

Design Mechanism as Territorial Strategic Capability

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Abstract

The current exigencies that a territory must face in order to its' optimal positioning in future regional competition requires the ability to design the appropriate mechanism which better valorize the territory capability. Such a construct is vital for territorial sustainable development and supposes the creation of a specific body of knowledge from distinctive local resource exploitation and unique value creation and allocation. Territorial mechanism design is a typical management decision about identification, ownership and control of specific strategic capabilities and their combination in a distinctive territorial portfolio. The most difficult responsibility is to allocate the territorial value added which is a source of conflict among territorial components. Our current paper research covers the basics of two complementary territorial pillars-rural and tourism potential and proves the lack of specific design mechanisms which explain the current diminishing value of Galati Braila region. The proposed management system, relying upon territorial control mechanism, will ensure knowledge sharing process via collaborative learning, with the final role of appropriate territorial attractivity signals, reinforcing *identity* as key factor of territorial attractability. Our paper is fully documented on there years of data analyzing from territorial area of interest. This offers us the necessary empiric contrasting for our proposed solution.

Key words: territorial disruptive typicity, coordination design mechanism, sustainable development, collaborative learning, territorial change.

JEL Code: D23, D83, F23, L25, M21, M38, Q55, Q56, R5

1. Introduction

Mastering the territoriality change becomes a challenge for management due to the lack of predictive power of the current strategic modeling which fails in explaining the regional disparities. Many of the globalization hypotheses were empirically not validated and new explanation attempts are current investigated. In spite of specific strategic performance of territorial actors as *agents* with similar power, the regional attractability is still to be arbitrated under a *principal* contribution in terms of a coherent design of coordination, identity and learning⁵².

⁵² Bruce Kogut: "Knowledge, Options, and Institutions" Oxford 2008

Domains of research as economic governance, strategy, management and marketing must integrate their achievements to identify the best coordination mechanisms of value creation exploiting territorial capabilities and the final re-assignment of the results among territorial stakeholders. The difficulty of the attempt is obvious, due to the distinct own resource evaluation and exploitation by territorial actors which must be incentivized to accept a perspective of cooperation organization of transactions which better reallocate value created in terms of sustainable territorial competitive advantage. A territorial strategy is about refocusing upon how, in pursuit of a sharing knowledge and collaborative learning common vision, the territory aligns its goals and objectives, institutional structure, systems and processes, *beyond* each components performance. This exploration of typicity and exploitation by exposing the territorial capability is a disruptive behavior, hence source of sustainable competitive advantage through territorial brand consolidation.

The new design mechanism must be the most efficient in conflict resolution, the territory being the place of complex and nonstandard transaction⁵³; the actors are mutually dependent as their performance is relying upon local valorization of specific assets. Such an innovative management mechanism could be the solution for the increasing attractability of one specific location being a successful strategy as relies upon valorization of territorial disruptive typicity as location competitive advantage. This effort to build territorial trust relying upon strategic exploitation and allocation of valuable resources ensure the potential investors about that specific location. In the following our research addresses the two interrelated pillars of territorial capability specificity; tourism and rural system.

2. Capitalization strategies of distinctive resources potential

For the research undergone in the protected natural areas as well as their adjacent territories, of the managerial methods, the diagnostic-analysis and the SWOT method were selected and adapted accordingly, for the following reasons:

- ✚ the methods are applied for the outlining of the management of a zone which extends over vast areas within two counties and not for a firm or touring resort;
- ✚ within management strategy, a multitude of entities are taken into consideration (firms, central and local public administration institutions, national and international NGOs);
- ✚ touring activity management which would put into practice adequate strategy is strongly influenced by a plethora of factors which would impose solutions to either support or combat their effects.

The application of the diagnostic-analysis method of a territory requires passing through the following steps:

- a) Awareness of the principles of developing a touring scheme for the area, meaning :
 - harmonious integration of investments;
 - flexibility;
 - network independence;
 - correlating primary and secondary activities;
 - optimum functionality of the entire network system.
- b) Establishing the selection criteria of the touring areas, the most important being:
 - natural and socio-economic conditions, cultural, artistic and historical heritage, the status and perspective of infrastructure, the degree of equipment specific for touring, economic and juridical regulation.

