

THE TERRITORIALIZED PRODUCTION ORGANIZATIONS: FROM THE MARSHALLIAN SCHOOL TO THE GRENOBLE SCHOOL, CONTINUITIES OR DISCONTINUITIES

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ABSTRACT

This article provides a quick scan of the literature that treats the subject of the localized production organizations. This analysis allows us to understand how the theoretical concepts developed by A. Marshall had great success as they were exhumed by the Italians in a series of works on the Third Italy. The localized production system developed (LPS) by Courlet (1994) helps circumscribe the organization that binds the enterprises together in a territory and highlight the nature of the benefits (positive externalities, reduced transaction costs, better coordination between the actors of a territory) yielded by proximity. Indeed, the LPS is far from being a concept in the true sense of the word because it is interpreted in several ways. The LPS can be attached first to a broader interpretation of the economic phenomena: either it is the new techno-organizational paradigm of reference resulting from the swing of the global mode of production or it is a component or even a transition state of the new industrial organizations that are being set up. The LPS can also be attached to a more specific interpretation referring to the history of economic development according to which any local reality would be, at some point, more or less an LPS. It is but a unit of analysis, which, as the organization, sees its theoretical foundations vary according to approaches and authors. This means that the literature only analyzes the forms of organization in local systems, without explaining their foundations nor their evolution. However, the industrial district and the LPS concepts are each specific features of the "standard-categories" of the industrial territories. Thus, the continuity between the two schools stems only from the benefits of belonging to a territory in the broad sense of the word.

Keywords: *externalities, industrial districts, LPS, proximity, territory*

1. INTRODUCTION

Space is not only a localization framework of economic agents, it is also an emergence framework of a particular economic agent: the territory (Rallet and Torre, 1995). Veltz (1996) defines it as "*an active organization structure made of social interactions, shared memory and projects.*" Therefore, the sole consideration of the physical distance is no longer sufficient to explain the reality of the territories. In fact, the latter, which was the main property of space, fades away and determines less the economic and social relationships.

We deem the territory to be a space full of meaning because of its history. It is appropriated by a group of people who invest it with their values and associate it with their identities. This conception is close to that of GREMI which equates the territory with a complex milieu that coherently brings together a production apparatus, a technical culture and actors. For us, the territory should be perceived as the result of a construction process that stems from the strategies of actors and the phenomena of collective learning.

Under this approach, the territory can only exist if it is built during the long time of history through projects born from the relationships formed between the actors. It is through these collective actions that actors take ownership of their life space and transform it into territory. A space that has become a territory can thus become a space again based on the intentions and the degree of ownership it is subject to. This continuous process of "*territorialization/de-territorialization/re-territorialization*" is in the heart of the transformation of territorial production systems, an essential theme in our analysis of economic processes generated by the paradigm shift associated with the emergence of the knowledge-based economy.

According to Pecqueur (2004), the territory is not a piece of a nation or a region, but it is a space appropriated by a group or a person (Billaudot 2004) or even a form of social construction and regulation enclosed in space (Courlet and Pecqueur, 2001). It thus refers to "*a construction of actors in proximity with the idea of a direct relational scale, a "face to face" coordination and acquaintance*" (Pecqueur, 2004), which are basically specific models of production organization and of the continuous interaction between the economic and the social sphere (Courlet and Pecqueur, 1996). This structure is based on the mutual convertibility of rules and resources involved in social reproduction. (Giddens, quoted by Billaudot, 2004).

The territory is "*a component of economic development, as well-illustrated in the experience of industrial districts and LPSs.*" (Courlet, 2000). It reflects a particular form of industrial organization. The several studies that we can pick out in the economic literature show differentiated phenomena of economic activities coordination that underpin the different approaches on the territory.

The territory is a complex and dual notion. According to Joffre and Koenig (1992), it provides a competitiveness to enterprises that can be based on:

- The substratum of the territorialized specific assets (for us, local actors' activated resources and capabilities) that external actors cannot mobilize with the same efficiency;
- The reduction of transaction costs in the less uncertain universe of the rather more conventional than contractual industrial relationships.
- A favorable milieu to the development of specialized and specific individual skills, through the stimulation of the process of interaction and collective learning.

Klein (2000) presents an approach that aims to demonstrate the existence of "standard categories" of territories, whose economic dynamics are analyzed, and whose scope is rather general. Mobilizing the district and LPS concepts is part of a construction process of a theoretical framework to analyze the territorialized industrial dynamics and the territorialization processes of innovation dynamics. Therefore, our theoretical questions will be as follows: How is the territory apprehended in these different conceptual frameworks? Do these different frameworks help to grasp the complexity of the territorial dynamics, namely putting into perspective the differentiated modes of the development and spatial organization of production and innovation?

