ABSTRACT

New Economic Geography (NEG), a new branch of Spatial Economics that was developed at the beginning of the 90s, supports that “peripheral” European Union’s economies (like Portugal, Greece, Ireland or even Spain) are predestined to diverge from the developed European “centers” like France or Germany. This new field of Economics seems to be supporting the incapacity of European structural policies to battle against this divergence trend, and ultimately an inevitable catastrophe of the Single European Currency, and thus, of the European integration project as a whole.

The recent evolution of the main EU’s peripheral economies (e.g. Greece, Portugal and Ireland) confirming their divergence trend from the developed core EU’s countries, seems to support these NEG forecasts.

However, in our paper we support that, taking into consideration some identified pitfalls of NEG’s principles, and on the other hand, considering the potentialities that may arise from the capacity of enterprises to put in place effective Corporate Strategies (which its related with the need to develop their strategic capabilities), peripheral countries/regions may be able to overcome this apparent fatalness. Thus, more important than just funding is the aptitude of these peripheral economies – through their economic agents’ capabilities – to use these funding and profit from them adequately.

This will lead us to support, not just the continuation of the European structural funds’ policies, with the positive impacts arising from the inherent redistribution effects, but also to conclude on the urgent need to develop strategic capabilities of main economic agents of these regions. Using an empirical survey, performed during the transition period of the introduction of the Euro (1999-2001), to companies operating in Portugal, we conclude by demonstrating that the lack of corporate strategic capabilities may well be an important explanation for the present difficult economic situation, explaining most of the existing problems of Portugal and that, only through a real change in the prevailing paradigm, regarding the action of these companies, we may be able in a near future to sustainably overcome the present difficulties.

Keywords: Economic Development; New Economic Geography, Corporate Strategy; European Union; Peripheral Territories.

RESUMO

A Nova Geografia Económica (NGE), um novo ramo da Economia Espacial, desenvolvido no início dos anos 90, defende que as economias periféricas da União Europeia (como
Portugal, a Grécia, a Irlanda ou a Espanha) estão predestinadas a divergir dos centros mais desenvolvidos da Europa, como a França, ou a Alemanha.

Este novo campo da Economia parece, assim, demonstrar a incapacidade das políticas estruturais europeias para contrariar a tendência divergente destas economias e, assim, predizerem a catástrofe eminentes do euro e, em última instância, do próprio projeto de integração europeia, como um todo.

À evolução recente das principais economias periféricas europeias (os casos da Grécia, de Portugal e da Irlanda), confirmando a sua divergência face à Europa, parece vir dar razão a estas previsões da NGE.

Todavia, no nosso paper, defendemos que, tendo em consideração algumas debilidades teóricas que poderemos identificar nos princípios da NGE e, por outro lado, considerando a capacidade das empresas colocarem em prática adequadas estratégias corporativas (o que está relacionado com a necessidade de desenvolvimento das competências estratégicas empresariais), os países ou regiões periféricas poderão mostrar capacidades efectivas de ultrapassar esta aparente fatalidade. Assim, mais importante que apenas injetar fundos nestas regiões/países, será a aptidão que for demonstrada pelos seus principais agentes – através do respetivo desenvolvimento de competências – para usar estes fundos da maneira mais adequada e proveitosa possível.

Esta constatação conduz-nos a defender, não apenas a continuidade das políticas estruturais europeias, com o reforço dos seus meios e os consequentes benefícios que poderão advir dos inerentes efeitos redistributivos a eles associados, mas principalmente a concluir pela necessidade urgente de potenciação das competências estratégicas dos principais agentes destas regiões.

Na base de um estudo empírico, desenvolvido durante o período de transição para o euro (1999-2001) a empresas que operavam em Portugal, concluímos que, efetivamente, se verificava uma debilidade ao nível das competências estratégicas das mesmas, o que pode claramente, como demonstrado, ser considerada como uma forte explicação da complicada situação económica atualmente vivida em Portugal. Assim, apenas através de uma mudança efectiva do atual paradigma, onde se efetiva a atuação estas empresas, poderemos ser capazes de encarar o futuro de forma mais sustentável e ultrapassar as dificuldades vividas actualmente.