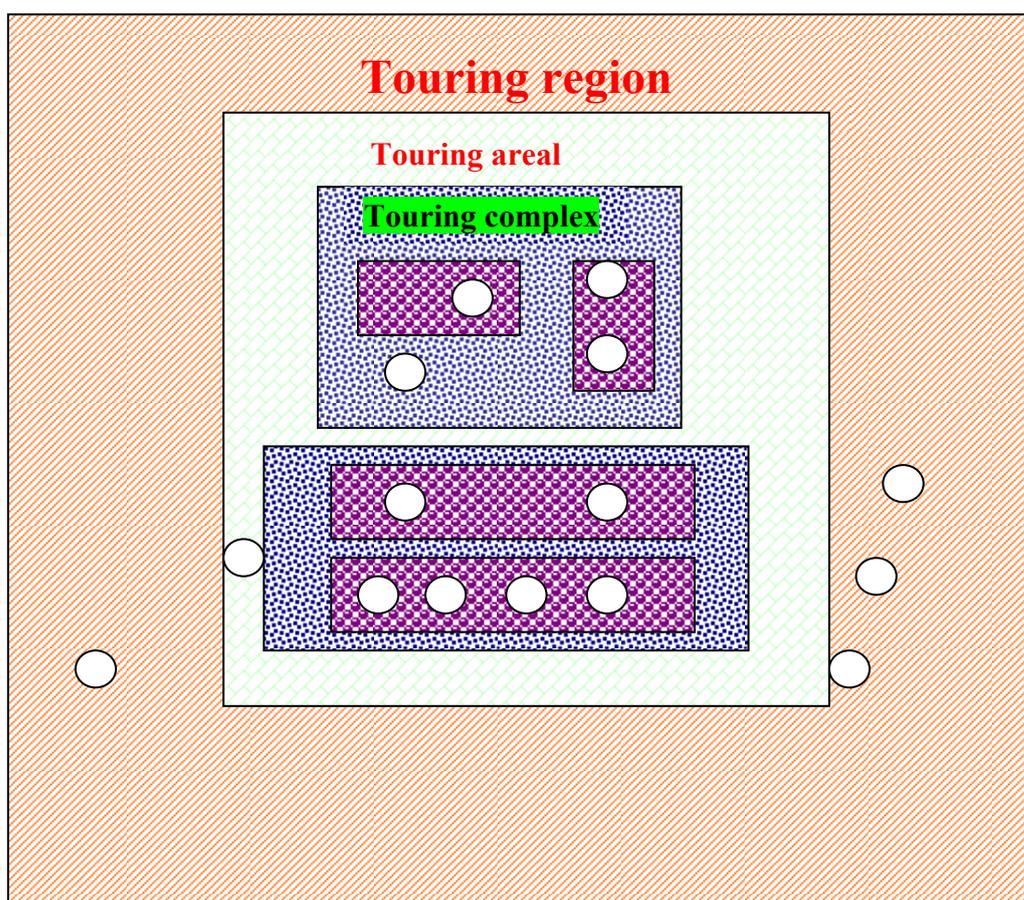
⁵³ Elinor Ostrom and Williamson Oliver; The Prize in Economic Science 2009;
http://nobelprize.org/nobel_prizes/economics/laureates/2009/info.pdf

Through close examination of the quantitative and qualitative parameters of each criterion, as well as their ensemble corroborated with the factors outlined above, one may determine the "calling of the region or area, criteria which will be useful for establishing priorities within the development process".

- c) The delimitation of the territorial units specific for touring activities
- the touring objective or point;
 - the touring place (town, village) or center;
 - the touring complex;
 - the touring areal;
 - the touring region;

The hierarchy of territorial unites with touring activity is given in figure no.1