2. FROM THE INDUSTRIAL DISTRICT...:

Early researches on territorialized production organizations were carried out in the 70s, on the "Third Italy", by Italian economists namely: Becattini, Bagnasco, Trigilia, Brusco, Garofoli, Fuà and Zacchia (Courlet 1999). These researches emphasized the socially endogenous

character of development, the systematization of diffuse industrialization, as well as the type of industrial organization in these regions.

This type of organization, which presents itself as a blend of competition-emulation-cooperation within a system of very specialized small and medium enterprises, led to reintroduce the old concept of the "industrial district" developed in 1890 by the English economist Alfred Marshall¹. This concept was reinstated by economists eager to explain the existence and persistence of economically dynamic areas that are based on cooperative networks of small and medium enterprises.

In his analysis, Alfred Marshall (1892) had already laid, somehow by his concepts of the "industrial district" and "atmosphere", the essential foundations to eventually avoid a technocratic vision of development (Kherdjemil, 1999).

The fundamental point is that the limits of the new territorial configuration will no longer be defined by specific political frontiers inherited from historical rivalries, but by a network of economic relationships that identifies itself with the complementarity of enterprises and the other actors and rather divests itself of the nationality criteria. The genesis of the industrial districts is *"intrinsic to intercompany exchanges and their production organization, to their position in the world market and also to chance"* (Michalet 1999, page 124).

The industrial districts were analyzed in two ways over two different periods. First: the introduction of the concept by the English economist Alfred Marshall in 1890 based on the observation of a form of industrial organization different from that prevailing in the manufacturing centers in Liverpool or Manchester. Second: the reintroduction of the concept by Italian economists namely Beccatini in the 70s, to translate the success of Northern and central Italy.

Therefore, our analysis of the districts will be twofold, namely the Italian and Marshallian analysis.

2.1. The Marshallian analysis of the concept:

According to Courlet (1999), the reflection on the relationships between industrial dynamics and territorial dynamics was crystallized mainly due to the notion of the industrial district in recent economic literature.

In his analysis, Marshall tries to see how the industrial concentration², which is the result of the geographical, historical and politico-psychological characteristics of the region (Courlet,

¹ **Benko G** (1995) « Les théories de développement local/ Local development theories » in « Problèmes économiques », n° 2440, Octobre 4th. For Rallet & Torre, this concept is borrowed from the industrial economy since it is based on the pioneering work of Marshall, in **Rallet A, Torre A** (1995) « Economie industrielle et Economie Spatiale: un état des lieux/ A survey on industrial economy and spatial economy », in Rallet A, **Torre A** « Economie industrielle et Economie Spatiale / Industrial economy and Spatial economy », Economica, Paris. And, in addition, because the economic geography in globalization pertains more to the concepts of the industrial economy than those of the pure theory of international exchanges. **Michalet C-A** (1999) « la séduction des nations ou comment attirer les investissements/ Nations seduction or how to attract investment » Economica Editions, page 124.

² When Marshall wrote Trade and Industry in 1919, he observed industrial concentrations in Europe: (Lyon for silk, Roubaix for wool, Sheffield and Birmingham in England and Solingen in Germany for steel). Pecqueur B (2000) "the local development, towards an economy of territories" Syros.

Pecqueur, Soulage 1993), is a sine qua non for the achievement of the division of labor which is a key factor in the law of increasing productivity. Courlet (1999) also points out that "*the groundwork of the district economy for Marshall is the external economies of agglomeration i.e. the district enterprises continual evaluation of the differential advantage of costs of production and exchange within and without. These external economies of agglomeration are deeply rooted territorially speaking and highly irreversible based on the historical and social structures of the districts.*" These external economies of agglomeration are free services that adjacent enterprises exchange mutually because of their impact on the environment³.

Marshall underlines that "so great are the advantages which people following the same skilled trade get from near neighborhood to one another. The mysteries of the trade become no mysteries; but are as it were in the air, and children learn many of them unconsciously; (...) If one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas." (Marshall, 1898, p 466, quoted by Courlet (1999)).

The concentration of many enterprises in one place creates these external economies. That is to say, the whole area benefits from advantages in terms of production costs by the mere fact of the concentration of activities therein. The district then draws its performance from the relationships between the different production units. The latter partake at a specific stage in the production of an industrial product. The external economies of scale, which are limited to an industrial sector anchored in a confined space, are the result of three main effects:

- A purely market effect related to the strong complementarities within the local input-output system, and also to the presence in one place of consumer-workers and of firms.
- A sharp adequacy effect of a skilled workforce for employers' needs, an adequacy which strengthens over time.
- An industrial atmosphere effect, which derives from the common culture within the district, the circulation of information, and labor, etc. So many phenomena well suited for innovation, flexibility and cooperation within the district.

