NEW FIRM PERFORMANCE AND TERRITORIAL DRIVING FORCES

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NEW FIRM PERFORMANCE AND TERRITORIAL DRIVING FORCES

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Recent studies about spatially localized industrial growth show a quite monolytical image regarding the key role performed by SMEs and the nature of endogenous territorial factors which, in turn, favours new firm creation and growth. The suggested analytical framework (particularly the local development perspective) considers innovative and institutional capabilities as the main dynamic components of local productive forces. In this view, the territory plays the role of an organizational and social interactive matrix within which economic development takes place.

Likewise, reconsideration of the role of territory by regional economics has induced a certain degree of creative updating of analytical tools. New concepts as industrial districts, technological urban environments, innovative *milieu*, local productive systems or clusters, all show that the phenomenon of firm networking is receiving special attention. In other words, emphasis is now directed towards the notion of proximity and, in particular, to those economic and institutional forces attached to the territory that drive organizational and innovative collective capabilities (RERU, 1996; Rallet and Torre, 1996; Pecquer, 1998; Storper and Harrison, 1994; among others).

The development experiences in which most local case studies in developed economies are inspired also show that innovation and growth goes in hand with new firm creation vitality (Reynolds *et. al.*, 1998; Szarka, 1998). Also, in some instances, the presence of big (national or multinational) firms subsidiaries (when they choose to establish long term relationships with local organizations) may give rise to a "critical mass" for the development of localized networks (Zimmermann, 1995).

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In Argentina, the specific features of the regional economies environment are strongly influenced by the recent implementation of a wide set of structural transformations, inspired by the so-called *Washington Consensus*. True, the broad shape of the structural reform implemented during the 90s is similar to the economic policy guidelines applied in most of the countries during the last two decades. However, its effects give rise to idiosyncratic processes, which generally differ from those observed in more developed countries or in economies more deeply articulated with international markets. For instance, firms differ in their ability to capture the potential benefits derived from network operation. Besides, those factors that encourage the constitution of this kind of inter-firm arrangements may be completely absent in the national, regional and/or local environments.

The following analysis approaches this problem, by focusing in new manufacturing SMEs born during the last period of structural reforms. In particular, the focus is directed towards new small firms which operate in urban centers, distant from the metropolitan region of the country. The paper gives special attention to the changes experienced by the macroeconomic environment. The magnitude of the transformations undertaken introduce the need of recognizing the decisive role of key aggregate variables to which the local dimension seems to be (at least in this period) subordinated. The need for doing this is self-evident since economic policy new orientation encourages important implies a new regulatory and trade environment and, on the whole, redefine the conditions that direct investment and industrial businesses. The new incentive vector emerges from the differing external exposure of manufacturing activities and this, in turn, conditions the competitive performance of the new firms.

Thus, issues as the tradability degree of the firm particular activity and that of entrepreneurial responses to the new environment acquire a crucial importance in determining the firm survival and growth perspectives at peripheral urban-industrial systems.

The document is organized in four sections. The first section offers an overview of the structural transformations introduced in the Argentine economy since the beginning of

the ´90s and its influence on the domestic manufacturing sector environment. The second describes the main aspects related to economic and demographic features of the non-metropolitan urban centers where the case study is carried out (Bahía Blanca, Mar del Plata and Tres Arroyos). In the third section, after a brief review of the relevant literature, the results of an empirical study on a sample of new industrial SMEs in the above mentioned cities is presented. The final section offers the conclusions where the attempt is made for identifying those firm and environment features that inhibits the emergence of co-operative behaviour.

2. Economic liberalization and industrial restructuring of the Argentinian manufacturing industries

Although some aspects of the process of structural reform started during the late ´80s, the bulk of it took place at the beginning of the ´90s. The policy menu comprised three key elements; trade reform (1999-91), privatization of state owned enterprises (beginning in 1991 and almost completed in 2000) and the establishment of a fixed exchange regime based upon a currency board (1991). All these three sets of measures had the common feature of being implemented quite massively in scope and abruptly in timing.

It is more fruitful to analyze the combined economic effects of these policy reforms rather than examining them separately. The new currency regime (tying monetary expansion to growth in international reserves) implied both a tight monetary control and an implicit exchange insurance for external capital inflows [2]/. This attracted a substantial flow of foreign capital in a period (beginning of the ´90s) in which international financial markets were highly oversupplied. Foreign capital inflows, in turn, supported a substantial decline in interest rates and this fact fed domestic consumption and investment. Foreign investors were also attracted by the privatization process itself and by the external debt restructuring (the Brady Plan), which introduced a tight discipline in

[2] The parity was established by the Convertibility Law (April, 1991).

the payment schedule of interests and capital by the public sector (thus reducing the financial risk associated to new loans).

The trade reform also helped to control inflation because it set a ceiling to domestic prices of tradable goods. But prices in the non -tradable activities did not face these conditions. In particular, both weak tariff regulations and control organisms allowed former state owned enterprises to rise prices at high rates [3]/. As a result, although aggregate inflation declined from 1991 onwards, the exchange parity settled with the US dollar experienced substantial appreciation. Thus, relative prices for producers of tradable goods were dramatically worsened; their final prices were limited by import competition while some of their domestic costs (basically those related to public facilities; communications, fuel and energy) evolved with loose restrictions.

The trade reform was later (1995) deepened through a Custom Union formalized with Brazil, Uruguay and Paraguay, which introduced free trade conditions on a large range of products.

One of the most critical features of the new macroeconomic configuration is the strong dependence of domestic output and demand levels on foreign capital inflows. This occurs because the operation of a currency board implies the exogenous determination of credit supply. Thus, domestic economic activity evolution varies with the relative ease of access of local private firms and public sector to foreign loans. National income experienced rapid growth in 1991 and subsequent years, after the structural package was implemented, but underwent a deep contraction in 1995 when a financial crisis affected capital flows to Latin American countries. Recovery was achieved at the beginning of 1996. However, the international financial crisis started in 1998 at Russia, induced a dramatic recession, which still endures and it is already considered the longest experienced by the national economy in its whole history.

[3] Tariffs at these enterprises were also dramatically increased by the public sector itself before privatization in order to make more attractive those investments for the private sector.

