India, Mexico, Tunisia	Flagship stores in France, Germany, Italy, Spain, United Arab Emirates and USA. 5,000 worldwide local retailers	100 employees in Italy, 202 in India, 180 in Tunisia, 32 in Mexico, 15 in the USA, the remainder in China
Delta	Central and Eastern-European Countries, Far East, Tunisia	Sales offices (amongst others: 1 in the USA, 1 in Hong Kong and 1 Thailand). Stores are distributed worldwide	Not disclosed
Lambda	None	No branches abroad	In 2013, 98% of turnover was export-based. In 2012, 63% of turnover in North America, 30% in Europe and 7% in the rest of the world
Mi	Malaysia	Europe (Germany, UK, Spain), USA, Malaysia, United Arab Emirates and South-Africa	Worldwide distribution
Omega	Brazil (under-construction), China, Denmark, Mexico, Slovakia	Sales offices in China and the USA	90% of turnover is export-based in more than 150 countries. In 2014, 59% of employees in Italy, 14% in Slovakia, 3% in Denmark, 19% in Mexico and 5% in China
Phi	Australia, Brazil, Bulgaria, China, France, Germany, India, Ireland, Italy, Malaysia, Netherlands, Spain, Sweden, the UK, the USA	32 sales offices in 24 countries serving 80 countries	In 2014, 43% of employees in Southern/Western Europe and Mediterranean countries, 25% in Northern and Eastern Europe, 20% in the Americas, 9% in Asia and the Pacific area, and 3% in Africa and the Middle East
Sigma	Austria, the USA	19 foreign subsidiaries, in Europe, Asia, the USA and South America. Worldwide network of sales representatives and technicians	90% of turnover is export based: 40% in Europe, 30% in the Americas and 30% in Asia
Theta	Czech Republic, Germany, Lithuania, Egypt, Tunisia	Sales offices in the USA, Asia and Western Europe	In 2013, 32.4% of sales in Italy, 46.9% in Europe, 4.5% in North America, 12.2% in Asia and

Table II.
Companies'
international
presence

(continued)

Firm	Foreign production sites	Commercial presence	Breakdown of company's turnover or employees by regions/countries
Zeta	Brazil, China, Finland, France, Germany, Mexico, Romania, Switzerland, Turkey, the UK, the USA	Not disclosed	4% elsewhere 40% of employees in Italy, 45% in Eastern Europe, 15.5% in North Africa and the remainder in other countries Employees in Brazil (130); China (1,200); Finland, France, Germany (100); Mexico (1,200); Romania (3,200); Switzerland, Turkey, the UK and the USA (130). Sales: 60% in foreign markets and 40% in Italy (as a group), 70% in foreign markets and 30% in Italy (unconsolidated data)

Source: Companies' reports and interviews

Table II.

Amongst the five building blocks constituting the territorial capital, three territorial assets emerged as pivotal elements for the companies' competitiveness: workforce skills, education system, and supplier network.

4.2 Local workforce skills and education system

Notwithstanding the higher production costs compared to the ones borne in the emerging countries, companies keep production in their domestic bases because these territories provide them with human resources able to master both the development and the production of high quality products. The know-how circulating in the area allows enterprises to source workers from a pool of people whose skills are tailored to enterprises' demands, and that they have great difficulty in finding in other places. The technical skills of the people educated in the area fit properly with the competencies needed by the firms, especially in operations:

"We find these competencies ready in the market. Fortunately, here [in this area] the pool is broader than in other Italian regions and/or in other countries". He continues, "here the walls exude electrical engineering" (Mi's Chief HR and Organisation Officer).

In the territory, you can easily find the technical skills needed in the operations (Sigma's HR manager).

The human capital present in the local labour market appears to be the driver that affects company performance most. It prevents them from making the decision to move the production to more economically convenient areas, according to the balance-sheet argument. For instance, Beta and Theta have decided to maintain a production base in Italy as the value of knowledge and skills in their home country is renowned worldwide and, accordingly, enables them to deliver higher value added products:

Ours is a product, a world that lives in the moment, in which the "Made in Italy" is recognised as a synonym of high quality at the global level. The major international players that look for exclusivity, luxury, tailored products have – almost inevitably – come to Italy because here there exists the expertise to create such goods (Theta's HR manager).