Figure 1_The hierarchy of territorial units with touring activity



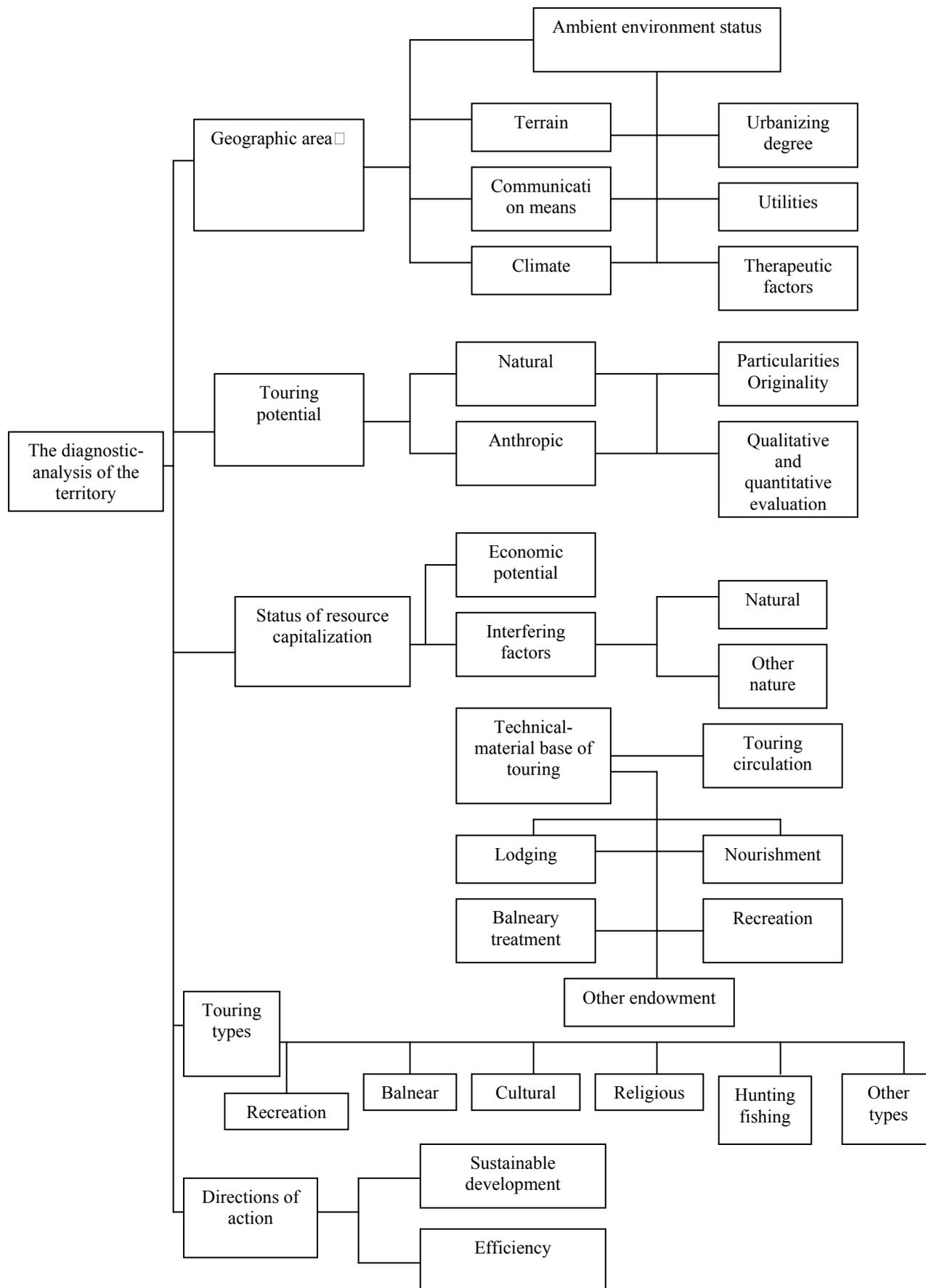
Legend:



The synthesis of the structure of the diagnostic-analysis of the territory considered for touring development is given in figure no. 2

Figure no. 2

Figure 2. The content of the diagnostic-analysis of the territory



The SWOT method for the touring development of the territory was selected for the following reasons:

- ✚ local public administration, firms, NGOs and administration of protected natural areas express their interest in capitalizing on the touring potential of the area, without harmonizing their efforts;
- ✚ the application of the SWOT method of analysis manages to bring out the strong and weak points, opportunities and threats on two levels which complete each other:
 - the ones regarding the touring development of the territory
 - the demands of the tourists, visitors, proposal formulated by them and voyage councilors.

The components of the method adapted for the current research project are the following:

S – Potential strengths

Natural and anthropic touring resources, possibilities of insuring the financing of development, manifested interest by the deciding factors, accessibility of touring potential on all communication means, the ascending trend of eco-tourism, the existence of therapeutic factors of mineral water sources.

W – Potential weaknesses

Deficient promoting of the touring potential, the technical status of railroads is precarious, incoherence is persistent in the actions of the local public administrations, touring activity has a season-based character and the appropriated area represent a strong competitor (Danube Delta and the seaside of the Black Sea).

O – Opportunities

Advantageous geographical position, interest in the area, future development possibilities, available human resources and regulation favorable for investing in the touring development of the area.

T – Potential threats

Protected natural areas impose practicing eco-tourism, quantitatively reduced vis-à-vis the demands, the presence, with an unpredictable frequency, of destructive natural phenomenon (floods, draught), the danger of proliferation of certain diseases, as well as the delaying of the implementation of certain ecological reconstruction programs of the adjacent areas of the protected natural territories.

In the theory and practice of area development strategies we cannot apply standard methods, in the true sense of the words, rather *solutions* which may be considered around an idea with regards to the multitude of factors which lay their imprint on the "model". The natural conditions will impose the setting up of developments which respond to certain conditions, such as the capitalization of existing natural resources and the harmonization of investments in specific equipment for touring activities with the existing utilities in the area.

