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Proximity and Innovative Milieu

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The issue

- «Territorial economy »: geographic and economic level
 - Of organization of production;
 - Of achievement of new combinations;
 - Of attractiveness of investments and of enterprise creation
- How does proximity contribute to the constitution of an innovative milieu or innovative cluster?
- 1-... What does « proximity » mean?
- 2- Proximity as a factor of clustering policy



On « proximity »

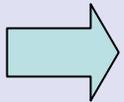
- Geographic proximity (distance),
- Organizational proximity (relations),
- Cognitive proximity (norms, behaviours)

External effects originating from territories and having an effect on the relationships between enterprises and between others actors (vertical and/or horizontal relationships) create competitiveness poles. External effects from A. Marshall, 1919 (specific resources, information)

Agglomeration effects built by the spatial gathering of enterprises (Walter Isnar, 1956): population, infrastructures, services to enterprises...

Geographic Proximity

- Innovative Milieu, cluster: these notions mean the capacity of a local economy to generate innovations, by
 - The emergence of new enterprises and
 - The location of existing enterprises in their geographical zone, where the industrial commercialization of research organizes the creation of small innovative companies
- The local economy is a *territorial system of valuation of capital, of production and of exchanges*. Its main characteristic is the formation and the productive use of specific resources and the achievement of new combinations of these resources.
- Such an approach includes:
 - a) inter-enterprises relations;
 - b) The « distance » dimension;
 - c) The intervention of institutional actors



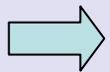
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Organizational Proximity

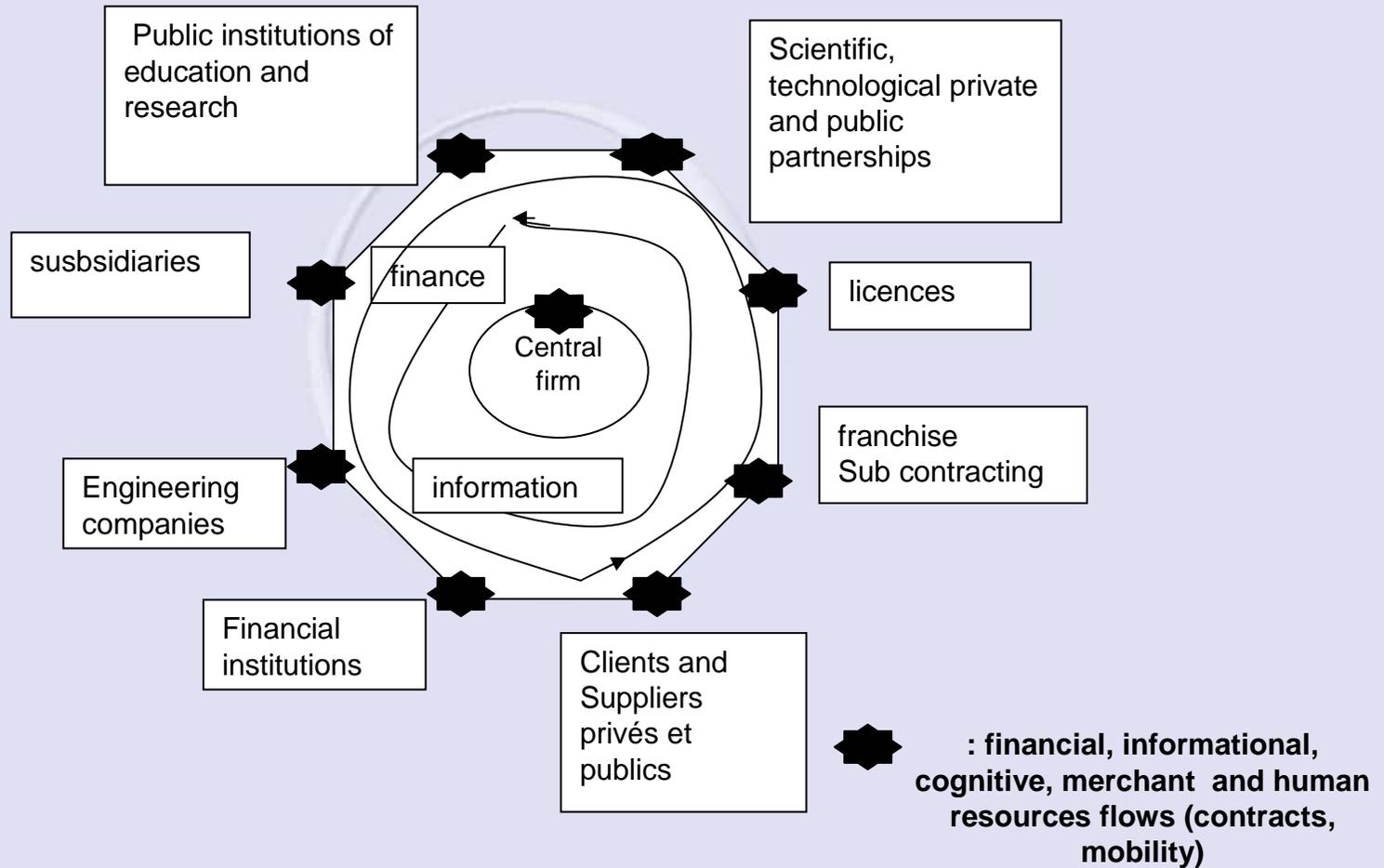
- Relationships between the firm (distributed firm) / relationships between units and territory
- From the writings of Coase, Williamson, Klein, Marshall Penrose and Richardson, we achieve a synthesis which shows the importance not only of the balance between transaction costs and organisational costs but which also puts forward the relations of power between the central firm and the units
- As a matter of fact, in a aim of cohesion (coordination), de-concentrated firms implement a governance based on the specialisation of tasks (division of labour between units) which goes beyond the ownership of assets: relations of power
- The main interest of this approach is:
 - *to take account of the role of organizational proximity (balance between transaction cost/ organisational cost ; relations of power) in the creation and the organization of the distributed firm*
 - *to consider the environment of an enterprise as a set of resources that links the vertically or horizontally separated parts of a firm*

