

Ouverture de ‘Global Cities and Knowledge Management - 1’*

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Abstract

Global markets impose an important transformation of the firms’ growth policies where innovation and imitation (of products and processes) play a primary role to meet a volatile demand. Many countries now have strong links with global corporations and within these countries most activity is concentrated in a few metropolitan areas (world cities).

World cities configure aggregation-sites for knowledge-intensive businesses and for populations requiring sophisticated immaterial consumption. Large metropolitan areas of the de-materialized economy are thus assuming the dual role of knowledge creation pole (knowledge hub) and of intangible consumption pole (consumer hub).

Keywords: Global Cities; Global Markets; Knowledge Management; Knowledge Hub; Consumer Hub; Service Activities

1. Overture

National economic growth and urbanization are interdependent. Cities are important centres of service activities and hubs in the flows of new knowledge. In this view, it is important to analyse the changing structure of production and consumption in post-industrial cities by building on the recent economic literature in three related fields, such as: the ‘endogenous development’ of industrial clusters, the regional development of knowledge intensive business services and the regional factors of innovation and knowledge creation.

The economic growth in large modern cities is following an ‘endogenous model’. This model is characterized by: the continuous differentiation of the internal needs; the demand by the users; the reconversion of the specialized human capabilities and of the internal supply which all enhance the creation of new firms and employment.

The increasing interaction between users and producers for the development of new services within cities creates the internal aggregate demand, which is mainly

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concentrated within cities, and can be a powerful driver of national growth, where the emerging needs of the citizens, rather than the exports, are driving the economy of a modern city. Public policies should be based on a 'multi-level governance' approach aiming to increase the cooperation between the various local actors and to create new markets by aggregating latent needs.

Economic literature considers the growth of cities as the effect of the geographical concentration of the national growth and it relates the economic growth of cities to the growth of industrial productions and to the exports towards other distant countries (Evans 1985, Capello 2007). In fact, the fast industrialization of a national economy, such as in China during the last decades, has led to urban immigration and to large demographic increases of the major cities. However, national economic growth and urbanization are interdependent and the growth of cities is a major component and driver of national growth (Eurostat 2008, Cittalia 2009a and 2009b, McKinsey Global Institute 2011, Milken Institute 2011). In China for example, where the urban population has increased from 20% in 1980 to 50% in 2011 and it is expected to increase from 636 million in 2010 to 905 million by 2030, the process of urbanization has led to huge investments in cities, for housing and transport and energy infrastructures and, to a large extent, it has driven the industrial productions and the process of national economic growth even more than the exports of manufacturing goods.

The internal demand, which is mainly concentrated within cities, can thus be a powerful driver of national growth, both in developing and in highly developed countries. Moreover, cities are not only key nodes in the commercial transactions of goods but also hubs in the flows of information and in the generation of new knowledge, which plays a crucial role in determining the productivity and the growth of the national economy. Finally, the concentration of population within cities indicates that cities since antique times have been the centres of political power and democracy and that social interaction within cities has important effects on the people behaviour and standard of living.

The growth of modern post-industrial cities, such as the large metropolitan areas, is different from the case of industrial cities, such as many smaller urban centres in developed countries.

In particular, the 'endogenous model' of economic growth in large modern cities is linked to the continuous changes in the internal demand playing a leading role in determining the creation of new firms and employment. The internal demand and the internal supply are tightly integrated by knowledge flows and not only by monetary flows, differently from smaller urban centres, where the growth of industrial exports is the driving factor of the economy, according to the typical Keynesian multiplier model.

The high interdependence between manufacturing and service activities and the process of innovation according to a 'cognitive-systemic' model focus on interactive learning. Finally the increasing interaction between users and producers for the development of new services within cities characterises the increasing importance of special cases of 'public goods', such as the 'club goods' and the 'relational goods', as the drivers for the individual demand, the aggregate consumption and the investment decisions in a modern urban economy.

A policy perspective indicates the need for a change of the economic policies in modern cities. The planning of new residential and office building, the attraction of foreign investments and the stimulus of industrial exports, increasingly play a

minor role in modern cities with respect to the need to develop the many private and public services, which are oriented mainly to the local demand and have a much larger importance than industrial activities in the overall employment and GDP of large cities. Policies aiming to promote private and public investment should enhance a continuous renewal of the activities and firms within the urban economy, aiming to satisfy the new emerging needs of their citizens.

2. World Cities, Global Corporations and Market-Space Management

Global markets impose an important transformation of the firms' growth policies where innovation and imitation (of products and processes) play a primary role to meet a volatile demand.

Closed markets and static spaces of competition end with globalization. Since the beginning of Internet era in the 1980s, markets for goods and services have become really worldwide, transportation costs have fallen, information about market opportunities/threats diffuses instantaneously, non-tariff and tariff barriers have been lowered. Briefly, competition sharpened and reduced the previous shelter of privileged positions in domestic markets.