The promotion of touring development in protected natural areas and their adjacent territories may be considered a beneficial as well as damaging endeavor, since, on the one hand, tourism contributes to the cessation of the degradation of the natural frame, protects and conserves the environment, representing a durable alternative to industrial and agricultural activities which negatively impact the environment; on the other hand, extending past certain limits of the developments has a negative impact on the natural protected areas and their adjacent territories.

The practice of a controlled form of tourism is therefore imposed, which would not modify or disturb the human activities of the area, but contribute to conserving traditions of architecture, ethnography, folklore, traditional trades, harmony between man and nature. Likewise, over-dimensional developments should be avoided; especially those which capitalize on the natural touring potential, a strict monitoring of the developments would also be imposed, in order to avert the planning and executing of objectives that are inappropriate, non-esthetic or not adapted to the local specificity. For the area in which the research was conducted, the developments will have to protect the existing touring objectives of the natural areas, at the same time, solutions for diversifying the offers regarding activities for spending free time should be investigated, as well as of the capitalization of the natural resources of the area (such as cane, bulrush, osier, clay, etc.) within reasonable limits, which would not disturb the normal, natural evolution of the area.

Special attention will have to be given to complex capitalization (balneary treatment, alternative energy and horticultural exploitation of the thermal mineral water sources in the 3 villages within the zones adjacent to the protected natural areas (Însurăței, Mihai Bravu și Berteștii de Sus).

2.1 Touring and hospitality-industry potential

In Europe and Romania especially, when the issue of Danube-related touring is tackled, several "targets" are mentioned, which represent a symbol for the most sought after European river – Vienna, Bratislava, Budapest – or Belgrade and the Danube Delta, and thus are neglected certain areas that have either kept or developed in time particularly interesting touring natures.

In the present research project, we took into focus two main components each placed on a bank of the Danube river – these being "Munții Măcinului" National Park and "Balta Mică a Brăilei" Natural Park, to these protected natural areas being added their respective adjacent zones – towns located close to them and the river. Geographically the area is placed between 44.42⁰ and 45.28⁰ north latitude and 27.40⁰ and 28.30⁰ east longitude.

The Danube River, as an axis which separates but also unites the protected natural areas and their adjacent territories, represent the last portion in which the water flow freely and one of the most important 200 natural areas in the world. Confronted with multiple problems, the river has lost in the last 200 years over 80% of the areas which could take over the overflow of excess water, in certain times of the year. This critical situation imposes measures of re-naturalization through investments sustained by the European Union, with a view to the touring exploitation of the entire areal. Through the Water Frame Directive of the European Union, the "reaching of the good ecological quality of all waters on the continent before 2015" is provisioned, and the course of the river will be strongly affected by the VIIth European Corridor project which is supposed to link the port of Rotterdam to the port of Constanța.

The present research was undergone on the part of the river between the town of Giurgeni (where the Danube splits into 3 branches – Old Danube, Vâlciu and Cremenea) enveloping the areas known as Balta Mare and Balta Mică a Brăilei, up to their convergence at Brăila; the research also covers Măcinului Mountains.

The components of the research area are:

- "Munții Măcinului" National Park as well as the towns in the territories adjacent to the protected natural area;
- "Balta Mică a Brăilei" Natural Park as well as the towns in the territories adjacent to the protected natural area.

Măcinului Mountains (Hercynian Mountains), considered the oldest mountains in Europe, through their unique geo-morphological structure of the flora and fauna, has led to declaring a large part of it a National Park. The main characteristics of this area are:

- The only area in Europe where Asian, Mediterranean and central European migrating bird species "intersect";
- A part of the vegetation is situated at the extreme part of their world coverage: Pricopantului Peak is the main migration lane for over 180 species of birds (some birds of prey which nest here);
- It is an ideal place for bird Watchers;
- It has a particularly attractive touring potential through the accessibility of its touring lines and the natural and anthropic touring objectives;
- The reputable scientist Ion Simionescu postulated that "(our) school of tourism should start in Dobrogei Mountains. Towards altitudes under 500 m, you can live all of the thrills of mountain climbing";
- The view offered by the jagged peaks of the mountain range has determined Romanian and foreign filmmakers to capture them in many Far-West type productions.

2.2. Rural system transformation potential

The rural system component of territorial typicity is unit of research in light of value co-creation based upon partner's experience-as it meets different and unique thus difficult to replicate offerings. In other words, not product or service innovation, not even market innovation, but the institutional environment that enables the resource combination process and performs knowledge transfer in a determinate territory is the key resource.