Regarding the competition environment faced by the manufacturing sector, other relevant issues should be commented. Sudden exposure to international competition, relative price deterioration and exchange rate appreciation (which rose local asset prices in US currency) increased the incentive for exit for firms worthy in tangible and (specially) intangible assets. In particular, exit was considered profitable by most of the domestic medium sized manufacturing firms. This strategy was typically pursued by traditional and successful family businesses with strong trademarks and marketing positions. It also converged with the strategy chosen by those multinational manufacturing firms interested in initiating or extending their local market share, which clearly preferred buying existing firms rather than making greenfield investment.

The bulk of foreign investment in the manufacturing sector was "resource seeking" and, in a lesser degree, "market seeking". The first group comprised mainly food processing industries based on some local natural advantage and was characterized by an orientation to both domestic and exports markets. The second group comprised manufacturers of non-durable goods that, as its label suggests, were entirely oriented to domestic demand [4].

Finally, it should be noted that the general policy orientation focus on macroeconomic management and is less prone that in the past to involve itself in the design of development strategies. The tight budgetary restrictions, derived from the high public external debt, reinforce this tendency. As a result, industrial policy is almost completely absent, except for the automotive regime. In the same vain, small and medium sized promotion policies were both sporadically and erratically introduced and focused mainly on limited financial support.

Thus, the main features of the new economic landscape that face existing and new domestic firms in the manufacturing sector could be summarized in the following headings:

[4] In fact, huge investment programs were also implemented at the automotive industry but this occurred (and still does) in the framework of a special regulatory regime based mainly upon favourable tariff conditions for the operative working of the international assembly chains built by multinational firms.

a. Increased competition in their product markets coming mainly from two sources: (i) imports and (ii) penetration and expansion by multinational firms operating at the national market.
b. The profit squeeze effect derived from a relative price deterioration for producers of tradable goods.
c. Almost complete absence of industrial policy or financial support programs.

Several studies performed during the last years have analyzed the entrepreneurial responses to the new economic landscape (Kosacoff and Porta, 1998; Yoguel 1996; Gatto and Ferraro, 1997). Kosacoff and Porta for instance, identify three stylized features:

a. Domestic production of parts and components is increasingly replaced by imports breaking local supply chains of small and medium enterprises.
b. Durable goods producers increasingly complements own with imported production, gaining scale economies without loosing mix variety. In many cases, this strategy ended with a complete withdraw from manufacturing activity .
c. Although no empirical studies are available, some evidence suggests that every time a financial crisis took place high mortality rates affected the formal manufacturing sector. In contrast, new firm creation is extremely weak (Gorenstein y Burachik, 1998).

In more general terms, recent research has identified two types of manufacturing behaviour; offensive and defensive restructuring strategies (Bisang, *et. al.*, 1996). Among the firms that belong to the first group, industrial inputs producers (steel, petrochemical and cement industries and oil refineries), the vegetal oil industry and the automotive complex are the most outstanding. Firms at these sectors started or consolidated export oriented strategies. Defensive restructuring was predominant, for instance, in the textile and capital goods sectors. Offensive restructuring took place in a small number of (mostly foreign) firms through the implementation of expansion strategies based upon heavy investments and, in some cases, in the framework of international inter-firm networks. Many of the firms engaged in defensive strategies implemented a modest modernization of their productive equipment during the first

years of the restructuring process, when aggregate output level was increasing and investment costs were declining. However, these firms have experienced a continuous contraction and, in many cases, have faced the challenge of an entire redefinition of their business goals.

A study that focuses specifically on industrial SMEs performance (Gatto and Ferraro, 1997) confirms, broadly, the restrictions these types of firms have to cope with to profitably operate in the new economic scenario.

The industrial restructuring process also affected significantly employment levels and labour productivity. Aggregate statistics show that, between 1984-93, together with a 10% reduction in the number of manufacturing plants, more than 250.000 jobs (18% of the existing jobs one decade ago) were lost. In addition, labour rationalization practices implemented after trade liberalization drastically elevated the unemployment rate at the manufacturing sector.

3. Urban-industrial dynamics: the emergence of intermediate centers (Bahía Blanca, Mar del Plata and Tres Arroyos)

Since the end of the last century, the economic expansion supported by exportable goods was concentrated on the Humid Pampa area. The subsequent growth stage, based on import-substitution industrialization, reinforced productive and demographic concentration on this geographical area. Migratory flows and public policies lead to an increased supply of economic and social infrastructure in this core region, reinforcing the trend towards spatial concentration, specially in the metropolitan area of Buenos Aires.

In spite of the transformation that took place during the last two decades, the spatial pattern of manufacturing activity shows a great inertia. According to the last Economic Census (1994) almost 50% of domestic manufacturing production of the country is

generated by the Great Buenos Aires, while the main urban centers of the Pampa add a further 30% (Gatto and Ferraro, *op. cit.*).

Regarding manufacturing development of secondary cities in Argentina, there are at least two aspects to be considered: (a) the role of territorial frictions on the emergence and evolution of these agglomerations; (b) the nature of the new business scenario that local firms face after the process of structural reform.

The studies that describe urban and industrial agglomeration processes at a regional level in Argentina suggest that spatial distribution of manufacturing activity is highly related to the dimension of the regional markets and the barriers imposed by transportation costs (Dorfman, 1970; Rofman, 1998). Although at an aggregate level the geographical concentration of economic activity is highly marked, some experiences of urban-industrial development of intermediate centres were observed in the interior of the country. These regions productive activities were essentially focused to the local or, at most, regional market. This pattern emerges basically from two factors: on one hand, the existence of a discontinuous group of towns, whose size did not justify the local production of certain goods. And, on the other hand, the geographical extension of the national territory that restricted, due to high transportation costs, supplying from metropolitan areas. Both elements enabled the development of secondary agglomerations that, supported in the first place by their own population growth, turned into manufacturing suppliers for the small towns (of rural base generally) located in their hinterland.

The market area of the firms born in this context expanded while no local producers for the same goods and services appeared in the target towns. Competitive dynamics of local-regional productions is then characterized by relatively high rivalry between local producers (who attend the same geographical market) but scarce competition imposed by extra-local suppliers.

The new macroeconomic context of the 90s represented a substantial change for the manufacturing activity and regional economies. The competitive pressure derived from

import penetration, together with the diffusion of new distribution practices (due to the expansion of retail chains) and an increasing presence of foreign firms, eroded the geographical segmentation of markets.