Palavras-chave: Desenvolvimento Económico; Nova Geografia Económica; Estratégia Empresarial; União Europeia; Territórios Periféricos.

JEL Classification: M21; O12 e R12

1. INTRODUCTION

Inequality among world countries it’s a difficult question to accept raising ethical and political questions and problems difficult to explain in light of the development efforts that are being made by all countries, and the world goals to diminish these differences (e.g. the UN Millennium Development Goals).

One of the ways that countries found to support their development strategies is through the set up and development of economic integration processes. In fact, deeper or lighter integration processes have been and still are observed around the world, shaping a new dynamics on globalization and including the big majority of world countries. Competition
turns out to be, not just between countries but mainly between economic blocks and particularly between the most important companies of each block, hiding important regional differences inside each particular integration block.

European Economic Community was created in 1957 with only six out of the 27 countries that nowadays belong to the European Union (EU). From its inception it was foreseen the creation of a Single European Market (which was just formalized in 1987), that should have been supported by a Single European Currency (that appeared, fully in 2002, after the ECU experience from 1979 to 1999 and a transition period occurred between 1999 and 2001).

The European integration whose origins could be traced back after the World War II, when Europeans discovered that they have lost their traditional hegemony and leadership in the new world, is a very interesting case study in this domain.

In Economics, one of the conditions for the success of a Currency Union, besides the crucial coordination of national economic policies, is the existence of a certain homogeneity and/or convergence among the economies of the countries involved in the union (see Mundell’s (1961) Optimum Currency Areas’ theory – OCA). Thus, according to the OCA’s theory, if EU does not show the ability to promote convergence among their economies, the single currency – the euro – will be questioned by the fundamentals of the economies threatening all the integration process.

This is precisely what NEG is questioning, by proving theoretically the “chronicle and inevitable divergence” of EU peripheral countries/regions. Unfortunately this seems to be the evidence nowadays with the divergence patterns of the generality of these peripheral economies with a particular emphasis to the so-called PIIGS (Portugal, Italy, Ireland, Greece and Spain).

In spite of this apparent reasonability of the theory, one may question if the observed situation is real inevitability (as putted by NEG) or, defiantly, consider it as a mere historical accident, or just the consequence of a certain path dependency, that reasonability and adequate policies would be able to challenge, changing it by creating the conditions to break with this apparent vicious cycle of development.

In our paper we advocate this view, based in two main issues: firstly, showing that NEG present some pitfalls that, dully considered in the economic models used to arrive to its conclusions, could change its final results.

On the second section of our paper, we will flyover NEG, characterizing it. After showing our view concerning the closed link that exists between development, economics and strategy, in the third section, we will present what are, from our point of view, the pitfalls of NEG to explain growth and development. Before our conclusions and the future research clues, we will, in the fifth session present the results of an empirical analysis conducted in Portugal, during the transition phase to the Euro, were we analysed the strategic capabilities of companies operation in Portugal. We will demonstrate how the lack of strategic capabilities of Portuguese companies can be one of the weakest factors that are mining the capacity of the Portuguese economy for growth and convergence.

2. NEG IN BRIEF

The origins of New Economic Geography (NEG) may be traced back to the beginning of the 90s of the 20th century, basically on two seminal papers by Krugman and Venables (1990) and Krugman (1991b).

This recent “body of knowledge” in Economics – as it was called by their main authors – brings space to Economics, profiting from the pioneer works of the 19th century in the field of Urban Economics who’s first main author was von Thünen (1826). In parallel, we
assisted to the development of the so-called Regional Science (Fujita et al., 1999) divided into two main branches (Krugman, 1995 [2002]): i) one more dedicated to the localization of industries (Weber, 1909); ii) another one derived from Christaller’s (1933) and Lösch’s (1940) Central Place Theory. More recently, it deserves to mention the works on this field presented by Harris (1954) and Pred (1966).

During the mid-20th century, the works on Urban Economics were “updated” with the contributions on “Commuters and central Business Districts” from Alonso (1964), as well as Hoover (1937; 1948), Henderson (1974; 1980; and 1988), and Mills (1967). Regional Science have also seen its revival mainly through the works of W. Isard (1956; 1960).