In this regard, the authors highlight a crucial role played by the technical and vocational educational system. The investigated companies acknowledged the ability of the local education system to create a pool of technical skills and attitudes necessary to develop leading-edge products and ensure a constant flow of innovations. The know-how circulating “in the air” (Marshall, 1890) and the training provided in technical, vocational schools and universities, allow companies to source from a pool of qualified workers endowed with skills able to meet the competitive challenges that companies face:

If we talk about technical competencies, we are very strong as we have a great tradition in our universities and other educational institutions (Mi's Chief HR and Organisation Officer).

Chemists, chemical engineers and pharmacists come mainly from the [City] University. Here there is a long tradition of organic chemistry. If I want to find a chemist with a doctorate degree and a specific curriculum I can easily find one (Lambda's General Manager).

The sampled companies have set up several relationships with the local educational and training systems. For training systems, they have partnerships with organisations to train employees mainly in health, safety and environment fields. The partnerships with the universities are mostly made with institutions located close to the companies, in the same region and/or in neighbouring regions. The partnerships established with technical schools highlight an even more local nature; indeed, they tend to be created within the same region, and often the same province or district. The collaborations between the investigated firms and higher education and technical institutes are heterogeneous. They differ in terms of intensity and duration, as well as in the types of programmes created.

Some of the sampled companies have not established structured co-operation with the local education system. Alpha, for instance, have cooperated with universities in Northern Italy mainly through internships and/or for projects linked to a specific dissertation for a bachelor's/master's degree. These relationships are not defined on a regular basis, as confirmed by Alpha's HR manager:

We should invest more in the relationship between academia and industry. [...] We have done internships and theses with the Economics and Engineering departments. [...] There is not a continuous and constant relationship. It has been mainly left to personal initiatives, such as the one carried out by students or by the HR managers.

Conversely, Lambda, Mi, Phi and Sigma have established structured, continuous collaborations with universities to meet specific company needs. A possible result of the synergy between higher education institutes and companies is evidenced by the experience revealed by Phi's HR manager on programmes undertaken by the firm:

We have structured collaborations with the local education system, both with vocational schools and universities. At the higher education level, we finance doctoral theses and we use university labs to co-develop products. For instance, we have carried out important studies on environmental noise together with [a local university] (Phi's HR manager).

In Theta, collaborations with local universities have been established to rebuild the stock of technical competencies which are difficult to source in the local market. This difficulty is a consequence of the phasing out of manufacturing activities due to the extensive offshoring strategies implemented by multinational firms. The development and reproduction of these skills are vital for enhancing a company's competitiveness, as

well as for the survival of the manufacturing tradition characterising the area, and whose value has been extensively acknowledged internationally:

“The collaborations with universities are mainly on design. There are also collaborations with the University of [omitted] and of [omitted] but they are extemporaneous”. He continues “we have re-activated our channels with the education world, with specialised technical institutions (on the textile field but not only) because we have to deal with a shortage of workers in the operations” (Theta’s HR manager).

4.3 *The final user and supplier networks*

The final user network and its location represent important assets, which companies do not formally record in their accounting statements, but consider strategic sources of value. Evidence the authors gathered shows different reasons underlying the decision to establish productive plants close to their client. Recurrently, these explanations go beyond the economic advantage.

The investigated companies decided to undertake a market seeking strategy to follow their key customers, and to support their requests promptly. The pivotal role of being close to their own final users was confirmed, among others, by Alpha’s HR manager, Zeta’s general manager, and Sigma’s HR manager:

We invested in China because producing at Chinese costs is certainly better than producing in Italy at Italian costs but, above all, because there the user of this [our] product (final assembler) is located (Alpha’s HR manager).

The reason why we decided to set production plans abroad is because our clients went there. To become global suppliers we had to go there as well, according to the “door-to-door supplier” concept (Zeta’s general manager).

We would not be able to sell any of our products if we were not localised close to the client. Why? Because our machines generally work 24 hours. If a machine does not work, it takes time to send one of our experts there and solve the problem. The client has to stop production for three days, which is not possible (Sigma’s HR manager).