Due to the changing patterns of competition spaces, we now are all aware that not only the classical combination between small and large firms' complementary resources can facilitate innovation success, but also the territorial institutional capability to guide and monitor the transformation of such resources into strategic capability. The classical framework addresses the economic policy instruments in territory that ensure the sustainability of any innovational solution. This kind of local and regional approach is fostering the local and regional cooperation between SME's, MNE's and academics, in terms of designing unique framework of knowledge transfer.

2.3. Agro-food innovation space

All the above achievements and intentions will remain theoretically interesting if we cannot prove empirically; that is the most important problem of those solutions is the designing of information system as decision support for management for such a complex structure.

Being aware of the challenges of economic long run development in the region the results of SWOT analysis on agro food sector we briefly observe:

- a. **Cluster:** processor linkage with agriculture have deteriorated, lack of long run contracts with related industries, low level of development of relative industries, transport sector is inefficient and poor technical conditions of roads, few companies are investing in improving processes ,equipments and plants in rural area, EU standards partially applied and in conflict with territorial reality,
- b. **Factor conditions:** large variability on *labor force* structure and quality (good qualification, low wages, low productivity, seasonality of employment. *Assets:* old and depreciated, necessity of renovation. Great diversity on *raw materials*. *Infrastructure:* good telecommunications, high European market transportation costs, poor transport infrastructure, basic processing technology is simple and obsolete, seasonal productivity.

- c. **Demand:** significant local demand, lower quality and low price; limited domestic market for quality; large external market for quality, good knowledge of the final consumer needs and requirements
- d. **Strategy:** high quality product, partnership with high-end wholesalers, consumer influencing demand, invests in producers through contracts training, operational synergy, investment in equipment and staff training.

That's for our research cover the market investigation in order to define the state of the art in innovation framework; it is part of a European project which target was the creation of a network of organizations that supports the participation of agro-food SMEs in international collaboration in order to become active part in value creation through business innovation. There were projected the key mechanisms of competence, commitment and coordination at local and regional level of the territorial marketing initiative. The general objectives of the project were: Share risks and costs in innovation activities; gain technology and experience from complementary partners; develop innovation capacities; increase competitiveness; get access to international markets.

The specific achievements of this initiative consist of: Best Practice Guide to assist agro-food SMEs in choosing the most suitable partnership ; Structured pool of enterprises, and fostering synergies among them; proactive online intelligence service on FP6 & FP7 opportunities; WEBSITE with infos, IPs & NoEs database, newsletter, communication & network platform, IT transfer solutions, tailored to SMEs; designing a territorial space of Knowledge

This is empirically proved by the evaluation of innovational capacity of agro food SME's under FP6 framework. "SMEs Virtual Platform on Agro-Food Sector to access the Sixth and Seventh Framework Program". Some of the relevant conclusions for this research paper of SPAS Final Report we mention as following. The selected items, relevant for *territorial resources reallocation mechanism*, for the 73 Romanian agro food SME's respondents are: process innovation; non-technological innovation; financial obstacles and altering business relationship.