In global markets corporations must reformulate policies and strategies to be competitive because time, space and competitive advantage are closely linked. Therefore the global firm moves from the basic concepts of research, production, finance, marketing and sales, to a complex organization (global network). The global network is characterized by competitive alliances, joint ventures and the integration of several business units, often created with competitors, to compete in global over-supplied markets. Innovation, imitation, global economies of scale and competitive cooperation are fundamental to survive in declining markets and with over-abundance of productions.

In particular, the links between time, space and competitive advantages impose the primacy of time-based competition, of market-space management and of intangible assets management, which all together determine the success of firms.

Global markets impose to the firms boundaries of competition in which:

1. corporate policies are dominated by wide competitive landscape where space becomes a competitive factor (market-space competition), qualified by dynamism and volatility, for the continuous supply innovation and for demand instability;
2. corporate objectives are guided by time-based competition. In network organizations, oriented to overcome the physical boundaries of competition (market-space management), the rapidity of action-reaction in management plays a central role in the governance of internal, external and co-makership relations. In global business networks, however, time-based competition requires a deep sense of belonging to the company, without any local characterization;
3. the ability to use product intangible assets (which typically consist of: design, brand, pre-sales services, after-sales services) and corporate intangible assets (specifically regarding corporate culture, corporate information system and brand equity).

In high competitive markets, however, the sustainable development of corporations does not primarily depend on the success of particular products (easily imitated and with a high volatility of marketing expenses). In these competitive conditions, in fact, the company success is influenced by the intensity of sophistication of intangible assets (corporate intangible assets), i.e. the specific management skills related to the whole accumulated knowledge and to the channels allowing the acquisition of vital information for the company. In effect, corporate intangible assets have been strengthened, both in the U.S. and abroad, since the beginning of globalization in 1980s. Moreover, know-how-assets are not just important in the new industries –such as biotechnology and microelectronics– but they are still important in chemicals and pharmaceutical and they are also critical in mature industries such as car, petroleum and steel.

More generally, global companies operating in different geographical areas, with very different products and in specific competitive conditions (economies of scarcity, economies with controlled competition, economies in over-supply). In any case, global companies are focused on competitive challenge (direct, continuous and on a global scale) and therefore they are motivated to develop the communication and information flows, the decentralization of production, the decision-making autonomy and the operational accountability.

Globalization imposed a profound transformation of strategy and corporate policy. Corporate success is thus specifically dominated by knowledge management in order to develop high level managerial skills and provide competitive advantages in markets where time and space of competition are very dynamic.

In global managerial economics, knowledge production becomes the critical competitive factor. The governance models, traditionally applied to local territories, –which are based on the centrality of Nation-States– become therefore old and are not useful for corporate needs of global networks (both at a corporate level as at the local level). In fact, numerous exogenous factors (not effectively manageable at a local level, and which, in any case, go beyond the boundaries of nations, as part of a wider process of globalization) force the Nation-States to develop a global perspective in developing large cities, to be leader in knowledge production (world cities), designed to meet the growing needs of global networks.

Large companies with a strong knowledge production, in fact, are more and more located in metropolitan areas able to promote knowledge creation and dissemination.

Outsourcing, unbundling and fragmentation of firms, however, have not lead to a general dispersion of activities across the globe.

The new models of urban development that attract global companies focused on knowledge production, require a new balance between housing, green areas, trade structures, post-industrial settlements and research laboratories. These 'world cities' are also characterized by a strong governance of cultural, entertainment and socializing sites, encouraging advanced intangible consumption demand for products sold at decreasing prices. In other words, sites characterized by: strong autonomy and integration within territories where knowledge economy is developed, i.e. where innovation and imitation related to knowledge production are integrated with a widespread and advanced intangible consumption economy.

Many countries now have strong links with corporations and within these countries most activity is concentrated in a few metropolitan areas. Some 'world cities' grow very rapidly and manage the benefits of the knowledge economy linked

to globalization, while ‘megacities’ suffer from high levels of unemployment and underemployment, slums, pollution and other congestion problems. More precisely, the ‘global cities’ are defined as cities in a position to realize the economic coordination of complex activities at a global scale. In this sense, ‘global cities’ differ from ‘megacities (i.e. cities with more than 10 million inhabitants, most of them being located in less developed countries) and the most important criteria used for identifying ‘world cities’ refer to the concentration of specialised services, such as advanced production activities or financial services, and to their global interactions.

‘Global cities’ thus become aggregation centers of knowledge production and intangible consumption. Cities and urban areas are therefore classified on knowledge economy indicators, expressed in unconventional metrics (differing from the metric traditionally used in industrial economy cities, based on the number of inhabitants, per capita income, etc.). More precisely, the ‘world cities’ configure aggregation-sites: for knowledge-intensive businesses and for populations requiring sophisticated immaterial consumption. In other words, large metropolitan areas of the de-materialized economy, are assuming the dual role of knowledge creation pole (knowledge hub) and of immaterial consumption pole (consumer hub).

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