Further drivers of companies’ presence in a specific territory are the bonds that they have built with the social and relationship capital present in that given location:

[We moved] to Malaysia more standard, but still strategic, machines in order to manage the know-how. [...] to share with the client a more competitive price. Then, important stages for these [our] products are not only the analysis of the costs but also, and above all, the analysis of the value. [We produce] in Malaysia, yes, for the impact of the labour cost, but Malaysia is not the cheapest country in the world. It has a labour cost like Taiwan or Romania in the absolute value. So, why there? Because we were there with a large commercial facility and we knew the territory. These are the advantages that are not possible to cash in, but they have a value and also because for those products (in business-to-business) the majority of the clients are localised there (MI’s Chief HR and Organisation Officer).

On the supplier network side, the evidence suggested that being close is as important as in the case of the final user network but – distinct from the customer network – the proximity to the suppliers is defined in macro regional areas. Thanks to the implementation of global sourcing activities, the sampled companies are able to expand their search radius and reach suppliers that are not located in the nearby area. The cases in which companies use local suppliers are restricted to a few special needs, such as commodities (e.g. some standard solvents used in the chemical industry in Lambda’s case) or products that require an intensive interchange between producer and consumer. Sigma highlighted the need to use suppliers that are geographically close to its

plants. As stressed by Sigma, as well as by other sampled companies, over the years key local suppliers have been evolving into global suppliers; that is, they have spread their presence through production facilities at the international level:

In the past we had local suppliers. Now we have begun to have global suppliers, but with a base in Italy. [...] Because our activities require special designs and pieces, local control is quite important. There is the risk that a supplier mistakenly produces a piece and we cannot have a supplier that is a thousand kilometres away. [...] The relationship with the supplier is built on a constant interchange, that needs not only a common technical language, but also trust (Sigma's HR manager).

An important share of our key suppliers is located close to our headquarters. We have established a medium/long-term relationship with them, based on a win-win client-supplier exchange (Omega's supply chain manager).

4.4 *The institutional milieu and the financial system*

The sampled companies are aware that, amongst the building blocks constituting the territorial capital, the surrounding institutional milieu and the financial system are value-relevant local assets. Both local public and financial institutions enable and empower companies to carry out their activities:

"We have relationships with local institutions, more specifically with the industrial association of our province. We have activated collaboration with both public and private organisations, which have supported our internationalisation process over several stages, such as scouting, analysis and settlement in foreign markets". Omega's accounting manager continues by saying "our group cultivates relationships both with local, national and global financial institutions. We avail ourselves of the support of the local financial system, in particular of the one provided by the local banking system. Amongst our partners we count financial institutions, characterised by strong local vocations, that have gone along and still go along with our group, fostering our business growth".

The financial system, conceived as access to credit, does not emerge to be a key territorial asset. As far as the authors ascertained through the interviews, companies consider access to credit as a commodity not necessarily linked to the territorial capital in which companies are embedded. Whenever enterprises need to be provided with complex financial tools, the territorial dimension becomes non-local. The sampled companies source advanced financial services from suppliers located in national or international financial centres.

Furthermore, the quality of the local industrial relationships represents a considerable part of the institutional milieu. More specifically, the presence of a collaborative partnership between employers and trade unions has been considered a valuable territorial asset by the companies interviewed. Alpha and Sigma emphasised the mutual gains obtained thanks to their co-operation with the trade unions:

The economic downturn in Europe has forced us to activate a state of alert on the employment front. [...] When possible, we have tried to re-locate workers amongst our facilities by re-converting their competencies. We felt a moral obligation towards our employees. We have also managed to sign solidarity contracts that allowed us to safeguard our employees' jobs (Alpha's HR manager).

This territory has helped our company to meet our occupational needs, as the trade unions [of a specific area] have been more [compared to other areas] open to collaborate (Sigma's HR manager).

Some sampled companies (Alpha, Sigma and Zeta) recognised the potential value of a supportive action undertaken by the financial and, more specifically, by the local

public institutions, but they have highlighted experiences of how public institutions can be inert due to bureaucratic constraints:

Ten years ago, we were successful with a tender but we have not received the funds for the project yet (Alpha's HR manager).

Drawing upon these experiences, the managers have suggested possible practical ways to build fruitful relationships with local public administrations. Zeta's and Alpha's managers provided some concrete examples:

It would be useful if the local institutional body could help boost companies based in its territory, through actions supporting firms' presence abroad. For instance, in the exhibition [omitted], a country like [omitted] promotes goods produced in its country and assists its companies on a systematic basis, through marketing actions and technical support (i.e. supplying firms with timely technical reports on-demand during the exhibitions) (Zeta's general manager).