Another important domain in Economics developed specially between the 40s and 50s of the 20th century was the field of Development Economics, lately criticised by Krugman, but that, from our point of view, introduced critical concepts to NEG like the concept of “circular causation”; “virtuous or vicious cycles of development”; or even “historical accidents”, manly introduced by Myrdal (1957 [1972]). Besides Myrdal, important contributions in the field of Development Economics were made by Rosenstein-Rodan (1943); and Hirschman (1958), latter revived by Murphy, Schleifer and Vishny (1989).

It is important to refer that, from our point of view, NEG imported this crucial concepts first studied by Development Economics, having treated them mathematically in the framework of its models.

Besides Krugman and Venables, other important NEG’s works deserve reference, in particular those conducted by Ottaviano and Thisse (2004); Glaeser and Kohkhase (2003); Head and Mayer (2004); Fujita and Mory (2005); or Fujita, Krugman and Venables (1999 [2001]).

NEG may also be considered in close connection with its “older sister” Geographic Economics (the Economics sub-field of geography).

It seems clear that “the re-emergence of geographic economics” can be argued as being due to the increasing economic significance of sub-national regions and supra-national regions, relative to the nation state” (Clark et al., 2000), with interesting developments during the 80s, especially thorugh the works of Scott (2000); Clark et al (2000); Sheppard (2000); Sunley (1996); Ron Martin (1999, 2001 and 2003); Meardon (2001); and Bralman et al. (1999).

Curiously, the introduction of NEG to the academy was done in a Krugman and Venables’ paper of 1990 that analysed from a theoretical point of view the effects on Europe post-1992, that is, after the creation of the Single Market. This analysis was done with a particular emphasis on the Single Market Implications for southern European peripheral countries like Portugal, Greece and Spain.

It is possible to state that NEG broke with the static theoretical economic analysis of development to use the idea of a Europe of regions with different peripheral levels having, at the same time, Brussels’ region as Europe great centre. And NEG abandoned the scenario of perfect competition and considered the interaction between increasing returns to scale and transportation costs, as well as its effects in terms of the emergence of a determined geographical production structure in a specific region (Krugman, 2000). This appears as the result of a region’s economic agents’ decisions, modelled on the basis of their microeconomic behaviour.

According to NEG, this interaction between economic agents is what originates agglomeration effects that will end by shaping the spatial dimension of EU between peripheral and centre regions. Agglomeration effects are the consequence of the interplay between some centripetal and centrifugal forces that will respectively attract or repulse the more important industries that work as catalysers for regional development.
All these features are finally treated in general multiple equilibrium dynamic mathematically based models that use several technical “tricks” like the Dixit-Stiglitz Model (Dixit-Stiglitz, 1977), the concept of iceberg transportation costs (Samuelson, 1952) and the indispensable use of the computer to work all this (Fujita et al., 1999).

It seems clear that, at least in theory, NEG uses mainly the so-called second nature items of Geography – mainly related with the interaction between different economic agents and basically focusing in short-term relations – that occur mainly in a given territory, while Economic Geography is mainly related with the first-nature features of Geography like the oceans, rivers, mountains or natural resources (Crafts and Venables, 2001; Ottaviano and Thisse, 2004).

In summary, according to Krugman and Venables (1990), the main distinctive characteristics of NEG are the following:

1. Framework of Imperfect Monopolistic Competition (a la Dixit-Stiglitz);
2. The result of it being the division of the space between a core and a periphery;
3. The consideration of manufacturing firms spatial mobility but immobility for factors of production (especially labour);
4. The consideration of Transportation Costs that represent barriers to trade and give NEG models the necessary spatial dimension and operability;
5. Economies of scale considered at the level of each firm (differing from Marshallian externalities);
6. Use of General Equilibrium Models to model spatial economies;
7. The consideration of the so-called phenomena of “circular causation”, which supports the time and spatial dimension of the general equilibrium models.

NEG models allow us to work out the dynamics usually presented by countries that made them to become endogenously organized in an industrialized developed “core” and peripheral, usually “agricultural” dependent, territories, as a result of the location decisions of its companies, and their correspondent actions to explore scale economies and minimize transport/transaction costs (Krugman, 1991b).