If the partitioning of the various stages of the production process is the source of productivity gains in large industrial enterprises, Marshall developed the hypothesis that the economic performance could also be expressed through a configuration characterized by geographical and sector-based concentration of yet interdependent enterprises, but complementary. These enterprises develop extra-commercial relationships which transcend the mere economic contingencies to acquire a social and territorial dimension that he interprets as the key to their competitiveness.

Therefore, the geographical proximity leads to economies of agglomeration comparable to economies of scale in large enterprises. These economies of scale may have their roots not only in the manifestation of "internal economies" that increase with the firm size, but also in the manifestation of "external economies" to these firms. These economies, promoted by the economic milieu where these firms are located, are common to all firms and therefore do not depend on their size (Catin, 1994).

³ For instance: the fight against transaction costs, economies of scale, training the workforce, circulation of innovation, etc. ...

In general, the economies of scale are linked to the division of labor and for Marshall the exploitation of external economies by the industrial production units depends on the spatial proximity. Marshall's contribution to the economic thought while taking into account the external economies *"is the existence of specific relational processes and of privileged spaces that can improve productivity and promote the development of firms, which are neglected in the set of hypotheses by the mainstream theorists of the competitive balance at that time"* (Catin, 1994).

For Pecqueur (2000), *"the common central element to these different spaces is the elaboration of a fully mature economic culture that creates a mood or an atmosphere in which the industrialists go beyond the mere market relationships and entertain special relationships of reciprocity."* Thus, the district groundwork is a space of geographic proximity, a limited territory where relationships of solidarity are weaved between the enterprises that make up the local industrial fabric and the other institutional actors. To put it in Marshall's words, this results in creating an industrial atmosphere that reflects the interplay of the external economies and the agglomeration effects (Michalet, 1999).

Marshall introduces the industrial atmosphere, whose scientific rigor is much up in the air (Azaïs, 1997), only to connect stimulating innovation with the district. This industrial atmosphere which is the main characteristic of the district is based on workers *savoir-faire*, on relations with customers, with suppliers or even with subcontractors (Hsaïni, 2000).

2.2. Analysis of the Italian districts:

Recently and after having fallen into oblivion, the industrial district of A. Marshall was reinstated in the 70s and 80s at the time of the crisis of the Fordist model by Italian economists and sociologists who sought to explain the success of Northeast and central Italy (Courlet, Pecqueur Soulage, 1993, Hsaïni 2000).

The starting point of these studies was unquestionably the works of Becattini, Bagnasco, Trigilia, Brusco, Garofoli, Fuà and Zacchia. They insisted on the existence of configurations of specialized small and medium enterprises in the Northeast and the central regions of Italy and described them as *"efficient export-oriented socio-economic entities focused on an industrial branch and resting on a dense network of interactions, often informal, between small firms specializing in the different phases of the production process, a local labor market and a community driven by local development values"* (Rallet, Torre, 1995). These studies also underline the endogenous dynamics of development and the sociological characteristics of these regions as the factor underlying these dynamics.

Arnaldo Bagnasco is credited with the discovery of an economic “Third Italy” whose industrial districts in the center of the country separate the rich north with its large enterprises from the poor south. Bagnasco noted that coordination mechanisms are at work between small and medium industries within the same (geographical and social) milieu and are able to produce economies of scale thought to be specific to large production units. These mechanisms are driven by immaterial forces of relationships, values, shared knowledge and a paradoxical coexistence of cooperation-competition relationships.

The first trend is represented by Becattini because thanks to him the analysis *"will be drifted towards the industrial economy when he recalled that these regions type of industrial organization was a competition-emulation-cooperation mix within a system of small and medium enterprises."*

Beccatini (1992) points out that the district is indeed a space where history had a very exacting influence on the "natural" behavior of the inhabitants. And he adds *"The district is a concrete case of localized labor division, which is neither diluted in a general market nor concentrated within one or a few enterprises. The term localization does not mean here the accidental concentration of several production processes attracted to one place by factors specific to the region. On the contrary, the enterprises are rooted in the territory and it is not possible to conceptualize this phenomenon regardless of its historical evolution."*

The "revisited" industrial district (Benko et al, 1996) is thus defined as *"a socio-territorial entity characterized by the active coexistence of an open community of individuals and a segmented population of enterprises (B Kherdjemil, 1999) where coordination between the different phases and the control of the regularity of their operation are not subject to pre-established rules or hierarchical mechanisms as it is the case in big firms. Unlike what is happening in other environments such as factory towns, it seems to be a perfect osmosis between the local community and the enterprise in the district "(Vidal, 1998). That" osmosis between production activities and daily life is the most representative trait «of the industrial district (Becattini, 1989, page 263).*