Public administration should improve the territorial attractiveness by developing infrastructures and contributing to creating more lively cities; this would help companies to be more appealing for workers (Alpha's HR manager).

4.5 Sustaining territorial capital regeneration by multinational corporation use

In the previous section, the authors provided grounded insights into which territorial assets companies perceive as most value-relevant and, accordingly, they suggest that enterprises should account for them in a comprehensive formalisation of their market value.

On the one hand, the socio-economic environment in which the company is based affects the value of the company itself; on the other hand, the actions undertaken by the companies impact on the local territorial capital. As claimed by Porter and Kramer (2011, p. 6), "the competitiveness of a company and the health of the communities around it are closely intertwined. A business needs a successful community, not only to create demand for its products but also to provide critical public assets and a supportive environment. A community needs successful businesses to provide jobs and wealth creation opportunities for its citizens".

In order to establish the virtuous cycle identified by Porter and Kramer (2011), the local production system should not fall below a critical threshold. As scholars have shown (i.e. Pisano and Shih, 2009; Castellani and Pieri, 2015; Bailey *et al.*, 2010), extensive offshoring of operations by multinational companies in foreign subsidiaries leads an economy to the risk of weakening the foundation of skills and knowledge supporting the most innovative activities of that specific area. Elia *et al.* (2009, p. 359) report three major substitution effects of production on employment in domestic markets due to outward FDI activity: first, the reduction of the domestic low-skilled workforce; second, loss of market share from local suppliers and the loss of the opportunity to learn and grow through the relationship with the parent company; and third, the withdrawal of subcontracting agreements.

The offshoring of low value-added activities in emerging economies has negatively impacted on the Italian textile industry (e.g. Dunford, 2006), affecting the endowment of local skills. The limited presence of technical competencies in manufacturing activities in the textile sector was confirmed by Theta's HR manager:

"This is the main drama, [...] we had to hunt for retired technicians or 'esodati' [a specific type of workers who take early retirement but are not, under the new rules, entitled to a pension]".

The manager continues by saying "many technicians, but really many, have lost their jobs in the Italian fashion districts due to the crisis. They went to work in Turkey, China, India or

Mexico. There is no large company in these countries that does not have an Italian worker employed in production or in the production planning field”.

In order to overcome the drain of critical resources due to underuse of territorial assets, multinational corporations can undertake actions to sustain territorial capital. They can contribute to the attractiveness of the territory, enabling dynamics of agglomeration, such as labour pools of skilled workers in a specific field; the presence of specialised service providers; and circulation of domains of knowledge that might lead to knowledge spillovers. Investments made by multinational corporations in their home base stimulate the agglomeration of investments, specialised companies and expertise (an experienced skilled workforce, now and in the future) in those areas, as illustrated in the following quotations:

We have made significant investments here [where we are based] to develop big machines. [...] Last year we increased investment to strengthen the group’s innovative capacity by enlarging the testing room for new highly technological products (Mi’s Chief HR and Organisation Officer).

We manufacture our product here [in Italy] and, moreover, we approved a further expansion in this territory. By 2018, we will employ more than 150 workers (both low- and high-skilled profiles) to supply one of the biggest automobile players. We do not deal with a skills shortage of profiles linked to the operations activities, we absorb workers from those companies – located in this territory – that experienced a downshift (Zeta’s General manager).

We attracted highly qualified professional profiles because we are also the technological leader in the sector (Sigma’s HR manager).

We constantly have many internships with students enrolled in local vocational schools; these internships are bonds with the territory [in which we are based and were born] (Phi’s HR Manager).

Territorial capital can benefit from actions undertaken by companies to improve their workers’ skills endowment. The sampled companies have constantly arranged courses for their highly skilled workers in order to enrich and complement their soft skills, thus enabling the company to be more efficient and integrated at the international level:

The competencies necessary for internationalisation are built in-house through an analysis of the competencies related to their organisational behaviours. [...] We defined a training program to improve skills based not only on traditional face-to-face activities, but also with coaching and mentoring activities (Mi’s Chief HR and Organisation Officer).