Although liberalization meant an enlargement of the market for local manufacturing firms, in practice it favoured the replacement of regional production by more competitive imported goods. The sharp fall of capital goods prices and imported equipment favoured complete part or equipment replacement, thus displacing repair services offered by small workshops of typically regional origin.

In parallel, the expansion and concentration of retail distribution channels widened the distribution possibilities (specially for consumer goods) in markets that were relatively distant from metropolitan centers. This new distribution practices occurred in hand with the penetration of leading firms in segments that had been traditionally dominated by regional firms (Gorenstein and Dichiara, 1996; Gorenstein, 2000).

This new business scenario, characterized by increasing levels of market competition redefines the potential for competitiveness based on low spatial tradability and, consequently, challenges the development trajectory of the local manufacturing systems. Orthodox theory predicts static efficiency gains (derived from reallocation of resources previously used by inefficient units) and dynamic ones (emerging from an increase of capacity utilization, greater specialization and technological capabilities improvements) as a result of economic liberalization. In Argentina, in contrast, even though static benefits deriving from the displacement of marginal firms were obtained, the improvement on dynamic efficiency did not happen (Bisang *et. al.*, 1995).

The cities in which the case study was performed are part of the urban network of the regional environment of the Pampa area. However, the three agglomerations considered here differ significantly in terms of population size, diversification degree and complexity of their productive structure and, therefore, in their position within the urban-industrial hierarchy. There exists a clear relationship between the cities dimension and the relative importance of the manufacturing sector. At the same time, the

predominating sectors in each city reflects differing manufacturing specialization patterns: food and textiles in Mar del Plata, petrochemical and food in Bahía Blanca and food in Tres Arroyos.

In the case of Mar del Plata, the agro-food industry is concentrated on fishery and in the two other cities on the processing of primary products (flour, dry pasta, oils, meat). These activities are oriented towards regional market segments combined, in some cases, with production for national and/or foreign markets. In the case of Bahía Blanca, the specialization in petrochemicals is a relatively recent phenomenon. The localization in this city of the main domestic petrochemical complex resulted from its locational advantage derived by proximity to the main input source (convergence of gas pipelines, ethane separating plant). This local sector has received an increasing flow of investment since the beginning of the 80s.

The two port cities, Bahía Blanca and Mar del Plata, play different national roles. The former constitutes a historical commercialization center of primary exports of the Pampa (wheat, vegetal oil and sunflower pellets, barley, etc.) together with liquid fuels and petrochemicals incorporated in the last two decades. The latter, is the most important fishing center in the country and the main tourist city of the Atlantic Coast of the Argentine Republic. Conversely, Tres Arroyos developed as a service center for the needs of regional agricultural production.

Table 1. Population and industrial structure of the three urban centers

City	**Population (1)**	**Manufacturing establishments (2)**			**Specialization Sector** (Sector al Value Added /Manufacturing Value Added)	
		Micro	SMEs	Total	Main sector	Second main sector
Bahía Blanca	285465	642	134	795	Chemicals and Petrochemicals (60.48%)	Food and Drink (16.43%)
Tres Arroyos	57435	241	22	254	Food and Drink (51.66%)	Paper (20.01%)
Mar del Plata	567454	1025	317	1367	Food and Drink (54.57%)	Textiles (13.48%)

(1) Estimated for 1994 from data of 1991 Population Census
(2) Source: 1994 Economic Census

Urban hierarchy, defined by the three levels identified in Table 1, also reflects itself in the spatial dimension of the markets to which they have access. Apart from a few

activities with national or international scope, the main market of the manufacturing firms of Mar del Plata does not exceed the regional area, which include some relatively minor nearby urban agglomerations. Conversely, the manufacturing activity at Bahía Blanca was oriented from the beginning to a wider and more distant regional market, which included the urban centers of the Patagonia.

At the present stage of economic liberalization, the transformations experienced by the manufacturing sector localized in these urban centers, might be explained, mostly, in terms of the structural reform process described in the previous section:

1. The impact of penetration of foreign corporations by acquisition of local firms. This entails a much closer contact with big foreign players than in the previous development stage.
2. High mortality among medium and large local plants oriented towards the domestic market. This has aggravated the depression of local demand and implied the discontinuation of some local productive chains. Demand and output levels still declined after every international financial crisis.
3. The tightening of the competitive environment for local firms, which in the past were protected by geographical market segmentation and high distribution and transportation costs. Import penetration redefined the local businesses "territorial horizon" and their competitive position within the local/regional markets.
4. The increasing concentration of retailing channels due to penetration by big (international and national) firms. Local suppliers found difficult to successfully articulate with big sales chains, which often operate with their own supply network.

This context helps to explain the change in the business landscape for manufacturing firms located at the non-metropolitan urban centers studied here. The following section examines some results obtained from a survey directed to manufacturing SMEs born in the economic environment described above. This study tries to explain firm actions as specific responses to the new competitive context.

4. New manufacturing SME´s performance and local development

Brief notes on local economic development literature

Recent literature on local economic development has analyzed the features of the environment in which industrial growth and agglomeration takes place in central regions. From this analysis stems the importance attached to territorial endogenous factors as sources of local competitiveness, including not only those incorporated at the individual firm level but also those that accrue to the whole set of local organizations (firms and institutions).

Regarding the first group, the economic literature has emphazised the role of the entrepreneur (Reynolds et. al., 1994) and that of the capabilities and resources accumulated by the organization (Penrose, 1959; Chandler, 1992; Prahalad and Hamel, 1990) as key elements of firm performance. Thus, firm growth would be fed by the motivation, knowledge and previous experience of the owner and by the learning process experienced at the organizational level. At a regional level, then, firm development would be influenced by local entrepreneurial culture or, in other words, the value that community attaches to independent and risk taking activity (Johannisson, 1984).