According to Markusen (2000) *«Unlike the passivity of Marshallian firms, Italianate districts exhibit frequent and intensive exchanges of personnel between customers and suppliers and co-operation among competitors to share risk, stabilize markets and share innovation. (...) Activist trade associations provide shared infrastructures-management, training, marketing and technical or financial help- as well as forums to hammer out collective strategies. Local and regional governments may be central in regulating and promoting core industries. Trust among district members is central to their ability to cooperate and act collectively»*

The Italian industrial district would be the result of an endogenous development. This refers to: *"This also means that generally there is no big leading firm, let alone multinational firms behind these local production systems. The productive organization is not induced here via a polarization phenomenon around a large firm"(Peyrache-Gadeau 1992).* This does not mean that the production would not be connected in one way or another to one or more multinational firms. What Peyrache-Gadeau (1992) tries to explain is the fact that the district sector-based specialization is based on a savoir-faire of local economies and on deeply-rooted production forms in a territory whose origin is rural or artisanal. Hence the idea of diffuse industrialization or spontaneous industries areas.

2.3. The characteristics of the industrial districts:

The district's *modus operandi* relies on market relationships and non-market cooperation relationships: the market in terms of demand and supply of goods; and (face to face) cooperation to exchange mutual free services (non-market relationships). Regarding regulation, the presence of local institutions is also essential even if personal contact, trust or power relations among participants are essential. In conjunction with the local institutional system, the national institutional system will definitely give some color to the industrial district.

2.3.1. Local community: informal networks & institutions

According to Becattini (1992) *«The industrial district is a socio-territorial entity characterized by the active presence of a community of people and a population of enterprises in a given geographical and historical space (...) it tends to be a perfect osmosis between the local community and enterprises. »*

In the industrial district there are institutions, rules, values (work ethic, collective identity, cooperation, etc.) related to a social and economic structure based on SMEs, VSBs and the industrial workers. The social composition is sufficiently homogeneous in terms of cultural behaviors and aspirations: there is a strong social mobility of workers who can become entrepreneurs without much difficulty (Vidal, 2001).

Thus, Italy is called the "Home of the molecular capitalism" (idem). Business is often undertaken between members of allied families or old acquaintances. The industrial district appears as "*a typical form of territorialized production organization in which relationships between firms are governed by a set of norms, implicit or explicit, combining market rules and social code*" (Courlet, 2001, page 67).

The local institutions i.e. the local administration or other collective organisms (professional associations, schools, health and social services centers, research centers) support considerably the operation of the district. They offer services that SMEs could not afford individually. In addition, it is noteworthy to mention the existence of formal and informal training networks for the workforce in different sectors (availability of technical schools) and for enterprises in-house training.

2.3.2. Production process: the flexible specialization

The flexibility of the district enterprises relies heavily on their small size, on the tight relationships between them and the speed of response to the new internal and external conditions of the district (Courlet, 2001b). The district enterprises therefore specialize in a given stage of the production process of the same product. However, some will specialize in needed services to the district enterprises: design, research and development, marketing, export, etc.

Specialization allows then small businesses to benefit from advantages similar to those which usually benefit large enterprises. Besides the benefits of specialization, these enterprises also enjoy economies of scale at a given stage of the process: quality improvement, better understanding of markets, new products, new materials, etc. Furthermore, the use of new technologies (programmable machine-tools) enables the rapid switch from one product to another (Piore and Sabel 1989, page 49). The district is, in consequence, characterized by constant innovation.

Therefore, there are favorable technical conditions for the "*establishment of a specialized local network at each stage of production*", however, "*among the production processes able to define and characterize the economic development of a district, we shall retain those capable of satisfying one final variable and differentiated demand in time and in space as opposed to a standardized and constant demand*" (Becattini, 1992).

Initially, the production of these enterprises could only meet the local market needs. With time, the production has become globally competitive where the bulk of its production is sold. The industrial district is also known by its own specific product which is its trademark.

2.3.3. Competition and cooperation:

The enterprises entertain cooperative relationships while in competition. It must be underlined "*the singular coexistence of competition and solidarity among the enterprises, which reduces the local market transaction costs*" (Courlet 2001a, page 22). On the one hand, the enterprises

strive to produce at the lowest costs by saving resources and banking upon the innovations that would improve on the production processes and increase the yield⁴ (Julien, 1994). On the other hand, cooperation enables to leverage the advantages of proximity and specialization⁵. Cooperation can be more formal so as to create genuine external economies of scale⁶.