The NEG “centres” are the wealthier regions that show the more important industries and have a major share of population thus allowing the exploitation of the “home market effect” which reinforces forward as well as backward linkages and influences decisively the decisions of companies to locate there.

By contrast, peripheral regions are backward regions, where the majority of companies present a constant returns to scale production pattern, not having the due potential to generate externalities, which hinders their capacity for development and hence, the capacity for the region to develop.

The NEG theory shows, for example, how a country can endogenously become organised in an industrialized “core” and an agricultural “periphery” due to the action of firms to explore the potential of scale economies, while minimizing transportation costs and so, manufacturing firms will choose to locate near the regions with big markets (both in terms of consumer as well as intermediate goods) (Krugman, 1991b).

There is no doubt that New Economic Geography represents a big advance in economic theory since it breaks with the traditional vision of perfect competition and its models consider imperfect monopolistic competition from a Dixit-Stiglitz (1997) perspective allowing the forecasts that they made.

According to NEG predictions, the future of Europe will be a territory divided in a few centres, surrounded by peripheral countries, where Portugal, Spain or Greece are included.

There is no doubt that reality seems to give reason to NEG conclusions. However, what it needs to be proved is that the present situation is inevitability, as NEG theory seems to
state or, on the contrary, it is just a consequence of a simple lack of conditions for growth that these “peripheral” countries present by themselves.

Our arguments in favour of this last line of thought are presented in the following sections of our paper.

3. DEVELOPMENT, ECONOMICS AND CORPORATE STRATEGY

In today’s globalized world it is hard to think of any sector that develops its activities in a perfectly competitive market framework. Moreover, in imperfect markets, strategy is what leads the way to competitiveness and success, independently of we are talking about companies, territories, regions, or nations or economic blocks.

We advocate that corporate strategy is an issue linked directly to Economics. The increased importance of the geographical scale of economic activity and the induced geographical allocation of economic resources, are increasingly open questions of corporate strategy (Clark et al., 2000). This becomes even clearer if we think that, in Strategy, like in Economics, one of the main targets of economic agents is the capacity to generate economic rents (Foss, 2002).

In corporate strategy, this search for rent is directly related with a company’s capacity to generate more value than its main competitors, which is obtained through the development of sustainable competitive advantages, as a result of the exploitation and development of unique resources (financial, technical, human or organizational). These resources exist (and their efficacy is crucially influenced) within a micro environment, which is something related both with the territory/region and also with the institutions.

Companies exist and develop their activities in specific places/territories and a nation can be considered as a group of spaces/territories where these market games are developed.

In spite of this apparent simple vision of the relationship between economics and strategy and hence, strategy and competitiveness of territories, economic policies’ conception usually disregard strategic capabilities of economic agents as a condition for their success and space and territories (their characteristics) usually are considered far away from the essentials of national policies since governments tend to consider economy as whole (Porter, 1999). This makes policies rather abstract, usually reducing their efficacy, at least to fight against some natural development discontinuities and prepare the territories for the normal adversities of competition.

Economics has evolved in terms of the factors that were considered crucial for the development of countries or regions. Right before the “new” development theories of the 90s, we have had the “endogenous growth models” that emphasized precisely the importance of the endogenous conditions for growth.

“New growth models” changed the framework of analysis and claimed the consideration of microeconomic foundations for development. By its turn, NEG claimed the opening of the company’s “black box” regarding corporate management and its influence on corporate strategies with the necessary implications for the set up of development policies. However, we argue that the consideration of corporate strategy principles will allow a broader view of development factors, since, for instance, it must include dynamic agglomeration factors like Research and Development (R&D), which represents and advance towards the static agglomeration economies (Porter, 2000) just considered by NEG.

Paradigmatically, there are some authors that support that “a country is not a company” (Krugman, 1996), on a clear allusion to the fact that there exists a clear distinction between a country’s competitiveness and the competitiveness of any company. Also according to
Martin (2003), there are clear differences between the concept of competitiveness of a country/region and that of a company.

However, from our point of view, these possible differences do not mean that we should consider that the competitiveness of a country/region is independent from the competitiveness of its companies.