Other approaches emphasize the externalities that individual firms can derive from (inter and intra-firm) co-operation. They usually focus, in particular, to those conditions that favour collective strategies among agents involved in innovation processes. The elements involved in co-operation behaviour have been presented under different approaches. On one hand, studies about the Italian industrial districts (Becattini, 1987; Garofoli, 1989; Pyke and Sengenberger, 1992) seem to confirm the existence of a positive relationship between the local system specialization level (in one sector or group of related sectors) and the establishment of co-operative linkages between enterprises (localization externalities). Sectoral agglomeration not only concentrates relevant information for the firms. It also induces the emergence of collective actions in the search of new varieties of products, markets or management techniques and these

actions, in turn, moderate local inter-firm rivalry (derived from high concentration of competing firms at the area). On the other hand, some authors (Maillat, 1995; Pecqueur, 1996; Dupuy and Gilly, 1996; among others) find a significant relationship between diversity (rather than specialization) and firm development in the context of a localized industrial system. The concept of "innovative milieu" suggests that the emergence of innovating behaviours at the heart of a territory, derives mainly from the presence of a wide range of activities (manufacturing, services, I&D, commercial, etc.) that support and complement the innovation process.

In any case, (intra-sector or inter-sector) co-operation constitutes a relevant factor for both small and medium enterprises and local productive systems competitiveness. It is this element, specifically, that brings into analysis the institutional issue. As Storper (1997) points out, even though agglomeration can be considered in theory as an element that induces positive externalities (derived from non-market relations), its mere existence does not assure the accomplishment of its benefits. Non-market relations fail to emerge in the absence of appropriate institutional arrangements. Intermediate organizations, considered as agents that deepen the course of communication constitute, thus, the other ingredient of local endogenous development process.

Both approaches (entrepreneurship and networking) seem to consider performance, growth and competitiveness (both at the individual firm or groups of firms levels) as equivalent dimensions, overlooking the fact that they might differ in significant ways. Besides, the implicit environment for their analysis can be seen as a productive structure where non tradable activities play a minor role. When these activities are important, the emergence of spatial barriers to the expansion of local firms should be considered. Finally, another dimension that should be regarded is the general pattern of articulation with international markets, specially those already developed, in which regional localization and history are key elements.

Undoubtedly, the sectoral structure of a regional productive system is characterized by a given degree of tradability which, in turn, defines a range for potential geographical expansion of the region. The well-known experience of the *Terza Italia* seems to refer to

cases where firms, although using relatively mature technologies, offer highly tradable products and, therefore, enjoy potential territorial expansion. Proximity, in this case, favours the potential for co-operative agreements, directed to serve demanding international markets or relatively sophisticated niche products. On the other side, regions such as Silicon Valley or the Route 128 have attracted and generated selected activities located at the technological frontier. Their attractiveness rises from the existence of human resources and facilities which can potentially generate positive external effects for other firms, specially those involved in product development stages. The competitive process in which hi-tech firms operate (as opposed to that of industrial districts) is based upon the development of product segments with relatively short life cycles, where innovation constitutes not a mere channel for growing but the core of firm profitability.

Tradability, entrepreneurship and co-operation: a case study

The study of new firms born in the new macroeconomic context becomes particularly interesting as its foundation is, to a certain extent, a response to a new set of environmental conditions, substantially different from those in force during the previous period.

The purpose of this study is to examine the performance of recently created firms, in a scenario where geographical segmentation decreased as an entry barrier to extra-local competition and, consequently, affected the attractiveness of market niches supplied by local firms. This situation suggests a breaking point in terms of the incubating factors for new enterprises.

This phenomenon represents an incentive to analyze the contributions of some of the new theoretical approaches about regional manufacturing development, which focus on firms and entrepreneur capabilities and on collective actions as a means for enhancing competitiveness.

The empirical study is based on a survey on a sample of 54 small firms born between 1989 and 1999 in Bahía Blanca, Tres Arroyos and Mar del Plata[5]. The sample was taken from a register of ongoing manufacturing premises born during the above mentioned period. It represents 70% of all new (ongoing) firms created in Bahía Blanca, all those founded and ongoing in Tres Arroyos and near 20% in the case of Mar del Plata[6]. It is convenient to point out the presence of sample selection bias since firms were chosen from registers of surviving premises. Therefore, any inference from the results of the analysis is limited to the group of firms that "successfully" assimilated the new business scenario.

The questionnaire collects information about attributes and background of the owner, characteristics of the good or service offered, elements that describe market organization and the type of relations the firm maintains with other local and extra-local agents. The purpose was to identify variables that reflect the aspects emphasized by the new theoretical approaches on local endogenous development.

Table 2 shows that the recently created firms in Mar del Plata broadly reproduce the existing sectoral structure of the city, concentrated in some branches of the food (fish processing) and textile (knitwear) sectors. Likewise, in Bahía Blanca the new firms are closely related to the local economy leading sector (petrochemicals): assembly, maintenance and equipment repairing in use at the big established plants. The firms created in Tres Arroyos are, in turn, concentrated in food and agro-industrial activities.

Table 2.

Sector	Bahia Blanca	Tres Arroyos	Mar del Plata	Total	%
Food and Drink	2	4	9	15	27,7
Textile and garments			5	5	9,3
Pulp and paper	1		1	2	3,7
Plastic	2		1	3	5,5
Metallurgy and metal-mechanics	5	2	4	11	20,4
Electric materials and accessories			2	2	3,7
Machinery and equipment			1	1	1,9
Pharmaceutical chemistry			1	1	1,9
Productive services	12		2	14	25,9
Total	**22**	**6**	**26**	**54**	**100,0**

[5] A detail of the variables considered for the analysis can be found in the Appendix.
[6] Samples sizes from different aglomerates were in all cases restricted by the need of preserving an homogenous age structure.

As a first approximation to the analysis of the sampled firms performance, they are classified according to their achieved market extension. This variable can be considered not only as a cumulated growth proxy but also as a competitiveness indicator (as it reflects firm capability to attend more distant markets). The results (Table 3) show that most of the new firms concentrate their sales in the local and regional market, while a smaller portion directs a part of its production to foreign markets.

Table 3.

Market extent	**Percentage of firms in the sample**
Exclusively local	22.2
Up to regional area	42.6
Spread in national territory	18.5
External markets	16.7
Total	100.0

n = 54

Some authors (Moran, 1998) suggest that firms performance, specially those of smaller size, is strongly related to entrepreneur attributes since he concentrates the control and management functions. The more usually quoted personal traits that signal an entrepreneurial attitude (Gartner, 1989; Storey, 1994; Carton *et. al.*, 1997) include not only motivational aspects (desire for independence, risk-assuming orientation, creativity, self-realization) but also some accumulated abilities (previous management experience and other independent activities, productive knowledge, experience in the sector, etc.).

