External Knowledge, Territorial Inertia and Local Development: An Exploratory Case Study

ABSTRACT This study examines the relationship between an entrepreneur’s absorptive capacity, the spiral of knowledge and local development. Although a great number of theoretical and empirical studies have pointed out the importance of local networking and informal contacts when spreading knowledge locally, very few of them provide robust evidence on the role of the entrepreneur’s absorptive capacity and external knowledge in local development. This paper tries to explain the reasons why this problem can no longer be ignored and provides a preliminary examination, through an exploratory case study, of the role that the entrepreneur’s absorptive capacity and external knowledge play in overcoming territorial inertia and enhancing local development.

Keywords: External knowledge, Territorial inertia, Case study, Spiral of knowledge,

1. Introduction
Over the last few years, scholars have paid increasing attention to the role played by Knowledge Management in attaining and sustaining strategic and long-lasting competitive advantages (Maskell, 2001; Davenport & Prusak, 1998; Nonaka, 1994). In particular, these studies have highlighted the critical importance of knowledge sharing among customers, suppliers and competitors for each category of organisation (Holloways, 2000, Weiss, 1999; De Long, 1996). Research (Lopez-Bazo, et al. 2002; Fahr & Sunde, 2002a, 2002b; Smith & Zenou, 2003; Gobillon et al, 2003) has extended the importance of knowledge in sustaining long-term competitive advantages from the companies to the area they thrive in, strengthening the idea that the local dimension of economic phenomena is deeply influenced by the type of knowledge operating in each territory.

In particular, the literature on local development has emphasised the importance of the interaction between economic agents and the surrounding environment for the development of specific production know-how. Moreover, the literature has emphasised that the ability of economic agents to acquire and develop the knowledge distributed in the territory can have a decisive role in the competitive development of the local production structure (Becattini, 1990; Maskell, 2001; Bathelt et. al., 2004).
In recent literature, the concept of territory has acquired a different meaning when compared to the past. A territory is increasingly seen as a system of strategic opportunities and competitive advantages that are exclusive and difficult to imitate, and the territory assists and supports companies in the competitive arena. A territory is defined as the context in which businesses define their priority relationships and the location where they learn how to compete to ensure their own survival and growth (Porter, 1991). In this view, "the attractiveness of an area" is strongly influenced by the relational capacity of the businesses, organisations and other human subjects that operate in that area, as well as by the ensuing processes of knowledge accumulation and sharing that these interactions generate and promote (Lazerson & Lorenzoni, 1999). Territory, therefore, is not only one more resource to be considered, but a different way of looking at the economic process as a whole—a way that considers the contribution of local society and local institutions to be extremely valuable in the production of economic value and competitive advantage. Considered from this point of view, a territory offers, especially to smaller companies, the means to reduce the complexity of the manufacturing processes and lower the barriers to entry for an economic activity.

From the standpoint of knowledge, the land becomes the place where knowledge accumulates, settles, reproduces and renews, transforms and multiplies, thanks to the dynamics between historical factors and the innovations introduced by those who live in the area. Businesses, as a result, distribute their assets not only on the basis of profit, but also carefully considering all of the learning opportunities that can be acquired when the business is located in an area characterised by distinctive and specific knowledge (Boschma, 2005; Staber, 2001). The challenge for a territory is to harness this knowledge process through its absorptive capacity (Cohen and Levinthal, 1990), conceived as the capacity of the entrepreneur to absorb, disperse and creatively exploit knowledge that is acquired from internal and external sources.

Despite the attention given by scholars to the importance of the role played by knowledge, there is still a theoretical gap regarding the ability of areas with a strong level of business inertia, determined by vicious circles, to reactivate the "spiral of knowledge", that is, to stimulate the
interaction between tacit and explicit knowledge (Nonaka & Takeuchi, 1997) through the internalisation of external knowledge (i.e., knowledge developed outside the boundaries of the organisation or the geographical area where the company is located). Vicious circles are triggered when feedback generated at a particular territorial level is amplified across the entire system, setting events into motion that generate unintended negative consequences (Maruyama 1963; Masuch 1985; Weick 1969). In this context, and using the most recent contributions that have focused on the processes of learning and knowledge accumulation within local networks (Cappello & Faggian, 2005; Lundvall & Johonson, 1994; Audrestch & Feldman, 1996; Cooke & Morgan, 1998; Gordon & McCann, 2000; Cappello, 1999; Bathelt et. al., 2004; Giuliani, 2005; Abreu et al., 2008; Crevoisier & Jeannerat, 2009), the purpose of this research is twofold. Firstly, this research is intended to fill the above mentioned gap in the economic management literature by focusing on the processes by which the traditional knowledge in a particular geographical area can be enhanced by an entrepreneur’s absorptive capacity for external knowledge. This capacity allows the entrepreneur to recognise, value, assimilate and apply knowledge (Cohen & Levinthal, 1990), generating virtuous circles (i.e., repeated conversions of knowledge between its tacit and explicit forms) that overcome the local vicious circle. Secondly, the aim of this research is to highlight, through the analysis of a specific case, the operational arrangements and processes through which it is possible to activate the spiral of knowledge by using external knowledge to move from a condition of simple socialisation to internalisation.

To achieve the research objectives in this paper, the focus is on Ogliastra, a particularly disadvantaged area of Sardinia. More precisely, the research will be carried out through an in-depth analysis of a single case study (Yin, 1994; Eisenhardt, 1989): the Galydhà case study.

**References**


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