Thinking about a country’s competitiveness is to think on the microeconomic fundamentals of competitiveness, which could be found in two intertwined features (Porter, 2000):

i) The quality of the microeconomic environment;

ii) The sophistication of companies’ operations and strategy.

Some authors (e.g. Porter and IMD) estimate that the microeconomic fundamentals of productivity may account for about 83% of GDP’s changes between countries. The quality of the microeconomic environment assumes here a crucial role, in the sense that it is determinant for the success of any strategy.

Theoretically, one may have a situation whether there are strategic capabilities to conceive and implement good strategies within each company, but the microeconomic environmental conditions do not allow the capitalization of any results of these strategies for the territory as a whole, which will end by killing those strategic initiatives.

Among the most important determinants of the microeconomic environment there are: the hard infrastructures (like transports, communications and technologies); and the soft infrastructures, like the level of Human Resources of the country/region; or its institutions like the legal system. It is important to retain that usually, the territories where there exist low salary levels, usually do not have the necessary quality infrastructures, not even near suppliers, or equipment maintenance capacities. Even for those territories it is known that there may be chances to overcome difficulties. One of the ways these territories usually find to overcome this situation is through clustering, which represent an important form of organization that develops both static and dynamic agglomeration economies.

Regarding the sophistication of companies’ operations and strategy, that is related with both the operational efficiency of each company by itself (production, technology and management techniques) as well as the type of strategies that are followed. Here it is possible to find more primitive forms of strategy (usually based on the cost of inputs) or more advanced types of strategies, based on differentiation and the conquer of unique competitive positions towards its main competitors (Porter, 2000).

To consider first-nature features of Geography, or even historic determinism, as determinants for the future of any country or region it constitutes a poor vision of what development is and what capabilities really can do for it.

We argue that strategy – corporate strategy – may really be what can make the difference for the development of a country/region. Around the world there are several examples to support this assumption, that is, countries that, in spite their geographical disadvantages and peripheral situation, were able to succeed (e.g. the case of Japan, Switzerland and many others).

Our assumptions are based on the fact that the concept of competitiveness is a very broad and complex issue that must consider both the role of enterprises, institutions and the economic as well as other public policies. Competitiveness, as a true operational concept, should be rooted on competences and it is related with the way nations as well as companies manage their competences to prosper and obtain profits (IMD, 2005). That is to say, it could not be seen only from the point of view of the static assumptions of agglomeration but must depart from it, to consider the dynamic features of these agglomeration economies.

If it is true that companies, like any other economic agents, behave accordingly to a predetermined socio-historical context, limited by the first nature features of Geography and the
existent framework of rules and institutions within a given economic system, it is also true that it will be this socio-economic system that will compensate or, by the contrary, penalize, companies, according to the performance they obtain, as the result of their management’s capacities (Castells, 1996 [2000]).

We argue that there is a kind of “forced” symbiosis between corporate strategy and development. This is clear, for instance, in the case of investments in technology. Every theory recognizes the importance of technology investment and its relationship with development. However, no company will acquire the last hit on technology merely for the promotion of R&D development in its (or any other) country or region. Any acquisition of technology is made according to the companies’ own perspective of profits and should be made in line with a given strategy. Moreover, a purchase of the last technology hit usually has, as a consequence, the development of the territory where these companies are installed; since they normally are associated with increased value added, after all, the last aim of any strategy.

For countries/regions, like for companies, strategy may be either deliberated or occasional. However, we argue that corporate strategy (and we could include here strategies implicit in any type of national policies) could be the factor that is able to challenge a certain historical-geographical determinism usually associated with the “natural” processes of development of territories.

4. PITFALLS OF NEG THEORY

The corollary of our thought for the Portuguese economy is that it is crucial to develop an effective and solid entrepreneurial spirit, capable of putting in place true development dynamics able to challenge the usual development trajectory of our country. This must be done on the basis of the development of our strategic capabilities, rooted on a real policy for the endogenous resources development and within the adequate framework of economic policies.

Just by doing this will Portugal show the capacity to fully explore the new opportunities brought by the EU integration (i.e. the deepening of the integration process), and also to capitalize these opportunities and explore new markets, opened by the globalization process.