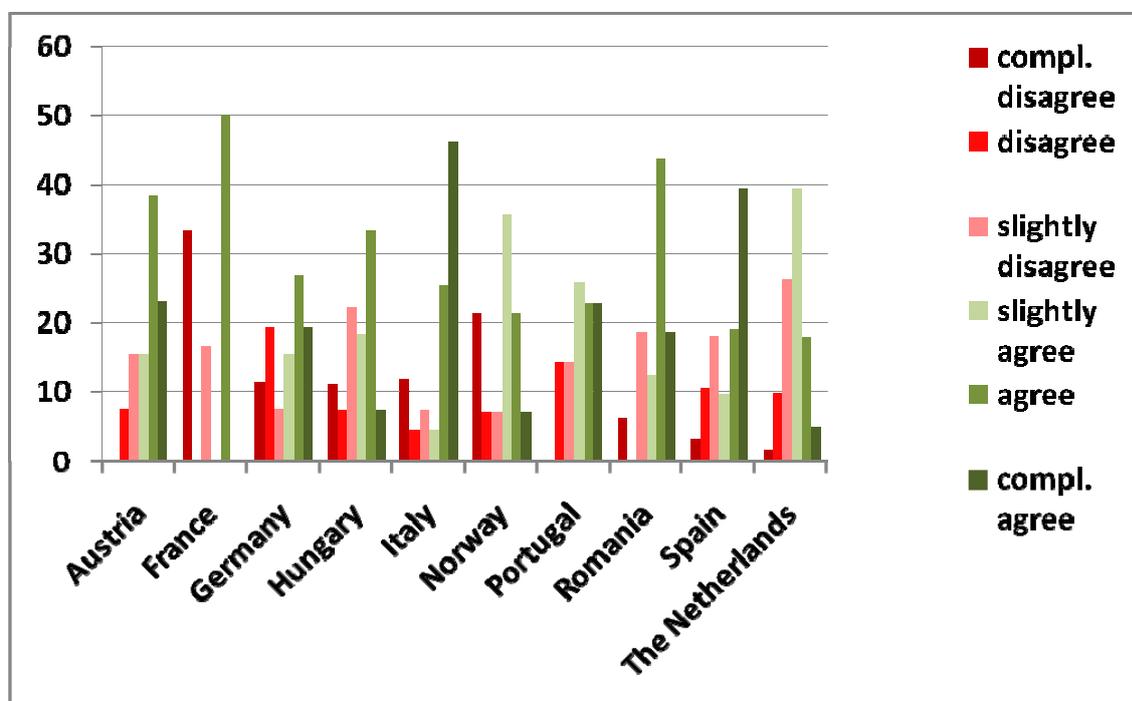


Figure 3: Percentages of Process Innovations (Source: SPAS)

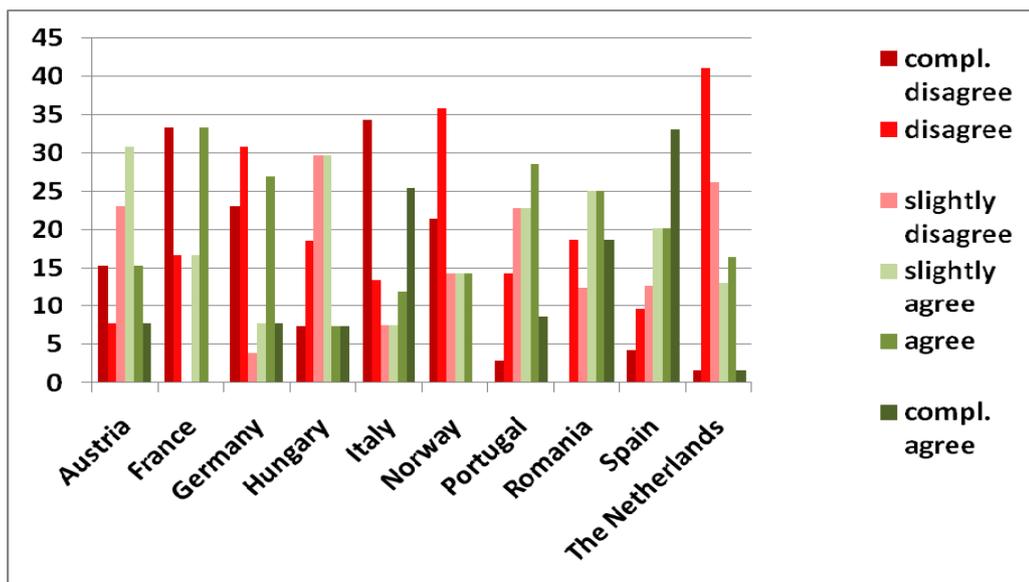


Figure 4: Percentages of Non-Technological Innovations (Source: SPAS)