Other economies are connected to the district organizational mode: the spreading of specialties and savoir-faire, the renewal of inventions and innovations, the development of trade and transport, the close contacts with suppliers and buyers, the renewal of the entrepreneurial capacity, etc.

2.3.4. A local regulation of competition and cooperation:

Besides the industrial atmosphere and the specialization in a branch, the districts are characterized by regional or local institutions that balance cooperation and competition between the enterprises. This regulation can be ensured by rules defined, as is the case in Germany, by the professional corporations to avoid excessive wage reduction and maintain competence standards (Streeck, 1992). This could be the commitment of a municipality in order to ensure the mobility of resources or even enforce certain quality standards. In other cases, it could be arbitration committees or a coordination "Via the Consorzio"⁷.

From the regulation perspective, these institutions seek sometimes to encourage competition so that everyone innovates and excels, and sometimes to encourage cooperation so that the local advantages are leveraged to the max to conquer external markets. These institutions must also be able to regulate conflicts when the protagonists (arbitration committees) cannot handle them.

Every time we expound the concept of the industrial district, the Italian case seems so omnipresent and the characteristics of the Italian models are attributed to the district. However, even in the case of the Italian industrial districts and especially the most recent ones, diffuse industrialization is increasingly less characterized by spontaneity. And this is because of the political factors which played a relatively important role in the development of these regions: the intervention of the local administrations in the Christian Democratic North and in the socialist-communist Centre. These initiatives lie in the financing of activities or the rationalization of the territory (infrastructure) without ignoring the "*building of a political consensus for the diffuse industrialization*"⁸.

In sum, if the Italian experience is the main reference for researchers on the industrial districts (Piore and Sabel, 1989), one must recognize that it is possible to identify industrial districts in virtually all countries and in new as well as traditional sectors.

And so there is the Silicon Valley in California, the Spanish districts in Navarre in the sector of electronics or alabaster (Castillo, 1994, page 84) without forgetting the German districts in

⁴ It is noteworthy that in these districts, each year dozens of companies go bankrupt, being unable to follow the competition despite cooperation (Julien, 1994)

⁵, equipment loans, exchange orders and information, meeting to discuss how best to improve production etc.

⁶ They are economies for the purchase of raw materials, the creation of a local price subsystem, access to credit by the presence of a local bank, the circulation of information on the recruitment of employees and qualifications of the local labor market.

⁷ The consorzio associative formula (non-profit) can easily create groupings able to achieve goals related to the collective interests of multiple stakeholders. See Vidal F, (2001) page 89.

⁸ Negri, quoted by **Peyrache V** (1992), page 26.

Baden-Württemberg. In the latter, there is emphasis on the industrial district being not synonymous with a low-wage zone (Semlinger 1994, Streeck 1992).

In light of the Italian industrial districts, other authors were interested in similar phenomena in their countries (Courlet and Pecqueur, 1992; Aydalot 1986; Maillat, 1993). From this point of view, the notion of a localized production system stems from that of the industrial district.

3. ... TO THE LPS:

The LPS is at the center of debates over the relationships between industry and territory. It appears as a synthesis that helps to apprehend the connections between economic dynamics and territory (Courlet and Pecqueur, 1996). For Courlet (1999) this concept "*comes from the combination of the different contributions of recent literature on the subject: the proposals of F. Wilkinson who introduces the notion of production system, those of G. Garofoli (1983) with the idea of a local production system to highlight the deep symbiosis between the economic and socio-cultural phenomena, and finally, those of some French authors with the localized production system term to introduce the role of local regulations (Raveyre, Saglio, 1984; Courlet, Pecqueur 1991 ; Ganne, 1992; Courlet, Soulage, 1994).*" The notion of a localized production system is presented as a set of interdependent activities, technically and economically organized, and territorially agglomerated.

This concept also means "a collective way of living, thinking and producing, peculiar to a company, a space, a milieu. It expresses arrangements, specific practices and ways of social and economic organization. It defines a specific structuring of the game of economic and social relationships between actors in a delimited geographical and socio-cultural space"(Dimou 1994, pp 87-88). The LPS is thus three-dimensional as it integrates the spatial, organizational and institutional dimensions.

3.1. The LPS: definition attempt

The LPS allows to give account of the role of SMEs and their cooperation in a given territorial framework without neglecting the effects of proximity and the local socio-cultural context. The localized production systems present the SME mainly in a corporate system. The proximity of agents belonging to the same establishment space, as opposed to the distant and external, is a fundamental characteristic of the localized production systems. Paraphrasing Pecqueur (2000), one might call this phenomenon "the dialogue of enterprises and territories."