One should expect that this capacity to explore new opportunities in international markets being, at the same time, stronger in national markets, will tend to imply the rationalization in the use of resources which will conduct to increase general economic efficiency of the country, allowing it to specialize in those activities where it is particularly productive or for which it possesses abundant resources (Krugman, 1987, in Jacquemin and Sapur, 1989).

The sustainability and success of these processes, however, will only happen if companies are able to present and develop the necessary strategic capabilities.

Specialization is not usually a pre-determined phenomenon. Specialization is usually the result of a systemic search for competitive advantages by enterprises, having at its origin some kind of comparative advantages. So, we may argue that usually it is the specialization – that many times occurs just for historical reasons or simply by accident – that puts in motion an accumulation process, and that will end by reinforcing itself fixing a certain pattern of specialization for the country/region where it occurs, and giving origin to the levels of productivity that assure de desired competitiveness of territories (Adda, 1996 [1997]).

Ultimately, specialization is always the result of corporate strategies, and it is possible to observe a certain historical influence (usually called path dependence) on its pattern as well as on the sectors where it is rooted.
We argue that these ideas are crucial for the analysis of strategic capabilities on Portuguese companies. The ultimate goal of any strategy is success. If companies are rational, the way to succeed should be rooted in increased productivity levels, and that means to invest at least in human resources and technology.

However, when this success is not obtained on the basis of productivity and true competitive strategies, but is based on informalities or economic tricks (like exchange rate devaluations, market protections or government funds), the success of entrepreneurs will only be limited in time and scope. Besides strategic capabilities, and derived from them, long term sustainable success is obtained through investments on intangibles like human resources, technology, R&D, or any other intangible feature of competitiveness like design, marketing, distribution, image, etc…).

We argue that one of the main problems of the Portuguese economy is the incapacity of Portuguese entrepreneurs and managers in these domains, in particular due to a lack of strategic capabilities.

Finally, strategy is what brings rationality and long term vision to companies. A real strategy means:

“Whatever their collective strength, the corporate strategist’s goal is to find a position in the industry where [the company] can best defend itself against these forces or can influence them in its favour. The collective strength of the forces may be painfully apparent to all the antagonists; but to cope with them, the strategist must delve below the surface and analyze the sources of each”. (Porter, 1979, citado em Mintzberg et al, 1995: 72).

The passivity inherent to NEG models appears to go against this pro-activity that should be inherent to any strategic actuation. To act strategically is to anticipate threats and take advantage of market opportunities; it is not even just reacting to them.

It is possible to think on anticipation movements whose ultimate goal is the development of centripetal forces in favor of the less favored region, and that are able to oppose to the centripetal forces of the centers. This actions may be originated by a certain logic of promotion of territorial competitiveness, linking corporate competitiveness to regional competitiveness (Martin, 2003), and this can have by objective to maintain or to attract structuring economic activities that, sometimes, may even have international impact.

5. EMPIRICAL ANALYSIS OF NATIONAL CORPORATE STRATEGIC CAPABILITIES DURING THE EURO INTRODUCTION

In order to support our conclusions a survey to the Portuguese companies was developed during the transition phase to the euro, i.e., between 1999 and 2001. This moment, we believe, should have been very rich for strategy analysis, since the changes in the underlying market competition were about to happen radically, with the disappearance of one of the last barriers to the Single Market – the different currencies among the majority of EU countries – but also, especially in the case of Portugal and other southern European countries with weaker currencies, the opportunity given to companies to operate with a strong international currency, less volatile, and that could be used without restrictions or too many costs in international operations.

The competitiveness of any country should be rooted in informed entrepreneurs, managers and workers that must present the necessary capabilities to permanently innovate and improve their performance thus building international competitive companies (Porter, 1994). Also, we must think that companies’ competitiveness is not just related with their
capacity to conceive a good strategy but also with the capacity evidenced by these companies to implement the defined strategies (Wheelen and Hunger, 1995).

For this, we argue that it is wise to admit that an effective strategic action from Portuguese companies would have been capable of minimizing the pernicious effects that have been happening as a consequence of the European integration process.