An examination of sampled firms owners' characteristics and background reveal, in general terms, a relatively high ratio of individuals with satisfactory educational levels and favourable attitude towards independent activity. But it seems clear that the difference between an entrepreneur and a manager can not be reduced to a given set of psychological characteristics. In fact; it is remarkable the significantly lower percentage

of owner-managers with active profiles or whose objectives are directly or indirectly related to firm expansion[7].

Table 4.

Entrepreneurs characteristics	**%**
Formal education: secondary school or higher level	89
Informal education: training courses (technical or commercial)	72
Family background: relatives engaged in independent activities	33
Experience in management tasks	67
Experience in the sector	44
Attitude towards independent activity: not coming from negative displacement	57
Attitude towards growth: active search for opportunities to grow	42
Firm and personal objectives: high commitment with firm growth	30
Motivation: demand-led sector choice (not stimulated by supply factors as previous knowledge or scarce business opportunities)	57

n = 54

A wider perspective suggests that it is firm behaviour, defined by owner capabilities but also by learning processes, that critically influences its performance (Gibb and Scott, 1985; Whittington, 1993; Storey, 1994). At a regional level, local manufacturing system evolution would depend, then, on the quality of firms behaviour.

The next table summarizes the main elements describing the strategy and evolution of new firms capabilities. The results show a low percentage of projects attracted by the prospect of successful differentiation (either by introducing a new product for the region or by offering an improvement relative to the existing supply), low development levels of management team and few changes in the core business concept. On the contrary, high figures are observed in the evolution of firm capabilities (covering competitiveness, scale, productive knowledge, etc.).

This contrasting element, together with a detailed examination of the type of goods and services supplied by this group of firms, can be interpreted as signalling a situation in which capability accumulation (through learning) does not demand significant time-consuming search activities but a quite short evolving path emerging more or less

[7] Variables intended to capture the owner-manager attitude towards growth are likely to show a positive bias. This kind of variables, specially created to capture "entrepreneurial personality" of the owner, tend to be unreliable due to the tendency of the interviewee to avoid answers that could be negatively valued form a social point of view (Moran, 1998).

directly from firm ordinary operations. This phenomenon, resulting from a relatively low technological and organizational complexity, suggest that technical and marketing knowledge play both a secondary role in firm competitiveness. And it could also suggest that if there is a body of relevant knowledge to be acquired, this can be more or less freely absorbed for the environment (mainly other firms). Easy imitation, in turn, reduce the incentives to pursue differentiation strategies through endogenous efforts. According to Nonaka and Takeuchi (1995) and Baptista and Swann (1998) remarks, the characteristics of interviewed firms report that knowledge and asset specificity in these activities is so low (they are nearly public goods) that the impact of individual firm behaviour on its own performance is almost insignificant.

Table 5.

Firm strategy[8]	%
Organizational complexity: progressively decentralised management and production functions	24
Post-entry learning: learning in one or more areas	85
Entry strategy: regional innovative entry or quality differentiation	17
Business orientation: radical or incrementing changes in business core activities	19

n = 54

On the other hand, a group of researchers emphasizes that the performance of a localized system of manufacturing firms not only depends on individual firm attributes but also their collective capabilities, arising from interaction. Some authors (Grabher, 1993; Uzzi, 1997; Lundvall, 1992) stress the fact that firms do not operate in isolation but in relation to other firms, organizations and institutions (suppliers, users, universities, government agencies, etc.). From this socially embedded character of organizational behaviour positive externalities emerge that influences firm performance (Schmitz, 1997). Widely diffused case studies of agglomerations where co-operation effectively emerges (Meyer-Stamer, 1997; Schmitz, 1997; Rabellotti, 1998) suggest that intermediate organizations appear and grow as a response to an (explicit or implicit) existing "demand". The resulting institutional "supply" is conceived as a means of improving the set of available options for firms in critical strategic areas (distribution, logistics, information, etc.).

[8] The questionnaire also intended to capture a range of variables that cover other post-entry actions carried by the firm (amount and type of investment, working capital financing practices, etc.). Unfortunately a significant number of firms found difficult to give information about these issues. For this reason, these aspects are not reported in the text.

In search of evidence about interactions among agents, the field work tries to identify the existence of co-operative arrangements between firms and between firms and institutions. First, the existence of a network of local suppliers for the sampled firms is examined. According to von Hippel (1980), user-producer relationships constitute the first potential source of co-operation. Geographical proximity, as far as it reduces search and monitoring costs, favours collaboration projects between firms and their suppliers or distributors.

Results show that the percentage of firms that are frequently in contact with local suppliers and dealers is relatively high, specially for firms specialized in services for production. However, it must be noticed that, in spite of nearby suppliers and distributors, relationships are restricted, in most cases, to market transactions.

Table 6.

Inter-firm linkages	%
Outsourcing: positive or increased	41
Regional attachment: inputs and raw materials local demand	53
Interaction with intermediate organizations: highly connected firms	13
Interaction with users and producers: highly connected firms	44

n = 54

In the case of suppliers of production services, the factor that constraints the emergence for non-market transactions is associated with the existence of barriers for inter-firm articulation down stream and up stream. Local demand for production services is comprised by large firms operating continuous processing technologies which only require quite homogeneous services not related with the production process but with its maintenance. This type of demand does not require the supplier to posses or accumulate technical capabilities related with the production technology of its clients. In fact, these large plants operate as enclaves, with few linkages to the local productive system as a whole (Burachik, 1999). On the other hand, suppliers of production services buy inputs which are homogeneous in kind (namely steel and electrical material). This eliminates the need for inter-firm articulation seeking for customized and/or innovative inputs.

Another potential source of inter-firm interaction emerges from outsourcing practices. Due to both their technical nature and informational requirements, the emergence of many firms in the metal-mechanic sector seems, *a priori*, promising in terms of the existence of a stimulating environment for co-operation.

However, the examination of the information surveyed shows that most new firms do not externalize any part of their operations and among those that do so, the rate of production delegated to other firms is negligible (in any case exceeding 20% of the production value).
Regarding the relationship with trade chambers, intermediate organizations and public assistance institutions, the sampled firms do not seem to be characterized by high levels of contact with these type of organizations. In most cases, the enterprises did not establish any direct contact with firm support organizations in the post-entry period and in those cases in which this did happen the relationship comprised infrequent contacts rather than systematic ones.