5. Conclusion

The international fragmentation of production and the future global integration of company activity mentioned above seem to delineate a higher geographical specialisation of production activities undertaken by companies. The purpose of international integration is to perform activities in which a company’s facilities hold a comparative advantage. Such an advantage is also determined by the territorial assets present in that specific location. Establishing activities there will foster those specific territorial assets that originally generated the advantage itself.

Given that the mix of assets comprising territorial capital is overlooked, the purpose of this research was to provide exploratory evidence grounded in an in-depth multiple-case study to shed some light on the relationship between territorial capital and a company’s value. The present research contributes to the intellectual capital/

intangibles literature by exploring: first, the extent to which being located in a territory is value-relevant for a company; and second, possible activities undertaken by the investigated multinational companies that foster the regeneration of the territorial capital in the areas where the enterprise is present.

The findings suggest that the surrounding domestic environment has provided and still provides the sampled enterprises with the tangible and intangible assets (e.g. consumer networks, education systems, and workers endowed with technical skills suitable for manufacturing activities) that positively impact on their performance. The territorial endowment has crucially contributed to enable all the sampled companies to grow over the years and become renowned in worldwide manufacturing. Amongst the five building blocks constituting the territorial capital, workforce skills, education systems and supplier networks prevail in affecting the companies' competitiveness. The companies are aware of the decisive role played by a supportive territorial institutional milieu and financial system but their value is perceived to be subordinate compared to the value attributed to workforce skills, education systems and supplier networks.

To favour the regeneration of territorial assets, there exists a spectrum of actions that can be used by multinational corporations. In this respect, the investments in building up productive plants undertaken by those companies stimulate dynamics of agglomeration, including the agglomeration of specialised companies and labour pools of trained workers, and/or the absorption of skilled workers previously employed in local enterprises that might have experienced a downshift.

The relationship between a company and its environment should be acknowledged by policy makers to draw effective initiatives to support and guide territorial capital growth. These policies could contribute to identifying which skill development interventions (such as educational/training programmes) can attract the best human capital. Accordingly, they could promote smart, sustainable economic competitiveness through which a region can innovate, grow and create jobs with the major societal consequences of increasing the attractiveness of the area.

The main limitation of the research is that the authors only analysed ten Italian manufacturing companies, whereas it would be interesting to perform a wider cross-country comparison also extended to service sectors. Given the ascertained importance of territorial capital in influencing company value, future research should attempt to develop a measure of territorial capital. In line with the studies on industrial districts (e.g. Becattini, 1990; Porter 1990; Corò and Micelli, 2011), on territorial attractiveness (Moretti, 2012) and the international integrated reporting framework (International Integrated Reporting Council, 2013), the authors claim that a firm would benefit from accounting for and reporting on its territorial capital, thus better communicating its sources of value creation to investors and markets. This would enable managers and investors to acquire useful elements for evaluating an enterprise more precisely. Thus, the present research suggests that future research should develop metrics for the inclusion of territorial capital in a company's report in order to build a more comprehensive definition of its value.

Acknowledgements

The authors would like to thank the editor and two anonymous reviewers for providing detailed and constructive comments and suggestions. Earlier versions of this study were presented at the 2014 Workshop on Intangibles, Intellectual Capital and Extra-financial Information, c.MET05 Workshop and GVC Research Cluster Workshop at the Birmingham Business School, UK. They thank these audiences. The authors also

thank Lisa De Propris and Timothy Sturgeon for helpful comments and discussions related to this paper. The research reported in this paper was supported by the project “Skills and new vocations requirements in the evolving value chain in the supply base of Veneto” Cod. 2120/101/21/1148/2013 – Dgr 1,148, funded by the European Social Fund. The authors gratefully acknowledge the support provided by the S.V.E.C. Core Consulting Group (Vicenza, Italy) and the companies that were part of this research project.

Notes

1. The definition of intangible assets provided by IAS 38 focuses on those assets that are separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract) or arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. This definition clearly identifies the boundaries of what factors can be considered intangible assets and it does not take into consideration the soft intangibles, such as those relating to territorial capital, that the authors consider in the present paper. According to IAS 38, patented technology, computer software, databases, licensing and trademarks are examples of intangible assets.
2. The authors investigated the following business functions primary business function; transportation, logistics, and distribution support functions; marketing, sales, after sales service support functions; IT services and software support functions; management, administration, and back office support functions; R&D, engineering and related technical services and R&D support functions; and, other business functions (Brown *et al.*, 2013).

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