Clearly this did not occur, and Portugal is usually ranked in the worst EU places regarding management capabilities (see, for instance, the ranks of Portugal in the Business Competitive Index of the Global competitiveness Report from the World Economic Forum or the correspondent IMD's indicator on the World Competitiveness Report).

Porfirio’s (2005) survey intended to evaluate the corporate strategic readiness of companies operating in Portugal, that will allow them to face the challenges of the single currency introduction and the European integration process.

This survey, consisting on a joint PhD research and a Caixa Geral de Depósitos – EuroInfoCentre study, was conducted between 1999 and 2001, and was made through the elaboration of a direct inquiry. A first wave of inquiries were included in the EuroInfoCentre information magazine of July 2000 (with a distribution of about 7.500 exemplars). Later, on July 2001, given the reduced number of answers to the first call (only 15), we decided to deliver it by mail, with RSF envelopes, directly to the companies of our survey.

To do this survey, and faced with the impossibility to access the universe of about 350.000 companies operating in Portugal, we decided to use randomly three different Data Bases (CENEGE-ISEG; EuroInfoCentre – CGD, and CEGOC-TEA). These databases have been purged from redundant registries, having been sent about 2.325 letters with the inquiry, to companies operating in Continental Portugal and Madeira.

The inquiry (see Annex I) was divided between more operational and more strategic questions, presenting as its main goal, our capacity to answer to the following question: “Being Portugal a peripheral EU country, are strategic capabilities of companies operating in Portugal capable to contrary the negative effects of the European integration process, as stated by NEG principles?”

Our work hypotheses, applied to the companies operating in Portugal, were the following:
1. The great majority of companies operating in Portugal is not managed by strategic principles/guidelines;
2. There are significant differences, in terms of the strategic potential, of the companies analyzed, that are rooted in features like companies’ dimension, family management features, the relationship between capital and management, the organizations’ structure, etc…;
3. The lack of knowledge and incapacity to use basic strategic tools like management control, analytic accountancy; or even to perform regular markets’ analysis is usually translated into a certain incapacity to implement conceived strategies;
4. In the case of enterprises that are able to conceive strategies, these strategies are mainly based on the product-market feature, relegating to second chance the strategies involving internationalization, vertical integration, etc.;
5. Usually, companies follow cost strategies compared to differentiation strategies;
6. Internationalization is not seen as a priority, even by companies already involved in international markets;
7. Euro is considered by most companies an operational rather than a true strategic issue.

We have obtained a sample of about 215 enterprises, of which we derived an operative sample of about 185 companies. From the results obtained it was possible to conclude for the confirmation of hypotheses number 1, 3, 4, 6 and 7 and the refusal of hypotheses 5. Hypothesis 2, surprisingly, was just partially corroborated by our results since up to a certain
phase of our study, nor dimension, nor familiar management nor even the dependency between capital and management were seen as contingency factors for strategy conception and implementation.

What we have observed is that when we begum to tighten our filters, these features, especially family, dimension and also the organizational structure, started to become active contingency factors regarding evidenced strategic capabilities.

In summary, we may conclude that it does not seem that the euro was faced as a question of strategic relevance for the majority of the companies analyzed. It was more considered as just an operational issue.

It seems that for the big majority of companies studied it does not exist a consistency between the strategic and the operational planning once the majority of them (97 out of 185) does not present basic strategic infrastructures (e.g. a responsible for strategy) or even has showed to have an explicit strategy.

Regarding evidenced management capacity, for the 88 companies that presented minimum strategic infrastructures, the results told us that 45 out of this total did not use a management control system, nor an analytical account system or even did not perform regular market analysis to support their decisions. This lead us to conclude that only 43, out of the initial 185 companies studied, presented the minimum requisites to talk about some evidence of the presence of strategic capabilities.

In this scenario, we support our idea that one of the major problems for the long term growth of the Portuguese economy is precisely the lack of strategic capabilities from our companies, which not just hinders our position within the EU, but also may explain the divergence trend that we have assisted during the last years without giving too much hope for the near future.

6. CONCLUSIONS AND FUTURE RESEARCH DIRECTIONS

International financial markets usually do not tolerate corporate failures of any kind, from the so-called developed world. Also, economic convergence and homogeneity between countries/regions seems to prevail as a condition for the success of the European integration process.