- Organization proximity also has a territorial dimension, as the possibilities to implement a de-concentrated management are linked to agglomeration effects: communication externalities, information externalities, location externalities (diversity, size of the labour market)
- Combined Management
 - Of the *centripetal nature of location* (grouping of activities to benefit from scale economies) and
 - Of the *centrifugal nature* (dispersion in the space)



The firm benefits from the competitive advantages of the site/ benefits from external economies generated by agglomeration

Networked enterprise



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Cognitive proximity

- Introduction of the notion of *cognitive proximity* (Nooteboom, de la Mothe). Sharing more or less formalised of experiences, representations, codes, langages, models resulting from, and facilitating in the same time the communication of information within organizations.
- Internal or external communication flows :
 - Internal and external interactions,
 - with the other services and units of the enterprise
 - With the environment (other enterprises or public institutions).
- Cognitive proximity is facilitated by geographical and organizational proximity: *learning by learning*, communities of practices ...

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Proximity	Parameters	Means of achievement
Geographical	Distance <i>versus</i> speed	Flows
Organisational	Power relations Intra-firm and relationships Vertical relations Command <i>versus</i> contract	Coordination Strategies, actions, routines, norms
Cognitive	Code <i>versus</i> Content Context <i>versus</i> Comprehension	Communication Concept, ideas, knowledge

Cyclical and structural policies to facilitate the various dimensions of proximity

<i>Main measures of a cyclical policy</i>	<i>Main measures of a structural policy</i>
<ul style="list-style-type: none"> – Financial institutions : direct attribution of funds to the investor (entreprise and entrepreneur) by the state or territories (investments subsidies, grants, subsidies, jobs grants) ; – Fiscal Incentives : reduction of the fiscal burden of the investor (temporary exoneration of taxes, exemptions of importation taxes for raw material, intermediary goods, equipment goods); – Undirect Incitations: provision of fields, communications infrastructures (cf. enterprises park), privileged access to public markets, flexible market labour, part time jobs, flexible contracts 	<ul style="list-style-type: none"> – Public Investissements for the creation of an endogenous growth in the long run: transportation and communication infrastructures ; efficient education, research and engineering structures ; local financial system oriented towards innovation ; Complete social system ; high standard and quality of living, etc. – Research and innovation policies: gathering of enterprises competencies around a specific program, development of institutions of research, of non profit and decision institutions ; networking of actors: diversification, selection. – Creation of a Supply pole of services and capital to enterprises attracted by a territorial project and to entrepreneurs of linked activities (engineering).

The constitution of an «innovative milieu»

Regulation / Public action

- fiscal, financial support
- regulation
- industrial, scientific and technical infrastructures
- prospective and economic watch

Organisational proximity Enterprises Strategies

- Development of specific programs
- Valuation of specific advantages
- Outsourcing / partnerships/ acquisitions / networks

GOC Proximity

**INNOVATIVE
MILIEU**



Cognitive proximity Technical Progress

- R&D programs
- Lead in potentially valuable fields
- conditions of acquisition of productive resources
- industries and services support

Geographic proximity Economic Milieu / Enterprise spirit

- incitations to business starting
- conditions of demand
- context of competition/ cooperation
- externalities/ agglomeration effects
- Common codes / social capital...

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Conclusion

- The various dimensions of proximity: Geographical, organisational, cognitive (GOC) are the cement of « innovative milieu » or « innovative cluster »
- GOC Proximity originate from firms' strategies, but also from state intervention
- It is important to understand the dynamics of the various forms of proximity to facilitate the sustainable growth of innovative milieu and of its components :
 - Enterprises
 - Universities
 - Infrastructures