In contrast with other successful experiences of inter-organizational linking, no (explicit or implicit) genuine demand for the kind of role intermediate organizations (chambers, public assistance agencies, etc.) use to play can be inferred from the interviewees responses. Again, this can be attributed to the typically low organizational complexity (technical and managerial) of the sampled firms which, in turn, does not impel entrepreneurs to search for new ideas coming from external agents. As mentioned above, the dynamizing role of institutions within a local economy is frequently routed in the firms needs of joint action (sharing tangible and intangible assets) and assistance and, in general, it is positively associated to the presence of a strong co-operation culture. The lack of non-market transactions, together with low levels of both outsourcing activity and organizational complexity are seem to describe a business environment in which local institutions do not bring in a significant contribution in terms of local economic development.

Up to this point, performance, entrepreneurial profile and interactive behaviour of firms born in the new economic scenario have been separately analyzed. What is left is

whether the conjunction of these dimensions of manufacturing activity configures different patterns of the performance-entrepreneurship-co-operation relationship.

Considering market extent as the differentiating criteria, the Kruskal-Wallis test was applied in order to analyze whether significant differences exist between firms in terms of internal capabilities and the establishment of relationships with the business environment. The results of the test (Table 7) do not seem to indicate a robust dependence between market extent and firm internal attributes or interactive behaviour. Rather, performance (in terms of sales geo-expansion) seems to be correlated to features describing the competitive environment new firms face.

Table 7.

Variable[9]	χ^2	**p-value**
Geographical segment	30,484	0,000
Founder	7,289	0,063
Management team	7,606	0,055
Number of competitors in regional market	31,946	0,000
Competitors in regional market origin	29,805	0,000
Number of competitors in national market	45,206	0,000
Presence of foreign competitors	20,052	0,000
Impact of imported substitutes	11,573	0,009
Initial market extent	23,578	0,000
Evolution of market areas	15,757	0,001

Note: the results shown belong to variables whose significance is lower than 10%

As can be observed, the group of firms with a market extent bounded to the local area face many competitors of local origin, while those that sale to the national market compete for the same economic space with local and extra-local competitors. The data shows that, as firms expand their sales beyond the local area, they face increasing rivalry levels, not only in distant markets, but also in the local one. Also, foreign production affects the companies in different ways, depending on their sales destination: those concentrated in the local market show scarce or no exposition to imported substitutes, while those that direct a percentage of their production to the national or international market were more affected by the trade liberalization program.

[9] All the variables included in the fieldwork were considered in the test.

Other relevant result is the correlation between the initial market extent and that reached at the moment of the survey, reflecting in a certain way, a path-dependence pattern in firm performance and competitiveness.

The close correlation between geo-expansion and the set of variables that describe the competitive environment implicitly depicts the relationship between competitive performance and the type of geographical niche the firm exploits.

A productive system include a subset of firms and activities oriented to the basic urban needs of the adjacent market and others also devoted to serve more distant areas. Naturally, the nature of market competition will differ among these different types of business orientation. Typically urban productions (fresh food, small crafts, residential services, etc.) face, in general, high distribution costs in proportion with the distance to the target market (due to the existence of high transportation costs or rigidities in certain production factors mobility). This explain why these activities concentrate around the consumption centers but also signals the restraints they face in serving more distant markets. Besides, this fact also explains why firms in these segments face mainly local or regional competitors. Thus, firms in these kind of activities (where artisan production prevails, with both low scales and low sunk costs) could be considered as being "protected" in the sense that a spatial barrier deters extra-local competition. Finally, uncertainty derived from local competition is also substantially diminished because rivals are known.

Nevertheless, geographical proximity among competitors does not stimulate the appearance of co-operative agreements. The reasons that justify the lack of co-operation incentives are based on two elements already mentioned: (i) the nature of the activities performed; productive knowledge is easily transferable and does not involve long learning periods; and (ii) competition for a common set of (local) clients intensifies rivalry between competitors. In this environment, imitation offers lower transaction costs than interaction and endogenous differentiation strategies, even if successful, bring only transitory advantages. Both these two elements, combined, could allow to

rationalize why co-operation is not a rational option for firms operating in this type of market segment.

Regarding the other extreme group of firms, those with higher market potential scope, two subsets of well differentiated activities predominate: one is comprised by firms manufacturing an heterogeneous range of goods, specially parts and components of capital goods, and the other comprises firms devoted to the processing of raw materials (fish processing) and knitwear [10]. None of these subsets face *a priori* territorial barriers to the expansion of their sales geographical area. For the same reason, in the target markets they meet producers coming from different origins.

None of these two subsets differ from the group of firms that serve geographically segmented markets in terms of co-operation, despite the fact that they operate in wider geographical markets and with more capital-intensive technologies (which should be more demanding in terms of technical knowledge). However, absence of co-operative behaviours comes, in this case, from different reasons: (a) regarding the producers of standarized parts and pieces, the critical mass of related firms (suppliers, clients and competitors) is absent; that is, the absolute dimension of the agglomeration in which these firms operate does not seem to have reached a scale large enough to produce (the necessary conditions for) external economies and thus to induce inter-firm interactions. And, (b) regarding producers of non durable consumer goods (to which natural resources processing firms belong to), externalities derived from interaction use to be more relevant at most advanced (down stream) stages of the value chain (logistics, distribution, commercialization). Firms in this second subset are concentrated, instead, in the early stages of the raw material processing chain, where the incentive for co-operation is quite infrequent. Another feature that characterize these activities is that they compete in mature (where opportunities for technological innovation are scarce or supplier-driven) highly price-sensitive sectors [11], with low intra-sectoral specialization associated levels[12].

[10] This group of activities describes, somehow, the specialization pattern of the industrial sector in many Latin American countries, traditionally based on primary transformation of natural resources.

[11] True, some successful cases of industrial districts occur at mature sectors. Nevertheles, one difference with the present case is that in the former experiences firms compete in segments where design or quality

In Argentina, engineering and labour intensive industries underwent a period of deep structural change after trade liberalization during the 90s. The new macroeconomic scenario triggered an adjustment process which included the contraction in the size of firm population. Growth opportunities for firms in this segment are, in principle, blocked: from "the bottom side" by the competition of low-cost producers (from Brazil and East Asia); and from "the top side" by the expansion of leader firms that dominate distribution channels.