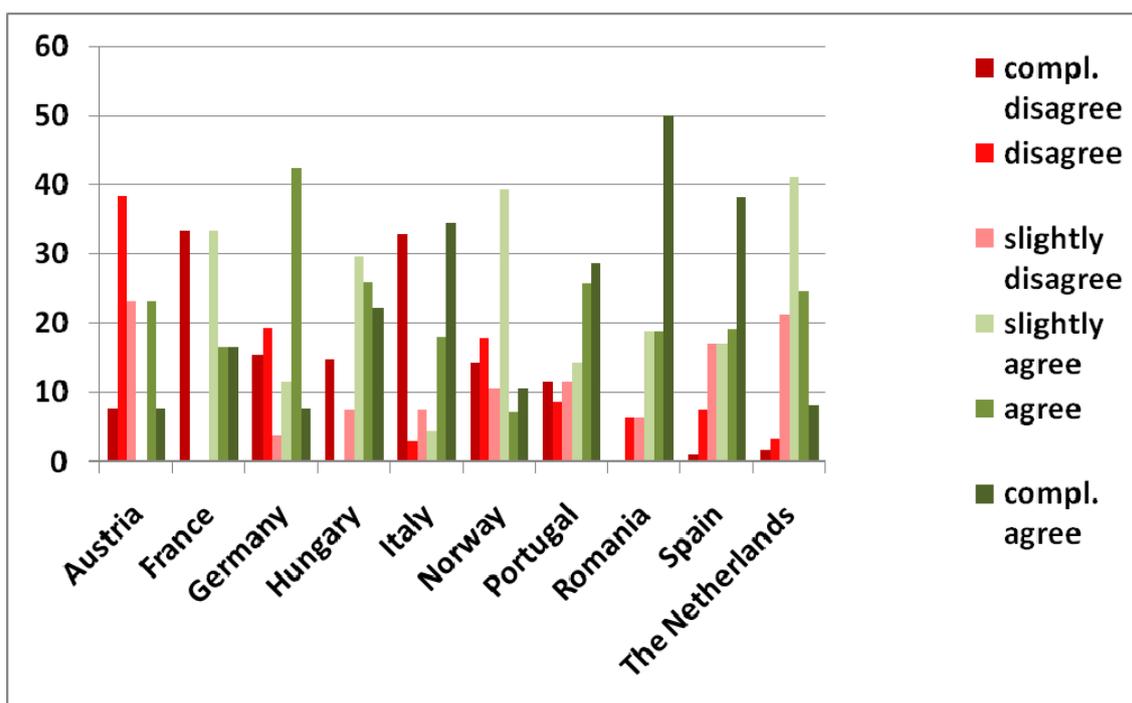


Figure 5: Percentages of Financial Obstacle for Innovation (Source: SPAS)

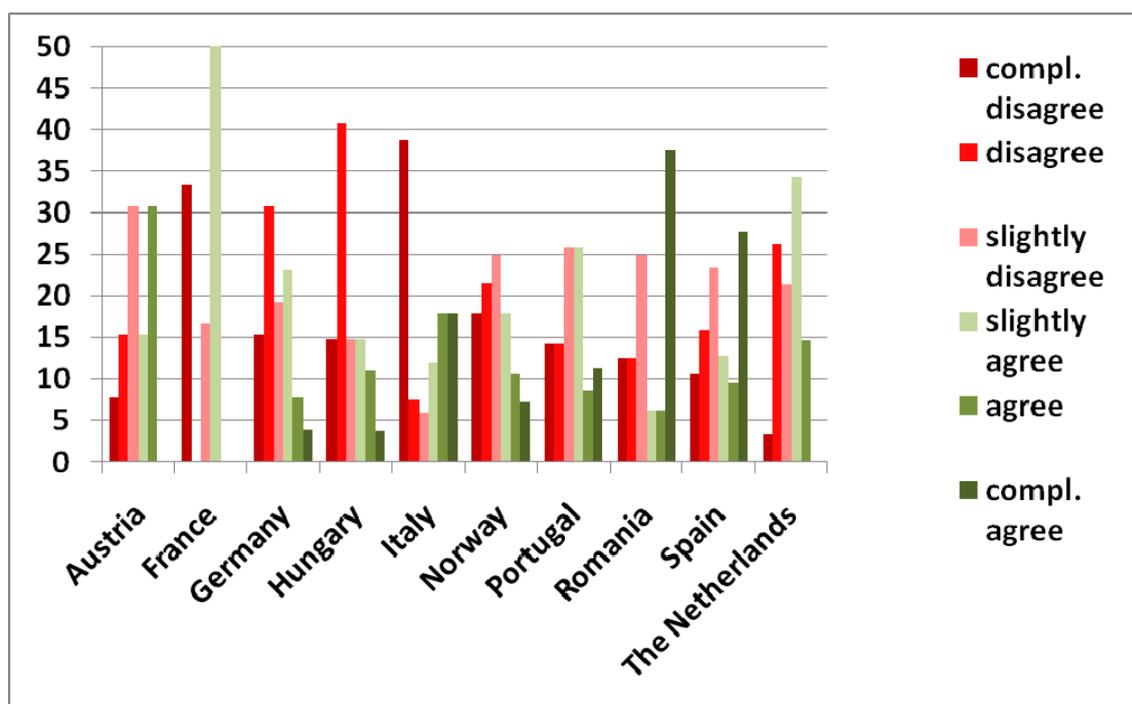


Figure 6: Percentages of Internal Obstacles (e.g. skilled personal, information) (Source: SPAS)