Indeed, the LPS differs from the industrial district in many aspects such as the fact that the enterprises are not necessarily concentrated in a single branch or specialized in the production of components of a single product. In addition, in the LPS, it may be a matter of territorialized relations between SMEs but also between SMEs and large enterprises and even between large enterprises. In other words, the LPSs are not confined by the traditional subcontracting relations between enterprises (Courlet and Soulage, 1994, 18). Moreover, the LPSs are also characterized by their great flexibility and their ability to meet variable and differentiated demands in time and space.

The LPSs can in fact be rooted in a long artisanal tradition that is gradually switching to an industrialization process, be part of a dynamic linked to the "territorial decentralization of production" (Garofoli, 1992) or to the "vertical disintegration" (Leborgne and Lipietz, 1991) and be present in low-density environments such as the metropolitan areas.

Proximity, networks, competition and cooperation are the basic ingredients of an industrial organization characterized by a spatial concentration of production. By adding the specialization of enterprises in a trade and/or a product to these components, the main characteristics of localized production systems, as defined by DATAR (a Former French Inter-Ministerial Delegation to Spatial Planning and Regional Attractiveness), are then met.

Thus, DATAR relies broadly on Courlet's (1994) definition of the Localized Production System to define one of its aid programs to local economic development within a comprehensive framework of spatial planning: *"The Localized Production System can be defined as a configuration of enterprises grouped together in a proximity space, revolving around a trade or even several industrial trades. The enterprises entertain relationships between themselves and with the socio-cultural milieu of integration. They are not fully market relationships, they are also informal and produce positive externalities for all the enterprises. The dominant industrial trade does not exclude the possibility of several industrial branches."*

More explicitly, we can say that an LPS is a cluster of production units located in the same territory and entertaining diverse relationships, more or less intense. This term is tricky because it covers some realities and very different underlying theories. (Courlet (2001) provides a detailed analysis of this notion and empirical and theoretical works on its usage).

This definition attempt of the LPSs would also emphasize the relational dimension of the various units of productions in a proximity space. The grouping around a trade or product seems to be irrelevant to be the source of its success. The key to a successful LPS is largely contingent upon its ability to provide "specific territorial resources."

The LPS is only the fruit of coincidence and not a development model. For Garofoli (1996) *"the theoretical problem, in connection with the economic policy and development strategy, is the possibility of the territorial diffusion of industrialization and the transfer of the model to other regions."* It cannot just spring up anywhere or any time because it is based on a fundamental spatial dimension that conveys specific socio-cultural characteristics.

The LPS consists also of a cluster of SMEs connected or not to one or many large enterprises located in the same proximity space (local or sub-regional) and revolving around a trade, or even several industrial trades. There is a dense network of interdependencies between the various enterprises affiliated with the LPS. These relationships *"range from the pursuit of a specialized production, which one enterprise cannot achieve, to the development of outstanding economies of scale"* (Courlet and Soulage, 1994, page 18). Therefore, there are particular market relationships between the enterprises in the case of specialized production, and cooperation relationships in the case of the pursuit of external economies of scale. For goods and services not to mention employment, the LPS is based on a system of regulation that appeals not only to the rules of the market but also to a social code, to social forms: rules, values, etc.

The LPS is in line with the pursuit of the territorial dynamics and the industrial localization, which are subjects of studies shared at the same time by economists, sociologists and geographers. For economists who study the LPS the market is central to their construction, they do not neglect the specificity of the firm and underline the competition-cooperation blend to which it is committed; the specificity of these production forms comes then from this arrangement of apparently opposing forces. Their specificity seems to be in the combination of analytical tools borrowed from both economy and sociology, which may reveal a sense of theoretical fragility.

The LPS is based broadly on the tight interdependent relationships between the local actors in the form of external economies and advantages in their production activity. External economies of agglomeration show up too once tight relationships are affirmed in a limited spatial context (Pecqueur, 1992).

In fact, Pecqueur (1992) insists on the existence of three characteristics that are the density, the form and the small (the space limitation), to speak of the existence of an LPS whose industrial district is but a particular configuration.

3.2. Characteristics of the LPSs:

3.2.1. Origin of the LPSs:

The notion of the LPS is inspired by the recent analyses of the industrial economy and the regional economy on innovation (Courlet, 2001b). Therefore, two types of analyses can be undertaken. The first gives more importance to the milieu rather than the enterprises: the supporters of this trend insist that the milieu predates the birth of enterprises and that it begets innovation. We are talking about a "*theory of milieus development*" rather than a "*theory of enterprises localization*" (Aydalot 1986). The second trend is rather focused on industrial organization as such (Perrin, 1992), and particularly on response strategies to the crisis of Fordism, and thus on the search for flexibility and integration. However, both approaches insist on the identity of the milieu and the conventions that stipulate more or less explicit norms (Salais and Storper, 1994).