In this type of activities, characterized by low technological complexity and competitiveness based on cost efficiency, advantages derived from inter-firm co-operation do not seem to emerge (Altenburg y Meyer-Stamer, 1999). A favourable environment for the emergence of sustainable collaboration networks would require a shift towards more intensive-knowledge segments or those in which continuous improvements in productive efficiency are a necessary condition for survival.

Each group defines the extreme poles of a continuum of activities, in which the market extent achieved by the firms is not independent of the tradability degree. Thus, the activities that show higher tradability levels (reflected on the number of competitors and their origin) have a higher potential to penetrate distant markets and, therefore, higher growth potential and *viceversa*. This assertion does not intend to suggest that other elements that intervene in firm performance and competitiveness (such as internal capabilities accumulation and the gaining derived from co-operation with other agents) are unimportant. The case study tries to show that those elements does not seem to be related with the firms ability to serve more distant markets. New firm competitiveness seems to depend on the type of geographical segment the firm enters which, in turn, is

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are major competitive factors while traditional industries in less developed countries compete namely in the price segment. Other difference emerges from the fact that firms from districts use to point to international markets. By contrast, among firms included at the more tradable group in the local case, less than a half is engaged in export activities. Moreover, these sales occurs as sporadic episodes rather than being stable flows and, in any case represent a significant portion of total turnover.

[12] More than 50% of this group of firms does not outsource and has never outsourced any part of its productive process or any complementary activities (housekeeping, equipment maintenance, etc.).

determined not only by the type of good or service but also by the production technique chosen.

Co-operation, though seemingly absent in general, play a different role in each of the groups of firms (local, regional and national-exports). In less tradable segments its absence is functional to a specific organizational profile: the relative ease of productive knowledge transfer and the focus on a market segment bounded by the urban or regional frontier turn opportunistic behaviour more advantageous than the co-operative one. In segments with higher tradability, co-operation does not emerge either because a critical mass of establishments is absent or because the activities are mature, implying that innovation opportunities are scarce and price is the competitive variable that almost entirely determines the firms competitive position. In this environment, inter-firm co-operation and the potential for externalities derived from the institutional tissue do not represent a relevant factor for firm performance.

But transition towards a new combination of activities, where (non codified and firm or network specific) knowledge and institutional interaction could generate a synergy upon the local economic development, is conditional on the existence of individuals willing to invest in more dynamic sectors (Singh, 1962). As previously shown, recently created firms studied here do not seem to have been founded by entrepreneurs characterized by a high commitment with growth. Instead, the main goals reported were the desire of stability and the achievement of a satisfactory sales levels. This profile is implicitly reflected in the high percentage of firms whose market scope does not exceed the regional area and operate in segmented geographical niches.

The fact that most new business projects are oriented towards low tradability-low complexity type of niches can be rationalized as the combined result of exogenous and endogenous factors. On the one hand, it reflects, in a certain extent, the set of business opportunities available for local entrepreneurship. This set is defined, in turn, by the interaction of regional and extra-regional economic factors. On the other hand, however, new business orientation reflects entrepreneurial capabilities (in terms of access to both tangible and intangible assets), motivations and expectations. In other words; poorly

endowed and motivated entrepreneurs tend to choose activities in which moderate competitive challenges are the rule. Thus, the local supply of entrepreneurial activity seeks to adjust, rather than to transform, to the existing productive structure.

Thus, a superficial glance over the business orientation of the new ventures analysed here would suggest that the preference for (spatially) protected niches was not substantially affected by the structural reform and, in particular, the trade liberalization program. However, a closer look suggests that this is not the case. The new macroeconomic environment meant the erosion of spatial barriers and, hence, affected the pattern of local development at agglomerations of intermediate size. But the spatial de-segmentation process meant an expansion of potential markets for large firms located at metropolitan areas rather than an expansion of business opportunities for local productive organisations. Thus, local firms continue to be bounded to spatially restricted markets but lost access to a wide range of business activities that can now be profitably served by large firms located at the central areas.

5. Concluding remarks

As mentioned in the previous paragraphs, the structural reform implemented in Argentina since the beginning of the ´90s implied a deep transformation of the environment in which manufacturing firms operate. Recent research suggest that static efficiency gains (derived from the displacement of inefficient firms) have been reaped but dynamic efficiency gains did not emerged. As explained by Kosacoff (1996), exit of inefficient firms (relative to the international technical frontier) might improve domestic resource allocation but implies the loss of productive and technological accumulated capabilities. In parallel, the new relative prices vector increased the share of natural resources intensive industries in the manufacturing sector (Kosacoff and Porta., 1998)

At a regional level, the emergence and consolidation of most of urban agglomerations located out of the metropolitan region are explained by the existence of territorial frictions and relatively small local markets. Convergence of both elements defined a

regional development pattern that rested, in a great extent, in low tradable activities. This lines of businesses are characterized by the fact that they face restrictions in their potential for sales spatial expansion but, in compensation, they enjoy some protection from extra-regional competition.

As already mentioned, the structural reform program undermined the bases on which localized manufacturing systems rest. However, this new business scenario in which geographical segmentation has substantially lost its capacity for deterring extra-regional competition, did not stimulate the creation of firms with higher territorial growth potential.

The field work shows that almost 65% of the (surviving) firms born between 1989 and 1999 in three urban agglomerations of Buenos Aires Province have not achieved a national scope of their sales since their creation. Statistical independence tests suggest that firm market extent is not independent from the type of segment it exploits. Thus, in the sample, between the firms that only serve regional markets, 80% (35) are devoted to low tradability activities. This result shows that the new competitive environment has not been successful in reorienting the regional development pattern towards more tradable (and hence with more growth potential) activities.

Rabellotti (1998) asserts that liberalization policies increase innovation incentives because imply a pressure towards quality improvement and cost reduction. Co-operation is, hence, suggested as an alternative to achieve these goals. The different subsets of sampled firms analyzed here show a similar patter in terms of entrepreneurial capabilities and interactive behaviour. However, when the rationale for the non co-operative behaviour is analyzed relevant differences emerge between the subgroups.

The results suggest two effects that, combined, define a new path for localized manufacturing development. On one hand, the expansion and concentration of big retailers reduced distribution costs and thus increased competition in segments traditionally served by regional firms. Firms affected by this market event reacted not by seeking efficiency improvements and innovation but, instead, by reorienting their

business goals towards segments disregarded by large suppliers. As already noted, firms in this type of niches (that generally involve small scale production based on a strong interaction with the client) do not engage in collective strategies with other firms or agents because imitation is a more advantageous (and thus rational) behaviour than interaction.