Some European peripheral countries – like it is the case of Portugal – have shown serious difficulties to succeed in this new integrated and globalized international environment as well as on the new era of a single currency.

Economics as been able to develop a branch that not just occupies one domain that was far from being dully considered – space and territory – but that also have showed to be capable to present a good explanation for what is happening to peripheral European countries.

However, in the present paper we challenged this “black or white” world’s vision which somehow does not left many room for policy action and hope for the less developed peripheral regions/countries. Albeit we recognize the important theoretical advances brought by NEG, our main assumptions for this challenge were the following:

1. The consideration of a clear link between economics and strategy that from our point of view was not adequately explored by NEG and that can make all the difference regarding the success of peripheral territories;
2. The assumption that the advances obtained with NEG considering microeconomics and imperfect markets (e.g. monopolistic competition) were not dully translated to the NEG models’ mechanisms, haven given priority to the short term and static features of growth and development in detriment of the long term endogenous
3. The apparent reduction of strategic corporate decisions, within NEG models, to decisions about location;

4. The consideration that growth, besides expectations, is almost exclusively determined by economic factors and decisions based on economic rationality;

5. The simplifying assumptions of NEG models, that consider the existence of some sectors of activity (e.g. agricultural) that work in a framework of perfectly competitive markets and with constant returns to scale systems of production, something that hinders, significantly, the capacity for growth and development of specific regions/countries.

The consideration of the influence of the economic agents’ actions (including not just enterprises but also institutions and public policies) should mean the inclusion of rationality that will allow these economic agents to proactively act (or at least to react) in order to face market imperfections and economic adversities originated by market forces.

However, our thesis will only be valid if we were able to demonstrate that at least one of these divergence processes could confirm our ideas about the lack of long term development factors (or at least one of them that could be determinant).

We depart from strategy, and we believe to have showed that corporate strategy (and related strategic capabilities of companies), are crucial for the development and growth of territories, since due to its characteristics, it represents the long term capacity for sustainable success and it is the features that will bring rationality to any regional growth/development process.

Moreover, given the intrinsic characteristics related with strategic capabilities, especially those inherent to the idea of sustainable competitive advantage, we support that these are long-term growth conditions and, even if they may not be considered a sufficient condition, they remain as a necessary condition to register long term growth.

We then used the results of an empirical study conducted during the transition phase to the Euro (1999-2001) that analyzed the strategic potential of companies operating in Portugal during this period, to conclude that, as advanced, the Portuguese companies analyzed do not have understood the total implications (in strategic terms) of the Euro and, at the same time, did not evidenced the capacity to conceive and to implement effective business strategies. In general, this could very well explain the convergence of the beginning of the 90s and during the transition phase, as well as the collapse that followed this period (especially after 2003/2004), confirmed nowadays with the clear divergence trend of the Portuguese economy, and the loss of several ranking positions in terms of development, confirming a certain incapacity of the Portuguese companies to compete in international markets without the exchange rate mechanisms and with more transparent rules, due to the disappearance of the “currency shadow”.

These results were even more surprisingly, taken into consideration that the majority of enterprises analyzed were considered medium or big size companies, a feature that theoretically would make them more advised in terms of strategic capacities.

We concluded that, if scientifically it is not possible yet to state that the reason for divergence is due to this lack of strategic capabilities, our findings can at least challenge NEG results. By doing this we believe to increase the hope for peripheral economies of EU (including Portugal and the other Southern European countries) as well as the hope for the European integration process as a whole. Moreover, our conclusions left open room for the continuation of the European framework programs and the structural funds associated with them, in spite of questioning their operative as well as their results, should they continue to be delivered the same way as until today.
Our conclusions, if taken into consideration, may redirect economic policies conception from sectors’ structural changes to capacity building.

Our future research in these domains will be developed, especially in two main areas:
- To demonstrate mathematically the relationship between strategic capabilities of countries and long term development and growth;
- To devise what could be the implications for NEG conclusions, deriving from the considerations of the changes in the underlying, in line with what was advanced in our paper and try to see the policy implications of these new findings.

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