For the researchers (Garofoli, 1992; Courlet 2001b, Leborgne & Lipietz 1991, Courlet & Soulage 1994, and others), the LPSs may result from two processes: On the one hand, we find LPSs coming from a long artisanal-like tradition which traversed the Fordist era and was the cornerstone of a gradual process of diffuse industrialization. In these systems that one might call "old", the workforce high versatility, and particularly its ability to undertake, plays a decisive role. On the other hand, we also find "recent" LPSs whose formation is the outcome of a search for solutions to the crisis of the Fordist model. This formation can illustrate the regulation theses that explain the transition from one type of organization to another (Courlet, 2001b). The LPS is therefore the result of a "territorial decentralization of production" (Garofoli, 1992, page 77) or what others call "vertical disintegration" (Leborgne and Lipietz, 1991). It also responds to the search for a highly involved workforce in working in a micro-social context lightly affected by Fordism. In these recently built up systems, qualification and the milieu's innovative capacity are intrinsic factors.

Finally, this development mode may appear not only in rural areas but "*in areas featuring a dense urban mesh*" (Courlet and Soulage, 1994, page 19). In any case, they are productive systems deeply embedded in the community so that reciprocity and cooperation can complement the exchanges regulated by the market. This obviously involves local institutions concerned with the local development.

3.2.2. LPSs and economies of agglomeration:

To characterize the LPSs, Courlet (2001a, 2001b) introduces the notion of economies of agglomeration. These are well defined by Arthur: "(...) *economies of agglomeration mean that the net profits yielded by an enterprise from a localization in the neighborhood of other firms increase with the number of firms that are in the same localization. The sources of the economies of agglomeration are diverse: at the same time as there is a growing number of established firms in a localization area, the latter gains ground in infrastructure. Its labor market grows. Financial services and specialized offices emerge. Spare parts and obsolete stock become available locally, thereby reducing storage costs. Social networks begin to exist where information, expertise and contracts can be easily exchanged*" (Arthur, 1995, page 299).

These economies are therefore the result of the tight relationships between the local enterprises which "*amplify labor division thus making room for more specialization*" (Courlet 2001b, page 78). The result is "*a set of relationship networks between actors*" that form a "*local industrial fabric*" (Pecqueur, 1987).

Therefore there is a vertical quasi-integration (Leborgne and Lipietz, 1988) whose characteristics are "*stable relationships between suppliers and customers; a substantial customer share in the supplier's turnover; subcontracting ranging from design to marketing; non-market forms of inter-firm relationships going from subordination to partnership*" (Leborgne and Lipietz, 1988, page 100). However, "*the vertical quasi-integration implies also the extension of non-market relationships between firms: strategic alliances, technology transfer, joint research programs, joint venture*". Thus, "*the leading firm obtains both the benefits of the vertical integration (transactions at low cost, just-in-time management, flexibility of the overall policy) and those of the vertical disintegration (innovation opportunities among subcontractors, imposition of quality standards, risk-sharing of development-research and fixed assets)*" (Bellet et alii, 1991, pp 25-26).

As concluded, a localized production system is made of more or less heterogeneous activities, more or less interdependent, with more or less coherence and cooperation, and having various types of external connections. However, at this stage, a reflection on the phenomena of LPSs organization allows further study of its various mechanisms.

3.2.3. LPSs and organization:

Our goal is to know what organization mechanisms can influence the competitiveness of the production system. Yet, the successes and failures of the policy of creating counterweight metropolises in France or in developing countries show that the process of industrializing industry in growth centers as a consequence of the direct and indirect market spread effects (Perroux 1955) is by no means automatic, even if the injected capital is important (Lipietz 2001). But this finding is too general to be used straightaway. It would be appropriate to question the background of this greater productive efficiency.

Traditionally, an increase in a business profitability is a result of three factors:

- Lower production costs thanks to a more effective technology (in the broad sense, including labor) and reducing the inputs cost (including transaction costs).
- Cheaper access to a larger market thanks to lower costs of transport (or more generally the distance) and distribution (including transaction costs).
- Finally, the stimulation of demand by providing the quality characteristics desired by consumers (principle of differentiation)

These three "sources of profitability" constitute the first read key of organization effects. However, with the consideration of space in the analysis, the debate on the need to take into account non-market mechanisms allows to draw other intrinsic factors. First, the external effects, along the same line of Marshall's work, which are found in the evolutionist trend, but can also be integrated into a microeconomic formalism (Fujita and Ogawa 1982, Soubeyran and Thisse 1999). In these works, the gain function of economic agents depends on their interaction with their neighbors. Also, with the importance of transaction costs in some situations, which concerns mainly the neo-institutionalist approach, the organization is studied not only between the actors but also "inside the agents" that are the enterprises whose borders can be indistinct.