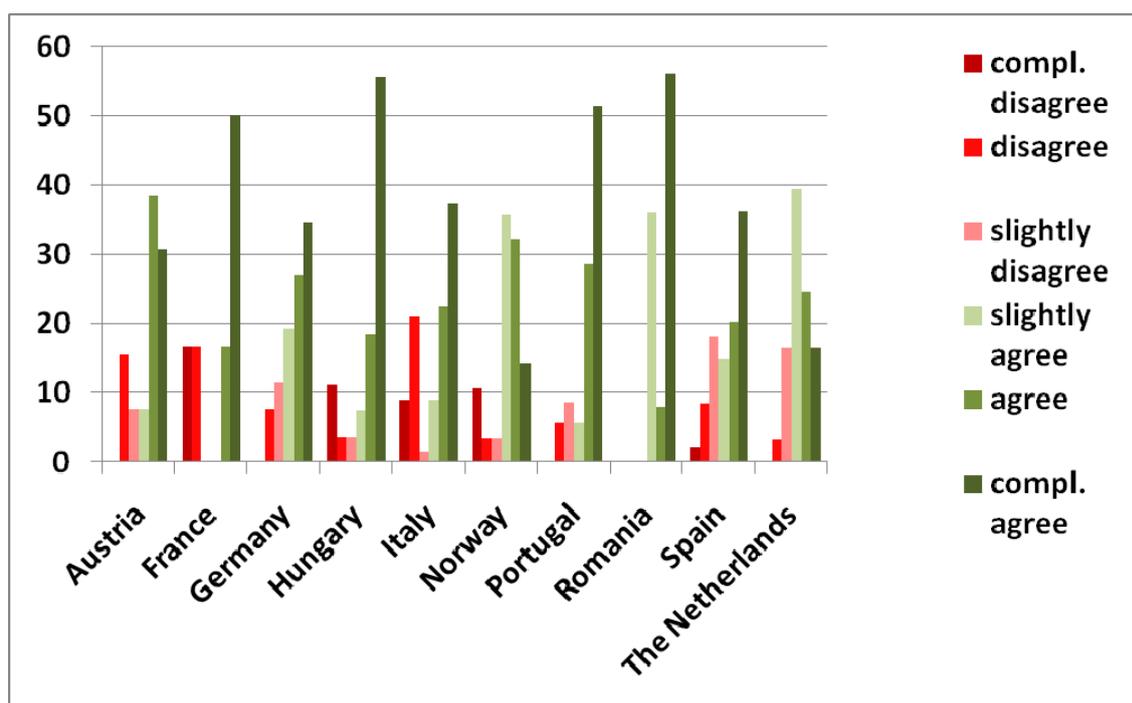


Figure 7: Percentages of Motivation for altering business relationships (Source: SPAS)

This type of territorial resource allocation is the key issue of financial European support and national government funds. Mostly if this kind of cooperation meets the European policy requirements of promoting cooperation and business innovation as part of an overall innovation system. After all we speak about territorial dominancy and local actors must be mobilized in collaborative learning process in order to ensure territorial synergies, as superior value added re-allocation.

As regards the mutual benefit from territorial co-creation of value we address the general conclusions of the same project EU FP6⁵⁴ which is the empirical we need in order to suggest the appropriate co-specialization of components capabilities, in order to construct the territorial specific portfolio.

One important step of the proposed model relies upon the ability to find the most appropriate framework of optimal resource allocation and our proposal is the following:

- ✚ Analysis of RTD innovation portfolio at regional level
- ✚ Identification of research needs for governance and management tools for rural and tourism co-specialization
- ✚ SWOT analysis for assessing regional RTD capacities and reallocation of funds
- ✚ Sharing and integration of research projects and resources
- ✚ Increasing research potential, mobility and knowledge transfer
- ✚ Increasing access and exploitation of research results

Consequently the main issue of the new value creation process, as it supposes knowledge transfer, is the coordination of complementary resources belonging to different partners of various organizational structures. The institutional mechanism must provide superior instruments for conflict resolution between the different components that are competing for resources.

3. Conclusion

The challenge we are facing is the ability of the designed strategic behavior to transform this kind of local alternative and fragile competitive advantage in a sustainable one. Current status of research indicates that we assist to location- specific factor supremacy as determinants in regional attractiveness and we suppose that sustainability could be reached only by territorial solution. Strategic alternative focusing on complex rural system creation is the disruptive behavior we need in territorial development, the only best solution for agriculture and land-use planning to benefit of environment. This paper contribution offers strong arguments for policy makers in order to enable this long term strategy.

We can also address another issue heavily disputed between academic-that is the return to local and regional offerings as opposite to global assumption. That's for we are assisting today to an innovation process relying upon: territorial marketing which is an umbrella for too many issues already exploited, such as: eco-clusters, local and regional offerings; traditional products and services exploiting, regional competitive advantage which is based upon intra regional competition between clusters for the decentralized governmental funds; B2B local and regional markets and many more.

Domains of research as economic governance, strategy, management and marketing must integrate their achievements and further investigate in order to identify one best territorial solution in terms of management capability to identify the best coordination mechanisms of value creation exploiting territorial capabilities and the final re-assignment of the results among territorial stakeholders.

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