The "reprimarization" experienced by the domestic productive structure at the aggregate level could be interpreted as a signal of a more stimulating environment for business projects with higher geographical scope (due to the tradable nature of this production lines). However, these sectors, located at their mature life cycle phase, and whose competitiveness relies mainly in cost factors, do not assure a transition to networking practices.

Summarizing, a superficial glance over the business orientation of the new ventures analysed here would suggest that the preference for (spatially) protected niches was not substantially affected by the structural reform and, in particular, the trade liberalization program. However, a closer look suggests that this is not the case. The new macroeconomic environment meant the erosion of spatial barriers and, hence, affected the pattern of local development at agglomerations of intermediate size. But the spatial de-segmentation process meant an expansion of potential markets for large firms located at metropolitan areas rather than an expansion of business opportunities for local productive organisations. Thus, local firms continue to be bounded to spatially restricted markets but lost access to a wide range of business activities that can now be profitably served by large firms located at the central areas.

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Appendix

List of variables captured by the form

Variable	Description	Categories
TRANSAB	Tradability degree	1. Limited to local market 2. Limited to regional market 3. Not limited
ACTIVPPA	Firm main activity	1. Non manufacturing 2. Services & manufacturing 3. Exclusively manufacturing
CATEGEDA	Firm age	1. 7-10 years 2. 4-6 years 3. 3 years or less
TIPOBIEN	Typology of good/service produced	1. Consumer durable 2. Consumer non-durable 3. Raw materials processing & pieces 4. Capital goods 5. Productive services
ESTUDIOS	Proprietary education	1. Less than High School 2. High School or higher level
CURSOS	Courses attended by the proprietary	1. No courses 2. Mainly technical 3. Both technical & commercial
ANTFLIAR	Family tradition in business activity	0. No 1. Yes
EXPERIEN	Owner experience on management functions or independent activities	1. No experience 2. Management functions 3. Independent activities
EXPESECTO	Owner experience in the sector	1. Low or no experience 2. Relevant experience
SITLABOR	Owner labour situation previous to firm foundation	1. Unemployed 2. Employed 3. Independent
ACTITUDG	Growth orientation and motives	1. No growth orientation: risk aversion 2. No growth orientation: actual size is ok 3. Growth oriented: upon results 4. Growth oriented: upon emerging opportunities 5. Growth oriented: seeking opportunities
OBJFIRMA	Firm objectives	1. Survival – consolidation 2. Income for retirement 3. Continuos growth 4. Professional career
MOTIVCRE	Firm creation motive	1. Negative displacement 2. Integration towards manufacturing 3. Desire of independence 4. Income complementation
ELECSECT	Sectoral choice motive	1. Supply-led: no alternatives 2. Supply-led: using previous knowledge 3. Demand-led: opportunity 4. Demand-led: innovation 5. Supply & demand motives
EQUIPODI	Management team	1. Centralized in owner 2. Administrative functions delegated 3. Production functions delegated 4. Adm & Production delegated
DESVINI	Initial disadvantages	1. Disadvantages in 2 or more areas 2. Low knowledge 3. Low equipment & machinery 4. Low scale 5. All high

VENTINI	Initial advantages	1. All low 2. High knowledge 3. High competitiveness 4. High equipment & machinery 5. High scale 6. Advantages in 2 or more areas
APREND1	Learning process: positive and negative variations in different areas	1. Negative variation in 3 or 4 areas 2. Negative variation in 1 or 2 areas 3. No variations 4. Positive variation in 1 or 2 areas 5. Positive variation in 3 or 4 areas
AREAPREN	Positive learning process areas	1. No positive variation 2. Positive variation in knowledge 3. Positive variation in competitiveness 4. Positive variation in equipment. & machinery 5. Positive variation in scale 6. Other combinations
CONSOLID	Time required for firm consolidation	1. Still not consolidated 2. 4 or more years 3. 2 or 3 years 4. 1 year
COMPLOCA	Quantity of local market competitors	1. Many 2. Few 3. None
ORIGLOCA	Geographical origin of local market competitors	1. Local – regional 2. Extra - regional 3. Both
COMPREG	Number of competitors in regional market	1. Firm is not selling in regional market 2. Many 3. Few 4. None
ORIGREG	Geographical origin of competitors in regional market	1. Firm is not selling in regional market 2. Local 3. Regional 4. Local & regional 5. National and foreign
COMPNAC	Number of competitors in national market	1. Firm is not attending national market 2. Many 3. Few
COMPEXTR	Presence of foreign competition	0. No 1. Yes
TAMCOMPE	Competitors size	1. Mainly SME´s 2. Different sizes 3. Leading firms 4. No foreign competition
IMPORTAC	Imports impact	1. No imports 2. No effects 3. Relevant effects
FACTCOMP	Competition dimension	1. Price 2. Non price 3. Both
ESTRENTR	Entry strategy	1. New in the area 2. Better quality 3. Better price 4. Demand excess 5. No strategy 6. Price & quality
TERCERIZ	Evolution of outsourcing	1. No outsourcing 2. Decreasing 3. No variation 4. Increasing
MERCINIC	Initial geographical markets	1. Local 2. Regional, south & center 3. National

		4. Exports
MERCFINA	Actual geographical markets	1. Local 2. Regional, south & center 3. National 4. Exports
CAMBACTI	Changes in main activity	1. No changes 2. Just operational changes 3. Changes in business orientation
EVOLACTI	Assets evolution relative to the sample mean	1. No change or negative change 2. Low growth 3. Medium growth 4. High growth
EVOLCUOT	Market share evolution	1. Decreasing 2. No change 3. Increasing
REGINICI	Local resources initial demand	1. No demand 2. Mainly services 3. Mainly raw materials 4. Services & raw materials
REGEVOL	Local resources demand evolution	1. Decreasing 2. No change 3. Increasing
INSTINIC	Initial relations with local institutions	1. No relations 2. Mainly with trading organizations 3. Mainly with public organizations 4. Both 2 & 3
INSTIEVOL	Evolution of local institutions relations	1. Discontinue relations 2. No change 3. Deepen existent relations 4. Begins new relations