The distinction between external economies and transaction costs is sometimes uncertain. Besides, some authors as Coase think that both mechanisms are intrinsically linked. Thus, the preferential access to local natural resources could also be seen as a positive externality. The co-operations are not literally external economies, but are close⁹. On the other hand, some actions are double-sided. For example, from a production perspective, competence self-reinforcement is a positive externality for local enterprises. From a recruitment perspective, it offers savings in transaction costs for both workers and enterprises. Thus, we must remember that this classification does not attempt to transcend the various researches on the economic organization phenomena, but to deepen the analysis of the diversity of potential relationships between organization and economic efficiency.

Some works attempt a more detailed description of the basic mechanisms at play in the localized production systems. Perrat (2001) proposes a detailed reading key of the different types of externalities, intersecting a "functional" approach with a "substantial" approach. We will stick to this simple classification, which will help us to examine the possible developments in terms of formalizing organization effects. In order to use it in the rest of the document, we will present the identified mechanisms in the following way that brings together the organization effects per element of the production process concerned:

- factors access and prices: preferential access to local natural resources, preferential access to credit, specialized workforce, a captive, accepting lower wages.
- firms internal efficiency: quality of workforce, competence self-reinforcement.
- relationships between firms: vertical complementarities and ad hoc cooperation, technical information circulation, market information circulation, loyalty to local suppliers, goods used in common.
- relations with the markets: preferential rates, effective mobilization of distributors, loyalty to local products, barriers to entry.
- nature of demand: atmosphere conducive to innovation, reliance on product quality, horizontal complementarities, lower advertising costs, responsiveness to exogenous shocks.

3.2.4. LPSs and Innovation:

Several studies defend the idea that the LPS is a specific organization that creates technologies whose *"own innovation capacities would emerge over the course of their history and explain the dynamics thereof"* (Ragni 1997). Also, the LPS is a milieu where the process of innovation could be permanent since the different stakeholders seek *"to determine the external conditions necessary for the birth of the enterprise and adoption of innovation"* (Benko 1994: 37). Innovation is a product of the activity (Courlet 2001b, page 68), and usually in continuity with the experience acquired by the milieu (Courlet and Soulage, 1994, page 23), and in addition, the *"geographically neighbor enterprises are more likely to exchange knowledge formally or informally (...) all this confirms the importance of geographical proximity between economic actors, and encourages the consideration of the weight of spatial networks of knowledge"* (Courlet 2001a, pp 23- 24). Or even more, in the case of radical innovations, taking into account the relationships with milieu-oriented institutions (university research centers). Hence the importance of governance to translate *"all non-market and State-controlled regulation forms."*

⁹ The enterprise that lends a machine has indeed an effect on the objective function of another firm without side-effects on prices.

In other words, "governance is civil society minus the market" to which adds "the local political society, community leaders, municipalities" (Benko and Lipietz, 1992).

Key points to remember on LPSs:

- A cluster of enterprises operating in one or more branches and located in the same territory (region or local area);
- Strong interdependence between enterprises, whether between SMEs, between SMEs and one or more large enterprises or even between large enterprises (vertical integration or quasi-integration);
- Ability of enterprises to meet a final variable and differentiated demand in time and space (flexible production units);
- Existence of a strong regional or local identity promoting cooperation and reciprocity between the enterprises and the various stakeholders;
- Presence of rules and conventions (usually unwritten) promoting industrial coordination (rules protecting local production, support to local enterprises, local purchasing, local reinvestment, priority of hiring local workforce etc.);
- Presence of local institutions, communal and public, likely to ensure local governance and therefore to ensure private interests and public property articulation, articulation of economic and social aspects;
- Existence of a local workforce pool (versatility);
- Atmosphere and institutional support promoting innovation and the emergence of new enterprises.

4. CONCLUSION

Though there is no real similarity between the two concepts and the phenomenon of the Third Italy remains unique, the LPS and the Industrial District are always used together. The Grenoble school, formed mainly by Courlet Claude and Pecqueur Bernard remains directly linked to the Italian school which digged out the old term of Marshall. However, the industrial district and the LPS concepts constitute each distinctive features of the "standard categories" of the industrial territories. Finally, Districts and LPSs remain:

- As part of a more general process of "refocusing" / return to the local.
- As the core of a new post-Fordist economy, localized and of small scale
- As mythologies, labels and self-fulfilling prophecies.

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